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Johannesburg Social Housing Company

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May 2011

REQUEST FOR PROPOSAL 002/2011

The **Johannesburg Social Housing Company (JOSHCO)** invites bids for:

FINANCIAL STRATEGY DEVELOPMENT

JOSHCO invites all interested service providers to submit proposals with cost implications on the development of a Financial Strategy. Tender Documents are downloadable at no cost off JOSHCO website: www.joshco.co.za

In order to be considered, proponents are asked to submit a full copy of their complete Proposal with duly completed Proposal Submission and Bid Submission Forms, which should be hand delivered to:

***The Johannesburg Social Housing Company
137 Sivewright Avenue
1st Floor
New Doornfontein, Johannesburg
Attention: Supply Chain Manager***

By no later than **Friday 27 May 2011 at 12:00hrs.**

PLEASE NOTE: JOSHCO will not be responsible for accepting Proposal Submissions which are not delivered in accordance with the said format.

The lowest or any proposal will not necessarily be accepted.

Yours faithfully

**Mr Rory Gallocher, CEO
The Johannesburg Social Housing Company**

Directors: Ishmael Mkhabela (Chairperson), Rory Gallocher (Chief Executive Officer),
Fikile Segole, Lethabo Mashamaite, Paul Jackson, Vuyo Booyesen, Mpumi Tshabalala, Yaswant
Gordhan, Glenda Sengoara, Moope Mphahlele

Registration Number: 2003/008/063/07

TERMS OF REFERENCE FOR THE APPOINTMENT OF CONSULTANTS WITH FINANCIAL AND DEVELOPMENT EXPERTISE TO PREPARE A STRATEGY DOCUMENT WHICH WILL DESCRIBE OPTIONS FOR THE JOHANNESBURG SOCIAL HOUSING COMPANY TO ACHIEVE A FINANCIALLY VIABLE AND SUSTAINABLE ORGANIZATION

A. PURPOSE

The Johannesburg Social Housing Company (Pty) Ltd (“JOSHCO”) intends to appoint consultants who have financial and development expertise in real estate to assist in the preparation of a strategy document that will describe different options for JOSHCO to be sustainable and financially viable covering the next three financial years starting 1 July 2011 to 30 June 2014. The expert will take stock of JOSHCO’s growth to date, and where it is going from this point forward.

B. BACKGROUND

JOSHCO was created by the City of Johannesburg in 2004. In **seven** years it has come a long way to changing the way housing is delivered by its shareholder. There is growing recognition amongst housing professionals and municipal authorities that JOSHCO is a delivery agent for affordable rental accommodation that responds to its shareholder’s and meets its management and development targets. It has become a significant municipal agent to deliver housing in Johannesburg, develop and manage rental accommodation, turn around communities in distress and contribute to the growth of new communities in a rapidly expanding city which is at the heart of the Southern African economy.

In order for the Johannesburg Social Housing Company (JOSHCO) to successfully make a meaningful impact on the supply and management of affordable housing in the City of Johannesburg, the resources of the organization are directed toward the activities that most directly achieve the desired impact. JOSHCO has made choices reflecting its core service delivery mandate. In so doing, JOSHCO is directing its

