## FEASIBILIBY STUDY AND FINANCIAL MODELLING FOR GARENA PHASE 2 AND BENDOR EXTENTION 100 GAP RESIDENTIAL PROPERTY DEVELOPMENTS



"A Promise Delivered"



NATURALLY PROGRESSIVE

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## Table of abbreviations

CoP	City of Polokwane
РНА	Polokwane Housing Association
DHS	Department of Human Settlements
CFO	Chief Financial officer
MM	Municipal Manager
MFMA	Municipal Finance Management Act, 2003
DFA	Development Facilitation Act of 1995
MIG	Municipal Infrastructure Grant
PPP	Public Private Partnership
ТА	Transaction Advisor
DORA	Division of Revenue Act of 2007
NSDP	National Spatial Development Perceptive
NHA	National Housing Act of 1997
BNG	Breaking New Ground
MTREF	Medium-Term Revenue and Expenditure Framework
IDP	Integrated development Plan
SDBIP	Service Delivery Budget Implementation Plan
COGHSTA	Cooperative Governance, Human Settlements & Traditional Affairs
HDA	Housing Development Agency

# PHA GAP Rental Market Housing Feasibility Study

## 1. <u>NEEDS ANALYSIS</u>

## 1.1. Introduction

Government of South Africa is committed to providing sustainable human settlements to improve the quality of household life for the poor. Such provisions entail access to quality accommodation, basic services, secure tenure and affordable mortgage finance. Formal housing has grown by 50% since 1994, translating to an additional 5,6 million formal homes since the country's first democratic elections. The Government of South Africa plans to increase the rate of affordable rental housing delivery to at least 20 000 units per year.

Human Settlements Vision 2030: On the Road to 2050 aims to provide houses and services in rural and urban areas. It focuses on the total eradication of backlogs of more than 2,1 million housing units, which translates to about 12,5 million people.

A recent study found that of the six million registered residential properties in the Deeds Registry, 1,44 million were government subsidised houses. This represents just less than a quarter of registered residential properties and could increase to 35% if the backlog in issuing title deeds is overcome.

Gap housing" is a term that describes the shortfall, or "gap" in the market between residential units supplied by the State and houses delivered by the private sector. The gap housing market comprises people who typically earn between R3 500 and R15 000 per month, which is too little to enable them to participate in the private property market, yet too much to qualify for state assistance. Gap housing is another element of the State's Vision 2030 Strategy

Gap housing is a policy that addresses the housing aspirations of people such as nurses, fire fighters, educators and members of the armed forces, who earned between R3 000 and R15 000 per month and, therefore, did not qualify for

Reconstruction and Development Programme houses and did not earn enough to obtain home loans.

In this feasibility study report, we will define the proposed project and outline the objectives of the proposed housing project as well as the strategic objectives of the City of Polokwane (CoP) and how the housing project aligns with the municipality's strategic objectives.

In terms of section 26 of the Constitution of the Republic of South Africa, 1996, everyone has the right to have access to adequate housing, and the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realization of this right. It is also a requirement in terms of the housing act 107 of 1997 that as part of the municipality's process of integrated development planning that every municipality take all reasonable and necessary steps within its framework of national and provincial housing legislation policy to ensure that:

- The inhabitants of its area of jurisdiction have access to adequate housing on a progressive basis;
- Conditions not conducive to the health and safety of its inhabitants of its areas of jurisdictions are prevented or removed;
- Services in respect of water, sanitation, electricity, roads, storm water drainages and transport are provided in a manner which is economically efficient;
- It has set housing delivery goals in respect of its area of jurisdiction;
- It identifies and designate land for housing development;
- It creates and maintain a public environment conducive to housing development which is financially and socially viable;
- It promotes the resolution of conflict arising in the housing development process;
- It Initiates plan, co-ordinate, facilitate, promote and enable appropriate housing development in its area of jurisdiction;
- It provides bulk engineering services, and revenue generating services in so far as such services are not provided by specialist utility suppliers;
- It plans and manages land use and development.

The overall objective of the proposed housing project to be initiated by the CoP through the PHA is to comply with the provisions of the Housing Act, with the primary objective of the project being increasing the supply of housing in the City of Polokwane to meet the demand-supply gap for lower and middle-income dwellers.

The CoP as a municipality is committed to providing sustainable human settlements to improve the quality of household life for the low and middle-income earners. The CoP is therefore proposing the development of Gap housing on a site located in Garena and Bendor Ex 100.

#### 1.2. Legislation and Policy Context

#### The Constitution

According to the constitution (section 152 and 153), local government is responsible for the development process in municipalities, including municipal planning. The constitutional mandate relates to municipalities' management, budgeting and planning functions of its objectives and provides a clear indication of the intended purposes of municipal integrated development planning.

#### The Constitution's Bill of Rights

The Bill of Rights contained in the Constitution of the Republic of South Africa entrenches certain basic rights for all citizens of South Africa including: "The right to have access to adequate housing" (Article 26).

#### **Rental Housing Act of 1999**

The Rental Housing Act, 1999 (Act 50 of 1999) defines the responsibility of government in respect of the rental housing market. It creates mechanisms to advance the provision of rental housing property and promotes access to adequate housing by working to ensure the proper functioning of the rental housing market.

#### The Intergovernmental Relations Framework Act of 2005

The objective of the Act is to provide a framework for implementation of the principle of cooperative governance set out in Chapter 3 of the Constitution and also provides guidance for co-operation by national, provincial and local governments, and all organs of state to facilitate coordination in the implementation of policy and the delivery of goods and services. The act allows for the establishment of intergovernmental forums at and between the different spheres of government, which in this instance would be Inter-municipality forums whose role is to serve as a consultative forum for the participating municipalities to discuss and consult each other on matters of mutual interest.

#### **Development Facilitation Act of 1995 (DFA)**

The DFA deals with spatial and land development principles such as discouraging illegal occupation of land through informal land development processes, promotion of speedy land development, promotion of sustainable land development, etc.

#### The Division of Revenue Act of 2007 (DORA)

The Division of Revenue Act is a vital and annually prepared piece of legislation which impacts directly on the delivery of integrated human settlements, and housing in particular, because it has the force of law behind it. In operational terms, it provides an equitable share of funding to municipalities, which is an unconditional grant and is used largely for operational purposes, according to a formula agreed on by the Fiscal and Financial Commission

#### The National Spatial Development perceptive. (NSDP)

The NSDP consists of a spatial narrative, a set of maps, and a strategic response for the whole country. These provide an overview and determine into which category of development an area fits. The NSDP also informs the Spatial Development Frameworks of the IDPs (and consequently the Housing Chapters) that aim to redress the spatial inequalities persisting as a result of apartheid legislation and development.

#### The National Housing Act of 1997(NHA)

The government's primary housing objective is to undertake housing development, which section 1 of the Housing Act, No. 107 of 1997 defines as being "the establishment and maintenance of habitable, stable and sustainable public and private residential environments to ensure viable households and communities in areas allowing convenient access to economic opportunities, and to health, educational and social amenities in which all citizens and permanent residential structures with secure tenure, ensuring internal and external privacy, and providing adequate protection against the elements, potable water, adequate sanitary facilities, and domestic energy supply.

The Housing Act states in Section 9(1)(f) that "Every municipality must, as part of the Municipalities process of integrated development planning, take all reasonable and necessary steps within the framework of national and provincial housing legislation and policy to initiate, plan, coordinate, facilitate, promote and enable appropriate

housing development in its area of jurisdiction"

#### Estate Agency Affairs Act 112, 1976

This act regulates and controls certain activities of estate agents in the public interest. It acts as a guide to ensure proper management of the affairs of the estate agencies.

#### The National Housing Code

The purpose of the National Housing Code is to set out clearly, the National Housing Policy of South Africa. The National Housing Policy comprises of an overall vision for housing in South Africa and the way in which this vision should be implemented.

#### The Municipal's Structures Act of 1998 (MSA)

The Municipal Structures Act 1998 (Act No. 117 of 1998) provides for the establishment of Municipal categories and for the appropriate division of functions and powers between these categories of municipality

#### The Municipal's Systems Act of 2000

In terms of Section 25 and 26 of the Municipal Systems Act (2000), all municipalities are required to compile Integrated Development Plans (IDPs), which are single, all inclusive, strategic plans that should include housing planning. The processes to be followed to compile the IDP, participation structures, and related provisions are also detailed in the Municipal Systems Act.

Section 24(1) puts the onus on municipalities to align with the development plans and strategies of other organs of state. The intention of these sections of the Act is for alignment to be the responsibility of all spheres of government.

#### The Municipal Finance Management Act of 2003 (MFMA)

The Municipal Finance Management Act plays a central role in housing delivery because it regulates the procurement of service providers for the planning and implementation of national housing programmes and projects. Importantly, it also clearly defines the roles and responsibilities of the councillors and officials in the tender process.

#### **Breaking New Ground**

The Department of Human Settlement introduced the New Comprehensive Human Settlement Policy called Breaking New Ground (BNG) to combat the continuation of the post 1994 spatial development pattern. The aim of the policy is to reinforce and expend the vision of the National Housing Act by creating settlements that are well located to economic opportunities and integrated in terms of income, social amenities, and race The key element underpinning this policy is the expanded role of the Department of Human Settlement.

The Main objectives of the Breaking New Ground Policy are:

- Accelerate the delivery of housing as a key job creation strategy for poverty alleviation
- Utilise the provision of housing as a major job creation strategy
- Ensuring that property can be accessed by all as a wealth creation strategy and empowerment
- Leveraging growth in the economy
- Combating crime, promoting social cohesion, and improving quality of life for the people of South Africa
- Supporting the functioning of a single residential property market to reduce duality within the sector by breaking the barriers between the first economy (formal) property boom and the second slump (informal)
- Utilizing housing as an instrument for the development of sustainable human settlement, in support of spatial restructuring

HOUSING SUBSIDY	INCOME BRACKET	TENURE OPTION
Low income housing	R0- R3, 500 pm	Rental/Freehold
Social housing	R1, 500-R7, 500 pm	Rental/ Rent-to-buy
Gap housing	R3, 500-R7, 500 pm	Rental/Freehold
Affordable housing	R7, 500-R15, 000 pm	Rental/Freehold

#### Table 1, Housing and Income Group level

Source: BNG

The table above indicates the income group of different housing types, and the type of assistance each income group can get assistance from.

## 1.3. PHA'S STRATEGIC OBJECTIVES

This section identifies and demonstrates how the housing project aligns with the PHA's Strategic objectives. The municipality has adopted the Smart Concept as a way of fast tracking the service delivery to the community and thus has adopted the smart City concept. The Municipality also launched the vision 2030 that will assist the municipality to work towards its objectives of being a smart city by the year 2030.

## 1.3.1. The Strategic Overview of the Department of Human Settlements

## Vision

"A nation housed in sustainable human settlements."

## **Mission**

"To facilitate the creation of sustainable human settlements and improved quality of household life."

## Values

The Department's core values are based on the constitution and are:

- Accountability
- Fairness and Equity
- Choice, Quality, and Affordability
- Sustainability
- Innovation
- Adherence to Batho Pele Principles

## 1.3.2. The City of Polokwane strategic Overview

## Vision

"The Ultimate in Innovation and Sustainable Development"

## Mission

"Provide cost effective services which promote sustainable livelihood through socio economic development and good governance"

## Values

"Sustainable Development through Responsive Innovation"

Municipal core Values:

- Sustainable development- Economic, Social and Environmental friendly approach in the development of our Smart City
- Innovation-Smart way to deliver services differently

• Responsiveness -To the needs of the community by treating them as customers in a timely and considerate manner

## 1.3.3. The Polokwane Housing Association's strategic Overview

## Vision

"To be the premier provider of innovative and sustainable living"

## Mission

"To promote smart living for a diverse market through delivery of sustainable and affordable homes"

## Values

- Accountability
- Efficiency
- Innovation
- Honesty
- Participation

## 1.3.4. Alignment With the PHA's Strategic Objectives

The Polokwane housing association (PHA), a City of Polokwane entity was previously established as a section 21 Company in terms of the companies Act. The entity is now registered as a SOC Limited company in terms of the sections 86 of the municipalities system Act. The PHA mandate in terms of its Memorandum of incorporation (MOI) is the management and development of integrated, human settlements, social and non-social housing and rental housing units within the Gap market. The entity's mandate has been extended to include participating in the non-social housing rental space. I.e. Gap market and profit making rental housing. The CoP therefore through the mandate given to the PHA addresses one of its strategic objectives of Smart LIVING, which entails E-health, efficient and sustainable use of resources as well as Quality of life for the city inhabitants.

The vision and mission of the municipality through the PHA are consistent with the vision and mission statements given by the department of Human Settlements. The development of the Ga-rena phase 2 and Bendor Extension 100 Gap residential

property contributes to the strategic objectives of the municipality by creating jobs and bringing sustainable development through empowering local and emerging black economic enterprises but it will also contribute to the achievement of the PHA's vision statement and development role.

## 1.4. BUDGET ANALYSIS

In This Section an analysis of the PHA's budget is performed in order to assess whether the PHA has the financial capabilities to undertake the project. As the PHA is the municipal entity mandated to oversee the municipality's housing projects, the financial performance of the CoP shall also be assessed. This analysis includes assessment of the future budgetary commitment of the municipality and the PHA, the assessment of various budgets that will be consolidated as well as Identification and evaluation of all synergies that will arise from the development of the Ga-rena phase 2 and Bendor extension 100.

The assessment was informed by the information gathered from the CoP as well as the PHA. The main sources of information used for the analysis were the annual financial statements, IDP Budgets, SDBIP and other sources.

