

SERVCON

H O U S I N G S O L U T I O N S



**Presentation to the
Portfolio Committee on
Housing held on 10 July
2009 –
CAPE TOWN**

Presentation Topics

- Introduction
- To allow the Housing Portfolio Committee to get more clarity on plans in place to manage the transitional period of Servcon Housing Solutions (Pty) Ltd;
- Solutions to curb increased repossessions due to current economic down turn
- Plans to avoid the overloading of the subsidy system owing to increased informal settlements

1. Introduction

- Presentation will cover the following:
 - Clarity on plans to manage the transitional period of Servcon Housing Solutions (Pty) Ltd:
 - Why is Servcon in a transitional phase;
 - Management of Servcon Assets;
 - Management of Servcon Staff;
 - Servcon Board Competencies;
 - Proposed alternatives and status of decision-making by the Department
 - Solutions to curb the increased repossessions due to current economic downturn:
 - Historical background regarding non performing loans (NPLs) and Properties in Possessions (PIPs);
 - Implications of the National Credit Act;
 - Potential portfolio for Servcon;
 - Servcon capacity to meet the demand of curbing repossessions
 - Government provided mandate
 - Plans to avoid overloading in the subsidy system owing to the increase of informal settlements:
 - Verifiable data resultant from the Servcon Normalization Programme;
 - Designated informal settlements
 - Reconciled Data (Current System Data; Data from the designated settlement; Proposed Recommendations to System Managers)
 - Management of Cleaned Data;
 - Effective Stakeholder Management with respective Provincial Departments/Municipalities;

2. To allow the committee to get more clarity on plans to manage the transitional period of Servcon Housing Solutions (Pty) Ltd.

- Why is Servcon in a transitional phase:
 - Servcon/Banking Association of South Africa/Government mandate regarding the designated non performing Loans/Properties in Possession came to an arranged end as at 1 June 2006. Remaining properties were transferred into requisite management process - linked to a wholly government owned entity (Banking Association shares sold to Government);
 - As at 1 June 2006, State Owned Servcon focused on the following:
 - Finalizing the remaining designated portfolio – Special arrangement with respective banks;
 - Normalization Programme with designated Provincial properties:
 - Gauteng – Audited 381 391; Rectified – 106 447
 - Western Cape – Property Visits EEDBS – 13 000 ;
 - Eastern Cape - Audited 153 089;
 - Limpopo – Audited 3 500
 - Acquisition of suitably located land and/or landed properties
 - Gauteng – 171.98 HA 12 Pieces
 - Western Cape – 710HA 5 Pieces
 - KZN – 7 .3 HA 4 Pieces
 - Eastern Cape - 77.7 HA 7 Pieces
 - Free State – 105.5 8 Pieces
 - Northern Cape – 24.3 HA 2 Pieces
 - Mpumalanga – 23.6 HA 2 Pieces

To allow the committee to get more clarity on plans to manage the transitional period of Servcon Housing Solutions (Pty) Ltd...

- Specific directives by the National Department of Housing:
 - Development of a Servcon Closure Plan
 - Confirmed Servcon liquidity (more assets than liabilities)
 - Halted transactions/agreements with respective Provincial Departments of Housing;
 - Joint Operations with Housing Development Agency:
 - HDA interests as per requirements of the Act;
 - Staff interests:
 - Possible absorptions into the HDA or other public institutions, including Government Departments;
 - Possible retrenchments – Contra Ministerial Instruction.
- Management of Servcon Assets
 - Servcon Immovable Properties will be transferred to the HDA.
 - Servcon Movable assets:
 - Some will be transferred to the HDA.
 - Others will be Sold off to staff (Subject to Treasury Approval).
 - Others will be donated to charity.

To allow the committee to get more clarity on plans to manage the transitional period of Servcon Housing Solutions (Pty) Ltd...

