

The Role of Public-Private Partnerships in Service Delivery: The Case of the Mitchell's Plain Housing Development Project

by

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DECLARATION

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ABSTRACT

This thesis investigates the nature and activities of Public-Private Partnerships in the development of affordable housing in the City of Cape Town. The study analyses the involvement and success of affordable housing projects developed through the collaboration of the City of Cape Town, the Cape Town Community Housing Company and the National Housing Finance Corporation in Mitchell's Plain. Due to the limited resources available to the City of Cape Town, engagement with the private sector became necessary in order to utilise the private sector finance, expertise, and transfer risks.

Affordable housing is defined in this study as the housing market segment for households earning between R3 500 and R15 000 per month, which is usually referred to as the "gap market". Studies in the housing sector have argued that the gap income bracket has been conspicuously under-catered for by the private housing sector, as well as by government policies on subsidised housing for the low to moderate income earners.

To investigate how the public and the private sector help each other in the development of affordable housing projects, this study utilises two affordable housing projects in Mitchell's Plain, namely: the Harmony Village (Rental Programme) and the West Cape Villas (Owner Programme). Desk-top literature reviews and semi-structured interviews were conducted to obtain information from the officials of the Cape Town Community Housing Company, National Housing Finance Corporation, City of Cape Town, as well as the beneficiaries, who were involved in the affordable housing projects with respect to their experiences, lessons learnt and suggestions on how to implement more efficient housing projects in the future.

The literature review and data collected from respondents during the interviews were evaluated using theoretical frameworks that apply to affordable housing and Public-Private Partnerships (PPPs), in order to determine if the case study projects and activities of the PPPs are in line with theories and policies developed to guide public-

private activities and affordable housing development. The findings also highlighted some of the challenges of PPPs and affordable housing projects which have to be mitigated in order to ensure successful PPP housing projects.

The findings reveal that using PPPs for affordable housing developments improves the efficiency and delivery of housing to the communities in the City of Cape Town. The analysis of the findings was also used to propose solutions to the challenges of PPPs and housing projects, and recommendations as to what can be done to improve the outcome in PPP projects with regards to affordable housing delivery in the future.

OPSOMMING

Hierdie navorsing het die aard en bedrywighede van Openbare-private Vennootskappe ten opsigte van die ontwikkeling van bekostigbare behuising in die Stad Kaapstad ondersoek. Die betrokkenheid en sukses van bekostigbare behuisingsprojekte, wat as gevolg van samewerking tussen die Stad Kaapstad, die Kaapstadse Gemeenskapsbehuisingsmaatskappy en die Nasionale Behuisingsfinansieringskorporasie in Mitchell's Plain ontwikkel is, is ontleed. Weens die beperkte hulpbronne wat aan die Stad Kaapstad beskikbaar was, het betrokkenheid by die privaatsektor nodig geword om dié sektor se finansies, kundigheid en oordragisiko's te kan benut.

Bekostigbare behuising word in hierdie studie beskryf as die huismarksegment vir huishoudings wat tussen R3 500 en R15 000 per maand verdien, en wat gewoonlik na verwys word as die "gapingsmark". Studies op die gebied van die huismarksektor het in die verlede daarop gewys dat dit opvallend was hoe die gapingsinkomste deur die private behuisingsektor onderskat is, asook deur die relevante regeringsbeleid ten opsigte van gesubsieerde behuising vir die lae tot matige inkomstegroepe.

Om vas te stel hoe die openbare en private sektore mekaar onderskraag met die ontwikkeling van bekostigbare behuisingsprojekte, is met hierdie studie van twee sulke bekostigbare projekte in Mitchell's Plain gebruik gemaak, naamlik Harmony Village (Verhuringsprogram) en die West Cape Villas (Eienaarskapprogram). Lessenaar-literatuuroorsigte is gedoen en semi-gestruktureerde onderhoude is gevoer om inligting te bekom van amptenare van die Kaapstadse Gemeenskapsbehuisingsmaatskappy, die Nasionale Behuisingsfinansieringskorporasie, die Stad Kaapstad, sowel as die begunstigdes wat by die bekostigbare behuisingsprojekte betrokke was, veral wat betref die toepassing van hulle ondervinding, lesse wat hulle geleer het en hul voorstelle oor hoe om doeltreffender behuisingsprojekte in die toekoms te implementeer.

Die literatuuroorsig en inligting wat deur middel van die onderhoude met die respondente bekom is, is geëvalueer deur gebruikmaking van teoretiese raamwerke

wat op bekostigbare behuising en Openbare-private Vennootskappe van toepassing is. Dit is gedoen om vas te stel of die gevallestudieprojekte en bedrywighede van die Openbare-private Vennootskappe (PPPs) in lyn is met teorieë en beleide wat ontwikkel is om openbare-private bedrywighede en bekostigbare behuisingsontwikkeling te lei. Die onderhoude het ook sommige van die uitdagings van PPPs en bekostigbare behuisingsprojekte benadruk wat getemper moet word ten einde suksesvolle PPP behuisingsprojekte te verseker.

Die bevindings van die veldstudie-analise toon dat die gebruik van PPPs vir bekostigbare behuisingsontwikkelings die doeltreffendheid en lewering van behuising aan die gemeenskappe van die Stad Kaapstad verbeter. Die ontleding van die bevindings is ook aangewend om oplossings aan die hand te doen vir die uitdagings rondom PPPs en behuisingsprojekte, asook aanbevelings oor wat gedoen kan word ter verbetering van bekostigbare behuisingsvoorsiening in die toekoms.

DEDICATION

This thesis is dedicated to my son, Chigozie Iwegbuna, and my wife, Agatha Iwegbuna, for their inspiration and encouragement during the period of my writing this report. This thesis is also dedicated to my friends who encouraged and inspired me during difficult times of this research work.

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LIST OF ACRONYMS

ANC	African National Congress
CoCT	City of Cape Town
CTCHC	Cape Town Community Housing Company
DPLG	Department of Local Government
IPA	Instalment Payment Agreement
NHFC	National Housing Finance Corporation
PPP	Public-Private Partnership
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
UNDP	United Nations Development Programme

CHAPTER ONE: GENERAL OVERVIEW OF RESEARCH PROBLEM

1.1 BACKGROUND

Public sector organisations have the responsibility of providing public services to citizens, in order to improve the standard and quality of their lives. However, the increasing demand for public services often exceeds the limited resources available to the public sector for the delivery of such services. In some instances, inefficiency, mismanagement and other reasons are the cause of inadequate service delivery. South Africa is currently experiencing inadequate service delivery by the public sector, which has resulted to nation-wide service delivery protests (Hough, 2008:1-4; Alexander, 2010:25-40). Public-private partnerships (PPPs) are seen as a way of bringing the resources of the public and private sector together, in order to improve the efficiency and effectiveness of service delivery (Bovaird, 2004:199-215). This study aims to establish the extent to which PPPs can be used to improve the delivery of affordable housing in Mitchell's Plain. This will involve explaining the nature of PPPs, the partnership relationships, and the implication of these relationships for the outcome of the partnerships. According to Deloitte and Touche (2006:5-32), PPPs "refers to a contractual agreement between a government agency and a private sector entity that allows for greater private sector participation in the delivery of public infrastructure projects". Provision of housing to citizens is one of the key elements of service delivery in South Africa, and inadequate housing is one of the main reasons for communities' resentment towards local government service delivery.

The Constitution, 1996, makes provision for the right of citizens to adequate housing in section 29. Article 26 of the Bill of Rights in the Constitution states the following:

- People should have the right to access adequate housing.
- The state should enact legislations, and take other measures towards the realisation of this right.

- The eviction of people from their homes, or the demolition of homes may not take place without a court order, after relevant circumstances have been considered (RSA, 1996).

Internationally, access to adequate housing is recognised as one of the most important basic human rights (Built Environment Support Group (BESG) 1999:7). The right to adequate housing is therefore the responsibility of the South African government, to ensure that all citizens, especially the low-income groups, have access to affordable housing (RSA, 1996:12).

The post-apartheid South African government placed the provision of housing at the top of its priorities. This was the reason for various policies centred on the provision of basic housing to the low-income groups. The ANC government's Reconstruction and Development Programme (RDP) was a housing policy targeted at providing houses for low-income groups who could not have access to housing due to their lack of income, inability to qualify for housing finance, unaffordable high rentals and high housing market prices (ANC, 1994). According to Harrison (2003:13-25), the inability of the government to provide adequate housing to the poor resulted in the proliferation of informal settlements across the country, and the rising urban slums in the inner cities. Burger (2009:1) attributed the housing inadequacy to be part of the reasons for the first service delivery protest in Harrismith in the Free State in 2004. Despite the government's efforts to provide houses to citizens, the demand for houses still outweighs supply due to the following: the high rate of urbanisation, population growth, high unemployment rate, and persistent rising poverty levels (Department of Human Settlements (DoHS), 2009:17).

The South African government's failing efforts to provide houses to the low-income groups is exacerbated by the exclusion of the middle-income groups known as the "Gap group". These are those who earn too much to qualify for the government housing subsidies, but too little to purchase a property on the property market. The creation of the Gap housing scheme by the government is an effort to cater for this income bracket group. According to Dube (2011:5), the gap groups are middle income people with income of more than R3 500 but less than R15 000 per month. Other measures employed by the government include the 'social housing', which is

described as “a rental housing option for low-to-medium income individuals that is provided by housing institutions and that excludes immediate individual ownership” (DoHS, 2009:17).

The need to address the inadequate housing concerns in Mitchell’s Plain, resulted in the establishment of an Urban Renewal Programme (URP) in 2001 by the national government, which is a programme aimed at integrating the project planning, funding, implementation, and management of the national, provincial, and local government needs, and challenges of underdeveloped urban communities (RSA, 2001a:9). The achievement of this objective is dependent on partnerships between various stakeholders, which include: businesses, government agencies, the private sector, and the communities involved. The ideal situation is for the projects to be funded on a partnership basis. As contained in the URP business plan, the overall objective is “to enable systematic and sustained interventions to alleviate poverty and significantly address under-development and socio-economic exclusion in Mitchell’s Plain” (RSA, 2001b:9). The objective of the URP is thus in line with housing delivery through public-private partnerships. The latter have been established to improve the delivery of affordable housing to the communities in Mitchell’s Plain.

1.2 PROBLEM STATEMENT

As stated earlier, the public sector alone does not have sufficient resources to address the existing backlog of housing needs in South Africa (Bond, 2003:40-56). The need to fulfil the demand for other public services such as water, electricity, and basic sanitation competes for the limited resources at the disposal of the government. The situation is exacerbated by the long list of people on the waiting queues for housing (ANC, 1994), who are tired from many years of waiting to be allocated houses (The African Report, 2010). The result is the wide-spread service delivery protests across the country. The lack of public sector capacity, and limited resources available to deal with affordable housing needs, creates the need to involve the private sector in public service delivery. This would be to share investment risks, and utilise their human, technical, and capital resources to close the gap between increasing demand and the available supply of affordable housing.

Mitchell's Plain like many other high-density outskirt neighbourhoods in Cape Town, faces an inadequate supply of basic housing. Mitchell's Plain inhabitants are people within the low to middle-income bracket, which means that there is a need for the provision of affordable housing, as demand for housing in this income bracket is overwhelming. The shortage of houses in Mitchell's Plain has contributed to the growing population of the "backyard dwellers", which refers to people living in makeshift structures located behind main houses. Many of these "backyard dwellers" are people that have been waiting on the RDP housing programme lists for many years. The shortfall in affordable housing in Mitchell's Plain is also associated with many social problems such as homelessness, overcrowding, unhealthy living conditions, decreasing disposable income due to disproportionate portion of income being spent on housing (Diamond, 2009:2). The increasing number of people living on the streets of Mitchell's Plain also has a negative impact on businesses and investment potential, as a result of the decay of neighbourhoods and increase in crime rate. The situation is therefore, a concern to the private sector as well, and will require the cooperation of the private and public sectors to address.

The increasing demand for housing, the huge financial requirement, and the technical resources required to meet the housing needs of the citizens are not at the disposal of the public sector. Consequently, the need for PPPs has become one of the main options available to the government, to supplement the traditional public-sector funding models for the delivery of public infrastructure and services (Broadbent & Laughlin, 2003:332-341).

1.3 RESEARCH QUESTION

The main research question is:

What is the nature and activity of Public-Private Sector Partnerships in the provision of affordable housing in Mitchell's Plain?

1.4 RESEARCH OBJECTIVES

The objectives of this study are:

- To describe the development of affordable housing projects through partnerships between the public and the private sector in Mitchell's Plain.
- To examine scholars' research on the nature and activities of local government, PPPs, and affordable housing developments.
- To describe policy context for local governments and PPPs, in the provision of affordable housing in South Africa.
- To evaluate the nature and activities of PPP in affordable housing developments in Mitchell's Plain.
- To recommend how PPPs could be improved in providing affordable housing developments, in order to deliver improved housing projects.

The questions that will assist in providing answers to the above stated objectives are as follows:

- What are scholars' contributions on the nature of local government, PPPs, and housing developments?
- What is the nature of the evolution of PPPs in the provision of affordable housing in the Cape Town municipality, since 1994 to date?
- What are the policies that guide the establishment of local governments and the activities of PPPs in housing developments in South Africa?
- What is the nature and the activity of PPPs in the development of affordable housing projects in Mitchell's Plain?
- How can partnerships between public and private sectors be improved to deliver better housing to the intended beneficiaries?

1.5 PRELIMINARY LITERATURE REVIEW

Partnerships between the local government and the private sector were conceived as a result of financial difficulties experienced by the local government. In order to cope with this difficulty, local government realised that economic development could provide

them with alternative sources of funds, and that the private sector could contribute to the achievement of this goal through investments, and stimulation of the growth of economic activities. Public-Private Partnership (PPP) is a form of private sector involvement in the functions of the local government. The private partner brings in skills, capital, and commercial innovation, with the aim of improving the provision of services (Osborne, 2000:1-2).

Different scholars have given various interpretations of PPPs. Some see them as a new government tool that will replace the traditional method of delivering services, through contracting of public services (Osborne, 2000:1-2). To others, they mean a new method of public management, intended to include established procedure of involving private organisations in the delivery of public services (Linder, 1999:35-51). Yet, other groups use the term “contracting” and “public-private partnership” interchangeably. According to Hodge, Graeme and Creve (2007:545), the concept has two broad categories, namely: PPP as a form of institutional and financial arrangement and PPP as just a “language game”.

The proponents of PPP as institution and financial arrangement, led by Rousenau (2000:226), argue that both private and public sectors have specific qualities which result in better services or products, when combined. The implication is that the combination of the governmental bureaucracy and the efficiency of the private sector will ultimately yield improved service delivery, with the application of market principles. To the public management scholars led by Van Ham and Koppenjan (2001:593-616), PPP means cooperation between the public and private sectors, in which there is joint development of products and services, shared risks, costs, and resources. Linder (1999:35–51), and Treiseman and Klijn (2002:197-205), argue that PPP is a language, designed to “cloud” other strategies and purposes, such as privatisation and the support of the private sector to supply public services at the expense of the public sector. Savas (2000:104) argues that “alternative delivery systems” and “public-private partnerships” are more acceptable to people and organisations, which enables private organisations to obtain a market share of public service provision; in contrast to “contracting out” and “privatisation”, which in most cases generates oppositions and criticisms. It is therefore, common for governments to use the term “Public-Private Partnerships” instead of “contracting out” and “privatisation”, to avoid policy criticisms

(Hodge *et al.*, 2007:545-558). However, despite deferent views on PPPs, there are common features across different approaches to PPPs:

- Firstly, PPP projects always involve two or more parties, comprising either a local government; regional or state government, and another party from the private sector.
- Secondly, each participant is a principal, and is able to negotiate on their own behalf.
- Thirdly, the association in a PPP is long term.
- Fourthly, each participant contributes resources, which may include finance, skills, expertise or infrastructure.
- Finally, all the parties involved in the partnership share risks and responsibilities for the outcome.

In conclusion, Akintoye's (2004:11) definition of a PPP as "any contractual arrangement between a public-sector agency and a private organisation, whereby resources and risks are shared for the purpose of delivery of a public service or development of public infrastructure" is considered most applicable to this study.

1.5.1 Models of service delivery

Although researchers interpret service delivery models from their own view points, the common consensus is that the models are strategies formulated to improved public service delivery. Service delivery models such as contracting out, leasing, privatisation, management contract, and electronic government, are referred to as alternative service delivery by Nyamukachi (2004:45), as they differ from tradition top-down public service models. Ngowi (2009:37) refers to these models as various PPPs management systems and techniques, which can be used to produce and deliver public services. Wilkins (2001:175) describes the models as various options of alternative service delivery. Whatever the interpretations may be, it is important that the models serve the interest of the communities in rendering the required public services to the intended beneficiaries. Service delivery models are established on principles of developmental local government. The developmental framework demands interrelated, intersectional and integrated service delivery from the sectors of local government involved (Department of Social Development (DoSD), 2013:2).

Some popular service delivery models adopted by local governments are described below:

1.5.1.1 Partnerships model

Service delivery partnerships are agreements between the public sector and the private sector (also referred to as the service provider) to render public services to the citizens on behalf of the government, within a limited budget, specified timeframe and for selected targets (Zubane, 2011:29). These agreements are formal, legal contracts with penalties that apply for breach of terms of the contract. The penalties for non-performance may be withholding of payment or termination of contracts. Accountability remains the responsibility of the public sector. The service providers may include public enterprise or parastatal, private sector, non-governmental organisations or community based organisations. The Integrated Service Delivery Programme (ISDP) and Public-Public Partnerships are examples of Partnership Models, and are described below.

- **Integrated Service Delivery Programme (ISDP)**

The Integrated Service Delivery Programme was established by the South African Department of Social Development (DoSD). The ISDP renders services through implementation of three broad programmes, which include: community development, social welfare and social security. The purpose of the Integrated Service Delivery Programme is to integrate these programmes in order to improve service delivery to the people. The ISD Programme is underpinned by development approach, which is based on the strength of the individual, group or community, and takes cognisance of their capacity to grow and development (DoSD, 2013:5). The local governments implement this model to deliver services, as it is in line with the local government policy of the Integrated Development Plan (IDP).

The ISDP allows for collaborations and partnerships in the execution of specific projects between government departments, spheres of government and the private sector. It acknowledges that developmental services are the collective responsibility of various role players; which include local government, non-governmental organisations and the private sector. The exact nature and extent of involvement of the private sector is determined by expertise, statutory requirements and cost. Within

the framework, the responsibility of private sector agents and service providers of government in different spheres are outlined to ensure clarity and prevent duplications and fragmentation of responsibilities.

The main aims of ISDP are: “to provide a national framework that clearly determines the nature, scope, extent and level of work that constitutes the Service Delivery Model for developmental social services; and to provide a basis for the determining appropriate norms and standards for service delivery, which will in turn provide a basis for funding and greater efficiency and effectiveness in service delivery” (DoSD, 2013:9).

- **The Public-Private Partnerships (PPP)**

PPPs are long-term contracts between the public and private sectors, with the objective of ensuring the delivery of well-maintained, cost effective public infrastructure or service, by leveraging private sector expertise, and sharing risk with the private sector (National Treasury PPP Unit, 2007:4).

In South Africa, the PPPs are regulated by legislations and policies. These regulations are intended to ensure that the activities of the PPPs are in line with the overall goal of improving the quality of services, making services available to all, and ensuring that services are provided at affordable cost. The National Development Plan (NDP) (RSA, 2012) states that infrastructure investment as a percentage of GDP needs to grow from 21% in 2015 to 30% in 2030. This will require the public and private sector to co-operate to fund and build infrastructure. The greater use of PPP financing can contribute to improved decision making and accountability in planning and assessment of infrastructure projects (National Treasury PPP Unit, 2015:2).

- **Public-Public Partnerships**

The PPP is a contractual agreement between government departments in order to deliver certain service. This partnership is between different levels of governments. The Constitution of the Republic of South Africa 1996, (previous known as Act 108 of 1996 and now only referred to as The Constitution) encourages the principle of co-operative governance in Chapter 3, Section 41(1) (i), which prescribes that “all spheres

of government should co-operate with one another in good faith by nurturing open and pleasant relations and supporting one another through consulting one another on matters of common interest, and also aligning their actions and legislation with one another and adhering to legislated procedures”.

In support of the constitutional mandate of chapter 3, the Intergovernmental Relations Framework Act (13 of 2005) (RSA, 2005c) prescribes partnerships between government departments in order to improve the quality of service delivery. The aim of the Act is to facilitate co-ordination in the implementation of policy and legislation.

1.5.1.2 Public-not-for-profit making organisation model

The not-for-profit organisation (NPO) was established out of the need to meet a particular community need, and to extend a helping hand to the needy. The aim is not to make profit but to render a particular service on behalf of the government, and the government pays for the service rendered. This relationship is a legalised formal arrangement between parties involved, with specific outlines and prescriptions of what is expected of the parties involved. The not-for-profit making organisations are also known as Non-Government Organisations (NGOs) and Community-Based Organisations (CBOs). The organisation speciality will be in a particular area such as child welfare, e.g. the South African Society for the Prevention of Child Abuse and the Society for the Prevention of Animal Cruelty, which focuses on the protection of animal welfare (Zubane, 2011:30).

The not-for-profit organisations are headed by a volunteer board of directors, who offer their expertise voluntarily. The organisations operate within the confines of their legislative delegated mandates. These organisations open up opportunities for community involvement by operating at the local level. The NPO shortcomings are:

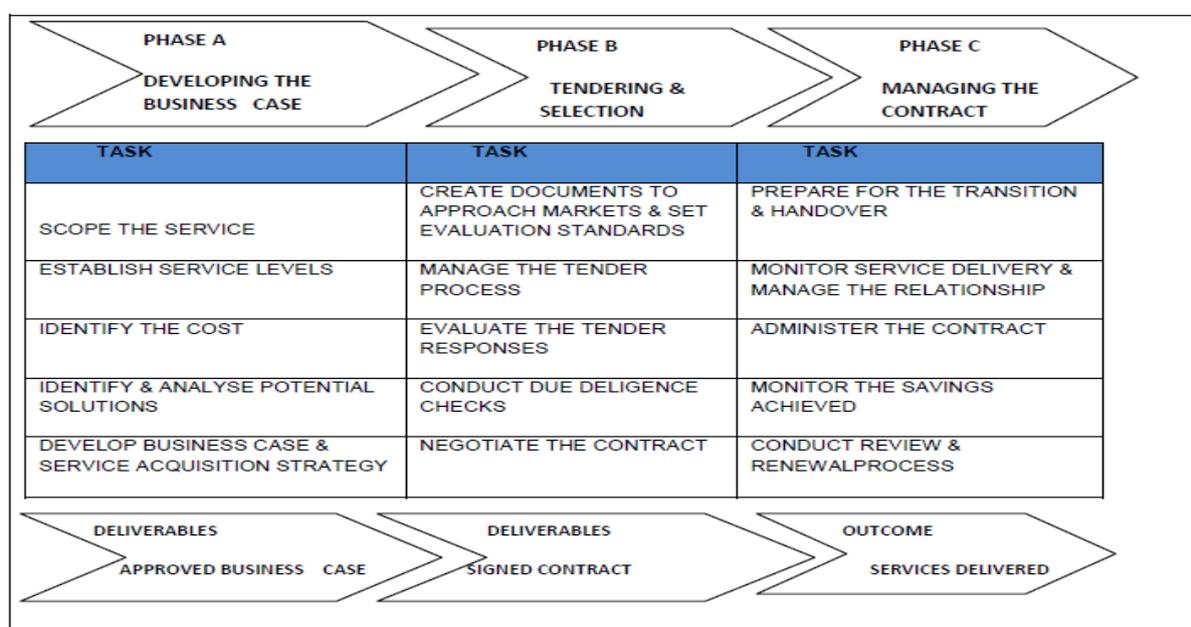
- The size of these organisations is small, which makes it difficult to engage in large projects.
- The NGOs are partly funded by the government, and through fundraising and international donors. The government allocations are seldom enough, and there are strict regulations on how the funds are to be utilised. This prevents the abuse of funds, but stifles innovation (Zubane, 2011:30).

1.5.1.3 Contracting out/outsourcing model

Outsourcing involves the contracting out of business functions which were previously performed in-house by the public sector to an external service provider. According to Nyamukachi (2004:55), outsourcing refers to the contracting out of a given local government service delivery function to a private sector agent, but retaining overall accountability of the function. The private company is contracted to render a specific service for a specified period of time at a certain fee. The success of the relationship is underpinned by transparency, trust and partnership.

According to Lewis (2008:290), the key benefits of outsourcing include: increased productivity through optimal utilisation of resources; and gain of competitive advantage by focusing on core business areas and control of capital costs. The process of outsourcing involves a competitive tendering/bidding process; this gives the government the advantage of selecting the top private sector agent that has the best expertise to deliver the project, and the outsourced relationship is contractual.

Table 1.1: The process of contracting



Source: ETU, 2014

Table 1.1: shows the different phases of contracting followed by local governments in outsourced service delivery projects.

1.5.2 Definition of the key concepts of public-private partnerships

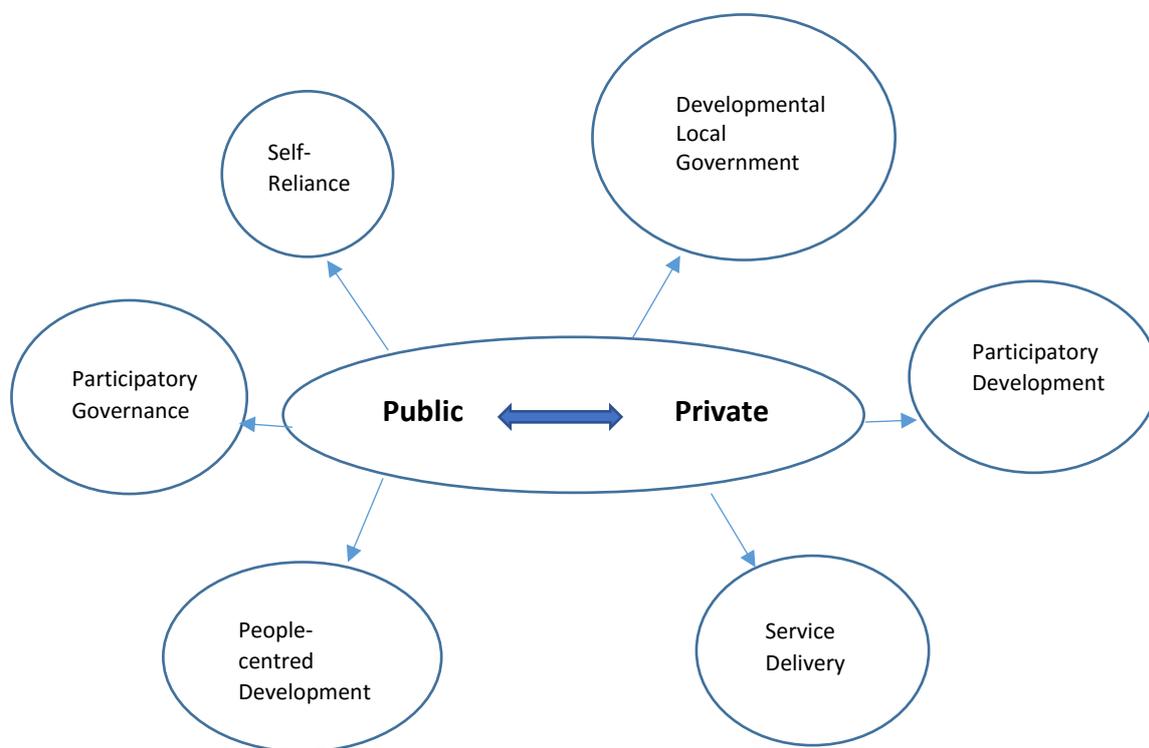


Figure 1.1: Mind-map: Key analytical concepts

Mind-map is a useful tool in research because it enables the researcher to identify concepts that are related to PPPs under investigation (Brynard & Hanekom, 2006:62).

- **Participatory development** – This process allows stakeholders to share control and influence over developmental initiatives and resources allocation (Ondrik, 2002:1). Participatory relationship of public and private organisations allows for the involvement of the private sector in public service delivery.
- **Participatory governance** – This is the process of sharing the administration of public affairs between government agencies, civil society, and private sector (Institute of Labour Studies (2005) in Friedman, 2006:4). This is a situation where government owned assets are managed by the private sector, in a partnership contract arrangement.
- **People-centred development** – This is a process focused on increasing civil society and private sector involvement in mobilising and managing resources, in an effort to achieve sustainable, improved quality of life for the citizens (Korten,

1990:67). PPP normally involves public-private arrangement, or public sector and community based organisations partnerships, in project delivery.

- **Self-reliance** – This is the outcome of development interventions, which results in knowledge of performing actions independently by the beneficiary. This is the empowering of the private sector, or civil society, to perform public service functions that are traditionally performed by the government.
- **Service delivery** – Provision of basic services, such as water, electricity, and sanitation, to residents of a municipality. The main objective of PPPs is to improve the delivery services to the intended beneficiaries.
- **Developmental local government** – Local authority committed to partnership with communities in other words to meet their social, economic, and material needs, and to achieve sustainability (RSA, 2000c:30). One of the key elements of a developmental government is public-private sector partnership and civil society involvement. These relationships result in partnership arrangements to deliver projects.

1.5.3 Preliminary theory on housing

The human searches for appropriate shelter evolved over centuries in different parts of the world, where people roamed and settled, and is evidenced from the way houses have evolved over decades. According to Tay and Diener (2011:354-365), Maslow's hierarchy of needs ranks shelter amongst the fundamental needs that need to be satisfied before other higher order needs can be meaningfully realised.

The United Nations marked the 2016 World Habitat Day with a report which states that adequate housing should be at the centre of the urban policy and in the physical centre of the city. According to the report, "unplanned rapid expansion of towns and cities results to increasing number of poor and vulnerable people living in precarious conditions, without adequate living space or access to basic services, such as water, sanitation, electricity and health care" (UN-Habitat, 2016:1). The report revealed that more than half the global population already lives in urban areas, and an estimated quarter of these urban dwellers live in slums or informal settlements. These slum dwellers are isolated from opportunities for decent work and are vulnerable to forced eviction and homelessness.

According to Burgoyne (2008), the problem of inadequate housing in African and Asian cities is as a result of urbanisation and population growth. Urbanisation is the result of migration of people from the rural areas to the cities in search of jobs and better opportunities, in order to improve their lives. Aldrich and Sandhu (2005:232) argue that urbanisation has turned housing challenges in developing country cities to housing crises. The local governments are mandated by relevant policies to meet the housing needs of the local population, and often, these mandates present challenges leading to inadequate housing and leaving the urban poor destitute. It is imperative that governments that intend to achieve development and increased productivity pay attention to the housing needs of its citizens. According to Social-Housing Professionals (2001:1), “housing is a prerequisite for exercising other rights such as health, insurance, education, employment, citizenship, culture and leisure”.

The concept of affordable housing recognises the needs of those with insufficient income, and their inability to access appropriate housing in the market without assistance (Milligan, Phibbs, Fagan & Gurran, 2004:1). According to Milligan *et al.* (2004:1), the term affordable housing describes “housing that assists lower income households in obtaining and paying for appropriate housing without experiencing undue financial hardship”. In recent years, ‘public’, ‘social’ and ‘low cost housing’, has been used to refer to the term ‘affordable housing’ (Gabriel, Jacobs, Arthurson, Burke & Yates, 2005:3).

The conceptualisation and measurement of housing affordability is of a complex nature, hence the understanding of the causal factors are equally contested. According to Gabriel *et al.* (2005:37), housing affordability can be understood as high cost of mortgage, or rent, relative to income, problems of accessing affordable housing, inability to afford housing cost after meeting other expenditures, and problems of too low income, or too high housing prices. Turner (1990:138) argues that housing affordability is as a result of the inability of the urban poor to pay for existing house prices. Turner (1990:139) posits that a stable and long-term policy to improve housing and living condition would be a means of improving the economic condition of the poor, and empowering them to house themselves. This could be achieved by

government interventions in formulating housing policies plus financing and implementation.

1.6 LOCAL GOVERNMENT AND PUBLIC-PRIVATE PARTNERSHIPS LEGISLATIONS IN SOUTH AFRICA

The South African government has taken the initiative to ensure that the citizen's fundamental right to shelter is realised through the formulation of housing policies. The Bill of Rights, as enshrined in the South African Constitution, 1996, stipulates in Section 26 (1 & 2), that citizens should have the right to have access to adequate housing, and the state must enact legislations and take other reasonable measures within its available resources to achieve the realisation of the right to housing. The South Africa Constitution, 1996, gives local governments' a direct mandate to provide services, including housing, to lower levels of government. The achievement of this mandate still poses challenges to the local authorities.

Some of the factors that hinder service delivery in RSA by the local government include (Ramathoka, 2011:5): inadequate funding, lack of trained personnel, and inadequate capacity. Local governments in many countries have introduced PPPs, as an alternative service delivery model, in order to improve service delivery. The implementation of PPP requires applicable legislative frameworks to govern the delivery of services. The legislations that guide local governments and PPPs in South Africa are described below.

1.6.1 Local government and public-private partnerships legislations

- The Constitution (RSA, 1996) is the principal piece of legislation that regulates public procurement. Section 217 of the Constitution requires all organs of government to apply the principle of fairness, equitability, transparency, competitiveness and cost-effectiveness when contracting for goods and services. The requirement of Section 217 of the Constitution is echoed in Section 51(1) (a) of the Public Finance Management Act (PFMA) (1 of 1999) (RSA, 1999a), which states that an accounting authority for a national, or provincial department, or public entity, must ensure that the particular

department, or entity, has, and maintains an appropriate procurement and provisioning system (RSA, 1996).

- The Public Finance Management Act (PFMA) (RSA, 1999a), which regulates the management of finances in the national and provincial government. It prescribes the procedure for the effective and efficient management of all revenue, expenditure, assets and liabilities. It establishes the duties and responsibilities for public servants in charge of finances, with the aim of ensuring transparency, accountability and sound financial management in government and public institutions.

The Minister of Finance and the national departments responsible for financial and fiscal matters make up the National Treasury. Their main function is to oversee the implementation of the Act (RSA, 1999a; RSA, 2003a). The National Treasury promotes the national government's fiscal policy framework and monitors provincial budgets in government departments and other institutions governed by the Act. The Treasury prescribes norms and standards and has rights to investigate financial management in any department, public entity and constitutional institution (RSA, 2003a).

The Provincial Treasury consists of the MEC for finance and the provincial departments responsible for finance in the province. Their function is to prepare and control provincial budgets and oversee the implementation of the Public Financial Management Act in the province. The Provincial Treasury has the responsibility to submit financial statements for their departments, for public entities that fall under their control, and for the provincial legislation (RSA, 1999a). The Provincial Treasury is governed by the provisions of Regulation 16, in terms of Section 78 of the PFMA, 1999.

The financial affairs of the local governments are regulated by the Municipal Finance Management Act, (MFMA) (56 of 2003) (RSA, 2003a). The MFMA aim is to modernise budget and financial management practises in the municipalities in order to maximise the capacity of municipalities to deliver services to the communities. The purpose is to establish a sound financial

governance framework, by clarifying and separating the roles and responsibilities of the executive mayor or committee, non-executive councillors and officials. The MFMA requires local governments to be transparent about their budgets and financial affairs, and must be read together with the Municipal Systems Act (32 of 2000) (RSA, 2000b), to ensure alignment of IDPs, budgets, performance systems and governance across municipal entities.

In South Africa, the public-private partnership legislative framework is guided by the Treasury Regulation 16, in terms of the Public Finance Management Act, (RSA, 1999a). The South African National Treasury's PPP Manual (2007), guides public and private parties through the phases of the regulated PPP projects cycles. Local governments are guided by the Municipal Systems Act, (RSA, 2000b) and the Municipal Finance Management Act, (RSA, 2003a).

- The Intergovernmental Relations Framework Act (13 of 2005) (RSA, 2005c), which establishes the framework for the national, provincial, and local governments to promote and facilitate intergovernmental relation. This creates the platform for intergovernmental partnership in projects, with opportunities for private sector involvement. The provincial government may contract a private sector agent to execute a project in a local government that lacks the capacity to undertake such a project.
- The Local Government Municipal Structures Act (117 of 1998) (RSA, 1998a) which provides for the establishment of municipalities in line with requirements relating to categories and types of municipality. The decentralisation of the government creates an opportunity for the private sector to partner with the local government to deliver public services (Khan, 2009:509-512).
- The Local Government Municipal Electoral Act (27 of 2000) (RSA, 2000a) which provides for citizens' right to elect their representative to the municipal council. The election of community members to political office facilitates co-operation and partnerships with the local businesses and other stakeholders (Cohen & Peterson, 2009:1-2).

- The Local Government Municipal System Act (32 of 2000) (RSA, 2000b) which provides for the establishment of guidelines for community participation in local government's decision-making process. Public participation creates opportunity for partnerships between the local authorities and the private sector to be formed, in order to improve service delivery.
- The Labour Relations Act (66 of 1995) (RSA, 1995b) which aims to promote economic development, social justice, labour peace, and democracy in the work place. This creates an opportunity for the empowerment of the private sector through PPPs, in the delivery of public services.
- The Municipal Finance Management Act, (56 of 2003) (RSA, 2003a) which provides for a secure and sustainable management of the financial affairs of the local spheres of government, and establishes norms and standards. It sets the contract procedure for private sector procurement of projects, and oversees financial management of projects.
- The Preferred Procurement Policy Framework Act (5 of 2000) (RSA, 2000c) gives guidelines to organs of government for the implementation of its procurement policy. This sets out the procedure and standards for PPPs. An example is the Black Economic Empowerment (BEE) procurement. The PPP BEE Code of Good Practice is gazetted under the Broad-based Black Economic Employment Act, (53 of 2003) (RSA, 2003b) under the Public Finance Management Act, (RSA, 1999a).

1.7 RESEARCH METHODOLOGY

A research design should provide a clear plan of action which describes the techniques that will be employed (Terre Blanche, Durrheim and Painter, 2006:21). According to Mouton (2001:55), research design is a framework that explains how the researcher intends to conduct a research project. The two basic research methods are qualitative and quantitative research methods (Brynard and Hanekom, 2006:27). Mouton (2001:56) describes qualitative research "as enabling the understanding of the dynamics of people's experience, assumptions, attitude, perception, behaviour, and their judgements in the context of their social world". According to Babbie and Mouton

(2015:49-53), “quantitative paradigm emphasises on the quantification of constructs, and measures properties of phenomena by assigning numbers to the perceived quantities of things”.

The researcher has considered the use of qualitative research, literature and open ended questions in questionnaire, to be suitable for this study because it describes partnerships and relations between public and private sectors, as well as the beneficiaries of the affordable housing projects. According to Schurink (2009:803), qualitative research provides for flexibility and manipulation of the sample size to suit requirements of the study. Brynard and Hanekom (2006:37) argued that qualitative study creates an opportunity for the researcher to be in close contact with the research population, in order to understand their situation, and real-life experiences.

1.7.1 Population

The research population is a specified large group from which the research sample is drawn, and to which the sample result is generalised (Creswell, 2009:12). The selection of a sample is aimed at achieving the representation of the population. The make-up of a sample should reflect the population from which it is taken. In this study, the researcher has employed non-probability sampling methods, which means that the samples are selected based on the researcher’s judgement. Four groups were identified as the population from which the samples were extracted for semi-structure interviews. The population comprised employees of Cape Town Community Housing Company (CTCHC), City of Cape Town municipality (CoCT), National Housing Finance Corporation (NHFC), and the beneficiaries of Harmony Village and West Cape Villas housing projects. The sample of the population is represented in the Table 1.2.

Table 1.2: Sample groups

Number	Population	Sample
1	Cape Town Community Housing Company	3
2	City of Cape Town	4
3	National Finance Housing Corporation	2
4	Beneficiaries (owner and rental programmes)	30
TOTAL		39

1.7.2 Sampling

A research sample is referred to as a group of people, objects, or items taken from a population to measure the effect of a particular phenomenon (Welman, Kruger, & Mitchell, 2007:57). The sample frame comprises officials of CTCHC, NHFC and CoCT involved in the projects, as well as the beneficiaries. The selection of the sample respondents is based on their involvement in the construction and distribution of affordable housing in Mitchell's Plain.

1.7.3 Case study

Case study allows the selection of a specific sample population for study, in order to gain in-depth knowledge of the study. In this instance, Mitchell's Plain is selected as the case study due to the severe shortfall of affordable housing in the area. Case study narrows down a broad field of research into a smaller researchable topic. Yin (2003:1) purported that "case studies are the preferred strategy; 'When', 'How' or 'Why' questions are being posed, and when the investigator has little control over events, and the focus is on a contemporary phenomenon within some real-life contest". The research sample was applied to the two case study projects, namely: the Harmony Village (Rental programme) and West Cape Villas (Owner programme).

1.7.4 Semi-structured interview

Interviews are useful tools for collecting qualitative data. The researcher selected semi-structured interviews in order to offer direction to those that would be interviewed. This gives the researcher an opportunity to explain the questions, and ask follow-up questions to the respondents based on the answers received (Brynard & Hanekom, 2006:32). Data on PPPs and affordable housing projects and development were

collected through interviews with stakeholders that include officials of CTCHC, NHFC and COCT involved in the development of the housing projects, and the beneficiaries of Harmony Village and West Cape Villas projects (Leedy & Ormrod, 2001:13).

1.7.4.1 Three Cape Town Community Housing Company Officials

➤ The Operation Officer

The operation officer will provide information on the nature of the partnership between the CoCT and CTCHC, which will include; information on how the projects were conceived, the targeted beneficiaries, the funding and the role of each stakeholder in the partnership. Also, the activities of CTCHC in the affordable housing developments and the extent to which the developments have gone to reduce the housing backlog will be explained. The challenges of the developments and possible solutions will be highlighted.

➤ The Project Manager

The project manager will provide information on the project profile and construction specifications. This will include different housing types, the number of units, and duration of the constructions.

➤ Marketing and Client Services Manager

The marketing and client services manager will provide information on the target market, prices and end-user funding. He/she will also provide information on the housing allocation and distribution. He/she will disclose whether the beneficiaries are the actual targeted beneficiaries, and how many people have benefited from the projects, and also how far the projects have gone to reduce the housing shortage in Mitchell's Plain. The challenges of the developments and possible solutions will be highlighted.

1.7.4.2 Four City of Cape Town Housing Officials

This will include four City of Cape Town housing officials involved with affordable housing developments. They will provide information on the City's role in the partnerships, and the financial and material contribution to the projects. Also, they will provide information on the extent of the City's control over the project, and how the

City ensures that the primary objective of providing housing to the targeted groups is achieved.

1.7.4.3 Two National Housing Finance Corporation Officials

Two officials of the National Housing Finance Corporation, which is the principal financier, will be interviewed to establish the nature and extent of their involvement in the housing projects.

1.7.4.4 Thirty beneficiaries of the housing projects

Thirty of the beneficiaries of the projects will be providing interviews to understand their experiences, their assessment of houses and the entire process of acquisition of the houses, also, to ascertain whether the intended beneficiaries were allocated houses accordingly. They will also be required to highlight their difficulties and suggest possible solutions to such difficulties in order to serve them better.

1.7.4.5 Data analysis and interpretation

Data analysis is considered a critical stage of the research process, as the accuracy of the interpretation depends on the correctness of the analysis. According to Glanse and Peshkin (1992:37), data analysis involves “the organisation of what have been observed, heard and read, so as to make sense of what has been learnt”. In confirmation, Gillham (2000:25) stated that data analysis and interpretation is a summarised and organised version of the research done. Hence this implies that data analysis enables the researcher to organise, interpret and give meaning to a large amount of data.

1.8 OUTLINE OF CHAPTERS

The research is structured in seven chapters, outlined below:

Chapter One: Explains the background of the research, the research question, objectives, and the methodology on which the research is based. It also outlines the direction for subsequent chapters.

Chapter Two: Describes the theoretical framework and literature review of relevant concepts relating to the topic, which include Local Government, PPPs and Affordable housing.

Chapter Three: Describes the legislative framework of local government, and the policies that guide PPPs, and Housing policies and practices in South Africa.

Chapter Four: Describes the case study of affordable housing development in Mitchell's Plain and the activities of PPPs.

Chapter Five: Describes the data collection process and analysis of data collected using semi-structured interviews.

Chapter Six: Explains the evaluation of PPPs in affordable housing.

Chapter Seven: Describes a normative approach to PPP challenges in housing delivery in the City of Cape Town.

CHAPTER TWO: LITERATURE REVIEW ON LOCAL GOVERNMENT, PPPs, AND AFFORDABLE HOUSING

2.1 INTRODUCTION

Developed and developing countries around the world have observed that decentralised service delivery can result in faster and efficient services as opposed to centralised systems. This is why many national governments have adopted the decentralisation of authority to their local governments, with the aim of delivering public services quicker to the local communities. In principle, a well-decentralised local government system is able to increase resources available for providing public services to the poor, and can allocate these resources accordingly, where local needs are the greatest. The degree of decentralisation of authority to local government may vary, but the strongest decentralisation is achieved through legislations or by the transfer of specific service delivery function to the local authority. Decentralisation of authority to local government promotes stakeholder involvement in service delivery; this brings in much needed resources and expertise in service delivery; thereby improving service delivery efficiency and effectiveness (Hussain, 2005:170-178).

The growth of populations and urbanisation has increased local government service delivery obligations to communities and local governments are not adequately equipped to meet the increasing community needs. As a result, local governments have resorted to alternative service delivery methods through the formation of partnerships with the private sector. The formation of partnerships provides the local government with fiscal resources and expertise which is inadequately available to the public sector. Moreover, the risks are shared or transferred to the private sector. This chapter reviews scholars' views on PPPs in service delivery in local government, and also describes the theories and concepts that relate to local government and affordable housing developments.

2.2 DEVELOPMENTAL LOCAL GOVERNMENT

The focus of developmental local government is to deliver public goods and services to its citizens. It is natural that human beings pursue development and aspire for a

better life and prosperity. Irrespective of the level of success, or failure, of the development, one thing that is central to development is human beings, hence the saying that – “development is about people”. Despite the understanding for decades that development is about people, it was not until around the 1990s that the concept of human development became a subject of discussion at the United Nations. In most developmental efforts, the key aspect is the need to “alleviate poverty, safe guard basic human rights and improve the quality of people’s lives to live a life characterised with freedom and free from want and isolation” (Mayimele, 2011:1).

A developmental local government is a government level that is well organised and has authority to achieve its developmental goals. It must be a government with the ability and authority to consistently guide and back-up its long-term development and economic policies that develop the citizens (Adrian, 1995:400-427). This phenomenon of local government-led macroeconomic planning was synonymous with the East Asia countries such as Thailand and Singapore in the late twentieth century (Asian Development Bank Institute (ADBI), 2000:42).

While developmental local government is associated with East Asia, a similar structure was developed in Latin America to improve services at local government level. An example is the city of Medellin in Brazil, where developmental local government was established at local level. Medellin’s city administrators diverted 30% of its revenue from its main energy supply: - Empresas Publicas de Medellin (EPM), to fund municipal spending. The revenue was used partly for a variety of infrastructure projects, such as the city’s metro, the bus network and a cable car system that connects the poor communities to the City (Bateman, Pablo, Ortíz, & Maclean, 2011:6). The city developed programmes that support the poor in establishing businesses and included the communities in its development strategies.

The following are the ideal characteristics of a developmental local government, which sets the platform for any engagement between the local government and the private sector, in the process of service delivery.

- A local government with efficient public administration and intervention in the economy to promote social development and strong local government capacity, achieved by creating inexpensive, efficient and effective public service, with a

competent and innovative workforce, capable of addressing the social and economic needs of citizens (Evans, 1995:1; Polidano, 2001:513-527).

- A local government that is focused on addressing the socio-economic needs of the entire community, especially the poor, the marginalised and the historically disadvantaged (Evans, 1995:1; Polidano, 2001:513-527).
- A well-run democratic local government that fosters economic activities and growth, in order to reduce poverty, improve and sustain better living conditions for its citizens (Department of Provincial and Local Government, 2008:5).

Many scholars have made contributions to the literature of developmental local government. According to Mkandawire (2001:289-314), developmental local government does not only apply to those that achieved economic growth, but includes local governments that attempted to achieve economic growth by deploying administrative and political resources, but failed due to external factors such as miscalculations. He rejects the comparison of local governments in developed countries with local governments in developing countries, and argues that any local government that develops an appropriate institutional structure to trigger growth, merits the recognition of a developmental local government.

Turok (2010:497-515) argues that a developmental local government has three important features. Firstly, they have the capacity to plan ahead, and make long-term strategic decisions that are not influenced by political pressure and problems as they emerge. Secondly, they have the capacity to analytically separate causes of problems and their consequences. Thirdly, they are organised, and have the capacity to focus on the underlying issues for more tangible outcomes. A developmental local government should be quick to react in anticipating difficulties and mitigating risks, and avoid escalation to disproportionate levels. Developmental local government invests in the unlocking of economic potentials, promotes enterprise development and optimises the use of neglected resources such as land and labour. They intervene in the market to create financial institutions to provide risk capital, promote long-term business decisions, improve management and stimulate productivity.

An important element of developmental local government is that they are democratic, and bring all role players together, to define a common purpose and a plan of action (Robertson & White, 1998:6; Edigheji, 2010:22). Partnerships with business and

community organisations help to share ideas and resources; build support, mutual commitments to activities and encourage hard work, self-improvement and increase employment.

There is no one laid-down rule for constructing developmental local government. Local governments' development is based on the replication of elements of already established local governments. Historically, developmental local government have been constructed to respond to specific developmental challenges of the time. The lessons and experiences are drawn and adapted to address a particular context (Edigheji, 2010:60).

According to Mayende (2009:53), a developmental local government aims to ensure a high level of economic growth, equitable distribution of wealth, reduction of poverty levels and equality, and development, for the benefit of its citizens. This is based on its planning systems and bureaucratic capacity, craft policies and programmes. Butler (2009:63) posits that developmental local governments do not only allocate resources, but mobilise them to finance investment growth. It has become a global phenomenon for local governments to involve the private sector in their investment pursuit, in order to cut public sector bureaucracy, have access to resources, and achieve more efficient and effective service delivery.

2.2.1 Characteristics of local government

- **Must be at the sub-national level:** - A local government is a government under a national or central level of government. The local government should not be a department of the central government at the local level, but should have adequate authority in resemblance to a form of government (Olowu, 2012:53-65).
- **A legal personality:** - A local government as an entity should be created by a national constitution, or by ordinary legislation of a central authority, or state legislation, or by an executive order, to serve the interests of a demarcated small geographic area (Olowu, 2012:53-65).
- **Wields specific powers:** - A local government operates under specific decentralised authority, which enables it to undertake and carry out public

functions and activities in an area under its jurisdiction. For example, authority to employ and fire staff and authority to generate revenue (Olowu, 2012:53-65).

- **Specific geographical area:** - A local government should have a demarcated area under its jurisdiction, and control. It should also have authority over the inhabitants of this demarcated area (Olowu, 2012:53-65).
- **Elected / appointed representative:** - A local government should be run by elected representatives, or appointed representatives from the community, to ensure inclusive local economic development (Olowu, 2012:53-65).

2.2.2 Decentralisation of authority to local government

The establishment of a developmental government cannot be feasible without the decentralisation of authority. As developmental government relates to inclusiveness and involvement of all stakeholders at grassroots level, it requires the decentralisation of authority from the central government to lower levels of governance.

Treiseman (2007:289-324), argues that scholars define decentralisation in different ways depending on what they have in mind. This goes to confirm the fact that there are many concepts on what constitutes decentralisation. According to Devas and Delay (2006:344-345), the heart of the debate about decentralisation, is the relationship between the various levels of government, and the balance of power between those levels. The common feature of the different decentralised systems of government is the transfer of central government authority to sub-national units to provide public service (Grindle, 2007: 533-574). The decentralisation of authority can be within political structure, administrative structure, or government sector to private sector, or a combination of all.

According to Khan (2009:509-528), the theory of decentralisation has a close relationship with public administration, good governance, democracy and development. The concept of decentralisation became popular in the middle of the twentieth century, and grew into a global governance phenomenon in development administration, and a tool for pursuing development. Hussain (2005:1-4) and Lai and Cistulli (2005:2-3) defines decentralisation as the transfer of authority and functions from the central government to other levels of government. "Decentralization is commonly regarded as a process through which powers, functions, responsibilities

and resources are transferred from central to local government and/or other decentralised entities” (United Nations, 2009:1-28).