## 1.4.1. Future Budgetary Commitments

In assessing any future budgetary commitments, all contracts with a lifespan of three years and above is taken into account. These contracts are contracts awarded beyond the medium-term revenue and expenditure framework (MTREF) of 3 years. The CoP currently has a loan with the DBSA to be discharged in year 2021. The PHA currently has a National Housing Finance Corporation loan to be discharged at which

## 1.4.2. Operating Revenue

	Budget year	Budget year	Budget year	Budget
Description	2014 /15	2015/16	2016/17	2017/18
Property rates	302,252	332,477	354,088	376,396
Service charges	703,000	793,523	845,102	898,344
Service charges-water revenue	234,000	258,995	275,830	293,207
Service charges-sanitation revenue	50,000	55,326	58,922	62,634
Service charges-refuse revenue	58,000	63,262	67,374	71,619
Rental of facilities and equipment	20,020	21,221	22,600	24,024

 Table 2 CoP Operating Revenue

Interest earned-external investments	23,000	31,000	33,015	35,095		
Interest earned-outstanding debts	30,000	31,800	33,867	36,001		
Fines	10,753	13,780	14,676	15,600		
Licences and permits	9,027	9,569	10,191	10,833		
Agency Services	15,656	16,596	17,674	18,788		
Transfers recognised-operational	558,631	666,316	709,627	754,333		
Other revenue	163,788	28,581	30,296	32,113		
Gains on disposal of PPE	22,200	30,200	32,163	34,189		
Total Revenue (Exc. Capital						
transfers)	2,200,327	2,352,646	2,505,425	2,663,176		
Source: CoP Draft budget						

Source: CoP Draft budget

From the table above it is clear that revenue of the CoP has been projected to grow in the future. The Actual revenue for the year 2014/15 was R1, 96 billion, which has been projected to increase by 18,4% in the 2015/16 financial year to R2, 32 billion. The revenue further increases by 6,4% to R2, 47 billion the and finally by 6,2% in the year 2017. The biggest contributor to revenue is service charges. Table 3 PHA Operating Revenue

	Actual	Budget	Budget	
Description	2014/15	2015/16	2016/17	Budget 2017/18
Rental Income		12,380	12,380	12,308
Admin Fee		57,8	-	-
Grant- Municipality		6,700	7,370	8,107
Waiver of liability		-	-	-
Interest Received		8	8,8	9,6
Bad debt reversal		-	-	-
Total Revenue		19,088	19,750	20,415

Source: PHA Budget

From the above table PHA has shown growth of 3,4% in revenue for the 2015/16 projections. In 2017/18 the revenue is projected to grow by 3,3%.

## 1.4.3. Operating Expenses

Table 4, CoP Operating Expenditure

Description Budge	et Year	Budget Year	Budget year	Budget Year
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	2014/15	2015/16	2016/17	2017/18
Employee related costs	504,000	562,855	596,173	632,168
Remuneration of councillors	25,410	25,780	27,455	29,185
Debt Impairment	50,000	50,000	53,250	56,605
Depreciation & asset				
impairment	205,000	205,000	217,000	230,000
Finance charges	23,747	37,000	39,405	41,888
Bulk purchases	698,000	767,000	816,855	868,317
Other material	170,600	177,210	188,728	200,618
Contracted Services	75,754	74,275	79,103	84,086
Transfers & grants	6,740	6,480	6,901	7,336
Other expenditure	353,676	341,936	368,656	394,045
Loss on Disposal of PPE	-	-	-	-
Total Expenditure	2,112,927	2,247,536	2,393,526	2,544,248

Source: CoP Draft annual Budget 2015/16

The Municipality's biggest expenses currently are the Bulk services at 816,8 million in the 2016 financial year. This is followed by Employee related costs. The third largest expenditure is at 368 million for the other expenses.

#### Table 5, PHA Operating Expenditure

	Budget	Year	Budget Year	Budget Year	Budget Year
Description	2014/15		2015/16	2016/17	2017/18
Directors Emoluments			1,422	1,493	1,568
Employment costs			5,443	5,770	6,116
General expenses			11,220	11,740	11,502
Repairs & Maintenance			600	630	662
			18,685	19,633	19,848

Source: PHA annual Budget

The Biggest expense that the PHA has is general expenses at R11, 2 million followed by employee cost at R5, 4 million. The expenses of the PHA also show a projected increase of 5,1% to R19, 6 million in the 2016/17 financial year. The expenses have been projected to further increase to R19, 8 million which is 1,1% increase.

**1.4.4.** Medium-Term Capital Budget Table 6, CoP Medium-Term Capital Budget

	Budget Year	Budget Year	Budget Year
Description	2015/16	2016/17	2017/18
Council	-	-	-
Office of the Municipal Manager	-	-	-
Strategic planning Monitoring &			
Evaluation	-	-	-
Engineering services	269,850	362,094	410,110
Community services	17,983	15,156	19,190
Community development	63,300	78,237	81,270
Corporate & shared services	5,000	8,500	9,500
Planning and economic development	3,000	3,500	2,000
Budget & Treasury	2,000	2,500	3,000
Transport operations	169,689	162,631	154,661
Total Capital Expenditure	530,822	632,618	679,731

Source: CoP Draft Annual Budget

From the above capital budget the municipal biggest expense is Engineering services at R362 million in the 2016/17 year followed by R162 million for transport operations. The municipality is exploring different capital projects that will boost the economy as well as improve service delivery within the City.

## 1.4.5. Operating Transfers and Grants

## Table 7, CoP Operating Transfers and Grants

	Budget Year	Budget Year	Budget Year
Description	2015/16	2016/17	2017/18
RECEIPTS			
National Government:	628,716	665,756	716,327
Local Government Equitable Share	522,595	568,208	616,043
Finance Management	1,875	2,010	2,345
Department of water Affairs	-	-	-
Municipal systems improvement	930	957	1,033
Public transport	11,000	3,433	3,273
Department of sports and recreation	-	-	-
CHAN host city operating grant	-	-	-
Infrastructure skills development fund	5,000	5,000	5,000
Expanded public works programme	-	-	-

incentive grant			
FIFA local organisng committee	-	-	-
Integrated national electrification			
programme grant	40,000	40,000	40,000
Expanded public works programme			
incentive grant	-	-	-
Municipal Infrastructure (MIG)	42,800	46,148	48,520
Expanded public works programme			
incentive grant	4,516	-	-
Provincial Government:			
Expanded public works programme			
incentive grant	-	-	-
District Municipality:			
-	-	-	-
Other Grant Providers:	37,600		
INEP Frontloading	37,600	-	-
Total Operating Transfers & Grants	666,316	665,756	716,327

#### Source: CoP Draft annual Budget

The CoP biggest operating grant receivable is the Local Government Equitable Share, which was budgeted at R 568 million in the 2016 financial year. The Municipal Infrastructure Grant takes the second place at R46 million while the integrated national electrification programme grant comes third at R 40 million.

## 1.4.6. Capital Transfers and Grants

#### Table 8, CoP Capital Transfers and Grants

	Budget Year	Budget Year	Budget Year
Description	2015/16	2016/17	2017/18
RECEIPTS	426,189	433,535	446,870
National Government:	233,000	241,337	256,482
Municipal infrastructure (MIG)	173,189	168,198	160,388
Public Transport	-	-	-
Sport and Recreation	-	-	-
Water Affairs	-	-	-
Integrated national electrification	-	-	-

programme grant			
Expanded public works programme			
incentive grant			
incentive grant	-	-	-
Electricity demand side management	-	-	-
Neighbourhood development			
partnership grant	20,000	24,000	30,000
Department of Environmental Affairs	-	-	-
Provincial Government:	-	-	-
Other Capital transfer grants	-	-	-
District Municipality:	-	-	-
-	-	-	-
Other Grant Providers:	-	-	-
Anglo Platinum	-	-	-
National Lottery	-	-	-
Eskom	-	-	-
Total Capital Transfers and Grants	426,189	433,535	446,870

Source: CoP Draft annual Budget

In the Capital Grants the biggest allocation is on the municipal Infrastructure Grant.

## 1.4.7. Service Delivery Budget Implementation Plan

#### Table 9, CoP SDBIP

Description	2015/16	2016/17	2017/18
Mayoral vehicle	1,200	-	-
Facility Management	19,500	24,500	25,500
Roads & storm water	122,949	144,930	145,478
Sanitation	500	3,000	2,750
Water supply & reticulation	171,000	114,364	154,182
Energy services	14,800	59,800	68,700
Sports and Recreation	465,000	51,587	52,970
Disaster and Fire	3,450	1,500	2,000
Waste management	4,000	6,686	11,300
Environmental management	3,800	4,300	5,290
Environmental health	583	-	-
Safety & security	2,550	550	600

Traffic & licenses	4,300	2,120	-
Libraries	2,300	6,350	2,800
Museums	-	800	-
Information services	5,000	6,000	6,500
Secretariat & records	-	2,500	3,000
City Planning	1,500	1,500	1,500
GIS	1,500	2,000	500
Transport Operation (IPRTS)	169,689	156,361	147,626
Supply chain management	5,000	7,000	7,000
Grand Total	580,121	595,848	637,696

Source: CoP SDBIP 2015/16

#### Comment on SDBIP

The service delivery budget implementation plan shows growth of 2,7% for the year 2016/17 and growth of 7,02%. Sports and recreation has the biggest budget allocation. The water and reticulation also has a big portion of the budget.

## 1.5. Institutional Commitment and Capacity

For the Success of this project it is imperative that a project team is implemented to ensure ease of monitoring, managing as well as evaluation of the project.

## 1.5.1. Project Officer

Mr Shimi Maimela the Chief Executive Officer (CFO) of the PHA is the project officer. Mr Maimela will be providing assistance to the Transactional Advisors (TA) to ensure the successful delivery of the project.

## Project Team and Transactional advisors(Project Committee)

The Table below shows the composition of the project Team

Organisation	Task
Mr Shimi Maimela (CEO Of PHA)	• Ensuring that the TA get information requested
	<ul> <li>Arranging meeting with key stakeholders</li> </ul>
	<ul> <li>Monitoring project deliverables</li> </ul>
	<ul> <li>Liaison between TA and project committee</li> </ul>
	• Chair Project committee meetings
	• Participation in project committee

	<ul> <li>Inputs on project reports</li> </ul>
Mr Matome Makgoba (Director	<ul> <li>Attending Project meetings</li> </ul>
Planning at CoP)	<ul> <li>Inputs on project reports</li> </ul>
	<ul> <li>Participation in project committee</li> </ul>
Mr Joel Makgata (Deputy CFO at	<ul> <li>Attending project meetings</li> </ul>
CoP)	<ul> <li>Inputs on budget and finances</li> </ul>
	<ul> <li>Participation in project committee</li> </ul>
Transactional Advisors	<ul> <li>Attending project meetings</li> </ul>
Mr Masala Ramabulana	<ul> <li>Progress reports</li> </ul>
Ms Katshi Mulaudzi	<ul> <li>Producing feasibility report</li> </ul>
Mr Moses Odebiyi	
Mr XXXXXXXXX	

## 1.5.2. The Transactional advisors

Knakna trading has been appointed to conduct a feasibility study for the housing project at Ga-rena Phase 2 and Bendor ext 100.The TA team has been tasked by the municipality to provide, technical, legal as well as financial advisory on the project at feasibility stage. The transactional advisors team is comprised of:

Name	Role
Masala Ramabulana (Knakna Trading)	Project Director Financial Advisory
Katshi Mulaudzi (Knakna trading)	Project Manager Financial advisory
Moses Odebiyi (Genial Shelter Architects)	Technical advisor
ADV L. Rakgwele	Legal advisor

## 1.5.3. Authority and Capacity

The CoP established the PHA, which is a statutory organization responsible for housing projects of the municipality. The Project Officer, Mr. Shimi Maimane is the CEO of the PHA. The PHA will be responsible for providing instructions and tasking the TA to ensure the deliverance of the final feasibility report.

#### 1.5.4. Stakeholders.

In this section we will identify different stakeholders of the project. The inclusion of stakeholders in the housing project is essential. Consultation with different stakeholders shall be done to ensure views and fair representation of the different stakeholders with active participation throughout the project development.

The following are the key stakeholders:

- The Polokwane Housing Associate (PHA)
- The City of Polokwane (CoP)
- The Department of human settlements (DHS)
- The Provincial treasury
- o CoGHSTA, the SHRA, NHFC
- $\circ$  HDA

#### 1.5.5. Consultation Plan

Development of a consultation plan is important as it outlines the process and levels of engagements that are deemed appropriate. The Comprehensive Consultation is key to the timely success of the project feasibility study report delivery. This also ensures that the views of different stakeholders are captured and their inputs noted into the relevant and applicable reports. This also assists regarding objections that may be lodge against the feasibility report or even at development stage. The following shall be considered:

- Consultation with all stakeholder groups at key points in the development of the Project;
- A commitment to consider all responses received and to seek to use the views and opinions expressed on any matter;

#### 1.5.6. Manner of consultation

Consultation can take different forms. Different communication tools to be used include:

- Direct meetings;
- Official Institutional Websites;
- Questionnaires;
- Correspondence;

## **1.6. OUTPUT SPECIFICATION**

Output specifications are written for the purposes of defining what the private party must achieve in the designing and construction of the housing units at Ga-rena phase 2 as well as Bendor Extension 100.

## GA-RENA PHASE 2 & BENDOR EXTENTION 100.

## General

## **Standards**

General standard of the design and construction are laid out as expected. Below are all the expectations of the private partner regarding the standards regarding the design and construction of the housing units:

- Undertake the design and construction in accordance with all municipal Bylaws and regulations;
- The design and construction shall be In accordance with all other applicable laws;
- In accordance with good industry practices;
- In accordance to the NHBRC and NBR building codes;
- In accordance with SABS and ISO standards;
- In accordance with CIDB standards;

## Architectural Designs Principles and Considerations

#### Elder Friendly

In undertaking the design, the private partner shall consider the possibility of elderly people residing in the residential complex, and therefore need to consider an elderly friendly complex.

## Child Friendly

As it is a certainty that children will also be residing in the complex, the design must cater for children. Considerations of play areas, Small Park within the complex will

also contribute towards the CoP's smart city concept of having a safer environment under the Smart Living concept.

## Disability Friendly

It must be a requirement that the design of the residential units is also disability friendly.