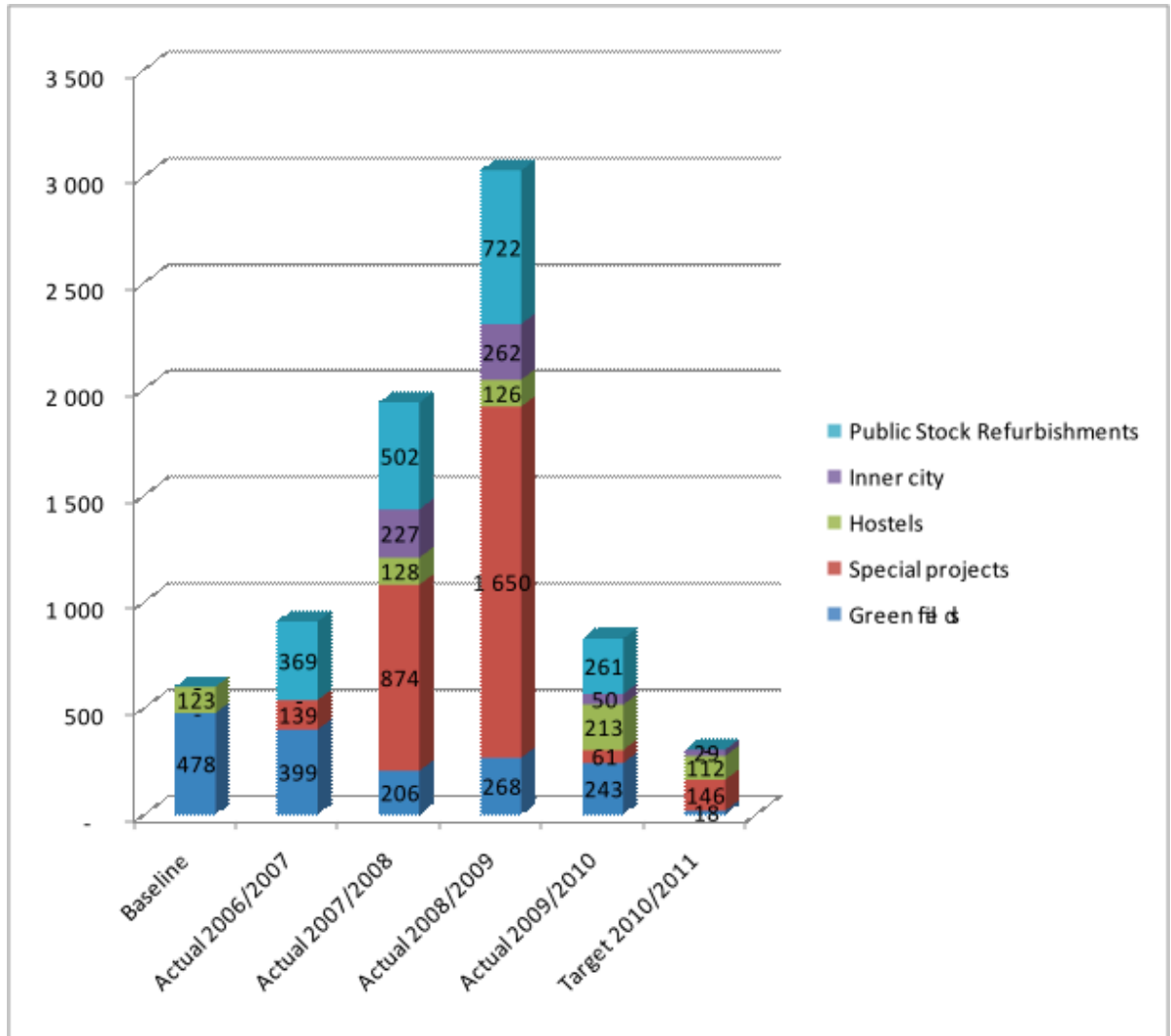
available resources toward development of housing, the management of this housing, the turnaround of municipal housing projects and the collection of housing revenue.

JOSHCO's mandate from the City of Johannesburg (COJ) was given in terms of a resolution of JOSHCO's shareholder passed in March 2004, JOSHCO was "appointed as the preferred implementing agent for social and institutional housing developments in the City of Johannesburg and to:

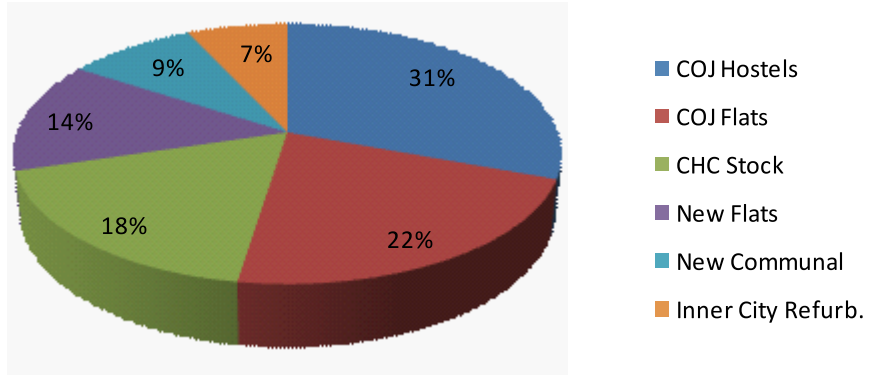
1. *"Manage all Council owned rental stock*
2. *Manage and refurbish staff and public hostels*
3. *Develop new rental stock and to implement other mutually agreed housing developments*
4. *Provide housing management services and turnaround strategies where necessary".*

Among its achievements JOSHCO has shown the following:

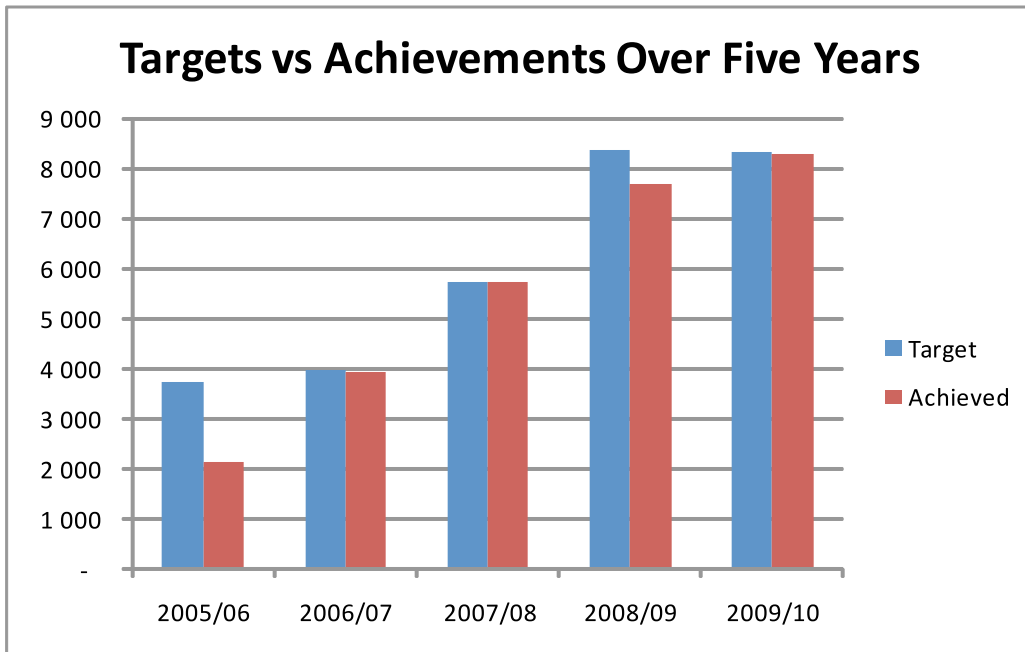
JOSHCO OVERVIEW: Completed development projects on time in budget and has grown rapidly over seven years.