Proponents of decentralisation emphasised that local governments could play diverse and greater rolls in improving democratic governance and public service delivery. Cohen and Peterson (1999:1-2) explain that:

“Decentralization supported by increasing local participation is seen as one aspect of a strategy for ending the inefficient and ineffective heritage of statistics-based command economies while downsizing bloated, costly and ineffective public sectors. It is also seen as key to the emergence of responsive local government leaders and more effective service to local clients”.

According to Lai and Cistulli (2005:3), responsibilities such as management and resource generation and allocation, may be transferred from the central government to the following levels of government:

- The Central Government Administration;
- Peripheral units of the Central Government Administration;
- Civil Society;
- Local Governments;
- Autonomous Agencies;
- Public Sector Commercial Enterprise; and
- Private Sector and Civil Society Organisation.

Figure 2.1, below shows decentralisation to various levels of government.

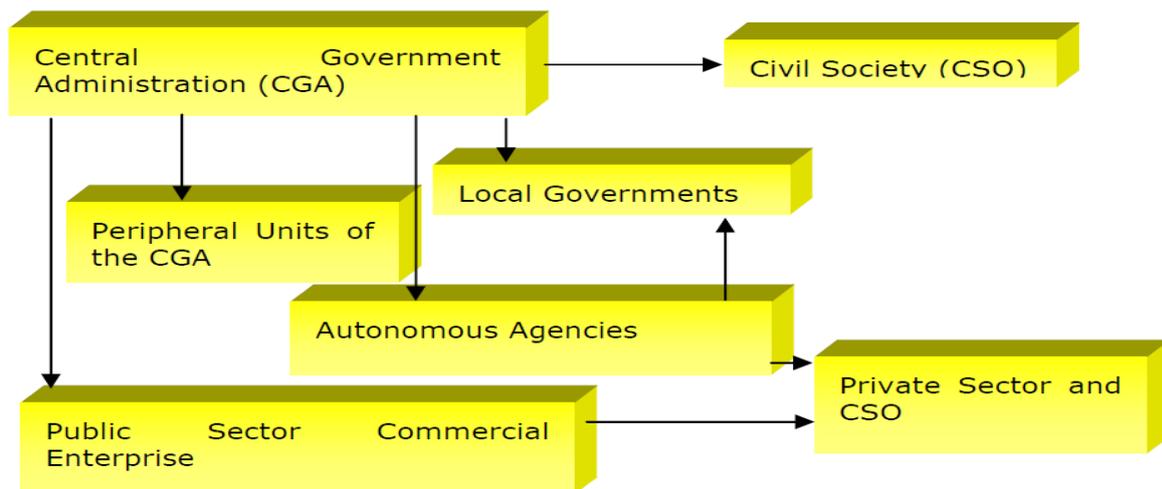


Figure 2.1: Decentralisation of responsibility to different levels of authority.

Source: *Lai and Cistulli, 2005:3*

2.3 FORMS OF DECENTRALISATION

The main forms of decentralisation, according to Lai and Cistulli (2005:3-6) and Hussain (2005:178), are political and administrative decentralisation.

2.3.1 Political decentralisation

This is devolution of political authority of decision-making and responsibility to lower levels of government. Political decentralisation assumes that decisions which involve greater participation will be better informed, and will serve the interests of wider society than those taken by a centralised government (Hussain, 2005:178). Political decentralisation includes the fiscal delegation of authority to make expenditure decisions with funds transferred from the central government. In many countries, the local governments have the authority to generate revenue through taxation; often the taxes are not enough which maintains the local government dependence on the central government's transfer of funds (Lai & Cistulli, 2005:3).

2.3.2 Administrative decentralisation

This is the transfer of responsibility for planning, financing, and managing certain functions from the central government and its agencies to the subordinate levels of government, regional or functional authorities (Lai & Cistulli, 2005:3). Administrative transfer of authority is done through functional and aerial distribution of authority. "Functional distribution transfers authority to specialised organisations that operate

across jurisdictions, while aerial distribution transfers responsibility for public functions to institutions within specified geographical and political boundaries, such as province, district, or municipality” (Lai & Cistulli, 2005:5). The main forms of administrative decentralisation are:

- **De-concentration** – This is the redistribution of decision-making authority and financial and management responsibilities among different levels of central government.
- **Delegation** – This is the transfer of decision-making responsibility and administration of public functions to semi-autonomous organisation, not in total control of the central government.

2.4 TYPES OF DECENTRALISATION

The two main types of decentralisation are vertical and horizontal decentralisation.

2.4.1 Vertical decentralisation

This is the transfer of control over public resources and decision-making functions by the central or regional government to the lower level of government. The implementation of vertical decentralisation can take three forms, namely: de-concentration, delegation, and devolution. These concepts have been explained above.

2.4.2 Horizontal decentralisation

This is the transfer of decision-making authority from public sector to private organisation. For the purpose of this research, the horizontal decentralisation is applicable and deals with the transfer, or sharing of authority, with the private sector. Horizontal decentralisation is established via different forms of PPPs, which include:

- **Management contracts:** - The private sector is partially involved in this partnership with limited contract of providing a service or management skills (White, 2006:3).
- **Joint ventures:** - This is a partnership where there is combined ownership and operations by the private and public sector (Beauregard, 1998:52-70).

- Leasing: - This is a partnership where private sector operates and maintains the assets while the government retains the ownership of the asset (Grimsey & Lewis, 2005:345-378).
- Privatisation – This is the contracting out of the provision, or management of public services, or facilities, to commercial enterprises.
- Deregulation – This is the transfer of services provision, or production activities, previously owned and regulated by the public sector, to competing private organisations.

2.4.2.1 Advantages of horizontal decentralisation

The main advantages of horizontal decentralisation are:

- It reduces administrative complexity and bottlenecks associated with decision-making, caused by local authority planning and control of economic and social activities.
- It highlights public needs at the local level to government officials.
- It helps local government to reach a larger number of communities in delivering services.
- It promotes inclusiveness and unity by involving the public at local levels in decision-making.
- It facilitates the mobilisation of local resources in support of the development process.
- Lack of adequate funding by the central authority to decentralised local authorities could be enhanced by private sector involvement (Hussain, 2005:178; Lai & Cistulli, 2005:3-6).

2.4.2.2 Disadvantages of horizontal decentralisation

If not well-designed, horizontal decentralisation could have the following disadvantages:

- It could be less efficient and effective in delivering services, due to weak administrative and low capacity systems at local level by private agents.
- Unit costs could rise due to mismanagement of large numbers of decentralised units.

- Lack of trust between public and private sector at local level may undermine cooperation and service delivery.
- The local authority may lose control of scarce financial resources and political authority at local level (Hussain, 2005:178; Lai & Cistulli, 2005:3-6).

2.5 DECENTRALISATION AND PUBLIC-PRIVATE PARTNERSHIPS

The drafting of decentralisation policies by governments has a bearing on PPPs, as well as the following issues, which may necessitate government intervention:

- **Correction for market failure** – This refers to a situation when the uncontrolled use of the market, or the private sector, to allocate goods and services would lead to economic inefficiency, in which the price of goods will not reflect the opportunity costs to society of producing it, especially with public goods and services. These may arise as a result of monopolies, missing markets, externalities, and nature of public goods that make it difficult to charge users directly. The control of the government in PPP partnerships ensures that the private sector maintains the conditions of partnership contracts (Lai & Cistulli, 2005:6).
- **Provision of merit goods** – This is the provision of goods and services that governments mandate individuals to consume, in which case it is judged that people may not act in their own best interest if left to their own devices. Example, subsidising sports facilities and cultural activities. In this instance, the government ensures policy compliance in a PPP (Lai & Cistulli, 2005:6).
- **Equity and income redistribution** – This is government intervention in the allocation of goods and services, in order to direct it towards government's social welfare objectives. Example, provision of conditions that will enable disadvantaged people to have access to minimum levels of certain goods and services (Lai & Cistulli, 2005:6). In a PPP, the private sector is responsible for resources allocation, while the public sector ensures policy compliance. Some government policies require developers to allocate certain aspects of their development to affordable housing.

The partnership relationship between the public sector and the private sector in market decentralisation and delegation processes is based on co-operative or contractual business arrangements involving the parties concerned. The effective and efficient partnership engagements between the public sector and the private sector at the local levels, requires decentralisation of authority so as to ensure inclusiveness and the delivery of services closer to the local population.

The delivery of public services by the central authority at local levels may be through partnerships with private sector agents, due to the inadequate capacity of the local government authorities. For example, government infrastructure establishments at times require the expert management capacity of private sector agents at local level to ensure efficient operations and improved service delivery. On the other hand, the partnership may involve an arrangement between the decentralised local authority and a private sector agent, which may be in the form of 'Build to Operate'. In this instance, the private sector is responsible for financing a public service project and managing it, due to the financial constraints of the local authority that provides the land for the construction of the infrastructure (Lai & Cistulli, 2005:6-8).

Decentralised development underpins PPPs, and is implemented by governments all around the world as an essential part of good governance, and a necessary condition for private sector growth. It is also a strategy for local participation, social and economic development, and the empowering of citizens in decision-making about their lives and the environment in which they live.

2.6 THE CONCEPT OF PUBLIC-PRIVATE PARTNERSHIPS

The concept of PPP involves the co-operation and mutual labour efforts of the public and private sector to provide infrastructure and public services.

Scholars and different organisations have defined PPPs in various ways at different periods. One of the popular definitions advanced by Li and Akintoye (2003:3) states that PPPs are contractual agreements between a public agency (e.g. local government) and a private entity (e.g. one or more private company). Another widely

adopted definition by the United States Department of Transport (United States Department of Transport (U.S. DOT), 2004:2) states that:

“A public-private partnership is a contractual agreement formed between public and private sector partners, allowing for more private sector participation. The agreements are usually between government agency and private sector that are contracted to renovate, construct, operate, maintain, and/or manage a facility or system. While the public sector usually retains ownership in the system, the private party will be given additional decision rights in determining how the project or task will be completed”.

Van Dijk (2006:133) defines PPP as a co-operative venture between a public entity and private sector agent, aimed at realising common project in which they share costs, risks and profits. PPP is known as Private Finance Initiative (PFI) in the United Kingdom, in Australia it is known as Private Finance Project (PFP) and Private-Sector Participation (PSP) in the United States of America. Irrespective of the names used, PPPs are generally regarded as long-term and sustainable ways of financing and building social infrastructure and enhancing public asset values. Lai and Akintoye (2003:3) argue that a PPP is the best way to make full use of private sector resources to deliver services, or infrastructure more efficiently and effectively. Osborne (2000:14) states that the objective is to focus on combined service delivery methodology by the public and private sector.

The concept of PPP is in line with the New Public Management approach (NPM) to service delivery, which emphasises the new approach to solving government problems, or creating opportunities by co-operation between the public and private sector in situations presenting opportunities. The PPP focus in the past years has been on infrastructure, hospitals and prison construction, but this focus has shifted in recent times to mainstream service delivery such as sanitation, water, housing and electricity. Although PPPs have been considered advantageous in many ways such as the provision of private sector funding, expertise and improvement of service delivery efficiency and effectiveness, detractors and critics of PPPs argue that it is too expensive, exploits the public sector, and presents opportunities for corruption in the public sector. This view has unfortunately led to mistrust in PPPs, given the role each party has to play in service delivery (White, 2006:3).

2.6.1 Different reasons for public-private partnerships

Governments have various reasons for pursuing public-private partnerships. In the industrialised economies, such as the United States, the United Kingdom, and Australia, PPP is pursued to achieve cost effective service delivery, while ensuring high level of quality services and customer satisfaction (White, 2006:1). The emerging markets such as Malaysia and Brazil pursue PPP to seek new source of long-term investment capital, management expertise and new technologies. In general, the basic reasons governments enter into PPPs are as follows:

- to have access to external sources of long-term financing for infrastructure investment;
- to expand service delivery to communities denied of basic services;
- to reduce the establishment and operating cost of public infrastructure;
- to have access to specialised management expertise and professional skills;
- to improve the quality services provided and the level of customer satisfaction;
- to encourage innovation and efficiency through the combination of the public and private sectors' expertise and efficiency;
- to allocate risk to the party that can manage it better, in order to secure the best value for money;
- to spread project payments over a reasonable and longer period of time, in order to manage costs in the budget;
- to undertake and finance projects, also in times of economic crises; and
- to achieve sustainable development at affordable cost by utilizing PPP resources (White, 2006:2).

2.6.2 Types of public-private partnerships

The various types of PPPs implemented by governments are described below.

- **Management Contracts:** - In this form of PPP, the private sector is partially involved, and provides a service or manages the contract with minimal risk. The objective is to utilise a specialised skilled team, to manage and reach a specific operating goal, such as improving collection ratio and reducing the cost of

operations (White, 2006:3). Management contracts are usually for a period of five years.

- Joint Ventures: - This is an arrangement where private and public-sector finance own and operate the facility together. This model is used in the United States of America (USA) for urban regeneration schemes, in which the local government authorities buy and clear blighted areas for the construction of public services (Beauregard, 1998:52-70). This is a shareholder arrangement.
- Leasing: - In this arrangement, the private sector operates and maintains the assets, while the government retains the ownership of the asset. An example is a system in France, where the local government constructed a water facility, and contracts it to a private company to operate and maintain (Grimsey & Lewis, 2005:345-378).
- Build Operating Transfers (BOT): - This is an arrangement where the private sector is primarily responsible for funding, designing, and operating the project. When the contract expires, ownership and control thereof is transferred back to the public sector (Grimsey & Lewis, 2005:345-378).
- Build Own Operate (BOO): - In this arrangement, the private sector is responsible for the finance, building, operating and ownership of the facility in perpetuity. An example is a water treatment plant in Australia, where the private sector built the facility, and processes water supplied by the public sector, and then returns the processed water to the public sector for distribution to the public, in accordance with a purchased contract (Grimsey & Lewis, 2005:345-378).
- Design Build Finance Operate (DBFO): - This is a service procurement policy of highly specified outcomes and performance standards. The term of the contract is usually 25 to 30 years, with payment based on performance standards. This arrangement usually involves one government agency and one concern from the private sector, with a high risk-bearing factor (Grimsey & Lewis, 2005:345-378).

- Design Build Operate (DBO): - This is based on the traditional public-sector procurement model. The public sector acquires the infrastructure while the private sector operates the asset (Hodge *et al.*, 2007:545-558).
- Cooperative Arrangement: - This is a government and private sector informal arrangement for equity partnership deals and concession-type franchise for social housing projects. For example, in South Africa the government develops and maintain parks, while the private sector runs the eco-tourism programmes (Grimsey & Lewis, 2005:345-378). The specific types of PPPs used in this study will be explained later.

2.6.3 Different purposes of public-private partnerships

Scholars are unable to reach consensus on whether PPPs need a definition and what constitutes them. There are different meanings and definitions of PPPs and some scholars argue that the concepts need to be re-examined to ascertain relevance and use for empirical studies (Hodge & Greve, 2005:545). In practise, PPP is used for different purposes and there are differences about its use. Some researchers view PPPs as arrangements between different organisations, in which PPP is used as a tool for governance, or management; or a development strategy; others view it as a “language game” (Treisman & Klijn, 2002:179-205). The different purposes of PPPs are explained below.

2.6.3.1 *Public-private partnerships – As a tool for governance and management*

The application of PPP as a tool for governance and management is well known. The reason is that PPP offers a different approach to the delivery of services to the citizens (Hodge & Greve, 2005:3). The emphasis on PPPs is as a tool for inter- organisational arrangement, between the public and private sectors. The common consensus for PPP literature that focuses on inter-organisational arrangement is: the cooperation between the organisations and risk sharing. Risk sharing is considered an important aspect, as the possibility of losses are minimised, and it is beneficial to both the public and private sector. The prospect is the possibility of developing a new and better product or service, which neither the public nor private sector could improve on

individually. Moreover, the longer-term commitment of ten to thirty years means the benefits of PPP projects are enjoyed over a longer period of time.

Van Ham and Koppenjan (2001:598), identify PPP as a “durable cooperation between the public and private sectors, in which they co-produce goods and services, share risks, costs, and resources, which are connected with these products”. The key elements of this definition are: firstly, the durable cooperation, which is necessary for a long-term contract. Carr (1998:1) and Bovaird (2004:199) are in support of this collaboration. Secondly, emphasis is on the risk-sharing element which is beneficial to the parties involved. The third element is the joint production of goods and services which are of mutual benefit. Stratton’s (1989:81) definition is similar, but includes business and non-profit sectors and private sectors.

The researcher considers Stratton’s definition of PPPs appropriate for this study which describes it to mean: “Partnership is collaboration among business, non-profit organisation and government, in which risk, revenue, and skills are shared in projects and benefit each partner as well as community” (Stratton, 1989:81). However, one of the most widely adopted definitions of PPP, is by Li and Akintoye (2003:3), who define PPP as contractual agreement between a public agency (local government), and a private party (one or more private entity).

2.6.3.2 *Public-private partnerships – As a tool for financial arrangement in infrastructure*

For some definitions of PPP, the emphasis is on financial relationship. The proponents of this view argue that PPP reduces financial pressure on government budgets because of the cost effective financial injection by the private sector in the provision of public infrastructure. Some of the uses of PPP in the literatures on infrastructure building include; for example, the BOT (Built-Operate-Transfer); the financial arrangement in BOT is that the project is designed and financed by the private sector. The operation and maintenance is also undertaken by the private sector for the concession period. In return, the private sector partner receives income from the operation of the infrastructure, e.g. toll road and electricity generation. After the concession period expires, the legal ownership of the project reverts back to government (Rousenau, 2000:229b).

2.6.3.3 Public-private partnerships – As a tool for development process

As a tool for development, the PPP is seen as an alternative arrangement for this purpose. Scholars argue that PPPs maximise development benefits and enhance efficiency of services (Agere, 2000:68; Paoletto, 2000: 30).

According to the Asian Development Bank Institute's (ADB, 2000: 42) definition, PPP is "a collaboration of activities among interest groups and actors, based on a mutual recognition of respective strengths and weaknesses, working towards common agreed developmental objectives through effective and timely communication".

This definition has several elements, including: common objectives, which means that partnerships are undertaken for the implementation of pre-agreed common developmental objectives by the parties involved. The objectives are reached through communication and negotiation. Secondly, the agreements are based on specific commitment to undertake activities built on each partner's strength, and to overcome weaknesses of each partner through sharing of experience and knowledge. The role players in this process may include NGOs, local governments, CBOs and national governments.

The World Bank's (World Bank, 1999:4) definition is closely aligned to the ADB's, and it defines PPP as "joint initiatives of the public sector in conjunction with the private sector, non-profit sectors, businesses and civil society". In this collaboration, the role players contribute financial and human resources, technical supports, as well as information, or political support for developmental purposes.

2.6.3.4 Public-private partnerships – As a language game

The language of PPP is viewed as a game, designed to 'cloud' other service delivery strategies such as privatisation and the supply of public services by private providers. Many governments have tried to avoid using the term "privatisation" or "contracting out" in favour of speaking about partnerships. Privatisation means the public-sector transfers ownership and management of supply of goods and services to the private sector. This entails total or partial sale of assets by the government, leasing assets, and management contracts (Treisman & Klijn, 2002:197-205).

2.7 ADVANTAGES AND DISADVANTAGES OF PUBLIC-PRIVATE PARTNERSHIPS

While the implementation of PPP has the enhancement of service delivery as its primary objective, scholars have highlighted some of the negative implications of embarking on PPP projects. Hence it is important that the feasibility of a PPP project is carefully considered so as to determine the opportunities and threats that its implementation may bring. The advantages and disadvantages of PPPs are considered below.

2.7.1 Advantages of public-private partnerships

- **Resources** – By combining resources with the private sector, partnerships allows government agencies to undertake projects of which they lack the resources to execute. They also free resources to be allocated to other targeted areas where service delivery is needed (Osborne, 2000:19).
- **Effectiveness and efficiency** - The private sector brings expertise, advanced technology, and different management styles to partnerships, which have potential to improve efficiency and effectiveness. This may result in cost effectiveness and increased output (Osborne, 2000:20).
- **Legitimacy** - The involvement of local communities in service delivery, can build greater legitimacy for policies in partnerships. Moreover, the provision of resources and constitutional authority by local authorities can provide democratic legitimacy for PPPs (Osborne, 2000:21).
- **Value for money** - The private sector's management style and expertise can bring commercial approach to public projects, resulting in cost effectiveness and a value for money outcome. Value for money projects offer greater returns, compared to similar projects procured conventionally (Institute for Public Finance and Auditing (IPFA), 2005:9).
- **Speedy delivery** - PPP projects have less government bureaucratic processes, and are accelerated by the profit-making desires of the private sector, thereby

delivering timely results. The outcome could lead to economic growth, and increased tax income for the government (Bruxel, 2005:9).

- **Trustworthiness** - PPP projects are usually executed within time limits and budget provisions, as the private sectors carry the risks of cost overruns and delayed completion. The contractual commitments, which include incentives and penalties, may promote effective management (Deloitte & Touche, 2006:8).
- **Transfer and sharing of expertise and technology** - PPP arrangements brings new expertise and international institutions, and encourage knowledge and experience sharing, subject to: the level of partnership relations versus contractual agreements; and the capacity of the government agency to absorb such new expertise and technology. As a consequence the transfer of expertise and technology can be promoted (Bruxel, 2005:8).
- **Training** - PPP creates an opportunity for training. The public and private sectors exchange experience and expertise on projects. International partners transfer knowledge to local staffs which improve performance and save costs (Deloitte & Touche, 2006:8).
- **Developments of new business sectors** - The implementation of PPPs have created new business opportunities. Moreover, countries that initially have relied on foreign advisors have now developed their own businesses, and are competing in the international market (Harris, 2007:13).

2.7.2 Disadvantages of public-private partnerships

- **Goals** - Improperly constituted partnerships may fail because the goals of the projects are not clearly identified. The goals may be too broad which leads to misunderstanding, lack of coordination and conflicts (Osborne, 2000:22).
- **Performance enforcement** - Sometimes the management of performance in PPP can be problematic and this could negatively affect customer relations. Establishing an arms-length transaction in which all parties have equal powers in the contract

and some are not disadvantaged by disproportionate powers is not always practical. Both parties in the contract must have relatively equal powers of negotiation upon entering the contract for arms-length contracts to be enforced (Katz, 2006:7). In many cases, the public sector contracts the private sector because of a lack of capacity in that sector. The result is that at times the private sector abuses service standards, mainly because of the inability of the public sector to monitor projects.

- **Resource costs** - Forming partnerships involve reasonable costs before the deal is finally concluded, due to loss of time. Moreover, the cost of hiring an advisor, or expert, is high, and due to inadequate financial resources poses an obstacle to government agencies regarding the formation of partnerships (Osborne, 2000:22).
- **Unequal power** - The power to control resources may lead to tension among the partners, as they attempt to alter each other's priorities (Osborne, 2000:23).
- **Cliques usurping power** - The objectives of the partnership may be undermined by cliques, role players or community groups that may attempt to usurp more influence for their own benefits (Osborne, 2000:23).
- **Impact on other services** - PPP projects are said to draw resources from other projects, which weaken said projects and in so doing reduce the performance of a government agency (Osborne, 2000:24).
- **Organisational difficulties** - Some of the difficulties experienced by partnerships are lack of capacity and the ability to successfully co-ordinate programmes and approaches which may cause the partnerships to fail. The inability to enforce agreements has been cited as one of the major causes of partnership failures (Osborne, 2000:24-25).

2.8 EXAMPLES OF PUBLIC-PRIVATE PARTNERSHIPS IN DIFFERENT CONTEXTS

According to Li and Akintoye (2003:3) governments across the globe are increasingly involving the private sector in public service delivery. Across the world, PPPs range from those dominated by the private sector to those dominated by the public sector, depending on the nature of the partnership agreements. Some of the partnerships adopted by certain countries are explained below.

2.8.1 Public-private partnerships in the American context

The use of PPPs as a vehicle for development started in the 1970s in the USA. Their use encompasses “policy level” partnerships. The implementation covers projects in transportation, prison and detention facilities, welfare provision, medical services, schooling, community activities, and policies relating to education, urban regeneration and environment (Grimsey & Lewis, 2005:7). Some examples of recent PPP projects completed in the USA are:

- In 2015, a 3000-mile state-wide broadband network was constructed at a cost of 275 million dollars in Kentucky.
- Several major civic waste and water projects are under construction in Miami-Dade County in Florida.
- Government buildings and school constructions are on-going in the District of Columbia.
- Construction of a new civic centre at a cost of 530 million dollars started in Long Beach, California, in 2016.
- Montclair State University in New Jersey completed housing facilities in 2011 (PricewaterhouseCoopers, 2011:4).

In Latin America and the Caribbean, PPPs have been actively used in infrastructure development. The growing form of partnerships is the involvement of landowners in the transformation of their land into private reserves of natural habitats, without forfeiting their property rights (Li & Akintoye, 2003:3). Moreover, partnerships are formed to develop the skills of low-income youths, through the collaboration of the private and public sectors, as well as non-governmental organisations (NGOs). PPPs have increased revenues through growth in tourism and empowered youths to acquire

different skills, thereby increasing their opportunities of securing better employment (Li & Akintoye, 2003:3).

2.8.2 Public-private partnerships in Asian context

In Asia, vast economic development and extensive urbanisation have sharply increased the demand for infrastructural developments such as roads, bridges, airports, as well as energy, water and sanitation. This demand has increased the momentum for the interest in PPPs. As the financial resources to meet these infrastructural needs are not at the disposal of governments, partnerships with the private sector have become the sought-after solution, as governments seek to utilise the private sector's financial resources, technical expertise and management skills (Asian Development Bank Institute (ADB), 2000:36).

The use of PPPs in Asia is continuing to develop with a well-established programme in South Korea, an extensive investment programme in China, a rapidly expanding programme in India, and other programmes in Indonesia, the Philippines and Singapore (ADB, 2000:36). In Malaysia, privatisation has been a form of PPP in use. This includes:

“The sale of divestment of state concerns; public issue or sale of shares in state-owned public enterprises; placement of shares with institutional investors; sale or lease of physical assets; joint public-private ventures; schemes to draw private financing into construction projects: ‘contracting out’ of public services previously provided with the public sector, and allowing private competition where the public sector previously enjoyed a monopoly” (Li & Akintoye, 2003:20-21).

The result of the involvement of the private sector in public projects, has increased public sector financial investments, shortened public project duration due to use of specialised skills and reduction in bureaucratic processes (ADB, 2000:36).

2.8.3 Public-private partnerships in United Kingdom context

The idea of private sector finance and involvement in public projects in the UK was first announced in 1992. Over the years, PPPs have been implemented by the UK

government in the fields of transport, prisons, hospitals, schools, defence and government buildings (Jones, 2002:2)

From the start of the first PPP projects in the early 1990s, there has been a steady increase in their use, with the activities branded under the Private Finance Initiative (PFI). In addition to the PFI, other types of PPPs such as joint ventures, concessions, and information and technology (ICT), have been implemented by the UK government. Various PPP projects have been implemented in different parts of the UK, as stated below (European PPP Enterprise Centre (EPEC), 2012:5):

- For England, areas of PPP developments include, defence, energy policy, and infrastructure (EPEC, 2012:5).
- For Scotland, the focus is on building schools, health centres, police and fire service stations (EPEC, 2012:5).
- For Northern Ireland, PPP has been used across a number of areas including transport, education and health (EPEC, 2012:5).

Table 2.1: Different kinds of PPP models used in the United Kingdom

Model	Definition
Asset sales wider markets	The sale of surplus public sector assets Introducing the skills and finance of the private sector to help make better use of assets (both physical and intellectual) in the public sector
Sales of business (by flotation or trade sales)	The sale of shares in state-owned business, by floatation or trade sale, with the sale of minority (British Nuclear Fuels Ltd)/Centre for Disease Control) stake
Partnership companies (e.g. NATS)	Introducing private sector ownership into state-owned business, while preserving the public interest and public policy objectives through legislation, regulation, partnership agreements, or retention by government of a special share
Private Finance initiative	The public sector contracts to purchase quality services with defined outputs, on long-term basis from the private sector, and includes maintaining or constructing the necessary infrastructure; the term also covers financially free-standing projects where the private sector supplier designs, builds, finances and then operates an asset.
Joint ventures	Partnership in which the public and private sector partners pool their assets, finance and expertise under joint management, so as to deliver long-term growth in value for both partners
Partnership investments	Partnership in which the public sector contributes to the funding of investment projects by private sector parties, to ensure that the public sector shares in the return generated by the private sector investments.
Policy Partnerships	Arrangements in which private sector individuals or parties are involved in the development or implementation of policy

Source: Li and Akintoye, 2003:3

Table 2.1 shows different partnership arrangements between the public and private sector which include: sale of surplus public assets to the private sector for better management; sale of shares to the private sector in state-owned businesses to raise capital; introducing private sector ownership into state-owned businesses while protecting public sector interest through legislations; utilising private sector funding to finance public projects; joint ventures involving the public and private sectors;

investment of public funding in private sector projects for profit sharing; and the involvement of the private sector in public policy making.

An example of public-private sector partnerships in infrastructure provision is in affordable housing in England. Section 106 of the English Town and Country Planning Act 1990, requires developers in PPPs to contribute to affordable housing as a consideration and condition of planning approvals. The actual level of contribution is negotiated on site bases. The use of the planning policy has made significant contributions towards the integration of subsidised housing in new housing developments (Gurran, Milligan, Baker & Bugg, 2007:40-45).

2.8.4 Public-private partnerships in African context

PPPs in Africa remain far-reaching and wide spread. For instance, the Southern African Development Community (SADC), which comprises 14 countries, has been beneficiaries of financial support from the Canadian government, through the Canadian International Development Agency (CIDA). The CIDA partnership strategy in Southern Africa is to facilitate private investment to and within the region (Venture Africa, 2013:1).

Botswana, a Southern African Development Community member (SADC), is notably a good example of a country in Africa that has exploited its natural resources through PPP arrangements (Ball, 1999: 18-19). In Cameroon, the economic down-turn of the mid-1980s, and the social and political crisis of early 1990s, diminished sole public sector investments as a result, as well as the government initiated partnership development projects financed by foreign investors. The Niger Integrated Rural Development Project (NIRDPA) is an example of a partnership between the government of Cameroon, and the Netherlands Development Organisation (Li & Akintoye, 2003:3).

In Nigeria, the water and sanitation sector of the Ekiti State government approved a programme in 2013 to improve service delivery to the villages situated between the suburban areas and countryside. The programme is to be financed through a World Bank loan, under the auspices of the Third National Urban Water Reform Project. Moreover, the Nigerian agricultural public-sector industry partnership with the UK-based multinational British-American Tobacco created a one-million-dollar cassava

industry that provided 4,000 jobs for women and the youth in Nigeria (Ventures Africa, 2013:3). The involvement of the private sector made it possible for these projects to be achieved, as the public sector has no financial resources, neither the capacity to execute projects on its own. The consequential outcome of the partnership was the creation of jobs (Ventures Africa, 2013:3).

2.9 PUBLIC-PRIVATE PARTNERSHIPS VERSUS PRIVATISATION

Privatisation is a different model approach to PPPs. The major difference is that the accountability to deliver services moves across to the private sector, unlike in PPPs, where the public sector retains service delivery accountability (Lewis, 2008:248-253).

The legal ownership of assets is retained by the public sector in PPPs, while ownership of assets is transferred to the private sector in privatisation. Privatisation is generally considered to be more efficient than PPPs due to the fact that it is profit driven (Lewis, 2008:248-253). Harsch (2008:3) argues that privatisation encourages innovation and generates better profit margin. Harsch (2008:3), states that the public sector is less efficient in the employment of capital, while the private sector allocates resources more effectively and efficiently. The main differences between PPPs and privatisation are:

- **Ownership of infrastructure asset**

In PPPs, ownership of infrastructure is retained by the government, as in the cases of Build-Own-and Operate. In privatisation, ownership is permanently transferred to the private sector, together with operations, control, costs and benefits. However, the regulatory control is retained by the government (Sherry, 2013:1).

- **Accountability for the provision of services**

In a PPP project, the government remains accountable to the citizens for the provision of a particular service, while the accountability to provide a certain service is transferred to the private sector in privatisation. The public sector is paid for selling its assets in privatisation, but in PPPs, the private sector is paid for delivering an asset or facility (Sherry, 2013:1).

- **Risk allocation**

In PPPs, risks are allocated to the party best suitable to manage it, while the private sector assumes all risks associated with projects in privatisation. The risks and rewards are shared in a PPP, while the private sector assumes all the risks and enjoy all the rewards in privatisation (Sherry, 2013:1).

- **Nature and scope of services**

The private sector determines the nature and scope of services under privatisation, while in a PPP, the nature and scope of services are contractually determined between the parties involved in the PPP (Sherry, 2013:1).

- **Primary objective**

The primary objective of PPPs is to combine the skills, expertise, and experience of both the public and private sector to deliver higher standard of services to the citizens, while the goal of privatisation is to maximise profit on investments (Sherry, 2013:1).

2.10 CO-PRODUCTION AS AN ALTERNATIVE TO PUBLIC-PRIVATE PARTNERSHIPS

Co-production has become a popular trend in public service internationally, and local governments are implementing the concept as an alternative to PPPs. According to Alford (2011:1), co-production is an arrangement in which the government shares the delivery of public services with other organisations and the citizens. The main difference between co-production and PPP is that both the public sector and the private sector are jointly involved in every aspect of production in co-production.

Co-production is a way of designing service delivery in a people oriented fashion, giving the citizens control over day-to-day decisions that affect their lives. The fundamental principle of co-production is seeing people as assets in the process of service delivery, and not just as passive recipients of services but equal partners in designing and delivering activities to improve outcomes (Alford, 2011:1).

Co-production can be applied to a range of services, from small to large scale. The practice extends in different settings, locally and internationally. Across the world, policy makers are resorting to co-production of services with users and communities.

Co-production is seen as a means of improving efficiency, effectiveness, and improving customer experience, and utility derived from the use of public services. Examples of co-production projects implemented by different governments across the world are explained below (Scriven, 2012:2):

- In 2009, Sheffield in the United Kingdom (UK), introduced a system of 'Community Justice Panels', where members of the community jointly work out a system of local justice that is seen to repay the community and helps to support rehabilitation of the wrongdoer.
- In Boston, USA, highway repairs and maintenance have been improved by using smart technology to target where road users can pinpoint problems. Drivers can attach a monitor to their car and after experiencing a bad dip or bump in the road, a 'real time' automatic report is sent to the highway officials. The reports are ranked for road repairs. This reduces inspection costs, time, and improves co-operation in road maintenance (Scriven, 2012:2).
- In Netherlands, Dutch citizens use smart phones to photograph and record information, using GPS data to determine the location of a defibrillator. An application is uploaded on the smart phone with the information collected, which enables the citizens to find the nearest machine in an emergency and use it, until the arrival of paramedics (Scriven, 2012:2).

2.11 HOUSING SECTOR

Housing policies are enacted to protect the less privileged, and to regulate the housing sector. Inequalities in income levels make it difficult for certain income brackets to afford houses. This provides economic grounds for the government to intervene in the housing sector. The right to rent or own a house is regarded as a basic fundamental human right internationally (Built Environment Support Group (BESG), 1999:7). According to Built Environmental Support Group (1999:7), housing is one of the social services; hence, it is the responsibility of government to ensure the delivery of houses to citizens in order to eradicate slums and informal settlements.

The fundamental objective of housing policy is that "everyone should have a right to a decent home, with reasonable choice of ownership or renting" (Harvey & Jowsey, 2004:322-323). It is evident that poor people cannot afford decent homes. Therefore

the government should consider what constitutes decent homes when making housing policies. The type and quality of houses the government can provide to the low-income groups is determined by resources available for housing development, which ultimately shapes government policies on affordable housing. This means that need comes first in the consideration of housing types to be delivered to the poor.

Housing subsidies are important and an integral part of social housing delivery, as they make it possible for people who could not afford housing in the open market, to own houses (World Bank, 1993:5). According to Harvey and Jowsey (2004:334), the two main objectives of subsidies are to ensure equitable redistribution of income, and to allocate more resources to housing, than would have been available under normal market economy. Due to an increase in population and a rising demand for housing, governments lack the necessary resources to meet the housing needs of citizens; hence, the government needs to formulate strategies and policies that will attract the private sector to invest in the housing sector. Over the years a number of strategies and policies have been implemented by governments around the world, to promote private sectors participation in the development and delivery of affordable housing. Some of the incentives to private investors include: tax exemptions, subsidies paid to property owners, zoning concessions, discounted land prices, and rate reliefs. Such incentives are created to compensate for the profit driven nature of private investors (Diamond, 2009:1-9).

2.12 DEFINING AFFORDABLE HOUSING

Affordable housing is a term that is often used by government officials, politicians, and activists, but the definition remains unclear. The term “affordable” is sometimes used to refer to housing for very poor people whose incomes are below the basic income level. In other instances, it refers to people in the middle-income bracket. According to Basudeb (2010:23), affordable housing is “housing deemed affordable to those with a median household income as rated by country, state (province), region, or municipality by recognised Housing Affordability Index”. The “Housing Affordability Index” has different definitions in different countries.

- In Australia, it is defined as “housing that is reasonably adequate in standard and location for lower or middle income households and does not cost so much that a household is unlikely to be able to meet other basic needs on a

sustainable basis” (Queensland Affordable Housing Consortium (QAHC), 2012:1).

- In the United Kingdom, affordable housing includes “social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market” (QAHC, 2012:1).

2.13 AFFORDABLE HOUSING IN DIFFERENT COUNTRY CONTEXT

The notion of housing affordability became popular and widespread in the early 1980s in Europe and North America. The determination of affordability is a complex and debateable concept that varies from country to country. Hence, affordable housing is defined and measured differently depending on the country concerned.

The United Nations (2008) and the World Bank (2015) calculated the rate of affordability of housing by dividing the median house price by gross annual median household income. In USA, a common acceptable guideline for housing affordability is a housing cost that does not exceed 30% of a household’s gross income. In Canada, the rule in the 1950s was housing that does not exceed 25% of household income, which was changed to 30% in the 1980s. The rule in India is 40% of a household’s gross income (Washington State Labour Council, 2009:3). The views of affordable housing concepts in different countries are explained below.

2.13.1 Affordable housing in Australia

Australians that receive government social security benefits, and who rent housing from private landlords are eligible for rent assistance. Rent assistance is a subsidy paid to the tenants, in addition to their normal basic social grants, such as old age pension, or disability pension. The amount of rent assistance paid depends on the circumstances, in terms of how many dependants the tenant has, and the amount of rent payable. Apart from rental subsidies, the Australian government also provides public housing for those who cannot afford to buy houses on the open market, and recipients who do not qualify for subsidies. The Australian Department of Housing, in partnership with local government, provides housing ownership for middle to low income earners in two major ways, namely:

- Shared Home Ownership - This is a scheme where Australians can purchase houses with the help of the local government's housing grant of 'sharedstart loan' through 'Keystart', the government-lending provider. The local government shares in the cost of the house and retains 30% ownership. The government share depends on borrowing capacity of the applicant, household size, and location of the property. The 'sharedstart' loan is for Australians buying a house for the first time. These loans are sponsored by the national and local governments. The first-time house buyers are eligible for a loan of \$7000 (Australian dollars), to alleviate the cost of entering the housing market for the first time (Gabriel *et al.*, 2005:3).

- Affordable Housing Sales – Under this scheme, the local government in partnership with the housing authority offers affordable houses for sale to the general public. The local government ensures that houses are available to middle to low income earners who are interested in purchasing a home at affordable prices (Gabriel *et al.*, 2005:3).

2.13.2 Affordable housing in China

The affordable housing programme in China is known as the “Economical and Comfortable Housing Programme”. The programme is designed to provide affordable housing to middle to low income households, so as to encourage home ownership. The programme is aimed at middle to low income households that earn an annual income of less than 30 000 to 70 000 RMB, according to the size of the household and the specific location. This public housing programme provides houses of 60m² to 110m² at an affordable price, within the policies and mandate set by the central government and managed by the local governments. Another policy effort to provide affordable housing by the Chinese government is through the Housing Provident Fund (HPF). The HPF provides a mechanism that allows potential purchasers who earn income to save and eventually buy a house (which may be public housing). This is achieved through a subsidised saving programme linked to a retirement account, subsidised mortgages and price discounts for housing purchases (Mostafa, Wong & Hui, 2006:9).

The provision of affordable housing in China starts with the appropriation of state-owned land by local government to real estate developers, whose responsibility is to finance and construct affordable housing. The profit for real estate developers is controlled by the local government, and limited to a maximum of 3% of investment costs in order to keep the price of housing at an affordable level. Individuals who apply for affordable housing go through household and income investigation. The demand for affordable housing is high in China due to a supply shortage. This is as a result of limited incentives to local government to build houses, and inadequate funding, which have led to a drop in affordable housing construction. Because of the limited supply, and high demand from middle to low income sectors, affordable housing is sold at high market prices, which is unaffordable to the middle to low income earners. There are also allegations of poor administration and widespread corruption, which denies the middle to low income earners access to affordable houses in China (Mostafa *et al.*, 2006:9).

2.13.3 Affordable housing in the United Kingdom

There is a long history of affordable, social rental housing in the United Kingdom. The social housing may be owned by local councils or housing associations. Apart from rented social housing, there is also a range of affordable home ownership options, which includes shared ownership. The shared ownership is an option, where the tenant rents part share in the property from a social landlord, and owns the remainder. The UK government has also attempted to promote the supply of owner occupied affordable housing stock for purchase, through using land-use planning system that requires developers to provide a proportion of lower cost housing in a new development (Bramley, 1994:103-124).

Prior to the 1980s, a high proportion of houses in the UK were owned by local government. The policy of the 'Right to Buy' scheme, introduced in the 1980s restricted the construction of rented local government houses, and provided financial and policy support to other forms of social housing. The right to buy policy afforded local government housing tenants the opportunity to purchase their own housing at a discount rate of up to 60%. Alongside the right to buy policy, a large stock of local government housing was transferred to housing associations, so as to improve the management capacity. Housing associations are not-for-profit organisations responsible for the management of social housing, with a history that dates back to

the 20th century in the UK. The housing policy in England is set by the Department for Communities and Local Government. In Scotland the policies are set by the Scottish Parliament and implemented by the Scottish Housing Regulator and by the Northern Ireland Housing Executive (Bramley, 1994:103-124).

2.13.4 Affordable housing in the United States

In the USA, the local government provides assistance to homeowners to make housing more affordable, by means of mortgage interest tax reduction and subsidies for the lower income households. The housing assistance given to lower income households is divided into three parts, namely:

- “Tenant based” which is a subsidy given to households and known as the Section 8 programme. Under the Section 8 programme, the local government administers subsidies to qualified households, which allows the tenants to pay lower than market rentals to private landlords.
- “Project based” which is a subsidy given to the owners of housing units that must be rented to low income households at affordable rates.
- “Public housing” which is usually owned and operated by local government or subcontracted to private agencies (Owen, 2015:325-348).

The USA Housing Act of 1949 provides housing subsidies under various sections of the Act. For example:

- Section 8, 236, and 221 – provides subsidies to middle to low income households who qualify;
- Section 202 – provides subsidies for elderly households;
- Section 515 – provides subsidies for the rural renters;
- Section 514/516 – provides subsidies for farmworkers; and
- Section 811-provides subsidies for people with disabilities (Schwartz, 2006:7).

Local governments in the USA, operate a variety of affordable housing programmes as part of a public assistance programme. The granting of subsidies is based on the household income. Households are commonly defined in terms of household income relative to the Area Median Income (AMI). Local government AMI figures are

calculated annually based on a survey of comparable sized households within geographic area ranges, as defined by the US Office of Management and Budget (UOMB). For housing subsidies, households are categorised by the local government as follows:

- Moderate income households earn between 80% and 120% of Area Median Income (AMI).
- Low income households earn between 50% and 80% of AMI.
- Very low-income households earn a maximum of 50% of AMI (UOMB, 2012).

Affordability in the USA is defined by using indicators such as the Median Multiple Indicator (MMI), which rates affordability of housing by dividing the median house price by the gross annual median household income. By using this indicator, housing affordability is rated on a scale of 0 to 5, with category 3 and under, as affordable. The overall USA market was considered category 3 in 2012, which indicates an affordable market (Wendell & Hugh, 2012:16).

2.14 CONCLUSION

This chapter explained that a developmental local government must be inclusive, and involve all stakeholders in the planning and delivery of public services, in order to improve service delivery. This is in contrast to the traditional local government, which bases service delivery on a top-down approach. It has been established that collective approach to service delivery has potential for better results. Moreover, it was established that local governments are not able to provide adequate public services due to financial, technical and management constraints. These problems compel the public sector to involve the private sector in the provision of public services, so as to share the risks and have access to finance and other resources that are not adequately available to the public sector. The nature, characteristics, use, advantages and disadvantages of PPPs were explained. Co-production was described as an alternative means of service delivery to the PPPs, used across the globe by local governments in recent times. The policies that establish and guide affordable housing were explained, and the concept defined. This chapter also described the application of affordable housing in different countries.

CHAPTER THREE: SOUTH AFRICAN LEGISLATION ON LOCAL GOVERNMENT, PPP'S AND HOUSING

3.1 INTRODUCTION

Local governments have two main functions. Firstly, there are macro-level functions which include the planning and promulgating intergovernmental development planning, land and environmental development. Secondly, micro-level functions such as delivery of public services which include water, electricity, health, housing, roads, solid wastes, sanitation, security and public works.

Section 153(a) of the Constitution (RSA, 1996) stipulates the function of local government which includes managing administration, budgeting and planning processes to provide for the basic needs of communities and promote social and economic development.

Inadequate housing has been at the centre of most service delivery protests in South Africa. Article 26 of the Bill of Rights in the RSA Constitution, 1996 states that people should have the right to access adequate housing and that the government should enact laws and explore all possible legal measures to actualise adequate housing for the people. However, the lack of adequate resources to fulfil this constitutional mandate necessitates the involvement of the private sector in partnerships with the public sector, as guided by the Treasury Regulation 16 (RSA, 2003c). This chapter reviews the legislations that establish and guide local government, service delivery and housing in South Africa.

3.2 REVIEW OF PRE-DEMOCRATIC LOCAL GOVERNMENT LEGISLATIONS IN SOUTH AFRICA

The arrival of Jan Van Riebeeck, a Dutch Settler sent by the Dutch East India Company in 1652, saw the establishment of the first administration in South Africa. The first authoritative structure was the 17 directors of the Dutch East India Company known as Heeren Majores (Ismail, Saheed & Meyer, 1997:37).

Prior to 1786, all matters in South African local government were dealt with by the directorate in Holland due to the fact that local government was not established. The local citizens were dissatisfied with the arrangement and this led to a petition by the citizens in 1779. The petition resulted in subsequent political reform that turned into the Political Council. The Political Council was a local administrative structure set up to administer local matters in the Cape Colony (Ismail *et.al.*, 1997:39).

With the arrival of the British Settlers in 1820, the Political Council was abolished and replaced by the Burgher Senate. This was succeeded by the passing of the Municipal Corporation Act, 1835 (Act 18 of 1835), by the British, which introduced the concept of Mayor, Councillors, the Town Clerk and Council Committees (Craythorne, 1997:1). The subsequent passing of the Municipal Ordinance Act, 1836 (1 of 1836), led to the establishment of the municipal council at the Cape, and the Burgher Senate was changed to the Board of Commissioners and Ward Masters (Ismail *et.al.*, 1997:1). The duties of the Commissioners as provided by the Municipal Ordinance Act, 1836 (1 of 1836) were as follows:

- To protect life and property by appointing police, watchmen, street keepers, and night patrols.
- Provide fire-engines and maintain them.
- Provision of water supplies, drainage systems, and street lightings and maintain them.
- Construction and repair of public roads and streets (Green, 1957:20).

The introduction of the Natal Municipal Ordinance 3 which was published in 1854 was based on an improved version of the Cape Ordinance. This legislation introduced the following concepts for the first time in South Africa (Craythorne, 1997:2):

- It constituted towns as corporate bodies.
- Election of representatives was done by voting, using voters' register and voters' roll.
- Property taxes were determined by councils, by means of property evaluation.
- Auditors had to be appointed.

- The Town Clerk and Senior Officials were appointed, not elected, at a meeting.
- It introduced the committee system.

Craythorne (1997:10) argues that the Natal Municipal Ordinance was so advanced that it influenced the development of local government in South Africa. By the end of the Anglo-Boer War (1899 to 1902), the British colonial rule has established a local government system in the Cape and Natal. The local government system was subsequently extended to the Transvaal, Orange Free State, and the rest of South Africa. This extension formalised local government system for the entire country.

The government between 1960 and 1994 was the period of Apartheid legislation, and the transition to the new democratic government. A central authority with three grades of local governments comprising, Municipal Corporation (with borough councils), town boards and road boards, was established in the year 1900. The Native Area Act, (21 of 1923) was promulgated in 1923, which promoted the separation of Black people from other race groups (Green, 1957:40). This culminated in the agitation for “freedom” by the African National Congress (ANC) against the apartheid government. The struggle for a democratic South Africa lasted for years, and was eventually achieved in 1994. The democratic election in 1994 was preceded by the Local Government Transition Act, (209 of 1993) (RSA, 1993), which paved the way for subsequent local government establishment legislations in the democratic South African government.

3.3 THE PRESENT SOUTH AFRICAN LOCAL GOVERNMENT SINCE 1994

Before the advent of the Constitution (RSA, 1996), the existing local authorities were established. They performed their functions in accordance with provisions of pre-1994 acts of Parliament and provincial ordinances. The then policies were not financially sustainable and could not provide for the basic needs of non-white South Africans, which included blacks, coloureds and Indians.

The understanding of the legislations that shape local government in South Africa is an important factor, in order to fully comprehend development and public service delivery which has taken place in local governments since 1994.

The post-apartheid local government is centred on transformation, which is the process of social and political change to establish democracy and social equality. This

objective is underpinned by the provisions of the Constitution (RSA, 1996). Section 151 of the Constitution (RSA, 1996) provides for the establishment of local government as a separate autonomous sphere of government from the national and provincial government. This gives the mandate to local governments to deliver public services in their areas of jurisdiction. Subsection 154(1) provides for the support of the national and provincial government to local government by legislation and other measures to strengthen the capacity of the local government to manage its affairs, exercise its powers, and perform its functions (RSA, 1996).

Moreover, the Constitution (RSA, 1996) makes provision for the procedures used to establish local governments, their powers and functions, the composition and election of municipal councils, the terms and internal procedures of councils, the privileges and immunities of local councils and their members, publication of by-laws and organised local government (Thornhill & Cloete, 2014:91). Chapter 7 of the Constitution (RSA, 1996), established the legislative framework for the administration of local government, PPPs and public service as described below.

3.3.1 The Constitution of the Republic of South Africa, 1996

Section 152(1) of the Constitution (RSA, 1996), prescribes the objective of local government and the basis in which it can function. The objectives are as follows:

- It provides democratic government, and ensures accountability for local communities (Section 253).
- It provides sustainable services to the communities of local governments (Section 254).
- It provides social and economic development in the local communities (Section 255).
- It promotes a safe and healthy environment in the local communities (Section 256).
- It encourages communities and community organisations to be involved in local governance (Section 257).
- to undertake administration, budgeting, and planning processes that will prioritise the basic needs of communities and promote social and economic development (Section 258).

- to participate in the development programmes of the National and Provincial governments (Section 259).

Section 254 of the Constitution (RSA, 1996) identifies the following services that fall within the mandate of local government; they include: provision of housing, water, electricity, town and city planning, road and storm water, waste management, and emergency services. Other responsibilities of local government which are referred to as external services include air pollution, building regulations, child care facilities, fire-fighting services, tourism, health, and public transport. Internal services rendered within the local government include human resource management, and information technology. The internal service assists other departments to perform their mandate effectively and is in line with Section 258 of the RSA Constitution, 1996, which provides for government departments to perform their administrative function.

