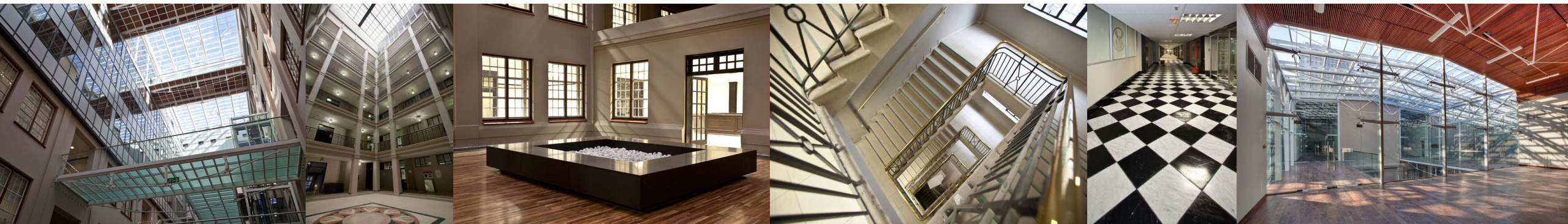




public works

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REPUBLIC OF SOUTH AFRICA

BUSINESS OF THE DEPARTMENT & PROPERTY MANAGEMENT TRADING ENTITY (PMTE): EFFICIENCY ENHANCEMENT PHASE OF TURNAROUND STRATEGY



