Government Employees Housing Scheme

Introduction

"Everyone has the right to have access to adequate housing," the Constitution of the Republic of South Africa proclaims. The Constitution further enjoins the state to ensure the realisation of this right: "the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right."[i]However,this right is notat presentenjoyed by all South Africans. Its enjoyment is largely dependent on whether one can afford the cost of housing or not.

While government has built more than 1 million houses for the poor, there are many South Africans who are homeless; they live in squalor and their dream for decent shelter is perennially deferred. Meanwhile, there are unscrupulous people who have perfected their skills at manipulatinggovernment's free RDP housing scheme for their own ends – to the detriment of the deserving and homeless poor.

At the same time, there is a number of working people who do not qualify to benefit from government's free RDP housing scheme, and who remain excluded from enjoying this human right. People who fall under this category suffer a double jeopardy. Their incomes are too low to afford housing mortgages, andyet earn more than the minimum required for the poor to qualify for an RDP house. These are not only people who work for the private sector; there are government employees who fall under this category. Theyare in the lower band of salary scales, from level 1 to 10. They are our constituency as the Public Servants Association (PSA), and we present this discussion paperon their behalf.

We wish to state from the outset that we welcome government efforts to develop a comprehensive housing scheme for government employees – the Government Employees Housing Scheme. We wish to make our contribution to policy discourse on this matter by sharing our perspective, concerns and recommendations.

Context

The PSA believes that there is a compelling motivation for the Government Employees Housing Scheme (GEHS). As we have highlighted in our discussion papers before, "Our theory of labour is one that departs from the premise that a worker is a member of the human species, and is, therefore, intricately bound by all the social straps that tie man to his physical environment, and environment to man, and man to man."[ii] We contend therefore that public servants are members of society first before they are employees of government. They are affected by what happens in their surroundings. Public servants, too, have a right to adequate housing as enshrined in the Constitution. It is this understanding that enables us, the PSA, correctly to locate the challenge of access to housing for public servants within the broader context of South Africa's experiences, past and present.

What numbers tell us

Statistics on home ownership in South Africa are staggering. According to the National Planning Commission, more than 60 per cent of the nation does not enjoy the right to housing.[iii]

The truth is that the poor in our society cannot house themselves on their own without government intervention. The recent 2011 census data, released in October 2012, paints a bleak picture about access to decent housing. According to the Statistics SA, there are 14.5 million homes or households in South Africa. Of these, only about 6.5 million are owned and fully paid off, 1.7 million are owned but not yet paid off, 3.6 million are rented and 2.7 million are occupied rent free.[iv]

About 1.1 million homes are huts, about 1.2 million households are informal dwellings of squatter camps, excluding about 712 956 backyard shacks. Approximately 20 689 dwellings are made of plastic, 60 979 homes are made of cardboard structures and 1.6 million built from corrugated iron. A total of 14 439 families live in caravans and tents around the country. Only 9 384 030 houses in South Africa are made of brick or concrete block structure across the country. There are also 720 327 flats or apartments in a block of flats around the country.[v]

Although a breakdown by population group shows 4.9 million black (African) people owning homes which are fully paid off, compared to just over 500 000 whites and 415 940 coloureds and 119 457 Indians or Asians, a deeper analysis is required to get a fuller picture.[vi]

One of the important observations to be made is that the RDP houses, most of which have benefited black people are included in this statistics. It is therefore not entirely accurate to suggest that 4.9 million black people have fully paid-off houses, or that they are better than the rest. If RDP houses are excluded, this number would drop by more than a million, reducing the number of African house owners to less than 3 million.

Another point to be considered is the resale value of properties owned by different race groups in South Africa. If selling of RDP houses was legally allowed, the resale or asset value of these houses, mainly located in townships and rural areas cannot compare with upmarket properties owned mainly by the other race groups. Former President Thabo Mbeki was indeed correct: “Like mini-skirts, statistics suggest more than they reveal.”[vii] The picture is not as promising as the statistics suggests.

The challenge ahead of government is to change this picture. It is to facilitate real ownership of property among the poor as well as the employed. This can be done by developing instruments that make access to housing finance possible, and the development of policies and regulations that would accelerate the development of affordable residential properties.