3.3.2 Legislations on public service delivery in South Africa

According to Gronroos (2001:150-152), “a service is a process that leads to an outcome during partly simultaneous production and consumption processes”. Benefit without ownership has been identified by Lovelock and Wirtz (2007:12-14), as one significant characteristic of a public service. They argue that while customers expect to obtain value from services purchased in exchange for their money, time, and efforts, this value is accessed through various value-creating elements rather than from ownership transfer (Lovelock & Wirtz, 2007:12-14). This characteristic of service, explains the responsibility of local government to render services to the people, as the custodians of public service delivery, and the right of the citizens to such services without ownership rights.

The delivery of services in South Africa is currently guided by the people-centred development approach (Davids, 2005:19). The Reconstruction and Development Plan (RDP) and the Integrated Developmental Plan (IDP), are approaches designed to formulate linkages between development, service delivery, and the participation of citizens (Mogale, 2003:219). Theron (2009:138) is of the opinion that the ability of a municipality to identify and meet the needs of local communities, cannot be driven by top-down or prescriptive approach. Theron and Wetmore (2009:155) argue that integrated development can only be achieved through role players having understanding of the local situation, created by their own social reality. Nealer

(2007:148) argues that service delivery refers to the provision of public activities, benefits, or satisfaction. Cloete (2000:9-11) posits service delivery in a conceptualised form, as the execution of specific types of policy objectives in the public sector with varying degrees of success. Unlike services in the private sector, public services are considered to be the responsibility of the government.

3.3.2.1 *The White Paper on Transforming Public Service Delivery 1995 (WTPSD)*

With the advent of democracy in 1994, the South African government identified institutional transformation and reform as one of the important medium and long-term programmes for the effective implementation of the RDP (ANC, 1994). The aim of the White Paper (WTPSD, 1995) was to establish a policy framework that would guide the introduction and implementation of new policies and legislations aimed at transforming the South African public service (RSA, 1995a:5).

The WTPSD is principled on the creation of people centred and driven public service, which is characterised by equity, quality, timorousness and a strong code of ethics (RSA, 1995a:4). The main objectives are:

- To create a genuine representative demographic South African public service without eroding efficiency and competence.
- To facilitate the transformation of public servants' attitude and behaviour towards a democratic ethos underlined by human rights cognisance.
- To promote public servants' commitment to the Constitution (RSA, 1996) and national interest, and discourage partisan and factional interests.
- To encourage effective accountability and transformation in public management processes.
- To improve efficiency and effectiveness in the standard of service delivery.
- To facilitate economic growth through the creation of an enabling environment in the public service.
- To assist in creating integrated but decentralised public service, with the capability of undertaking conventional and developmental tasks (RSA, 1995a:8).

3.3.2.2 *The White Paper on Transforming Public Service Delivery, 1997* ***(Batho Pele - “People First”)***

This paper is subsequent to the White Paper on the Transformation of Public Service, (RSA, 1995a), which sets out the eight transforming priorities, of which service delivery transformation is vital. The purpose of the Batho Pele Policy is to provide policy framework and strategy for the practical implementation of the transformation of public service delivery (RSA, 1995a: RSA, 1997a).

The Batho Pele Handbook (2003:5) describes public service delivery as “the creation of people-centred and people-driven public services that are characterised by equity, quality, timely, and strong ethical codes”. This means community involvement in planning and execution of public services in their communities, thus having greater influence on the outcome. It also emphasises that the public should hold service providers accountable for the service they deliver. The Batho Pele which means “people first”, is underpinned by eight principles, namely:

- Consultation: Citizens shall be consulted on the type and level of services they require in order to determine the needs and meet expectations of the end-user;
- Service standard: Citizens shall be informed of the quality and level of service they will receive so that they are aware of what to expect;
- Access: All citizens shall have equal access to services without discrimination on any grounds;
- Courtesy: All public officials shall behave in a polite, warm and caring attitude when rendering service to the public;
- Information: Citizens should not only be given feedback when there is good news but they have to be kept informed even when there are challenges;
- Openness and transparency: All government non-sensitive operations should be undertaken in an open and transparent manner;
- Redress: Prioritising the needs of the previously disadvantaged in the delivery of services, and establishing mechanisms for recording any public dissatisfaction;
- Value for money: This principle emphasizes the use of resources effectively and efficiently (RSA, 2003c).

3.3.2.3 Local Government Municipal Structures Act, 1998 (117 of 1998)

The Constitution (RSA, 1996), established local government as a distinctive sphere of government, independent but integrated with the national and provincial spheres of government (RSA, 1996:153). In view of this provision, the Local Government Structures Act, (RSA, 1998a), sets up the categories and structures within municipalities that will enable efficient and effective functioning and delivery of public services. This legislation enables the establishment of ward committees to enhance participatory democracy in local government (Cloete & Thornhill, 2005:102).

The objectives of this Act are:

- to provide for the establishment of municipalities in accordance with the requirements relating to categories and types of municipalities;
- to establish criteria for determining the category of municipality to be established in an area;
- to determine the type of municipality that may be established within each category;
- to provide for an appropriate division of functions and powers between categories of municipality;
- to regulate the internal systems, structures and office-bearers of municipalities;
- to provide for appropriate electoral systems;
- to provide for matters in connection therewith (RSA, 1998:1).

Table 3.1: shows the establishment of local government in categories. There are currently 8 (metropolitan) category A; 44 (district) category B; and 226 (local) category C municipalities, which total 278 municipalities in South Africa.

Table 3.1: Categories of local government

Municipal Category	Description
1. Category A	A municipality that has exclusive municipal executive and legislative authority in its area, e.g. a metropolitan municipality.
2. Category B	A municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls, e.g. district and local municipalities.
3. Category C	A municipality that has municipal executive and legislative authority in an area that includes more than one municipality, e.g. local and rural municipalities.

Source: Binza, 2000:83

Section 76-78 of the Municipal System Act, (RSA, 2000b), in terms of the Municipal Structures Act, (RSA, 1998a) provides that PPPs may be procured by the national, provincial and municipal spheres of government. The procurement of PPPs at national level will be for government head office accommodation and prisons; PPPs in health, tourism and education are procured at the provincial level; and the procurement of municipal services and infrastructure is at the local government level (National Treasury, 2007a:22-28).

PPPs can be more valuable at local government level, because local governments are charged with some of the most important levels of service delivery, such as water, sanitation, provision of housing and electricity. The provision of these services impact directly on the quality of life of local communities (Khan & Thurman, 2001:4)

3.3.2.4 The White Paper on Local Government (1998)

The White Paper on Local Government Partnerships (RSA, 1998b), promotes partnerships between the government, the private sector and civil society. This policy reflects a vision of a developmental government which centres on working with local communities to find sustainable ways to meet their needs and improve the quality of their lives. It makes provision for three approaches that will enable local governments become more developmental, namely: integrated development planning and budgeting; performance management; and co-operating with local communities and partners. It also notes that the local government has direct service delivery mandate under the 1996 Constitution, and outlines the roles and responsibilities of the national

and provincial governments in relation to local government. The autonomy of the local government enables direct engagement with the private sector in PPP relationships which facilitate economic development and growth in the local communities (RSA, 1998a).

3.4 LOCAL GOVERNMENT MUNICIPAL SERVICES

The Local Government Municipal Systems Act, (32 of 2000), defines a “municipal service” as:

“a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community, irrespective of whether (a) such a service is provided, or is to be provided, by the municipality through an internal mechanism contemplated in section 76 or by engaging an external mechanism contemplated in section 76; and (b) fees, charges or tariffs are levied in respect of such a service or not” (National Treasury PPP Unit, 2007:4).

Municipal services are basic services that residents of a community expect from the local authority, for the municipal rates and service charges they pay. The South African Constitution, (RSA, 1996), mandates local authorities to provide municipal services in their area of jurisdiction, in order to ensure that the basic needs of communities are satisfied. According to the Education and Training Unit (ETU) (2015:1), the most important municipal services are as follows:

- Water supply
- Sewage collection and disposal
- Refuse removals
- Electricity and gas supply
- Municipal health services
- Municipal roads and storm water drainage
- Housing (Housing Act 107 of 1997, Amended Act 4 of 2001. Sec. 9-10B)
- Municipal parks and recreation

The life quality of the people is impacted significantly by these services. Nealer (2007:156) noted that various municipalities in South Africa have made efforts to provide services such as water, sanitation, roads, electricity and infrastructure. Nealer

(2007:156) further observed that larger municipalities have performed better in providing these services compared to smaller ones, in terms of reaching the previously disadvantaged communities. However, the constant service delivery protest by communities across the country is an indication that although some significant efforts have been made, service delivery remains inadequate, and the quality of services is far from satisfying the needs of the people (Nealer, 2007:157).

Some of the different services rendered by local government have been listed above. However, inadequate housing is one of the main challenges facing local governments and the reason for most service delivery protests in South Africa (Burger, 2009:1). The demand for housing is one of the main reasons for service delivery protests in Mitchell's Plain; hence the researcher has selected the study of affordable housing delivery in Mitchell's Plain, as the case study for this research. Local governments in South Africa have implemented a number of service delivery strategies over the years in order to improve the quality of services provided to the communities. Some of the service delivery strategies in general are described below.

3.4.1 The Integrated Development Plan Strategy (IDP)

The Constitution (RSA, 1996), in Section 162 (1) provides for local governments to promote social and economic development. The Constitution specifically provides for the local government to manage their administrations, budgeting and planning processes in a manner that will give priority to the basic needs of the community; promote social and economic development of the community and take part in the national and development programmes (RSA, 1996; Thornhill & Cloete, 2014: 88). The attainment of this objective requires a plan of action by municipalities.

The Integrated Development Plan (IDP) is a method for future planning used by local governments in South Africa for the development of their area. It is a five-year plan which local governments are required to compile to determine the development needs of their municipality. According to Thornhill and Cloete (2014:89), the IDP should represent a reliable picture of what a local government must physically and socially provide to meet the needs of its community. The aim of the plan is to co-ordinate the work of local government and other spheres of government in a coherent plan to improve the quality of lives of people in the area. The plan should consider the existing

needs, and the resources available to meet those needs. It sets the framework for land allocation, what infrastructure and services are needed and how the environment should be protected (SALGA, 2004:44). The main reasons why municipalities should have IDPs are:

- Effective use of scarce resources: - Local government must find the most cost-effective way of providing services and spending money on the needs of local communities.
- Speeds up delivery: - IDPs identifies the least serviced and improvised areas and directs where municipal funds should be spent in collaboration with stakeholders in the area.
- Strengthens democracy: - The participation of all stakeholders sets the platform for democratic and transparent decision-making.
- Helps to overcome the legacy of apartheid: - The legacy of selective apartheid service delivery is overcome by using municipal resources to integrate rural and urban areas and to extend service to the poor.
- Promotes co-ordination between local, provincial and national government: - an IDP encourages the different spheres of government to work together, in a coordinated manner to tackle developmental needs in a local area (Ramathoka, 2011:9-15).

3.4.1.1 *The Integrated Development Plan Process*

The planning and implementation of the IDP requires the participation of all stakeholders in the community, which includes:

- Municipality: - The plans of the municipality are guided by the IDP.
- Councillors: - Make developmental decisions, based on needs and aspirations.
- Communities and other stakeholders: - Communities and stakeholders identify needs and priorities and participate in the process of service delivery.
- National and provincial sector departments: - National and provincial government departments delivered services at local levels, e.g. police stations, schools and hospitals (Ramathoka, 2011:9-15).

- **The outline of the IDP process includes the following:**
 - the process management structure;
 - the platform for public participation and how it should participate;
 - timeline for the planning process;
 - responsibilities and duties of participants
 - the monitoring procedure for the process (Ramathoka, 2011:9-15).

- **The implementation of the IDP process involves the following phases:**
 - **Phase 1: Analysis:** - Information is collected on the existing situation in the local government, which includes types of problems faced by the people and their causes and information on available resources.
 - **Phase 2: Strategies:** - This involves finding solutions to the identified problems which (probably) will include: developing a vision of where the local government will want to be after the problems are addressed; defining development objectives of what the local government wishes to achieve in the medium term to deal with the problems; seeking the best way to meet the development objectives; and having found the best method of achieving its objectives, the local government will identify specific projects.
 - **Phase 3: Projects:** - This involves working on the design and content of projects identified. The details of the projects can be worked out in terms of the beneficiaries of the project; its cost; the financing of thereof; its duration; and the project manager. The performance assessments and impact assessment of each project must be worked out.
 - **Phase 4: Integration:** - All identified projects must contribute to meeting the objectives of the development plan.
 - **Phase 5: Approval:** - the IDP plan is presented to the council for consideration and adoption. A draft plan may be adopted and presented to the public for comments before approving a final IDP (Ramathoka, 2011:15).

3.4.1.2 Public participation in IDP

The purpose of establishing the IDP Representative Forum is to encourage participation of the communities and stakeholders. The representatives include:

- executive committee members of the council;
 - councillors (district councillors included);
 - traditional leaders;
 - representatives of the ward committee;
 - departmental heads and senior officials from local government and government departments;
 - representatives of organised stakeholder groups;
 - human rights groups;
 - resource people or advisors;
 - community representatives (Hoffmeyer, 2009:6).
- **The purpose of the forum includes the following:**
 - To provide an opportunity for stakeholders to represent the interests of their communities;
 - To provide a platform for discussions, negotiations and joint decision-making;
 - To maintain proper communication between all stakeholders and the local government; and to
 - Monitor the planning and implementation process.

Table 3.2: Methods of participation of the IDP process

Planning phase	Methods for Participation
Analysis	Community meetings organised by the ward councillor; Stakeholder Meetings; Surveys and opinion polls (obtaining views on how people feel about a particular issue)
Strategies	IDP Representative Forum; Public debates on what can work best in solving a problem; Meetings with affected communities and stakeholders
Projects	Representation of stakeholders on project subcommittees
Integration	IDP Representation Forum
Approval	Public discussion and consultation with communities and stakeholders
Monitoring and Implementation	IDP representative

Source: ETU, 2015:6

The IDP is also an important intergovernmental relationship instrument that coordinates the local government, the national and provincial government activities in the process of rendering public services. The legislative directives require local governments to align their development planning with that of the national and provincial spheres of government, as well as those of other local governments. The Intergovernmental Relationship Framework Act (RSA, 2005c), sets up mechanisms to co-ordinate the work of all spheres of government in providing services, alleviating poverty and promoting development.

According to Graham (2006:5-6) and Leon (2007:1-30), before the establishment of the IDP, local governments have to negotiate and arrange with the national and provincial departments to support their integrated development plan. However, since the establishment of IDP, a national process has been put in place for all government sectors to be brought together to support each local government in their five-year plan based on budgeting and integrated development planning. As part of the improvement

of a service delivery strategy, the IDP offers the opportunity for the government to engage the private sector through partnerships in the execution of service delivery projects, by utilising the private sector expertise and resources and also minimising losses through shared risks.

3.4.1.3 Advantages of IDP

A properly structured IDP should be beneficial in the following ways:

- Promote the effective utilisation of resources. Partnerships with private sector provides the public sector with the much-needed funding and expertise to deliver public projects;
- Assist a local council to provide services required by the community within its service mandate territory and in line with the total needs of South African society. This is achieved through PPPs in instances where the local government lacks the capacity to deliver services;
- Promote cooperative intergovernmental relations amongst the three spheres of government. An IDP promotes partnership between intergovernmental privately-run enterprise, as well as PPPs across different spheres of government;
- Enables a local council to gain access to development resources, and promotes accountability in government and administration. PPPs provide the opportunity for the public sector to utilise private sector resources and efficiency;
- Involves the communities and the private sector in planning of development programmes. The different types of PPPs provide the opportunity to select the best approach to intended projects;
- Afford the councillors an opportunity to inform the community of the policies and actions of the council, and to evaluate the success or failures of the council's policies with regards to service delivery. The relationships between the community and councillors afford the community the opportunity to participate in the selection of private enterprise appointed to execute public projects in the community;
- It affords the local government officials a valuable mechanism to inform the council about their executive actions and affords the officials the opportunity to participate in policy formulation and planning guidelines that will give effect to council decisions;

- Provides the opportunity for communities to inform the council of their perceived needs; and
- Gives the communities the opportunity to evaluate the council's effectiveness, by measuring its performance against its planning goals (Thornhill & Cloete, 2014:91).

3.4.2 The Local Government Turnaround Strategy (LGTAS)

The developmental local government system was established in South Africa with a vision of government and society working together at all levels to advance social justice, economic growth and development (Cooperative Governance & Traditional Affairs (COGTA), 2009:3). Many years into the South African new local government system, there are concerns and signs that are undermining the progress and successes accomplished thus far. This poses a great development risk should the local government system fail.

The Local Government Turnaround Strategy (LGTAS, 2009) was established with the aim of focusing on those factors that are undermining the local government system. Some of the root causes of these problems include:

- System factors that are linked to the local government model;
- Policy and legislative factors;
- Political factors;
- Weaknesses in the accountability systems;
- Capacity and skills constraints;
- Weak intergovernmental support and oversight; and
- Issues associated with the inter-governmental fiscal system (COGTA, 2009:3).

In an effort by the government to address the abovementioned factors, a country wide assessment of local governments was conducted in 2009. The purpose of the assessment was to identify the key problems and to establish the root causes of poor performance, distress or dysfunctionality in local governments (COGTA, 2009:3). The outcome prompted creation of country-wide programme to deal with factors that undermine local government in all provinces.

3.4.3 The Public-Private Partnership (PPP) in RSA

Public-private partnerships are long-term contracts between the public and the private sector. The primary objective of PPPs is to ensure the delivery of well-maintained, cost-effective public infrastructure or services, by leveraging private sector expertise and transferring risk to the private sector (National Treasury PPP Unit, 2007a:4).

In traditional public service and infrastructure procurement, the public sector pays for capital and operating costs and carries the risk associated with cost overruns and late delivery. The expertise and experience of the private sector may be procured for the design and construction of the infrastructure and once the project is completed, the private enterprise is paid and discharged. The public sector becomes responsible for staffing, maintenance and operation of the project.

In contrast to traditional procurement; in the PPP procurement, the public sector buys a set or partially a set of services and infrastructure from the private sector. The payment is made over the period of the PPP agreement and is based on successful delivery. The private sector funds its investment in the project with debt and shareholder equity, thereby putting its capital at risk. The high financial risks motivate the private sector to provide a high level of service in order to achieve a good return on its investment (National Treasury PPP Unit, 2007a:5). Internationally, PPPs standard tests for suitability as a vehicle for procuring a public asset, or services are:

- Can substantial risk be transferred to the private sector?

The public sector is faced with the challenge of poor risk management. The private sector is considered a better risk manager because of its efficiency. The risk of the private sector investment in the project, and the fact that payment is withheld if the project is not delivered, motivates improved efficiency.

- Is the project affordable to the procuring institution?

PPP project cost must be kept within the available budget's limit. Project budgets should be reviewed from time to time to ensure compliance with planned budget cost.

- Does the PPP procurement show value for money?

(National Treasury PPP Unit, 2007a:4-5).

3.4.3.1 Public-private partnerships in local government

In local government, the traditional service delivery procurement methods are implemented alongside PPPs for projects with significant scope for private sector participation. The main legislation that governs PPPs at national and provincial levels of government is the Public Finance Management Act, (RSA, 1999a) and Treasury Regulation 16 (RSA, 2003c). The municipal PPPs are governed under the Municipal Finance Management Act, (RSA, 2003a) and the Municipal System Act, (RSA, 2000b). The Minister of Finance and the Minister for Provincial and Local Government jointly issue guidelines for the National Treasury/Department of Provincial and Local Government (DPLG) service delivery, as well as the guidelines for Public-Private Partnership Regulations which are implemented in the municipalities, in terms of Section 2 of the Municipal System Act, (RSA, 2000b).

- **PPP and Public Finance Management Act, 1999 (1 of 1999)**

Section 216 of the RSA Constitution, 1996, provides for national legislation to establish the National Treasury and stipulate measures for transparency and control of expenditure in all spheres of government by establishing the following:

- General accounting practice;
- Uniform expenditure classification; and
- Uniform treasury norms and standards (Thornhill & Cloete, 2014:101).

The PFMA is the centre of government's efforts to improve and strengthen financial management in the public sector. The objective is to ensure accountable and responsible spending of taxpayer's money. The act grants the accounting officer the responsibility of effective and efficient use of fiscal resources in the public interest.

The main objectives are:

- to modernise financial management systems in the public sector;
- to ensure accountability in the public sector management;
- to ensure that quality information is provided timely;
- to ensure optimum use of public assets and eliminate waste and corruption.

In accordance with the RSA Constitution, 1996, chapter two of PFMA establishes the National Treasury, and deals with its composition, function, powers and responsibilities.

- **Composition of the National Treasury:** - The National Treasury comprises the Minister, the national department, or departments responsible for financial and fiscal matters, with the minister as the head of Treasury.
- **Powers of the National Treasury:** - Implements the budget of the national government, and plays acts as financial overseer regarding other organs of state in all spheres of government.
- **Establishment of Provincial Treasuries (their role and functions):** - The Act establishes provincial treasuries, which manages provincial budgets, and enforces uniform treasury norms and standards, as prescribed by the National Treasury and this Act (RSA, 1996).
- **Accounting officers:** - The Act vests four responsibilities on the accounting officers to ensure budgets are not overspent by departments; to ensure operation of basic financial management systems, and internal controls in departments; and to report on a monthly and annual basis, and to submit annual financial statements (RSA, 1999a).

- ***PPP and The Local Government Municipal Systems Act, 2000 (32 of 2000)***

The Local Government Municipal Systems Act, (RSA, 2000b), promotes the involvement of community members in the development of their communities. The MSA Act provides the core principles, mechanisms and processes that are required to enable local authorities to move progressively towards social and economic development of local communities, and to ensure that essential services are available and affordable to all without discrimination. Moreover, it looks to ensure that the local community co-operate with the political and administrative structures of a municipal area; and establishes enabling framework for the core process of planning, performance management, resource mobilisation and organisational change.

Section 86A of the Municipal Systems Act, (RSA, 2000b) read together with Section 120(1) and (2), of the Municipal Finance Management Act, (RSA, 2003a) makes provision that the Minister for Provincial Government issues guidelines for

municipalities when assessing options for the provision of municipal services, the different categories of municipal services and the different categories of service providers (National Treasury PPP Unit, 2007b:1) which includes PPP arrangements.

Section 76 of the MSA, (RSA, 2000b) states that a municipality may provide municipal services through either an internal or external mechanism. An external mechanism will include a municipal entity, another municipality, or organs of state, a community based organisation (CBO), or other non-governmental organisations (NGO), or any other institution, or person legally competent to undertake business activity, which includes a public-private partnership. PPPs for local government institutions are governed by the MSA and the MFMA. The central legislation that governs local government PPPs is found in chapter 11 of the MFMA, with supply chain management for goods and services in part 1 and PPPs in part 2 (National Treasury PPP Unit, 2007b:12)

The implementation of a decision to employ an external service delivery mechanism, such as a PPP, requires the conducting of a feasibility study by the local government according to the provisions of the MFMA, and in a case involving local government services, the MSA (National Treasury PPP Unit, 2007b:12; RSA, 1996; RSA, 2003a).

- ***PPP and the Local Government Municipal Finance Management Act, 2003 (56 of 2003)***

The aim of the MFMA is to modernise budgetary and financial management in local government, and maximise the ability of municipalities to deliver services to the communities and investors. Moreover, it seeks to provide a sound financial governance framework by clarifying and separating the roles of and responsibilities of the mayor, the executive and non-executive councillors and officials. The Act holds the mayor and executive committee responsible for policy and outcomes, and holds the municipal manager and other senior managers responsible for implementation and outputs (RSA, 2003a).

In terms of Chapter 8, Part 1 of the MFMA, the municipal manager is the accounting officer, and is accountable for the efficiency management of the municipal budget to achieve the municipality's public mandate. Accounting officers need to constantly evaluate value-for-money choices in the delivery of services. The employing of a PPP

in a public project may be one of the options where value-for-money choices have to be considered (RSA, 2003a).

The municipal PPPs entail:

- Targeted public spending, principally on outputs to agreed standards;
- Leveraging private sector finance and efficiencies;
- Allocating risks to the party best able to manage them (National Treasury PPP Unit, 2007a:3).

- ***Municipal public-private partnership regulations***

The Municipal Public-Private Partnership Regulations provides precise and detailed instructions on PPPs in terms of the National Treasury Regulation (RSA, 2003c). It defines the elements of a municipal PPP, and sets out the stages and approvals it will have to go through. According to the National Treasury PPP Practice Note Number 2 of 2004, “South African Regulations for PPPs’ apply to departments, constitutional institutions, public entities listed or to be listed in schedules 3A, 3B, 3C and 3D to the PFMA and subsidiaries of such public entities” (National Treasury PPP Unit, 2007a:12).

Section 217 of the RSA Constitution, 1996, states that when an organ of state in the national, provincial, or local sphere of government, or any other legislative institution contracts for goods and services, such organ or institution must do so in accordance with a system that is fair, equitable, transparent, competitive and cost effective. Section 217 also provides that organs of state or institutions may implement procurement policies providing for:

- Categories of preference in the allocation of contracts.
- The protection or advancement of persons, or categories of persons disadvantaged by unfair discrimination (Thornhill & Cloete, 2014:102).

In some provincial legislation, Preferential Procurement Policy is adopted to provide clarity for departments of the province concerning tendering processes. In the Western Cape for example, the Preferential Procurement Policy acknowledges the Western

Cape Provincial Tender Board Law and the Employment Equity Act, 1998 (55 of 1998) (RSA, 1998c), which provides for

- Increased participation of the communities that were previously disadvantaged.
- Increased participation of small and medium enterprises.
- Joint ventures and partnerships.
- Promotion of skills transfer and training of historically disadvantaged persons.
- Promotion of a uniform procurement approach in all provincial procurement sub-structures (Thornhill & Cloete, 2014:102).

- ***Public-private partnership project cycle***

PPPs are complex contractual and operational arrangements. This is because they involve a number of players from different sectors, representing a variety of interests. In this regard, the National Treasury's PPP Unit (National Treasury PPP Unit, 2007b:18) has designed a generic PPP project cycle to ensure that PPPs are carried out rigorously. The aim of designing the project cycle and PPP manual is to facilitate parties' understanding of the PPP processes and to avoid idiosyncrasy in responses (National Treasury PPP Unit, 2007b:18-19).

Some PPPs may involve public sector capital contribution. Other PPP projects do not involve debt finance, as it is initially funded either wholly through corporate finance or by a combination of funds and private equity. An end-user-pay project may also involve an element of public sector funding support to either or both capital and the operating costs of the project (National Treasury PPP Unit, 2007b:18-19).

Value-for-money considerations, affordable limits and the risk profile of the project will determine PPP project's financing structure and sources of funding. The local government appoints a "Transaction advisor" in terms of Regulation 2(1) (b), who has the appropriate skills and experience to assist and advise on the preparation and procurement of the public-private partnership agreement. The value-for-money in terms of the private party performance in the agreement will result in a net benefit to the local government in terms of cost, price, quality, quantity risk transfer or any combination of these factors (National Treasury PPP Unit, 2007b:18-19).

The inputs of both the procuring institution and the private party need to be assessed in all phases of the project's development to ensure compliance with legislation, the regulation and the processes and its components (National Treasury PPP Unit, 2007b:18-19).

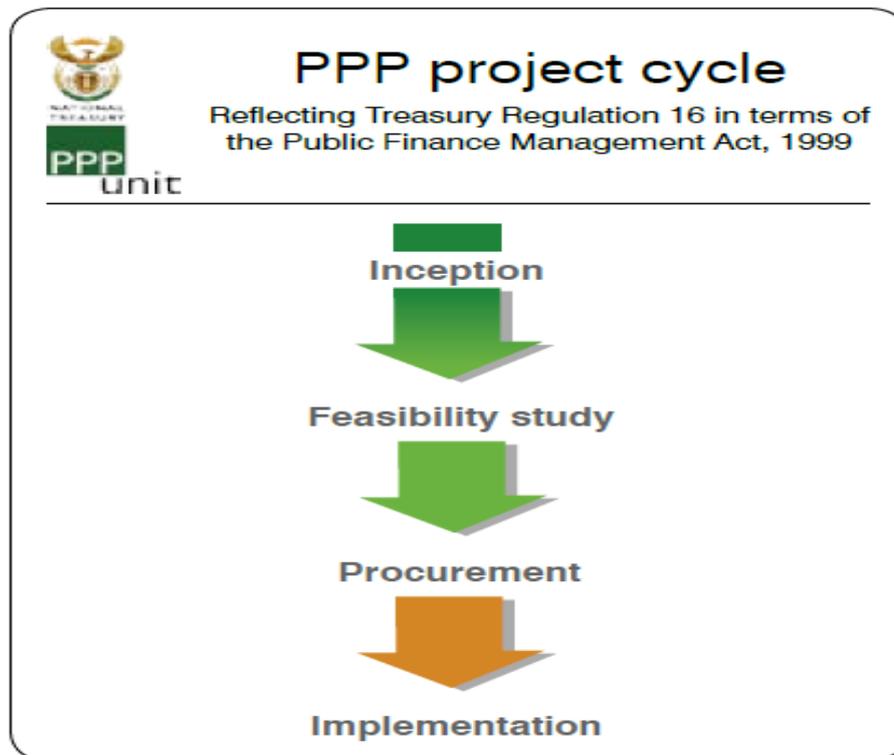


Figure 3.1: PPP Project Cycle

Source: National Treasury PPP Unit, 2007b:19

The PPP project cycle comprises four generic processes described as follows (See Figure 3.1):

- **Inception** – This is the process of registration of the project by the procuring institution with the National Treasury's PPP Unit.
- **Feasibility study** – This process involves the appointment of a private sector advisor to conduct a feasibility study of the most appropriate mechanism for procuring the project, by the procuring institution.
- **Procurement** – If the PPP is identified as a viable option in the feasibility study, the procuring institution invites the market to submit bids for the infrastructure and/or service provision project.

- **Implementation** – The project is implemented on identification of a suitable bidder (National Treasury PPP Unit, 2007b:19).

➤ ***The tests for a public-private partnerships in South Africa***

Irrespective of the PPP type, structure, sources of funding or payments mechanism, all PPPs in South Africa governed by the Treasury Regulation 16 (RSA, 2003c) are subject to three basic strict tests:

- Will there be substantial technical, operational and financial risk transferred to the private sector?
- Is the envisaged fee affordable to the institution?
- Is there value-for-money solution in the PPP?

Before a decision to pursue a PPP is taken, the procuring institution needs to carefully reflect on three important tests of PPP: risk, affordability and value for money. The private bidders must show sufficient capacity, skills and capability to deliver the project more efficiently than other parties. On the other hand, the procurement institution must show sufficient capacity and expertise during the inception, feasibility, and procurement phases. Moreover, the suitability of the projects for PPP procurement must be taken into account and there should be ample scope to allocate clearly identifiable risks to the private party (White, 2006:27-31).

3.4.3.2 Public-private partnerships and black economic empowerment (BEE)

PPPs are seen as a good vehicle for the promotion of Black Economic Empowerment (BEE). BEE is a national policy objective which promotes empowerment of previously disadvantaged individuals. The promotion of BEE through PPPs is formalised in the Code of Good Practice for BEE in PPPs and has been gazetted under the Broad-Based Black Economic Empowerment Act, (RSA, 2003b). Every aspect of BEE is considered in PPP ownership and management structure in order to achieve meaningful equity participation. The percentage ownership of black partners and the specific role they play in project implementation is closely monitored. The different elements of BEE are included in the Special Purpose Vehicle (SPV) of the PPP.

The features of BEE within SPV are:

- The long-term business nature of private party SPV makes it possible to grow black equity and management over time.
- The Broad-Based BEE impact makes it possible for PPPs to reach small and big entrepreneurs.
- The clear identification and costing of risks makes lending funds to SPV by financial institutions more likely.
- Government cash flow is secure when buying services, which provide business certainty to BEE equity partners.
- PPPs create jobs and develop skills for BEE partners.
- Some significant subcontracting opportunities for black SMMEs are created by PPPs (National Treasury PPP Unit, 2007b:14).

3.5 HOUSING LEGISLATIONS AND POLICIES IN SOUTH AFRICA

The South African population has been on the increase since the advent of the new democracy in 1994, with the higher percentage of the population concentrated in urban areas. This has resulted to increase in urban slums, with many South Africans currently living in inadequate shelter, mainly in the high density informal settlements, with poor access to basic services such as water, electricity and sanitation. According to MirafTab (2003:225-239), the lack of access to adequate housing and the presence of informal settlements on the outskirts of the cities is an inherited problem from the apartheid government. Jones and Datta (2000:393-416) argue that the apartheid policy discriminated against non-whites in the distribution of services and access to housing, and this has resulted in high-density populations in the informal settlements. The post-apartheid government of the ANC has introduced a number of policies and national housing programmes in an attempt to address the issue of inadequate housing across the country.

After the national elections in 1994, the RDP housing delivery was introduced with a narrow focussed commitment of increasing the quantity of housing stock available to the poor in the shortest possible time (Barry, Dewar, Whittal and Muzondo, 2007:171-189).

For over one decade after the 1994 elections, the focus of the South African government was on the delivery of subsidised low income housing where the emphasis was on the construction and transfer of units to individual owners, with the long-term maintenance burden resting on the owners. The subsidy was sufficient to secure a plot, the installation of services, and the construction of a basic house. The initiative rolled out was 1.5 million new houses between 1994 and mid-2003 (Department of Human Settlement (DoHS), 2009:17c) as at May 2016, 4.3 million houses had been delivered, benefiting 20 million South Africans (DoHS, 2016:1). The RDP programme was intended to address the housing need of South African households that earn a monthly income of R3500 or less. In terms of the RDP programme, beneficiaries are allocated freehold title houses of 40m², on 180-250m² serviced plots. The criteria for eligibility of RDP have now been fixed at the age of 40years (Centre for Affordable Housing Finance (CAHF), 2017:5).

Despite the large number of houses delivered, the programme faced the competing demands of affordability and quality. The beneficiaries complained about the poor quality of the RDP houses. In addition, the houses were sited on the outskirts of towns and cities, with little access to employment opportunities and social and economic infrastructure. This development replicated the Group Area policy of the apartheid regime. With the government's acknowledgement of the flaws of the RDP housing programme, the focus has changed from building housing stock to the notion of integrated settlements. The challenges faced by the RDP policy gave rise to a number of subsequent housing policies.

Housing policies of the present South African democratic government are the outcome of intense negotiation in the National Housing Forum from 1992 to 1994. The preamble to the Housing White Paper of 1994 affirms the need to move into the housing delivery phase with the debate on housing policy being accomplished. Subsequent discussion has revolved mostly around blockages in the implementation of the housing policy.

Housing is regarded as one of the most important basic human rights, as echoed by international human right instruments and treaties. This fact is recognised by Section 26 (1) of the Republic Constitution, 1996, which provides that everyone shall have the right to adequate housing. Access to housing in terms of the Constitution, means that

the government must create conducive conditions for all its citizens to access affordable housing, irrespective of their economic status. The right to housing is supported by Section 26(3) of the Constitution which prohibits the eviction of persons from their homes without a court order (RSA, 1996).

The South African housing sector is complex, and this is largely due to the deliberate policy and legislative framework of the socio-economic and spatial exclusion and marginalisation created during the apartheid era, but also to the failure of the post-apartheid democratic government to adequately address these problems since 1994.

A number of legislations and policies have been created by the South African government since 1994, to give effect to the right to housing as prescribed by the Constitution (RSA, 1996). These are described below.

3.5.1 White Paper on Housing (1994)

The White Paper on Housing (DoH, 1994) provided the framework for the housing development target of building one million government funded houses in the first five years of democratic government (ANC, 1994).

The aim of this policy is to create integrated settlement, which will enable households to access opportunities, infrastructure and service, and in which all citizens will have access on an ongoing basis to:

- A permanent residential structure with secure tenure, and adequate protection;
- Adequate sanitation facilities which include waste disposal, domestic electricity supply and potable water.

The National Housing Subsidy Scheme (NHSS) was created to provide capital subsidies for housing to qualifying beneficiary households thus enabling full ownership. This scheme was rebranded “RDP housing”, which was a Public-Private Partnership development driven process that developed houses for national and provincial governments. The fundamental principles of the White Paper on Housing, (DoH, 1994) still guide subsequent housing policies in South Africa.

3.5.2 The Housing Act, 1997 (107 of 1997)

The Housing Act (RSA, 1997b), recognises the rights of citizens to adequate housing, as provided by the Constitution, 1996, and clarifies the government's response to this right by setting out the legal plan for sustainable housing development. It lays down general principles for sustainable housing development in all spheres of government; it defines the national, provincial and local government functions with regards to housing development; it governs the establishment and operation of the South African Housing Development Board, and the provincial boards, and provides the basis of financing housing programmes.

The Housing Act (RSA, 1997b), promotes the following:

- All spheres of government must make housing development a priority in consultation with poorer individuals and communities, and specifically recognising the needs of women and other marginalised groups.
- Housing development must be affordable, sustainable, environmentally friendly and culturally diverse.
- The administration of housing must be fair, according to the principles of good governance.

The role of the three spheres of government in housing development:

- **The Role of National Government** - The Minister of Housing is required to publish the National Housing Code (DoHS, 2009), which outlines the national housing policy, and distributes it to every provincial government and municipality. The Housing Code does not replace the key legislations and laws pertaining to National Housing Policy, but outlines present policies and how it is to be implemented.
- **The Role of Provincial Government** - The MEC and the provincial government must ensure the implementation of the National Housing Policy by co-ordinating housing developments in the provinces, and providing support to the local government. Provincial housing policy must be established by each province, as well as the multi-year plan with both responding to specific provincial needs in line with the National Housing Policy.

- **The Role of Local Government** - All municipalities must work towards in ensuring that those living in the municipal area have access to adequate and safe housing by setting goals and identifying land for development. Municipalities have the right to expropriate land for housing development if they are unable to buy the land from the owner.

3.5.2.1 National Housing Code, 2000, in terms of the Housing Act, 1997 (107 of 1997)

The National Housing Code (NHC, 2000) sets out the procedure and guidelines for the effective implementation of housing. Section 4 of the Housing Act, 1997, sets out the requirement to develop the National Housing Code. In Section 2.1 of the Code, the vision for housing in South Africa echoes the definition of “housing development” as stated in the Housing Act, and this vision is stated in the Urban and Rural Development Framework. The Code states as follows:

“In each of these documents, the environment within which a house is situated is recognised as being equally as important as the house itself in satisfying the needs and requirements of the occupants. Ultimately, the housing process must make a positive contribution to a non-racial, non-sexist, democratic and integrated society...The goal within both urban and rural areas is to improve the quality of living of all South Africans. The emphasis of our efforts must be on the poor and those who have been previously disadvantaged. To meet this goal in a manner that is viable and sustainable, we understand that we need to undertake a range of interventions” (RSA, 1997b:6-8).

The Code also includes the housing vision for rural and urban settlements outlined in the Urban and Rural Development Framework which is expected to be achieved by the years 2020.

The Housing Code facilitates the delivery of social housing to those who have household income of R1 500 – R7 500 per month, and institutional housing targets income of less than R3 500 per month through Public-Private Partnerships with property developing companies such as the Cape Town Housing Company.

Households in these income brackets are not able to afford or qualify for houses in the open market.

3.5.2.2 *Breaking New Ground Housing Policy, 2004 (BNG), in terms of the National Housing Act, 1997 (107 of 1997)*

The introduction of the BNG in 2004 brought about a major shift in housing policy with the strategy focused on the development of sustainable human settlement, in contrast to the delivery of subsidised housing units.

The BNG realigned the vision of the National Department of Human Settlement of Provinces to promote the achievement of a non-racial, integrated society through the development of sustainable settlements and quality houses (RSA, 2009). The BNG plan introduced a range of new housing delivery options with an emphasis on rental housing as a form of tenure. This is in line with recent trends in both developing and developed countries around the world where the rental sector makes major contributions towards urban renewals and poverty alleviation. The use of multiple housing delivery options is required to fast track affordable housing delivery, and the other approach which combines both rental and ownership tenure, is deemed appropriate in meeting the specific needs of low income households more appropriately (Martin & Nell, 2002: 5).

The BNG is a comprehensive plan for development of sustainable human settlement, established in 2004 by the National Department of Housing on national level, with the goal of changing the housing policy and ideologies towards focusing on quality, as opposed to quantity. The aim is to increase the rate of delivery of well-locate housing of acceptable quality through a variety of innovative and demand-driven housing programmes and projects. It also seeks to increase emphasis on the planning, engagement and long-term sustainability of the housing environment (Tissington, 2010:42).

The BNG policy introduced the idea of sustainable human settlement, to alleviate poverty, and improve quality of life through the creation of access to basic services within the new settlement (Charlton & Kihato: 2006:257). The strategy will include funding land in good locations for low income housing development, the provision of

services and the upgrading and formalisation of informal settlements in suitable locations.

The policy was developed due to the inadequacies of the previous policies and the need to formulate new strategy for a shift in housing delivery towards a more sustainable and efficient mechanism. In terms of the policy, “The dominant production of single houses on single plots in distant locations with initially weak socio-economic infrastructure is inflexible to local dynamics and changes in demand. The new human settlements plan moves away from the current commoditised focus of housing delivery towards more responsive mechanisms which address the multi-dimensional needs of sustainable human settlements” (RSA, 2004:119).

The BNG also acknowledged that the subsidised houses were not “valuable assets” as envisaged in the previous policy. It poses a variety of problems which include the inability of beneficiaries to pay for municipal services and taxes, which meant that such housing projects are liabilities to the municipalities (RSA, 2004:120). However, the aim of the policy remains in line with the past policy, which is “to promote the achievement of non-racial society, through the development of sustainable settlements and quality housing” (RSA, 2004:7). The objectives of the BNG are as follows

- “To accelerate the delivery of housing as one of the main strategies of poverty alleviation;
- To create jobs through the provision of housing;
- To ensure accessibility of property by all, as an asset for wealth creation and empowerment;
- To promote social cohesion, improve quality of life of the poor and combat crime;
- To utilise housing as an instrument for the development of sustainable human settlement, in support of spatial restructuring;
- To support the functioning of the entire single residential property market to reduce duality within the sector by breaking down the barriers between the first economic residential property boom and the second economic slump”
(RSA, 2004:7)

3.5.2.3 BNG enhancement of the role of the private sector in housing

The vision of the BNG is to continue and deepen the partnership relationships between the government and the private sector in relation to the development of sustainable human settlements. The support of the private sector will be required in the following areas:

- **Construction capacity and the collapse of the subsidy bands**

The withdrawal of large construction firm's from the state-assisted housing sector meant a reduction for reproducing PPPs for housing construction in the primary market, and the rate of construction has accordingly dropped. In order to promote the participation and contribution of the private sector in housing construction, it requires the collapsing of the three subsidy bands to enable households earning below R3 500 to access a uniform subsidy amount. This mechanism was introduced to address housing bottlenecks in respect of households earning above R1 500 and will also substantially increase the number of households qualifying for a full housing subsidy. This will increase the demand for housing and in addition, the removal of key bottlenecks, will create new opportunities for private sector participation in the housing programme (RSA, 2004:9).

- **Provision of housing finance**

With housing finance from financial institutions being vital to the development of primary and secondary housing market, the Human Settlement Plan (RSA, 2004:10) introduced the following interventions to support lenders to meet their commitments under the Financial Sector Charter:

- **Mechanisms to overcoming the down-payment barrier** – The expansion of a subsidy instrument to medium-income households earning R3 500 – R7 000 per month, provides mechanisms to overcome the down payment barrier, thereby enhancing lending by private institutions.
- **Funding for Social Housing** – Providing funding for social housing institutions through PPPs and/or Special Purpose Vehicles.

- **Loss limit insurance** – Government may introduce the investigation of a risk sharing mechanism to limit the lender's loss to a more normal proportion of loan in the event of default. This will increase private sector confidence.
- **Fixed interest rates** – The government will work with the financial sector to develop mechanisms to address volatile interest rates including the development of fixed rate loan products.
- **New product development** – While efforts have gone into extending mortgage loan products for the benefit of low income earners, this addresses issues of lack of appropriate loan products to service secondary transactions in an increasing residential property market. A significant percentage of households in the sub-market lack the formal employment and level of income required to support medium to long-term instalment mortgage loans. Government and financial sector partnerships are necessary to develop alternatives linked to savings/insurance products, which generate cash endowments.
- **Monitoring lending trends and enforcing the Financial Service Charter** - The government will facilitate the monitoring of lending trends through the establishment of an Office of Disclosure, under the Home Loan and Mortgage Disclosure Act, (63 of 2000) (RSA, 2000d) thereby increasing lending transparency. In addition, the government engages with the Reserve Bank to establish instruments to enforce the targets contained in the Financial Service Charter targets including participation in the state-assisted housing programme.

- ***Project management and other support***

The public sector experiences capacity constraints in the delivery of housing. Hence it is necessary that resources of the private sector be harnessed to deliver housing programmes at scale. Capital budgets should be made available for operational expenses and outsourcing planning, engineering, project management and social facilitation to the private sector to ensure delivery in the short term. The private sector teams will be expected to provide skills transfer and training to public sector employees to ensure delivery.

- ***Employee-assistance housing***

The Employee-Assisted Housing scheme is run by the government in partnership with the private sector to provide housing for government employees. This scheme is known as the Government Employee's Housing Scheme (GEHS) in South Africa. It is an employee benefit scheme that offers housing access support services to government employee. The GEHS provides housing finance access through the following means:

- **Non-mortgage housing loan (un-bonded)** - Employees access this housing loan through the private sector financial institutions that form partnership with GEHS for the purpose of buying or renovating a house. The loans are non-bonded; have a shorter repayment period of three to eight years; the average loan amount is up to three hundred and fifty thousand rand subject to qualification and affordability and evidence of property existence and/or ownership.
- **Mortgage-based housing loan (Bond)** – This is a mortgage-based housing loan accessed from a financial institution for purposes of buying and/or renovating a house. The house is usually held as a security for the loan. The loan is granted by private sector financial institutions that are partners with GEHS. Such loans have the following features: bond registration costs; estate agent commission, repayment period of 20 years; loan subject to affordability, value of house and lender's terms; and valuation and inspection of the house (GEHS, 2016:7).

3.5.2.4 *Rental Housing Act, 1999 (50 of 1999) (amended in Act 43 of 2007)*

The Rental Housing Act (RSA, 1999b) regulates the relationship between landlords and tenants in all of rental housing. In terms of Section 2(1) (a) of the Act, the government responsibilities are:

- To promote a stable and growing market that progressively meets the tenant demand for affordable rental housing, amongst the historically disadvantaged without unfair discrimination, and introduce measures that will improve the conditions of that rental housing market;
- To facilitate the provision of the rental housing market with the private sector (RSA, 1999b).

Important features of the Rental Housing Act (50 of 1999) (RSA, 1999b) include the establishment of the Rental Housing Tribunal, the introduction of the Unfair Practices Regulation, and the repeal of the Rent Control Act of 1976. Amendments to the Act in 2007 included criminalisation of ‘constructive evictions’ without a court order (RSA, 1999). The activities of PPPs in the provision of social housing are regulated by the Rental Housing Act (RSA, 1999b). Social housing is either jointly developed by the public and private sector, or developed by the public sector and managed by the private sector in a PPP arrangement.

For example, the Cape Green Paper (2001) established the framework that provides for private sector involvement in the management of municipal properties through partial outsourcing or full outsourcing, thereby creating opportunity for private sector engagement with public sector. The aim is for the optimisation of municipal properties in terms of their potential and economic benefits (Western Cape Government (WCG), 2001:41). Figure 3.2, explains the engagement of the Western Cape Provincial Government with government agencies, the local government and the private sector in the management of provincial properties.

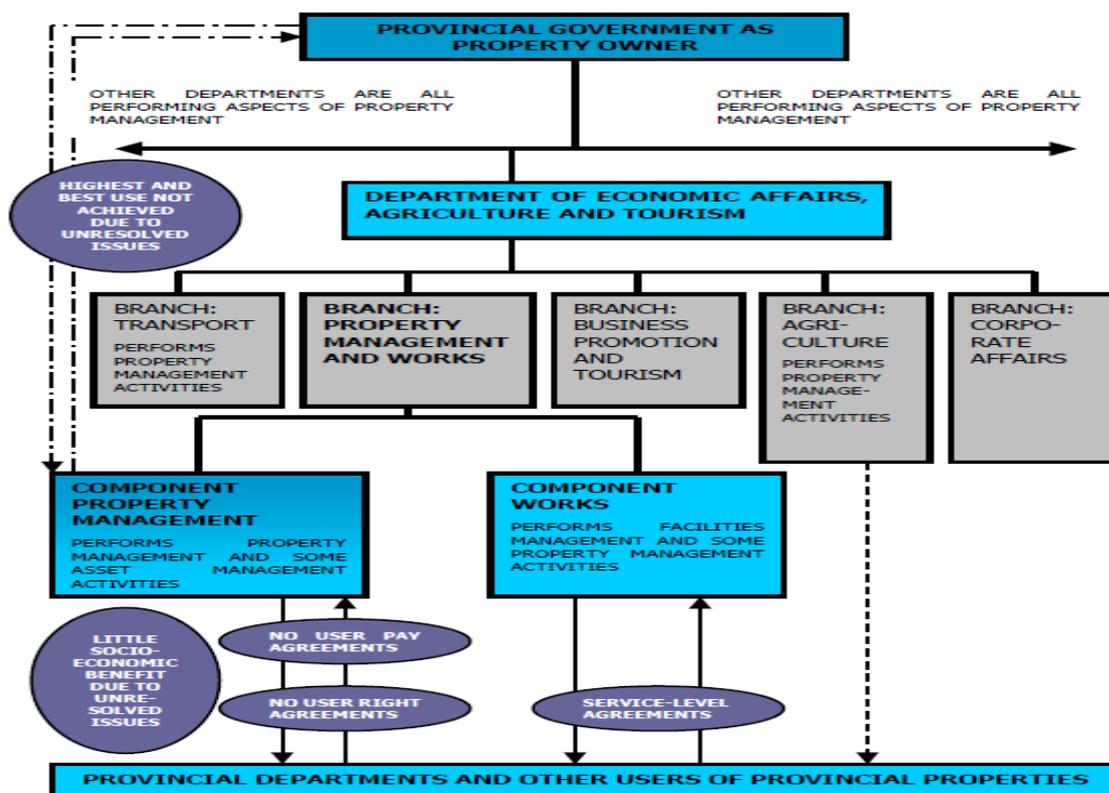


Figure 3.2: Western Cape Property Management Arrangement

Source: Western Cape Government, 2001:41

3.5.2.5 *The Social Housing Act, 2008 (16 of 2008)*

The Social Housing Act (RSA, 2008) was established in line with the Rental Housing Act, (RSA, 1999b), and the Housing Act, (RSA, 1997b). The objectives are stated as follows:

- to establish and promote a social housing environment that is sustainable;
- to establish the role of the various spheres of government in social housing;
- to provide for the establishment of the Social Housing Regulatory Authority (SHRA);
- to define its role as the regulator of all Social Housing Institutions that have obtained, or are in the process of obtaining public funds;
- to provide statutory recognition to Social Housing Institutions e.g., SOHCO Property investment is a Section 21 non-profit Social Housing Institution that develops, owns, and manages social housing in Durban, East London and Cape Town.

The Social Housing policy programme was subsequently established in 2009 with the aim of fulfilling the following objectives as indicated by DoHS (RSA, 2009:11):

- To contribute to the national priority of restructuring South African society in order to address existing structural, economic, and social dysfunctions; and
- To improve and contribute to the overall functioning of the housing sector most especially the rental sub-sector.

- ***Social housing delivery vehicles (SHI and PPPs)***

The Social Housing Institutions (SHI) and PPPs are envisaged in the social housing policy as the vehicles for social housing delivery. The SHI are categorised as non-profit organisations, established in 1997 with the introduction of the subsidy mechanism. Social Housing Institutions develop social housing stock using institutional subsidies together with funding from the National Housing Finance Corporation (NHFC), donor funding, and local authority grants (RSA, 2005b: 12).

In addition to SHI, private entities such as developers and investors are also able to develop and/or manage accredited social housing projects for low income residences in designated areas. Accredited projects are government subsidised in order to make the rental units provided by the private sector more affordable to those eligible for social housing.

In addition to SHI and private entities, PPPs are also used as housing delivery mechanisms for large impact projects in designated restructuring areas. The private sector plays a vital role in conceptualisation, construction and management of PPP projects. The build-operate-transfer (BOT) model of PPP requires the private sector agents to build and operate a social housing project for a concessionary minimum period of 15 years. After this period, the private entity will be at liberty to make market related decisions and trade with the housing stock that is at their disposal at that stage (Trusler & Cloete, 2010: 1094-1112).