## Planning and Design

The private partner will design the residential complex to accommodate the following:

- Residential space
- External space (play areas, access area, small park and walkway)
- 1000 square meter retail Centre. (Only Ga- rena phase 2)

## **Technical Design Requirements**

Bendor Ext. 100 will consist of 198 units that are to be dedicated for Gap rental. The units are to consist of two bedrooms, with further details below:

- Type 1- 48 units with unit area of 41SQM with total area covering 1886SQM
- Type 1 alternative- 14 units of 41 SQM with total area covering 574 SQM
- Type 2- 36 units of 42 SQM with total area covering 1512 SQM
- Type 3- 26 14 units of 45 SQM with total area covering 574 SQM
- Type 4- 66 units of 50.6 SQM with total area covering 3339.6 SQM
- Type 5-10 units of 41SQM with total area covering 534 SQM

Ga-rena phase 2 was initially planned to have 498 units in total, however due to the demand it was important to therefore maximize the available space to satisfy the demand for residential housing. Ga-rena is envisioned to have a total of 663 apartments with the break down as follows:

- 105 three bedroom flats of 58 SQM
- 105 bachelor flats of 27 SQM
- 210 one bedroom flats of 31 SQM
- 243 two bedroom flats of 51 SQM

## Exterior walls

- The walls shall be load bearing semi-face brick & mortar.
- This shall be a complete all design and construction of the walls to prevent accumulation of water on the vertical walls.

• The walls are to be damp proof

## <u>Roofs</u>

- The roof shall be a tiled one and should comprise the eternal and complete horizontal barrier to weather and climate.
- Emphasis is made that the roof must be free from any leaks.
- The design shall prevent accumulation of water and water stagnation and damping.

#### Ceiling

The ceiling must have a least 1-point that is accessible for maintenance and repairs.

## Water Heating

Each unit must have water-heating system (geyser).

## Brick Force

The brick force must be 2,8mm

#### Slabs

• The slab should be pre-stressed concrete for strength and durability.(normal).

## Safety and security

- The private partner is required to provide a concrete palisade of 2.4m plus 6 strand electric fencing on top.
- The private partner is required to have a turnstile or equivalent access for pedestrians.
- The complex gate must be an electric, remote controlled gate with back up power in case of power failure.
- The residential complex should be equipped with adequate CCTV monitors around the complex.

 Access control systems should be implemented to improve on safety and monitoring (bio metric access system, card reader security access system or tag system can be implemented).

## Internal Roads

- The residential internal roads should be paved using cement-paving bricks.
- The complex roadways, walkways and parking areas must be lit during darkness to ensure safety of vehicles and most important pedestrians, traffic in respect of collisions and personal safety.

#### Balustrades

- The balustrades that will be acceptable for the project will be steel.
- The steel to be used must be climate protected and strong enough to withstand harsh weather conditions to ensure durability.

## Further Architectural Designs per area

#### Kitchen

The Kitchen is required to consist of least the following:

- Kitchen cupboards with allocated space for refrigerator and washing machine,
- At least 2 wall electrical sockets.
- $\circ$  4-plated Stove fitted in.
- Basin to be included with water outlets.
- At least 1 window (with steel frames and clear glass of SABS standards to be used).
- Timber frame for external door (Bendor Ext.100 only) and steel frame for exterior at Ga-rena.
- Curtain rail
- At least 1 Light.
- $\circ$   $\;$  The floor coverings should be ceramic tiles.
- $\circ$  Ceiling.
- $\circ$  The kitchen area is required to be painted (both ceiling and the walls).
- The walls are to be solid brick walls to ensure durability as well as fire safety.

## Bedroom

The bedroom will consist of at least the following:

- Bedroom cupboards (with combination of a section partition as well as space for hanging clothes).
- At least 1 wall electrical socket
- Curtail rail.
- 1 Door with a steel frame.
- At least 1 window for ventilation (with steel frames and clear glass of SABS standards to be used).
- o At least 1 Light.
- $\circ$  Ceiling
- 1 door with a steel frame.
- The bedrooms to be painted (Both ceiling and walls)
- The walls to be partitioned with solid bricks.
- The floor coverings should be ceramic tiles

#### Lounge area

The lounge area should contain at least the following:

- At least 1 wall electrical socket.
- 1 sliding door with Aluminium framing. (With clear glass of SABS standards)(Ga-rena only)
- Floor to be covered with ceramic tiles.
- At least 1-curtain rails.
- At least 1 window (with steel frames and clear glass of SABS standards to be used)
- o Light
- $\circ$  Ceiling
- The lounge to be painted (both the ceiling and the wall)
- $\circ$   $\;$  The wall to be partitioned with solid bricks for safety and durability.
- o 1 TV aerial socket.

## Bathroom

The following must be catered for in the bathroom design:

- 1 bathtub with taps for dispensing water and shower tap.
- 1 basin with water taps
- 1 toilet (with durable toilet seat)
- o 1 Mirror
- At least 1 small window (with steel frames and clear glass of SABS standards to be used)

- 1 Curtain rail.
- o 1 Light
- 1 door with a steel frame.
- o Ceiling
- The paint must be adequate and suitable to prevent damage from vapor and actual water. (Both ceiling and walls)
- Tiles to also cover a portion of the wall.
- The floor will be covered in ceramic tiles.

## **Other Considerations**

## Signage & Way finding

- The complex must have simple way finding signage to ensure way finding is inherently easy.
- The signage to be inserted must be resistant to physical damage as well as climate damage.
- Signage must be clearly visible both during day and night.

## Fire safety

The Complex must be equipped with adequate fire extinguishers as prescribed by the applicable standards.

## Retail Space (Ga-rena phase 2)

The retail space will comprise of 1000 square meter of space. The retail space will be designed and constructed to be suitable to third party tenants. The Private partner will design the retail space to have separate metering and mechanical a/electrical connections.

The interior and exterior of the space shall be designed to be suitable for retail tenancies.

The retail space shall be disability friendly.

The space design will cater for:

- Lobby/corridor).
- Actual retail unit for letting.
- Public toilets. (Disability friendly)

## The Technical Design Requirements (Retails space)

## Exterior walls

- The walls shall be load bearing semi-face brick & mortar.
- This shall be a complete all design and construction of the walls to prevent accumulation of water on the vertical walls
- The walls are to be damp proof.

#### <u>Roofs</u>

- The roof shall be a concrete roof tiles and should comprise the eternal and complete horizontal barrier to weather and climate.
- Emphasis is made that the roof must be free from any leaks.
- The design shall prevent accumulation of water and water stagnation and damping.

#### Ceiling

The ceiling must have enough points that are accessible for maintenance and repairs.

#### Brick Force

The brick force must be 2,8mm

#### Slabs

• The slab should be pre-stressed concrete for strength and durability.

#### Safety and Security

The retail space must be CCTV monitored.

## Signage

Each rental space must have provision for signage for commercial purposes.

## Internal Roads & Parking

- The residential internal roads should be paved using cement-paving bricks.
- The must be adequate parking bays with some reserved for people leaving with disabilities.
- The complex roadways, walkways and parking areas must be lit during darkness to ensure safety of vehicles and most important pedestrians, traffic in respect of collisions and personal safety.

#### Balustrades

- The balustrades that will be acceptable for the project will be steel.
- The steel to be used must be climate protected and strong enough to withstand harsh weather conditions to ensure durability.

## Further Technical Design

- The door to be used can be Folding doors or sliding doors with an aluminium frame.
- Window (Steel frame to be used with Clear glass adequate for retail and SABS standard approved)
- Steel balustrades to be used (Climate protected and durable)
- Floor to be covered in ceramic tile within the interior of the retail space.
- The pathways/ walk ways to be paved using cement-paving bricks.

## **Operational and Facility Management**

## Exclusivity

For Proper management of the housing complexes, a Special Purpose Vehicle (SPV) would have to be formed. This allows ease of management and having to deal with a dedicated unit instead of dealings with different companies.

Here the developer, constructors, and facility managers would collaborate to form this SPV.

This SPV will be exclusively servicing the housing project after which the expiration of the contract, it can be dissolved.

## Service Desk/Property Management Office

The private partner will be required to have a management office where resident queries will be addressed. Potential residents as well as residents of the residential complex will be in contact with this office for assistance. The office performance can be measured through customer satisfactory surveys that can be undertaken.

## Cleaning and Hygiene services

The Private Party shall provide a scheduled and ad hoc cleaning service at the residential complex in order to provide a sanitary, clean, and tidy environment. The main objective of the Private Party is to maximise the life cycle expectancy of the complex in the undertaking of the Cleaning of the exterior of the rental units.

The Private Party shall provide the Cleaning services in accordance with applicable processes and procedures that are consistent with Good Industry Practice and compliant with ISO 18000.

#### Pest Control

The Private Party shall provide a scheduled pest control service to maintain the residential complexes reasonably free from infestation by pest species.

The Private Party shall deal with any such infestation, which may arise so as to minimise the risk to residents. Reasonable care shall be taken in providing the Pest Control Service especially where sprays that are toxic are used.

The following shall be considered infestation under this Service Requirement, but is not limited to, infestation by, rats; mice; cockroaches; ants; moles; mites; fish moth and termites particularly as this can have devastating structural damages if wood is infested.

#### Waste Management services

The Private Party shall provide a scheduled waste management services to ensure the safe and legal disposal of all generated waste products from the residential complexes.

National Environmental Management Act, 1998 will apply in the delivery of the services and/or tasks pertaining to the Waste Management Service and the service will comply with requirements of ISO 14001.

## Landscape, Gardens and Ground Maintenance Service

The Private Party shall provide a scheduled landscape, gardens, and ground maintenance service in order to ensure that the landscapes within the boundary of the residential complexes are maintained. The landscaping, gardens and grounds are to be maintained for the duration of the contract.

The Landscape, Gardens, and Ground Maintenance Service shall involve the protection and enhancement of habitats for a variety of plants.

## Physical Security Services

The Private Party shall provide security services in respect residential complex, including the provision, scheduling, allocation, dispatch, and management of all security personnel and their security functions. The private party must also provide CCTV and security booths for ease of securing the complex.

The private party shall be responsible for access control into the residential complex.

#### Fire Emergency Management Service

The Private Party shall produce, maintain and implement fire and emergency management procedures in accordance with statutory and the Private Party's insurance requirements.

#### **Utilities**

The Private Party shall be responsible for the distribution of water and electricity within the Facilities.

## Electrical Systems Maintenance

The Private Party shall be responsible for the implementation of a scheduled maintenance regime for purposes of maintaining all electrical systems installed. The Private Party will determine the appropriate maintenance tasks and frequencies for undertaking the Electrical Systems Maintenance.

## **Building Maintenance**

The Private Party shall implement a planned maintenance programme to maintain all buildings of the residential complex in order to prevent deterioration (fair wear and tear excepted) of the building during the Project Term.

#### Asset Management Service

The Private Party shall implement an asset register for movable and fixed assets that will assist in the life-cycle management of the assets in order to enhance control over assets as well as enable internal and external audit requirements to be met.

#### Exist outputs

Prior to expiration of the contract, a residual value assessment shall be carried out in order to determine if the asset has not been dilapidated, of which the private partner would be required to provide compensation equal to the amount that would be required to refurbish the asset due to non-maintenance.

## Performance Monitoring Approach

#### Initial Phase

Service delivery shall be largely self-monitoring through the facility management services. During the Initial Phase, however, closer input and involvement is required from the PHA and the Private Party.

During the Initial Phase the Private Party shall supply evidence as to the following:

Confirm that the systems and the Facility management services required in terms of these Facilities Management Specifications are in place;

The facility's management staffs have been adequately trained;

That processes for monitoring and resolving Performance Failures and the systems for keeping all stakeholders informed as required in terms of these Facilities Management Specifications have been implemented.

## **On-Going Phase**

Performance shall be measured against deliverables as per output specification. If performance fall below the required services the method of compensation to the PHA shall be implemented where, the private party will be required to compensate PHA for service unavailability.

Contract management is key, as clauses relating to fall of service below anticipated shall be stipulated and compensation determined.

## **BEE & Socio-Economic Targets**

There are great inequalities in the economic sectors of South Africa as a whole with no exceptions within the property sector. There should be a proactive response to dealing with such inequalities and stimulate economic growth. The constitution of South Africa states imperatives of redressing historical and social inequalities. The B-BBEE is a mechanism aimed at addressing these issues to ensure an equal South Africa for all. This mechanism will assist by contributing towards sustained economic growth, development, and social transformation of the country.

## <u>Ownership</u>

Inclusion of historically disadvantaged individuals will address low levels of black ownership in the property sector. These challenges will be addressed by having the following targets:

- At least 25% ownership held by black people and 25% plus one vote exercisable by black people;
- At least 10% ownership held by black women and 10% votes exercisable by black women;
- At least 2.5% participation in ownership and economic interest held by broad based ownership schemes.
- At least 5% ownership must be owned by youth.

## Management control

As we strive as a nation to have a representation of black people in key management positions, it is also a necessity that the property sector also commits these minimum targets.

- 50% of the voting rights for black people at board level.
- 50% black executive directors.
- 40% black senior top management level.
- 40% black other top management level.

## Employment equity

With this project, the PHA must strive to enforce racial and gender representation. Transformation programs are necessary to eradicate inequalities. A non-racial, nonsexist environment must be promoted as well as enhancing cultural diversity.

The following minimum targets:

- 3% black disabled employees as a percentage of all employees.
- 60% black senior management employees as a percentage of all employees.
- 75% black employees in the middle management as a percentage of all employees.
- 80% black employees in junior management as a percentage of all employees.
- We further suggest that 18% of management position be occupied by women.

## Skills development

In the property market there are insufficient number of structured and accredited training programmes. It is therefore important that the SPV to be formed commits to achieve the following targets:

- 3% of skills development expenditure of learning programmes, specified in the learning matrix for black employees.
- 5% of black employees participating in learnerships.
- 0.3% skills development expenditure of learning programmes, specified in the learning matrix for black employees with disabilities.
- At least 40% of the skills development initiatives beneficiaries must be local black youth.
- At least 20% of the skills development, as a percentage total of skills development must be targeted at women.