Skyrocketing costs

The prices of houses have been escalating. Property prices have seen a year on year growth of 6.5 per cent between 2010 and 2011. According to Property24, the December 2011 property *barometer* showed that an average house price rose from R819 977 in 2010 to R870 564 in 2011. The average purchase price for firsttime buyers increased by 14 percent from R573 122 in 2010 to R656 230 in 2011. An average approved bond increased by 3.6 per cent from R697 572 to R722 529 between 2010 and 2011 respectively.[viii]

Given these escalating costs of houses, it is fast becoming almost impossible for a low and middle income earner to own a house. If the costs are as high as the above statistics suggest, what then is government proposing to facilitate house ownership among its employees? Below we engage directly with the government proposals for GEHS in detail.

What government is proposing

The proposed Government Employees Housing Scheme (GEHS)is an outcome of resolution 2 of 2011 of the Public Service Coordinating Bargaining Council (PSCBC).[ix]A lot has been said since this decision was taken, albeit details on how the scheme will operate remain sketchy.

On 15 May 2012, while acting as Minister for Public Service and Administration, Mildred Oliphant reiterated the commitment of the department towards the GEHS. She promised Parliament that the department would be "Contributing to the improvement in conditions of services for public service by, among others, promoting home ownership among public servants through the introduction of a Government Employees Housing Scheme."[x]

The PSA is concerned that other than the concept paper, released in June 2011, no further details have been shared with the public sector employees regarding the mechanisms and processes to be followed in the new scheme. Our engagement in this paper is therefore limited to the sketchy details at our disposal, as provided for in the concept paper.This notwithstanding, the PSA remains committed to Resolution 2 of 2011 (of the PSCBC).

It is the PSA's observation that government has correctly diagnosed the problem of access to housing by government employees. It is true that government employees at salary level 1 to 10 have "little or no access to housing finance" and that housing allowance is inadequate to facilitate "access to entry level home in well located land."[xi] However, the PSA is concerned that some of the proposals to remedy the challenges are fraught with limitations. These limitations are pointed out in the subsections below.

Our understanding of the new scheme is that it will be comprised of six components, which we discuss hereunder.

The R1bn guarantee fund

In his state of the nation address of February 2012, President Jacob Zuma promised that his government "will set up a guarantee fund of R1 billion to incentivise the private banking and housing sector, to develop new products to meet this housing demand."[xii] We highlight this important pronouncement simply to make a point that the fund proposed in the GEHS is neither new nor unique for government employees. It is our understanding that the fund will benefit all South Africans who qualify, whether inside or outside government.

According to the concept paper, "the fund will be deployed as a mortgage insurance to facilitate access to affordable housing finance by offering protection against default risk to lenders. The mortgage default insurance company (MDI) acts as a third-party guarantor, that reviews the underwriting and mortgage terms offered to a borrower, and in exchange for a premium charged, agrees to pay a lender a portion of the losses incurred if a borrower fails to repay a mortgage."[xiii]

The PSA welcomes this initiative. According 2010 statistics from Nedbank, the average house price of houses repossessed by banks due to default on bond repayment was between R350 000 and R400 000.[xiv] These are the houses in the affordability range of employees in the lower salary levels for government employees (level 1-10). Our members in this category stand to benefit and the scheme will reduce the possibility of them losing their homes.

The number of houses repossessed annually is indeed shocking. According to Van Zyl of Fin24.com, even as "banks declared a fall in the repossessed houses," in 2010 Nedbank alone had about 1800 repossessed homes. Hartdegen, a columnist for Property24.comalso wrote in 2010 that "at least 5 000 families had lost their homes and are probably living in rented accommodation or have moved back to family homes."[xv]This is the tide that this Mortgage Default Insurance must help to ebb.

Yet, more clarity is required on the workings of this product. For instance, who is qualified? How many times can an employee of government benefit from this? Will it be a revolving door? What are the penalties? How different will it be for public servants as compared to the general public? This information is crucial for our members. Care should also be exercised in communicating this product so as not to promote a culture of dependency and non-repayment of bonds.