3.6 PRESENT SOUTH AFRICAN AFFORDABLE HOUSING MARKET

According to Tancott (2014:1) the demand for affordable housing in South Africa has drastically increased since 1994, resulting in an increase in the housing backlog and demand for affordable housing outstripping supply. This is attributed to rapid urbanisation, and improvement in the education/employment sectors through empowerment programmes. Tancott (2014:1) states that about 58% of the six million residential houses that were registered in the Deeds Office in 2013 are worth less than R500 000. These properties fall in the category of affordable housing and 47% are located in the former townships.

Affordability of housing in South Africa is a critical challenge to all housing practitioners in the public and private sectors. The challenges can be attributed to various reasons of which a low level of income is paramount. According to the Centre for Affordable Housing Finance (2017:4), 83.4% of households in South Africa earns less than R20 000 per month and 30% of households receive social grants. Moreover, building costs are rising higher than the inflation rate and government subsidised housing has distorted the true basic price of an entry-level house. The report by the Centre for Affordable Housing Finance (CAHF) (2017:5) shows that in 2016, the average

cheapest newly built house price was estimated at R352 000, which is affordable at current mortgage rates to households earning about R15 000 per month (estimated at 15% of the population). This situation places the reality of affordability in question, considering the state of the South African economy, and income levels of most South Africans.

The abandoned RDP Programme provided for people earning below R3 500 per month and assumed that people who were earning income above R3 500 per month would qualify for formal housing finance, but this did not materialise as many people were unable to access adequate and affordable housing thus leaving a “gap”. In order to address the problem of the income segment above R3 500, the subsequent Breaking New Ground policy (2004), as described above, introduced a lending instrument that would make it possible for households earning between R3 500 and R15 000 to access private sector finance (Steedley, 2012:4) Despite the credit guarantees provided by Finance Linked Individual Subsidy (FLISP); which provided subsidy for households with income of between R3 500 and R15 000, engagements with private financial institutions could only supply a few people with private mortgage funds to acquire houses in the affordable market (Steedley, 2012:4).

In addition to the above mentioned problems, inadequate supply of suitable and well-located land, delays, high cost of providing bulk infrastructure, and a mismatch between available stock, that is supplied by developers, as well as household affordability, are some of the reasons for the challenges of the BNG programme. In summary, the challenge is how to close the gap between the demand for affordable housing in good locations, with access to various amenities, and the slow unsustainable pace of delivering these housing options. Lack of finance to purchase these houses was also a problem, even when these housing options were available (Steedley, 2012:4).

3.7 SOUTH AFRICAN NATIONAL AFFORDABLE HOUSING DELIVERY MODELS

The South African national government face many challenges in its efforts to deliver adequate affordable housing to citizens of the country. Some of these challenges

include: infrastructure constraints, delays in township establishment processes and limited availability of affordable well-located land (Institutional Environment, 2012:1). The report by the Financial and Fiscal Commission on Housing Finance (2012:16) raises concern for public policy on supply-side state-driven approach to fully subsidised housing provision which causes significant distortions in access to housing. There is also a concern for dysfunction in the rental market where many tenants live in poor quality housing in what constitutes slum conditions, which highlights a significant need for affordable rental housing.

Despite the highlighted challenges, the national, provincial and local spheres of government strive towards a more integrated approach to housing delivery and innovative tenure. The inclusive approach to delivery is a shift from housing to sustainable human settlement. The various national housing delivery methods are:

- **National Housing Subsidy System (RDP housing)**

This method delivers housing units of 40m² to households in the income bracket between R0 – R3 500 per month. The project is financed by the Department of Human Settlement at a cost of R140 000 per unit. Beneficiaries have to be on a waiting list and meet the requirements prescribed in the National Housing Code (DoHS, 2009).

- **National Housing Subsidy System: Integrated Residential Development Programme (IRDP)**

The IRDP enables the development of well-located socially diverse projects that provides a mix of income groups and land uses. Under this system, the national government subsidises housing and commercial mortgage bonded houses are integrated to create mixed income settlements. This combination is known as cross-subsidisation, which means that the surplus from one unit or project is invested in another unit or project. Cross-subsidisation improves the feasibility of mixed income projects for the government and developer where in essence bonded units subsidise non-bonded units.

- **National Housing Subsidy System: Social Housing Programme**

There is a huge gap in the affordable housing segment in terms of delivery. Households earning income of about R10 000 per month, could afford the cheapest new-built house on the market costing some R250 000. Households with monthly incomes of below R10 000 are not able to purchase a house and are therefore reliant on the rental market. The estimated demand in this market segment far outnumber delivery hence the provision of housing through Social Housing Policy (RSA, 2005b) has become an important delivery vehicle in terms of affordability.

- **National Housing Subsidy System: Upgrading of Informal Settlement Programme (UISP)**

The objective of the UISP is to highlight the importance of assisting households living in informal settlements with relocation as the last resort. The government policy is to ultimately formalise the majority of the informal settlements. New typologies, mixed ownerships and rental tenure are some of projects piloted in certain informal settlements, in addition to upgrading existing housing environments, and creating additional affordable housing opportunities.

- **National Housing Subsidy: Affordable Housing Market**

The affordable housing market is targeted at households with a monthly income of between R3 500 and R15 000 per month. The supply of affordable housing is through the mixed income model of the Integrated Residential Development Programme (IRDP) and the Social Housing programme (rental housing). The private sector is encouraged to take up a large proportion of the segment, although the contribution of the private sector thus far is below the anticipated scale. The demand in this segment still far exceeds delivery (Institutional Environment, 2012:7-12).

- **National Housing Subsidy: Affordable Housing Delivery**

One of the aims of affordable housing is to achieve inclusionary housing, by leveraging lower end, more affordable housing products within the middle and higher income private developments. The anticipated outcome would be a more

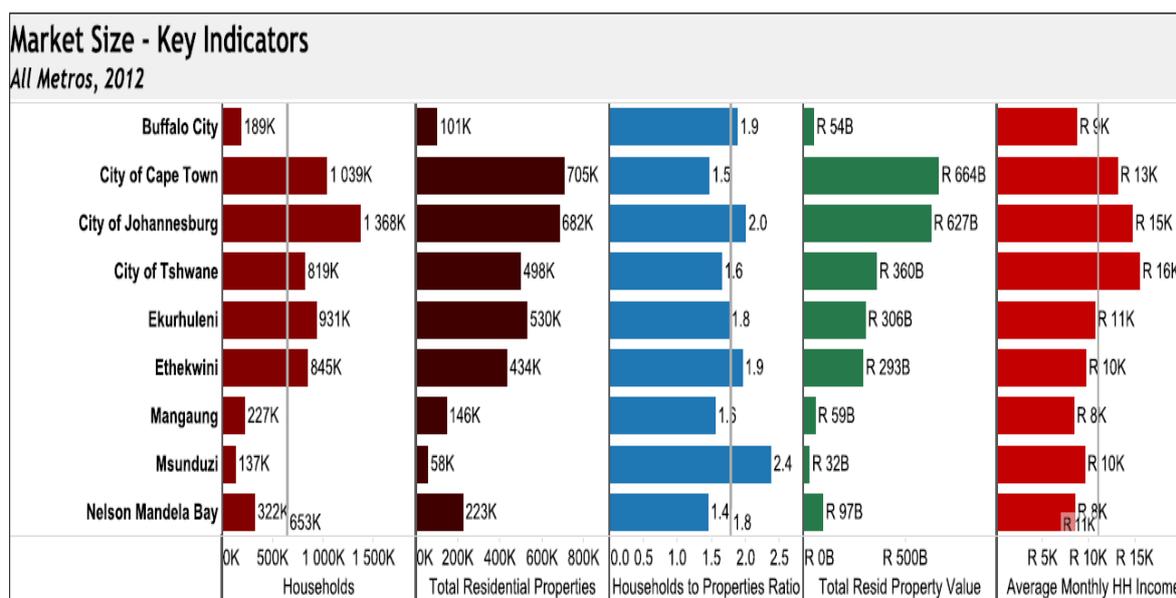
balanced socio-economic profile of the city and increased supply of affordable housing. The challenge of this model is the avoidance of private developers to include affordable housing units within their developments, due to lack of a national or local government statutory framework (Institutional Environment, 2012:7-12).

3.8 MARKET ACTIVITIES IN THE MAJOR NINE MUNICIPALITIES

The key market indicators that provide insight on the size, scope, level of sales, and lending activities in the major six metropolitan municipalities and in comparison with each other are as follows:

- **Market size:** - the scale and scope of conditions; volume and distribution values; and level of activities within the market;
- **Market activity:** - the level of activities provide context to counter market perception and attract more investments;
- **Lending activities:** - the value and number of bonds registered and the percentage of bonded houses;
- **Market share per lender:** - value of bonds per lender for all properties and especially affordable properties (Steedley, 2012:8).

Table 3.3: Market size in the major six metropolitan municipalities



Source: Steedley, 2012:8

Table 3.3 reflects the scale and scope of conditions within local markets in 2012, including volumes and distribution of values. Column five shows that the average monthly income in the nine cities was between R5 000 and R15 000 per month. This shows that majority of working South Africans fall in the “gap” income group. This means that they do not earn enough income to buy their own house in the property market without the assistance of the government.

Moreover, the information will assist the local government in understanding the residential housing market in the respective cities, and help to inform affordability of housing and the planning of housing delivery. The average monthly income for the cities will help the local government determine affordability and the budget for housing delivery.

Overall, there is consistency in the ratio of household-to-residential property, irrespective of city size; the larger the households the less number of properties. These indicators provide important information about the potential scale and suitability of various housing strategies and opportunities (Steedley, 2012:8). The information is vital for local authority strategic housing decision-making.

Table 3.4 illustrates affordability in nine South African cities using housing price gap range – R290 000 to R700 000.

Table 3.4: Housing price gap range from R290 000 to R700 000

RELATIVE HOUSING GAP BY MUNICIPALITY

<i>Housing Price Gap by Municipality</i>					
<i>Municipality</i>	<i>Average monthly income</i>	<i>Target affordable house price</i>	<i>Average sales price</i>	<i>Housing price gap</i>	<i>Affordability ratio</i>
Buffalo City	R8 714	R222 000	R663 000	R441 000	3.0
City of Cape Town	R13 164	R336 000	R1 031 000	R696 000	3.1
City of Johannesburg	R14 777	R377 000	R1 024 000	R648 000	2.7
City of Tshwane	R15 566	R97 000	R683 000	R286 000	1.7
Ekurhuleni	R10 694	R273 000	R726 000	R454 000	2.7
eThekwini	R9 759	R249 000	R909 000	R661 000	3.7
Mangaung	R8 368	R213 000	R786 000	R573 000	3.7
Nelson Mandela Bay	R9 582	R244 000	R950 000	R706 000	3.9
Msunduzi	R8 482	R216 000	R649 000	R433 000	3.0
<i>Metro Average</i>	<i>R11 012</i>	<i>R280 746</i>	<i>R824 720</i>	<i>R543 974</i>	<i>3.0</i>

Source: Steedley, 2012:18

Using the average monthly income to determine affordable housing shows a clear gap between the average income and average house sale price. The total average monthly income of R11 000, in the nine cities can afford a house price of R280 000, yet the total average house price is R825 000. This means that it will take three times the average income to afford the average house price. This shows overall housing price gap of R540 000; and the gap is higher in: the City of Cape Town (R696 000); the City of Johannesburg (R648 000); EThekwini (R661 000) and Nelson Mandela Bay (R706 000) (Steedley, 2012:18).

Local governments can use this information to better align their housing policy, so that real affordability will be addressed and also to encourage development that successfully meets the needs of local households (Steedley, 2012:18).

3.9 THE CITY OF CAPE TOWN SERVICE DELIVERY STRUCTURE

The City of Cape Town has the oldest administrative structure in South Africa. The amalgamation of seven former municipalities to create one “uni-city” in December 2000 resulted in the formation of the current structure. The City has a staff complement of over 22 000 employees, delivers services to approximately 3.7 million residents across an area of 2 455km² (COCT, 2014:1).

The structure of CoCT is designed to facilitate the delivery services to the communities in the Cape Town Municipality. The 12 directorates that make-up the municipal structures are designed to ensure the delivery of municipal services at grassroots levels. The functions of the 12 directorates are described below.

- **Office of the City Manager:** - Responsible for the management of the organisation and ensures statutory compliance and good governance.
- **Internal audit:** - This directorate makes a significant contribution to the organisation’s governance. Its function is a requirement of the Municipal Finance Management Act, (RSA, 2003a) and is guided by the standards of the international Institute of Internal Auditors (IIA).
- **Community services:** - Responsible for delivering community facilities to support and promote healthy lifestyle and facilitate community development programmes. These programmes involve collaboration of community organisations, NGOs, the private sector, and other stakeholders.
- **Corporate services:** - This is a multi-disciplinary directorate that provides value-added strategic services, processes, policies, systems, interventions, knowledge and expertise to all other directorates.
- **Economic, social development & tourism:** - Promotes economic development and opportunities; promotes empowerment within disadvantaged communities, social development, sustainable tourism strategies and manages immovable property to optimise usage and value.
- **Finance:** - Responsible for collection, management, investment and expenditure of City’s finances in accordance with applicable legislations.
- **City health:** - Responsible for delivering improved-quality, comprehensive, and cost-effective, primary health care services.

- **Housing:** - Initiates, coordinates, facilitates, promotes and enables housing development for the poorer communities. Its mandate is derived from Section 26 of the Constitution, 1996, and the National Housing Act (RSA, 1997b).
- **Safety & security:** - Includes functional areas of metro police, traffic services, by-law enforcement, disaster risk management, fire and rescue, and the 107-emergency call centre.
- **Strategy & planning:** - Responsible for planning and development of long-term strategies and ensuring that those plans are economically, environmentally and socially sensible.
- **Transport, roads & major projects:** - Responsible for the planning and management of the transport, road and storm-water functions and in the delivery of major projects.
- **Utility services:** - Strives to ensure sustainable municipal infrastructure and services; including water, sanitation, electricity and solid waste – that will enable economic development and provide equitable access to basic services for all citizens of Cape Town (CoCT, 2014:6).

Each of these directorates is divided into various departments, and each department has sections. In terms of vertical complexity, the organisation has a tall hierarchy, with wide span as described above. Each management level has a large number of subordinates that reports to it. Moreover, in terms of spatial dispersion, the administration has decentralised offices within different parts of the Cape Town Municipality.

In terms of formalisation, the jobs are highly formal and standardised. However, standardisation decreases as one moves up the management level from the lowest operatives to top management levels. Moreover, the degree of skills specialisation determines the degree of standardisation. Formalisation is done through the combination of policies and rules, roll requirement, training and selection processes.

In terms of centralisations most decisions are highly centralised at the top level of management. However, senior and middle management levels may take certain non-strategic decisions. Senior professional officers may also take specific task related

decisions. The objectives and goals of various units are harmonised through programmed, individual and informal co-ordination. Policies underpin co-ordination.

Similar to most public organisations, the structural configuration of the CoCT is machine bureaucratic and divisional. There is a high level of standardisation of operations and tasks are grouped into functional departments (CoCT, 2014:7-10).

3.10 CITY OF CAPE TOWN SERVICE DELIVERY STRATEGY

The CoCT service delivery strategy is underpinned by the “five pillars” approach, namely:

- **The opportunity city** – establishes an environment to attract investments and create jobs.
- **The safe city** – through the involvement of the communities and stakeholders, promotes freedom from fear of crime and safe streets.
- **The caring city** – provides access to basic services to all citizens, especially for those most in need.
- **The inclusive city** – the one in which every resident has a say and a stake in the future, and the community is involved in decision-making.
- **The well-run city** – transparent and corruption free local government which is receptive to the needs of its citizens (CoCT, 2017a:2).

Spearheading the “five pillars” resolve is a focus on infrastructure investment and maintenance so as to provide sustainable economic growth and increase investment opportunities. The CoCT’s focus on infrastructure investment is aligned with the Integrated Human Settlement Five-Year Strategic Plan (IHSFSP) 2017-2022 of the City, which is aimed at providing for the housing needs of Cape Town’s steadily growing and increasing urbanised population. The IHSFSP is developed with a view towards enabling the realisation of the City’s five key strategic pillars.

The City’s achievement of integrated human settlement extends beyond the mere building of houses and adopts a strategic approach that recognises the importance of creating housing opportunities that fully integrate delivery of, and access to services, healthcare, education and employment opportunities.

3.10.1 City of Cape Town affordable housing delivery strategies

The Integrated Development Plan (IDP) is the blueprint of the vision of CoCT and the strategic framework for building a city based on the above mentioned five pillars: the opportunity city, the safe city, the caring city, the inclusive city, and the well-run city. The IDP provides the strategic framework that guides the City's planning and budgeting over the course of five years.

This is in line with requirement of the Municipal System Act, (RSA, 2000b) and the legislative requirement for municipalities to undertake extensive public consultations in the formulation and implementation of local planning, as well as in the overall performance. According to Pieterse, Parnell, Swilling and Van Donk (2008:3) provision of basic services such as water, waste management, roads, housing, sanitation, and electricity remains the responsibility of the municipalities, as the sphere of government closest to the people. In terms of the IDP, the CoCT municipality plan to achieve housing delivery opportunities by means of the following projects and programmes:

- To deliver new housing opportunities – this includes subsidised housing delivery and gap housing for households who are unable to afford houses in the open market, but earn too much to qualify for government housing subsidy.
- The rental stock: The Hostel Redevelopment Programme – These are rental units developed for households that earn too little to qualify for bonded houses. This programme facilitates the speedy delivery of housing.
- The land restitution programme – This programme restores property ownership to those unlawfully displaced, or provides alternative equivalent.

The CoCT continues to implement a range of housing programmes to create innovative, integrated and sustainable human settlement developments for its disadvantaged communities, most of who rely on the government to satisfy their housing needs. Some of the strategies formulated by the CoCT to address the housing needs of the poor communities include the following: an Informal Settlement Upgrade strategy (ISU); a Backyard Improvement Upgrade strategy (BIU); and the Urbanisation strategy (US) FLISP and IRDP (CoCT, 2017a:23-24).

- **Informal Settlement Upgrades (ISU)**

The ISU is part of CoCT's plan to improve the living environment of families in its 204 informal settlements. Part of the objectives of this strategy includes establishment of local offices to serve informal settlements, optimising land availability, improving service delivery, security of tenure and improving quality of dwellings. The processes that are planned to support the objectives of this programme include: the forming of development partnerships with the private sector, and engaging in participative planning as well as partnership-driven co-ordination (CoCT, 2017a:23-24).

The upgrading of informal settlements takes the form of *in-situ* upgrading. This process involves a settlement upgrading in its existing location. The developmental framework for *in-situ* upgrading of informal settlements includes:

- Upgrading with minimal disruption to the present social and economic situation in the settlement.
- Community involved development which is inclusive, transparent, equitable, and brings consensus.
- A holistic and integrated approach to human development.
- Taking cognisance of an incremental development approach and acceptance of phased development as the most relevant development mechanism (CoCT, 2017a: 23-24).

- **Backyard Service Programme (BSP)**

This strategy is guided by the backyarder policy and aims to improve the conditions of people living in the backyards of city rental stock through the provision of better access to municipal services such as water, electricity, sanitation and refuse removal. The backyard service programme also involves the identification of vacant land that could be utilised for infill housing projects (CoCT, 2017a: 23-24).

- **Urbanisation Strategy (US)**

This programme affords the CoCT the opportunity to develop different forms of housing opportunities, which include *in-situ* upgrades of informal settlements, rental housing in the form of community residential units (CRUs), institutional and social housing, and home ownership opportunities, such as Gap housing for qualifying beneficiaries.

Most CoCT affordable housing delivery strategies are implemented through partnerships with private entities accredited by the Social Housing Regulatory Authorities (SHRA) as stipulated by the Social Housing Act, 2008 (16 of 2008) (RSA, 2008). At present the CoCT has partnerships with five social housing companies such as Madulammoho, the Social Housing Company, Communicare, Indiza Terra and the CTCHC, to develop and manage affordable rental housing stock for low and middle income residents (Democratic Alliance (DA), 2017:1). Agreements with social housing companies are based on the public-private partnership model for service delivery.

- **Financed Linked Individual Subsidy Programme (FLISP)**

This programme was introduced in 2005 to provide assistance to households who earn too little to independently access mortgage finance to acquire residential property, but earn too much to qualify for the Government Housing Subsidy Scheme (GHSS). This particular market is referred to as the “affordable” or “gap” market. While the Provincial government retains the authority to administer FLISP, the actual facilitation is done by the municipalities. It is downpayment assistance to first time qualifying home buyers to enable them to reduce and afford the repayment of home loans. This programme is for households that earn between R3 500 and R15 000 per month and the subsidy amount is dependent on household income and ranges between R20 000 and R87 000. Applications are made via the municipal housing offices.

- **Integrated Residential Development Programme (IRDP)**

This programme provides free serviced land for households that earn between R0 and R3 500 per month, and who do not qualify for housing loans. The beneficiaries construct their homes on the land. It is provided to local governments, and enquiries are made directly via the municipalities. The subsidy amount is R160 573.

3.11 CONCLUSION

This chapter traced the evolution of South African local government history and the legislative framework that establish local government, service delivery and housing. The South African Constitution, 1996, provided the framework for subsequent legislations that govern local government, service delivery and housing.

This chapter also explained the autonomy of the three spheres of government, which include the national, provincial and local government spheres of government, while recognising the importance of intergovernmental relationship in service delivery. The basic services which the RSA Constitution, 1996, mandated the local government to deliver to the communities were described and the strategic position of local government in service delivery as the sphere of government closest to grassroot level was highlighted. Moreover, the role of public-private partnerships as key players in housing delivery was explained, and the transition of the South African housing policy from mass production focus ideology to integrated sustainable and quality housing delivery was described. This chapter also described the background and present state of the South African affordable housing market, and the structure of the City of Cape Town in terms of housing delivery. In addition, it explained some national housing delivery strategies implemented by the City of Cape Town.

CHAPTER FOUR: CASE STUDY OF MITCHELL'S PLAIN AFFORDABLE HOUSING DEVELOPMENT

4.1 Introduction

The supply of affordable housing in South Africa is dominated by government-subsidised delivery. The City of Cape Town's affordable housing delivery is focused on social and institutional housing as a mechanism for greater delivery in this regards. The city drives housing delivery projects through its partners and the community. The aim of the affordable housing projects is to promote the human settlement policy and increase social integration by locating affordable houses in well-located areas across the metro over the next decades.

Some of the categories of housing delivery embarked on by the City of Cape Town include: the finance linked individual subsidy programme (also known as gap housing), that caters for households who earn too much to obtain free houses, but too little to be awarded housing bonds from financial institutions. This is an ownership programme that caters for households with income of between R7 501 and R15 000 per month; the integrated residential development programme which involves setting aside a number of sites, in any new housing development, so that households with income above the R3 500 monthly income threshold can obtain a serviced site and construct their own home; the discount benefit scheme, which allows beneficiaries of pre-1994 government owned rental houses to take ownership of such houses at discount rates; and the social housing (also known as rental housing), which provides rental housing for households that earn an income between R3 000 and R7 500 per month.

The financed linked individual subsidy and the integrated residential development are ownership programmes that enable beneficiaries to own houses, while the social housing is a rental housing programme that enables beneficiaries to pay subsidised rentals for the housing units they occupy.

This chapter describes the delivery of affordable housing projects in the Mitchell's Plain context. The two case studies used in this research include the Harmony Village

project which is a social housing project and the West Cape Villas which is a FLISP housing project. These two case studies of affordable housing projects were developed through PPPs, as a means of assisting the public sector address the shortage of affordable housing problems in Mitchell's Plain. The nature of the partnership, the background of the developments, the role of the partners involved and the type of housing units, amongst other factors, were explained.

4.2 BRIEF HISTORICAL BACKGROUND OF MITCHELL'S PLAIN

Mitchell's Plain (see Figure 4.1) is a predominantly "coloured township" located approximately 32 km from the Cape Town CBD. The township was created in the early 1970s by the apartheid government to alleviate the housing shortage in the coloured community of Cape Town. It is one of South Africa's largest townships, and located on the Cape Flats on the False Bay coast between Muizenberg and Khayelitsha (CoCT, 2014:1).

By 2014, Mitchell Plain's population had reached an estimated over 500 000 people, and the majority of the inhabitants are low to middle income groups. This rapid population increase put pressure on housing delivery, as the demand for houses increased significantly (CoCT, 2014:1).

In terms of economic activities, Mitchell's Plain is considered as having the strongest level of economy on the Cape Flats. Economic investments are primarily in the retail sector, which is reflected in several commercial nodes located in different parts of Mitchell's Plain, such as the Central Business District (CBD), locally referred to as the "Town Centre"; two large shopping centres: the Promenade Shopping Centre located on AZ Berman Drive and the Westgate Mall on the corner of Morgenster and Vanguard Drive. Other informal retail activities are concentrated around main public transport interchanges and along heavily utilized pedestrian routes.



Figure 4.1: Satellite Map of Mitchell's Plain

Source: *Google maps, 2018*

4.2.1 Spatial information

The different areas of Mitchell's Plain, its transportation system and geographical features are described below.

- **Sub-areas** – these include Weltevreden Valley, Woodlands, Lentegeur, Beacon Valley, Portland, Westridge, Tafelsig, Rocklands, and Strandfontein.
- **Transportation** - A large percentage of the population make use of public transport including buses, trains, and taxis. Mitchell's Plain is the third busiest modal interchange in the City of Cape Town, with approximately 75 000 commuters during peak hours (Business Trust, 2007:2).
- **Terrain and natural resources** - The terrain is flat and sandy (Business Trust, 2007:2).

4.2.2 Characteristics of Mitchell's Plain

According to the City of Cape Town Urban Renewal Programme (CoCT, 2016:23), Mitchell's Plain is characterised by the following:

- A predominantly residential area isolated from the economic opportunities of the city centre.
- A population predominantly reliant on public transport, and served by excessive high order freeway type roads which are unsafe and responsible for many motor vehicle accident deaths.
- Plagued with community safety problems due to design layout that lacks surveillance from residences over open spaces.
- A strong emphasis on private motor vehicles with several road networks separating the neighbourhoods.

4.2.3 Socio-economic profile of Mitchell's Plain

- **Population** – Although Mitchell's Plain was planned to accommodate about 250-000 people, the population in 2016 was estimated at more than 500 000.
- **Age Group** – The community is dominated by a young population, with the largest age group being between 20 and 24 years and only 4% of the population being 65 years and older.
- **Gender** – The Mitchell's Plain population consists of 52% female and 48% male.
- **Language** – Approximately 57% of the population speaks Afrikaans.
- **Education** – Approximately 92% of the inhabitants between the ages of 16 and 19 years are enrolled at school.
- **Employment** – Nearly 49% of the population is economically active, with 36% being employed and 13% unemployed and looking for work.
- **Income** – The mean household income in Mitchell's Plain is R3 451 for an average household size of five persons per household. This is an indication that the majority of the population fall within the "gap" housing group, which is household earning between R3 500 and R15 000 per month. About 48% of the households own their own dwellings but these are not yet paid for, 40% indicated that their dwellings are fully paid, while 22% are renting their homes. These statistics exclude the backyard

dwellers and informal settlers who have no formal accommodation. These facts indicate the huge demand for housing in Mitchell's Plain (CoCT, 2016:24-26).

Figure 4.2 shows that approximately 26.2% of employed males fall in the “gap group”; which is between R3 201 - R6 400, and R6 401 or more, while about 19.4% of employed women fall in the same group.

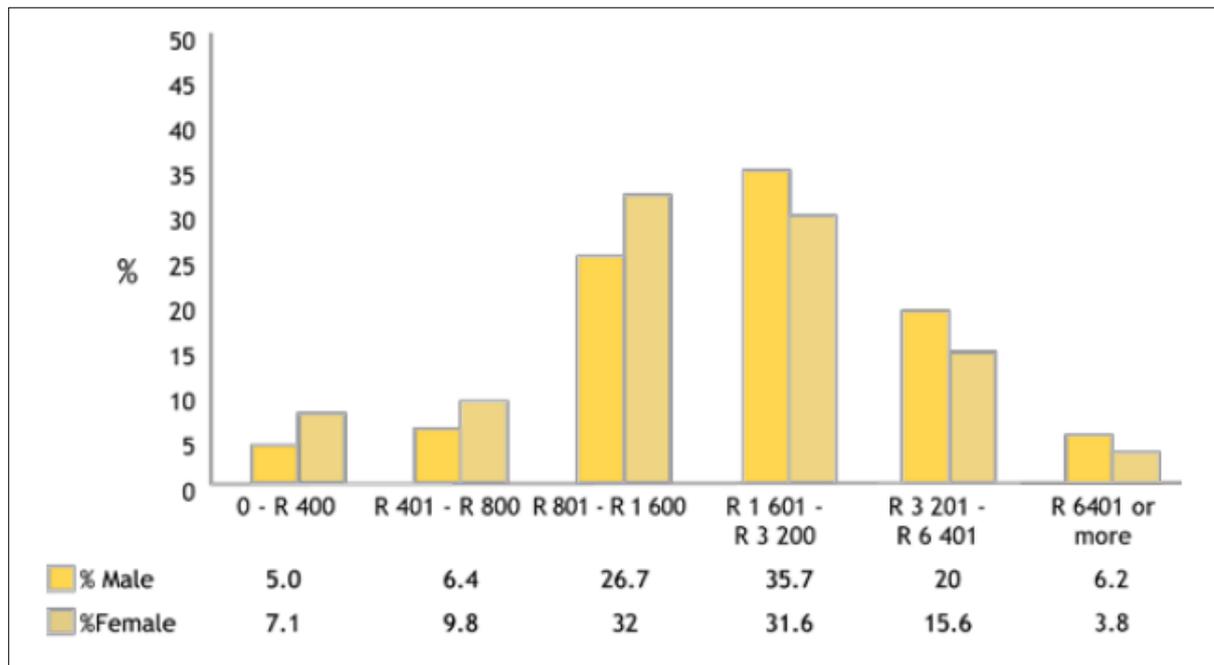


Figure 4.2: Gender personal income distributions of those employed

Source: CoCT, 2016:26

The reason for the higher male percentage in the gap group is because a higher percentage of males are permanently employed compared to the women who are mostly casual or contract workers (CoCT, 2016).

4.3 AN OVERVIEW OF VARIOUS SUBSIDY PROGRAMME OPTIONS AVAILABLE FOR AFFORDABLE HOUSING IN THE WESTERN CAPE PROVINCE

It was established in the socio-economic profile of Mitchell's Plain that a high percentage of employed inhabitants fall in the average income bracket of between R3 500 – R15 000 per month. The various subsidy programme options available to this income bracket are described below.



Figure 4.3a: R3 501 to R7 500 housing subsidy options

Source: Western Cape Government (WCG), 2017:7

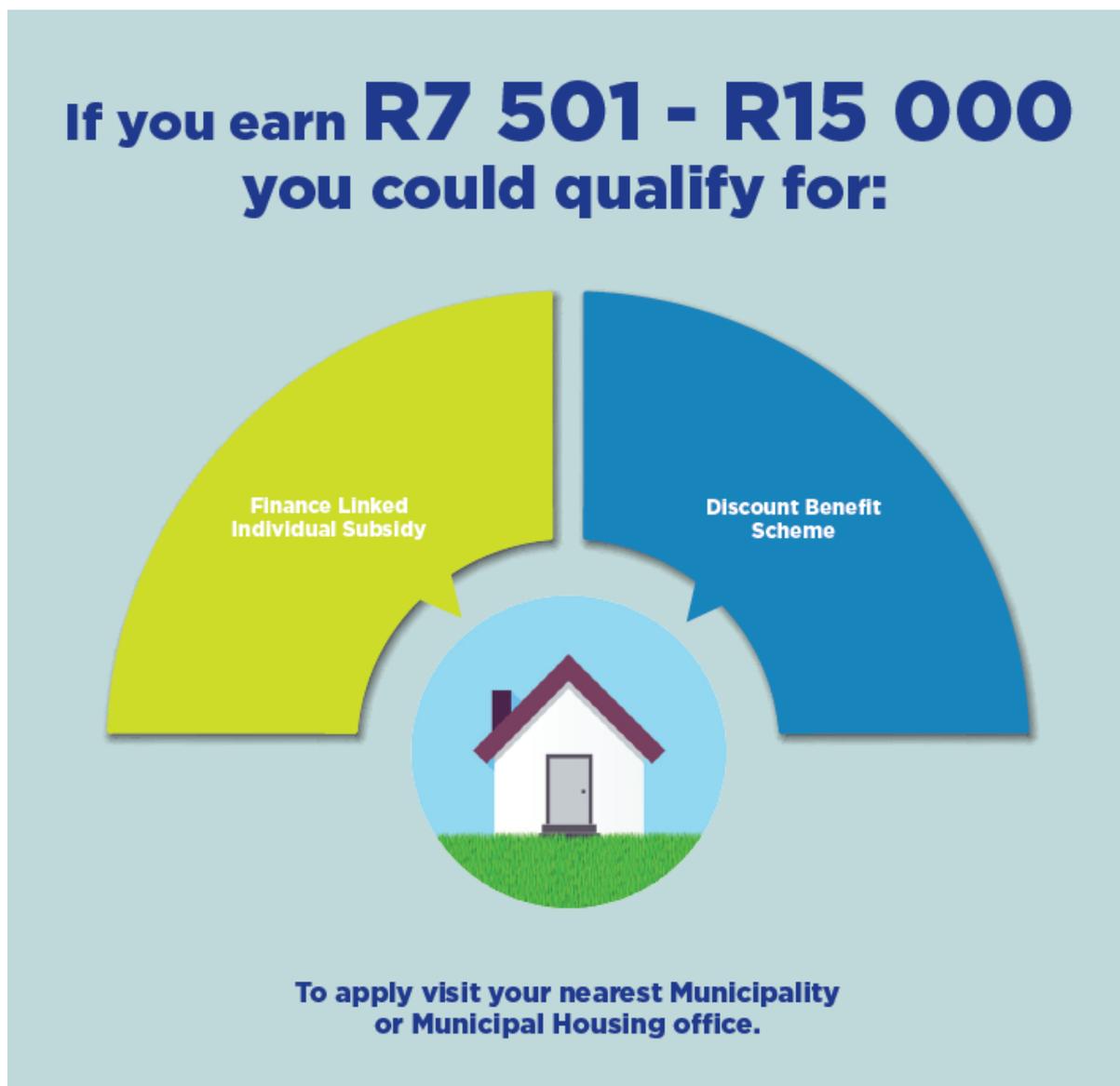


Figure 4.3b: R7 501 to R15 000 housing subsidy options

Source: *Western Cape Government (WCG), 2017:12*

The affordable housing subsidy programmes as shown in Figure 4.3a and 4.3b, are divided in two main categories: Firstly, the home ownership programme, which affords beneficiaries the opportunity to own a home. This includes Finance Linked Individual Subsidy, Discount Benefit Scheme, and the Integrated Residential Development Programme. Secondly, the rental programme, which provides homes to beneficiaries on a subsidised rental basis, and includes Social Housing, Institutional Housing and the Community Residential Unit. Each of these programmes is described below. However, the housing development programme in Mitchell's Plain is mainly based on the financed link individual subsidy programme.

4.3.1 Ownership housing programme (West Cape Villas)

The ownership programmes are designed to assist beneficiaries to purchase their own homes. Ownership programmes include the following:

- **Financed Linked Individual Subsidy Programme (FLISP)**

The FLISP programme was first introduced in 2005 and was revised in 2013 and 2016 to accommodate a Government Employee Housing Scheme (GEHS). The GEHS provides subsidised housing for public servants. The National Housing Finance Corporation (NHFC) is responsible for the administration of the programme. The local government processes and approves applications for subsidies, and provides suitable sites for project developments at no cost or subsidised prices. This ensures that development costs are reduced to the minimum, so that the completed houses are sold to intended beneficiaries at affordable prices. Other contributions of the local government include provision of infrastructure, as well as logistic and community liaison support (Western Cape Government, 2015 and 2017).

FLISP is a downpayment assistance programme available to qualifying first-time home buyers who are able to obtain mortgage to purchase a property. It can also be used to purchase a serviced residential stand or build a new house on an existing residential stand. The amount of subsidy provided is dependent on the household income bracket, and it can also be used to make home loan repayment affordable by reducing the monthly repayments. The subsidy amount is between R20 000 and R87 000, depending on household income. A prospective home buyer can apply for the FLISP subsidy once the home loan is approved. The qualifying income bracket is between R3 501 – R15 000 per month (Western Cape Government, 2015 and 2017).

The beneficiaries of FLISP have to adhere to the following conditions: must be South African citizen or permanent residence holders; must be legally competent to contract (18 years or older, or legally married or divorced and of sound mind); must not have previously benefited from any other government housing scheme; beneficiaries of government assisted vacant serviced stands; and persons who

have not owned fixed residential property (Western Cape Government, 2015; 2017).

- **Discount Benefit Scheme (DBS)**

This scheme helps those who have been renting municipal government-owned housing pre-1994, to become home-owners. The houses are transferred to the tenants utilising the Discount Benefit Scheme. The application for this scheme is made directly at the local government responsible for coordinating the housing project. The qualifying income bracket is between R3 501 – R15 000 per month (Western Cape Government, 2015; 2017).

- **Integrated Residential Development Programme (IRDP)**

This programme creates opportunity for beneficiaries to acquire land, service a site and develop a home. Applications are made directly at the local government responsible for coordinating the housing project. The qualifying income is for households earning more than R3 500 per month (Western Cape Government, 2015; 2017).

4.3.2 Rental housing programme (Harmony Village)

Beneficiaries of rental housing programmes do not have a right to ownership of the property, but can occupy the property on a subsidised rental. Examples of rental housing are described below.

- **Social housing (SH)**

Social Housing comprises local government-owned rental houses or apartments, which are managed by the Social Housing Institutions (SHI) and funded through PPPs. Beneficiaries; pay a reduced rental amount, based on household income, to the SHI. Applications for SH are made at the nearest municipality. The qualifying income bracket is between R1 501 – R15 000 per month.

Social housing is a housing delivery mechanism that enables a choice of alternative tenure in addition to outright purchase, such as rental, rent-to-buy, co-operative housing and instalment sale (Thompson-Smeddle & Roux, 2009:22). Social housing in South Africa is governed by the Social Housing Act, 2008 (16 of 2008) (RSA, 2008) and regulated by the Social Housing Regulatory Authority (SHRA). The Social Housing Act (RSA, 2008) defines the functions of national, provincial and local governments in respect of social housing. Social housing is implemented by Social Housing Institutions (SHIs) that are accredited under the Social Housing Act (RSA, 2008), to engage in the business of providing rental housing and managing government owned housing over a long term. The SHIs were initially all non-profit organisations until 2012, when private sector institutions were also eligible to become social housing agents, and can apply for Social Housing subsidy funding through the Social Housing Regulatory Authority (SHRA) that disburses the subsidy to support the provision of social housing (Scholtz, 2014:1).

The mechanism for the programme is through the application of the Restructuring Capital Grant (RCG) subsidy in respect of projects that are assessed as well located in terms of the Restructuring Zones (RZs). The Social Housing Act (RSA, 2008), defines RZs as: “Geographical areas identified for targeted investment based on the need for social, spatial and economic restructuring of the areas” (Scholtz, 2014:1). Within the RZ areas, the SHI can apply for the Restructuring Capital Grant (RCG), which was R130 000 per unit in 2012 (approximately 40% of total financing) since 2017 this amount has been increased to R155 000 per unit (Parliamentary Monitoring Group, 2017:3). In addition to the linked institutional subsidy from the local government under which the project falls, the government investment draws an additional 33% financing in the form of a private loan from the private sector and a further 3% in the form of private equity. The qualifying income bracket for beneficiaries is between R1 501 – R7 500 per month. Due to the high percentage of private sector financial contributions, SHIs are able to provide housing units that are affordable (Scholtz, 2014:1).

- **Institutional Housing Subsidy (IHS)**

This subsidy offers beneficiaries the opportunity to a rental unit or a rent-to-buy. The local government provides Housing Institutions funding to build and manage the rental units. Beneficiaries pay a reduced rental to the Housing Institutions. Applications are made directly to the nearest municipality. The qualifying income bracket is between R1 501 – R7 500 per month.

- **Community Residential Unit (CRU) Programme**

This programme creates opportunity for beneficiaries to gain access to government rental units. Enquiries and applications are made at the nearest municipality. The qualifying income bracket is between R1 501 – R7 500 per month (Western Cape Government, 2017:7-9).

4.4 AFFORDABLE HOUSING PROJECTS IN MITCHELL'S PLAIN

Although there are various housing subsidy options as described above, this study will focus on the ownership housing programme implemented in Mitchell's Plain. The CoCT and CTCHC partnership, implemented the FLISP programme in the development of the two case study projects in Mitchell's Plain, namely: the Harmony Village and West Cape Villas projects. These two subsidised housing projects target low to middle income group, which represent households that earn between R3 000 and R15 000 per month (CoCT, 2017a:1), and characterise the income bracket of the majority of the Mitchell's Plain inhabitants. The two case study projects were a partnership involving the CoCT as the public sector, the Cape Town Community Housing Company (CTCHC) as the private sector and the National Housing Finance Corporation (NHFC) as the private financiers. The FLISP enables beneficiaries to purchase their own homes with government subsidies and is described in detail below.

4.4.1 Financed linked individual subsidy programme in Mitchell's Plain

“Gap housing” is a term used to describe the shortfall, or “gap” in the market between the residential units supplied by the government and houses delivered by the private sector. It is provided by the local government through the Financed Linked Individual

Subsidy programme. As stated in (4.2.3) the gap housing market comprises households that earn between R3 000 and R15 000 per month, which is too little to enable them to purchase a house in the private property market, yet too much to qualify for full government subsidy assistance (CoCT, 2017d:1).

Gap housing is a formalised mortgaged home ownership, and an established delivery mechanism for private, outright ownership. It can be funded by private sector financial institutions; and the process of acquiring, financing and servicing the land, constructing the houses, and transferring of title to new owners managed by private developers (Thompson-Smeddle and Roux, 2009:22).

The gap housing delivery model is assumed to be a delivery mechanism that would address the needs of many households in overcrowded formal housing units, and probably also for some people who live in informal structures not necessarily because of financial constraints, but due to a shortage of affordable formal housing units' availability in the housing market. With the rising demand and inadequate supply of housing, especially in the previously disadvantaged areas such as Mitchell's Plain, the challenge is to make land available at an affordable price to enable entry to the ownership market for those currently excluded through high prices.

This is the challenge that the public sector in a public-private partnership is expected to fulfil so as to keep housing prices at an affordable level. Households that qualify for the FLISP can apply for a government subsidy of up to R87, 000 (on a sliding scale) in order to facilitate access to a bank loan.

4.5 THE PARTNERSHIP BETWEEN THE CTCHC AND THE COCT TOWN IN MITCHELL'S PLAIN HOUSING PROJECT

Before a local government can enter into a partnership with the private sector, the first issue to be considered is whether to pursue a regulated PPP through the Treasury, a non-regulated Cross Sector Partnership or simply a Service Contract. The PPPs involving local governments in South Africa are regulated by the National Treasury through the Municipal Supply Chain Management Regulation (MSCMR), Gazette No. 27636 (2005) (RSA, 2005a). In terms of PPP projects in Mitchell's Plain, the CoCT General Contract Conditions (GCC), which is guided by the MSCMR, was the basis of

the partnership agreement. The key questions when considering a PPP around service delivery are listed below, and should the answers reflect negative, the PPP will obtain approval to be established:

- Is the level of desired service delivery being achieved?
- Is there an available budget to establish new facilities and services?
- Is there adequate staffing to deliver, maintain and increase the level of services and facilities?
- Is the maintenance of facilities and services at the desired level?

Negative answers to the above mentioned questions mean inadequate public service delivery, and will trigger the necessity for the public sector to engage the private sector, so as to improve the level of service delivery. Public-Private Partnership role players in Mitchell's Plain include the Cape Town Community Housing Company (Pty) Ltd (CTCHC), as private sector developer, the National Housing Finance Corporation (NHFC), as the private financier, and the City of Cape Town as the local government public sector. The roles of these partners in the affordable housing projects in Mitchells Plain are described below.

4.5.1 The Cape Town Community Housing Company (Pty) Ltd (CTCHC)

The CTCHC is a Social Housing Institution (SHI) founded and owned by the National Housing Finance Corporation (NHFC) in fifty-fifty partnership with the City of Cape Town (CoCT). The company was launched in May 1999, with the objective of gearing the institutional form of the national subsidy to achieve larger and better quality housing for qualifying beneficiaries (CTCHC, 2017:1).

In 2008, the CoCT sold its shares to the NHFC, who then became 100% shareholder. The CoCT's subsequent involvement in affordable housing projects was by way of the provision of suitable sites for project developments at subsidised prices, project oversight, subsidy allocation, infrastructure installation, and community liaison support.

In line with the provisions of Breaking New Ground policy 2004 of Sustainable Human Settlement (BNG), aimed at addressing spatial planning and development through the delivery of socially, economically and spatially integrated housing, the CTCHC is faced

with the new mandate of providing affordable housing through developments that cover all aspects of an integrated and sustainable human settlement spectrum within the City of Cape Town's municipal area. The role of the CTCHC in housing development in Mitchell's Plain is that of a Social Housing Institution (SHI) that oversees the construction of the housing units and acts as an intermediary between NHFC and the beneficiaries in sourcing funding. CTCHC designed a model that incorporated the government housing subsidy, as well as a top-up loan granted by the company through external funding to households that earn below R3 500 per month and which is repayable over a 25 year period.

- **Mandate of the CTCHC** – The mandate is to create integrated and sustainable human settlements through developing, acquiring, holding and selling immovable property in the form of affordable housing, amenities and public facilities as well as commercial concerns.
- **Vision of the CTCHC** – To be the leader in the delivery and management of quality affordable housing to its customers.
- **Mission of CTCHC** – To deliver and manage affordable housing for a defined range of customers and be market leaders by virtue of its innovative ideas, professionalism and sound management expertise (CTCHC, 2017:3).

4.5.1.1 Strategic objectives of the CTCHC

- To provide affordable housing of the highest standards by creating positive urban environments in sustainable and integrated housing development through innovative financial solutions.
- To build a strong brand image through effective housing according to internal and external communications programmes, and to focus on increasing levels of clients' satisfaction by being professional, efficient and swift in providing services.
- To build effective and efficient business focused organisations of which all staff members take ownership (CTCHC, 2017:4).

4.5.1.2 Strategic partners of the CTCHC

In general, the partners of CTCHC in project developments are:

- National Housing Finance Corporation – Administrators of FLISP, and provides housing finance to intermediaries, which includes other Social Housing Institutions.
- National Department of Human Settlement – Mandated by the RSA Constitution, 1996, to provide housing to citizens.
- Western Cape Department of Human Settlement – Provides housing subsidy and partners with the City of Cape Town and the private sector to deliver housing to local governments.
- Local Authorities (Metro and local municipalities) – In this case, the City of Cape Town, provides housing subsidy and developmental sites at subsidised prices. It partners with the private sector in affordable housing projects.
- Major Banks - Act as financiers to affordable housing projects (CTCHC, 2017:5).

The CTCHC's partnership in Mitchell's Plain is with the City of Cape Town as the public sector, and the National Housing Finance Corporation as the financier private sector.

4.5.1.3 *The CTCHC business model*

The CTCHC business model focuses on the development of subsidised and non-subsidised affordable housing. The non-subsidised housing development includes: free-hold residential units, and sectional title residential units, which cater for households with a monthly income of R7 500 to R15 000. Both categories are financed through bank loans. The non-subsidised developments also include: commercial and residential rental and deferred sales from own title and sectional title units.

The subsidised housing developments include: the financed linked individual subsidy programme (FLISP), a bank home loan and individual subsidy, which caters for a single or joint monthly income of between R3 000 and R15 000. Subsidised housing also includes: CTCHC instalment purchase agreement (IPA) (top-up loan); and institutional subsidy which caters for single or joint monthly income of between R3-500 and R15 000; and also social housing rental, which caters for single or joint income of between R1 501 and R15 000.

The affordable housing projects in Mitchell's Plain fall under the subsidised housing developments. The CTCHC, as an accredited National Housing Institution, plays the

role of housing delivery vehicle and applies to the National Housing Finance Corporation for FLISP subsidy funding. The CTCHC also provides top-up loans to beneficiaries granted through external funding over 25 years repayment.

The role of the City of Cape Town is in the identification and provision of subsidised suitable development sites to ensure that the cost of the development is kept at a minimum, so that the completed houses are affordable for the intended beneficiaries. To ensure this, beneficiaries are selected from the City of Cape Town’s housing waiting list, in line with the City’s housing delivery strategy. Moreover, the City of Cape Town offers logistics and liaison support so as to facilitate co-operation between the community and the CTCHC. Other contributions of the City include subsidy allocation and infrastructure provision.

Figure 4.4 is the business model that shows the link between the CTCHC team, the customers, the geographic footprint and the system process that drives the housing developments and ensures that intended beneficiaries are provided with housing.

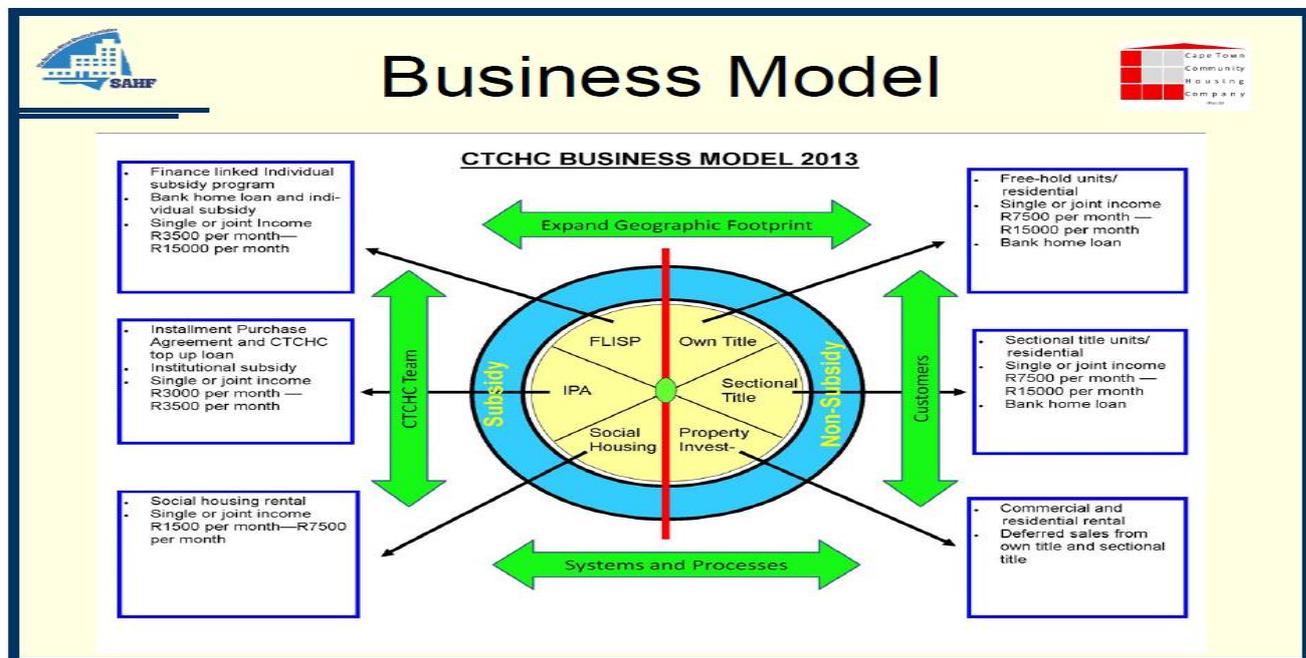


Figure 4.4: CTCHC Business Model

Source: CoCT, 2017a:8

The CTCHC team represents the private sector partner with the CoCT as the public sector. The systems and processes are the various roles played by each partner which include construction and delivery on the part of the CTCHC, and financing, subsidising (e.g. land and infrastructures), logistical support and allocation to beneficiaries (customers) on the part of the CoCT. The expanded geographical footprint speaks to various joint partnership projects undertaken by both parties in different sector of the municipality.