## Preferential Procurement

The following targets relate to preferential procurement:

- At least 70% spend on procurement on supplies based on BEE procurement recognition levels
- 15% of the procurement should be awarded to SMME's owned by local people based on the applicable BEE procurement recognition level.
- 20%procurement spends on suppliers that are 50% black owned and 30% black women owned.
- 50% of the procurement spend on services based on the BEE procurement recognition levels.

## Enterprise development

- 3% of the net profit after tax as the annual value of enterprise development contributions.
- Enterprise development can involve management, business development and technical skills transfer.
- Technology transfer, establishment of administrative systems, costs control systems and infrastructure support.
- Promoting sustainability and provision of measurement of enterprise growth.

## Socio-Economic development

From the analysis of the Polokwane as a city, there are challenges that the municipality faces. Contribution to socio-economic development projects that benefit the black groups, communities and individuals as well as promoting transformation is key.

- 1% of the Net profit after tax value must be towards socio-economic development contributions.
- This can be geared towards the following initiatives:
  - Education facilities;
  - Programmes at secondary and tertiary education levels;
  - o Bursaries and scholarships orientated towards property sector;
  - Consumer education and information on property ownership and property practice;
  - Training;
- Development programmes for black youth and other black designated groups;
- Job creation (unskilled workers mainly)
- Support for sports developmental programmes;
- Arts and culture;
- o Health

## Economic Development

- At least 10% of property development to be allocated to under-resourced areas. This housing project is target.
- At least 35% of asset disposals to B-BBEE enterprises as a percentage total assets disposal.

# 1.7. PROJECT STATUS QUO

It was established that a developer had been appointed to undertake the development of the Bendor Ext 100 project. The project developer, Mabone Building contractors (Mabone) were appointed on the 23 of November 2012 through a tendering process by Department of Corporative governance and Traditional affairs (COGHSTA). The following is work done by COGHSTA prior to the appointment of Mabone Building Contractors:

- Land Purchased
- Town Planning and land surveying done
- Designed services and approved plans
- Designed housing units and approved housing plans
- Approval of site development Plan
- Installation of water and sewerage complete
- Installation of Roads and storm water complete.

The amount spent by COGHSTA on the site to date is approximately R58 Million

Mabone was appointed to do the following:

- Install both bulk and internal electricity
- Market the project
- Obtain finance from banks/funders
- Construction of units
- Obtain NHBRC and municipal approvals

- Transfer units to owners (were applicable)
- Establish body corporate
- Facilitate development of rental stock.

# 1.8. Polokwane Demographic Profile

Polokwane municipality comprises of a total area of +/- 377578.99 ha and is located in the central part of the Limpopo Province. Polokwane Municipality is located within the Capricorn District in the Limpopo Province and accounts for 3% of the Province's total surface area of ±124 000 km2. In terms of its physical composition Polokwane Municipality is 23% urbanized and 71% still rural. Polokwane is the economic hub of Limpopo Province and is strategically located to be the administrative and economic capital of the Province.

The municipal spatial pattern reflects that of the historic apartheid city model characterised by segregated settlement.

Variable	Polokwane Municipality	Limpopo Province	Capricorn District Municipality
Surface Area	3 775 km2	123 910 km2	18,570.30 km2
Population Size	424 835	4 576 566	1 072 484
Population Size 2001	508 277	4 995 462	1 164 281
Population Size 2011	628 999	5 404 868	1 261 463

Table 10, Population Characteristics

Source: StatsSA 2011

The population of the municipality grew from 424 835 in 1996 to 628 999 in 2011.

#### Table 11, Gini co-efficient

Population Group	2009	2010	2011	2012	2013
African	0.59	0.59	0.58	0.57	0.58
White	0.41	0.41	0.41	0.40	0.39
Coloured	0.52	0.52	0.52	0.53	0.54
Asian	0.43	0.43	0.42	0.42	0.44
TOTAL	0.63	0.63	0.63	0.61	0.61

Source: Global Insight, 2014

The Gini co-efficient is used as a measure of the distribution of income across a group of People. If incomes are distributed perfectly equally, the Gini coefficient is zero. At the other extreme, if the incomes are distributed with perfect inequality, the Gini coefficient is equal to one. The Income distribution is still very unequal ranging between at 0.42 to 0.59 for a period of 4 years, between 2009 and 2012 and

increased in 2013 to 0.61. From the above it is evident that there are still a large number of people leaving in conditions. It is also clear that black people have the highest inequality at 0.58 in 2013. It is also therefore important to have measures in place that will see the reduction in the inequality rate.



#### Figure 1, Income Levels

#### Source: StatsSA 2011

From the above, the band with a highest number of households is between R19.601-R38, 200 which is 19.7%, followed by Band of R9, 601-R19, 600 at 19.3%. The Third highest is households with no income at 13.8%.

#### **Employment profile**

According to StatsSA 2011 report, it was established that Polokwane has a total of 155 691 employed individuals with 74 784 unemployed individuals. Discouraged work seekers are 14 798 while those deemed not economically active are 162 442. This brought the employment rate to 67.6% while the unemployment rate was at 32.4%

Table 12,	Education	Level	Statistics
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Group	Percentage
No Schooling	1,9%
Some Primary	38%
Completed Primary	5,8%
Some Secondary	33,7%

Completed Secondary	14%
Higher Education	3,6%
Not Applicable	3,1%
Source: StatsSA 2011	

The percentage of individuals you have a background to Primary education is the highest at 38%, followed by the 33,7% for the individuals who have a secondary education background. The individuals with higher education are only 3.6%, which is very low.

#### Table 13, Polokwane Marital Status

Group	Percentage
Married	22,8%
Living together like married partners	4,6%
Never married	68%
Widower/Widow	3,4%
Separated	0,4%
Divorced	0,9%
Source: StatsSA 2011	

68% of People in Polokwane have never been married, with married people coming second at 22.8% and third place been people living together at 4.6%







From the chart above 48.2 percent of houses owned in CoP are fully paid up, with rented houses trailing at 22.3%. Houses occupied rent-free are 17.7% and houses owned but not yet paid off are 8.2%. The rest is classified under other totaling 3.6%.

It is evident from the chart that people still prefer to rent houses that own considering the percentage of houses owned however not yet paid.

# 1.9. **PROJECT SCOPING.**

The objective of this project is the development of 663 Housing units at Ga-rena phase 2 and 198 housing units at Bendor Ext 100. This project is earmarked for government employee Housing scheme. One of the objectives of the PHA is to promote Smart Living for a diverse market through the delivery of sustainable and affordable homes. The provision of improved quality of household life leads Polokwane a step closer to achieving its Smart city concept by the year 2030. This in turn stimulates economic growth, job creation, and sustainable human settlements. This housing development narrows the GAP in the city of need of quality houses as well as addressing the municipal's strategic objectives.

At this stage, a solution that will best deliver the housing project will be investigated to ensure the best possible solution.

The proposed site for the Ga-rena phase 2 is situated at Annadale Extension 2, on portion 262 of the Farm STERKLOOP No. 688 LS. The site consists of ERF 513, ERF 514, ERF 515, and ERF 516.

Bendor Ext 100 is situated at Bendor extension 100 on KOPPIEFONTEIN No. 686 – LS. The site is on ERF 7340 and ERF 7341.

The suitable delivery type for this project would be a design, build, finance, operate, and transfer (DBFOT). The rationale for this type of arrangement is that transfer of most risks to the private partner, where the latter would be responsible for the designing, building, financing, operating and at the end of the contract period transfer the asset back to the municipality.

# 2. SOLUTION OPTIONS ANALYSIS

# 2.1. Introduction

This section seeks to evaluate different options available for the development of the Ga-rena Phase 2 and the Bendor ext. 100. Each option shall be evaluated technically in order to identify the most suitable options. The method of deliverance of the most suitable technical option chosen shall be explored.

PHA's strategy is the commitment to developing well-located rental stock for people who would otherwise not afford to buy houses. Polokwane Municipality, as the economic hub of the Province is experiencing population growth which results in the influx of people from the rural areas into the urban parts of the municipality. This influx has necessitated an increase in the provision of housing and other basic services that promote integrated sustainable human settlement.

## 2.2. Technical Options

It has been noted that the municipality has observed a decline in the number of houses being delivered. With the growing population, housing demand increased incredibility. The housing demand as shown from the municipal database that there is a current record of 32 016 people requiring housing assistance under the rural housing subsidy programme, informal settlement backlogs, social/rental housing, and Blocked housing projects.

We have established from the Municipal IDP 2015/16, that 50% of urbanized households are housed in rental accommodation. This 50% statistic mainly comprises of the new and low-income earners who dwell in backyard rooms. This is evident of the demand for rental housing in the Polokwane municipality.

YEAR	FORMAL DWELLING	TRADITIONAL DWELLING	INFORMAL DWELLING
1996	64 390	9601	10 447
2001	99 138	6003	19 476
2011	159 082	1896	16 044

The Table below depicts a picture of the Housing deliverance in CoP.

Source: StatsSA

From the table above it is clear the number of formal dwellings in the province have increased tremendously from the 1996 census. Traditional dwellings are also decreasing but at the same time informal settlements still prove to be a great challenge at an increase in 2001, which was almost double but however decreased in the 2011 Census.

## 2.3. Options Explored

- 1. Have a Brownfield's development where an existing building is remodeled
- 2. Alternative piece of land
- 3. Development at Ga-rena Phase 2
- 4. Development at Bendor Extension 100.

#### **OPTION 1: Remodeling of an existing Building**

The advantages is remodeling of an existing building:

- The infrastructure would be in place already.
- It would be easy to secure.
- Possibly lower capital Costs requirements for the remodeling
- Greater chances of such a building to be located within the CBD, Making it possibly closer to work Places.

The disadvantages are:

- Most family people would not want to leave directly in the CBD,
- There might be Challenge with adequate parking spaces as structure would be in place already.
- It cost of refurbishing and partitioning is higher as provisions must be made for strengthening the foundation of a existing building, in order to cater for the 198 and 663 units to be developed.
- The "Flat " type of leaving no longer seems attractive to the lower-middle and upper class with many people preferring Town houses instead that also offer security.

According to the PHA, there is no building currently available for such refurbishments and remodeling of building. The alternative would be acquisition of existing building; however, this will push the capital cost of the development further up.

Νο	Projects	Units	Year of Implementation
1	Seshego CRU 189	189	2015/2016
2.	Polokwane Ext 107	500	2016 & 2017
3	Ga-Rena Phase 2	500	2017 & 2018

#### **OPTION 2:** Alternative Site

4	Polokwane Ext 106	500	2017 & 2018
5	Bendor Extension 100	198	2016/2017
	Total Units	1887	

From above sites the only two available sites available and those are Ga-Rena Phase 2 and Bendor Ext. 100

#### **OPTION 3: Bendor Ext. 100**

The site is located at portion 39 KOPPIFONTEIN No. 686-LS on ERF 7340 and ERF 7341. The site is currently established as a township and has also been zoned for housing developments. The site is situated in one of Polokwane's most sought after suburbs. The Limpopo provincial government owns the land where the development is to take place.



A	DVANTAGES	DISADVANTAGES
•	Township establishment already done	The developer appointed needs to
•	There is Existing Bulk services on site	sign contract with The PHA.
•	CoGSTA already spent ± R58 million	

- The site is zoned for housing
- Geo-tech investigations already done
- Developer has been appointed
- Internal Roads already in constructed
- Water connection points already in place
- Site at a sought after suburb (Bendor 100)
- Plan for building already approved.
- Storm water drainage systems already in place
- The site is approximately 3KM from CBD.

## **Geo-tech Studies**

The following was recommendations from the Geo-tech studies carried out.

- Normal Foundation could not be applied due to heave soils. A competent engineer should design the foundations;
- Groundwater could be encountered in wet seasons;
- Insitu material below the top layer is suitable for road construction or bedding
- Surface water draining systems should be designed to prevent erosion

#### Ga-rena Phase 2

Ga-rena Phase 2 is situated at Annadale Extension 2, on portion 262 of the Farm STERKLOOP No. 688 LS. The site consists of ERF 513, ERF 514, ERF 515, and ERF 516. This land is currently undeveloped and is adjacent the Ga-rena phase 1. the site is approximately ±3km from the CBD.

Township establishment has been done and the site has been zoned for residential accommodation. The CoP owns the land. There are bulk services in place.

A	<b>VANTAGES</b>	DI	SADVANTAGES	
٠	Township establishment already done	•	The developer to be appointed	would
•	There is Existing Bulk services on site		have to establish a w	vorking
•	The site is zoned for housing		relationship with the M	Notheo
•	Geo-tech investigations already done		Contractors	
•	Contractor has been appointed already	•	The Ga-rena phase 1 has exper	ienced
•	The site is approximately 3km from CBD.		a number of problems including	public
•	Phase 1 is situated just adjacent to the		protests by residents demandin	g "rent
			to buy" solution. Such actions	might

From The above assessment the site suitable for the 663 units is Annadale Extension 2, (Ga-Rena Phase 2 site) and the Site suitable for 198 is the Bendor Ext.100

# 3. TECHNICAL REPORT

In this section of the report we demonstrate the technical work requirements for the project. All aspects relating to the project are addressed as per scope given by the PHA, to ultimately assist in the costing of the project.

## **3.1 Bendor Extension 100**

Bendor Extension 100 has a developer who was appointed by the COGHSTA. COGHSTA has spent approximately R58 million on the site to date.

- Geo -tech studies have been carried out on the site;
- The site has internal roads within the estate;
- There is Storm water drainage constructed already;
- Road network does exist outside the parameters of the site establishment.
- Bulk services are already in place
- Car parking lots have been built already.
- Building plans have been approved already.
- The site has been zoned for residential Housing.

Picture of existing Internal roads and Parking lots



Below are the pictures that show the units that are currently being built in the estate.