The finance linked institutional subsidy programme

The Finance Linked Institutional Subsidy Programme (FLISP) is also not new. Government has implemented this since 2005 to address the "affordability and product gaps …intended to assist qualifying beneficiaries who wish to obtain mortgage finance from the bank."[xvi] The announcement by President Jacob Zuma on the occasion of the state of the nation in February 2012 was,therefore,only to extend eligibility to a larger proportion of the population.The President announced that "from April, people earning between three thousand five hundred rand and R15000, will be able to obtain a subsidy of up to R83 000 from provinces, to enable them to obtain housing finance from an accredited bank."[xvii]

The task team on GEHS has proposed that this instrument be integrated into the new GEHS. It is not clear why government employees were prohibited from benefiting from this scheme.This notwithstanding, the PSA welcomes the proposal to integrate the FLISP in the scheme.

However, the PSA urges government to consider some of the shortfalls before the programme is implemented. One of these shortfalls is that this scheme focuses on newly built houses that cost less than R300 000.It is inflexible and does not allow the purchasing of resale property. This might become a major setback as there is no guarantee that government employees will find new development sites closer to their places of work.

The cost of new houses is also above the set bench mark of R300 000. As we have demonstrated, the houses of this range are limited. In their recent research, the Centre for Affordable Housing Finance in Africa (CAHF) found that "the least-expensive home available from Cosmopolitan projects is 40m2 unit in a project called Beverly Hills in Palm Springs Gauteng. This is in the range of R278 000. All of Cosmopolitan's other projects are above R300 000 per house."[xviii]Even in new townships such as Bram Fisherville in Johannesburg, the CAHF found that a "40m2 full-title, free standing home cost R327 400."[xix]

Kecia Rust outlines a scenario to illustrate that government's initiative might fall short of achieving the objectives for which it is set. According to Rust, "One might assume that a household earning R3,350 might get the full R83 000. With a 30% instalment to income ratio, this household could afford to pay about R1,065 per month. At the current prime rate of 9%, this would afford a mortgage of R118 369.38. Add to this the housing subsidy of R83 000 and the household can afford a house of R201 369.38."[xx]

This scenario does not only apply to the general public. It is also applicable to public servants. The only addition would be the R900 housing allowance that government offers to its employees. The question with regard to government employees is not simply about whether they can afford to pay back the bond or not. As Rust observed: "in South Africa today, there is no market-based housing for sale at this price."

Rust also observed that the RDP houses, given for free to households earning less than R3350 per month, costs between R100 000 and R200 000 to build. Given this, a question arises: which developer could aim to build houses that cost less than the free RDP houses and hope to generate profit? Even if that developer were to be found, how many government officials would be willing to stay in such houses? These questions are important as they help us dispel the myth about the availability and meaning of low cost houses.

Clarity should also be provided on whether the FLISP limit of R300 000 includes Value Added Tax (VAT) or not. If it includesVAT,it would be impossible to find a house at such a low price. The PSA is worried that due to the escalating price of new and resale houses, this initiative might not facilitate ownership of houses among people in the low salary band. It might end up only benefiting those in high salary bands to the exclusion of low income earners whom the GEHS is primarily meant to assist.

The criterion to qualify for FLISP isalso biased. It benefits married people and excludes single employees. The condition that "persons must be married or habitually cohabit, single persons must have financial dependents, and single persons without financial dependents, such as the aged, disabled and military veterans etc. may be assisted"[xxi] is discriminatory. The assumption that single persons and single persons without dependents do not need housing is grossly mistaken.

It is already common among South African youth, male or female, to prioritise movable assets, e.g., a car over fixed assets like houses. To implement the FLISP as it is may not promote house ownership among the youths and single persons.

The PSA believes that FLISP can be used to stimulate house ownership amongst all; the youth, the elderly, single and married. The PSA will not support any scheme that seeks to perpetuate stereotypes and prejudices. The ability of government to attract young people into the public service also rests on the kind of incentives it can offer. It is doubtful if the public service can become an employer of choice among the youth if it pursues policies like this.

Housing allowance

A housing allowance has also been identified as part of the GEHS. This too is not new. Its history can be traced as far back as the 1980s. Until 2004, this was called the Home Owner Allowance (HOA) scheme. The HOA has been "faced out through a multi-year agreement, in terms of the Public Service Coordinating Bargaining Council resolution 2 of 2004,"[xxii]and replaced with the new housing allowance. The HOA was only given to people who had mortgage bonds and those without were left out. The new house allowance includes the provision of rental allowance for those that do not own houses.