Categories of Stock



Targets vs. Achievements Over Five Years for Management of Stock

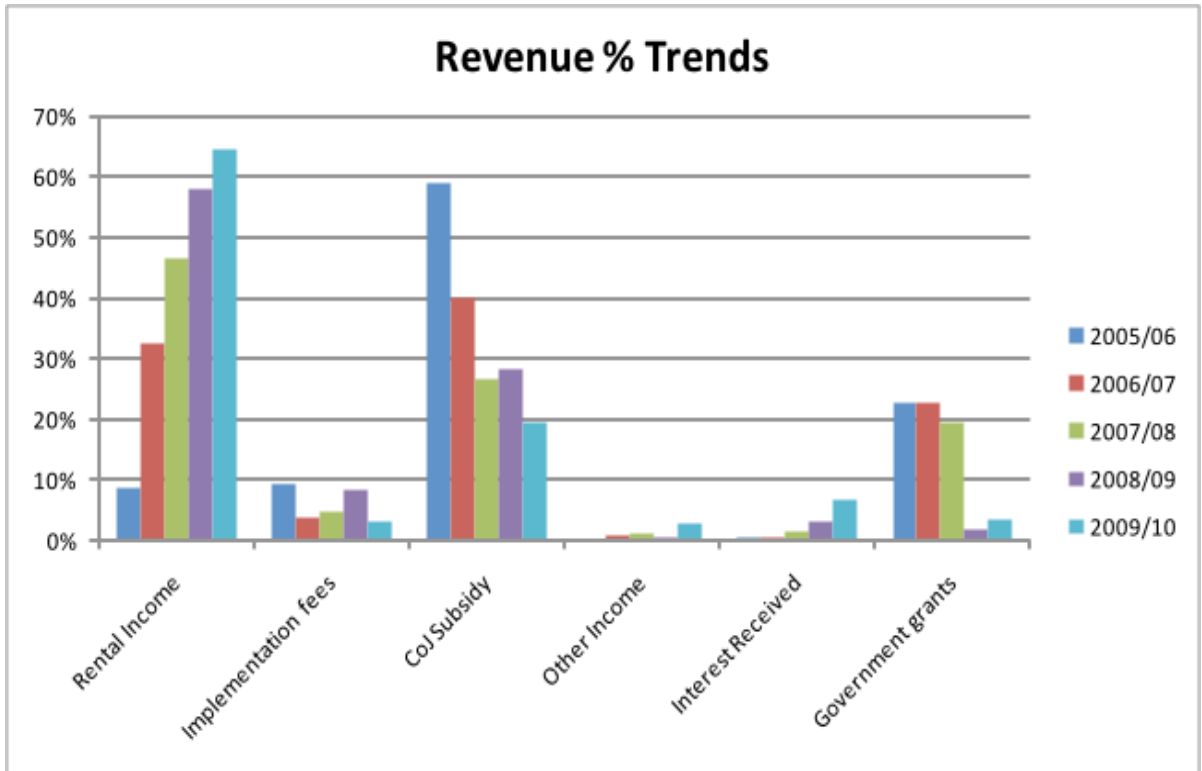


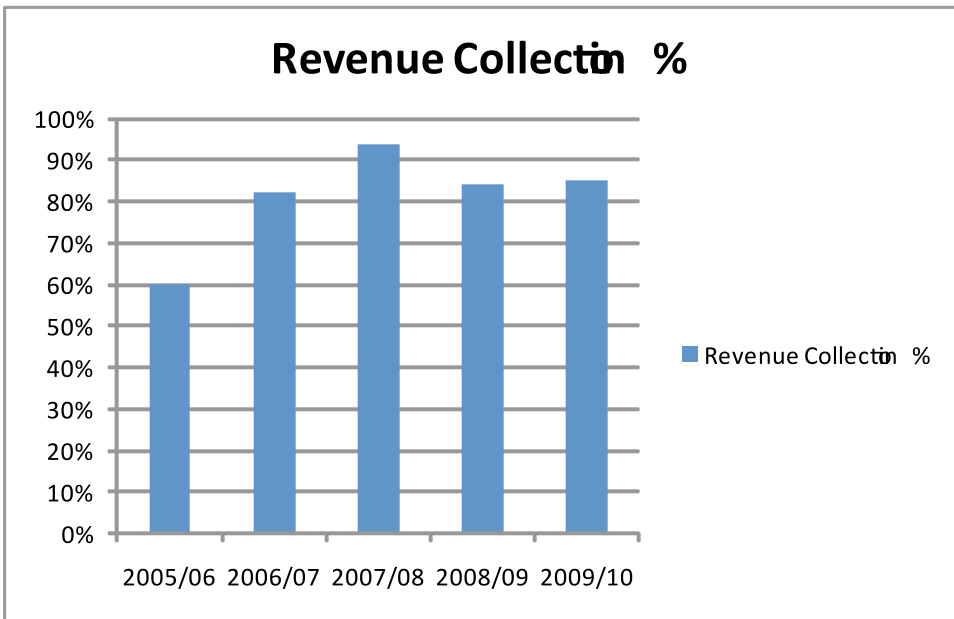
Joshco's current residential programmes

JOSHCO OVERVIEW: OPERATIONAL INCOME