Storm water drainage



# 3.1.1 The composition of the units at Bendor ext. 100 GAP housing

The 198 Gap rental units at Bendor Ext 100 comprise of the following types of houses:

- 41 SQM 2 bedroom floor units, this will be 46 units;
- 41 SQM 2 bedroom floor units, quantity of 14(alternative plan to first plan)
- 42 SQM 2 bedroom floor units- 36 units
- 45 SQM 2 bedroom double-storey units -26 units
- 50.6 SQM 2 bedroom double -storey unit-66 units
- 53.4 SQM 2 bedroom double-storey unit- 10 units



## 3.2 Ga-rena Phase 2

From assessments done and consultations with the PHA, we established that there was a contractor appointed- Motheo contractor for the construction of Ga-rena.

The land is currently vacant with no structures in place. The land is very flat which is favorable for foundation. However more details regarding the foundation will depend on the recommendations of the geo-tech report.

- The Geo-tech studies were undertaken.
- There is existing Bulk services
- Electricity connection less than a 100 meters away.
- The site has also been zoned for residential accommodation.

The following still needs to be done for preparation of the site.

- The construction of internal roads within the estate;
- The construction of storm water drainage;
- · Car parking lots have to be constructed;
- The developer to be appointed still required to get building plans approved;

We recommend a total of 663 units made up of the following:

- 105 Bachelor flats with area of 27 m2 each;
- 210, 1 Bedroom flats with area of 31 m2 each;
- 243, 2 Bedroom flats with area of 51 m2 each; and
- 105, 3 Bedroom flats with area of 58 m2 each.

Picture of Ga-rena Phase 2 site and the existing















**BLOCK A** 





#### 3.3 Urban Design

Urban design is the process of giving form, shape, and character to groups of buildings, to whole neighborhoods, and the city. It is a framework that orders the elements into a network of streets, squares, and blocks.

## 3.4 Streets and Sidewalks

The design of the streets and sidewalks should be in such a way that ensures it's usable in comfort and safety by people with the widest range of abilities (physical or cognitive), sizes or shapes. It cannot be treated as an add-on item. Universal Design and Accessibility is required under the terms of the South African Constitution, the obligations placed on the country under the UN Charter on the Rights of People with Disabilities, as well as many national laws, such as the Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000).

The design must be able to cater for the following people:

- **People with disabilities**: defined in the Act as people with a physical, sensory or mental disability; which may be permanent or temporary.
- *The aged*: or elderly people. People over the age of 55 usually fall in this category.
- Pregnant women: usually taken as women in their last three months of pregnancy.
- Young children: this is usually defined as children between the ages of 0-14.
- Those who are limited in their movements by children: men and women accompanying young children.
- Signage passengers: People who are unable to read or who are unable to understand the language used on the signage. Tourists are also included as signage passengers.
- Load carrying passengers: people carrying bags, luggage, or goods of a size that means that they benefit from accessibility features.

The walkways - as walking is the most basic mode of transportation for people, therefore sidewalks should be preferably provided on both sides of the all street

## Considerations:

• Should provide comfort, safety, convenience and encourage walking.

- Should be continuous along desire lines, limiting the number of conflicts with other modes of transport.
- Must be designed to be universally accessible, especially to those with disabilities or special needs.
- Surfaces must be firm, smooth, non-slippery and stable.

# 3.5 Landscaping

Landscaping not only improves on the visual looks of an area but also has important function of preserving the state of land. Landscaped areas shall be configured to maximize their interconnectivity within the site, to natural areas, the public open space.

Landscape improvements in all developments shall be consistent with the character of the proposed development and the surrounding area to reinforce neighborhood identity. Landscape design shall enhance natural features, drainage ways, and environmental resources. All landscape improvements shall be designed for mature landscapes and shall provide appropriate visibility for cars and pedestrians. Recommendations:

- Plants having similar water use shall be grouped together;
- Plants shall be selected appropriately based upon their adaptability to the climatic, geologic and topographical conditions of the site;
- Select plants with a pedigree that includes modifiers like carefree, droughttolerant and tough;
- Soil preparation shall be suitable for the plants;
- Irrigation The developer shall install an automatic irrigation system for all landscaping within public street rights-of-way.

# **SUMMARY**



# 4. LEGAL

The government's primary housing objective is to undertake housing development, which section 1 of the Housing Act, No. 107 of 1997 defines as being "the establishment and maintenance of habitable, stable and sustainable public and private residential environments to ensure viable households and communities in areas allowing convenient access to economic opportunities, and to health, educational and social amenities in which all citizens and permanent residents of the

Republic will, on a progressive basis, have access to; permanent residential structures with secure tenure, ensuring internal and external privacy, and providing adequate protection against the elements, potable water, adequate sanitary facilities, and domestic energy supply.

A municipality must undertake developmentally-orientated planning so as to ensure that it –

- Strives to achieve the objectives of local government set out in section 152 of the constitution;
- Give effect to its developmental duties as required by section 153 of the constitution;
- Together with other organs of state contribute to the progressive realisation of the fundamental rights contained in sections 24, 25, 26, 27 and 29 of the Constitution

Subsection (1) must be read with chapter 1 of the Development Facilitation Act, 1995 (Act No, 67 of 1995), which reads as follows:

"Land development on behalf of State or local government body."

- The State or a local government body may, in the prescribed manner and subject to the prescribed guidelines, appoint, in terms of a land availability agreement submitted to and approved by a tribunal, any person to carry on land development in terms of this Chapter on land owned by the State or such local government body.
- Any land which has been made available in terms of the subsection
  - a) Shall remain subject to the control of the Minister, MEC or local government body, as the case may be, who or which may, in the event of a breach of the conditions on which the land was so made available by the person to whom the land was made available, withdraw the land thus

made available and thereafter deal with such land as the Minister, MEC or local government body, as the case may be, deems fit;

- b) Shall not in any way be alienated or further encumbered by the State or local government body while the land remains available to the person concerned; and
- c) May be alienated by the person to whom the land has been made available, only in his or her capacity as the duly authorized agent of the State or local government body and on the conditions on which the land has been made available to such person.

#### 4.1 Land Ownership

The acquisition of land for the purposes of land development may be undertaken in terms of 2 processes. These processes do not distinguish between types of ownership, but simply set out the process in general terms. Once land has been transferred to an end user, there is also a possibility that it can be transferred between end users or beneficiaries or even rented.

#### ONE STEP PROCESS

The one-step process of land transfer making use of a Land Availability Agreement is the most common form of land transfer for the purposes of housing development. A Land Availability Agreement is a comprehensive agreement or contract entered into between the original landowner and a developer or group of beneficiaries in terms of whom a specific land parcel is secured for the benefit of the beneficiaries or developer, while the ownership remains with the original landowner. Normally the process will allow ownership of land to pass from the original landowner to the end user once certain criteria have been met. In effect, this agreement requires only a single land transfer transaction to take place in the Registrar of Deeds office and does away with the need for an intermediate landowner, which has a number of cost saving implications. However, if no land availability agreement is used, transfer will take place from the original landowner to an intermediate landowner, before final transfer to an end user.

#### TWO STEP PROCESS

Primary and secondary land transfer price distinguishes between primary and secondary land transfer processes. Primary land transfer is defined as the transfer of small or large undeveloped portions of land to the first households who will occupy this land. This transfer can follow the one step or two step land transfer process as

described above. The reason for this is that government has strong rules and regulations governing the formal development of new land. However, the initial occupation and invasion of vacant land and the creation of informal settlements could be seen as one form of informal primary land transfer. In communal areas, the development of a new rural village or expansion of an existing village could also be classified as an informal primary land transfer occurrence. Secondary land transfers are then defined as those transfers for each specific residential land plot created through the primary land transfer process from the first residential landowner to the second residential landowner and any subsequent transfers that take place after this.

#### 4.2 Development Facilitation Act 67 of 1995

#### THE APPOINTMENT OF A DEVELOPER OR CONTRACTOR

The following land development applicants may apply for establishment of a land development area in terms of this Chapter: (a) An owner of land, including the State or a local government body, in respect of land owned by it; (b) an agent or independent contractor acting on behalf of the owner of land; (c) a person acting with the consent of the owner of land; (d) a person to whom land has been made available by the State or a local government body in terms of a land availability agreement; or (e) a person acting on behalf of the owner of land in any other capacity.

- A land development applicant shall lodge a land development application, accompanied by the prescribed documents and information, with a designated officer in the prescribed manner.
- A land development applicant shall give notice of a land development application to the prescribed persons or bodies.
- Any notice referred to in subsection (3) shall, in the prescribed form, call upon any person or body to whom or which the notice has been given –
  - a) To provide the designated officer with comments in writing on the land development application within the period of time prescribed and specified in the notice; or
  - b) Failing the delivery of comments within such period, or if comments were delivered but constitute an objection to any aspect of the land development application, to appear in

person or through a representative before a tribunal on a date specified in the notice.

- A notice referred to in subsection (3) shall have the same effect, mutatis mutandis, as if it were a subpoena issued by a tribunal under section 18 (2).
- The designated officer shall within the prescribed period provide the land development applicant with any comments, objections, or representations received in terms of subsection (4) (a), to which the land development applicant may reply within the prescribed period.

## 4.3 The Constitution Of The Republic of South Africa 1996 (act 108 of 1996)

The objectives of Local Government are in particular set out in section 152 of the Constitution, which reads thus:

- "(1) The objects of local government are-
  - (a) To provide democratic and accountable government for local communities;
  - (b) To ensure the provision of services to communities in a sustainable manner;
  - (c) To promote social and economic development
  - (d) To promote safe and healthy environment and;
  - (e) To encourage the involvement of communities and community;
  - (f) Organization in the matters of local government.
- A municipality must strive with its financial and administrative capacity to Achieve the objectives as set out in sub-section.
- (3) The Constitution further determines that local government shall have the developmental duties as set out in section 153 that reads as follows:

'A municipality must-

- (4.4) Structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and
- (4.5) Participate in national and provincial development programs.'

#### **4.4 Procurement**

Procurement is specially addressed in section 217 of the 217 of the Constitution and reads as follows:

#### LOCAL GOVERNMENT MUNICIPAL SYSTEM ACT 2000 (ACT 32 OF 2000)

The legislation again provides in chapter 6 of this Act under the heading "*Municipal Services*", that in the event that a local council should source services through a service delivery agreement it shall, subject to preference or categories of service providers in order to advance the interest of persons, disadvantaged by unfair discrimination as long as the manner in which such preference is exercised does not comprise or limit the quality, coverage, cost and development impact of the services.

# 4.5 Local Government: Municipal Finance Management Act 2003 (act 56 of 2003)

The preamble to this Act reads as follows:

"To ensure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of local government to establish treasury norms and standards for local spheres of government and to provide for matters connected therewith."

The Act in Chapter 3 under the heading *"Municipal Revenue"* provides in section 14 for the disposal of capital assets Section 14 reads as follows:

*"1. A municipality may not transfer ownership as a result of sale or other transaction otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services* 

- 2. A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in sub-section (1), but only after the municipal council, in a meeting open to the public-
- (d) Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and
- (e) <u>Has considered the fair market value of the asset and</u> <u>economic and community value to be received in exchange for</u> <u>the assets.</u>

3. <u>A decision by the a municipal council that a specific capital</u> assets is not needed to provide the minimum level of basic municipal services, may not be reserved by the municipality after that asset has been sold, transferred or otherwise dispose of.

A municipal council may delegate to the accounting officer of the municipality its power to make the determinations referred to in subsection (2)(a) and (b) in respect of immovable capital assets below a value determined by the council.

Any transfer of ownership of a capital asset in terms of subsection 2(4) must be fair, equitable, transparent, competitive, and consistent with the supply chain management policy, which the municipality must have and maintain in terms of section 111.

If the Council intends to alienate (sale or letting) municipal property to a third party, the principles of the Procurement Act and its Regulations will apply. Thus, in the event of the alienation (sale or letting) of a property at a selling price/rental value less than R30 000-00, the council will be empowered to conclude such lease/sale out of hand. In the case of R30 000-00, the calling of tenders and the preference points have to be applied.

# 4.6 Leasing of Land

## CONDITIONS FOR LEASE / LETTING OF LAND

The following general conditions shall be applicable in the event where Council's immovable asset is leased or let.

- No lease application shall be processed unless an applicant has confirmed in writing that he or she will bear all costs where applicable, e.g. legal, survey, re-zoning, sub-division, consolidations, advertisements, relocation or provision of services, and/or a deposit as per prescribed tariff to cover incidental costs has been paid.
- The under-mentioned deposits and/or adequate/equivalent security/guarantee shall be applicable to leases where the rental is based on market value: (i) a deposit equal to 3 months rental for commercial transactions; (ii) a deposit equal to 1 month's rental for residential and social services transactions;
- No immovable asset shall be sub-let, ceded or assigned without the prior approval of Council.

- Rentals shall escalate annually at a percentage or preferably a percentage of property rates increase as approved by Council annually.
- The lessee shall be liable for payment of rates and service charges in terms of the Property Rates and the Credit Control and Debt Collection policies of the Municipality.
- The letting of lanes, public open spaces, road reserves and garden extensions shall be subject to the following: (i) closing off/securing, if required by the Council, shall be to its satisfaction; (ii) costs for the relocation or installation of services shall be for the account of the lessee'; and (iii) securing of servitudes.
- Lessees shall indemnify Council against any possible claims arising from the lease or use of the immovable asset.
- Where land is leased, development must commence within five (5) years from the date of occupation or in accordance with the provisions of the lease agreement or the development programme submitted by the lessee and be complete in accordance with the provisions of the lease agreement or the development programme. A suspensive condition must be included in the lease agreement to provide for forfeiture in the event that the development has not been commenced with. Council furthermore reserves the rights to impose such conditions as deemed necessary, without limiting its rights to liquidated damages and reversionary clauses.
- Lease periods may be on a short term (1-3 years), medium term (1-10 years) or long-term (1-30 years) basis.
- The asset may only be used for the purpose for which it was let and purposes regularized by town planning schemes/zoning regulation.
- Once an applicant has met all requirements the lease agreement shall be finalized and concluded within 2 months from date of Council's official request. Failure to comply within 2 months from date of request the awarding shall be regarded as null and void and applicant shall forfeit his/her deposit and be held liable for costs exceeding the deposit amount.