The provision of housing does not come cheap. It is neither cheap to build nor to buy a house. For government, assisting employees with financial tools to access housing also comes at a price. Government expenditure on housing allowance for its employees has escalated by over 17 per cent annually between 2007 and 2010 from R500 to R800 per employee per month. The PSCBC resolution 1 of 2012 adjusted the housing allowance for government employees from R800 to R900. The same adjustment was made for rental allowance.
The total cost for government increased from R2.1 billion in 2007, benefiting 594 901 employees to R4.8 billion in the 2009/2010 financial year for 780 843 employees. By 2010/11, the cost had almost doubled, reaching R8.5 billion for a total of 850 000 employees.

The cost of the allowances could have even been higher, if all the more than 1.2 million employees benefited from the allowance. It should be expected that with the allowance having increased from R800 in 2011 to R900 in 2012 per employee per month, the total cost will escalate to more than R10 billion per year on the same number of 850 000 employees. As the number of beneficiaries' increase, which will inevitably be the case, the cost would even be higher.

The sustainability and affordability of the allowance is a cause for concern. The PSA agrees with the observation by the task team working on the GEHS that "The housing allowance in its current form presents a risk to Government on its future escalation."[xxiii] Thus the allowance model cannot ameliorate the challenges related to access to housing on its own. It has to be conceptualised as part of the broader strategy to remove barriers to access housing. The observation by the task team that the "escalations do not seem to have an impact on improving housing ownership"[xxiv] is indeed worrying.

While the question whether government can afford the escalating costs of the subsidy is important, the motivation for providing housing cannot be solely on the basis of affordability. It is the PSA's view that access to housing is a fundamental human right. We believe that government should consider its facilitation of access to housing for its employees as part and parcel of its broader recruitment and retention strategy. It is our view that if implemented well, a housing scheme can provide extrinsic motivation for employees, thereby making it possible for government to retain experienced and highly skilled personnel.

A means test housing allowance

The concept paper on GEHS also proposes the means test housing allowance. It suggests, in an ambivalent manner, that "there may be a need to introduce this facility for low income government employees in lieu of annual allowances capped at a percentage of a bond amount to be determined." This is one of the suggestions we have found unclear. That government is also ambivalent in its suggestion indicates that more thinking is required before it can be implemented.

While the PSA is happy to note that "the Household Income Tested Housing Assistance is NOT replacing the current housing allowance,"[xxv] we would not adopt a blanket approach to support the suggestion to cap annual allowance. The formulae to arrive at "a percentage of a bond to be determined" must also be clarified before this is implemented. The rise or fall of bond prices is completely beyond the control of government employees. Neither do employees have control over the interest rates on bonds etc. determined by the Reserve Bank on quarterly basis. While we empathise with government on the potential burden the housing allowance would placeon the fiscus, to punish government employees for the escalating cost of houses would be grossly unfair.

According to ABSA's home loans property analyst, Jacques du Toit, the average value of land for housing in 2012 in middle and luxury segments of the market increased by 6.3 per cent year on year to R532 500.[xxvi] Obviously, this contributes hugely to the skyrocketing prices of houses as developers would, rightfully so, like to recover their costs and make profit. This is an area where government could intervene, for example, by bringing down the price of government-owned land for developers of human settlements. The PSA therefore urges government to explore better ways in which these could be done.

<u>Reserve account</u>

The PSA notes that the proposed Reserve Account is directly linked to the Household Income Tested Housing Assistance (HITHA). Its introduction is therefore dependent on whether the HITHA is implemented or not. As we have pointed out earlier, more thinking is required before the means test can be applied. As a matter of principle, the PSA is not opposed to the establishment of the Reserve Account.

<u>The rental programme</u>

The PSA welcomes the proposals on rentals, particularlythe rent-to-buy option. We propose that this option should not only be made available to employees with "tarnished credit record", as implied in the concept paper. It should be broadened to include first time home owners, whether single or married. In addition, this should be made available as a fall-back position for employees whose homes are due for repossession. For instance, an employee who is rescued by the default insurance scheme can have an option to switch his position from owner to rental tenant until he is fully recovered to pay the normal bond. The duration, rates of rental and other specifics should be clarified in the housing policy or the detailed policy on GEHS.