- Management of Servcon Staff:
 - Existing Normalization Agreements:
 - Staff members manages related Normalization Programme portfolio;
 - Renewable agreements could not be renewed owing to Departmental directive (premising their reasons on the existence of the HDA even though the HDA does not have the Normalization Programme mandate) that Servcon must wait for the finalization of the HDA Act.
 - To date, not a single staff member has been secured another job. A resource from the National Department has withdrawn and thus we are awaiting another resource so that we can manage.
 - We have 143 staff members, whereby 65 are permanent and 78 are on contract.
 - In approving the closure plan, The Minister has said no staff should loose their jobs, however the Department cannot guarantee that all staff members shall be retained.
 - Acquired Land and/or landed properties:
 - 42 number of properties are under management resulting in 8 number of dedicated staff members;
 - Certain properties will require the existing expertise, again forcing a differentiated management process of Servcon staff. This scenario has created a gap and levels of uncertainties.

To allow the committee to get more clarity on plans to manage the transitional period of Servcon Housing Solutions (Pty) Ltd...

- Management of Servcon Staff:
 - Possible transfer /absorption to the HAD/Public Entities/Department:
 - Fewer than 10 staff members are likely to be absorbed by the HAD, this has however not been confirmed;
 - Possible ownership/absorption into a proposed Consortium:
 - Already approved by the Minister (awaits departmental decision-making on process) – Servcon Closure Plan dictates that the environment is conducive to establish a Consortium.
 - The Department's position is that the consortium proposal can only be considered if the placement of staff does not succeed.
 - Possible Retrenchments
 - Ministerial directive – that not a single staff member should lose their employment unwillingly (alternatives recorded).

To allow the committee to get more clarity on plans to manage the transitional period of Servcon Housing Solutions (Pty) Ltd...

- Servcon Board Responsibilities/Competencies:
 - Has oversight mandate over Servcon as at 1 June 2006:
 - Designated Portfolio;
 - Normalization Programme;
 - Land and landed properties;
 - Transitional Phases:
 - Manages oversight on the Servcon liquidity;
 - Ensuring that not a single staff member is retrenched (Ministerial directive and current Government policy moreover that Servcon is a highly liquid state owned company that has not drawn any funding from the Fiscus since April 2007;
 - Ensuring Management engages HDA on who they want to absorb;
 - Ensures Board resolutions regarding recommendations (implementation of the Servcon Closure Plan and/or applicable or circumstantial alternatives) for the Minister's consideration;
 - Welcomes any proposals to use Servcon expertise/experience in areas where Government assistance is needed:
 - Curbing of increased home repossessions;
 - Improved subsidy system management to lesson overloading thereof and/or use of verified data and continued monitoring and evaluation processes by Servcon (funded mandate).

To allow the committee to get more clarity on plans to manage the transitional period of Servcon Housing Solutions (Pty) Ltd...

- Proposed alternatives and status of decision-making by the Department:
 - That Servcon (to date) remains liquid (even without receiving funding from the Department and/or National Treasury):
 - Servcon liquidity is compromised owing to stalled continuation of Service Level Agreements with respective Provincial Departments of Housing – the demand for such services remains high;
 - The created gap remains unattended even though the demand is huge.
 - Support to the HDA:
 - Implemented as directed by the Department and/or the approved Closure Plan.
 - Continuation of Servcon (carrying out a mandate – Currently un-attended by the HDA and/or any other public institution):
 - Requires a re-think by the Department (remains the prerogative of the Department);
 - Can assist in the management of the current repossessions by Banks (requires Re-Worked Business Model).
 - Establishment of a Consortium – Implemented Servcon Closure Plan:
 - In principle approval by Minister - still awaits Departmental Implementation Model (Submitted proposals)
 - Implemented Closure Plan – Absence of a Consortium:
 - This will result in unnecessary staff retrenchments – Minister’s Directive will be dishonoured if carried out.
 - Eminent Decisions by the Department – Still awaited since third quarter of 2008/9.