- Officials from Council shall at all reasonable times be entitled to enter/inspect the immovable asset; and
- All agreements shall contain a clause that improvements which Council requires, revert free of charge to Council once the lease period has terminated and/or in the event the agreement, due to breach of conditions, has been cancelled.

LEASE PERIODS NOT EXCEEDING 12 MONTHS- The letting of immovable assets for periods not exceeding twelve months without an option to renew.

## 4.7 Land Claims

The response from the Land rights commission following enquiries made Knakna on both land parcels indicated that currently there are no existing land claims on the site.

## 4.8 Procurement

COGHSTA appointed a developer for the Bendor Ext.100. The accounting officer may decide in terms of section 113(2) of the MFMA to consider an unsolicited bid, only if –

- (a) The product or service offered in terms of the bid is a demonstrably or proven unique innovative concept;
- (b) The product or service will be exceptionally beneficial to, or have exceptional cost advantages;

(c) The person who made the bid is the sole provider of the product or service; and

(d) The reasons for not going through the normal bidding processes are found to be sound by the accounting officer.

However the Section 217 of the Constitution requires an organ of state, when contracting for goods and services, to make use of a system that is fair, equitable, transparent, competitive, and cost-effective. The Preferential Procurement Policy Framework Act 97 of 2000 (PPPFA) also requires an organ of state, when contracting for such goods and services, to give preference to persons, or categories of persons, disadvantaged by unfair discrimination.

The **Municipal Supply Chain Management (SCM) Regulation 32 of 2005** (Regulation 32) addresses how requirements and conditions under which SCM policies of municipalities could allow their respective accounting officers to procure goods or services for the municipality under a contract secured by another organ of the state (government department or municipality) in the context of the competitive bidding processes.

To ensure its correct application and use for the procurement of goods and services on a contract that was initially secured by another organ of the State, the provisions and guidance of Regulation 32 should be carefully considered. Except for the explicit requirements (sub-regulation 1(a) to 1(d)) stated in the Regulation, there are also implicit requirements based on the content of the contract that was awarded by another organ of the State. The explicit and implicit requirements carry equal weight in the compliance with its requirements.

#### Recommendation

The PHA must apply regulation 32 of Supply Chain Management regulation of 2005.

# 5. FINANCIAL REPORT

#### **5.1 Financial Analysis**

The proposed GAP rental residential development is envisaged to be undertaken through a Development lease basis. The main objective of the project is the provision of affordable housing to Government employees on a mass scale. To ensure that the project offers profitable opportunity to private players, a detailed financial analysis of the project broadly encompassing the key financial parameters and assumptions related to cost and revenues, is presented. The developmental lease financial model factors in account the projected demand for the rent housing stock in Polokwane.

Through the financial analysis undertaken, viability assessment has been brought forth, highlighting the returns to private developers and requirements for the Government support to ensure not only financial viability but also overall project success.

#### 5.2 Financial Analysis Methodology

The basic methodology adopted for development of a financial model and

assessment of the project and equity returns is as summarized below:

- For the purpose of feasibility study, financial estimates are based on applicable benchmarks drawn from sectorial projects undertaken previously and information procured locally. For instance the capital structuring of the projects has been based on benchmarks observed across infrastructure projects of similar scale and modalities as well as market feedbacks.
- Similarly, revenue assumptions have been incorporated and analysis based on evaluated market demand and observed market dynamics within Polokwane.

To reiterate the broad framework, the project will be developed under the Design Build, Fund, Operate, and Transfer model. (DBFOT) All the cost incurrences will be borne by the private concessionaire with regard to capital expenditure and operational expenditure associated with the project.

Broadly, the capital expenditure, operational expenditure, and the debt repayment associated with the project forms the main sources of outflows for the project. A major portion of the revenues have assessed based on the rental income.

Based on financial modeling incorporating the estimated demand, costs and revenues, a financial analysis was undertaken for the proposed new housing development, arriving at the level returns accruing to the private party at base level. These base returns evaluated were compared against the minimum returns typically looked at by the private party investor in similar project, considering their return expectation vis-à-vis the project & demand risks. Thus, the expected market returns

were pegged and the actual returns from the project compared with the objective of ensuring project viability for the private project proponent's perspective.

## 5.3 Bendor Ext.100

## 5.3.1 Assumption

Assumption	Description	Value
Model period	The number of years that the financial model	30 years
Loan Period	The number of years for repayment of loan	20years

Construction period	Time it will take to construct	2 years
Concession Period	The number of year the Private Party will Operate	30 years
Inflation rate	Average Consumer Price Index for escalating expenses	5%
Tariff escalation	Annual tariff increase	6%

## 5.3.2 The Capital costs

Table 14, Bendor Capital Costs Summary

Summary Project Cost	
Unit Types	Amount
41 SQM	16 203 600,00
42 SQM	9 930 060,00
45 SQM	7 622 160,00
50.6 SQM	21 483 000,00
53.4 SQM	3 416 700,00
Total costs for 198 units	58 655 520,00

Source: Financial Model

Above is the costs projected for each class of units.

#### Table 15, Detailed project costing

Detailed Project Costing					
Number of Units	60 Units	36 units	26 Units	66 Units	10 Units
Size of units	41 SQM	42 SQM	45 SQM	50.6 SQM	53.4 SQM
Construction cost	225 500,00	231 000,00	247 500,00	278 300,00	293 700,00
Electrical bulk supply	6 500,00	6 500,00	6 500,00	6 500,00	6 500,00
Electrical engineer	3 000,00	3 000,00	3 000,00	3 000,00	3 000,00
Municipality Electrical contribution	5 000,00	5 000,00	5 000,00	5 000,00	5 000,00
Landscaping	2 000,00	2 000,00	2 000,00	2 000,00	2 000,00
Boundary wall/ guard house	4 000,00	4 000,00	4 000,00	4 000,00	4 000,00
Land surveyor	4 000,00	4 000,00	4 000,00	4 000,00	4 000,00
Site agent/office	1 700,00	1 700,00	1 700,00	1 700,00	1 700,00
Car port	4 500,00	4 500,00	4 500,00	4 500,00	4 500,00
Excess control	1 000,00	1 000,00	1 000,00	1 000,00	1 000,00
TOTAL	257 200,00	262 700,00	279 200,00	310 000,00	325 400,00
CPIX adjustment at 5%	270 060,00	275 835,00	293 160,00	325 500,00	341 670,00
Total Cost	16 203 600,00	9 930 060,00	7 622 160,00	21 483 000,00	3 416 700,00

Source: Financial Model

The above table depicts the costs that relate to establishing the rental housing estate. The construction costs is R 58 655 520, with each unit costing an average of R 286 900

## 5.3.3 Operating costs

The overall operating costs are estimated at 10% of the revenue. In the first year of operation the operating expense is R 977 000. This includes expenses such as insurance, security, common water and electricity, gardening services as well as cleaning services for the common areas.

## 5.3.4 Funding

The Capital requirement for the Bendor Ext 100 is R 58 655 520. The finance cost relates to the interest cost on the loan obtained to directly finance the capital cost. The loan to be borrowed is R58 655 520 million and the interest rate projected at 10,75%. The loan repayment period will be 20 years and period of operation

#### 5.3.5 Revenue

#### Table 16, Revenue table Bendor

Revenue	Units	Rental per Month	Occupation rate	Number of months	Annual revenue per unit (R000)	Escalation
Type 1 -Floor units	60	4,100	90%	12	2 657	6%
Type 2 -Floor units	36	4,500	90%	12	1 750	6%
Type 3 -Double storey units	26	4,700	90%	12	1 320	6%
Type 4 -Double Storey units	66	4,900	90%	12	3 493	6%
Type 5 -Double Storey units	10	5,100	90%	12	551	

Source: Financial Model

The revenue will be generated from monthly lease payments from tenants and is estimated to range from R 4 100 per month to R 5 100 and total estimated revenue per year one is R 9 770 000

year 15 to 20

20%

15%

# 5.3.6 Summary Financial Model

## Table 17, Summary Bendor

Construction cost	Amount
Building & Civils	58 656
Loan	Amount
Banks/DFI	58 656
Interest	10,75%
20 year Cashflow Summary	Loan Funding
Total rentals collected	772 373
Total operating expenses	157 851
Cash generated from operations	614 522
Loan principle repaid	58 656
Loan interest	86 257
Nett Cash at the end of the project	469 610
Shareholding	
Developer	100%
Developer	469 610
Operational Cost	year 1 to 8
as % of Rentals	10%

Source: financial Model

#### 5.4 Ga-rena phase 2

## 5.4.1 Assumption

Assumption	Description	Value
Model period	The number of years that the financial model	30 years
Loan Period	The number of years for repayment of loan	20years
Construction period	Time it will take to construct	2 years
Concession Period	The number of year the Private Party will Operate	30 years
Inflation rate	Average Consumer Price Index for escalating expenses	5%
Tariff escalation	Annual tariff increase	6%

## 5.4.2 Capital costs

Table 18, Capital Cost Ga-rena

Unit Type	Cost
Bachelor Flat	19 757 959,83
One Bed Room Flats	44 366 919,66
Two Bed Room Flats	79 405 364,18
Three Bed Room Flats	38 555 584,83
Total costs for 663 units	182 085 828,50
Landscapping	1 200 000,00
Boundry Wall	1 372 800,00
Paving and Roads 30886 sm	6 177 200,00
Guard House	43 500,00
Total General Cost	8 793 500,00
Total	190 879 328,50

Source: Financial Model

From the above costs the biggest cost is the construction costs at R 190 879 329 with average unit cost of R 260 355.

# 5.4.3 Operating Costs

The overall operating costs are estimated at 10% of the revenue. In the first year of operation the operating expense is R 2 791 000. This includes expenses such as insurance, maintenance cost, security, common water and electricity, gardening services as well as cleaning services for the common areas.

#### 5.4.4 Funding

The same funding assumptions at Bendor Ext. 100 apply at Ga-rena with exception to the Loan amount requirements. The Capital requirement for the Ga-rena phase project is R 190 879 328. The finance cost relates to the interest cost on the Ioan obtained to directly finance the capital cost. The Ioan to be borrowed is R 190 879 328 and the interest rate projected at 10,75%. The Ioan repayment period will be 20 years and period of operation 30 years.

#### 5.4.5 Revenue

The source of revenue is rental income. Below is a table to depict the composition to rental income and the occupancy rate assumptions.

#### Table 19, Revenue Ga-rena

Revenue	Units	Rental per Month	Occupation rate	Number of months	Annual revenue per unit (R000)	Escalation
Bachelor Flat	105	2,500	90%	12	2 835	6%
One Bed Room Flats	210	3,100	90%	12	7 031	6%
Two Bed Room Flats	243	4,500	90%	12	11 810	6%
Three Bed Room Flats	105	5,500	90%	12	6 237	6%
					27 913	

1 276 892

Source: Financial model

Developer

## 5.4.6 Summary Financial Model

#### Table 20, Summary Ga-rena

Construction cost	Amount
Building & Civils	190 879
Loan	Amount
Banks/DFI Interest	190 879 10,75%
30 year Cashflow Summary	Loan Funding
Total rentals collected	2 206 720
Total operating expenses	458 247
Cash generated from operations	1 748 473
Loan principle repaid	190 879
Loan interest	280 701
Nett Cash at the end of the project	1 276 892
Shareholding Developer	100%

Operational Cost	year 1 to 8	year 9 to 14	year 15 to 20
as % of Rentals	10%	15%	20%
Source: Financial Model			

# 5.5 Risk Types and mitigation

TYPE OF RISK	DESCRIPTION AND RATIONALE	MITIGATION
<ol> <li>DEMAND RISK</li> <li>1.1. Demand risk</li> </ol>	<ul> <li>DESCRIPTION: Risk that rental revenues fall below forecast as a result of decrease in demand for rental housing.</li> <li>RATIONALE:</li> <li>Private partner is assumed to have the expertise and experience in validating forecasted demand or rate of return (ROR). The Municipality/PHA can therefore not be held liable for addition payments to cover losses.</li> </ul>	MITIGATION: Both the Municipality/PHA and Private party should conduct a market demand analysis, through the performance of an independent market demand analysis.
1.2. Changes in Competitive Network	<ul> <li>DEFINITION:</li> <li>Risk that existing network is extended so as to increase competition for the houses to be leased.</li> <li>RATIONALE: <ul> <li>Private Partner has the expertise and experience of validating forecasted demand or ROR</li> </ul> </li> </ul>	MITIGATION:oMunicipality/PHAtosetminimum service/ performanceparameters;oMunicipality/PHAtoconductthoroughplanningwhendeveloping project concept;
	<ul> <li>The risk that changes in the competitive network could result in increased competition or lower revenues for the private sector partner shall be allocated to the private sector partner. The Municipality/PHA shall incur no additional liability to the private partner thereof.</li> </ul>	<ul> <li>Private sector partner to review likely competition for services and barriers of entry housing project prior to entering into agreement;</li> </ul>
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2. DESIGN RISK 2.1. Delay Risk	DESCRIPTION: Risk that the project is delayed due to delay in the design phase. RATIONALE: Where the private partner is responsible for the design of the housing units, the consequences of the delay during this phase shall be bourn by the private party. Where the Municipality/PHA is responsible for the design, the consequences shall be bourn by the Municipality/PHA	MITIGATIONS: • Have clear realistic deadline for the completion of the design phase.
2.2. Design errors and Omissions	<b>DESCRIPTION:</b> Errors or omissions during the design stage can have major financial implications and possibly affect the viability of the project should it be realized after	MITIGATIONS: • The Municipality/PHA must conduct due Diligence on the companies tendering.

	construction	<ul> <li>The selection of experienced and capable PPP partner with a proven track record.</li> </ul>
2.3. Change In project Scope	DESCRIPTION: Risk that the Municipality/PHA's output requirements are changed after the signing the contract whether pre or post commissioning The Municipality/PHA might be drawn into circumstances were the design alterations are required as a results of change in output specifications RATIONALE:	<ul> <li>MITIGATION:</li> <li>Clear and researched output specification from the onset.</li> <li>Re-negotiation of the contract.</li> </ul>
<ol> <li>CONTRUCTION RISK</li> <li>Cost overrun</li> </ol>	<ul> <li>DESCRIPTION: The risk that additional work, inadequate planning, or inaccurate costs estimates lead to costs overruns.</li> <li>RATIONALE:</li> <li>The private partner is required to also do their own costs analysis from which comparisons will be carried to costs provided by the Municipality/PHA, they also have more experience, knowledge and controls over the variables that determine the costs of the design</li> </ul>	<ul> <li>MITIGATIONS:</li> <li>Careful and detailed planning of work needs to be undertaken before the project start</li> <li>Incorporate strict experience and competency requirements in the procurement process;</li> </ul>

	and also prepares the detailed engineering.	
3.2 Sub Standard Work	<ul> <li>DESCRIPTION:</li> <li>There is a risk that due to poor quality material, poor workmanship can lead to overall poor quality work of the housing units.</li> <li>RATIONALE: <ul> <li>The consequence of the poor work carried out will affect the future maintenance leading to high maintenance costs.</li> <li>The private party would be liable as a result, as they are in controls over variables that determine the quality of material and workmanship provided.</li> </ul> </li> </ul>	MITIGATION: • Constant Monitoring and through acceptance of standard testing throughout construction.