4.5.2 National Housing Finance Corporation (NHFC)

The NHFC is one of the many Development Finance Institutions (DFI) established by the national government to sustainably improve the socio-economic challenges of the country. The NHFC is specifically charged with the responsibility of finding workable financial models on affordable housing for the low and middle income target market (Scholtz, 2014:2-4).

The NHFC target market is South African households with a monthly income of between R1 500 and R15 000, namely, the low to middle income households, also known as the “Gap market” this market sector finds it difficult to access bank-funded housing finance, but is mostly able to contribute towards its housing costs (Scholtz, 2014:2-4).

The National Housing Finance Corporation was established in 1996 as a Development Finance Institution (DFI), with the aim of offering housing finance, project facilitation and technical assistance to private and public entities and ensuring the availability of housing stock for the target market. The NHFC searches for better ways to mobilise finance for affordable housing from sources outside the government in partnership with a widest range of organisations, as a means of sustaining its funding programmes. The role of the NHFC in the affordable housing finance market sector is to act as the financier, facilitator and innovator, in order to ensure viable housing finance solutions; growth of sustainable human settlements; and mobilisation of relevant partnerships, through enhancing insights and knowledge gained (NHFC, 1996:1-3).

4.5.2.1 Funding programmes of the NHFC

The NHFC provides housing finance to intermediaries who consist mainly of Retail Finance Intermediaries, Property Practitioners and Developers, Social Housing Institutions and it also supports and capacitates emerging housing intermediaries through partnerships with other local and international organisations. Where entities require funding for mixed or integrated housing development, a minimum of 30% of the units must fall within the NHFC defined target / affordable market.

The NHFC offers a range of housing finance options through two core programmes, namely: Projects and Commercial Divisions, which indirectly enables homeownership, rental, and improvement to properties for the end-beneficiaries. The end-beneficiaries, gap housing market, home seekers, or affordable housing target market are defined as South Africans, or households, with a monthly income of between R1 500 and R15 000. This market sector is able to contribute towards housing cost, but unable to access bank-funded housing finance (NHFC, 1996:1-3).

The NHFC does not provide financial assistance directly to the end-beneficiaries, but indirectly through partnerships with the following entities:

- Social Housing Institutions (SHIs)
- Property Practitioners (Developers and Landlords)
- Private Lenders / Retail Finance Intermediaries / Banks.

The financial assistance provided by the NHFC to qualifying Social Housing institutions is used to procure development sites and for the construction of houses. The development site is identified and provided by local authorities such as the City of Cape Town at a subsidised low price in order to reduce construction cost and achieve affordable prices for the intended beneficiaries. Some of the sites may be located in upmarket neighbourhoods where the beneficiaries could ordinarily not afford to reside, due to high cost of vacant land and properties. With the intervention and subsidised sites provided by the City of Cape Town, low income earners are able reside in locations closer to economic opportunities and amenities.

The end beneficiaries may approach any of the above mentioned partners of the NHFC for funding. The scope of the NHFC funding programmes extends to housing entities or institutions that deliver the following:

- Housing projects or housing finance needs, of those who qualify for the defined NHFC end-beneficiary target market.
- Developments of social housing and/or rental housing projects through Social Housing Institutions (SHI) and/or Property Practitioners (Developers and Landlords).
- Rental homes and small home improvement loans to the lower end of the affordable housing market.

The NHFC housing finance funding in a PPP may be up to a maximum of 90% of the cost of the housing project depending on the agreement between NHFC and SHIs, and the development company may be required to provide equity for the balance. Entities such as Social Housing Institutions seeking NHFC finance must meet the criteria, terms and conditions as defined by the NHFC Credit Committee (NHFC, 1996). The role of the NHFC in the Mitchell's Plain housing development is to provide finance in form of subsidy of R91.7 million to the CTCHC for the development of low cost houses. The subsidy provided by the NHFC ensures the procurement of suitable development land from the City of Cape Town at subsidised rates and funds loans of up to R130 000 which the beneficiaries will pay over a 25 years with an average instalment of R1 000 per month (NHFC, 1996).

4.5.3 THE CITY OF CAPE TOWN (COCT)

The City of Cape Town's involvement in the development of affordable housing in Mitchell's Plain includes the provision of vacant land and infrastructure, community liaison to ensure good relations and co-operation between all stakeholders, subsidy allocation, and contributions in accordance with the innovative construction method. Acquiring development land at minimum cost is vital for affordable housing development, in order to reduce production costs and make houses affordable to the intended beneficiaries. Some of the different ways used by the City of Cape Town to contribute to the development of affordable housing in Mitchell's Plain are described below.

- **Land allocation** – The City of Cape Town receives approximately R2 billion per annum, from the national grant allocation, for the provision of affordable houses (Western Cape Government, 2013:1). This fund is used for land acquisition and subsidy allocation to qualifying beneficiaries. Land for development can be acquired in different ways:

Firstly, from private owner to government, in which case the Department of Human Settlement (Western Cape Province) partners with the Housing Development Agency (HDA) and the City of Cape Town to identify and secure the release of land suitable for human settlement. The City of Cape Town is responsible for negotiating with the private owner for the purchase of identified land for development. The City of Cape Town applies to the DoHS for funds which are then transferred to the City for the purchase of the land.

Secondly, from DHoS to another sphere of government: Land can be transferred from DoHS to any municipality, in order to assist them achieve their core function at no cost.

Thirdly, local government to the private developer: The City of Cape Town makes land available directly to the developer through a tender process. The bid-winning private entity signs a Land Availability Agreement (LAA), and is then responsible for the development of the land (Western Cape Government, 2013:1). This model of land allocation is applicable to the affordable housing development in Mitchell's Plain, where the City of Cape Town provided the construction sites to the CTCHC for housing development.

- **Provision of housing subsidy** - The Provincial Department of Human Settlement makes funding allocation to the City of Cape Town, and the City uses to provide housing subsidy to low income applicants who want to buy residential property. Priority is given to people on the municipal housing demand database for a minimum of ten years, and must be over 40 years, and or with special needs. The monthly income must be less than R3 500 per month. People that earn more than

R3 500 per month are subsidised through FLISP which reduced initial mortgage loan amount to render the monthly repayment instalment affordable over the loan payment term (PropertyWheel, 2013:1-2).

4.6 AFFORDABLE HOUSING PROJECTS IN MITCHELL'S PLAIN

The Public-Private Partnership in Mitchell's Plain housing development scheme is a Design Build Operate (DBO) partnership, which is an arrangement where the public and private sector contribute their resources to execute housing projects and distribute the houses to qualifying beneficiaries at subsidised prices.

The City of Cape Town provides part of the subsidy funding and development site, and also ensures that the allocation of the completed houses is done in terms of the City of Cape Town housing policy and in accordance with the municipal subsidised housing waiting list. The private sector is the delivery agent and in this instance, the Cape Town Community Housing Company brings in the expertise for the construction of the houses, while the National Housing Finance Corporation provides the funding in the form of social housing financial assistance. The financing of the project is based mainly on the FLISP.

This study focuses on two affordable housing projects in Mitchell's Plain, namely the Harmony Village project (Instalment Purchase Agreement project) which caters for household income of R3 000 to R7 500 per month and the West Cape Villas project (Ownership project), which caters for household income of R7 500 to R15 000 per month. The "gap group" are those within the income bracket that earn too much to qualify for full government housing subsidy and too little to secure a mortgage bond from financial institutions. The two developments are part of the City of Cape Town's strategy to cater for the housing needs of households left out of the government's full housing subsidy programme (De Villiers, 2017:1).

4.6.1 The Harmony Village Project

Harmony Village is an affordable subsidy housing project (FLSIP) for households with income of between R3 501 and R7 500 per month (see Figure 4.3a), who earn too much to qualify for government fully subsidised houses and too little to qualify for mortgage bond. The project is financed by government institutional funding and top-

up loan from the CTCHC which constitutes an Instalment Purchase Agreement (IPA) payable over 25 years. Beneficiaries have restrictive non transfer four-year period post occupation, in accordance with the subsidy requirements. This allows the owner to realise the full asset value by not selling. They may sell after four years, provided that the top-up loan granted by the CTCHC has been settled.

The project is a R178.9 million housing partnership project between the City of Cape Town and the CTCHC constructed on 15.17ha of land provided by the City of Cape Town. It is a Design Build Operate (DBO) partnership based on a model designed by the CTCHC, where government subsidy, in combination with a to-up loan granted by the CTCHC through external funding, is granted to beneficiaries over a 25 years period. The houses remain under the management of CTCHC for the entire term of the loan. The beneficiary receives full title ownership of the property on completing the instalment payment over 25 years, or if the loan is settled before the 25 years period lapses. This represents a sustainable housing model, in which there is a government and a beneficiary contribution enabling higher quality housing delivery, compared to the standard fully subsidised houses as is the case with the abandoned “RDP houses”. The housing model creates a sense of responsibility in the ranks of beneficiaries as they contribute towards capital and service costs. The project commenced in March 2013 and was completed in February 2015, offering 850 two-bedroomed housing units at a cost of R206 000 per unit (PropertyWheel, 2013:1-2).

The CoCT provided R88.2 million in institutional subsidy funding for fund loans of up to R130 000 which beneficiaries will pay over a 25 year period, with an average monthly instalment of approximately R1 000 per month. The NHFC provided the balance of R90.7 million to the CTCHC in the form of Social Housing Institution financial assistance for the project (CoCT, 2017c:3-5). This funding is used by the CTCHC to provide top-up loans to beneficiaries. The project comprises two types of housing designs which include the semi-detached single storey dwelling units measuring 42m² per unit (see Figure 4.6), and the double storey semi-detached units, measuring 48m² per unit (see Figure 4.7). The project details of Harmony Village are explained in Table 4.1 below.

4.6.1.1 Project summary

Table 4.1: Project Summary of Harmony Village

Location	Corner of Morgenster Road and Weltevreden Partway
Number of Units	850
Target Market	R3 000 to R7 500 per month household income.
Project Duration	24 Months (March 2013 to February 2015)
Unit Breakdown	Single and double storey units
Unit Sizes	42m ² (single storey) and 48m ² (double storey)
Unit layout	2 Bedrooms, bathroom, and kitchen / living area
Construction Method	Conventional brick and mortar
Extent of Land	15,17ha
Average Erf Size	110m ²
Density	60 units/ha
Funding	COCT Housing subsidy and CTCHC Top-up loan
Land Availability	Subsidised land purchased from the City of Cape Town
Top-up loan and Monthly Instalment	25 years @ R1 000 per month.

Source: Western Cape Government, 2013:4

- **Location of Harmony Village**

Harmony Village is located in Mitchell's Plain, in an area known as Weltevreden Valley, and boarded by Weltevreden Parkway Road as shown in Figure 4.5. The project is located opposite the Westgate Mall, close to public transport, and has easy access to Vanguard Drive through Morgenster Road. Amenities such as schools, the fire department, and health care facilities are in close proximity. The location map of Harmony Village is shown in Figure 4.5 and the single storey and double storey housing types are shown in Figure 4.6 and Figure 4.7.



Figure 4.7: Double storey two bedroom units – Harmony Village

Source: CTCHC, 2013

- **Quality of construction**

The houses are designed to ensure minimal maintenance and comply with high construction standards, incorporating quality building materials. The walls have cavity wall specification for insulation and moisture penetration. The units are also fitted with aluminium windows, 100 litre high pressure duel solar systems and secured by boundary walls. Some of the houses have adaptation for special need ramps and plumbing fittings to cater for disabled beneficiaries. The construction and management of the project post construction phase is undertaken by the CTCHC until the top-up loans are paid in full.

- **Asset value**

The project has provided beneficiaries with an asset worth more than their contribution of R130 000 by accessing government's housing subsidy. This is evidenced by the market assessed value of the units at R350 000 in the open market. Beneficiaries are however restricted from selling the houses four years post occupation, in accordance with the subsidy requirements.

- **Project beneficiaries**

Beneficiaries for the completed houses are sourced mainly from the City of Cape Town's housing waiting list database, the CTCHC's waiting list and through local media and a telephone hotline. Prospective beneficiaries are screened to determine whether they meet all requirements. The criteria that were considered included household income, credit history, living requirements of households and compliance with government subsidy requirements. Beneficiaries that meet all requirements are allocated houses within the development (CTCHC, 2013).

The Harmony Village project has made available the provision of 850 housing units to households with a monthly income of between R3 000 and R7 500 per month. The project is a tangible example of the shift in the provision of housing by the City of Cape Town with far greater focus on social and institutional housing. The City drives its social and institutional housing projects through private sector partnerships. The strategic objective of the Harmony Village project is to increase these types of subsidised housing projects in well-located areas across the metro over the next decade for residents who have low incomes. To boost this project the City of Cape Town has budgeted approximately R230 million across the metro in the 2016/2017 financial year for social and institutional housing projects (CoCT, 2017a:5).

4.6.2 West Cape Villas Project

The West Cape Villas are fully bondable homes comprising 341 free standing and semi-detached double storey units and located on the corner of Weltevreden and Morgenster Roads in Mitchell's Plain. Each 51m² - 53m² unit comprises two bedrooms, one bathroom, a fitted kitchen and a living/dining area. The free-standing and semi-detached homes are priced from R369 000 to R419 000, and are purchased off the building plans (CTCHC, 2013). Qualified persons have access to 100% loans, and any such qualified person is allowed to buy a unit.

The target market is households with income of between R7 500 and R15 000 per month (see Figure 4.3b). Loan repayment starts from R3 100 per month. Buyers in this income bracket have fewer options in acquiring a property in the open market as

their income is not sufficient to secure full home loans from the financial institutions. The subsidy provided by the CoCT means qualifying beneficiaries only have to finance a portion of the full price of the houses with secured personal bonds from financial institutions.

The West Cape Villas is an outright purchase partnership project between the CoCT and the CTCHC. The CoCT provided the land for development, infrastructure installation, community liaison support, and subsidy allocation, while the CTCHC was responsible for the construction of the project. The development comprises 34 units of full-title homes, sold on a plot-and-plan basis. The houses are detached and situated on plot sizes that range from 90m² to 128m². All the houses in the development are sold off-plan only (CTCHC, 2013).

4.6.2.1 *Project summary*

Table 4.2: Project summary of West Cape Villas

Location	Corner of Morgenster & Weltevreden Road, Mitchell's Plain.
Number of Units	341
Target Market	R7 500 to R15 000 per month household income.
Project Duration	13 Months (June 2010 to August 2011)
Unit Breakdown	Free standing and semi-detached units
Unit Sizes	51m ² - 53m ² free standing and semi- detached units
Unit layout	2 bedroom, bathroom, & living/dining area and kitchen
Construction Method	Conventional brick and mortar
Average Erf Size	113m ² - 151m ²
Funding	City of Cape Town Housing subsidy
Land Availability	Subsidised land purchased from the City of Cape Town
Type of Development	Greenfield Infill
Unit Price	R369 000 to R419 000
Monthly Instalment	R3 100

Source: CTCHC, 2017

- **Location of West Cape Villas**

West Cape Villas are situated on the corner of Victoria Drive and Weltevreden Parkway as shown in Figure 4.8. The location is close to transport routes and an array of amenities which include the Westgate Shopping Mall, a Virgin Active gym, and the fire station. The nearby Vanguard Drive offers easy access to main arterial routes, such as the R300, N2, and N1. The development is a five-minute drive from the Promenade Mall and Mitchell's Plain town centre, as well as other amenities such as schools, sporting facilities and places of worship.



Figure 4.8: Location map of West Cape Villas

Source: CTCHC, 2017

- **Asset value**

The project offers beneficiaries assets that cost at least R100 000 less than houses delivered by the private sector in the open market. The benefit is as a result of the subsidy provided by the CoCT. Moreover, purchasing new houses off the plan offers the benefit of appreciation in value once the development is complete.

- **Quality of construction**

West Cape Villas homes are excellent value for first-time gap home owners. The building specification is upgraded with the following finishes and features:

- Two fully carpeted bedrooms.
- All interior and exterior walls are plastered and painted.
- Family bathroom with floor and wall tiles.
- Living\dining area with floor tiles.
- Kitchen with bottom row of cupboards and wall tiles.
- Aluminum windows.
- Tiled roof structure.
- Stoep with tiles.
- Boundary wall.

A sample of the building plan of the free standing two bedroom house is shown in Figure 4.9 while the housing types are shown in Figure 4.10 and Figure 4.11.

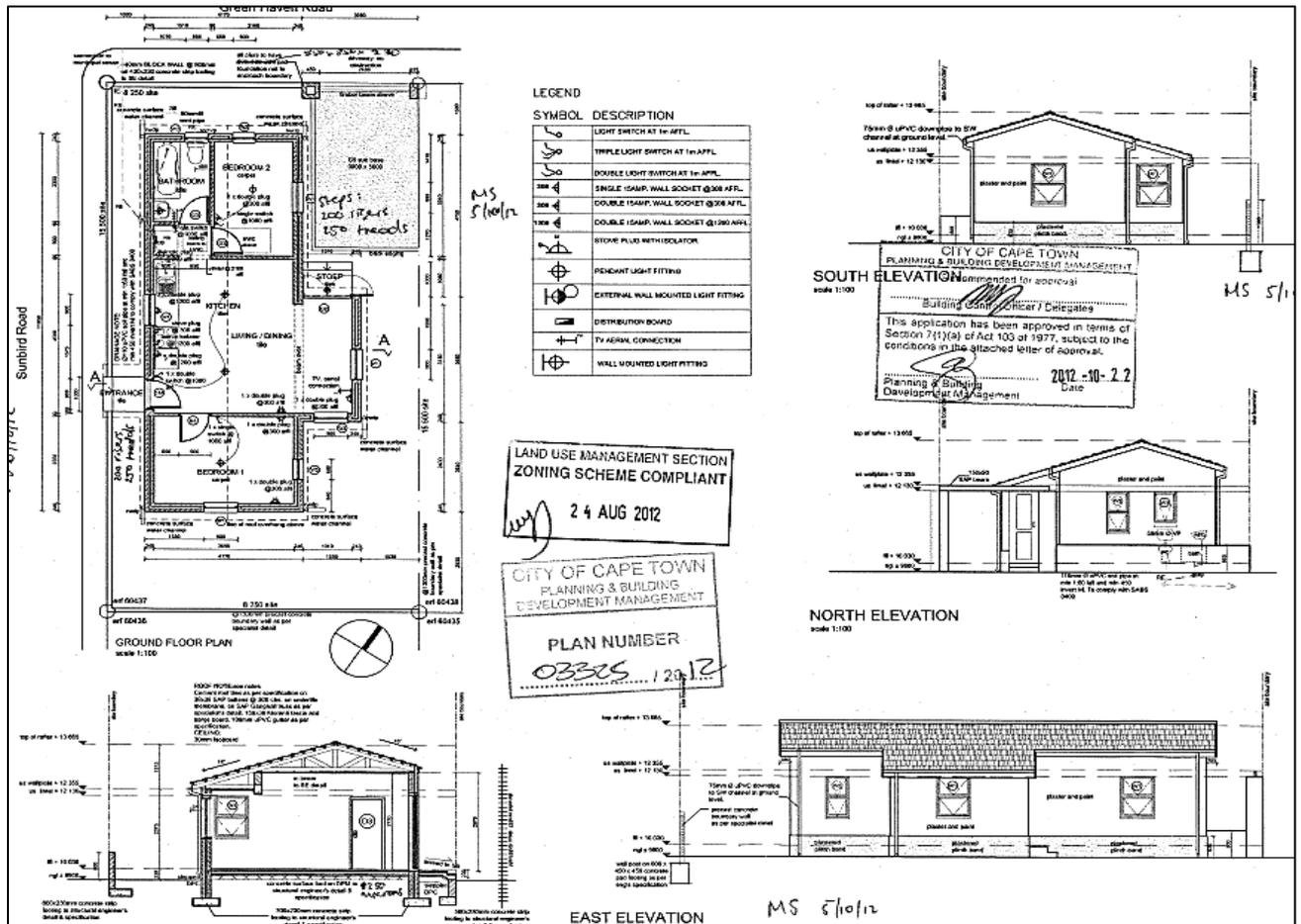


Figure 4.9: Building plan of a West Cape Villas dwelling unit
Source CTCHC, 2017



Figure 4.10: Double storey two bedroom units – West Cape Villas

Source: CTCHC, 2017



Figure 4.11: Single storey two bedroom units West Cape Villas

Source: CTCHC, 2017

4.7 CONCLUSION

The development of Harmony Village and West Cape Villas has contributed to reducing the backlog of housing demand in Mitchell's Plain. The two projects came as much needed relief to households caught up in the middle of not qualifying for the full government housing subsidy, due to their monthly income being too high to benefit from such programme, and too little income to qualify for mortgage bonds from private financial institutions. The beneficiaries fall mostly within the household income bracket of R3 000 and R15 000 per month, also commonly known as the gap group.

The two projects which are the result of a partnership between the CoCT and the CTCHC represent a sustainable model of housing in which the government and the beneficiary make contributions, thereby enabling higher quality housing delivery than standard fully subsidised government housing, as well as creating a sense of responsibility among the beneficiaries as they contribute towards capital and service

costs. The projects has enabled the provision of a total of 1191 housing units to residents, as part of an institutional housing programme which assists those who earn too much to qualify for fully subsidised government houses.

Both projects demonstrate a tangible example of shift in the CoCT housing provision policy, in line with its vision to focus more on social and institutional housing delivery. This vision is driven through private partnerships, with the aim of providing for residents who earn just more than the threshold of being considered the most vulnerable in society.

CHAPTER FIVE: RESEARCH METHODOLOGY AND DATA ANALYSIS

5.1 INTRODUCTION

This chapter describes the methodology of data collection procedures used in the case study of Mitchell's Plain. This includes the reason for the choice of semi-structured interviews, and the explanation of the reliability and validity of the methodology used.

This chapter also describes the data collection process using semi-structured interviews and analysis of the findings. As explained in chapter 1, the data collection process involves interviews with various stakeholders involved in the development of affordable housing in Mitchell's Plain. These include the officials of the CTCHC, the CoCT, the National Housing Finance Corporation and the beneficiaries of the housing projects.

These interviews were conducted to better understand the nature of the PPP model used as well as the activities of the various stakeholders in the application of the PPP model. The findings were analysed in an effort to provide answers to the main research questions, which was to determine the role of PPP in the affordable housing development in Mitchell's Plain. The results of the analysis of findings will also assist in achieving the objectives of this research as described in chapter 1 (1.4).

5.2 SEMI-STRUCTURED INTERVIEWS

Interviews were used to collect data of the PPP between the CTCHC and the CoCT and to answer the research questions as stated in chapter 1. In semi-structured interviews, the interviewer has guideline questions and continues with follow up questions, depending on the response received from the interviewees.

Many research questions are answered by the use of quantitative and qualitative research methods. The quantitative methods are more rigid and aim at the statistical measurement of a variable through the use of percentages, amongst other things

(Patton and Cochran, 2002:2). According to Welman, Kruger and Mitchell (2007:9) quantitative research tries to understand the subject's point of view "by means of controlling the situation and using remote, empirical, and inferential methods".

The qualitative methods of research are more flexible and enable the researcher to explore a phenomenon in-depth, hence the application in this study. The method refers to individual experiences and is textual. Patton and Cochran (2002:2) argue that qualitative method uses words rather than numbers as data for analysis, and allows a greater level of participation and spontaneity between the participant and the researcher. The participants are free to choose their own words and be flexible to the extent that they wish to enter into details, much more than what is obtainable in quantitative study. Welman *et al.*, (2007:9) on the other hand, argue that "qualitative researchers use unstructured interviewing and a detailed observation process to gain better information about the views of the subject".

This study is based on the qualitative method, which entails the use of semi-structured interviews to collect required information from relevant officials of the City of Cape Town, the Cape Town Community Housing Company; the National Housing Finance Corporation, and the beneficiaries of housing projects. The advantage of qualitative research is that the collection of a relatively small sample of the population is sufficient, and samples are made according to clearly defined criteria and adaptable to available resources (Patton & Cochran, 2002:3). However, Patton and Cochran (2002:3) added that the disadvantage of sampling is that it is hard to determine to what extent results may be biased by participants' experiences.

According to Leedy and Ormrod (2005:33), a good research exercise is the one that captures correct data and results in the provision of correct answers to the questions that necessitated the research. In general, it is accepted that a good research exercise should meet the requirement of reliability and validity, provided the research is based on a correctly identified research problem. The two concepts are described below.

- **Validity of research method**

The validity of a research method is a measure of its accuracy, meaningfulness, and credibility. The validity concept may be confined to the instruments used in a research

exercise. This means that the concept refers to the extent to which the instrument actually measures what it purports to measure, this in conformity with established and acceptable practice (Bell 2005:65). Hence, it is of critical importance for the entire research process and the instrument used in particular to have validity, if the ensuring results are to have some measure of credibility and acceptability (Neuman, 2007:51).

The concept of validity can be explained in terms of internal and external measures. External validity measures the extent to which the research results and conclusions thereof can be generalised and be applicable to situations that are beyond the frontiers of the study (Mertens, 2005:120; Cohen, Cohen, Manion, & Morrison, 2007:107). Internal validity, on the other hand, is a measure of the extent to which the research design and accompanying data enable the researcher to arrive at acceptable conclusions about cause and effect, as well as other relationships within the research data. Such conclusions and interpretations should be sustained by the research data and not some unintended or extraneous variables (Mertens, 2005:120).

- **Reliability of research method**

The reliability of a research method and/or data collecting instrument is a measure of the extent to which a research process produces similar results under constant conditions on all occasions (Bell, 2005:64). This simply means the consistency and trustworthiness of the results obtained when repeated, using a particular method.

The achievement of consistency is reliant on the clarity of the interview questions to ensure that each respondent understands the interview questions in the same way, and if the answers can be coded without the possibility of uncertainty.

5.3 ETHICAL ISSUES

Social science research often uses human beings as research subjects. In view of this, ethical issues are of paramount importance for the researcher to take cognizance of when undertaking research (Neuman, 2007:50). Research ethics protects the interest of participants and ensures the integrity of the study. Research participants should be protected from any physical and psychological harm that may be occasioned by their participation in a research project. In their confirmation, Leedy and

Ormrod (2001:101) argued that “participants should not risk losing life or limb, nor should they be subjected to unusual stress, embarrassment, or loss of self-esteem.” However, in the event that participants are likely to experience some psychological discomfort, they should be made aware of this in advance of their participation.

It is also important to make the research participant aware of the scope and nature of the research to enable them to take informed decision on whether to participate or not. The participant’s right to withdraw at any stage of the process if they so desire should be explained and also that participation is voluntary. In addition, confidentiality and anonymity should be assured. The participants in this study consented to the use of their identity, and ethical clearance was obtained.

The conduct of this study took all ethical issues into account, which included the protection of confidentiality, ensuring the safety of participants, and explaining the process to participants, including their right to withdraw at any stage if they felt uncomfortable.

5.4 LIMITATIONS OF THE STUDY

The following are the limitations of the research:

- The study is confined to affordable housing development in Mitchell’s Plain, thus the data collected and findings cannot be generalised.
- There was interviewer bias due to subjective perceptions, assumptions and interpretation.
- The accuracy of the research was highly dependent on the sincerity of respondents, and the quality of data obtained during the interviews.

5.5 DATA COLLECTION INSTRUMENT

The collection of data for this research was based on semi-structured interviews. The use of the semi-structured interview guide was motivated by the fact that well-designed interview questions are easier to use when collecting information from a large number of respondents. Valuable information on views and participation of respondents can be collected (Bell, 2005:137). Hence it was used to obtain data from 30 beneficiaries of the projects.

A semi-structured interview question guide was used to collect data from nine strategic individuals as set out in Table 5.1. These are people in positions of authority who play active roles and wield influence in the development of the projects. These are officials of the Cape Town Community Housing Corporation, City of Cape Town and the National Housing Finance Corporation. Thirty beneficiaries of the housing projects were also interviewed to understand their experiences.

5.5.1 Interviews

For the purpose of this study, semi-structured interviews were used for data collection, with voice recording as a backup. Although interviews may be used for other purposes in general application, the objective of interviewing is to stimulate and maintain an informative conversation with people who are believed to have knowledge and experience that are relevant to the success of the research subject under study (Bell 2005:157). Hence, it is believed to facilitate the collection of relevant data that relates to the research questions and overall research problem (Leedy & Ormrod, 2001:147). This means that interviews in a research project facilitate both the collection of data and the provision thereof.

According to Easwaramoorthy and Zarinpoush (2006:1), a research interview is a conversation for gathering information, it involves an interviewer, who coordinates the process of the conversation and asks questions, and an interviewee, who responds to those questions. But Dunne, Pryor and Yates (2005:28), argues that research interview is not limited to a two-person conversation, and it is possible to conduct a group interview (focus group) in order to bring together perspectives of the group members on the phenomenon in question. Welman *et al.*, (2007:165), conceptualised three types of interviews, namely:

- **Structured interview** – the interviewer puts a collection of previously compiled questionnaires to a respondent face to face and records the respondent's responses. Each question is read and the response is recorded on a standardised schedule, usually with pre-coded answers. The interviewer only asks a set of standard questions and nothing else.

- **Unstructured interview** – this is informal and is used to explore a general area of interest in-depth. The interviewer is more flexible than during a structured interview, and it is assumed that the researcher does not know in advance what the entire necessary question is that needs to be asked.
- **Semi-structured interview** – these are interviews between the two extremes of structured and unstructured interviews. The researcher has a list of themes and questions to cover, which serves as interview guides. An interview guide involves a list of topics and aspects of these topics that has a bearing on the given theme, which the interviewer should raise during the course of the interview. The order of the questions may be varied depending on the way the interview develops. Additional questions may be required to explore the research question and objectives given the nature of events within a particular organisation. The researcher is free to probe beyond the responses in the quest for clarification and elaborations and thereby culminates in qualitative research data.

The semi-structured interview was adapted to the methodology of this study and was utilised as an instrument of data collection. The interviews were conducted on an individual basis as opposed to a group interview. This was convenient because the interviewees were a small sample of nine selected officials in different positions of authority in the various stakeholder establishments, and thirty beneficiaries of the projects. The use of semi-structured interviews enable the researcher to probe the interviewees for more information and attitude towards the use of PPP's as a means of facilitating service delivery in the provision of affordable housing in Mitchell's Plain.

The semi-structured interview guide questions in this study sought to ascertain:

- The reason for the use of PPP in affordable housing delivery.
- The nature of PPP in the affordable housing delivery in Mitchell's Plain.
- The role PPP partners played in the delivery of affordable housing in Mitchell's Plain.
- The effectiveness of the use of PPP in the affordable housing delivery.
- The challenges facing PPP in the affordable housing delivery.

- How the use of PPP can be improved in the affordable housing delivery.

5.6 DATA COLLECTION PROCESS

Secondary data is any published or non-published work that is removed from the original source, either by summarising or derived from the primary source materials. Such sources of data may be in the form of journal articles, review articles, textbooks, biographies, government documents, and reports.

This research utilises interviews as a tool for data collection. The process entails the design of interview guide used to collect data from the 30 beneficiaries of the projects. Three separate interview guide questions were prepared for the semi-structured interviews of officials of the other three role players in the projects, namely: the CTCHC, the CoCT and the NHFC. The questions were designed to cover all aspects of the research questions and the research problem. The nine officials interviewed gave consent that their names and positions could be cited in the interview schedule. Fifteen beneficiaries were interviewed from Harmony Village and West Cape Villas respectively. The details of the interviewees are set out in Table 5.1 below.

Table 5.1: The interview schedule for respondents

COMPANY	POSITION	DATE OF INTERVIEW
Cape Town Community Housing Company	Chief Operations Officer: Mr Werner Jurgens	04/04/2018
	Project & Development Manager: Mr Wynand Ferreira	28/03/2018
	Marketing & Client Services Manager: Mr Faizel Moos	05/04/2018
City of Cape Town	Head: Social Housing and Restitution: Ms Nomzamo Mlungu	10/04/2018
	Senior Professional Officer: Mr Lance Boyd	16/04/2018
	Manager: Social Housing and Restitution: Mr Pogiso Molapo	11/04/2018
	Senior Research Officer: Ms Gail Eddy	20/04/2018
National Housing Finance Corporation	Senior Client Manager: Mr Dave Waugh	17/04/2018 (telephone/email)
	Client Manager: Abbey Sito	18/04/2018 (telephone/email)
Beneficiaries	Harmony Village	20 and 21/04/2018
	West Cape Villa	26 and 27/04/2018

5.6.1 Conducting of interviews

In the case of the CoCT and the CTCHC officials, the interviews were conducted at their offices on appointment during March and April of 2018. The questions were semi-structured and written as a guide to give directions and assist the respondents to answer them directly, without drifting to irrelevant answers. It was more preferable to e-mail the questions before hand to enable the respondents prepare for the answers and also for probing questions that may have followed. The interviews were conducted face-to-face and on a one-on-one basis to facilitate transcribing and control.

The interviews enabled the collection of data on the roles and opinion of each stakeholder in the development of affordable housing projects, and established their perceptions and opinions on PPP in affordable housing. All interviews were documented by written notes, audio recorded, and transcribed verbatim for accuracy.

Because the offices of the National Housing Finance Corporation are located in Johannesburg, face-to-face-interview were not possible. However, the questions were sent to the officials via email, which they answered and returned. This was followed by telephonic interviews and probing of the questions to obtain clarity with regards to certain answers obtained. The dates of interviews and officials interviewed are stated on the interview schedule for respondents above in Table 5.1.

The interviewing of the beneficiaries of the West Cape Villas was done at the homes of the interviewees. The site offices of the CTCHC were used as meeting venue for the interviews of beneficiaries of Harmony Village. The meetings were arranged by the officials of the CTCHC who are still managing and maintaining the Harmony Village development. The beneficiaries where notified beforehand, and the interviews of the 30 respondents were conducted between 20th/21st and 26th/ 27th April 2018.

5.6.2 Research findings of data analysed

The research findings from the semi-structured interviews with officials from the CoCT, the CTCHC, the NHFC and the beneficiaries of the housing units are explained respectively below.

5.6.2.1 Case study analysis

The researcher was able to establish the role of each partner, which includes the CoCT, the CTCHC and the National Housing Finance Corporation in the development of affordable housing in Mitchell's Plain. Each of the stakeholders had distinct roles which they played in the process of the project developments.

The City of Cape Town's role was in the area of provision of financial subsidy to the qualifying beneficiaries, provision of developmental land at subsidised cost, facilitation of community liaison and facilitating all the bottle-necks associated with planning regulations, zoning and provision of infrastructure at the construction sites.

The CTCHC was the main contractor to the projects and had the sole responsibility of construction of the buildings, and the provision of the top-up loans to beneficiaries which supplements the subsidies provided by the City of Cape Town. The CTCHC is also involved with post-construction services of managing and maintaining the Harmony Village project.

The National Housing Finance Corporation played the role of the financiers of the project by providing finance to the CTCHC. The funding was used to provide bridging loans to supplement the City of Cape Town's housing subsidy in the form of top-up loans.

The researcher also established that two project models were implemented in the Mitchell's Plain projects, namely: the Design Built Operate (DBO) which is applicable to the Harmony Village project, where the CTCHC manages the project for the 25 years duration of the top-up loan, after which the beneficiaries are given full title to ownership of the units. The West Cape Villas project is an outright purchase model (OPM) where the houses are sold off plan and transferred to the beneficiaries on completion, with the City of Cape Town providing part of the purchase price as subsidies. The balance of the price is financed by private financial institutions.

The major difference between the Harmony Village (HV) and West Cape Villas (WCV) beneficiaries is that the latter could qualify for home loans from financial institutions with assisted subsidy from the government, while HV beneficiaries could not qualify

for home loans, even with government assisted subsidy. Hence the need for CTCHC top-up loans to make up for the short-fall in the house prices.

There was also horizontal decentralisation in the roles of the partners. The CTCHC enjoyed autonomy in the selection of its professional team, planning processes, design, construction, and award of construction contracts, without interference from the CoCT. This agreement is based on the condition of the contract between the two parties.

5.6.2.2 Interview process

The officials of the CoCT and the CTCHC were interviewed in their offices by appointment. The NHFC official was interviewed telephonically and per email due to the fact that the NHFC offices are located in Johannesburg. The beneficiaries were interviewed about the development in their homes and at the CTCHC site.

The following responses were recorded by taking notes and voice recordings:

- **Response by the CTCHC officials:**

Do you consider inadequate housing as one of the major challenges of service delivery?

Mr Wynand Ferreira (2018:Interview) is the Project and Development Manager at the CTCHC with ten years' experience in the industry. His response was that "*lack of housing is definitely a major service delivery problem*" He substantiated his response by the fact that some people are excluded from the formal housing sector due to their low income level which prevents them from accessing finance from financial institutions, hence the need for affordable housing provision by the government.

In his response to the same question, Mr Faizel Moos (2018:Interview) who is the CTCHC Marketing and Client Services Manager with ten years' experience in the industry stated that government bureaucratic processes and urbanisation are the major factors that contribute to slow delivery and inadequate housing problems in the City of Cape Town and this has resulted in a huge housing delivery backlog.

Mr Werner Jurgens (2018:Interview), the Chief Operations Officer with over 10 years' experience cited "*the constant housing delivery protests as a clear indication of the major challenge inadequate housing presents in the City of Cape Town*". Mr Jurgens stated that the influx of people from other provinces in search of economic opportunities in the City of Cape Town is the drive behind high demand for housing in the low income sector.

Were there problems with the CTCHC registration process as a social housing delivery institution in terms of the Municipal Finance Management Act?

All three respondents (2018:Interview) mentioned above were of the unanimous opinion that the CTCHC experienced no problems with registration as the company was established with the main purpose of assisting the government to reduce housing delivery backlogs. All registration processes were facilitated by the government according to the respondents.

Why did the CTCHC decide to pursue affordable housing delivery through a Public-Private Partnership model?

Mr Wynand Ferreira (2018: Interview) stated that the CTCHC "*is unique because it was established by the government as a vehicle to assist housing delivery*". Therefore, the company's focus is on developing housing for low income earners.

Both Mr Faizel Moos and Mr Werner Jurgens agreed with Mr Wynand Ferreira (2018:Interviews) that the main purpose of the establishment of the company was not for profit-making but to function as vehicle for affordable housing delivery.

How does the CTCHC finance PPP projects?

According to Mr Wynand Ferreira (2018:Interview), CTCHC projects are partly financed with loans from the National Housing Finance Corporation, and partly by means of the provincial government's grant to local government, which is provided as subsidies to qualifying beneficiaries by the local government. Other sources include loans from private financial institutions.

Mr Faizel Moos (2018:Interview) confirmed the NHFC to be the major source of finance but pointed out the limitations and restrictions that CTCHC experiences in terms of limits to the loan amount they may have access to.

Mr Werner Jurgens (2018:Interview) also confirmed the NHFC as the main source of finance, but added that the limitation of the loan amount available to CTCHC from the NHFC is one of the factors that restricts the scale of affordable housing they would like to develop.

Are there sufficient incentives to attract private sector engagement in PPP projects?

Mr Wynand Ferreira (2018:Interview) is of the opinion that incentives, such as the relaxation of the 20% project equity deposit on the private sector and making NHFC loan facilities easily accessible to the private sector at a much higher amount than it is at present, will attract private players in affordable housing developments. He cited inadequate funding and over-regulation of the sector, as the reason for low profit margins in affordable housing development, which is discouraging for private investor entry to the sector.

Mr Faizel Moos (2018:Interview) is of the opinion that affordable housing requires large scale volume development, which is usually not attractive to private developers due to the low profit margin it generates and the longer time period it takes to complete. He suggested that more incentives, such as reducing the project period by easing of public sector bureaucracy in the establishment of township land and increased

funding, are needed to encourage private developers to undertake large scale developments.

Mr Werner Jurgens (2018:Interview) is of the opinion that the over-regulation of the affordable housing sector, which includes, extent of control over scale of developments, fixed equity deposits required from the private sector and strict registration requirements by the Social Housing Regulatory Authorities, are impediments to the sector's growth. He said that over regulation of the sector is one of the major factors that discourage private players' entry to the sector. He suggested that relaxing the afore-mentioned regulations may serve as incentive to attract private developers to the sector.

What are the main challenges that face the private sector in the provision of affordable housing?

The three respondents (2018:Interviews) were in agreement that the major challenges the private sector faced are in the following order:

- Availability of well-located land poses the greatest challenge. The local government finds it difficult to identify and provide large developmental sites for affordable housing that are in close proximity to economic opportunities and amenities.
- The high cost of construction is the next major challenge to the private sector and this is one of the reasons for low profit margins. The longer period it takes to develop large scale affordable housing means the private sector has to deal with continuous construction cost increases which consequently reduces net profit. Dealing with smaller scale projects mitigates cost increases.
- Inadequate government incentives to the private sector are discouraging for new private players' entry in the sector. Providing incentives such as fast tracking public sector bureaucratic processes, in terms of building plan approvals, rezoning and the establishment of townships, and reducing the

private sector minimum 20% equity contribution requirements in development projects.

What are the roles/contributions of the CTCHC in the affordable housing projects in Mitchell's Plain?

The three respondents (2018:Interviews) confirmed that the CTCHC was the main developer in the Mitchell's Plain housing projects. It also provided top-up loans to beneficiaries known as Instalment Payment Agreements (IPA). Other roles include presenting workshops for beneficiaries to educate them on their responsibilities as potential property owners/investors.

The CTCHC also manages the rent-to-buy projects until the beneficiaries are able to pay off their top-up loans and take full ownership of their houses.

Were there challenges in the PPP relationships between the CTCHC and the CoCT in the Mitchell's Plain housing developments?

The two major challenges highlighted by the CTCHC respondents were the bureaucratic delays in getting processes approved by the CoCT and the inability of the CoCT to maintain an updated housing beneficiary lists. As a result, many potential beneficiaries cannot be located on completion of the projects, as their details have changed over the expired period. This deprives certain potential beneficiaries of an opportunity, as they could not be located by the developer. This frequently ignites accusation of mismanagement in housing allocations and consequently service delivery protests. The delay in locating beneficiaries and allocation of units creates finance costs for the CTCHC in the form of loan interests.

What are the key success factors of PPP in the housing sectors that are lacking in the Cape Town Municipality in general?

At the top of the list of the major success factors of PPP lacking in the Cape Town Municipality according to the three respondents (2018:Interviews) are:

- Lack of sufficient financial sources to support affordable housing development. The NHFC is the major financier at present. Larger involvement of other financial sources would help to increase the scale of housing delivery.
- The inadequate capacities of the CoCT to provide effective oversight for the affordable housing developments; as a result, the private sector is relied on to do the work of oversight for their own projects and this may lead to poor construction delivery.

In your opinion, is PPP model of housing development an effective means of solving backlogs in housing delivery?

Mr Wynand Ferreira (2018:Interview) agrees that PPP is an effective means of affordable housing delivery but will not bring a final solution to it due to the numerous challenges that face PPPs.

Mr Faizel Moos (2018:Interview) also agrees that PPP is effective, but suggested that the government should be more pro-active in terms of fast-tracking processes such as re-zoning of land, plan approvals and township establishments. A more proactive approach would avoid time wasting in the processes. He explained that time wasting due to bureaucratic delays caused by public sector inefficiency has the consequence of increasing building costs and costs of finance.

Mr Werner Jurgens (2018:Interview) believes that PPP is effective model for affordable housing development because it makes scarce resources available to the public sector in the form of private sector funding and technical expertise which helps to increase the capacity of the public sector and the scale of affordable housing delivery.

In your opinion, what can be done to improve affordable housing delivery through PPP?

Mr Wynand Ferreira (2018:Interview) is of the opinion that affordable housing delivery can be improved by making it more attractive to the private sector through incentives that will help to make it more profitable; minimising the over-regulation of the sector;

and removing unnecessary bureaucracy and red tape, such as too many protocols in obtaining approvals for plans, re-zoning and township establishments.

Mr Faizel Moos (2018:Interview) also suggested that revising the subsidy programme for different income brackets and reduction of minimum lending thresholds by private financial institutions would improve the scale of housing delivered. The current minimum lending threshold of R8000 per month means that people earning below R8 000 are deprived of access to housing finance. Mr Jurgens' submission was in line with Mr Wynand and Mr Moos' submissions. He believes that incentive is the key to greater private sector involvement which would ultimately increase scale of delivery.

Do you think there are alternative ways to housing delivery apart from PPPs?

Mr Wynand Ferreira (2018:Interview) believes that more private financial institutions involvement and reduction of the lending threshold, would provide the required finance, and reduce dependency on government subsidy and regulations. This means that more private developers will be involved, since they can have access to finance that will enable them to take on projects independently without being forced to partner with the public sector and be subjected to all the stringent regulatory policies.

Mr Faizel Moos' (2018:Interview) suggestion is in line with private sector developers employing innovative construction technology, such as green construction technology to improve efficiency and scale of housing delivery. He argues that innovative technology will make up for some of the challenges which will reduce the dependency on the use of PPPs. Mr Jurgens shares the same view of employing green technology, but added that changes in regulations will create an enabling environment for an alternative housing delivery approach to emerge.

- **Response by CoCT officials**

Do you consider inadequate housing as one of the major challenges of service delivery?

Ms Nomzamo Mlungu (2018:Interview), is the Head of Social Housing and Restitution at the City of Cape Town, with nearly ten years' experience. She argues that affordable housing delivery is inadequate, and goes further to mention some of the challenges that perpetuate housing delivery shortages which includes: the poor quality standards of Breaking New Grounds (BNG) housing delivery and lack of developmental approach to housing delivery which should involve the community in strategic decisions such as housing typology requirements, in order to better understand their needs.

Mr Lance Boyd (2018:Interview), is a Senior Professional officer in the CoCT project packaging unit with five years' experience. While he agrees that housing delivery is a problem, he believes that a bigger problem is how to establish the houses close to the inner city with easy access to amenities and economic opportunities.

According to Ms Gail Eddy (2018:Interview), a Senior Research Officer who has less than five years' experience with the City of Cape Town, "*housing shortage is historical to City of Cape Town due to the displacement of people by the previous apartheid government*". She believes it is a legacy of apartheid which has been entrenched in post-apartheid government. She also said that insecurity of tenure and increasing property prices are some of the factors that contribute to housing inadequacy, especially in well-located areas.

Mr Pogiso Molapo (2018:Interview) is the Manager of Social Housing with over ten years' experience. He believes the housing problem in the City of Cape Town is as a result of huge housing demand, caused by migration into the city and population growth.

In your opinion is PPP model for housing delivery an effective means of fast-tracking housing delivery?

Ms Nomzamo Mlungu (2018:Interview), agrees that a PPP housing delivery model is an effective means for housing delivery because of the following reasons: it is more efficient; it enables access to fund sources to augment government subsidies; and it facilitates the establishment of strategic partnerships between the public and private sector.

Mr Lance Boyd's (2018:Interview) opinion is that fast-tracking housing delivery depends on the goals of the city and scale of the project concerned. He explained that the current city's institutional framework is able to deliver certain social housing projects, but leveraging on private sector partnership is definitely needed to develop dense urban housing projects.

Mr Pogiso Molapo (2018:Interview) believes that PPPs brings efficiency to housing delivery projects due to private sector funding and expertise.

Ms Gail Eddy (2018:Interview) thinks PPP is definitely a means of fast tracking housing delivery because some of the processes thereof such as procurement, are undertaken by the private sector and the private sector also undertakes the project development and management while the government merely oversees the project. She also added that PPP is beneficial by ways of taking advantage of the private sector expertise and investment. For instance, government can use social housing as the basis of development, and then use the private sector to develop gap housing around the project. By doing so the benefit of cross subsidisation effect is created which is not possible by only a government grant subsidised project.

Why did the City of Cape Town decide to pursue housing delivery through PPP models?

The majority of the respondents, including Ms Nomzamo Mlungu, Mr Lance Boyd and Mr Pogiso Molapo (2018:Interviews) believes that the main reasons the City of Cape Town pursued housing delivery through PPPs are in the following order: firstly,

affordability challenges due to limited resources; capacity challenges, which is one of the reasons the City delegates some of its oversee responsibility to the private sector; transfer of risk, which minimises the city's stake in housing developments; and value for money, as the City considers it economically viable to take advantage of the private sector funding of projects.

Ms Gail Eddy (2018:Interview) has no opinion regarding the abovementioned question as she pointed out that she has been working for the City of Cape Town for less than three years and is thus not in a position to comment.

Do you think there is any problem with the current legislation that prescribes procurement through PPPs?

According to Ms Nomzamo Mlungu (2018:Interview), the current PPP legislations should provide more incentives for the private sector to pursue government driven housing projects in order to achieve better efficiency with respect to costs and time.

Mr Lance Boyd (2018:Interview) believes that PPPs as defined by the Municipal Finance Management Act (RSA, 2003a) and the Municipal Asset Transfer Regulation (MATR) is over regulated. He stated that the model of PPP is extensively regulated which creates delays in the private sector registration with SHRA and slows down the PPP project cycle. It also creates frustration and the inability of developers to respond to housing demands in real time, in order to take advantage of available opportunities.

Ms Gail Eddy (2018:Interview) is of the opinion that there are definitely problems with the MFMA and the MATR in terms of land allocation for affordable housing development. She said city owned land is easily allocated for development when the project is to be undertaken by the government, but this is not the case when the development is done by the private sector. She is of the opinion that the lengthy processes and subsequent loss of time before the private sector can acquire government owned land for development, is one of the factors that discourages private sector involvement in affordable housing development.

Mr Pogiso Molapo (2018:Interview) believes that the current PPP legislations are adequate for the delivery of affordable housing, but the implementations needs improvement.

Is the development of affordable housing in line with the housing legislation and the City of Cape Town's policy for facilitating home ownership?

Ms Nomzamo Mlungu (2018:Interview) agrees that the development of affordable housing is in line with the City of Cape Town's Integrated Development Plan policy which outlines city's five years development plan. This will also include rebates on rates for affordable housing, reduction in development contribution to the private sector and subsidy on land disposal for affordable housing developments.

Mr Lance Boyd (2018:Interview) explains that the City of Cape Town policy on affordable housing in terms of social housing is focused on providing rental residential stock in perpetuity to specific economic sub-groups in well-located areas. Therefore, affordable housing development is guided by the City of Cape Town housing policies.

Ms Gail Eddy (2018:Interview) confirms that the affordable housing development in the City of Cape Town is in line with government grants and processes. At the local level there are more chances of innovation by taking advantage of the local economic development, and transit orientated development strategic framework which looks at location of land and what it means to the way people travel around the city. This reduces living expenses. Her opinion is that affordable housing policy in the City goes beyond government grants for building houses and views matters more strategically.

Mr Pogiso Molopo's (2018:Interview) opinion is that all City of Cape Town's housing legislations are implemented in affordable housing delivery. He stated that the main legislative framework that governs PPP and service delivery in the City of Cape Town is the Integrated Development Plan (IDP). He said that the IDP is based on the provisions of sections 111 and part 2 of chapter 120 of the Municipal Finance Management Act (RSA, 2003a) (MFMA) and the Municipal Systems Act, 2003 (MSA); which is governed by the Public Finance Management Act (RSA, 1999a) and the Treasury Regulation 16 (RSA, 2003c).

Is the process of affordable housing delivery through PPPs truly transparent and in line with the MFMA?

All the respondents (2018:Interviews) agreed that processes of affordable housing are transparent in the City of Cape Town as all transactions go through the process of approval by the Municipal Council and have to be in line with provisions of the Municipal Finance Management Act (RSA, 2003a) and Social Housing Act, 2008, as well as all other necessary legislations and policies.

Is the process of affordable housing delivery through PPPs truly competitive and in line with the MFMA?

Ms Nomzamo Mlungu (2018:Interview) stated that in the establishment of PPPs there may be deliberate selection of certain experienced service providers which will include negotiated processes in some instances. However, the selection is not entirely free for everyone because there is a certain level of competition in the pool of service providers as they have to bid for work with others.

Mr Lance Boyd (2018:Interview) agrees that the process is competitive in terms of social housing delivery and it also complies with the MFMA and the MATR. This sentiment was also shared by Mr Pogiso Molopo.

Ms Gail Eddy (2018:Interview) did not express any views on this question.

Does the City of Cape Town have adequate administrative support in the human settlement department?