3. Solution to curb the increased repossessions due to current economic downturn

- Historical background regarding non performing loans (NPLs) and Properties in Possessions (PIPs);
 - This was the very first mandate of Servcon covering the period 1995 to 2006:
 - Some 33 000 designated property portfolio, at a cost of R1,2 billion;
 - Signed agreement between Government and the Banking Association of South Africa – Servcon being the implementing organ hence 50% (public) – 50% (private) owned entity;
 - Incomplete (at 96%) mandate by 31 March 2006 (including expanded Mandate i.e. Normalization Programme) led to Banks selling their 50% stake to Government (implemented on 1 June 2006) thus making Servcon a wholly state owned entity (SOE).
 - All properties falling into arrears and/or repossession status from 1 January 1998 to date remains unattended including coming into effect of the national Credit Act;
 - Properties post the promulgation of the National Credit Act also remain outside the competence of an entity of Servcon magnitude and capability.

Solution to curb the increased repossessions due to current economic downturn...

- Implications of the National Credit Act (NCA):
 - The period covered excludes persons falling into arrears between 1 January 1998 to date of promulgation of the NCA:
 - Lenders were not so obligated to ensure that home owners meet stringent affordability criteria as currently imposed by the NCA;
 - Equally Servcon was not mandated to cater for any home owners affected outside this period;
 - Various attempts were made to cater for this sector but each time there would be no agreement between Government and the Banking Association;
 - The number of affected home owners exceeded 100 000 in that period and that led to equal number of evictions from affected homes.
 - Responsibilities of Lenders in terms of the NCA:
 - Ensures that lenders follow stringent processes before approving any mortgage bonds;
 - Home owners falling into arrears are managed by National Credit Regulators;
 - There is no Government involvement in this process.

Solution to curb the increased repossessions due to current economic downturn...

- Potential portfolio for Servcon:
 - Development of incidental Business Model:
 - A need to consolidate existing research materials undertaken on behalf of Government and/or by various entities;
 - A need to develop further research – if so needed covering the extent of the problem and best ways of addressing hardships to the best interest of Government and affected persons;
 - Confirming Servcon capability to meet the demand to cater for the sector.
 - Consideration by the Department:
 - Whether or not there is a need to cater for this sector (gaps created by the NCA and that which can be fruitfully covered by Servcon in the interest of the economy and society)
 - Implementation Process:
 - Urgent and focused Research Processes
 - Set Implementation Dates (Policy Development; Amendment to Legislation to cater for this gap; Fiscal processes; stakeholder Management and/or related partnerships).

Solution to curb the increased repossessions due to current economic downturn...

- Servcon capacity to meet the demand:
 - The current staff complement can be re-directed to immediately focus on developing (including consolidating existing material) a Business Model to address specific shortcomings, producing measured impacts on the economy and Government programmes:
 - Research material gathering , production and finalization thereof;
 - Involvement of relevant stakeholders/partners;
 - Ensuring decision-making by Government;
 - Implementation Programme, post Government policy/legislation amendment processes.
 - Recruitment of additional staff and incidental Training Programmes:
 - Dependent on approval of the Business Model by the Department;
 - Focused Funding Model will be included in the Business Model;
 - Sources of potential funders, other than Government, will also be specified in the Business Model;
 - Training Programmes will be implemented on the basis of determined timelines and funding.

Solution to curb the increased repossessions due to current economic downturn...

- Government provided mandate:
 - Provide Servcon with the directive to urgently investigate possible ways of addressing how to curb increased repossessions using in-house capacity and a developed Business Model:
 - Specified timeframes;
 - Funding of the Research Programme;
 - Input making, by Servcon, with regard to policy and/or legislative amendments initiatives by the Department
 - Department ensuring that Servcon is assisted in the following processes;
 - Ensuring its renewed mandate is not duplicated by any other Housing related state owned entity;
 - Motivates for incidental funding from Treasury and/or Parliament;
 - Ensures Servcon enters into strategic agreements with all relevant entities and that related compliance issues are accordingly adhered to;
 - Develops requisite reporting models, focusing on how the renewed mandate impacts on the economy and curbing of spiraling home repossessions.