The CoJ operating subsidy is leveraged to attract other sources of income. Rental income is now the largest source of income.

Revenue Performance %

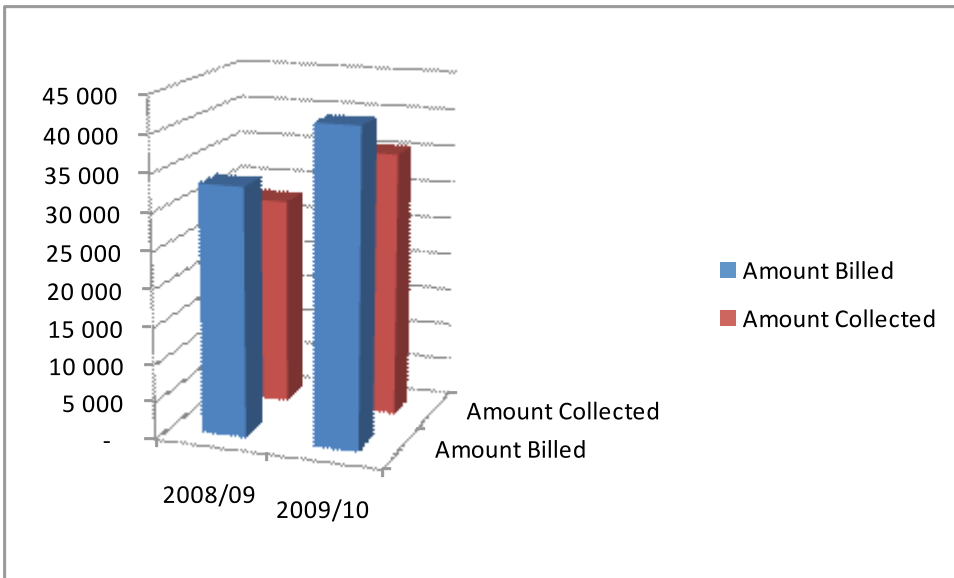




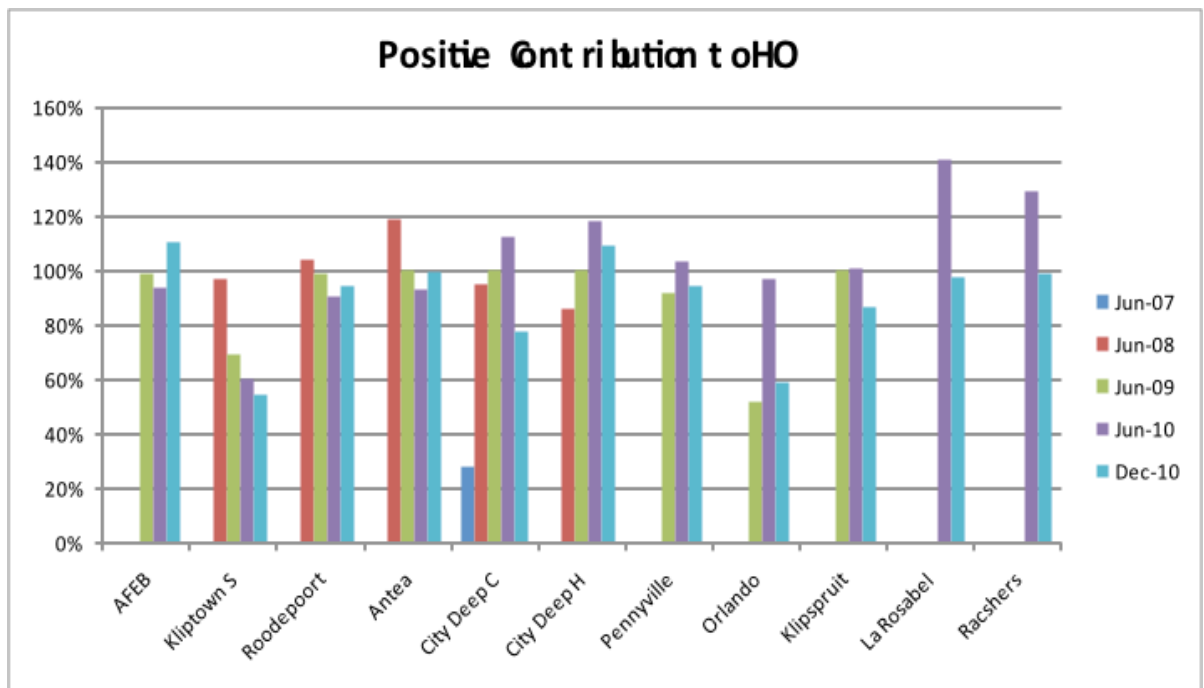
RENT PERFORMANCE:

08/09 Collection - 84 %

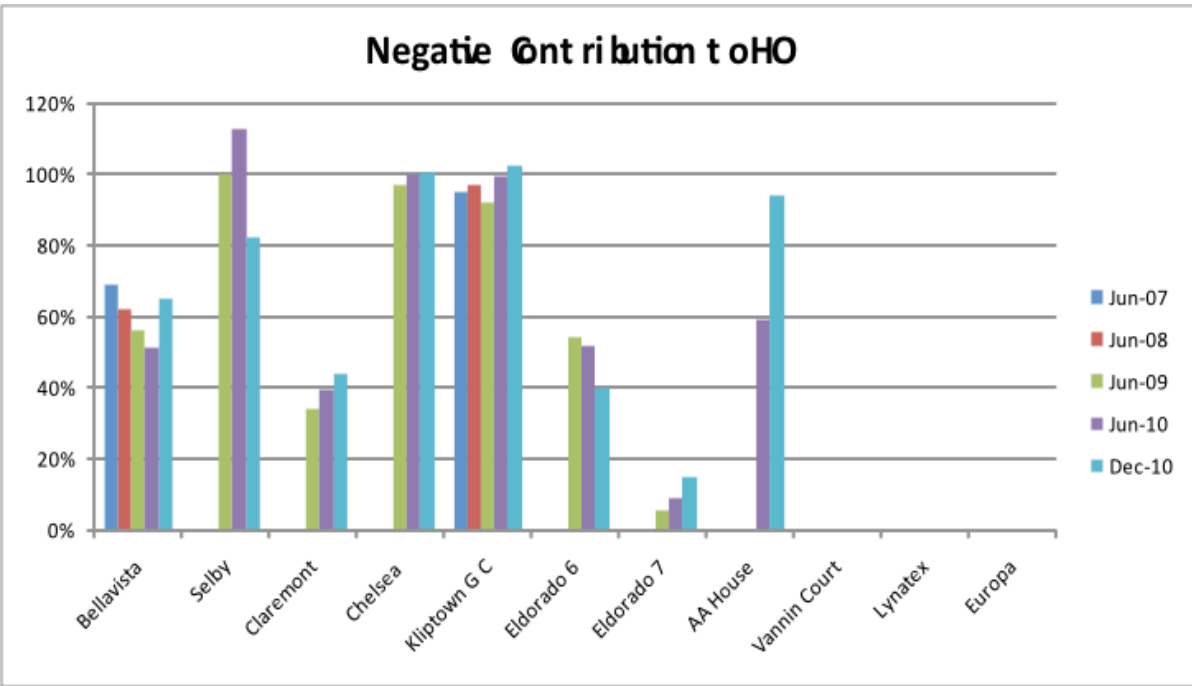
09/10 Collection - 85 %



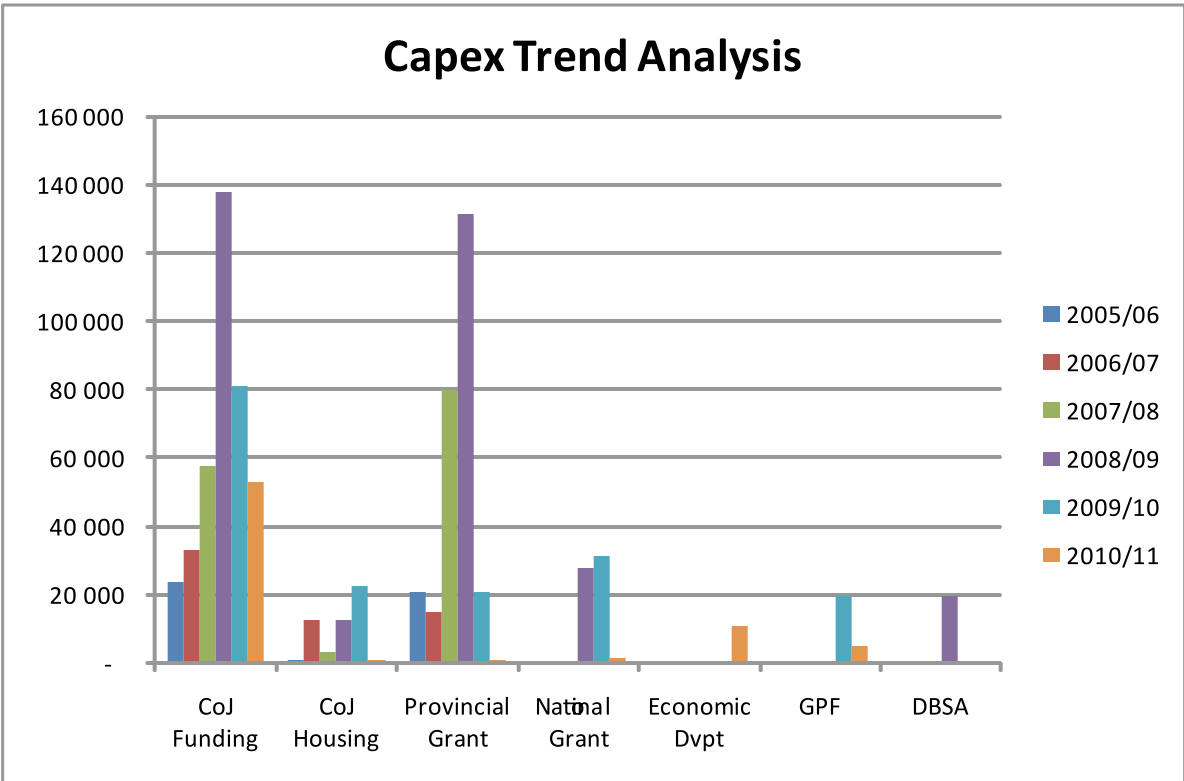
RENT COLLECTION RATES FOR PROJECTS WHICH RESULT IN SURPLUSES FOR THE ORGANIZATION



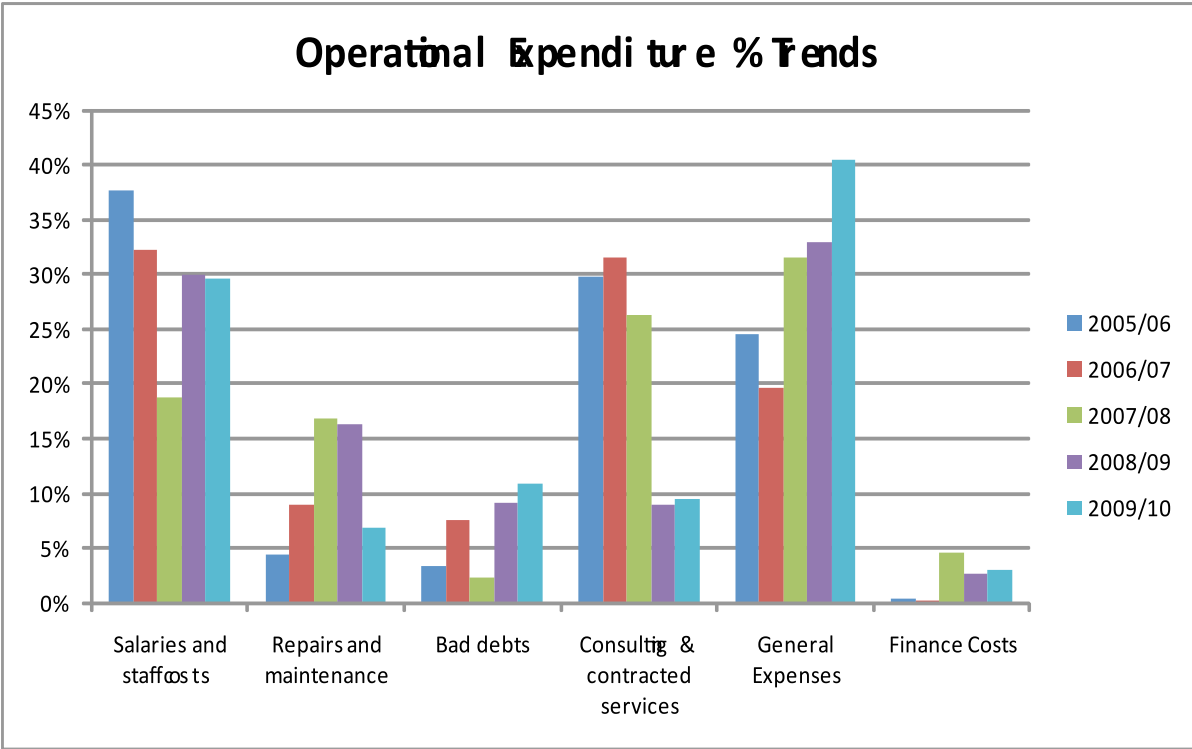
RENT COLLECTION RATES FOR PROJECTS WHICH RESULT IN DEFICITS FOR THE ORGANIZATION