3.3 Disputes	DESCRIPTION: Disputes can be as a result of unclear contract specifications. This can results in a possible delay of the project and increased costs RATIONALE: • The Municipality/PHA is responsible to preparing a clear tender and contractor document to eliminate unclear (vague) clauses.	<ul> <li>MITIGATION:</li> <li>The Municipality/PHA must prepare a clear tender document with clear contract clauses.</li> <li>Have a concise dispute resolution procedures in place</li> </ul>
3.4 High Rainfall	Description: There is a risk that huge amounts of rainfall occur during construction period which will delay the project as well as increase costs RATIONALE: The private party is more at liberty of the predicaments of rainfall and the required actions.	MITIGATIONS: • Allow for contingency in both the project time and cost budgets.
3.5 Injury Risk	<b>DESCRIPTION:</b> There is a risk that a worker or member of the public gets injured during construction. This can result in litigation claims and other financial losses through claims.	<ul> <li>MITIGATIONS:</li> <li>Making it mandatory to comply with OHS rules and regulations</li> <li>Have a qualified personnel on OHS</li> </ul>

4. FORCE MAJEURE	RISK DESCRIPTION:	MITIGATION:
	<ul> <li>Risk of the inability to meet contracted service det (pre and post completion) is caused by reasons of majeure events (natural disasters)</li> <li><b>RATIONALE:</b> <ul> <li>As none of the parties would be at fault should be shared;</li> <li>Private Party can take out insurance from m place;</li> <li>Municipality/PHA is better to ma uninsurable risks.</li> </ul> </li> </ul>	livery o Private Sector to purchase force Insurance for insurable risks; , this market
5. INDUSTRIAL RELA	TIONS       DESCRIPTION:         Risk of strikes or industrial action causing delays cost the project         RATIONALE:         • Private partner has better information about control over the cause of industrial action;         • Private sector partner shall shoulder additional costs and effects of protracted delays	MITIGATION:and•Private Partner manage project delivery and operation•Municipality/PHA to have private sector liable for any delay in the delivery of the project and any 

	caused to the project by industrial actions	staff.
<ul><li>6. SITE RISKS</li><li>6.1 Site Conditions</li></ul>	<ul> <li>DESCRIPTION:</li> <li>Risk that unanticipated adverse geological conditions are discovered which cause construction cost to increase or cause delays</li> <li>RATIONALE: <ul> <li>Private party must validate geotechnical study undertaken by Municipality/PHA;</li> <li>Private partner can manage cost effectively is site study effort is moderate and enough time is provided to the bidders.</li> </ul> </li> </ul>	<ul> <li>MITIGATION:</li> <li>A thorough geotechnical investigation,</li> <li>Give private partner enough time to do site studies, this shall be done to affirm or negate geotechnical findings of the Municipality/PHA;</li> </ul>
6.2 Cultural Risks	<b>6.3</b> Risk associated with discovery of archaeological and cultural heritage attributable directly to the governments' mandated process of conserving, protecting, regulating and disposition of said discovery.	MITIGATION: Performance of a thorough due diligence relating to the culture and heritage

6.4 Permits, Planning and approval	<ul> <li>DESCRIPTION:</li> <li>There is a risk that the necessary approvals may not be obtained or may be obtained only subject to unanticipated conditions which have adverse cost and time consequences</li> <li>Possibility that proposed use of Project Site in terms of the PPP Agreement and, in particular, construction of Facilities on Project Site will fail to comply with any applicable laws relating to</li> </ul>	<ul> <li>MITIGATION:</li> <li>Municipality/PHA must identify at feasibility phase any macro-level planning Consents not required for detailed design and construction proposal for Project, such as, any land-use and zoning Consents.</li> </ul>
	or zoning) or any Consent required pursuant thereto, or that Consent will be delayed or cannot be obtained or, if obtained, can only be implemented at a greater cost than originally projected.	
6.5 Environmental Liabilities (existing prior to project)	DESCRIPTION: Risk that the site is contaminated requiring significant remediation expenses RATIONALE: Municipality/PHA is in a better position to know any environmental issues, especially for solicited projects	MITIGATION: • Municipality/PHA should disclose the extent of the liabilities.

<ul><li>7. OPERATING RISK</li><li>7.1 Operating costs overrun</li></ul>	<ul> <li>DESCRIPTION:</li> <li>Risk that the required inputs cost more than anticipated, which may impact on the sustainability of the housing project.</li> <li>RATIONALE: <ul> <li>Private partner is in control of the selection of inputs;</li> </ul> </li> </ul>	MITIGATION: • Private partner can address to some extent in its facility design.
7.2 Maintenance and refurbishment	DESCRIPTION: Risk that design and/or construction quality is inadequate resulting in higher than anticipated maintenance and refurbishment costs RATIONALE: • Private partner is in control of the design and construction processes.	<ul> <li>MITIGATION:</li> <li>Private firm to manage through long term subcontracts with suitably qualified and resourced sub contractors;</li> <li>Polokwane Municipality/PHA to ensure detailed and clears specifications and conduct rigorous auditing of maintenance work.</li> </ul>

7.3 (Operator Failure) Short fall in service quality	DESCRIPTION: Risk that an operator may fail to provide the contracted services to specifications RATIONALE: • Private partner is fully and primarily liable for all obligations to Municipality/PHA should private party fail in service provision, it shall be liable for the liquidated damages in accordance with the provisions of the PPP project.	<ul> <li>MITIGATION:</li> <li>The Municipality/PHA must carry out a due diligence on principal contractors for probity and financial capacity.</li> <li>Make it mandatory that only special purpose vehicles shall be evaluated during tendering stage.</li> </ul>
8. FINANCIAL RISK 8.1 Interest Rate	<ul> <li>DESCRIPTION:</li> <li>Risk that prior to completion local currency interest rate may move adversely.</li> <li>RATIONALE: <ul> <li>Private partner should have consider and priced into the project as part of the capitalization.</li> <li>Private partner in control of selecting and arranging long-term financing</li> </ul> </li> </ul>	<ul> <li>MITIGATION:</li> <li>This can be mitigated by having the following contract clauses:</li> <li>Contract clause to explicitly stipulate/ provisions related to unforeseen and/ or extraordinary cases; and</li> <li>Contract clause holding Municipality/PHA unharmed.</li> </ul>

8.2 Exchange Risk	<b>DESCRIPTION:</b> The risk that deterioration of the Rand against other currencies leads to increased construction costs	<ul> <li>MITIGATION:</li> <li>Allow for contingencies in the budget.</li> <li>Use of hedging</li> </ul>
8.3 Rental Boycott	DESCRIPTION: There is a great risk that resident will boycott the rental payment commitments.	<ul> <li>MITIGATION</li> <li>The Private partner appointed must ensure that thorough financial background checks are performed on each potential resident</li> <li>Adequate credit control measures should be implemented.</li> <li>Have a compulsory briefing session with each potential resident, explaining the importance of rental collected. (Without rent, the maintenance and other daily operating expenses are unable to be serviced which will result in poor leaving conditions.)</li> </ul>
8.4 Inflation	<b>DESCRIPTION:</b> Escalation in costs (operating and finance expenses) and	MITIGATION: Private party to factor inflation into

	resultant change in viability of the project.	account when projecting costs
	RATIONALE: • The Municipality/PHA shall not be liable for additional payments to the private sector partner in case the value of the payments received by the latter during the term of the project is eroded by inflation. The private sector partner is expected to have considered inflation when it invested in the project, and hence should manage this risk	
8.5 Financing unavailable	DESCRIPTION:         Risk that when debt and/ or equity is required by the firm         for the project, it is not available then in the amounts and         on the conditions anticipated         RATIONALE:         • Private partner is responsible for arranging finance.	SUGGESTED PROVISIONS:CONTRACToContract clause requiring this event of default as Municipality/PHA or the project cannot be held hostage in the event that the proponent cannot secure the required financing within a specified period of time.

	<ul> <li>The private sector partner shall be responsible for the non-availability of the required financing for the project. If the private sector partner fails to secure such required financing and the same results in delays and/ or non-completion of the project, it shall be liable for damages in accordance with the terms of contract. The Municipality/PHA may also be entitled to collect sum due to it under the private sector partner's performance bond.</li> </ul>	<ul> <li>Financial die diligence must be carried out to ensure Private partner to be chosen has the financial strength to raise the capital required.</li> </ul>
8.6 Insolvency of Private Partner	DESCRIPTION: Risk that the private party becomes insolvent during the contract period	<ul> <li>Have Special purpose vehicle structure to ring-fence the Project cash flows.</li> <li>Security over necessary Project Assets.</li> <li>Limitations on debt and funding commitments of Private Partner.</li> <li>Reporting obligations in respect of financial information and any litigation or disputes with creditors.</li> <li>Institution has right to terminate PPP Agreement.</li> </ul>

		<ul> <li>Substitution of Private Partner in terms of Direct Agreement.</li> <li>Substitution of Private Partner with New Private Partner if a Liquid Market exists and Re-tendering procedure is followed.</li> </ul>
9. LEGISLATIVE &	DESCRIPTION:	MITIGATION:
RISK	Risk that additional approvals required during the course	$\circ$ Municipality/PHA to provide
9.1 Approvals	of the project cannot be obtained.	assistance
	<ul> <li>RATIONALE:</li> <li>Private partner has better understanding of rationale requiring such approvals unless new government approvals are required during implementation which are not specified in tender documents;</li> <li>The private sector partner shall likewise be liable for failure to secure additional approvals required during the course of the project when such failure to obtain the additional approvals are attributable to it and where the same results in lengthy delays in the completion of the project. In cases of regulatory approvals the</li> </ul>	<ul> <li>Municipality/PHA to monitor and limit changes which may have these effects or consequences on the project</li> </ul>

	Municipality/PHA shall assist the private sector in obtaining the necessary approval but shall not be liable for non-issuance by the agency concerned.	
9.2 Changes in law	<ul> <li>DESCRIPTION:</li> <li>Risk of change in law / policy of government only, which could not be anticipated at contracts signing and which has adverse capital expenditure or operation cost consequences for the private firm</li> <li>RATIONALE:</li> <li>Private to cover the risk during construction period and when changes are due to general law and during operation period with government compensation as maybe provided and approved in the contract.</li> <li>General changes in law affect all business in the country.</li> <li>Municipality/PHA is in better position to influence specific discriminatory tay law changes affecting</li> </ul>	<ul> <li>MITIGATION:</li> <li>Private partner to incorporate in project due diligence – financial returns of the private partner should be sufficient to withstand general law / policy changes;</li> <li>Municipality/PHA to monitor and limit (where possible) changes which may have these effects or consequence on the project</li> <li>Municipality/PHA to require the private firm to effect the change in a way that the financial effect on government is minimized (for example, pay on a progressive scale); and</li> <li>Municipality/PHA to pass through to end users</li> </ul>

	<ul> <li>the project</li> <li>Municipality/PHA to facilitate, if new government policy or law becomes effective during the project</li> </ul>	
9.3 Regulations	<ul> <li>DESCRIPTION:</li> <li>Risk that where is a statutory regulator involved there are pricing or other changes imposed on the private firm which do not reflect its investment expectations</li> <li>RATIONALE: <ul> <li>Municipality/PHA to absorb regulatory risk</li> <li>Negotiation or setting is normally conducted between parties.</li> <li>The Municipality/PHA and the private sector partner shall enter into negotiations to address any relevant pricing or regulatory changes that bear on the PPP contract concerned and affect the private sector partner's investment expectations. As an additional guarantee or</li> </ul> </li> </ul>	<ul> <li>MITIGATION:</li> <li>Private firm to assess regulatory system and may make appropriate representations</li> <li>The Municipality/PHA to ensure that the following will be part of the of the contract terms of PPP contract: (1) specifics of the type of protection to be offered and</li> <li>The Municipality/PHA and the private sector must negotiate fairly with regard to the regulatory power of the government to PPP contracts and private sector must likewise be given incentives</li> </ul>

	Incentive to the private sector, the Municipality/PHA on a case-to-case basis, will protect investors from particular regulatory risk such as court orders or decisions by regulatory agencies that prevent investors from adjusting tariffs to contractually agreed levels. The details of such additional protection or incentive for private sector partner shall be included in the PPP contract.	
10.1. Political Changes	<b>DESCRIPTION:</b> Political risks include the consequences and likelihood of changes in government and the new government withdrawing support to a PPP. Support by all major parties reduces this risk.	<b>MITIGATIONS:</b> In the PPP Agreement have breach clauses, termination Clause and also provision for lender step in rights.
10.2. Public Contesting	<b>DESCRIPTION:</b> There has been previous public contest carried out at Ga-rena, from residents resisting rental system houses. This is a great risk as further protest can delay the project. The protests might also undermine project viability.	MITIGATIONS: Public consultations done in due time educating the public on the housing project as well as the benefits to be created from the project (Job creation)