4. Plans to avoid the overloading in the subsidy system owing to the increase of informal settlements

- Verifiable data resultant from the Servcon Normalization Programme
 - Information on the Housing Data System is sometimes not reflecting information on the ground.
 - Differs drastically/partially with waiting lists of respective Municipalities;
 - Head-count processes are regularly required and this is based on movements of designated potential beneficiaries and/or commonly recorded administrative errors, including inappropriate allocation strategy;
 - Absence of dedicated staff to service specific areas – especially if the extent of waited beneficiaries is confirmed and observed;
 - Inter-linkages between public entities and/or Provincial Departments and/or Municipalities
 - Servcon produced its own data, in collaboration with Provincial Housing Departments it had entered Service Level Agreements with, and such data can be used to address ways of reducing system overload:
 - Verified information linked the Departmental subsidy system;
 - Areas identified as gaps, mandate be given to Servcon to investigate and accordingly correct – Existing capacity and capability to satisfactorily act.

4. Plans to avoid the overloading in the subsidy system owing to the increase of informal settlements

- Designated informal settlements:
 - The Department must provide Servcon with data highlighting overloaded subsidy system and/or allow Servcon to investigate and provide verifiable information:
 - Areas of concern (with or without data) mapped and delivery timelines agreed upon by both Department and Servcon;
 - Management Plan should be developed and produced by Servcon within specified timelines;
 - Servcon, enter into related Service Level Agreements with respective Provincial Housing Developments and Municipalities (Compliance issues followed within specific timeframes)
 - Reporting on Delivery by Servcon:
 - Quarterly to the Department;
 - Every six months to the Housing Portfolio Committee

4. Plans to avoid the overloading in the subsidy system owing to the increase of informal settlements


- Reconciled Data (Current System Data; Data from the designated settlement; Proposed Recommendations to System Managers):
 - Reconciled Data Use:
 - Submitted by Servcon to the Department;
 - Stored by the Department;
 - Reported at MinMECs and Portfolio Committee by the Department
 - Prioritization of Designated Informal Settlements:
 - Servcon allowed to continue monitoring designated informal settlements and how developments impact on Departmentally stored data;
 - Related challenges regularly reported by Servcon to the Department and thus allowing the Department to timely implement necessary corrective measures.
 - Departmental Prerogative:
 - What to do with Servcon submitted recommendations on ways of reducing subsidy system overloads;
 - Use information to the best interest of Department and/or Government.

4. Plans to avoid the overloading in the subsidy system owing to the increase of informal settlements

- Management of Cleaned Data:
 - National Department of Housing:
 - Managed in terms of the subsidy system policies;
 - Ensuring regular auditing of the data by Servcon to ensure relevance to what is experienced in designated informal settlements;
 - Ensuring interactive processes at the level of MinMEC.
 - Provincial Departments of Housing:
 - Managed in terms of the subsidy system policies;
 - Implementation of Service Level Agreements with Servcon;
 - Reporting at MinMEC.
 - Municipalities:
 - Managed in terms of the subsidy system policies and municipal by-laws;
 - Implementation of Service Level Agreements with Servcon;
 - Reporting at MinMEC.

4. Plans to avoid the overloading in the subsidy system owing to the increase of informal settlements

- Effective Stakeholder Management with respective Provincial Departments/Municipalities:
 - Submitted Business Model by Servcon:
 - Finalized within the confines of the subsidy system management and reconciled with properly recorded challenges at the level of designated informal settlements.
 - Engagements on related modalities:
 - What will work and how;
 - Specific timelines and related requirements by respective stakeholders and/or where possible partners.
 - Signed Service Level Agreements:
 - Extent of scope of work;
 - Responsibilities of related parties.
 - Approved Funding Models linked to signed Service Level Agreements;
 - Implementation Programme:
 - Specific timelines and responsibilities on focused reporting and impact.



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