CAPEX: TREND ANALYSIS



OPERATIONAL EXPENDITURE % TRENDS



As can be seen from the above information, JOSHCO has shown significant results since its creation in 2004. Management is accountable and governed by a broadly

skilled and experienced Board of Directors. JOSHCO makes regular reports to the COJ Mayoral Committee, the Joint Committee of the MMC for Housing and the JOSHCO Chairman, the Section 79 Council Committee, and the COJ Shareholders' Unit. JOSHCO has a rigorous internal audit programme and it has obtained clean audits from the Auditor General for the past four years including the year ended 30 June 2010.

JOSHCO has now had seven years since its creation by the City of Johannesburg. It wishes to take stock of where it has come from and where it should go for the next five years from July 2011 to June 2016. It seeks qualified professionals who will assist the organization to look at its sustainability and its financial viability.

C. SCOPE OF WORK

Synthesis of existing financial information

The purpose of the analysis is to assess Joshco's performance as measured against industry norms.

1. The appointed service provider must review the three financial strategies prepared by JOSHCO in 2006, 2007 and 2008.
2. The service provider must perform a 'Reality check' based on three primary sources of data, which include audited financial statements / annual report, quarterly reports and monthly management accounts. Reference can be made to Joshco's Business plan where necessary.
3. The service provider must assess and prepare a synthesis of JOSHCO's financial results since 1 July 2006 through to the financial year ending 30 June 2011, covering the years, 2006/2007; 2007/2008, 2008/2009; 2009/2010 and 2010/2011. The analysis should take into account:
 - a. Capital Expenditures related to the development of assets in Joshco's portfolio of rental stock and sources of funding.

- b. Income and operational expenditures related to management of Joshco's portfolio of rental stock and sources of funding.
 - c. Head office operations including the growth of expenditures and revenues during this period.
 - d. Key financial indicators.
4. Highlight the financial results since 1 July 2006 to 30 June 2011 with graphic presentations showing key indicators of the organization's financial evolution.

Strategies to enhance JOSHCO's sustainability and financial viability

Based on the analysis above propose alternative strategies to make JOSHCO a sustainable and financially viable organization that specializes in the management and development of a diverse housing portfolio. The financial strategy should provide precise recommendations on at least the following:

- The financial impact of removing loss making projects from Joshco's housing portfolio, in this case former council estates (Bellavista, Eldorado Park and Claremont) from 1 July 2011.
- The appropriate level of revenue collection (%) / default rate, which results in significant reduction in bad debts thereby allowing Joshco to be self-sustaining.
- The appropriate rental tariffs on the balance of the rental stock, so as to recover costs of running the projects and at least break-even or make a surplus so that Joshco would not require an operating subsidy from its shareholder (CoJ).
- The recommendations should indicate the extent to which the required operating subsidy from the CoJ can be reduced, should the recommended actions be implemented. It should also indicate the break-even point where Joshco would be self-sustaining and would not require an operating subsidy from CoJ.

Scenario Report / Sensitivity Analysis

The service provider must produce a final report, presenting a choice of scenarios or a combination of scenarios, at least covering the following:

1. Which projects should remain in the portfolio and which projects should be removed?
2. Appropriate default rate and appropriate bad debts provision to be made.
3. Pricing policy to be adopted on Joshco's rental tariffs.
4. Prepare a risk sensitivity analysis with graphics to describe and illustrate the different scenarios and financial risks, based on the standards normally used for such studies, on the basis of Joshco's past performance, current portfolio and alternative strategies proposed by consultants.

Financial Modeling: User friendly tool for updating JOSHCO's financial strategy.

1. Based on the analysis of information contained in the management accounts, the audited financial statements / annual report and the quarterly reports, the service provider must prepare income and expenditure data over a five year projection period (from 1 July 2011 to 30 June 2016) for each project. There are approximately thirty-five projects within the current JOSHCO programmes. These projects are at various stages of development and management and the information will be grouped by the consultant according to the following programmes:
 - a. Green fields.
 - b. Staff hostels transferred from COJ.
 - c. Council estates transferred from COJ.
 - d. Inner city properties.
 - e. The Sol Plaatjie project to build low cost RDP housing.
 - f. A joint venture project between JOSHCO and a private section 21 social housing institution to convert a former nurses' residence in Hillbrow.
 - g. Turnkey projects developed by other government agents.
 - h. Properties transferred from another municipal entity which is being dissolved.

2. Once the projections are loaded, the service provider must develop a financial model which can be used by Joshco internal staff to update the financial strategy from time to time. The financial model must provide JOSHCO with a user friendly tool in Excel format, which can be played with by adding and removing projects and by adjusting assumptions on cost, income, tariffs and default rates to test the sensitivity of the model at various policy changes.