We note, however, additional capacity may be required in government agencies to ensure that these proposals materialise. The current National Housing Finance Corporation could be tasked with all the responsibility to implement the proposals.

Avoiding the mortgage bubble

Having considered all the options contained in the GEHS, there is a risk we should avoid. This is the risk of the mortgage bubble. McGaffin counsels that "the easing of underwriting to facilitate housing ownership … does not address the source of the problem." While it may be easy to dismiss McGaffin's, we ignore his counsel at our own peril.

The memories of the impact of the American housing bubble are still vivid. It should be recalled that it was the housing bubble that led to the 2008 global financial crisis the world is still trying to recover from.

Drawing from the American experience, as illustrated in the Wall Street Journal (of 4 June 2012), McGaffin asserts that without real income growth since 1990 for American households, great numbers of American households could no longer keep pace with the escalating costs of houses. By extending greater finance to households, the Banks did not address the real issue of affordability. What followed was an increase in the number of households who could not afford to repay their bonds, leading to the largest financial crisis since the 1930s depression. Thus, "Over-gearing poorer households is a recipe for disaster."[xxvii] South Africa should tread carefully and not repeat what led to the 2008 global financial crisis.

The truth is that, the president's gesture notwithstanding, "By simply extending eligibility for government funding to a larger proportion of the population, the President's announcement has not addressed the fundamental issues arising from the housing scheme."[xxviii]Amongst these is the critical issue of affordability of houses. While extending access to finance institutions may enable scores of people to access housing, without adequate regulatory and monitoring capacity, government might find itself overly indebted to the point of a financial crisis.

It is for these reasons that we urge government to heed McGaffin warning that "trying to address the affordability issue through housing finance alone will not solve the problem and may in fact threaten the financial and other related markets in the process."[xxix]There are policy areas in which government can make a huge contribution in the development of affordable housing.

Policy considerations

There are many other policy issues that government should consider concomitant to the development of financial instruments to assist in the delivery of housing. Finance is not the only obstacle to the development of affordable homes.

As the PSA, we believe that legislation and policy around land use management should be developed if the delivery of housing is to be fast-tracked. This is not only important for government officials. It stands to benefit the wider built industry and the general public.

The internal government legislative review process, initiated in 2010, found that more than 350 provisions in 36 existing legislation impede service delivery, mainly housing.Contradictions inthe legislation managed by different government departments were ubiquitous. In her motivation for the review of legislation impeding service delivery, Helen Zille, the Premier of Western Cape, asserted that it takes almost 2 years between the day a new site for building is identified and the day the first brick is laid on the new site. This is due to cumbersome legislative requirements and sometimes contradictions in legislation.

The requirements of Environmental Impact Assessments, the policy and legislation gap in the area of Land Use Management are among the many impediments to the development of new settlement areas. These must be reviewed if the right to housing is to be enjoyed by all. The success of government housing programme, including the GEHS, will be dependent on some of these policies.

With regard to housing finance policy, it will be critical for government to ensure that housing finance is structured around the housing delivery process, with finance being tailored to each stage of the process and the different contexts in which the delivery takes place.

This means that housing finance should be considered right from land acquisition, building construction, and buying and selling of houses. The strategy should therefore be comprehensive, drawing on all relevant government players from local municipalities to provincial and national departments.

Conclusion

The right to housing is a fundamental human right enshrined in our Constitution. There are many initiatives, from policy reform to the development of financial instruments that should be considered to make the realisation of this right come true.

While the PSA is concerned about the lack of details on the GEHS, we reiterate our commitment to resolution 2 of the PSCBC of 2011. We support government initiatives to make housing affordable to the poor, low and medium income earners.

We urge government to reconsider its benchmarks for FLISP (R300 000) and housing allowances (R900) as they are way below the mean market prices of low cost houses. As the figures of the cost of houses we have quoted in earlier sections illustrate, at its current proposed value, FLISP may fall short of assisting the category of employees for which it is targeted, leaving the dream to own a house a chimera for many, inside and outside government.

The PSA will support the GEHS if its proposed remedies are fair, reasonable and are easily accessible to our members and the general public. We are opposed to any scheme that will perpetuate discrimination and prejudice, especially against unmarried people. Instead, it is our view that government should use GEHS as part of a comprehensive recruitment and retention strategy to make government an employer of choice for the young, skilled and experienced.

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