Ms Nomzamo Mlungu (2018:Interview) is of the opinion that the Human Settlement Department is at present under-resourced, but is able to pull resources when needed from other City of Cape Town's departments in order to deliver on the requirement of the projects. This is facilitated through strategic partnerships and forging key relationships with relevant departments within the City of Cape Town.

Mr Pogiso Molopo (2018:Interview) believes that the secondment of staff from other City departments provides resources cover for projects delivery when needed.

Ms Gail Eddy (2018:Interview) believes that there is inadequate human resources at strategic level in the City of Cape Town's Department of Human Settlement; and in terms of overall strategic housing policy, there are too few people working on housing strategy. She stated that in fact, there is only one person working on housing strategy at the top level with herself assisting. She said the City's strategic policy is focused mainly on government grants, with little room for innovations, such as utilising human resources differently, or exploring other innovative construction strategies to enhance housing delivery.

Mr Lance Boyd (2018:Interview) did not express any views on this question.

Was there broad and bipartisan support for the affordable housing development projects in Mitchell's Plain?

All the respondents (2018:Interviews) agreed that there was bipartisan support as every project passes through the municipal legislature for approval.

What are the revenue streams/incentives that can attract the private sector to engage in PPPs?

The respondents (2018:Interviews) were of the opinion that the following revenue streams will help to attract private investors: densification incentives to developers, such as allowance for additional bulk on mixed use developments; incentives for innovative construction technology, such as additional grants for research; land acquisition discounts; discounts on 20% development contribution required from developers; waiver on plan approval fees; and waiver on rates and taxes on affordable housing projects. The respondents argue that these incentives will reduce the cost of production and make projects more profitable for the private sector.

Are there criteria for the selection of a specific private sector partner by the City of Cape Town in a PPP arrangement?

According to Mr Lance Boyd (2018:Interview), the criteria for selection of a private sector partner depends on the City's development imperatives. The tender/request for the proposal is tailored to the imperatives, e.g. environmental or sustainability.

Ms Nomzamo Mlungu (2018:Interview) explained that the private partner must be registered with the regulatory body (SHRA) and is expected to submit proposals for the sites identified for development after which an evaluation matrix is developed in selecting the most suitable proposal.

Mr Pogiso Molopo's (2018:Interview) response was that selection of private partners is based on the experience of the service provider in the development of large scale housing.

Ms Gail Eddy (2018:Interview) did not express any views on this question.

Is there clearly defined horizontal decentralisation of authority to the selected private sector partner?

According to Mr Lance Boyd (2018:Interview), one of the main problems of PPP model is the lack of total horizontal decentralisation of authority, as the city still requires majority control over the private sector partners.

Ms Nomzamo Mlungu's (2018: Interview) view is that the city gives the private sector partner autonomy in selecting their professional team, planning processes, the design of the construction and awarding of sub-contracts. She also said the partners enjoy decision-making authority throughout the duration of the project.

Mr Pogiso Molopo (2018:Interview) stated that the degree of the city's horizontal decentralisation of authority is dependent on the terms of contract agreement with the private partners and the legislations that govern PPPs.

Ms Gail Eddy (2018: Interviewed) could not comment on this question.

Were there clearly defined roles of all partners and stakeholders in the Mitchell's Plain projects?

Ms Nomzamo Mlungu (2018:Interview) confirmed that there were defined roles for partners and that the City of Cape Town's roles include the following: payment of institutional subsidies; facilitation of development processes; identification and release of suitable development land at subsidised cost to service providers.

Mr Pogiso Molopo's (2018:Interview) response was that the roles of partners are clearly defined in the project agreements.

Ms Gail Eddy and Mr Lance Boyd (2018:Interview) provided no response to the question as they are mostly involved with rental of social housing around the city centre corridors.

What are the challenges that affect PPP in affordable housing development in the City of Cape Town?

The respondents' (2018:Interviews) consensus answer to the abovementioned question is in the following order: Firstly, difficulty in locating suitable land for sustainable housing development, in order to address spatial problems of the past apartheid government; secondly, departmental capacity challenges in overseeing the projects; thirdly, lack of clearly defined roles between partners as the City of Cape Town wishes to dominate control over the projects; and inadequate financial assistance.

What do you think are the main challenges that make the private sector hesitate to participate in PPPs?

Ms Nomzamo Mlungu's (2018:Interview), response to this question was that over-regulation of the sector by the government discourages private sector investment; also the inability to derive desired financial returns from such large scale developments limit private sector involvement.

According to Mr Lance Boyd (2018:Interview), the private sector are less attracted to partnership with the government because they do not consider long term contracts with the City of Cape Town profitable for business.

Mr Pogiso Molopo's (2018:Interview), view is that the private sectors are hesitant because they do not find PPP profitable.

Ms Gail Eddy (2018:Interview), thinks that the major deterrent to private sector involvement is the difficulty in locating suitable development land and the high cost involved. She also pointed out that the difficulty in securing end user finance delays the disposal of completed housing units, which has the negative effect of high holding costs and consequently decreases the projected profit.

In your opinion, what can be done to improve affordable housing delivery through PPPs?

Mr Lance Boyd (2018:Interview), thinks that affordable housing delivery can be improved by banking and other financial institutions increased investment in mixed market affordable housing projects at lower risk profile so that the level of private equity in projects is lessened.

For Ms Nomzamo Mlungu (2018:Interview), mobilising additional fund sources in addition to government subsidies will increase pace and scale, as well as meet the densification agenda in and around the inner city.

Mr Pogiso Molopo (2018:Interview) believes that increasing incentives to private sector such as tax incentives, reducing private sector equity contribution in projects and providing land for development at a reduced cost will attract more private sector players and increase the scale of housing delivery.

Ms Gail Eddy (2018:Interview) argued that thinking outside government grants by implementing other types of innovative methods of building construction will increase efficiency and scale of affordable housing delivery. She also believes that relaxing government regulations on PPP will increase capacity and scale of housing delivery.

Do you think there are alternative ways to housing delivery apart from PPPs?

Ms Nomzamo Mlungu (2018:Interview) argued that not all housing projects within the City of Cape Town are delivered via PPPs. She said that the traditional procurement methods are still followed in the vast majority of projects.

Mr Lance Boyd and Mr Pogiso Molapo (2018:Interviews) believe that the PPP is the most efficient and effective way of delivering affordable housing at present, and providing incentives will improve its efficiency.

Ms Gail Eddy (2018:Interview) argued that introducing innovative methods of housing construction would provide an alternative to PPP such as methods that utilises local soil and labour to create building blocks in order to reduce costs as in the case with the “Terra Block Fabricator” used in Tanzania as well as the use of green technology. She said that the City of Cape Town created a “Green Bond”, which is a financial mechanism that enables the city to raise capital on the international market and this is used to fund green projects. According to her, affordable housing should be a green project and green technology can be used to reduce costs.

Was there co-operation with the community during the projects?

Ms Gail Eddy and Mr Lance Boyd (2018:Interview) were not in a position to provide answers to the question, but MS Nomzamo Mlungu and Mr Pogiso Molapo stated that private partners does the community facilitation, such as holding information meetings to educate potential property owners regarding their responsibility towards property ownerships and related matters.

Do you think the PPP project cycle process is sufficient or needs to be amended?

All the four City of Cape Town respondents (2018:Interviews) were of the opinion that the current project cycle is sufficient to deliver the required services. However, they

believe that there is always room for improvement and the City of Cape Town is constantly looking for ways of improving service delivery. They also stated that projects are constantly being refined to identify loopholes and efforts are then made to rectify shortcomings.

From your experience, what was the main shortcoming of previous PPP partnerships?

According to Ms Nomzamo Mlungu (2018:Interview), the overseeing of projects by government officials is limited due to capacity constraints internally. This means that the government heavily relies on the service provider to meet deadlines, as well as to monitor delivery of targets. This can present challenges with deadlines and quality of work, as the same contractor is busy with development, doing monitoring and evaluation.

Mr Lance Boyd (2018:Interview) is of the opinion that an insufficient number of PPPs have been established by the government since the promulgation of the MFMA.

Ms Gail Eddy (2018:Interview) is of the opinion that lack of capacity at the strategic level of the Human Settlement Department means that the government is unable to provide adequate strategic leadership regarding the implementation of projects. This also means that innovative ideas are limited. Mr Pogiso Molapo (2018:Interview) did not express any views on this question.

What are the benefits experienced from previous PPP partnerships?

All four respondents (2018:Interviews) expressed similar sentiments to the abovementioned question. Firstly, they believe that PPP facilitates housing delivery. Secondly, they feel that the collaboration between the public and private sector in arriving at a solution is remarkable. Thirdly, they believe that the ease with which development sites are identified and transferred to the private sector is notable, as it takes much longer time for independent developers to secure development sites

- **Response by officials of the National Housing Finance Corporation**

Interviews with two officials of the NHFC were conducted via telephone and completed by e-mail questionnaires because the company is located in Johannesburg which made face to face interviews difficult.

What is the role of the NHFC in affordable housing delivery? Are there regulations that guide your activities?

Mr. Dave Waugh (2018:Interview) is the Senior Clients Manager at the NHFC with over ten years' experience. His response to the above question was that the NHFC is mandated to provide finance for the delivery of housing to the low to moderate income group of formally employed South Africans. The way in which this delivery is regulated is by adherence to all the relative housing acts such as the Housing Act (RSA, 1997) and the Social Housing Act of 2008, to name but a few. The Social Housing Regulations Authority dictates how the Act is to be applied.

Mr Abbey Sito (2018:Interview) is the Clients Manager at the NHFC with more than ten years' experience in affordable housing development. His opinion is that the NHFC role is to provide debt funding to social and affordable housing. He argues that their role is guided by laws such as the National Credit act, 2005 (34 of 2005), the Financial Intelligence Centre Act, 2001 (38 of 2001) (FICA), Municipal Finance Management Act (RSA, 2003a) and internal credit policy.

Do you think the regulations are adequate?

Mr. Dave Waugh's (2018:Interview) response was yes, and he holds the view that 70% of affordable housing funding is in the form of grants and subsidies for housing. As such, the sector requires strict regulating. However, he said the restrictions sometimes hinder the delivery as obtaining changes takes years due to the fact that such changes have to pass through Parliament.

Mr. Abbey Sito (2018:Interview) thinks that the regulations are adequate and stated that to start a development there is a long process to follow before the development

can be approved and this include a township establishment process and re-zoning of land. For anyone to borrow money for development, they need to qualify for funding in terms of the National Credit Act, 2005 (34 of 2005) and meet requirements in terms of the Financial Intelligence Centre Act, 2001(38 of 2001) (FICA).

Do you think the NHFC provides sufficient financial incentives to attract private sector engagement in PPP projects?

Mr Dave Waugh's (2018:Interview) response was that in social housing finance, there is no way of deviating from the Act and Regulations. He stated that offering the private sector below market interest rates and terms, would render such deals unprofitable and would put the NHFC out of business as it a self-sustaining entity receiving no "free" money.

Mr. Abbey Sito's (2018:Interview) response was that the NHFC does not provide any incentives to the housing developments. He stated that the NHFC's role is to provide debt funding up to 80% of the total project cost to the developers of the affordable housing.

What are the criteria that the NHFC consider before financing a PPP project?

According to Mr Dave Waugh's (2018:Interview) in social housing any applications for funding are required to conform to the Social Housing Regulations and obtain accreditation from the Social Housing Regulatory Authority.

The criteria for NHFC financing according to Mr. Sito and Mr. Waugh's (2018: Interview) are:

- Approved affordable housing by the relevant municipality.
- Minimum 20% equity.
- FICA requirements (full compliance).
- Credit-worthy.
- Bankable project (financially viable project showing sustainability).

Why did the NHFC choose to be involved in the PPP projects in Mitchell's Plain?

Mr. Dave Waugh's (2018:Interview) answer to this question was that the NHFC provides finance for affordable housing projects, and since the Mitchell's Plain project meets the requirement, the NHFC became involved. CTCHC was at the time, jointly owned by the NHFC and the City of Cape Town before the NHFC acquired CoCT's interests in the company. As a shareholder, the NHFC was also obliged to assist with the loan funding of projects as no other financial institution would. In terms of its establishment, the NHFC is to take more risk with less reward than a commercial enterprise would. Moreover, funding in Mitchell's Plain fulfilled the NHFC mandate of housing for the low to moderate income families.

Mr. Abbey Sito (2018:Interview) expressed no views on this question.

What are the roles/contributions of NHFC in the affordable housing projects in Mitchell's Plain?

Mr. Dave Waugh's (2018:Interview) response was that the NHFC provided loan funding for the CTCHC projects in both the rent-to-buy and outright sale projects.

Mr. Abbey Sito (2018:Interview) expressed no views on this question.

Were there any obstacles in the PPP relationship between the NHFC, the CTCHC, the CoCT and the Community in the Mitchell's Plain housing development?

Mr. Dave Waugh's (2018:Interview) answer to this question was "no" and he elaborated as follows:

- "CoCT – in my time of involvement the City was merely attempting to disengage itself from the projects and thus did not interfere at all.
- CTCHC – The obstacles which we had with regards to the CTCHC were not in the PPP relationship as it was a shareholder/subsidiary relationship".

Mr. Abbey Sito (2018:Interview) expressed no views on this question.

In your opinion is PPP an appropriate and sustainable delivery model for affordable housing delivery?

Mr. Dave Waugh's (2018:Interview) answer was "yes", and he added that provided sufficient profit can be made by the private entity in terms of the social housing, they would become involved. However, the restrictions which apply may cause them to shy away. That having been said, there are a number of private delivery agents entering the social housing space at presently.

Mr. Abbey Sito (2018:Interview) said that he thinks PPP is an appropriate housing delivery model because it is efficient and can provide profitable investment for the private sector.

Are there strategies that are currently in place to ensure that the funding provided for PPPs is well utilized?

According to Mr. Dave Waugh (2018:Interview), the Social Housing Act and Regulations provide participation for Other Delivery Agents which are the private sector – normally (Pty) – companies.

Mr. Abbey Sito's (2018:Interview) response was: "Like I said, we provide a loan to the developers. Their proposals are assessed for financial and institutional viability. The development includes an entire team of professionals within the building environment who provides professional indemnities and contractors who also provide waiver of builder's personal claims and contractors all risk policy. Risk is mitigated to a large extent. Yes, funds are always utilized for the intended purpose".

In your view, what can be done to improve affordable housing delivery through PPPs?

Mr. Dave Waugh (2018:Interview) thinks that in the social housing space, information of how the private sector can take advantage of the subsidies and grants and the

pitfalls of the sector, need to be widely published so that a larger number of players can be drawn in.

Mr. Abbey Sito (2018:Interview) thinks that government grants and subsidised development land is in place already and that the private sector just needs to utilise the existing available opportunities. He maintains that the government is doing a lot already.

What are the main challenges that the NHFC has experienced with regards to its involvement in PPP for affordable housing development?

Mr. Dave Waugh (2018:Interview), argued that, as he indicated previously, the sector is heavily regulated, and many small entities trying to become involved find it difficult or impossible to meet the strict criteria, such as the 20% equity deposit in the projects.

Mr. Abbey Sito's (2018:Interview) opinion is that profiteering is the biggest challenge as more and more developers are only interested in making a lots of money. According to Mr. Sito, most developers prefer to be given land parcels so that they can build houses and sell in the open market, rather than investing in an affordable market, an option that is too expensive in his view. He said that alternative ways of making land accessible to the end users' needs should be explored, and that It would not cost as much to self-build.

In your opinion, what strategies can be put in place to increase more effective financing of PPPs in order to increase the scale of housing delivery?

Mr. Dave Waugh's (2018:Interview) opinion was that the private sector equity contribution of 20% to housing development should be reduced to encourage more private sector involvement. Moreover, the regulations need to be amended to allow the financier a greater discretion when granting finance to sector players.

Mr. Abbey Sito (2018:Interview) believes that there are already adequate funding mechanisms. In his opinion commercial banks, state entities such as the NHFC, the NEF, the PIC and many others, play in this space.

- **Response by the project beneficiaries Harmony Village: Questions and answers**

The interviews with the Harmony Village beneficiaries were facilitated by the CTCHC Client Service Supervisor, Jacquise Sauls, and the Community Development Officer, Clarence Human.

The interviews took place at the CTCHC management offices in Harmony Village. The names of the 15 beneficiaries interviewed are as follows:

Table 5.2: Harmony Village respondents

Mr Morgamat Waleed	Interviewed 21/04/2018
Mr Saeed	Interviewed 21/04/2018
Ms Meagan	Interviewed 21/04/2018
Mr Riedwaan Slamadien	Interviewed 21/04/2018
Ms Shakira	Interviewed 21/04/2018
Mr Toufeeq Baden	interviewed 21/04/2018
Mr Shane Solomans	Interviewed 22/04/2018
Mr Joshua Van Niethling	Interviewed 22/04/2018
Ms Shahieda	Interviewed 22/04/2018
Ms Helena Marais	Interviewed 22/04/2018
Mr Hendricks	Interviewed 22/04/2018
Mr Calvin Klaas	Interviewed 22/04/2018
Mr Samodien	Interviewed 22/04/2018
Mr Ebrahim Kruger	Interviewed 22/04/2018
Mr Beeslaar	Interviewed 22/04/2018

- **Questions and Answers: Harmony Village**

What is your income bracket per month?

Face-to-face interviews were conducted on 21 and 22 May 2018, and all the respondents interviewed earned between R3 000 and R7 500 per month at the time they acquired their property.

In which housing development do you own a unit?

100% of the respondents indicated they own a unit in Harmony Village.

What type of unit do you own?

Three respondents out of the 15 interviewed own a semi-detached single storey dwelling, while 12 of the 15 respondents own semi-detached double storey dwelling.

Are you the direct beneficiary of the affordable housing unit?

100% of the respondents interviewed said they were the direct beneficiaries.

Please explain why you acquired your property?

98% of the 100% respondents interviewed said they lived with family members and needed a house of their own. 2% of the respondents said they were backyard dwellers.

Explain how you acquired your property?

100% of the respondents confirmed that they registered their names on the City of Cape Town's housing waiting list. They were contacted when the houses became available.

Were you listed or not, and selected from the City of Cape Town housing waiting list as a beneficiary, and for how long?

100% of the beneficiaries confirmed they were listed on the City of Cape Town housing waiting list for periods ranging from one to fifteen years.

Please explain how/why you were selected as a beneficiary?

100% of the respondents said they met the requirement of monthly income of between R3 000 and R7 500; applied for a unit in the project, and were later contacted by officials of the CTCHC to attend a workshop on how to care for their property. They were subsequently allocated a housing unit.

Did you experience any challenges/problems in the process of acquiring your property?

Fourteen of the 15 respondents interviewed said the process was smooth and no problems were encountered. Mr Shane Solomons said he could not initially obtain approval because he had no record of credit worthiness from any institution, but was however assisted by his father to open a retail account before he was approved.

Are you happy with the quality of the house you received?

Eleven of the 15 respondents interviewed said they were completely happy with their homes. Mr. Hendricks occupies a semi-detached single storey dwelling. He said that although he is happy to be a beneficiary, he is not satisfied with the design of his unit, as the toilet is positioned at the entrance of the lounge. Ms Shakira occupies a semi-detached double-storey dwelling. She said she was initially satisfied with her unit until she started experiencing problems with her solar geyser, which is still the case. Mr. Morgamat Waleed occupies a semi-detached double-storey dwelling. He has complaints about the quality of the door. Mr Saeed, who occupies a semi-detached double-storey dwelling, said although he was happy to own a home, he was unhappy with the small size of the rooms.

Do you think the beneficiaries of the housing projects are the intended beneficiaries?

Twelve of the 15 respondents believe that all beneficiaries are intended beneficiaries, while Ms. Meagan; Mr. Morgamat Waleed; and Mr. Hendricks, believes some of the beneficiaries earned more than the R3 000 to R7 500 per month threshold for qualifying beneficiaries due to their expensive life style.

Do you think that partnership between the Cape Town Community Housing Company and the City of Cape Town helped in fast-tracking the delivery of housing?

100% of the respondents interviewed believe that PPPs improves efficiency of housing delivery and also provides better quality housing.

Which officials are you more in contact with?

100% of the respondents interviewed said they are more in contact with the CTCHC officials because they are easily accessible for consultation.

In your own opinion, what do you think can be done to improve housing delivery through PPP partnerships?

The respondents had various suggestions regarding this question which included:

- The process of housing delivery should be implemented in a shorter period by using private sector involvement and government allocating more funding.
- The backyard dwellers should be given priority and the allocation of houses should be done strictly by following the housing waiting list.
- The household that earns more than R3 500 per month; between R3 500 and R15 000, should be provided for, because they are over qualified for the low income full housing subsidy, but do not earn enough to get housing bond from the financial institutions.

- The private sector should make use of available subsidised vacant land to provide housing for the people and the government should make more land available.
- The government should provide more education and listen to the peoples' needs and concerns.

- **West Cape Villas**

The West Cape Villas is an outright purchase model and therefore no longer under CTCHC supervision. However, the CTCHC still retains the names and contact details of the first beneficiaries. The following beneficiaries were interviewed by appointment.

Table 5.3 West Cape Villas' respondents

Mr Nur Fredericks	Interviewed 26/04/2018
Mr Natty Tladi	Interviewed 26/04/2018
Ms Michele	Interviewed 26/04/2018
Mr David Carollissen	Interviewed 26/04/2018
Mr Angelo Azad	Interviewed 26/04/2018
Mr Raymond Smit	Interviewed 26/04/2018
Ms Anthea Classens	Interviewed 26/04/2018
Ms Monic Petersen	Interviewed 26/04/2018
Mr Ayanda Madella	Interviewed 26/04/2018
Mr Norman Adams	Interviewed 27/04/2018
Mr Calvin Moses	Interviewed 27/04/2018
Ms Shamiela Samodien	Interviewed 27/04/2018
Mr Steven Jephtha	Interviewed 27/04/2018
Mr Jurie Safodien	Interviewed 27/04/2018
Mr Kevin Abraham	Interviewed 27/04/2018

- **West Cape Villa: Questions and Answers.**

What is your income bracket per month?

100% of the respondents said their income bracket was between R7 500 – R15 000 per month when they acquired their property.

In which housing development do you own a unit?

100% of the respondents said they owned a house in West Cape Villas.

What type of unit do you own?

Six out of the 15 respondents interviewed owned free standing single storey dwellings, while nine of the 15 respondents owned semi-detached double-storey dwellings.

Are you the direct beneficiary of the affordable housing unit?

100% of the respondents interviewed said they were the direct beneficiaries.

Were you listed or not, and selected from the City of Cape Town housing waiting list as a beneficiary?

Seven respondents of the 15 interviewed said they were listed on the CoCT's housing waiting list, while eight said they responded to the sale advertisement and contacted the CTCHC.

Please explain how/why you were selected as a beneficiary?

100% of the respondents said they qualified for the income threshold of R7 500 to R15 000 per month. Seven of the 15 respondents listed on the City of Cape Town's housing list said they were contacted by the CTCHC, while eight out of the 15 respondents responded to the sale advertisement.

Did you experience any challenges/problems in the process of acquiring your property?

Eleven out of the 15 beneficiaries interviewed said they experienced no problems in having their finance approved by financial institutions, and also had easy processes with the CTCHC. Four out of the 15 beneficiaries complained they had to go to more than one financial institution to have their finance approved because they were turned

down the first time. Six of the 15 respondents interviewed were not aware that their houses were subsidised because they believe they got the loan for the purchase from a bank.

Are you happy with the quality of the house you received?

Nine of the 15 beneficiaries interviewed said they were satisfied with their housing units. Six of the 15 beneficiaries complained that cheap and inferior building materials were used for the construction and as a result they are experiencing a number of defects in the buildings. When the researcher asked the CTCHC Community Development officer, Mr. Clarence Human, the reason for the defects in the buildings, he explained that some of them were sub-contracted to a company called New Age Construction Company, which delivered some unsatisfactory houses.

Do you think the beneficiaries of the housing projects are the intended beneficiaries?

100% of the beneficiaries interviewed said that there were no restrictions to beneficiaries. All prospective buyers who earned between R7 500 and R15 000, and were able to obtain finance from financial institutions, were afforded the opportunity to purchase a unit.

Do you think that partnership between the Cape Town Community Housing Company and the City of Cape Town helped in fast-tracking the delivery of housing?

Fourteen of the 15 respondent interviewed believe that the CoCT's partnership with the CTCHC fast-tracked the delivery of housing. Mr Natty Tladi believes that a lack of government officials' oversight is responsible for poor quality housing delivery. He is of the opinion that direct housing delivery by the government produces better quality housing than outsourcing housing delivery to the private sector.

Which officials are you more in contact with?

All the respondents interviewed said they are more in contact with the CTCHC officials because they are easily accessible for consultation.

In your own opinion, what do you think can be done to improve housing delivery through PPP partnerships?

The respondents made several suggestions on how housing delivery can be improved through PPPs and these include:

- Government should make more land available for affordable housing developments.
- Financial institutions should lower their lending threshold of R8 000 per month income to allow more people access to home loans for affordable housing.
- They suggested that the income bracket of R7 500 to R15 000 per month for gap housing should be increased from R15 000 to R18 000 so that more people could have access to housing.
- They suggested that bureaucratic processes in the government department delay the approval of the projects and should be removed. For example, they said that they had been promised development on the adjacent piece of land to West Cape Villa for the past four years, but to date there has been no development.
- The City of Cape Town should implement more overseers for the projects to ensure the developers follow specifications.
- They also suggest the governments should form more PPPs as delivery of housing using PPPs is quicker and the houses are of a better quality.

5.7 CONCLUSION

This chapter explained the methodology used in data collection in this study. It described how qualitative methods, using semi-structured interviews as research instruments was used to collect the relevant data from respondents. The ethical

issues, validity and reliability of the research methodology were also explained. The interview findings explain the perspective of the various respondents interviewed, in relation to the questions on affordable housing developments in Mitchell's Plain.

The respondents of the CTCHC interviewed agreed that inadequate housing is one of the major service delivery challenges in the CoCT. They argued that some of the reasons for inadequate housing include: low income levels, delay in government processes and growth in the city's population due to migration of people from outside the city. The respondents explained that CTCHC was established to help reduce the housing delivery backlog of the public sector, but are faced with various challenges to implement affordable housing development on a larger scale. This includes inadequate funding and unavailability of suitable land for development.

The CTCHC respondents were of the consensus that PPPs facilitates affordable housing delivery, but requires more private sector involvement to be able to deliver affordable housing on a larger scale, in order to meet the growing demands for housing in the low income sector. They argue that incentives such as increase in affordable housing funding and relaxation of some PPP regulations such as reduction of the compulsory 20% equity deposit required from the developers for projects will help to attract more private sector engagements in PPPs. They also argue that the government should be more pro-active to prevent financial losses caused by bureaucratic time delay in the public sector. They suggested that the reduction of the minimum lending threshold of R8 000 per month income by financial institutions, would afford more people the opportunity to benefit from affordable housing delivery. In terms of alternative methods to housing delivery (instead of using PPPs), they argued that the introduction of innovative alternative construction methods such as utilising local raw material to manufacture building material would reduce the cost of construction. Consequently, this would decrease dependency on government grants to subsidise affordable housing development.

The CoCT officials interviewed were of the consensus that the CoCT has a housing delivery backlog, which has become a challenge to the City's service delivery mandate. Moreover, they mentioned some of the challenges that perpetuate housing delivery shortages, which include: the poor quality standards of BNG housing

deliveries and lack of proper community involvement at strategic decision-making levels on matters that related to affordable housing. The COCT respondents were in agreement that the application of PPPs to housing delivery was because of the City's inadequate capacity and shortage of financial resources to deliver housing.

The CoCT respondents also argue that the current PPP legislations have some challenges which hinder the scale of affordable housing development and these include: over regulation of the sector, such as the compulsory 20% development deposit required from the private sector. They also argue that the MFMA makes it easier for the government to acquire land and establish townships for housing development as opposed to the private sector. They, however, confirm that the use of PPPs as a mechanism for affordable housing development is in line with the City's policy of an Integrated Development Plan and has broad bipartisan support.

On the nature and challenges that faces PPPs in the affordable housing development, the CoCT officials explains that the city has a horizontal decentralisation of authority relationship with the private sector. According to this, some of the challenges that face PPPs include: the hesitancy of greater private sector involvement in the affordable housing sector due to their inability to derive the desired financial returns; the difficulty in identifying suitable development land close to economic opportunities; and the difficulty in securing finance for beneficiaries delays the disposing of completed housing units, which has negative effect of high holding costs, especially for large scale projects. They suggested that affordable housing can be improved by an increase in investment by financial institutions in mixed market affordable housing projects with lower risk profile in order to reduce the level of private sector equity in projects.

In their response to the interview questions, the officials of the NHFC explained that the primary objective of the NHFC is to provide funding to social housing institutions for affordable housing development. According to the officials, funding is based on the assessment and acceptance of project proposals. However, they believe that there is not sufficient publicity of how the private sector could utilize the opportunities of the funding and this is one of the reasons for the low involvement of the private sector in affordable housing development. The NHFC officials cited over regulation as one of

the challenges in the affordable housing sector. They stated that the private sector find it difficult to provide the deposit of 20% of the project cost, as required by legislation, with the result that only a few private developers qualify for NHFC funding. They suggested that increasing government funding and reducing the 20% deposit would attract more developers, increase the scale of units developed and reduce cost to end users.

Although most of the beneficiaries believe that the government is not doing enough to provide housing for those in need thereof, the consensus is that PPPs facilitate affordable housing delivery and deliver better quality, as opposed to traditional direct government procurement. They expressed satisfaction with the quality of housing units they received. The beneficiaries confirmed that most of them were listed on the CoCT housing delivery list for periods ranging from one to fifteen years. All the beneficiaries interviewed were first time home owners and fall between the income brackets of R3 000 to R7 500 per month for the Harmony Village project and R7 500 to R15 000 for the West Cape Villas project.

While the Harmony Village (HV) is a social housing rent-to-buy project, the West Cape Villas (WCV) is an outright purchase that offers immediate ownership to beneficiaries upon securing the necessary finance from a financial institution. Qualification for the West Cape Villas is open to those on the CoCT beneficiary waiting list as well as to anyone who earns between R7 500 and R15 000 per month, and can obtain the required finance from any financial institution. The Harmony Village, on the other hand, is restricted to mainly those on the CoCT beneficiary waiting list. In addition to the subsidy provided by the CoCT, the beneficiaries of Harmony Village have the benefit of a 25 years top-up loan granted by the CTCHC to cover the short-fall in the price of the units, which grants transfer of tenure upon repayment of the loan. While most HV beneficiaries were satisfied with their unit, some WCV beneficiaries stated that they were happy when they moved into their units, but as time lapsed they have noticed some developing problems with the quality of their units. This has been attributed to poor construction by one of the sub-contractors named New Age contractors, according to the CTCHC official. The beneficiaries blame lack of overseeing by the City of Cape Town with regards to the private developers as the reason for the problems.

Some of the suggestions by the beneficiaries on how affordable housing delivery can be improved include: a request for the government to make more land available for affordable housing developments; increasing awareness on how people can access affordable housing and reducing the waiting period on the beneficiary list; adjusting the qualifying income brackets to accommodate more income groups; a suggestion for the financial institutions to lower their lending thresholds to less than R8 000 per month to create more opportunities for housing ownerships; a call for government to increase the number of PPPs to scale up of housing delivery; and for the government to increase its capacity in overseeing to ensure that construction standards are met by the private developers.

Overall, the Harmony Village has been lauded for its excellence in service delivery, quality, and efforts in bringing dignity to lower-income households. The project was named the best international housing project in South Africa at the 2016 National Govan Mbeki Award Ceremony which took place at the Durban International Convention Centre. The West Cape Villas filled the vacuum for the gap group, which include those that earn too much for a full housing subsidy, but not sufficient to qualify for mortgage loans from private financial institutions.

CHAPTER SIX: THE EVALUATION OF PUBLIC-PRIVATE PARTNERSHIP IN AFFORDABLE HOUSING

6.1 INTRODUCTION

This chapter evaluates the theory and practice as described in chapter 2, the legislative framework in chapter 3, the case study in chapter 4 and the findings of the interviews analysed in chapter 5 and follow-up interviews. The challenges of PPPs identified in the interviews will be evaluated and the comparative views all stakeholders on PPPs which include the private sector, public sector and the beneficiaries of affordable housing will be explained.

Although the use of PPPs has gained popularity around the world, their use has also been criticised for a number of reasons. Some assume PPPs to mean privatisation, therefore they criticise mainly because of the political sensitivity of the belief that the private sector makes profit of what is defined as the fundamental right of the citizens in the Bill of Rights of the SA Constitution, 1996. Hence the fundamental question of who takes responsibility for partnership failures between the public and private sector becomes a concern.

According to White (2006:3), the long term nature of PPPs agreements limit budget flexibility and the policy options of future government administration. Successful PPP projects create economic benefits and encourage economic growth. Failed projects on the other hand could result in long term economic liabilities lasting for years and undermining investors' interests in the economy. Although there is an increase in the use of PPPs as a service delivery mechanism in South Africa, sufficient research has not been done to ascertain its success as an alternative procurement option (CAHF, 2017:5). This is due to the fact that the use of PPPs as alternative service delivery model is faced with challenges which have brought failures of PPP projects in some cases. For example, the RDP failed in policy inadequacies and implementation through PPP projects as explained in chapter 3 (RSA, 2004:7).

The evaluation of the research findings takes into account some of the critical challenges of PPPs identified by the interviewees, including: officials of the CoCT; officials of the CTCHC; officials of the National Housing Finance Corporation; and the beneficiaries of the affordable housing developments in Mitchell's Plain. These challenges are described and explained in this chapter and they include:

- The legislative issue of PPPs.
- Affordable housing delivery in the City of Cape Town since 1994.
- Financial constraints.
- Land availability for PPPs.
- Innovative construction technology
- Risk challenges of PPPs.
- Administrative challenges of PPPs.
- Comparative views of private sector, public sector, and beneficiaries on PPPs.

6.2 THE LEGISLATIVE ISSUES OF PUBLIC-PRIVATE PARTNERSHIPS

The National Treasury PPP manual explains the policy and provides the legislative procedural clarity that guides public and private parties through the phases of the regulated PPP project cycles for the national, provincial and local government spheres of government.

The addition of Treasury Regulation 16 to the Public Finance Management Act (RSA, 1999a) governs PPPs in South Africa. This regulation describes and explains the distinct phases of a PPP project cycle from inception to the management of the PPP agreements as stated in chapter 3. However, some of the provisions and implementations of the Treasury Regulations have been criticised as being cumbersome and stringent (RSA, 2003c).

According to Mr Lance Boyd (2018:Interview) of the City of Cape Town, the main challenges of town planning revolve around its legislative framework. Huchzermeyer (2003:131) argues that the main town planning complexity in South Africa lies in its fragmented legislation, which is reflected in the fact that there are different township establishment legislations used in various areas. Hence old procedures are still being

implemented. For example, the different provincial planning legislations gives rise to certain provinces that constitute the old Transvaal and still implement the Town Planning and Township Ordinance (Transvaal) 15 of 1986 provincial law that dates back to the apartheid era.

The Transvaal ordinance is a racially-based planning and land use management system. The provisions of Ordinance No.15 of 1986 apply to the former “white”, “Indian”, and “coloured” areas, in terms of provincial legislation relating to the development and regulation of land use. This excludes former black areas, which are not integrated into the municipal planning system.

The Township Establishment Act, 1991 (113 of 1991), was established to fast track land distribution, and serves as a replacement of the Black Communities Development Act, 1984 (4 of 1984) (RSA, 1984). Unfortunately, this act does not provide for community participation in land use decisions and gives public officers the discretion to approve or disapprove township establishment, irrespective of minimum acceptable standards and environmental considerations.

- **Lack of policy direction at the strategic Level**

The CoCT and CTCHC interviewees (2018:Interviews) argued that the CoCT Human Settlement Department lacks adequate capacity at strategic level and there is also lack of policy direction in the implementation of PPPs. The interviewees argue that while the Treasury’s provisions regarding PPP is to achieve value for money, optimal risk transfer to the private sector, and improving long-term planning, the implementation of PPPs in the CoCT is used mostly as a vehicle for financing projects due to financial constraints, and not primarily for service delivery. While the National Treasury PPP unit is believed to have provided a strong formal legal framework for how to establish PPPs, the interviewees argue that the CoCT still needs strategic level leadership on why and under what circumstances PPPs should be used to achieve policy goals.

Due to lack of policy direction as stated above, policy directions in the CoCT regarding PPPs is confusing because of the overlapping responsibilities between the

Department of Local Government (DPLG), the PPP unit, and other national line departments. For example, at municipal level, the formal legal framework between the Municipal Finance Management Act (RSA, 2003a) and the Municipal System Act (RSA, 2000b), are conflicting. The feasibility studies required to be conducted by both the MFMA and the MSA are similar but not identical. A local government would have to exercise a great deal of care and judgement to ensure that it satisfies each Act. The PPP unit has found that it takes approximately two years to complete a feasibility study for the MSA, and two years and 6 months for the MFMA feasibility study (SPAID, 2007:2-5).

The lack of policy direction is primarily responsible for the unnecessary delays in the implementation of a PPP project cycle, which includes: inception, feasibility studies, procurement, development, and delivery of projects. Each of these phases requires Treasury approvals of I, IIA, IIB, and III, as prescribed by the Treasury PPP Unit. The COCT respondents (2018:Interviews) argue that the top management of the Department of Human Settlement at the CoCT was unsure whether PPPs are used to achieving optimal risk transfer, value for money and improvement of long term planning, as provided by the Treasury PPP Unit, or as a vehicle for financing service delivery projects because to the financial constraints of the City of Cape Town.

- **Policy biased towards traditional local government procurement**

Another challenge for PPPs presented by the Municipal System Act (RSA, 2000b) is that the CoCT is policy biased towards the use of traditional local government procurement as a service delivery model. The MSA, 2003, allows for services to be delivered “internally” through the local government’s own staff and other resources, or via an external mechanism which includes municipal entities, another local government, and community based entities or the private sector (SPAID, 2007:8).

Section 78 of the MSA prescribes that a local government must first assess “the extent to which the re-organisation of its administration and the development of the human resource capacity within that administration...could be utilised to provide the service through an internal mechanism” (National Treasury, 2007). Section 78 of the MSA, 2003, is at best an onerous bureaucratic process additional to the requirements of the

MFMA (RSA, 2003) due to similar requirements for PPP implementation, such as the demand for feasibility studies by both Acts; it also shows the ineffectiveness of the processes of the CoCT in comparison to the private sector in project delivery. The implications of the provisions of the MSA in promoting the use of internal resources for service delivery means that PPPs are used as a secondary option of service delivery, and not as a model for achieving value for money, optimal risk transfer and skills transfer as stipulated by the Regulation 16 of the PFMA, 1999.

- **Stringent legislative regulations**

Stringent legislative conditions are a problem that was echoed by all the CTCHC officials interviewed (2018:Interviews) in chapter 5. The interviewees argued that PPP is over-regulated by the Treasury PPP Unit; as a result, more private sector engagements in PPPs are discouraged.

Private sectors entities that are interested in PPPs are required to be credit worthy, registered with the PPP regulatory authorities and are required to contribute 20% equity for every PPP project undertaken. Where the private entities require funding from the NHFC for mixed or integrated housing development, a minimum of 30% of the units must fall within the NHFC defined target and affordable market. The requirement of the Treasury PPP Unit for the approval of each phase of the PPP cycle has been criticised as the cause of unnecessary delays in the PPPs project implementation – this is according to the CTCHC interviewees (2018:Interviews).

The nature of private enterprise is to maximise profit in the shortest possible time, with minimum investment. This is in conflict with the intended purpose of the Treasury PPP Unit, which is focused on service delivery. The CTCHC interviewees (2018:Interviews) argued that the 20% equity contribution by the private sector should be removed or reduced, and that the private sector wishes to maximise profits in the short term in contrast to PPP projects that are of a longer term and yields low returns.

According to the CTCHC interviewees (2018:Interviews), the private sector players find PPP regulations onerous and that the long term project duration associated with

PPP projects increases investment risk and yields low returns. As a result, private entities require incentives to be attracted into the PPP affordable housing sector.

6.3 AFFORDABLE HOUSING DELIVERY IN THE CITY OF CAPE TOWN, SINCE 1994

The use of Social Housing Institutions (SHI) in the delivery of affordable housing gave rise to the formation of PPP arrangements. According to Hearne (2009:5), PPP arrangement involves the CoCT contracting the private sector to design, finance, build, maintain and operate public infrastructure and in this case, Harmony Village and West Cape Villas housing developments. The outcome could be more efficient housing delivery with the transfer of risks to the private sector.

There has been an increase in making use of the private sector in the delivery of public services by the City of Cape Town since the advent of democracy in 1994. With the City of Cape Town's vision of developing affordable housing in the inner city, the need for more social housing institution partners has increased. At present, the City of Cape Town has a few social housing institution partners, but the Cape Town Community Housing Company (CTCHC) was the private sector partners involved in the Mitchell's Plain projects. The number of SHIs is set to increase with the City of Cape Town's Integrated Development Plan of increasing the development of affordable housing in the inner city with a view to undo the apartheid government spatial planning of forced removal and gentrification by the year 2023 (Etheridge, 2017:1). The COCT's increasing partnerships with the private sector is as a result of the following challenges:

- **Challenges of population growth and urbanisation**

Cape Town has experienced rapid urbanisation from the rural areas since 1994. This is due to various reasons, which include people seeking better economic opportunities, a need for better services and education opportunities. The consequence has been an increase in social pressure for the City of Cape Town to provide public services. The increase in the population of Cape Town has resulted to increase in demand for social services. With limited resources available, the City of Cape Town is unable to satisfy the high demand for social services.

Rapid urbanisation has resulted in an increase and expansion of informal settlements on the outskirts of Cape Town. Most of the inhabitants of these informal settlements are unemployed or low income earners, which increases the need for the CoCT to provide affordable housing. The rapid urbanisation has resulted in the demand for affordable housing growing faster than the supply. The increasing population of Cape Town has made it difficult for the City to meet the housing demand of the communities. Although the City has delivered hundreds of houses to beneficiaries, the beneficiary housing waiting list continues to increase due to population growth. The Mitchell's Plain's affordable housing projects were implemented to assist in solving the increasing demand for housing and the shortage in supply of housing. However, the demand for housing continues to grow due to more and more people moving into Cape Town and its environs.

- **Need for social integration**

One of the legacies of the apartheid government was the separation of communities along racial lines. This former policy of racial segregation has led to huge social challenges which now face communities in the City of Cape Town. The City's Integrated Development Plan policy was enacted to promote social integration and overcome the legacy of apartheid by integrating communities and extending public services to the poor in line with Breaking New Ground Policy, 2004 (BNG). BNG promotes non-racial, integrated societies through the development of sustainable settlements and quality houses.

With the housing challenges facing the CoCT and the displacement of its low to moderate income earners to the outskirts of town due to high price of houses, the City of Cape Town has identified ten City-owned pieces of land in the corridors of the city centre for affordable housing development (Etheridge: 2017:2). The policy of making land available is in itself a challenge that is highly politicised and a subject of debate for land allocation for various uses.

- **Financial constrains**

The analysis of various legislations on local government, PPPs and housing development in chapters 2 and 3, points to the fundamental objective with regards to housing, namely to provide decent shelter for the poor on the part of government and creation of wealth for the private sector (Diamond, 2009:1-9; Mayimele, 2011:1; Evans, 1995:1, and Polidano, 2001:513-527). However, the problem begins with the fact that those who require affordable housing lack the financial backing to pay for housing provided by the private sector and sold on the open market. This is due to the fact that the issues relating to access to adequate housing in South Africa emanate from deeper issue relating to poverty and inequality, often blamed on the past apartheid government. The research findings indicate that the inhabitants of Mitchell's Plain are mainly low income households with an average income of between R3 500 to R7 500 per month (CoCT, 2014:2). The low income level makes it difficult for these households to afford housing without the assistance of the City of Cape Town authorities. Poverty itself is as a result of poor education, unemployment, and lack of access to economic opportunities (Harvey & Jowsey, 2004:1).

The conceptualisation of affordable housing finance by the government in 1994 was manifested in the form of an institutional subsidy disbursed to institutions providing accommodation to the subsidy target market comprising households with income of less than R3 500 per month (RSA, 2004:10). The institutional subsidy was intended to contribute construction costs and the cost of land. These costs have escalated over time while the size of the subsidies have not increased proportionately and are therefore considered inadequate, suggesting a funding gap between development costs and the available funding (RSA, 2004:12). To fill the funding gap, institutions are required to raise money from other sources. However, the high cost and access to debt funding is a challenge to the growth of the housing sector. The inadequate capitalisation and reliance on expensive debt have thus contributed to slow growth in the affordable housing sector.

The findings of the CTCHC interviewees (2018:Interviews) in chapter 5, reveals lack of adequate finance as one of the major challenges of beneficiaries in the affordable housing sector. In Table 3.4 of chapter 3, the average income of households in relation

to average house price is too low. Table 3.4 shows that while the average monthly income in nine South African cities is R11 000 and the majority of the citizens can only afford a house price at R280 000, the average open market price of houses is R825 000 (Steedley, 2012:18). This means that households in the affordable income sector bracket cannot afford housing without the assistance of the government. The affordable income bracket which qualifies for the government subsidy for certain households is R3 000 to R15 000 per month. However, this income bracket is inadequate because households with income of between R15 000 and R20 000, are excluded from government subsidy assistance but are unable to qualify for full mortgage to purchase a house on the open market.

The beneficiaries interviewed (2018:Interviews) in chapter 5 agrees with the above stated view on the exclusion of households that earn between R15 000 to R20 000 per month from the qualifying housing subsidy bracket, despite their inability to qualify for housing mortgage from private financial institutions. Another vital challenge explained by beneficiary interviewees in chapter 5 is the inability of some beneficiaries to meet credit qualifying criteria set by private financial institutions and this is because they do not have credit references with any lending institution. A low level of income disqualifies some beneficiaries from having a credit account with businesses which in the event of a loan application would have helped to access their credit worthiness by financial institutions. As a result, their application for credit facilities is rejected by the financial institutions. This also affects their eligibility as beneficiaries for affordable housing as credit clearance is one of the qualifying criteria for housing allocation.

On the part of the private sector, the CTCHC respondents (2018:Interviews) in chapter 5 argue that lack of finance is a major challenge to the scale of affordable housing they can develop. The CTCHC respondents (2018:Interviews) argue that the level of their indebtedness to the NHFC determines the amount of finance they can borrow, which means that the higher their debt, the less finance they can borrow. They also cited inadequate finance for affordable housing development as one of the deterrents to more private developers entering the affordable housing sector. The over dependency on government affordable housing grants is mainly the reason for inadequate financing of PPP projects together with the reluctance of private financial institutions to become more involved in the finance of affordable housing.

The officials of the CTCHC (2018:Interviews) also posit the high cost of finance as a major challenge that the private sector faces in the provision of affordable housing. They argue that the available finance is usually accessible at a high interest rate over a long term. This means that developers are cautious of the amount of finance they wish to borrow. The latter is usually insufficient due to the high repayment interests. The NHFC primary responsibility is to finance institutions and private entities involved in the development of affordable housing (Scholtz, 2014:2-4; and NHFC, 1996:1-3). The CTCHC official (2018:Interviews) posits that they experience difficulties in securing the amount of loans they require from the NHFC due to the level of their outstanding debt. As a result, their ability to deliver housing on a larger scale is hindered.

The CTCHC interviewees (2018:Interviews) argue that the inability of the affordable housing sector to attract more private financial institutions due to the high investment risks and low returns, limits the affordable housing funding sources to mainly government grants and subsidies, which are inadequate and affects the scale of housing delivery negatively. While the larger private institutions rely heavily on their surpluses and their strong balance sheets to raise debt funding, the smaller institutions that have little or no organisational equity and weak balance sheets struggle to afford debt funding.

The CoCT respondents (2018:Interviewes) argue that the future of affordable housing is paramount to the City of Cape Town's local government administration. It is estimated that approximately 650 000 families in the City of Cape Town earn less than R13 000 per month, and will rely on the City for some kind of assistance for housing between 2017 and 2032 (Future Cape Town, 2017:1). This is partly as a result of the high unemployment rate, slow economic growth, rapid urbanisation and influx of immigrants. The situation is exacerbated by the unprecedented growth in the property market in areas close to economic opportunities such as key nodes of employment, and public transport routes (Future Cape Town, 2017:1). The City of Cape Town's vision is to build 4 000 affordable houses within the corridors of the inner city by the year 2023 with the goal of assisting the low to middle income sector to acquire residential properties. The development is expected to bring the low income sector

closer to areas of economic opportunities in order to increase their earning potentials as well as their affordability for housing.

The City of Cape Town's vision to actualise the aforementioned affordable housing by 2023 depends on the available finance to execute the projects. The COCT interviewees (2018:Interviews) argue that the National Treasury did a good job in regulating the activities and implementation of PPPs, but fell short of providing sufficient resources to promote PPPs and building capacity within line departments, provinces, and local governments to implement PPPs. Hence, it is a challenge for the CoCT to look for alternative sources of finance in addition to the National Treasury's grant intervention to be able to achieve this vision by the 2023.

Considering the findings of the semi-structured interviews (2018:Interviews) in chapter 5, it is evident that PPPs lack adequate financial resources and support from the Treasury. This is because of the fact that the private sector finds it unattractive and less willing to engage in affordable housing developments involving PPPs due to low returns on investment.

6.4 LAND AVAILABILITY FOR PUBLIC-PRIVATE PARTNERSHIPS

Availability of land is the key to the provision of affordable housing through PPPs. Without the provision of land at no, or reduced cost by the CoCT, affordable housing development will not be delivered to the beneficiaries at reduced price. But, the major challenge for the CoCT is providing development land close to locations of economic opportunities and easy access to social amenities.

The Breaking New Ground (BNG) Housing Policy of 2004 promotes the location of affordable housing close to areas of economic opportunities as well as the achievement of a non-racial integrated society through the development of sustainable settlements and quality housing (RSA, 2004:7). The development of affordable housing is a large scale development; therefore, acquiring large size developmental land close to locations of economic opportunities poses a challenge for the City of Cape Town's authorities.

Providing houses close to areas of economic opportunities goes a long way to improve the physical health and wellbeing of households, which gives rise to access to schools, health care and other necessities associated with a sustainable good standard of living (Diamond, 2009:1-2). It also achieves social integration, where people from different races can live together and socialise. The City of Cape's urban restructuring plan includes high-density housing developments in well-located areas, and major improvements in public transport to link fragmented places (CoCT, 2017a:18). The achievement of this plan will require the provision of land but land availability and allocation are contentious and faced the following challenges:

- **Environmental Impact Assessment (EIA) on land allocation**

The right of access to a healthy environment is a requirement of the Environmental Impact Assessment (EIA) Act (86 of 1992) (RSA, 1992), provided in the RSA Constitution, 1996. Land development has inevitable impact on the environment, hence it is necessary to assess and minimise the impact of developments on the environment as far as possible. The principles and procedures of EIA are contained in the National Environmental Management Act (107 of 1998). The EIA is necessary in every development to enable environmental considerations to be taken into account at both the planning and implementation stages of a development project so as to strike a balance between the conservation of the environment and the need for the housing development in a sustainable manner.

Mr Lance Boyd and Ms Gail Eddy (2018:Interviews) of the City of Cape Town argued that the local government's lack the capacity to efficiently monitor EIA regulations and implementation, as guidelines, are mostly not adhered to. Both officials alluded to the fact that the speed of affordable housing projects is sometimes delayed due to the fact that the EIA process entails long and bureaucratic procedures.

From the private developer's perspective, Mr Wynand Ferreira (2018:Interview) of the CTCHC argued that EIA increases the cost of developments due to time delays. According to Mr Ferreira, the average EIA procedures take up to 14 months for the implementation of affordable housing development. These procedures also create challenges that have a direct impact on the size of land delivery. For example, there

may be restrictions on the use of land for certain purposes and allocation for affordable housing in terms of land use zoning regulations may not be allowed. Mr Ferreira also argues that while the intention of the EIA is to ensure the environment is not tampered with, it unfortunately brings about complex legislative requirements, such as re-zoning of land before release for affordable housing, and there may be development restriction in certain protected areas, which limits the availability of land for affordable housing developments.

- **Town Planning challenges of land allocation**

Town planning is a critical aspect of housing delivery and plays an important role in the allocation of resources. The redistribution of land and spatial reform in the City of Cape Town can potentially be achieved through town planning (CoCT, 2017a:17-19). Unfortunately, some CoCT's planning policies have continually perpetuated the social and economic exclusion of the poor from urban areas.