Methodology:

1. Use analytical tools that are regularly used by South African financial institutions and government funders to assess the viability of real estate projects, whilst providing sufficient and complete information that JOSHCO will be able to communicate to an expert audience of government and private funders.
2. Provide a synthesis of the results of this work in Power Point presentation, which JOSHCO representatives will be able to present to an informed expert audience.
3. JOSHCO will have an ongoing steering and monitoring team who will meet with the consultants as the work progresses.
4. The Consultants will prepare an inception report within five working days after signature of the contract outlining a detailed work plan.
5. The final report will be presented to a JOSHCO workshop made of the steering and monitoring committee and key members of the organization and COJ officials.

D. SKILLS AND EXPERIENCE

JOSHCO seeks a qualified professional who will assist the organization to look at its sustainability and its financial viability. The Consultant will be a financial expert in the field of residential real estate who understands the financial environment in which JOSHCO and the City of Johannesburg operate. They should also have development expertise which will allow them to understand and make realistic proposals which will enhance JOSHCO's long term sustainability and viability. They will demonstrate proven experience and professional competence as follows:

1. Financial packaging related to housing development for the different JOSHCO programmes.
2. Financial packaging to raise significant sums of capital in the municipal sector which would reply to JOSHCO's needs.
3. Understanding of the responsibilities of the City of Johannesburg and JOSHCO in relation to the Municipal Finance Management Act (MFMA).
4. Financial arrangements for joint ventures and development, partnerships and so forth.
5. Understanding of the potential markets and development opportunities in Johannesburg which could be used by JOSHCO to enhance its sustainability and viability
6. Understanding of the risks associated with JOSHCO's current and potential activities.

E. DURATION OF THE PROJECT

The work will commence on **13 June 2011**, and be completed no later than **31 July 2011**.

F. MANAGEMENT STRUCTURE

Rory Gallocher, Chief Executive Officer, and his designated nominees, will represent JOSHCO for purposes of this contract including the finalization of the mandate after briefing meeting the subsequent progress and access to JOSHCO information.

G. RESPONSIBILITIES OF PARTIES

During the process of performing the work JOSHCO shall:

1. Provide the Consultants with the relevant documentation available to it.
2. Allocate suitably qualified persons to assist.

During the process of performing the work the Consultants shall:

1. Conform to the requirements and outputs of the Terms of Reference as finally agreed.
2. Under no circumstances do work outside the Terms of Reference without prior approval in writing from JOSHCO.
3. Act in the best interest of JOSHCO at all times and therefore declare and remove any conflict of interest between the Consultant and JOSHCO.
4. Provide reports to JOSHCO from time to time and in the format required by JOSHCO.
5. Indicate the budget for completing the work which cannot be increased unless JOSHCO gives prior approval in writing.
6. Conform to the reporting requirements in a concise manner. All reports shall contain all information, assumptions and results either in the body of the report or in suitably identified annexes. All work will be made available.
7. All information generated during the work whether written or electronic remains the property of JOSHCO to be used in its sole discretion, and will be forwarded to JOSHCO at the successful completion of the work.

H. FEES AND PAYMENT

The fees will be based on the amount agreed to with JOSHCO at the time of signing the agreement. Payments will be based on the achievement of milestones.

I. PROPOSAL

Respondents should send a proposal which includes the following information:

1. Members of the consultancy team if there is more than one person.
2. A resume indicating the Consultant's experience and any pertinent work performed related to these Terms of Reference.
3. The proposal should indicate an understanding of the objectives and goals, a description of the work to be performed, the anticipated results, the methodology to be used and the indicators that the anticipated results have been achieved.

4. The fees to be charged including VAT, the hourly rate and the time spent for the consultant and for each member of the team if there is more than one person; and the total amount to be charged.
5. The fees will indicate separate amounts for each of the principal activities in these Terms of Reference:
 - a. Synthesis of existing financial information.
 - b. Alternative strategies to enhance JOSHCO's sustainability and financial viability
 - c. Risk sensitivity analysis
 - d. User friendly tool for updating JOSHCO's financial strategy.

EVALUATION CRITERIA OF PROPOSALS: 80/20 POINT SYSTEM AS PER PPPFA

Criteria	Weight
1. Capacity to deliver on the project: CV/'s of consultant/s	20
1. Methodology in line with Terms of Reference	10
1. Experience – similar projects undertaken with contactable references	15
1. Price	35
1. Government Objectives	
HDI	10
BEE	3
Women	2
Disabled	2
SMME	3

We look forward to receiving your proposal on or before **27 May 2011 at 12:00** noon at the following address:

Johannesburg Social Housing Company
 137 Sivewright Avenue
 New Doornfontein, Johannesburg
 Attention: Rory Gallocher
 Chief Executive Officer

Yours sincerely

Rory Gallocher
 Chief Executive Officer
 Johannesburg Social Housing Company