	<b>RATIONALE:</b> Municipality/PHA is responsible for ensuring that the public are on consulted	
11. INSURANCE RISK	<ul> <li>DESCRIPTION:</li> <li>Possibility of the following: <ul> <li>That any risks that are insurable as of Signature Date pursuant to agreed Project Insurances later become Uninsurable;</li> <li>A substantial increases in rates at which insurance premiums are calculated.</li> </ul> </li> </ul>	<ul> <li>MITIGATION:</li> <li>For instance the Municipality/PHA can opt for self-insurance or, if the uninsurable event occurs, then termination of PPP Agreement as if for Force Majeure with compensation to Private Partner.</li> <li>Having reserve to cater for such instances</li> </ul>
12. LATENT DEFECTS RISK	Possibility of loss or damage arising from latent defects in the Facilities included in Project Assets	<ul> <li>MITIGATION:</li> <li>Wherever possible, design and construction of Facilities must be performed or procured by the Private Partner.</li> <li>Reporting Obligation on private partner to promptly disclose discovered difects.</li> </ul>

		<ul> <li>Municipality/PHA to carry out regular inspections</li> <li>SUGGESTED CONTRACT PROVISIONS;</li> <li>Have a clause that obligates the private partner to report at the earliest instance of any defects discovered</li> </ul>
13. RESIDUAL RISK	<ul> <li>DESCRIPTION:</li> <li>The risk that the Project Assets at termination or expiry of the PPP Agreement will not be in the prescribed condition for hand back to the Municipality/PHA</li> <li>RATIONALE:</li> <li>Private Partner may incorporate lifecycle maintenance, refurbishment, and performance requirements into the design of the housing units. These processes can also be managed during the term of the contract.</li> <li>The private sector shall properly manage or operate the project so that the assets are</li> </ul>	<ul> <li>MITIGATION:</li> <li>Municipality/PHA to impose on the private firm maintenance and refurbishment obligations,</li> <li>Audit of the housing infrastructure towards end of Project Term.</li> </ul>

	maintained or brought up to the agreed condition by the end of the contract.	
14. SUB CONTRACTOR RISK	<ul> <li>DESCRIPTION:</li> <li>In cases where the principal contractor gives a certain percentage of their design, construction or operational work to a subcontractor, and this subcontractor defaults or becomes insolvent</li> <li>RATIONALE: <ul> <li>Private partner is responsible for conducting background checks and assessing the financial capability of their subcontractors.</li> <li>It is the duty of the partner to verify that Sub-Partners have expertise, experience and contractual responsibility for their performance obligations.</li> </ul> </li> </ul>	<ul> <li>MITIGATIONS:</li> <li>The Municipality/PHA must also investigate first tier subcontractors before awarding the tender.</li> <li>Replacement Sub-Partners preapproved by Institution.</li> <li>Have a clear contract the that specifies that all subcontractors must have expertise and financial capacity to carry out their contractual obligation and principal contractor to ensure this.</li> </ul>
15. UTILITY RISK	<b>DESCRIPTION:</b> Risk that at the construction of the housing units utilities such as water and lights may not be available or the project may be delayed because of nation wide energy	MITIGATIONS: • The contract to make provision for the availability of emergency back up utilities.

	problems i.e. load shedding	
<ul> <li>16. PROCURMENT STAGE RISKS</li> <li>16.1. Prolonged Procurement process</li> </ul>	DESCRIPTION: Risk that prolonged procurement process results in project start delays, which can be costly. RATIONALE: This is the responsibility of the Municipality/PHA and therefore shall be responsible for any delays as results.	MITIGATIONS: • Proper, and realistic planning .
16.2. Tenders from Compliant bidders insufficient	DESCRIPTION: Bids received might not meets the specifications required by the Municipality/PHA	<ul> <li>MITIGATIONS:</li> <li>The Tender documentation to make provisions that only special surpose vehichles will be considered for the venture.</li> <li>The Municiplaity must prepare a clear well reseached tender document that also caters for and participations of Black owned firms that are capable and experienced.</li> </ul>
16.3. Appointment of contractor with no capacity	<b>DESCRIPTION:</b> Insufficient checks and balances in the procurement	MITIGATIONS: • Have a RFQ process first to

process might result in awarding the tender to contractor	ensure flitrations of incapable
with no capacity to see the project through.	contractors.
RATIONALE: • The Municipality/PHA is responsible for procurement.	<ul> <li>Conduct due diligence on the potential contractors.</li> </ul>

# 6. PROCUREMENT PLAN

The Municipal Finance Management Act (No. 56 of 2003), (MFMA) requires that the resources of municipalities and municipal entities be used effectively, efficiently and economically.

The City of Polokwane and the PHA identified the need to investigate the feasibility and affordability of the different procurement options, which will provide the best technical, financial and legal solution in delivering the Ga-rena phase 2 and Bendor extension 100 gap residential property developments This section of the report outlines the Project timetable. The procurement system is required to be fair, equitable, transparent, competitive, and cost effective.

# 6.1 Project Timetable

The procurement plan has phases, which are noted below:

- Preparation of the procurement documentation;
- Issue procurement Documentation and bid processes which includes the Request for pre-qualification (RFQ) and Request for Proposal (RFP)
- Evaluation of RFQ and RFP received.
- Contract negotiations and signature of with preferred bidder.

Due to the complexities involved with the procurement stage it is important to have a transactional advisor with the Legal, financial and technical skills required to assist the PHA/CoP.

Activity	Time Frame	Accountability
Procurement Phase funding finalization	Date to be agreed	PHA CEO, Project Officer and Municipal manager
Finalize scope of work for Transactional advisor & project officer	Date to be agreed	PHA CEO and Municipal Manager
RFQ, RFP and PPP contract Development	Date to be agreed	TransactionalAdvisor,Project officer toApprove

Below is an outline of the proposed milestone dates.

		it (sign off)
Issue RFQ to the market	Date to be agreed	SCM
Briefing session	Date to be agreed	SCM, project officer and Transactional advisors
Submission of written questions	Date to be agreed	SCM, Project officer and Transactional advisors
Submission of RFQ responses	Date to be agreed	SCM, Project officer and Transaction advisors
Evaluation of RFQ and announcement of pre-Qualified Respondents	Date to be agreed	SCM,PHA CEO, Project officer and Transaction advisors
Issue RFP and contract to pre- qualified bidders	Date to be agreed	PHA CEO, Project Officer and transactional advisor
Briefing Session for Bidders	Date to be agreed	PHA CEO, project Officer and transactional advisor
Allowance for bidders Due Diligence	Date to be agreed	Bidders
Bid Submissions & Bid evaluation	Date to be agreed	SCM (supported by project officer and Transaction advisor)
Announce preferred bidder & reserve Bidder	Date to be agreed	Municipal Manager with support of the CFO and PHA CEO
Contract Negotiation with preferred bidder	Date to be agreed	PHA CEO, Municipal Manager, project Officer and Transactional Advisor
Develop a Contract Management Plan	Date to be agreed	Transactional advisor and PHA CEO
Contract Closure	Date to be agreed	Municipal Manager

#### 6.2 Challenges

#### **Market Issues**

Polokwane, the thriving capital of Limpopo, is a city where the property market is driven by strong demand. The market is under pressure partly due to the city's moratorium (or temporary suspension), on new land use rights for residential property development. The moratorium stems from the fact that the capacity of the municipal sewage works currently cannot handle existing sewage outflows however Polokwane has started implementing plans to upgrade the municipal sewage capacity.

Currently the moratorium only prevents new land use applications that will lead to higher residential densities. Where land use rights have already been obtained in the past, development can still proceed, provided that the required building plans are approved by the municipality's building control section. It is unknown when the moratorium will be uplifted, mainly due to the complexity of upgrading the sewage works and the very high cost of such an upgrading

Rental shortages are especially noticeable in the R4 000 to R7 000 price range, where rental properties are practically unavailable. The pressure will have increased now that the new Netcare Hospital opened its doors in 2015. All the hospital employees that are relocating to Polokwane will need somewhere to stay.

The rental market is underpinned by a large pool of consumers who aspire to be home ownership but fail to obtain financing due to poor credit records, as well as short-term professional contractors working in the industrial and public sector.

The cheapest single accommodation in Polokwane City Centre and surrounding area is rooms in student communes at monthly rentals of around R2000 - but in some cases up to three students share a room and pay around R800 per head

Tenants in higher income groups are, however, prepared to pay a premium for comfortable homes, and units in upmarket security estates are taken up fast at rentals of between R15 000 and R20 000 a month.

# 6.3 Best procurement practice

It is key that we note the importance of skills, expertise and financial capacity of the private partner but also important not to overlook, the need for black people, black youth and black women participation in the project. The B-BBEE minimum requirements shall apply in this project.

It is a recommendation that request for qualification is issued given the size and complexity of the project.

## **6.4 Project Stakeholders**

#### Table 21, Project Stakeholders

STAKEHOLDER	INVOLVEMENT
Polokwane Housing Association (PHA)	<ul> <li>The Public institution Partner to the project. (Project owners the PHA will be providing the land earmarked for the Gap Market Housing development.</li> <li>The municipal entity under which the</li> </ul>
City of Polokwane (CoP)	<ul> <li>The Public institution Partner to the project. (Project owners The CoP will be providing the land earmarked for the Gap Market Housing development.</li> <li>This is the Municipal authority under which the site falls.</li> </ul>
Departmentofco-operativeGovernance and traditional Affairs	<ul> <li>Providing conditional support in respect of the project</li> </ul>
Department of human Settlements	• Providing conditional support in respect of the project
Office of the premier	• Providing conditional support in respect of the Project
HDA	Providing Conditional support
Potential Private sector participants	• The private participant of the project required to form an SPV for the purpose

### 6.5 Information For Bidders

Below is the list of information that will be made available to bidders.

- Clear procurement documentation to be issued to bidders at RFQ and prequalified bidders at the RFP stage. The timetables and procurement process shall be clearly demonstrated.
- 2. Clarification briefing notes will be issued to all bidders both during the RFQ and RFP stage. All questions to be raised by bidders shall be in writing with cut off date for receipt of the questions after which the corresponding responses will follow after the pre-determined time. All the correspondence to be copied to all bidders as well as the briefing notes to the tender.
- 3. Transparent interactions shall be allowed between bidders and the CoP/PHA to ensure all respondents understand the procurement document and details.
- 4. Bidding information (documentation) will also be made available in electronic format and printed copy.
- 5. The Bid evaluation process will provide a clear audit trail, of which all decisions relating to the RFQ and RFP shall be made in writing with clear reasoning for either the acceptance or rejection of each bidding clearly indicated.
- 6. The bidder to be awarded the contract will be done after which the second preferable bidder shall also be indicated.

### **6.6 Contingency Plans**

The delay during the procurement, as well as at the overall development of the Gap Housing Project is a possibility. It therefore important that measures are put in place to mitigate such delays.

#### Delays at procurement stage- Document preparations

Preparation of the bidding documentation can be delayed if changes to the scope of work occur. This can however be mitigated by preparation of documentation early as there is usually a standard format. The documentation can however be finalized when scope of work is fixed and agreed to.

#### Delay at procurement stage-RFQ

The pre-qualification stage can be long process as bidders from the different spheres are then required to team up to form a credible SPV. This can be mitigated by allowing sufficient time for the bidders to team up and commit in the possible deliverance of the project.

## Procurement stage-RFP

If the tender process fails this will require retendering which will affect the programme timetable.

An adequate period for the tendering must be considered, as this is vital for not only for a successful tendering process but also for the project as a whole. This allows for necessary clarifications and bidders performing their own studies on the project given the size of the project.

# Procurement Stage-Negotiation

Final negotiations can incur significant delays due to contract negotiations being lengthy. The Contract documents can take significant amount of time especially where disagreements exist. This can be mitigated by introducing an "open to a dialogue" tendering process with private-sector partners, either through pre-bid conversations or during the final contract negotiation, on how to make the partnership work. The agreement in respect of risk sharing must be clearly documented and all unsettled or any vaguely terms and conditions in the contract must be clearly defined prior finalization of the contract.

# Construction delays

This part has been dealt with in section 5.5 dealing with Risk assessment.

# 6.7 Bid Evaluation Process

It is important to have a team that will be responsible for the processes and procedures to ensure the following:

- 1. Equity
- 2. Transparency
- 3. Competitiveness

The other composition of the team will consist of various evaluation committees that are required in terms of treasury guidelines.

The appointment of the evaluation team will be done in writing with a team consisting and technical, financial, and legal experts.

All the members of the evaluation team will be required to sign confidentiality and conflict of interest forms.

The Evaluation Criteria will be

Technical

- Deliverability
- Demonstrated capacity for deliverance
- Comprehension of technical aspects

Financial

- The structure of the SPV
- · Project awareness from a financial aspect
- Financial Proposal

# Empowerment

The B-BBEE will be evaluated using the sector scorecard.

# 6.8 Quality Assurance

During the bidding process, sufficient attention should be placed on the importance of good procurement principles of "transparency" and "equal treatment".

The procurement process must ensure that collusive behavior as well as direct and indirect price fixing is restricted and not permissible.

The must be in writing an agreed evaluation criteria that will be adhered to. These criteria to be used must be developed prior to the commencement of the procurement process.

It is therefore important and fair that all bidders are afforded the same information in relation to the tender and this must be given to the bidders at the same time.

The date for return of the both the RFQ and RFP shall be clearly marked, with no acceptance for any bids received post the documented proposed closing date and time.

Confidentiality must be maintained with all bidders required to sign confidentiality agreements and conflict of interest forms.

## 6.9 Audit Trail

The Process Auditor's function is designed to support the project officer responsible for the project by checking on his/her behalf that the proper procedures and processes as agreed in the Procurement Process Checklist agreed at the commencement of the process have been followed.

It shall therefore be mandatory that a clear and fair negotiation process with accurately documented decision be available for cases of audits. The decisions relating to the decision process of rejections and acceptance of bids shall be made available and must be available in writing