Town planning also influences land prices and the allocation of land for affordable housing. For example, the allocation of land for affordable housing development in economically viable locations and areas close to amenities is usually contentious due to competing demands for other uses and private developers and businesses, who are more interested in profit making than providing social services. Hence, it requires the government's intervention to secure land for affordable housing close to places of economic opportunities as market for land is usually priced beyond the affordability of low to moderate income earners in such area.

According to Huchzermeyer (2003:131) the following issues contribute to land challenges in the City of Cape Town, and contribute to limited supply of land for affordable housing developments:

- The city's Land Use Plan demonstrates that there is much vacant or under-utilised land, especially publicly owned land. Unfortunately, most of the land is not suitable for housing development due to geotechnical conditions, mostly high water levels.

- Land challenges affect the poor most as they are excluded from the opportunity to participate in urban land market, and relegated to the periphery of Cape Town where most low income housing developments can be found.
- The majority of the land is agriculturally based and used for wine farming, which puts pressure on urban spaces.
- Land reclaimed from the sea in the CBD area is not suitable for housing developments due to soil conditions.
- The most attractive development land is located around the mountains and available to the rich, because of high land values associated with topography.
- There is high demand for land in the city because of job opportunities, and also because Cape Town is a major tourism destination. The results is high prices and unaffordable to the poor.
- There is currently no integration of urban land use. For example, the residential areas are separated according to income groups while informal settlements are isolated on the outskirts of town.
- There is no dense low to middle income housing which has acceptable access to public transportation or work opportunities. For example, the My-City bus routes are mainly designed around middle to high income neighbourhoods, and most job opportunities are around the city central and other decentralised business nodes, which are located far from low income neighbourhoods.

- **Political challenges of land allocation**

The City of Cape Town interviewees (2018:Interviews) argue that politics plays a critical role in making land available for affordable housing. The CTCHC interviewees (2018:Interviews) argue that land allocation in the City of Cape Town is politicised, which hinders availability of land for affordable housing development. The situation is exacerbated by the competing demand for various land uses. For instance, the making of land available for subsidy and social housing takes priority over gap housing. The City of Cape Town's vision of providing affordable housing in the corridors of the CBD to 4000 beneficiaries by 2023 is focused on rental social housing. This excludes many people in the gap housing market and those that wish to be granted transfer of tenure.

The allocation of land for affordable housing close to areas of economic opportunities is highly politicised as property owners and businesses argue that such developments negatively affect the value of their properties and undermine future growth potential. Public activists, on the other hand, maintain their struggle to influence a shift in the spatial policies to achieve social integration for the low to middle income sector and provide economic and employment opportunities (Future Cape Town, 2017:4).

According to Support Programme for Accelerated Infrastructure Development (SPAID) (2007:4) many senior politicians in the City of Cape Town mistrust private sector involvement in infrastructure. Moreover, powerful political constituencies harbour strong suspicions against PPPs as service delivery agent because of the following reasons:

- A belief that the private sector will try to take profit while shirking its responsibilities to provide infrastructure or service. This belief is often based on the fact that the private sector brings in more resources in terms of funding, expertise and carries optimal risks during contract agreements resulting in the public sector allowing the private sector more privileges and control than what they deserve to have.
- Political leaders may dislike the private sector for fear of losing control of infrastructure assets, authority or responsibility.
- Political leaders, or other government officials, may prefer to avoid PPPs because it requires more detailed planning than traditional government procurement and thereby subjects government procurement to extensive scrutiny from PPP Units and the public (SPAID, 2007:3-4).

6.5 INNOVATIVE CONSTRUCTION TECHNOLOGY

The objective with affordable housing is to deliver houses to the low income earners at reduced prices that are below comparable open market prices. Currently in South Africa, the government efforts to achieve this objective are mainly centered on the provision of grants and subsidies and making development land available at reduced cost. This is, however, inadequate and is responsible for the low scale of affordable housing delivery (Ardonceanu, 2018:1).

Developed countries have, however, invented new ways of reducing housing costs through innovative construction methods that reduce costs and consequently also house prices. According to benchmarking data from the Centre for Affordable Housing Finance in Africa (CAHF) (Ardonceanu, 2018:1), construction costs are the largest components in the total cost of housing delivery across the Sub-Saharan Africa region, ranging between 41% and 72% (Ardonceanu, 2018:1). Based on this data, current estimated construction cost per square metre in some African countries include South Africa – USD 425; Nigeria – USD 696; Ghana – USD 627; Tanzania – USD 460; and Kenya – USD 569 (Ardonceanu, 2018:1). With the construction cost accounting for a significant portion of housing delivery, it is imperative that the South African government encourages private sector partners to explore innovative ways of reducing housing costs through construction methods (Ardonceanu, 2018:2-3).

The findings of the CTCHC interviewees (2018:Interviews) in chapter 5 shows that government grants and subsidies are not sufficient to deliver affordable housing on a scale that can meet demand. Reducing the cost of construction through innovative technology has the tendency to increase the scale of housing development (Ardonceanu, 2018:1-2). Innovative construction methods can reduce construction costs and consequently house prices, which will make houses affordable to more people. Mr. Wynand Ferreira of the CTCHC (2018:Interview) posit that the company implemented innovative model of low cost housing in the development of Harmony Village. This was done by combining government subsidy and top-up loans from the CTCHC to provide ownership tenure for what would have been rental housing units in perpetuity without the right of tenure. This model is the first of its kind in the CoCT.

The delivery of affordable housing in the City of Cape Town is still mainly dependent on the traditional construction methods which is one of the main reasons for the low scale of housing delivery (Future Cape Town, 2017:5). In order to move away from traditional construction methods to innovative technology, CoCT officials (2018:Interviews) have revealed that the city has introduced the green technology fund which is a fund sourced from international donors to finance green construction methods. This green technology fund and other innovative construction methods have however not been implemented due to certain barriers which include:

- Resistance to change and slow acceptance of new building technology by the public: End-user mistrust to an unfamiliar method of construction and as a result the durability of the houses is questioned.
- Lack of access to finance within the lower segment is viewed as a risk: Financial institutions are reluctant to finance projects in the lower market segment due to the high risk of loss of capital and low returns.
- Homogeneity and scale required to adequately lower construction cost per unit: Affordable housing units are homogeneous and are developed on a large scale. This could pose a barrier to the implementation of new construction methods with inadequate capacity for large scale housing delivery.
- High initial costs for production of formwork and purchasing of materials: New innovative construction methods may not have the enabling environment for smooth implementation.
- Affordable housing is seen as a government-led initiative: The regulation of PPPs and affordable housing by the National Treasury sends the signal to the private sector that PPP projects are government projects that offer low returns on investments and are over regulated (Ardonceanu, 2018:3-5).

6.6 RISK CHALLENGES OF PUBLIC-PRIVATE PARTNERSHIPS

The allocation of risks between the public and private sector is one of the key elements of a PPP agreement. Ideally, the public sector will prefer to transfer as many risks as possible to the private sector. However, the main objective of PPP agreement is not to transfer all risks to the private sector but to allocate some to the party best suited to manage it.

Risk issues are important factors that need to be considered in any PPP agreement. It is vital that risks are mitigated and properly managed as the extent of risk control could determine the success, or failure, of a PPP project. In general, there are many risks associated with PPP projects, but the risks associated with the two case studies include: construction risks, market risks, technological risks, vandalism and theft, and holding stock risks. These risks are explained in details below.

- **Construction risk**

Construction risks are usually borne by the private sector. Delays in construction due to adverse weather, industrial action, late delivery of equipment and supplies, can result in cost overruns and will increase the project budget beyond estimate. Construction risks can be mitigated through output specifications and performance payment regimes (Hodge and Greve, 2005:67).

The CTCHC interviewees (2018:Interviews) explained that there were situations of construction interruptions during the housing developments in Mitchell's Plain due to delays in the delivery of construction material by suppliers. Mr Wynand Ferreira (2018:Interview), the project and development manager, however stated that the disruptions did not significantly affect the project timeline as a construction risk delay allowance was made in the feasibility study of the projects.

- **Market risks**

The cost of construction materials can increase during the construction of the project due to inflation. Other factors such as changes in the country's overall economy, government policies on tax, environmental conditions and changes in the political developments, are risks that can influence the project. The CoCT General Conditions of Contract provides in clause 3.7 for fixed rates and prices for the duration of the contract that are not subject to adjustment; except for special conditions as provided in clause 17 which provides for adjustment for cost of plants and material imported from outside South Africa (CoCT, 2017c:33). The fixed rates and prices sometimes create problems for the private sector if their estimates are inadequate. This could result in budget overruns and put pressure on the developer to inject more capital into the project.

The Operations Officer of the CTCHC, Mr Werner Jurgens (2018:Interview), stated that although there was no problem of inadequate estimate in the projects budget, the volatile South African economy and interest rate increases affected the cost of capital negatively, as the company's debt capital on the projects increased during the construction period of the projects.

- **Technological risks**

It is possible that technological changes can occur during the period of the PPP agreements. For example, these may occur in situations of Built to Operate (BOP) contracts, such as the Harmony Village project where the CTCHC managed the project after completion. Technological changes may result in upgrades and changes to equipment which will involve huge costs. Risks due to unforeseen technological changes are provided for in section 362 of the CoCT risk management policies. This requires risk to be part of the city's philosophy, practices and business plan and should not be viewed or practiced as a separate activity in isolation in the normal course of business (COCT, 2017c:8).

The management of Harmony Village extends over 25 years and during this period will require upgrades in the information technology systems. Mr. Faizel Moos (2018:Interview), the marketing and client services manager, stated that the CTCHC upgrades its hardware and software IT systems on an ongoing basis, and these upgrades are usually associated with significant capital outlay.

- **Vandalism and theft**

Vandalism and theft are some of the common challenges faced by affordable housing developers in the CoCT. Because most of the developments are situated on the outskirts of the city, vandalism and theft of building materials is often a common occurrence. Hence, it is imperative that the development budget make adequate provisions for security costs, so as to safeguard the construction materials and the project as a whole. Clause 11.2a of the CoCT GCC requires the vendor to maintain:

“ public liability insurance, in the name of the vendor, covering the vendor and CoCT against liability for the death of or injury to any person, or loss of or damage to any property, arising out of or in the course of the contract, in an amount not less than R20 million for any single claim”.

The CTCHC interviewees (2018:Interviews) confirm that there were a few incidents of minor thefts of materials during the construction of the Mitchell's Plain projects, but no major incidence was recorded as a result of upgrades to the security systems. It is common practice in the CoCT for developers to make provisions for security of materials and staff in the project budget.

- **Holding stock risk**

Holding stock risks occurs when the completed housing units are not disposed-off within the scheduled period. This will result in delays in the repayment of the debt capital and consequently there will be an accumulation of interest on the outstanding debt. Mr Faizel Moos (2018:Interview) of the CTCHC argued that the company had to carry holding costs as a result of delays in locating the beneficiaries of the Mitchell's Plain projects.

Mr. Moos attributed the delays to the fact that the City of CoCT failed to update the details of beneficiaries on the housing allocation lists. Due to the CoCT lack of personnel capacity, the CTCHC had to carry the responsibility of locating the beneficiaries, and this resulted in delays in the allocation of some housing units and consequently increases in the holding costs.

6.7 ADMINISTRATIVE CHALLENGES OF PUBLIC-PRIVATE PARTNERSHIPS

A common concern raised by CTCHC officials during the interviews (2018:Interviews), was that there were too many bureaucratic delays involved when attempting to get processes done in the public sector with regards to plan approvals, rezoning of land and establishment of townships. On the average, it takes approximately 18 to 24 months for the township establishment process to be completed; this incurs huge costs for the private sector in terms of holding land costs over this period. Moreover, delays can result in budget overruns as a result of increase in the cost of building materials due to inflation. According to Mr Faizel Moos of the CTCHC (2018:Interview), the lack of a regular update of the City of Cape Town's housing beneficiary list poses a potential financial loss to the developer on completion of the projects, as details of many of the beneficiaries are not correct causing delays in locating the beneficiaries and the

handing over of the units. These unnecessary delays result to financial losses due to unreasonable holding costs and increased costs associated with inflation.

Another common factor that emerged from the interviews with the CTCHC and the CoCT officials (2018:Interviews) was the overregulation of PPPs and the affordable housing sector which include: credit worthiness assessments of prospective private partners, a registration requirement with the PPP regulatory authorities and the requirement of a contribution of 20% equity for every PPP project undertaken. Where the private entities require funding from the NHFC for mixed or integrated housing development, a minimum of 30% of the units have to fall within the NHFC defined target and affordable market.

Because of the government interest and obligation to provide housing at low costs, as mandated by the RSA Constitution, 1996, the private sector is required to operate under strict regulations of the Treasury PPP Unit. As a result, the private sector finds it unattractive to invest in the affordable housing sector through PPP partnerships. There is also a general perception that the high level policy does not offer clear and more predictable intent on why and when to opt for PPPs in general and in which specific sector (SPAID, 2007:4-5).

In evaluating the administrative challenges of PPPs, some of the problems associated with their implementation in the City of Cape Town include: problems with PPP preparation, PPP appraisal, the bid evaluation committee, lack of competition/sole bidder, transparency and disclosure, time from public notice to the contract being awarded, unsolicited proposals, PPP contract management, and capacity constraints. These problems are described and explained below.

- **PPP Preparation**

The preparation of a PPP process comprises the initial stages of the PPP project cycle. An important element in the preparation of any PPP programme is the selection of an investment project within the broader context of public investment planning. The regulation of the investment project varies significantly amongst different economies.

Public investments, including those projects to be implemented as PPPs, requires adequate planning and prioritisation in order to support an optimal use of public resources and a greater socio-economic impact of public infrastructure and services (World Bank Group, 2015:14-15). According to the CTCHC officials (2018:Interviews), the preparation of the Mitchell's Plain PPP projects was not prioritised by the Treasury PPP Units, as in the case with some developing economies such as Cameroon, Colombia and Kenya.

In developing countries such as Kenya, the procuring authorities must submit to the PPP Unit a list of PPP projects they intend to undertake on an annual basis, which should be in line with their development programmes, for approval and subsequent broadcast (World Bank Group, 2015:14-15). The submission of the list enables quicker pre-approval of the projects which eliminates time wasted in submission of each projects for approval at different times. This type of priority is not given to PPP projects in South Africa, where the regulatory framework, which is the Treasury PPP Unit, does not specifically mention any requirement to assess and prioritise PPPs within the broader context of public investment planning (World Bank Group, 2015:15).

The lack of pre-approval of projects for PPPs creates the uncertainty for the City of Cape Town as to which project should be undertaken using a PPP model, considering the bias towards the use of the traditional local government procurement process by top management of the Department of Human Settlement (DoHS, 2016). This uncertainty of choice of PPP as a project model and the requirement of the South African PPP Unit for the approval of phases of each PPP project reflects the unnecessary delays that characterises South African PPP processes.

- **PPP Appraisal**

PPP appraisal criteria are established to assess whether an identified project has the appropriate features to be implemented as a PPP programme. This typically involves assessing the project against the following criteria, including: conducting socio-economic impact assessment; a financial viability study, an affordability assessment,

a market analysis assessment, and a risk identification assessment and allocation (World Bank Group, 2015:15).

In South Africa unlike other economies such as Tunisia, Ghana and Tanzania, all the regulatory market testing criteria require assessment before PPP approval. This indicates that South Africa has more regulatory criteria than the aforementioned countries. For example, the PPP Manual stipulates that solution options analysis should include a market capability and appetite assessment. This was one of the concerns raised by the officials of the CTCHC (2018:Interviews) in the interviews in chapter 5. The CTCHC officials (2018:Interviews) argue that the testing criteria for PPP appraisal acceptability, which includes: conducting a socio-economic impact assessment; a financial viability study, an affordability assessment, a market analysis assessment and a risk identification assessment and allocation, are onerous in comparison with other developing economies. Consequently, private sector players are not attracted to PPP engagements. Table 6.1 shows PPP assessment criteria for different economies of various developing countries.

Table 6.1: Appraisal studies for PPP

Economy	Socio-economic impact	Financial Viability or bankability	Affordability assessment	Comparative assessment	Market assessment	Risk identification, assessment, and allocation
Cameroon	✓	✓	✓	✓	✓	✓
Colombia	✓	✓	✓	✓	x	✓
Egypt, Arab Rep.	✓	✓	x	✓	✓	✓
Ghana	x	✓	✓	✓	x	✓
Kenya	✓	✓	✓	✓	✓	✓
Nigeria	✓	✓	✓	✓	✓	✓
Peru	✓	✓	✓	✓	x	✓
South Africa	✓	✓	✓	✓	✓	✓
Tanzania	✓	✓	✓	✓	x	✓
Tunisia	x	x	x	x	x	x

Source: World Bank Group, 2015:8

- **Bid evaluation committee**

According to the World Bank Group (2015:16), a bid evaluation committee (or equivalent body) should be established in terms of paragraph 3.14a of the Procurement Guidelines (RSA, 2003c) in South Africa, and this should be done no later than the beginning of the procurement phase. Bearing in mind the complexity of PPPs and the fact that the committee evaluates the bid and applies award criteria, the Bid Committee should have substantial technical expertise. It is ideal for the regulatory framework to establish the composition of the committee. The regulatory framework may specify that members of the Bid Committee should have specific skills and expertise.

In South Africa, the Treasury PPP Unit is not clear on the composition of the Bid evaluation committee in the City of Cape Town for PPP procurement. The CoCT interviewees (2018:Interviewees) argue that non-prescription of the Bid evaluation committee is one of the problems of the procurement processes which may result to the appointment of the committee based on nepotism, political interests, or for reasons that does not serve the interests of the success of the project and of the public.

- **Lack of competition/sole bidder**

Engagement in PPP projects requires a significant investment of resources on the part of the private sector such as: conducting feasibility studies, license agreements, registration with the PPP regulatory authority and some sort of equity deposit for the project cost (World Bank Group, 2015:15). This may discourage competitive bidding and lead to a sole bidder situation. These stringent conditions may be some of the reasons for low participation of the private players in the affordable housing sector.

The interview with Mr Wynand Ferreira (2018:Interview) of the CTCHC reveal a sole bidder situation in the Mitchell's Plain projects. This is because the CoCT was originally a joint owner of the CTCHC with the NHFC.

Ms Nomzamo Mlungu (2018:Interview) of the CoCT alluded to the fact that in the establishment of PPP partnerships, there is sometimes a deliberate selection of certain service providers based on the reference of previous PPP engagement with the city and the negotiation process. Ms Mlungu, however, stressed the fact that the appointment of private partners is a regulated process, and still requires a certain level of competition in the pool of service providers even when the PPP partner is appointed by negotiations, instead of the tender procurement process. Lack of competitive PPP partner appointment may result in the selection of incompetent partners and consequently failed projects.

- **Transparency and disclosure**

The disclosure and transparency of PPPs administration and management of fiscal cost should result in a better understanding of the impact of service delivery (World Bank Group, 2015:17). In this respect, the World Bank Group (2015:18) argues that there are three specific and vital issues to be considered, and they include: publication of the award notice, publication of the full PPP contract, and notification of the procurement process results to unsuccessful bidders (including the criteria for selection). The CoCT PPP framework provides for the publication of the award notices, but does not require the publication of the full PPP contract. In terms of the publication

of results to unsuccessful bidders, the CoCT framework does not expressly provide for it, but the practice is to provide unsuccessful bidders with the reasons for selecting the winner (World Bank Group, 2015:18). As already stated, the PPP procurement does not provide equal competitive grounds for the private sector due to too much Treasury PPP Unit involvement in the PPP procurement processes. The reason is largely due to PPP unit overregulation of the sector and focus on service delivery at the expense of private sector goal of maximum returns on investment.

- **Time from public notice to contract award**

The PPP procurement process could be a lengthy one due to its complexity and size. The longer process could result in cost overruns, but at the same time, the nature and complexity of PPPs projects requires thorough evaluation of bidders' qualifications and their proposals. Time delay is one of the major challenges highlighted by the CTCHC officials (2018:Interviews) in the interviews in chapter 5.

Figure 6.1 indicate that the period from notice of the PPP to the award of the contract is 400 days (approximately one year) in South Africa. This shows that South Africa has one of the highest delay periods according to Table 6.1 and compared to other countries such as Kenya and Tanzania. Considering the present volatile nature of the South African economy, this could result in significant cost overruns in the project budget. Opinions of the CTCHC interviewees (2018) indicate that the private sector is reluctant to take on PPP projects due to the lengthy period of processes, which increases risks and creates uncertainties for returns.

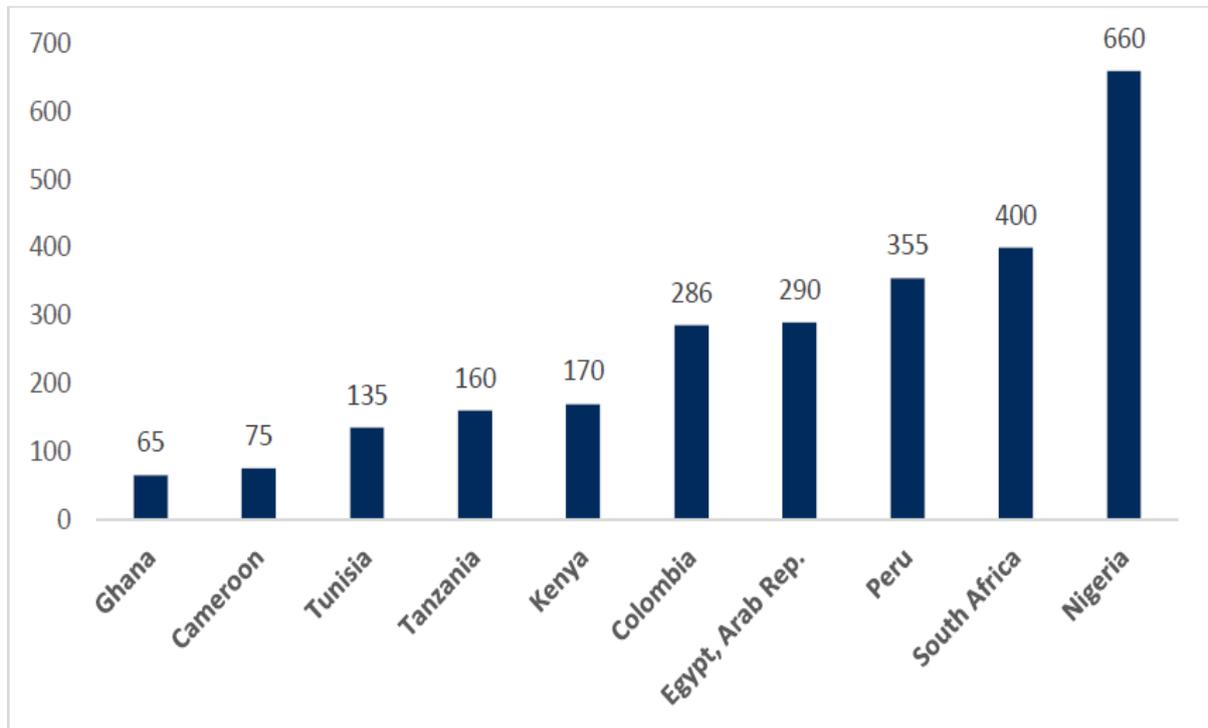


Figure 6.1: Calendar days from notice to PPP contract award

Source: World Bank Group, 2015:9

- **Unsolicited proposals**

Unsolicited proposals create an opportunity for the CoCT to benefit from the private sector's innovative ideas, but could also create new challenges. The important issue about unsolicited proposals is that they are outside the public sector investment framework because they originate from the private sector. While unsolicited proposals may be associated with unknown risks, they could bring forth some useful innovative ideas which may otherwise be wasted by not accommodating them.

In South Africa, the Treasury PPP Unit states that PPP unsolicited proposals should follow the same procedure and comply with the requirements as if they had originated from the public sector. The National Treasury, however, does not encourage the use of unsolicited proposals (Treasury PPP Unit, 2007a). The lack of attention to unsolicited proposals by the PPP unit is one of the challenges of PPPs in affordable housing as stated by Ms Gail Eddy (2018:Interview) of the CoCT. Ms Eddy argued that the CoCT Human Settlement Department lacks the capacity to effectively implement PPPs at a strategic level. Hence it is not well informed of the needs of the

community and activities on the ground and thus in many instances, relies on the private sector for feedbacks on the overseeing functions of the CoCT.

- **PPP contract management**

Taking into account the long-term nature of PPP contracts, the management of PPPs is a crucial aspect of every arrangement. PPP management involve setting up appropriate institutional structures for interaction with the private sector partner, monitoring and evaluating milestones, and dealing with changes in circumstances that affect PPP contracts. Moreover, management involves re-negotiation of contracts during the contract period. In South Africa, the regulatory framework expressly requires the approval of the procuring authorities for any contract re-negotiation (Treasury PPP Unit, 2007a). The Treasury will only approve re-negotiation if it is satisfied that the contract will continue to provide value for money, be affordable, and transfers substantial technical, operational and financial risks to the private sector. In the City of Cape Town, however, re-negotiation of contracts in the affordable housing projects is usually not enforced as they should be. This has resulted in the handing over of poor standard affordable housing units by the private sector and failed construction projects due to poor management of the private sector projects by officials of the City of Cape Town (BNG, 2004:5).

Ms Gail Eddy (2018:Interview) of the CoCT alluded to the fact that the issues of poor workmanship and failed project execution by the private sector is a management problem mainly because a lack of capacity at the Human Settlement Department of the CoCT to perform overseeing of the project implementation.

- **Capacity constrains**

Administrative capacity constraints are a major challenge in the implementation of affordable housing, both in the public and private sector. Ms Gail Eddy (2018:Interview) of the CoCT argues that lack of capacity is a major challenge for the Department of Human Settlement to effectively implement PPP projects in some cases, which results to inadequate oversight of private sector projects. The oversight

function is sometimes delegated to the private sector and this could result to unsatisfactory deliveries of sub-standard projects, or even failed projects.

Ms. Eddy also stated that capacity constraints hinder innovation at strategic levels, as senior officials are not well informed of the activities at operational level. A CoCT audit has also revealed that capacity constraints are the primary consequences of underspending of grants, delays in project completion, poor quality workmanship and inadequate monitoring of contracts (Armstrong, 2015:8).

The use of PPPs for public services delivery was introduced just over a decade ago in South Africa; however, private developers and social housing institutions (SHI) have not yet demonstrated the expected standard of expertise expected of them. Lack of capacity relates to inadequate project management skills, property management skills, management and weak governance. Some of the beneficiaries (2018:Interviews) of the West Cape Villas project have complained of poor construction and the use of inferior building materials. Poor designs and building plan layouts were also some of the concerns raised by the beneficiaries during the interviews. On the property management level, SHIs have been accused of poor maintenance capacity and low levels of rental collections. Due to the low profit margins associated with affordable housing projects, the private sector is unable to attract highly skilled labour to provide high standard of services which is generally expected.

6.8 THE COMPARATIVE VIEWS OF THE PRIVATE SECTOR, THE PUBLIC SECTOR AND THE BENEFICIARIES ON PUBLIC-PRIVATE PARTNERSHIPS

The views of both the public and the private sector will and should differ on PPPs due to their motives for pursuing PPPs. The success of PPPs relies on the fact that both the public and the private sector have different incentives. The beneficiaries are concerned with the outcome of PPPs activities that can deliver the services they need. The views of the three role-players are explained below.

6.8.1 Private sector's view

The CTCHC officials' view (2018:Interviews) is that few PPPs are established in the City of Cape Town, and that their activities have limited developmental impact on the economic growth of the CoCT (SPAID, 2007:13). The CTCHC respondents (2018:Interview) argue that there are limited opportunities for the private sector and that more affordable housing developments could be possible if more investment opportunities were available to the private sector. The CTCHC respondents (2018:Interview) explains that the Treasury PPP Unit established a good policy framework for PPPs with emphasises on the regulation of PPPs, but failed to provide adequate funding and an enabling environment to capacitate the private sector involved in PPPs.

In terms of regulations, the CTCHC officials (2018:Interview) argue that certain of the regulatory provisions of the Treasury PPP Unit, which include credit worthiness assessments of prospective private partners, registration requirement with the PPP regulatory authorities and the requirement of a contribution of 20% equity for every PPP project undertaken, are onerous and discourage the private sector from entering into PPP agreements. Where the private entities require funding from the NHFC for mixed, or integrated housing development, a minimum of 30% of the units must fall within the NHFC defined target and the affordable market. Consequently this would reduce private sector expected returns on housing developments.

The CTCHC respondents (2018:Interviews) posit that the PPP unit management of the PPP project cycle is overregulated as every phase of the project cycle require Treasury approval, and that the Treasury becomes more involved in transactions details than it may need to (SPAID, 2007:13). The CTCHC interviewees (2018:Interviews) explains that the procurement regulations of PPPs are generally acceptable for national and provincial PPPs, and best suited for large transactions but not for local governments and smaller transactions with limited risk transfer. For example, there are some problems of consistency between Black Economic Empowerment thresholds in the PPP guidelines and the PPP sector implementation. The rules do not work at municipality levels, such as the Preferential Procurement Policy Framework Act, 2000 (PPPFA), which provides for a ceiling on the price

premium to be paid for BEE in the supply of goods and services (National Treasury, 2004:20).

The CTCHC officials (2018:Interviews) argue that PPPs in the CoCT are still developing, and the private sector is in no position to carry extensive risks as required by the PPP unit and the implementing agencies. The CTCHC respondents explained that the CoCT market is not mature enough for the private sector to carry optimal risks. Moreover, they are of the opinion that the interest in PPPs in the CoCT is waning due to the Treasury's reluctance to restructure PPP regulations and provide more funding as an incentive for the private sector.

6.8.2 Public sector's view

The Treasury PPP Unit has conflicting views to the private sector with regards to PPP policy. The PPP unit's view is that the current volume of opportunities for PPPs is acceptable (SPAID, 2007:14). The South African PPP policy boils down to the pursuit of PPPs that are well structured and meet the criteria of affordability, value for money and optimal risk transfer.

The CoCT's interviewees (2018:Interviews) recognise that PPPs take longer to implement compared to traditional government procurement, but is acceptable due to the complex nature of the transactions, which require great care to manage (SPAID, 2007:11). The CoCT's officials (2018:Interviews) explained that the rules of procuring PPPs are good, but may require a streamlined set of rules for smaller value projects. For example, CTCHC respondent (2018:Interview) argues that the phases and regulation of PPP cycle is cumbersome, takes longer time than traditional procurement and causes delay in the completion of developments for smaller projects. Hence, the process needs to be amended to accommodate smaller projects.

Contrary to the private sector's view, the Treasury PPP Units responsible for PPP policy (SPAID, 2007:12) argue that the PPP unit already spends too much time on promoting and facilitating PPPs, and relatively little time regulating PPPs. The Treasury PPP Unit argues that the private sector is too reluctant to accept reasonable risk; their reason for this is that there is too little competition between private sector investments and banks involved in PPPs. The Treasury PPP Unit responsible for PPP

policies (SPAID, 2007:12) argues that the completion of various PPP projects is evidence of the success of the PPP programme success. For example, the Harmony Village project in Mitchell's Plain was named the best institutional housing project in South Africa at the 2016 National Govern Mbeki Award ceremony (IOL, 2016:1).

The disagreement between players in the market for PPPs in South Africa is because they have different objectives with respect to PPPs. For example, private investment banks mostly favour larger PPP investment projects because of the business opportunities they present. On the other hand, the CoCT favours a more cautious approach in order to ensure that local government resources are used responsibly, and to ensure that each PPP meets strict value-for-money, risk transfer and affordability criteria (SPAID, 2007:13).

6.8.3 Beneficiaries

Some beneficiary respondents (2018:Interviews) explain that the public sector has somehow failed in their mandate to provide adequate housing for the communities as provided in the South African Constitution, 1996. They argue that the public sector sometimes lack the political will and personnel capacity to fulfil their mandate of providing housing to the communities, especially to the low to moderate income earners.

The beneficiary interviewees (2018:Interviews) argue that while PPPs facilitates housing delivery, not all their projects have succeeded in delivering housing to the communities. They argue that some PPP projects have failed due to the private sector's incompetence and their quest to maximise profits, which leads to failed housing projects that were not completed, or constructed with sub-standard quality building materials.

Some beneficiary interviewees (2018:Interview) expressed mistrust in the private sector, and argued that housing delivery done directly by the public sector, through the traditional procuring process, would offer lower price and better quality houses. They explained that the private sector's profit maximization intents are responsible for the higher prices paid for affordable housing. Moreover, the beneficiaries argue that the political wrangle of PPP projects between the public and private sector is

responsible for the delays in the completion and delivery of affordable housing, constructed under PPP partnerships. Other problems explained by the beneficiaries include: poor building design, poor workmanship with regards to some units, the use of inferior building materials, and lack of broader beneficiary income bracket to accommodate more low to moderate income households. A summary of agreements by topic are listed in Table 6.2.

Table 6.2: Shows various topics of disagreement between the role-players in the affordable housing sector

TOPIC	PRIVATE SECTOR: CTCHC	PUBLIC SECTOR: CoCT / PPP UNIT	BENEFICIARIES: Harmony Village West Cape Villas
Availability of opportunities.	Insufficient opportunities.	There is right number of opportunities given the criteria that PPPs must show value-for-money, optimal risk, and be affordable. Regulations of PPPs require amendments to create opportunity for smaller value projects' execution.	Public and Private sector should co-operate close to deliver more houses. PPP's are effective models of affordable housing delivery, and should be used more by the public sector to deliver services.
Implementation time.	PPP take too long to implement; longer than traditional procurement. Public sector bureaucratic process delays housing delivery.	PPP require detailed Project cycle procurement processes to ensure value-for-money, transfer of risk, adequate budgeting. PPP's may take longer to implement because they are complex.	Housing delivery takes too long to implement. The waiting time for housing allocation in the housing beneficiary list should be reduced.
Legal requirement.	Regulations for procuring PPP's are broadly acceptable at the national and provincial levels, and	Regulations for procuring PPP's are adequate and effective. PPP's must be regulated in order to achieve the	The requirements for qualifying for housing, needs to be relaxed, and income bracket for qualifying for subsidies

	<p>better executed for larger projects, but not suitable for smaller projects, and require amendments at local government levels to be used for smaller projects.</p> <p>Treasury regulations for procuring PPPs are too onerous and over-regulated.</p> <p>BEE thresholds included in PPP guidelines are not necessarily in line with sector charters.</p>	<p>primary purpose of delivery housing to the low income earners at reduced prices.</p>	<p>is not broad based, and excludes some moderate income earners.</p>
<p>Role of the PPP Unit.</p>	<p>PPP unit does too much regulation, and too little promotion and facilitation of PPPs within implementing agencies.</p>	<p>PPP still not seen as first option procurement of infrastructure. Public sector prefers tradition procurement because it is less complex.</p> <p>PPP unit spends as much time as it can promoting and facilitating PPPs.</p>	
<p>Role of the private sector vis-à-vis Government.</p>	<p>Public sector intends to transfer optimum risk to the private sector.</p>	<p>Private sector will focus on maximising profit, and care less on delivery.</p> <p>Too little competition among private sector investment banks; greater involvement of private banks required to boost PPP implementation.</p>	<p>Private sector involvement in PPPs facilitates the delivery of affordable housing.</p>

Evidence for their positions on PPP implementation.	Number of bidders for new PPPs appears to be decreasing over time. Increase in grants and subsidies required from Treasury to attract more private sector engagement.	An impressive number, value, or quality of deals recently closed - for example, Harmony Village won award for best institutional housing project in South Africa.	Harmony Village and West Cape Villas projects are successful, but some housing deliveries are sub-standard.
Administrative Management.	Public sector lacks the capacity to implement PPP at the top strategic levels.	Private sector is focused on profit taking, therefore deliver substandard products.	Both the public and private sector lack the capacity to deliver housing on a scale required by the communities.
Finance	PPP unit / Public sector have failed to provide the required finance to increase the scale of PPP activities in affordable housing development.	Private sectors are reluctant to take risks associated with PPPs. Treasury provided sufficient funding through subsidies and grants.	House prices are high and the scale of production is low, due to the public sector and private sector's reluctance to invest more in affordable housing.

Source: SPAID, 2007:10

6.9 CONCLUSION

While the literature has proven that PPPs can enhance public value, some PPP projects in the CoCT have illustrated that a partnership does not automatically turn out to be successful. When deciding to use PPPs in service delivery, the local government should bear in mind the challenges that come with it.

Challenges that confront the use of PPPs in the CoCT as a service delivery model were described in this chapter. While the beneficiaries are unable to provide sufficient finance to purchase a home due to their low level of income, the public sector needs to involve the private sector in the delivery of public services due to their limited financial resources. The private sector on the other hand, is unable to increase the

scale of its development. This is due to inadequate financial incentives from the National Treasury and limited sources of financial opportunities. Other financial challenges include the high cost of finances and access to debt funding.

Locating suitable land close to economic opportunities is also a challenge that confronts local authorities. Even when the land has been identified, other factors that delay land allocation for affordable housing include: environmental impact assessment, spatial planning regulations, and lack of political will.

The CTCHC and CoCT interviewees (2018:Interviews) in chapter 5 maintained that one of the major challenges of PPP programmes is that there is no clear policy direction regarding on under what circumstances should PPP be preferred and for which specific sector should PPPs apply. They argue that it is unclear whether the top management level of government favours the use of PPPs in general or only in specific circumstances. They feel that this is the reason PPPs are not receiving attention from the government.

Other challenges described in this chapter include: the legislative issue of PPPs, affordable housing challenge, financial constraints, land availability, innovative construction technology, risk challenges, and administrative challenges of PPPs; which are often blamed for poor service delivery by the public. The slow pace of public service processes have been identified as one of the major hindrances to efficient service delivery by the interviewees in chapter 5. This has been attributed to capacity challenges in many cases.

In summary, although PPPs have been used by the government to improve the efficiency of housing delivery in the CoCT, the full benefits of PPPs are yet to be realised due to the challenges explained in this chapter. In order to realise the full potentials of the use of PPPs, the public and private sector needs to improve co-operation in order to address the challenges of PPPs and there is need to attract more private companies to engage in PPPs, if larger scale housing delivery is to be achieved.

CHAPTER SEVEN: A NORMATIVE APPROACH TO PPP CHALLENGES IN HOUSING DELIVERY IN THE CITY OF CAPE TOWN

7.1 INTRODUCTION

This chapter aims to present a normative approach to PPP challenges in housing delivery which emerge from the interactions with interviewees of Mitchell's Plain affordable housing projects and also to propose solutions for the challenges identified in Chapter 6. The normative approach to PPP challenges is also based on the theory in chapter 2, the policies in chapter 3, case studies in chapter 4 and research findings in chapter 5.

While the researcher focused on identifying the challenges, the respondents identified them and suggested possible solutions. What is clearly evident is that the solution to PPP challenges requires public sector, private sector and the beneficiaries' collaboration in order to pull scarce resources together and share risks according to the party most suitable to handle such risks.

The recommendations to the private sector and the public sector and for the future use of PPPs, are described and explained based on evaluation of research findings in terms of the following issues: solutions to legislative matters; solutions to financial constraints; solutions to land availability; innovative technology as a solution; solutions to risk challenges and solutions to administrative challenges. These are described and explained in details below.

7.2 SOLUTION TO LEGISLATIVE ISSUES

Section 217 of the Constitution (RSA, 1996), provided the macro legislative framework for PPPs. Subsequent to the Constitution (1996), is the Public Finance Management Act (RSA, 1999a); Treasury Regulation 16 (RSA, 2003c); and at local government level, the Municipal System Act, (RSA, 2000) and the Municipal Finance Management Act (RSA, 2003a) which was described in chapter 3. They form the main legislation

governing PPPs. In line with constitutional mandates, these laws reflect and support the government objectives in delivering infrastructure and public services.

Section 16.3 of the Public Finance Management Act (1 of 1999) prescribes that all PPPs are subject to approval by the PPP unit, located in the National Treasury, except in situations where responsibilities are delegated to the treasuries of the province's Support Programme for Accelerated Infrastructure Development (SPAID, 2007:2). Some of the provisions of the legislative framework of PPPs have been argued by critics as factors that pose challenges to the effective implementation of PPPs as a service delivery model. The following solutions to the problems are proposed.

- **Clear policy direction at the strategic level**

According to the CoCT respondents (2018:Interviews), a clear policy directives at the strategic level on PPPs implementation needs to be formulated in the City of Cape Town. For example, a decentralised authority by the Treasury should be given to the City of CoCT's PPP programme that is run by CoCT's PPP unit. This should help to reduce delays in seeking approvals from the National Treasury PPP Unit. The CoCT's PPP unit should invite private sector partners to tender for pre-determined local government service delivery needs in real time. This should help to eliminate the uncertainties of when and under what circumstances PPPs should be implemented.

In order to eliminate the conflict of the legal framework of the Municipal Finance Management Act (RSA, 2003a), and the Municipal System Act (RSA, 2003b) at the local government level, a single feasibility study for a PPP should be implemented, instead of two conflicting feasibility studies from the Municipal Finance Management Act (RSA, 2003b) and the Municipal System Act (RSA, 2000b) that are not identical and have different completion times. Having a single feasibility study and the elimination of the requirement of approvals of phases of PPP projects from the National Treasury PPP Units, will help to reduce delays and provide clearer directive in terms of when and under what circumstance PPP projects should be implemented.

- **Policy on land**

Provision of land at reduced cost is an important aspect of affordable housing development involving PPPs. The CTCHC respondents (2018:Interviews) argue that due to the low returns associated with affordable housing developments, the private sector is attracted to the affordable housing sector if land is provided at reduced or no cost, by the government.

To make land available for affordable housing development in the City of Cape Town will require amending some of the existing policies on land allocation, such as the Cape Town Spatial Development Framework (CTSDF), City of Cape Town Immovable Property By-Law, 2014 and the Urban Design Policy of 2013. To achieve this, the policy amendment should make it easier to provide for, and facilitate, the release of land for affordable housing directly to the private sector developers involved in PPPs at below market cost. This is a better option as oppose to manage tender processes to the highest bidder which are costly and at times characterised by irregularities and bureaucratic delays. On this background, the municipal legislative council and the administration of the City of Cape should tailor land related policies and by-law towards the allocation of land for affordable housing.

Due to the competition involving land use, the CoCT should make amendment to the Cape Town Development Framework policy in order to make more land available for affordable housing development. The Spatial Planning and Land Use Management (SPLUMA) Act, (16 of 2013) (RSA, 2013) as enacted by the Parliament of the Republic of South Africa, permits other legislations to prescribe an alternative, or parallel mechanism, or system on planning, land use, land use management and land development in a manner that is consistent with the Act (CoCT, 2016:1).

The City of Cape Town Spatial Development Framework (CTSDF) is adopted as part of the five year Integrated Development Plan. This is in accordance with the stipulations of the SPLUMA, 2013. The CTSDF provides for land use management guidelines regarding the appropriate nature, form, scale and location of developments, as well as guiding investment for the private sector. Therefore, to increase the

allocation of land for the development of affordable housing involving PPPs, should require amendment to the CTSDF.

Chapter 4 of the CTSDF deals with development management and zoning scheme. According to the CTCHC respondents (2018:Interviews), rezoning land for township development could take up to two years or more, and this causes delays in the construction of affordable housing. Thus, the CoCT should amend Chapter 4, section 24, of the CTSDF to shorten the time and processes of rezoning land intended for the development of affordable housing.

Subject to section 35(2) of The Spatial Planning and Land Use Management Act, (16 of 2013) (RSA, 2013) and Chapter 7 of the Cape Town Spatial Development Framework, the COCT should rezone land that does not belong to the municipality, including privately owned land, if such land is deemed suitable and required for affordable housing. This could be achieved through the land expropriation processes.

Moreover, the Cape Town Spatial Development Framework should be amended to provide separate land disposal guidelines for land required for affordable housing involving PPPs in line with the provisions of Regulation 40(2) of the Municipal Supply Chain Management Regulations, published in the Government Gazette as GNR.868 of 30 May 2005. In terms of chapter 8 of the CTSDF, the CoCT may invoke the emergency housing by-law which exempts applications for land for affordable housing development from procedural requirements or shorten the time period provided for in the CTSDF for the processing of application for land acquisition, or for rezoning of land for township development. This should help to make land easily accessible to the private sector developers involved in PPPs for affordable housing developments.

- **Policy objectivity towards traditional public procurement**

Instead of having the CoCT take the lead in identifying priority investments, a proposed CoCT PPP programme should welcome proposals from the private sector. This will help to ascertain what the real needs of the people are on the ground with regards to housing typologies and design specifications. This needs to be done under strict guidelines such as a list of project type, with a description of facilities and services

included, the output measures to be achieved and the circumstances under which it should be considered in a particular area of the CoCT. The programme should also have some scope for private innovation and risk taking. In so doing, PPP models will stand a better chance of being preferred models to the CoCT's traditional procurement processes.

- **Legislative regulations**

A panel of approved transaction advisors is proposed to act on behalf of the CoCT in the evaluation, procurement, and negotiation of PPP agreements, so that procurement is simple, not bureaucratic and financially constraining to the CoCT (Jooste & Van Zyl, 2015:2). The rules for bidding contracts should be simplified and clearly outlined in the guideline for all private PPP proponents. This would include indicative timeframes and a step by step roadmap to reach the appointment of private sector PPP partners.

It is also proposed that stringent Treasury PPP Unit regulations such as 20% equity contributions of project costs required from bidding private developers for projects, be removed or reduced. The requirement of the National Treasury PPP Unit for the approval of each phase of PPP, should be decentralised to the local government PPP unit to facilitate the implementation of the PPP cycle. The decentralisation of the approval of the PPP phases should improve project management, and reduce time delays in procurement processes.

7.3 SOLUTION TO FINANCIAL CONSTRAINS

According to a report by the Centre of Affordable Housing in Africa (2017:1), 3.8 million of the working class South Africans earn between R3 500 and R15 000 per month and are thus in the "gap" housing group, which is short of minimum income threshold for entry into the open competitive housing market. This means that at least 3.8 million employed South Africans cannot afford to buy a property without financial assistance from the government. The following proposals have been suggested as solutions to address the housing needs and financial problems of the majority of the people living in the CoCT.

- **Subsidy expansion**

The FLISP programme was introduced by the City of Cape Town to provide bridging finance for households that earn income of between R3 500 and R15 000 per month for them to be able to qualify for housing loans with financial institutions. This programme has been unable to reach consumers in the broader affordable market; typically households that earn between R15 000 and R20 000 per month. The FLISP programme should be expanded to include households within the income bracket of R15 000 to R20 000 per month so as to increase the number of moderate income households qualifying for the FLISP programme (WCG, 2017:12).

A different subsidy model is proposed to augment the existing FLISP programme, such as the introduction of a VAT-free incentive subsidy to all new home applicants that meet the gap-market criteria. With VAT currently at 15%, the savings of VAT-free will reduce cost of capital for first time buyers (WCG, 2017:12).

- **Customer credit rehabilitation**

One of the key challenges of housing mortgage finance in South Africa is that half of five million people who are eligible to borrow money to buy a house have impaired credit records (Masilela, 2016:1). In addition, up to 60% of the remaining half does not meet affordability criteria. This has adversely affected home loan approval rates to the range between 30-35% (Masilela, 2016:2). Hence, it is in the interests of financial institutions to drive the development of alternative mortgage lending solutions such as the rent-to-buy model, which is a model of converting tenants to home owners once having proved their ability to maintain regular payments, and a rental social housing model which helps people with impaired credit records to qualify for social housing.

Credit rehabilitation should be achieved through customer education and debt counselling, debt consolidation, and encouraging savings. Credit rehabilitation should expand the credit worthiness of prospective home buyers by increasing their spendable income and increase lending opportunities for houses with private financial institutions. The different ways of improving credit worthiness are explained below.

- Customer education and debt counselling – people with a high level of debt should be encouraged to consult debt councillors for advice on how to spend responsibly.
- Debt consolidation – people owing different establishments should be encouraged to consolidate their debt into one payment instalment in order to reduce their instalment payment and increase their spendable income.
- Encourage savings – savings should be encouraged by advising people to consult financial planners so that they can be educated on how to budget with regards to spending.

- **Private sector incentives**

The CTCHC interviewees (2018:Interviews) in chapter 5 argue that while the National Treasury did a good job in regulating the activities and implementation of PPPs through the Treasury PPP Unit, it should capacitate the private sector participation in PPPs. It is proposed that the City of Cape Town provide property rate exemptions to developers for newly completed affordable housing units, pending their allocation to qualifying beneficiaries; the CoCT should reduce the cost of municipal services to PPPs, such as cost of plan approvals and rezoning of land for new affordable housing developments; direct release of land to developers at subsidised costs, instead of going through bureaucratic tender processes that allocates land to the highest bidder. Moreover, it is proposed that improving CoCT services such as fast-tracking zoning approvals, township establishments, and plan approvals would facilitate affordable housing projects' implementations, improve service delivery and attract more private investors to engage in PPPs.

The CoCT should also provide guaranteed housing loans to private developers who borrow capital finance from private financial institutions for affordable housing developments. The loan application should be subjected to a number of checks which include a financial check by the lending financial institution to ensure that the development will yield sufficient rental returns to pay the loan. Also a check that the rental housing development meets standards in terms of construction specifications, as per the National Home Builders Registration Council (NHBRC) requirements, and is of sufficient technical quality.

This model will provide alternative sources of finance to the grants allocations by the National Treasury. The implementation should be an incentive for more private sector involvement in PPPs, which should increase the scale of affordable housing developments.

- **Rental model: Multi-properties ownership**

As already stated, most consumers in the affordable market sector do not qualify for mortgage financing due to reasons such as impaired credit records and low income. Subsequently, it is proposed that improved access be made possible to rental space model or broader affordable housing initiative, such as the Instalment Payment Agreement model (IPA), introduced by the CTCHC in development of Harmony Village as described in chapter 4. The IPA model affords the beneficiaries the opportunity of ownership of houses they do not qualify to buy with their income level. The rental housing will not provide home ownership but will provide subsidised rental housing for those with impaired credit records or low income. This programme will need to be supported by public-private engagements in a PPP agreement to be able to cater for the low to moderate income earners.

The rental housing model is proposed for the CoCT vision of developing 4000 affordable housing units around the corridors of Cape Town's CBD by 2023 (Masilela, 2016:2). The proposed developments in the inner city is widely viewed as a positive step by the COCT to make housing available for the low income earners within the economic hub of the CoCT and it is also a means of achieving social integration.

- **Low income housing tax credit (LIHTC)**

The LIHTC programme is a finance option which the CoCT Treasury should consider as a supplement finance source to issuing grants and subsidies. This finance programme has been implemented in the USA and some European countries. It involves the government issuing tax credits (relief) to housing developers, who in turn

sell the credit to investors for equity finance (Desai, Dharmapala & Singhal, 2011:3). To put it in a nut-shell, it is a tax relief for investment in affordable housing.

The process will entail that the National Treasury allocates tax credit to local governments in terms of the subsidy grants allocation conditions. The local government will then allocate the tax credit through a competitive allocation process to housing developers, who in turn sell the tax credit to investors, who then use the credit to offset their tax bills. The price paid by the investor for the tax credit will depend on demand and supply in the tax credit market. The developer uses the investor's funds to develop affordable housing units. Most affordable housing projects developed by the CoCT are financed through grants and subsidies, and the LIHTC should help to provide alternative funding source and increase the capacity of affordable housing developments if implemented.

- **Involvement of private financial institutions**

Findings from the interview with the CTCHC officials (2018:Interviews) reveals that private financial institutions in South Africa are reluctant to invest in affordable housing developments due to low returns and high risk of capital of PPP projects implementation. It is proposed that the government should create an enabling environment for private financial institutions to invest in affordable housing, by granting tax incentives, introducing a risk sharing mechanism, offering guarantees as part of the loans granted to the private developers by financial institutions and limiting the lender's loss to the normal portion of the loan in the event of default. Moreover, the government should work with the financial institutions to develop mechanisms to address volatile interest rates, including fixing repayment rates for loan products.

The CoCT should grant property rate relief to newly developed affordable housing units, still under the ownership of the developer, until the units are transferred to the intended beneficiaries. The property rates relief assists in saving holding costs for the developers between the period of completion of construction of the housing units and the transfer to the beneficiaries.

- **Access to finance and debt funding**

The private partners involved in PPPs experience high cost of finance and debt funding as a result of limited options of sources of finance, and delays caused by time wasted in procurement processes such as township establishment, plan approvals, sub-divisions and re-zoning. These issues should be solved by access to different sources of finance, rather than having all developers waiting for the CoCT's grants and subsidies. Different sources of finance will also mean that the cost of debt funding will be lower due to competing lenders. Having funds at the right time means that rising costs caused by inflation will be mitigated. Some alternative financial sources are described below.

- **Corporate bond**

Corporate bond allows for a large number of creditors funding projects, so the risk associated with obtaining the necessary capital is sufficiently diversified. Using a corporate bond to finance PPP projects allows the private sector the opportunity to have access to larger amounts of funds that cannot be obtained through commercial bank loans. This means that the private sector could carry out developments on a larger scale. Unlike the bank loans, it allows for lower cost of acquisition of capital due to diversification of risk among a large number of creditors (World Bank Group, 2018:2-3).

- **Ordinary shares**

The use of ordinary shares to finance PPP projects provides a large volume of capital needed for such investments. This is suitable for the development of rental social housing, and will relieve the CoCT of the obligation of providing subsidies for such housing developments. The private partner can issue ordinary shares to raise the capital needed for the development. In an event that may occur during the lifetime of the partnership, the use of ordinary shares financing has the advantage of no fixed commitment to pay dividends, unlike the fixed interests on bank loans. This means that it is less risky for the use of

ordinary shares in PPP project financing than in the case of debt loans, which has the obligation to pay fixed interest (Man & Jurcikova, 2015:581).

➤ **Bond/capital markets financing**

The use of bond financing creates the opportunity for the borrower to access debt directly from the individuals and institutions, rather than using intermediaries and commercial lenders. The borrower (issuer) sells the bonds to the investors. A trustee holds the right and acts on behalf of the investors, preventing any one investor from independently declaring a default. The value of the bond is determined by rating agencies that assesses the riskiness of the project, and assigns a credit rating to the bond which will signal to the bond buyers the attractiveness of the investment and the price they should pay. If the credit rating for the project is sufficiently strong, the bond financing will provide lower borrowing costs. Bond financing provides benefits to PPPs, which includes lower interest rates, longer maturity, and more liquidity (World Bank Group, 2018:2-3).

➤ **Debt for equity swaps**

In chapter 5, Mr Faizel Moos (2018:Interview) stated that the CTCHC is unable to obtain sufficient loans that it requires because of the value of outstanding debt it still owes the NHFC. The debt for equity swaps is a possible solution to situations where the private partners already have major loan commitment, and financiers are reluctant to lend more to these partners. In such cases, the debt is converted into equity of the same value. This means that the debtor transfers shares to the provider of the existing debt, making them a shareholder of the partner (World Bank Group, 2018:2-3).

The suggested financial models have been successfully used in different countries and may be equally successful in the City of Cape Town if implemented. However, the current provisions of the National Treasury PPP Unit are an impediment to the implementation of some of the proposed financial models. Hence, amendment of the Treasury PPP unit provisions is vital to the improvement and successful

implementations of alternative investment financial sources for PPPs in the City of Cape Town, instead of the current dependency on Treasury grants and subsidies.

7.4 LAND AVAILABILITY FOR PUBLIC-PRIVATE PARTNERSHIPS

A consensus between the CoCT and the CTCHC interviewees (2018:Interviews) is that making land available for affordable housing development is a huge challenge to PPP arrangements, as the land cost must be minimal to support affordable housing developments. To make the matter even more complicated land identified for development must be located close to areas of economic and employment opportunities in line with Breaking New Ground Policy of 2004. Land located close to areas of economic opportunities is always in competition with other uses, such as commercial, industrial, upmarket residential developments and for recreational purposes.

The following measure are proposed solutions to land availability challenges and they include: commitment by the local government, performing land audits and updating of land registers, promoting the process of land availability agreements versus sale of land, ring fencing, land for affordable housing through mixed income housing programmes, partnerships including land swaps and land discount. These suggested measures are explained in details below.

- **Commitment by the local government**

It is proposed that the CoCT make more land available for affordable housing development using PPPs if there is any chance of reducing the housing backlog in the CoCT. This would require government officials to understand their role as public servants and render political commitment to unlock the housing challenges of the public sector. The public officials need to accept that they have an important role to play with regards to making land available and to facilitate housing delivery to the low income sector. This means that public servants must embrace the Batho Pele principles explained in chapter 3, by ensuring efficiency and minimal bottlenecks in the allocation of land for affordable housing developments.

The CoCT has vast development land scattered within its area of jurisdiction, but it requires conscious political decision to allocate land for affordable housing against the demands of other competing land uses. The CoCT should allocate land for affordable housing based on its values of five pillars of service delivery approach as described in chapter 3, which includes:

- **The opportunity city** – creates environment to attract investments and create jobs that will enable people to afford their own houses.
- **The safe city** – through the involvement of communities and stakeholders, promotes freedom from fear of crime and unsafe streets which will enable inclusive spatial planning of neighbourhoods and development of affordable housing close to affluent neighbourhoods and economic opportunities.
- **The caring city** – provides access to basic services to all citizens, especially for those most in need of housing.
- **The inclusive city** – the one in which every resident has a say and a stake in the future of the community and promote social integration, as well as inclusiveness in decisions regarding the development of affordable housing.
- **The well-run city** – transparent and corruption free local government, receptive to the needs of its citizens, and facilitate the delivery of housing, especially to those who need government assistance to be able to afford a house (CoCT, 2017:2).

- **Land audits and registers**

The CoCT should perform proper audit of municipal owned land and establish registers based on recent land audits. The establishment of a comprehensive municipal asset register will enable the identification of CoCT land suitable for affordable housing development using PPPs.

In addition, the CoCT should conduct an audit of privately owned land suitable for affordable housing development within its area of jurisdiction, and then commence negotiations with land owners to acquire the land, either by purchase or by way of expropriation, in terms of the Expropriation Act, (63 of 1975) (RSA, 1975).

Compensation for privately owned land is vital to encourage the release of land by its private owners.

- **Land availability agreements versus sale of land**

The CoCT should facilitate the development of affordable housing using PPPs by releasing land to the developers in the affordable market segment by way of Land Availability Agreement, as opposed to the sale of land to the developers (Moos, 2018:Interview).

This method of land disposal should contribute to the affordability of the housing to be developed, as it reduces the cost of the land and helps to monitor and ensure that there is no profit or speculation in the land price component of the development. This method of land allocation also offers added benefit of ensuring and monitoring that the target income group bracket, which is the low to moderate income are the beneficiaries of the development.

The benefit of the Land Availability Agreement (LAA) is that the CoCT remains the owner of the serviced land and passes transfer to the qualifying beneficiary only once the house is completed. On transfer, the CoCT receives the purchase price of the serviced land and the PPP developer partner receives payment for the improvements. This process allows the CoCT to monitor the price of the completed housing units also ensuring that the specific target markets are the beneficiaries of the development and that there are no holding costs in respect of the land on the part of the developer.

- **Ring fencing land for affordable housing**

The ring-fencing method of land provision identifies and reserves portions of land for affordable housing development. It is part of the CoCT's PPP models for affordable housing developments in line with the Integrated Development Plan that seeks to build 4000 mixed income housing development in the corridors of the inner city by the year 2023.

As mentioned earlier the CoCT has identified ten pieces of land in the corridors of the city centre for affordable housing development (Etheridge: 2017:2) by means of the ring fencing model as described in chapter 6. This is in consideration of the various housing challenges facing the municipality and the displacement of its low to moderate income residents to the outskirts of the city. The location of the sites has been carefully selected to ensure proximity to public transport networks and easy access to areas of job opportunities. These vacant sites are listed in Table 7.1.

Table 7.1: CoCT proposed development sites

LOCATION	SUBURB	EXTENT	TYPE OF DEVELOPMENT
Pickwick Road	Salt River	3.3ha	Affordable housing
Hospital Park	Woodstock		Affordable housing
Hospital Site	Woodstock	1.84ha	Affordable housing
New Market Street	Woodstock	0.84ha	Affordable housing
Canterbury Street	Inner-city	0.27ha	Affordable housing
Pine Road	Salt River		Social Housing
Dillion Lane	Salt River		Social Housing
Salt River Market	Salt River		Social Housing
Copperfield Road	Salt River		Transitional Housing
James Street	Salt River		Transitional Housing

Source: CoCT, 2016

At least 4000 low income households are expected to benefit from the developments which will include social and gap housing made available to households earning between R3 500 and R20 000 per month. The development will be a partnership between the City of Cape Town and the private sector.

Two sites in Woodstock will be developed with 240 rental residential units for households that earn less than R15 000 per month. In Salt River 476 units will be a combined mixed development of social housing rental space for families earning less than R15 000 per month and GAP housing rental units for households that earn between R3 500 and R20 000 per month. Beneficiaries must be registered on the City of Cape Town housing database and be willing and able to pay rent.

The proposed model for this development is first for the inner city, but plans are on the way to extend it to all the central business districts, including: Bellville, Parow, Khayelitsha, Claremont, Mitchell's Plain, Wynberg and Plumstead. Pictures of the CoCT inner city affordable housing development sites are attached in Appendix G.

- **Partnerships: Land swaps and land discounts**

Partnerships are possible means of releasing land for identified markets, similar to the affordable housing market, and can be achieved through land swaps or conditional discounting of land price released for development. Land swaps can be achieved either in the form of a monetary offset, or a physical land swap. For example, in New Canada, the city swapped land with private developers and offered them land in Riverlea in exchange for land in Pennville (Etheridge: 2017:2).

In the City of Cape Town, the provision of land for affordable housing development is done by way of discounting land prices below the market prices. For example, the land for Mitchell's Plain projects was provided by the City of Cape Town at subsidised prices. The discounted land prices have the effect of reducing the price of the completed affordable housing units to affordable prices.

- **Land in private ownership**

Private owners are usually unwilling to dispose of their land below open market prices, as that would be prejudicial to their financial status. In order to persuade the release of land in private ownership otherwise, the CoCT should offer incentives to owners who dispose their land below market values, such as tax incentives, or they should offer them alternative land not suitable for affordable housing developments.

The CoCT should also consider acquiring private land in terms of the Expropriation Act (63 of 1975) (RSA, 1975). This Act empowers the government to acquire privately

owned land in the interest of public use. The Act also recommends compensation for private land acquired under this Act (RSA, 1975).

Unfortunately, the funding of the acquisition of privately owned land is a cumbersome process as the Department of Land Affairs (DLA) requires certain documentation which is not easily obtained by private owners, thus making the process complex. Some of the documents include: motivation; valuation report of the land not less than six months old; current geotechnical report; and current EIA clearance. The complexity of the process defeats the ability to fast track the acquisition process.

7.5 INNOVATIVE TECHNOLOGY AS A SOLUTION

Due to resources constraints, the current methodology of financing affordable housing delivery through government grants and subsidies will not solve the increasing demand for housing in the low income sector. The CTCHC interviewees (2018:Interviews) in chapter 5 argue that increasing the resource sources such as innovations in technology will help to increase the capacity and scale of PPP projects. Affordable housing should be delivered on a larger scale by means of cutting down on the cost of construction. According to the CTCHC officials (2018:Interviews), many private housing development companies involved in the affordable housing developments in the City of Cape Town are exploring the use of different methods of construction to cut costs, so as to increase the scale of affordable housing delivery and maximise their profits.

Cost is associated with budgeting and seeks to reduce construction cost through better management, appropriate use of local materials, skills and technology but without sacrificing the performance of efficient housing delivery (Tiwari, Parikh & Parikh, 1999:75-90). Affordable housing does not mean houses with substandard quality, but are designed to achieve reduced cost through effective utilisation of locally available materials and techniques that are durable, economical, and acceptable by users and not requiring costly maintenance (Miles, 2000:1-2).

The application of innovative construction methods, the use of affordable materials, new planning and cost management systems should reduce construction costs and make housing more affordable to the low to moderate income sector. Some of the

innovative construction methods which should reduce cost and increase housing delivery scale are:

- **‘Cast in Situ’ housing units** – This is an innovative alternative construction system that delivers concrete housing units that are cast in situ, using patented plastic-moulded formwork and special mix of aerated concrete. The system has potential to reduce construction cost by 25% to 35% (Ardonceanu, 2018:1-5).
- **Load-bearing steel frame units** – This is a modular construction system which combines the use of a load-bearing steel building frame with stone or insulated fibre cement walls. This building system reduces construction time and cost – fact, construction cost may be reduced by 30% (Ardonceanu, 2018:1-5).
- **Terra block tabricator** - This is an innovative affordable housing construction method used in Tanzania. It has the advantage of using local soil and labour to create high quality building blocks, and reducing construction costs below average (Ardonceanu, 2018:1-5).
- **Moladi** - This is a construction system founded in South Africa in 1986 as a method of building cast in place reinforced monolithic structures. The system constitutes the use of removable, recyclable and lightweight plastic framework mould, which is filled with mortar to form the wall structure of a house in a day. This system reduces construction complexity and costs, without compromising quality or integrity of the structure (Ardonceanu, 2018:1-5).
- **Pinnacle concrete** - This is used globally for mass housing development and represents a revolution in the residential concrete structure build industry. It is 300% faster, 30% cheaper and 100% better and greener than either the traditional column-beam and block system or precast concrete building system (Ardonceanu, 2018:1-5).
- **Speedwall building system** - This is one of the world’s leading low cost construction technologies for mass housing projects. The principles governing the design were intended to overcome challenges of building affordable, quality housing in developing countries. It is designed for low cost, speed of construction, strength, versatility and ease of deployment (Ardonceanu, 2018:1-5).
- **Green technology** - The use of green technology leads to a sustainable and cost effective development, with less damage to the environment by using materials

that are: resource efficient; indoor air quality; energy efficient, save water and affordable (Ardonceanu, 2018:1-5). The COCT official respondents (2018:Interviews) in chapter 5, posited that the city has introduced the green technology fund which are funds sourced from international donors to finance green construction methods. The respondents also stated that the COCT would be lending priority to the private sector with an innovative construction technology method in the proposed affordable housing development within the Cape Town CBD corridors by 2023.

In addition to innovative construction methods, various such models for housing delivery are being used to make housing affordable to the low income earners in the City of Cape Town, and on a larger scale. For example, the Harmony Village affordable housing project in Mitchell's Plain as described in chapter 4, won the best institutional housing project award in South Africa in 2016 due to the innovative housing delivery model implemented for the first time by CTCHC, named the Instalment Purchase Agreement (IPA).

The (IPA) model is a combination of government subsidy and a top-up loan granted to beneficiaries by the CTCHC. The beneficiaries earn below financial institution's minimum lending threshold of R8 000 per month. The loan is repaid over a period of 25 years monthly instalment, after which the beneficiary is given full title to the property. The beneficiary may also take full title ownership if the loan is repaid before the loan period expires. This will afford ownership opportunities to low income earners who wish to own properties but do not earn sufficient income.

This top-up loan model (IPA) is the first of its kind in the CoCT and is an up-grade of the accommodation the government subsidy would have provided which is a rental social housing option without ownership tenure for the income bracket of R3 500 to R7 500 per month. The beneficiaries (2018:Interviews) of the project expressed satisfaction with the project; therefore, it is recommended that the project be replicated in other parts of the City of Cape Town.

7.6 SOLUTIONS TO RISK CHALLENGES IN HOUSING

The issue of risk is an important factor that needs to be considered by the CoCT, because apart from the private sector risks associated with delivering the required service level of housing, and achieving profitability within the agreed financial framework, the risk of private sector default on housing delivery ultimately resides with the public sector (Hoffman, 2004:125). Effective PPP risk management in housing development will help in mitigating the disadvantages of implementing PPP model as explained in chapter 2. To be able to manage risks, it is advisable that a Risk Management Plan be developed by the Human Settlement Department of the City of Cape Town. The following broad guidelines should be considered when allocating and managing risks in the housing sector:

- **Risk management plan guidelines**

- An evaluation available to PPP of different options for handling the risk.
- Identify the PPP official who will be responsible for managing the risk.
- Determine procedure and mechanisms of PPP that will be used to control the risk.
- Compile an estimate of resources the PPP will allocate for managing the risk (DPLG, 2007:30).

- **Risk allocation guidelines**

- PPPs should bear the risk that is in its normal course of business.
- An assessment needs to be carried out regarding the relative ease and efficiency of managing the risk by the PPP involved.
- The cost effectiveness of managing the risk needs to be evaluated by the PPP.
- Any overriding considerations/stipulations of a particular PPP need to be factored in prior to implementing the risk management structure.
- Sophisticated modelling techniques to assess risk probabilities of the PPP should be deployed.
- There should be ex-ante provisioning for a renegotiation framework in the bid document itself for the PPP (Vijay Kelkar Committee, 2016:3).

It is vital that risks in housing are mitigated and properly managed as the extent of risk control could determine the success or failure of PPP housing projects. The proposed solutions to some identified risks in housing are described below.

- **Construction risk**

Construction risks can be mitigated through output specifications and performance payment regimes (Hodge & Greve, 2005:67). In the CoCT, construction risks are mitigated through output specifications in the tender contracts. Every service provider to the city is required to sign a Service Level Agreement (SLA) which states clearly what is required from the contractor in terms of delivery and quality; and other terms and conditions of the contract. The service provider is expected to carry full construction risk in the CoCT (CoCT, 2017c:26).

- **Inflation risks**

There is always the possibility that the actual rate of inflation will increase during the development of the feasibility study of the PPP project. In terms of the CoCT General Contract Conditions (GCC) clause 3.3, contractors are required to state the period of validity of their contract amounts in the quotations, and also to establish project estimates that take inflation into account. All quoted tender prices should include all expenses, disbursements and should cover all cost of general risks, liabilities and obligations set forth or implied in the contract as well as overhead charges and profit. All prices tendered are final and binding (COCT, 2017c:11).

- **Market risks**

The cost of construction materials can increase during the construction of the project. The CoCT GCC provides in clause 3.7 for fixed rates and prices for the duration of the contract that are not subject to adjustment; except for special conditions as provided in clause 17, which provides for adjustment for cost of plants and material imported from outside South Africa (CoCT, 2017c:33). The fixed rates and prices sometimes create problems for the private sector, if the estimates are inadequate. Adequate

allowances should be made in the contract quotation for increases in price for the entire duration of the contract.

- **Technological risks**

Technological changes may result in upgrades and changes to equipment which will involve huge costs. Technological changes risks are provided for in section 362 of the CoCT General Condition of Contract (GCC) risk management guidelines which requires risk to be part of the city's philosophy, practices and business plan and should not be viewed, or practiced, as a separate activity in isolation in the normal course of business (CoCT, 2017c:8). Appropriate risk management conditions should be incorporated in the contracts to ensure that technological risks are provided for.

- **Vandalism and theft**

Because most of the affordable housing developments are situated on the outskirts of the CoCT, vandalism and theft of building materials are often a common occurrence. Thus it is therefore imperative that the development budget makes adequate provisions for security costs so as to safeguard the construction materials and the project as a whole. Clause 11.2a of the CoCT GCC requires the vendor to maintain:

“ public liability insurance, in the name of the vendor, covering the vendor and CoCT against liability for the death of or injury to any person, or loss of or damage to any property, arising out of or in the course of the contract, in an amount not less than R20 million for any single claim”.

- **Holding stock risk**

Holding costs risks in the CoCT are incurred by the private sector when the completed housing units are not sold within the schedule period. This will result in delays in the repayment of the capital debt and consequently the accumulation of interest on the outstanding debt of the developer.

The delays occur due to the failure by the CoCT to update beneficiary lists, resulting to the beneficiaries not being located in time after completion of the housing projects. It is proposed that the CoCT set up a mechanism, such as a public liaison office, with the sole responsibility of maintaining and updating beneficiary information in the CoCT housing beneficiary waiting list. This would greatly assist in tracking and updating the contact details of the beneficiaries periodically, especially in periods leading up to the final completion of projects.

7.7 SOLUTIONS TO ADMINISTRATIVE CHALLENGES

Poorly managed PPP housing projects could result to cost overruns due to time delays, increase in capital costs and inflation in the cost of building materials. Once a partnership is established, the City of Cape Town should see to an on-going monitoring of the performance of the partnership to ensure its success. The monitoring must be done continuously, with emphasis on output specifications and related milestones towards completion of the project (United Nations, 2008:23).

The management of PPPs in housing require the presence of a number of capacities in the City of Cape Town which include, setting up a system to assess value for money and financial performance management, using prudent mechanism, transparent and consistent guidelines regarding non-quantifiable elements in the value-for-money judgement. Moreover, it requires being able to classify, measure and allocate housing risk to the party best capable to manage the risk, and it requires sound accounting and budgeting practices (National Treasury, 2004:12). Proposed solutions to some challenges of PPP housing administration which include: enhancement of specialised capacity, avoiding conflicts of interest, enhancement of accountability, and organisational structures in housing are described below.

- **Enhancement of specialised capacity**

Lack of personnel capacity in housing delivery (with regards to the CoCT) is largely responsible for delays in the PPP processes. Ms Gail Eddy (2018: Interviewed) of the CoCT, posited inadequate personnel capacity at the top management level of the Human Settlement Department, as one of the largest challenges of PPP processes in housing delivery. Capacity challenge in housing is also as a result of specialised skills

lacking in the CoCT, such as project management, accounting and budgeting skills. Ideally, the CoCT is expected to take the lead in identifying and delivering housing PPP projects. However, the skills and acumen required in this regards are lacking in some CoCT employees as a result few projects are put forward and completed.

The CoCT should invest more in training its employees with regards to housing programmes, especially in project management, negotiations and collaboration in order to equip them with the necessary skills required to carry out overseeing functions of PPP housing projects. This will ensure that these functions of the CoCT regarding PPP housing projects are not delegated to the service provider in order to ensure that delivery deadlines and targets can be effectively monitored. The double task of the private sector acting as service providers and perform oversight functions, leads to substandard quality of work and failure to meet deadlines.

The private sector should undergo training that will help them understand the public sector housing procedures, legislations, policies, and any other information so that they can be able to comply with all the policies and incur fewer problems when involving themselves with PPP arrangements. This should help to eliminate unnecessary delays and save costs in delivering housing. According to Trusler and Cloete (2010:94-101), the private sector needs to understand certain factors when undertaking affordable housing projects within a PPP arrangement such as structure of capital grants, financial viability, building density, and town planning regulations.

The private sector should also ensure that they maintain professional ethics and integrity in their dealings with the public sector so as to maintain good working relationship and create opportunities for future engagement with the public sector concerning housing delivery.

On the issue of the failure of the City of CoCT to provide pre-housing ownership training for the beneficiaries, raised during the interviews with Harmony Village beneficiaries (2018:Interviews) in chapter 5, the CoCT should contract private partners if they lack the staff to provide such training. Mr Faizel Moos (2018:Interveiw) of the CTCHC stated that the CTCHC runs a fortnight information training for first time

housing owners on how to maintain instalment payment and the condition and value of their property over a long period.

- **Avoiding conflicts of interests**

The public and the private sector set different priorities in their engagement in a housing PPP agreement. While a private entity aims at maximising profit, the public sector carries a certain responsibility when providing services of general interest (Rousenau, 2000a:299-330). This conflict of interests between the public and private sector causes delays in housing development, and results in cost increase in service delivery. Hence, it is vital that the public sector must have the necessary capacity and expertise in housing to exercise overseeing. The lack of capacity and skill to perform overseeing on PPP housing projects has been responsible for the failure of many PPP projects. A steering committee comprising both the public and private sector should be established as monitoring group to oversee the housing project and balance the interests of the public and private sector.

- **Enhancement of accountability in COCT**

According to the United Nations Economic Commission for Europe (UNECE, 2008:14), accountability is “the extent to which political actors are responsible to society for what they say and do”. In terms of the CoCT, the administrative officials should be held accountable for their actions. The Commission on Public-Private Partnerships adopts a broader definition to include all PPPs regardless of their legal status, and they should be subjected to the same standards of accountability (Commission on PPPs, 2001:242). In order for PPPs to play important role in housing development and service delivery and serve public interest, the problem of accountability will need to be addressed.

The issue of accountability is a challenge in the CoCT (Eddy, 2018:Interview) and has resulted in the failure of many PPP projects. In South Africa, accountability in PPPs housing projects should improve by: promotion of public consultation, enhancement of transparency, eradication of corruption, promotion of competition, effective contract

management, monitoring performance, and ensuring value for money and equitable risk allocation. The solutions to accountability issues are explained below.

- **Promotion of public consultation** - Communities in the CoCT are often alienated from decision-making processes of PPPs in housing developments, although PPPs are important long-term societal investment projects. According to Burleton (2006:22-25), negotiations between the public and private sector partners are often done without the input of the people on the grounds of “commercial confidentiality”, or data protection, which are seen on the ground as secretiveness in partnership agreements. The lack of proper consultation with the communities leads to service delivery protest for housing in the CoCT. The parties to any PPP housing contract should observe the provisions of the South African Constitution, 1996, which is based on the principles of developmental government and entails public involvement in the decisions of PPP housing projects and accountability in any public infrastructure investment.

PPPs in housing should involve clear communication with all stakeholders which include the public sector, private sector and the communities, in order to build trust, encourage transparency and increase engagement. The most effective way to enforce public consultation in the CoCT is by initiating public participation and discussion by all stakeholders through housing forums such as public hearings, social surveys and citizen panels (OECD, 2012:18-20).

- **Enhancement of transparency** – According to Armstrong (2005:1), transparency refers to public’s unfettered access to timely and reliable information on the decision and performances in the CoCT. The contracts awards in the CoCT are sometime delayed due to objections to the selection processes, in agitation of lack of transparency and irregularities. Every public contract in the CoCT involving PPPs on housing should adhere to the provisions of the Regulation 40(2) of the Municipal Supply Chain Management Regulations, published in the Government Gazette as GNR.868 of 30 May 2005, which provides for competitive participation and transparency in the tender processes of housing projects. A transparent and efficient procurement process of the CoCT housing project should lower transaction costs and

shorten the negotiating time for completing deals. For example, the bidder's selection process, criteria for expenses, and the procedure for tendering should be subject to public scrutiny and review (Beh, 2010:74-78).

- **Eradication of corruption** - Although, the PPP manual in the CoCT and Treasury Regulation 16 (RSA, 2003c) make provision for accounting officers to sign off an anti-corruption policy for PPP housing projects, and call for forensic audits if fraud or corruption is suspected the local government, tender processes in South Africa are still perceived to be riddled with unethical corruption practices which have become known as "*tenderpreneurship*".

Eradication on corruption in the CoCT housing tender processes will require strict law enforcement and policy amendments. For example, Treasury Regulations (2003c) and the Code of Good Practice of Black Economic Empowerment in PPPs (National Treasury, 2004), are perceived to be easily manipulated by companies who misrepresent their BEE status to obtain contracts and local government officials that cannot easily be spotted by anticorruption watchdog. Municipal officials are being accused of receiving bribes for favours in the guise of gifts to influence the awarding of contracts for PPP housing projects.

Corruption in the CoCT should be mitigated or controlled by establishing initiatives such as corporate governance; engaging private enterprises in anti-corruption efforts, advocating institutional reforms and creating an atmosphere of engagements with the private sector with regards to housing to ensure that policies designed to curb corruption in PPPs housing projects address the needs of the business community.

- **Promotion of competition** – Allegations have been made that certain PPP contracts in the CoCT are overpriced because the CoCT officials awarded the contract by-passing procurement processes as stipulated by the Regulation 40(2) of the Municipal Supply Chain Management Regulations, published in the Government Gazette as GNR.868 of 30 May 2005 (RSA, 2005a:26-29). The Treasury PPP overseeing unit has also been accused of failing to uphold

healthy competitive practices with regards to housing contracts (Kelman, 2001:11-20).

Effective competition in PPP housing contracts should only be achieved through strict law enforcement of the Municipal Finance Management Act (RSA, 2003a) and the Municipal System Act (RSA, 2003b). The tender bidding rules, as contained in the CoCT Supply Chain Management General Conditions of Contracts, should be clearly outlined for the sake of all private entities involved in housing bidding process. This would include the timeframes from bidding to the start of the contract, and the step by step road map to reaching that point. Moreover, this will ensure fair competition for all parties involved in the contract bidding process.

- **Effective contract management** – PPP projects in housing requires complex contractual agreement for the construction of facilities and for service maintenance. Incomplete Contract Agreements that do not clearly specify the conditions and desired output of the projects becomes problematic in the operational phase, which involves the transformation from housing projects inception to project delivery. For example, the CoCT entered a contractual agreement to develop affordable housing in a town called Witsand within CoCT municipal jurisdiction. It was hoped to test the model demonstrating the use of energy and environmental cost effective method with Peer Africa (PTY) Ltd as the developer to oversee the building project.

Peer Africa (Pty) Ltd contracted Khaya (Pty) Ltd to build the houses. Khaya (Pty) Ltd delivered defective houses, and the CoCT could not claim damages from them as the contractual obligations did not clearly state Khaya (Pty) to be liable for delivering houses to the citizens in term of Section 26, of South African Constitution, 1996 (Supreme Court of Appeal: 2016). The ineffectiveness of the contractual agreement should be mitigated by ensuring that private developers and their sub-contractors are bound to the conditions of the contract. They should also be accountable to CoCT and the beneficiaries of the projects.

- **Monitoring of performance** – The PPP projects in housing should have performance management measures and monitoring systems in order to strengthen accountability. The responsibility of housing contract management extends throughout the life cycle of the contract. The Treasury PPP manual should consider internal and external monitoring activities and structures from inception of contract through to implementation and development.

According to CoCT respondents (2018:Interviews), the Human Settlement Department does not have the necessary staff to perform the task of overseeing PPP projects undertaken by the private sector. The consequence is that defective houses are delivered due to a lack of monitoring of the private developers. The City of Cape Town should invest in staff training to ensure that well trained officials are available to manage PPP housing projects, and to ensure that contractual obligations are met through overseeing monitoring of PPP housing projects.

- **Ensuring value for money and equitable risk allocation** - According to the Treasury PPP unit, value for money is an important requirement when deciding on whether to proceed with a PPP. It calls for estimates of the future financial and non-financial benefits of the procurement option. Moreover, its measurement involves discounting rates and risk transfer, and estimating future cash flow (Demirag & Khadaroo, 2011:271-296).

Because of the history of high transaction costs, cost overruns, service delivery delays, and long complex negotiations characterised by PPPs in the City of Cape Town Human Settlement Department, Public Sector Comparator (PSC) should be used to establish benchmarks for estimating value for money from alternative housing project bids. According to the World Bank Group (2009:10) definition, PSC “is a model used by a government to make decisions by testing whether a private investment proposal offers value for money in comparison with the most efficient form of public procurement”. For example, the CoCT’s proposed Foreshore Freeway Housing Projects was cancelled due it not being deemed value-for-money. According to the City Manager, the economic

circumstance from the time the project was conceived had changed, thus making it non-viable for implementation (Evans, 1995:1).

The failure of some PPP housing projects raises the question as to whether risk transfer had been properly allocated. According to Creamer (2012:1), some PPP models in South Africa still leave the bulk of risk-burden on the public sector. It is important that risks are evaluated throughout the entire life of the housing project by the local government and private bidder, especially during the procurement process to ensure that risk is allocated to the party that is most suitable to absorb it in housing developments.

- **Organisational structures** – A dedicated project team should be appointed to oversee specific housing projects where the CoCT is experiencing organisational challenges such as inadequate capacity to perform overseeing functions on PPP housing projects. This will ensure that housing delivery is maintained by the Human Settlement Department of the COCT.

Alternatively, a special purpose vehicle (SPV) should be created as a separate legal entity specifically for the PPP housing projects. The SPV is generally a company that brings together the public partners, the sponsors, financiers, sub-contractors and other role players (Grimsey & Lewis, 2007:108-109). The SPV establishes co-operation amongst the stakeholders by the creation of specific tasks prior to the tendering process, hence enabling efficiency and low coordination costs. The SPV should be outsourced to a private entity in terms of the City of Cape Town supply chain management policy, where there is lack of capacity in terms of personnel and expertise.

7.8 PREMISES FOR FUTURE RESEARCH ON PUBLIC-PRIVATE PARTNERSHIPS AND HOUSING

Most studies on PPPs and affordable housing are focused on the private and public sector. Studies on improving affordable housing delivery are usually not done from the beneficiary's point of view. It is recommended that studies on how education of beneficiaries could improve affordable housing delivery be conducted. The main

objective of affordable housing development is to alleviate poverty and redistribute wealth. This cannot be achieved without the understanding and co-operation of beneficiaries. Unfortunately beneficiaries are often side-lined in strategic decisions of affordable housing developments. Some community leaders have accused the local government of concentrating development on the affluent areas of the city, while the less affluence areas are neglected.

The constant housing delivery protests in the CoCT have as one of the root causes a lack of understanding of the housing needs of the communities by the authorities. Often the housing typologies and locations where they are delivered are in contrast to the requirements of the communities and this is as a result of a lack of consultations with and understanding of the needs of the communities. Hence, conducting research on PPPs and affordable housing developments from the viewpoint of the communities should help the CoCT in understanding their needs and subsequently improve and deliver the required housing needs to the beneficiaries in the City of Cape Town.

7.9 CONCLUSIONS

Public-Private Partnerships in housing are becoming increasingly important for public service reform and also for delivering public infrastructure and services. The concept of PPPs is related to designing, financing, implementing and operating local government facilities and services.

The housing delivery backlog in the CoCT has necessitated the implementation of PPP models in affordable housing delivery. This is against the background of limited resources that are available to the CoCT to meet the increasing demand for housing, especially in the lower to moderate income sector. The expected benefit is to utilise the private sector's financial resources and expertise, and transfer risks, in order to deliver housing services more efficiently.

This research was able to achieve its objective as set out in chapter 1 which was to study the nature and activities of PPPs in the development of affordable housing. This was done in the context of two affordable housing developments in Mitchell's Plain, namely: - the Harmony Village and West Cape Villas.

To address the problem statement, research questions and objectives were drawn up. The first two objectives of “describing the methodology of the research with attention to the development of affordable housing through PPP in Mitchell’s Plain; and the review of scholars’ research on the nature and activities of local government, PPPs, and affordable housing developments”, were addressed through desktop studies (journals, internet articles, and other research papers), as well as by field studies of the development of affordable housing completed through public-private partnerships. The findings in this regards is that activities in the affordable housing development have increased, especially in the CoCT. More projects are being completed using PPPs where mutually beneficial relationships are developed. These objectives were achieved in chapters 2 and 4.

The third and fourth objectives’ aim was to “analyse the legislative framework and policies that guides the establishment of local governments, as well as the activities of PPPs in South Africa; and the nature of the activities of PPPs in the development of affordable housing projects in Mitchell’s Plain”. These objectives were addressed through desktop studies and conducting of semi-structured interviews with different stakeholders who have been involved in affordable housing projects in Mitchell’s Plain, and enquiring about their experiences and lessons learnt through involvement in the development processes. The main findings of the interviews reveal that implementing PPP models in affordable housing developments brings about improvement in housing delivery. For improved success, the main finding of the interviews is that adhering to the legislative requirements of the PPP Treasury Unit, and of PPPs is vital to ensuring development successes and efficiency. These objectives were achieved in chapters 3, 5 and 6.

The last objective was “how partnerships between the public and private sector could be improved to deliver better housing to the intended beneficiaries”. This was addressed through literature reviews of other countries’ practices or contexts as to what works, and in what manner problems are addressed. One distinct factor in this regard is that PPPs are similar in principles, but work differently in different contexts due to differences in legislations, political, economic and social circumstances. This means that certain element of PPP that works in other parts of the world does not

necessarily mean that the same element will work in the CoCT context. These objectives were achieved in chapters 2, 6 and 7.

Based on the reviews of the literature on PPPs and affordable housing, the research finding, analysis and interpretation of the findings, the conclusion can be drawn that PPP models are one of the mechanisms that the CoCT can use to improve its delivery of affordable housing to the low to moderate income sector. The improvement in housing delivery can only be achieved by the private sector and local government coming together and forming more PPPs, geared towards the delivery of affordable housing. However, the private sector needs to learn how to be tolerant and patient with public sector processes, especially in the areas of funding and project implementation processes. The local government, on the other hand, should understand that the private sector is in business to make profit; hence, it should provide more incentives that would attract the private sector to engage in PPPs and invest in affordable housing developments. This would enable the mechanisms of PPPs in housing to work better and deliver greater benefits.

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APPENDIX A: INFORMED CONSENT FORM



UNIVERSITEIT • STELLENBOSCH • UNIVERSITY
jou kennisvenoot • your knowledge partner

STELLENBOSCH UNIVERSITY CONSENT TO PARTICIPATE IN RESEARCH

You are invited to take part in a study conducted by Jerry Iwegbuna from the School of Public Leadership at the Stellenbosch University. You were approached as a possible participant because of your involvement and experience in the affordable property developments.

PURPOSE OF THE STUDY

The purpose of this study is to investigate the nature of Public-Private Partnership in the affordable property development in Mitchell's Plain. This will entail the study of the roles of the stakeholders and to determine the effectiveness of this model in facilitating affordable housing development and delivery in the City of Cape Town municipality.

1. WHAT WILL BE ASKED OF ME?

If you agree to take part in this study, you will be asked to participate in a semi-structured interview which will be conducted face-to-face and on one-on-one basis, at your office or any other comfortable location of your choice. You will be required to answer questions about your experience in affordable housing development, the challenges of the PPP model, as well as the successes and your recommendation for the improvement of the model. The interview is expected to last for a maximum period of one hour.

2. POSSIBLE RISKS AND DISCOMFORTS

You will not be subjected to any pressure during the interview process to answer any question. The answers you provide are entirely your own ideas and you are at liberty to answer or refuse to answer any question posed to you. You also have the right to withdraw your participation at any stage of the interview if you decide to do so.

3. POSSIBLE BENEFITS TO PARTICIPANTS AND/OR TO THE SOCIETY

Your participation in this research may not have direct benefit to you personally, but it will be of benefit to the community towards the improvement of housing delivery. The outcome of the study is expected to improve the relationships and effectiveness of PPPs by identifying the challenges and suggesting solutions that will improve the delivery of housing in the City of Cape Town communities in order to reduce the housing delivery backlog.

4. PAYMENT FOR PARTICIPATION

Your participation in this research is voluntary, and there will be no material payment or compensation for your contribution.

5. PROTECTION OF YOUR INFORMATION, CONFIDENTIALITY AND IDENTITY

Any information you share with me during this study and that could possibly identify you as a participant will be protected. This will be done by ensuring that all material will not be shared with a third party. The information will be used solely for the purposes of this research and will be destroyed after the completion of my studies. The interview will be audio recorded for quick references and correctness of reporting but all recordings will be deleted as soon as the project is completed and approved by the examining authority. No direct references will be made to you or your name in the report and no part of the information provided by you will be published in any media for any purpose without authorization from you.

6. PARTICIPATION AND WITHDRAWAL

You can choose whether to be in this study or not. If you agree to take part in this study, you may withdraw at any time without any consequence. You may also refuse to answer any questions you don't want to answer and still remain in the study. The researcher may withdraw you from this study if you become uncooperative or try to jeopardise the process of the research.

7. RESEARCHERS' CONTACT INFORMATION

If you have any questions or concerns about this study, please feel free to contact Jerry Iwegbuna at 0823970897 or 021 4009855 and/or the supervisor Professor Frederik Uys at 0218082316.

RIGHTS OF RESEARCH PARTICIPANTS

You may withdraw your consent at any time and discontinue participation without penalty. You are not waiving any legal claims, rights or remedies because of your participation in this research study. If you have questions regarding your rights as a research participant, contact Ms Maléne Fouché [mfouche@sun.ac.za; 021 808 4622] at the Division for Research Development.

.....
DECLARATION OF CONSENT BY THE PARTICIPANT

As the participant I confirm that:

- I have read the above information and it is written in a language that I am comfortable with.
- I have had a chance to ask questions and all my questions have been answered.
- All issues related to privacy, and the confidentiality and use of the information I provide, have been explained.

•

By signing below, I _____ agree to take part in this research study, as conducted by Jerry Iwegbuna.

Signature of Participant **Date**

DECLARATION BY THE PRINCIPAL INVESTIGATOR

As the **principal investigator**, I hereby declare that the information contained in this document has been thoroughly explained to the participant. I also declare that the participant has been encouraged (and has been given ample time) to ask any questions. In addition, I would like to select the following option:

	The conversation with the participant was conducted in a language in which the participant is fluent.
	The conversation with the participant was conducted with the assistance of a translator (who has signed a non-disclosure agreement), and this "Consent Form" is available to the participant in a language in which the participant is fluent.

Signature of Principal Investigator **Date**

APPENDIX B: SEMI-STRUCTURED INTERVIEW GUIDE FOR CITY OF CAPE TOWN HUMAN SETTLEMENT OFFICIALS

Respondent's Details: (You may choose to remain anonymous)	
Name:	
Department:	
Position held:	
Date:	

Please state involvement by giving your honest answer.

1. What is your experience in affordable housing projects?

- Less than five years
- five – ten years
- More than tenyears

2. Do you consider inadequate housing as one of the major challenges of service delivery?

- Yes
- No

Why?

3. In your opinion, is PPP model for housing delivery an effective means of fast-tracking housing delivery?

- Yes
- No

Please explain:

4. Why did the City of Cape Town decide to pursue housing delivery through the Public-Private-Partnership model?

(Min = Minimum; Av = Average; (Max = Maximum)

	Min	Av	Max
• Affordability challenges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Capacity challenges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• BEE Empowerment of previously disadvantaged	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Management challenges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Transfer risk to private sector	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Value for money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Keep projects within budget	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Others (please specify)			

4b. Do you think there is any problems with the current legislation that prescribes procurement through PPPs?

5. Is the development of affordable housing in line with the housing legislation and City of Cape Town’s policy for facilitating home ownership?

- Yes
- No

Please explain the legislation/policy concerned:

6. Is the process of affordable housing delivery through PPPs truly transparent in line with the Municipal Finance Management Act?

- Yes
 - No
- Why?

7. Is the process of affordable housing delivery through PPPs truly competitive in line with the Municipal Finance Management Act?

- Yes
 - No
- Why?

8. Does the City of Cape Town have adequate administrative support in the housing department?

- Yes
 - No
- Why?

9. Was there broad and bipartisan support for the affordable housing development projects in Mitchell's Plain?

- Yes
 - No
- Why?

10. What are the revenue streams/incentives sufficient that can attract the Private sector to engage in PPPs?

- Subsidy
- Available payment
- Guarantees
- Others (please specify):

11. Are there criteria for the selection of a specific private sector partner in a PPP arrangement?

- Yes
- No

Please explain:

11b. Is there clearly defined horizontal decentralization of authority to the selected private sector partner?

- Yes
- No

Please explain:

12. Were there clearly defined roles of all partners and stakeholders in the Mitchell's Plain PPP projects?

- Yes
- No

If Yes/No, what were the roles/ contributors of the City of Cape Town?

13. What among the following challenges affect the PPP in affordable housing development in the City of Cape Town?

(Min = Minimum; Av = Average; (Max = Maximum)

- Your departmental challenges
- Sustainable housing
- Differing roles between you and private sector
- Capacity challenge between you and private sector
- Financing challenge

Min Av Max

Min	Av	Max

Others: please explain

14. What do you think are the main challenges that make private sector hesitate to participate in PPPs?

15. In your own opinion, what do you think can be done to improve affordable housing delivery through PPPs?

16b. Do you think there are alternative ways to housing delivery apart PPPs?

16. Was there co-operation with the community during the housing projects?

- Yes
- No

If Yes, what were the roles of the community? If No, why not?

17. Do you think the PPP project cycle process is sufficient or needs to be amended?

- Yes
- No

Why?

18. From your experience, what was the main shortcoming of previous PPP partnerships?

19. What were the good things experienced from previous PPP partnerships?

APPENDIX C: SEMI-STRUCTURED INTERVIEW GUIDE FOR CAPE TOWN COMMUNITY HOUSING COMPANY (CTCHC) OFFICIALS

Respondent's Details: (You may choose to remain anonymous)	
Name:	
Department:	
Position held:	
Date:	

Please state involvement by giving your honest answer.

1. What is your experience in affordable housing projects?

- Less than five years
- Five – ten years
- More than ten years

2. Do you consider inadequate housing as one of the major challenges of service delivery?

- Yes
- No

Why?

3. Were there problems with CTCHC registration process as a social housing delivery institution in terms of the Municipal Finance Management Act?

- Yes
- No

Why?

4. Why did you as a company decide to pursue affordable housing delivery through the Public-Private-Partnership model?

(Min = Minimum; Av = Average; Max = Maximum)

- Financial gains
- Capacity challenges
- BEE Empowerment of previously disadvantaged people
- Management challenges
- Others (please specify)

Min Av Max

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please explain?

5. How does CTCHC finance PPP projects?

6. Are there enough incentives to attract private sector engagement in PPP projects?

- Yes
- No

<input type="checkbox"/>
<input type="checkbox"/>

Why?

7. What in the following do you think could be the main challenges facing the private sector in the provision of affordable?

(Min = Minimum; Av = Average; Max = Maximum)

Min Av Max

- Availability of land
- Land use planning and management
- Inadequate infrastructure
- High cost of construction
- Inadequate government incentives to the private sector
- Rigid regulating framework
- Strict mortgage terms
- Inter-relation between you, CoCT, NHFC and Community

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other (please explain)

8. What are the challenges between you, the National Housing Finance Company, the City of Cape Town and the Community in the partnerships?

9. What were the roles/contributions of Cape Town Community Housing Company in the affordable housing projects in Mitchell's Plain:

10. Were there challenges in the PPP relationship between the CTCHC, the Community and the CoCT in Mitchell's Plain housing development?

- Yes
- No

<input type="checkbox"/>
<input type="checkbox"/>

Please explain:

11. The following are key success factors of PPP in the housing sector, in your opinion which ones are lacking in the PPPs in the Cape Town area in general?
(Min = Minimum; Av = Average; Max = Maximum)

	Min	Av	Max
• Departmental challenges	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Favorable legal framework	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Available financial market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Political support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Government involvement by providing guarantee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Sound economic policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Well organized public agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Transparency and competitive procurement process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Why?			

12. In your opinion, is the PPP model of housing development an effective means of solving the backlog in housing delivery?

• Yes	<input type="checkbox"/>
• No	<input type="checkbox"/>
Why?	

13. In your opinion, what can be done to improve affordable housing delivery through PPP?

14. Do you think there are alternative ways to housing delivery apart from PPPs?

15. What lessons have you learnt in delivering housing using a PPP model?

APPENDIX D: SEMI-STRUCTURED INTERVIEW GUIDE FOR NATIONAL HOUSING FINANCE CORPORATION (NHFC) OFFICIALS

Respondent's Details: (You may choose to remain anonymous)	
Name:	
Department:	
Position held:	
Date:	

Please state involvement by giving your honest answer.

1. What is your experience in affordable housing projects?

- Less than five years
- Five – ten years
- More than ten years

2. What is the role of NHFC in affordable housing delivery? Are there regulations that guide your activities?

3. Do you think the regulations are adequate?

- Yes
- No

Why?

4. Does NHFC provide enough financial incentives to attract private sector engagement in PPP projects?

- Yes
- No

Please substantiate your answer:

5. What are the criteria that NHFC consider before financing a PPP project?

6. Why did NHFC choose to be involved in the PPP projects in Mitchell's Plain?

7. What were the roles/contributions of National Housing Corporation in the affordable housing projects in Mitchell's Plain:

8. Were there Challenges in the PPP relationship between the NHFC, the CTCHC, the CoCT and the Community in Mitchell's Plain housing development?

- Yes
- No

Please explain why for each partner

9. In your opinion is PPPs appropriate and sustainable delivery model for affordable housing delivery?

- Yes

- No

Why?

10. Are there strategies that are currently in place to ensure that the funding provided for PPPs are well utilized?

- Yes

- No

Please explain

12. In your view, what can be done to improve affordable housing delivery through PPPs?

13. What are the main challenges this institution has experienced with regards to its involvement in PPP for affordable housing developments?

Please explain

14. In your opinion, what strategies can be put in place to increase more effective financing of PPPs in order to increase the volume of housing delivered?

APPENDIX E: SEMI-STRUCTURED INTERVIEW GUIDE FOR AFFORDABLE HOUSING BENEFICIARIES IN MITCHELL'S PLAIN

Please state involvement by giving your honest answer (You may choose to remain anonymous).

1. What is your name? _____

2. What is your occupation? _____

3. What is your income bracket per month?

- R1000 – R3500
- R3501 – R7500
- R7501 – R15000
- Above R15000

4. In which housing development do you own a unit?

- Harmony Village
- West Cape Villas

5. Which type of unit do you own?

- Free standing single story unit
- Semi-detached single story unit
- Double story semi-detached unit

6. Are you the direct beneficiary of the affordable housing unit?

- Yes
- No

6b. Please explain why you acquired your property?

6c. Please explain how you acquired your property?

7. Were you listed or not listed, and selected from the City of Cape Town housing waiting list as a beneficiary?

- Yes
- No

Please state how/why you were selected as a beneficiary:

8. Did you experience any challenges/problems in the process of acquiring your property?

- Yes
- No

Please explain your answer above:

9. Are you happy with the quality of house you received?

- Yes
- No

Please explain your answer above:

10. Do you think the beneficiaries of the housing projects are the intended beneficiaries?

- Yes
- No

Please explain your answer above:

11. Do you think the partnership between Cape Town Community Housing Company and the City of Cape Town helped in fast-tracking the delivery of the houses?

- Yes
- No

How?

12. Which official are you more in contact with?

- City of Cape Town
- Cape Town Community Housing Company
- National Housing Finance Corporation

Why?

13. In your opinion, what do you think can be done to improve housing delivery through public-private partnerships?

APPENDIX F: APPROVAL TO CONDUCT RESEARCH - CTCHC

22 March 2018

Cell Number: 0823970897
Email: jwegbuna@mweb.co.za

Attention: Mr Wynand Ferreira

Cape Town Community Housing Company
Vesta House, Northbank Lane
Century City

Dear Sir

REQUEST TO CONDUCT A RESEARCH

I hereby request permission to conduct academic research within your organisation.

I am a Master's Degree student of the School of Public Leadership, University of Stellenbosch.

The topic of my research is "The Role of Public-Private partnership in Service Delivery: The Case of Affordable Housing Development in Mitchell's Plain".

This study aims to establish the extent to which public-private partnerships can be used to improve the delivery of affordable housing in Mitchell's Plain. This will involve explaining the nature of PPPs, the partnership relationships, and the implication of these relationships for the outcome of the partnerships.

The respondents in this research will include officials of Cape Town Community Housing Company; City of Cape Town; National Housing Finance Corporation and the Beneficiaries of affordable housing in Mitchell's Plain.

I hope that my request will be accepted.

Kind regards

PERMISSION: Granted / Denied



Jerry Iwegbuna

Sign / Name of Official:  WYNAND FERREIRA

Position: PROPERTY DEVELOPMENT MANAGER

APPENDIX G: CITY OF CAPE TOWN PROPOSED DEVELOPMENTSITES



View of Woodstock from Taliep Petersen Bridge.



The site on Drury Street, near Roeland Street, is currently leased by Fruit N Veg. It will soon be available for an affordable housing development.



The site on Canterbury Road is to be available for development at a later stage.



The site on New Market Street, which sits on a MyCiTi bus line, will be available to private developers for affordable housing.



The site on Upper Coventry road is currently vacant, and will be available for a future development.



This Pine Road site is to be developed first, with current residents being moved to transitional housing on Pickwick Road.



A smaller lot on Pine Road has been marked for future development.



The Dillon Lane site is to be developed after Pine Road. The plot is about 100 metres from Victoria Road.



The Woodstock Hospital Site is among the largest of the sites. It is well within walking distance of Victoria Road and public transport.



The Woodstock Hospital Park will be developed under the conditions that the project includes open space and accommodates the crèche currently on the site.



The development at the Salt River Market is to include Social Housing, GAP rental housing, as well as retail and office space.



The James Street site is to be developed into transitional housing for people currently living at the Salt River Market.



The Pickwick Road Site is the largest of the sites marked. It is a few hundred metres from Victoria Road.



A portion of the Pickwick Road site is to be used as transitional housing for people currently living on the Pine Road site.