Portfolio Committee on Public Works
22 August 2017



public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

SECTION A

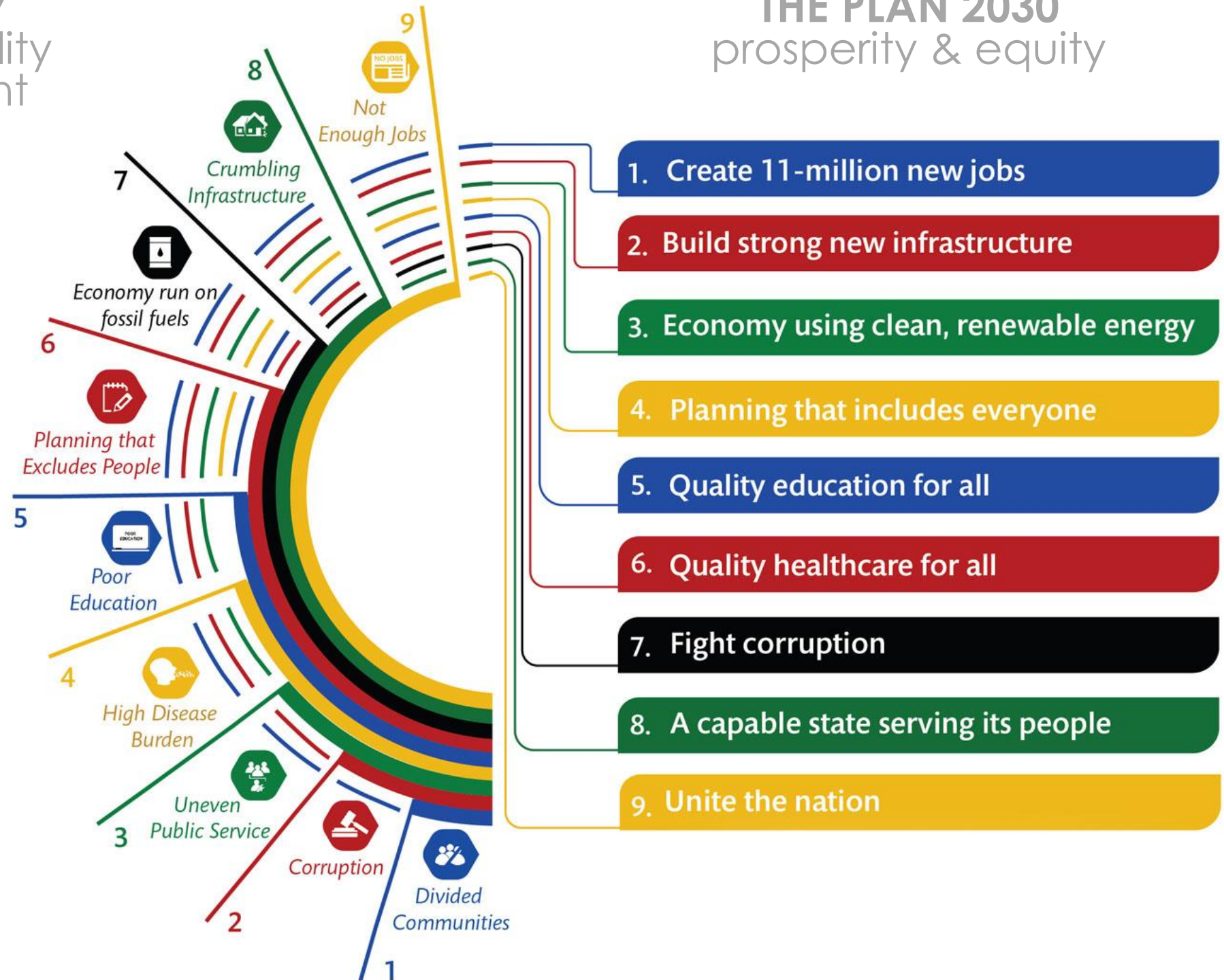
CONTEXT:
Our responsibility



OUR RESPONSIBILITY – to plan the journey to 2030

PROBLEM TODAY
poverty, inequality
& unemployment

THE PLAN 2030
prosperity & equity



NDP in a
nutshell

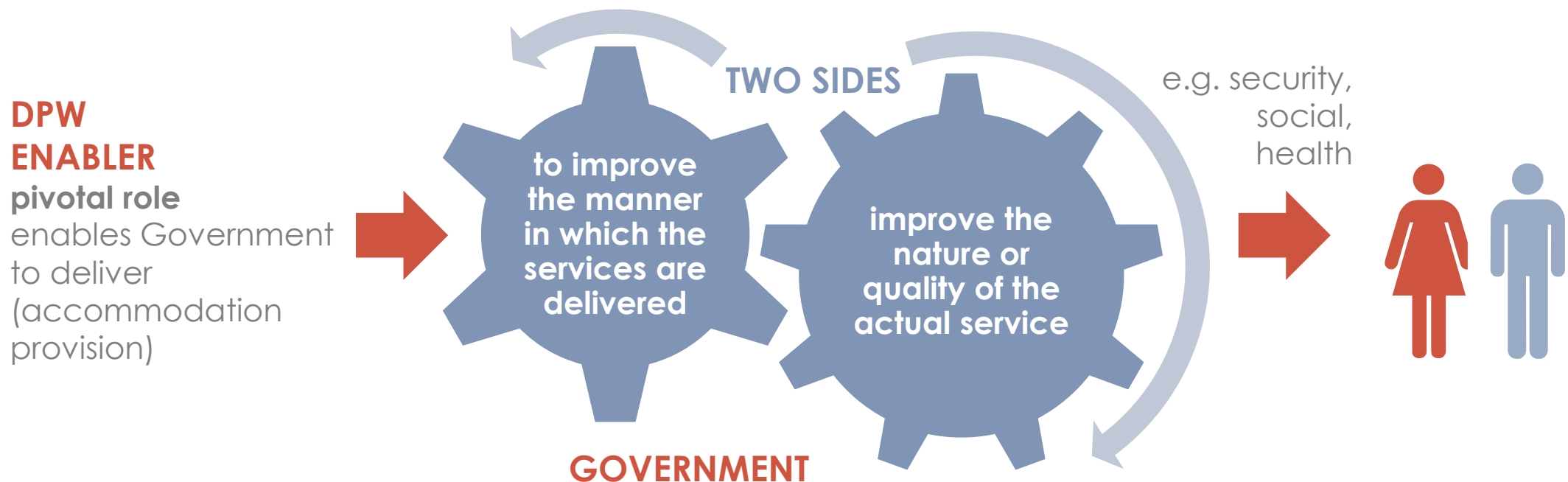
WHY WE EXIST

our obligations

PUBLIC WORKS

CONSIDERING OUR IMPACT ON SERVICE DELIVERY

DPW Key Mandate: custodian & manager of Government's immovable assets => directly impacts efficiency and effectiveness of all client departments and **service delivery**



WHY WE EXIST our obligations

OUR CONSTITUTIONAL OBLIGATIONS

(Chapter 10: Public Administration)

- Efficient, economic and effective use of resources
- Development-oriented
- People's needs must be responded to

NATIONAL GOALS & OBJECTIVES:

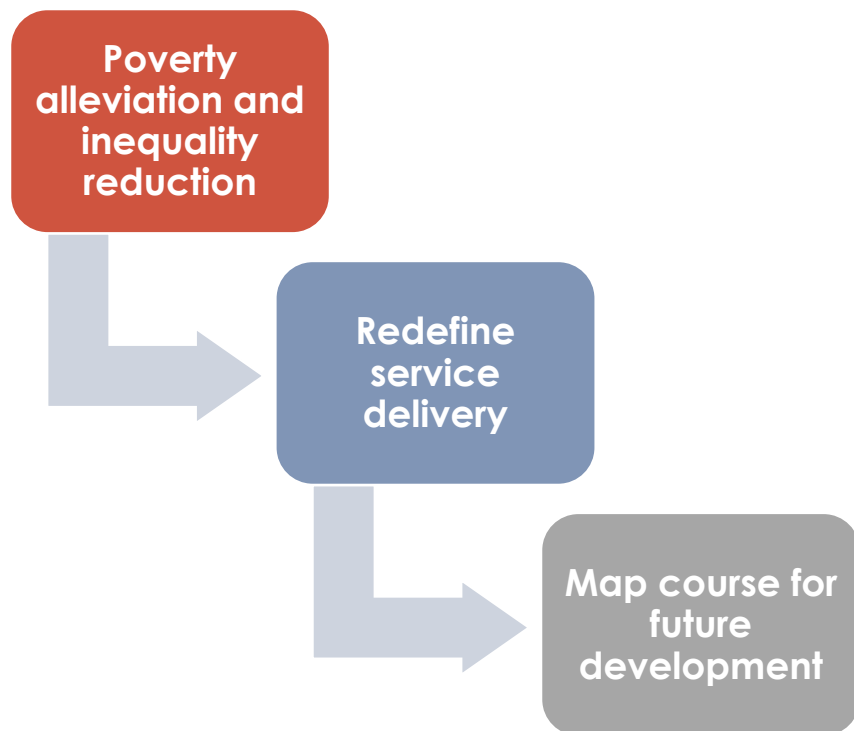
- Contribute toward **national developmental** agenda
- Leverage the State's property portfolio to contribute towards **skills development**
- Leverage the State's property portfolio to **create employment**
- Ensure **water & electricity supply security** through sound investment decisions that meets conservation and renewable energy targets
- **Address spatial imbalances** of the past => small & rural towns / harbours / provision of land => human settlement & land reform
- **Transformation** - Black and female empowerment



FUTURE STATE our responsibility

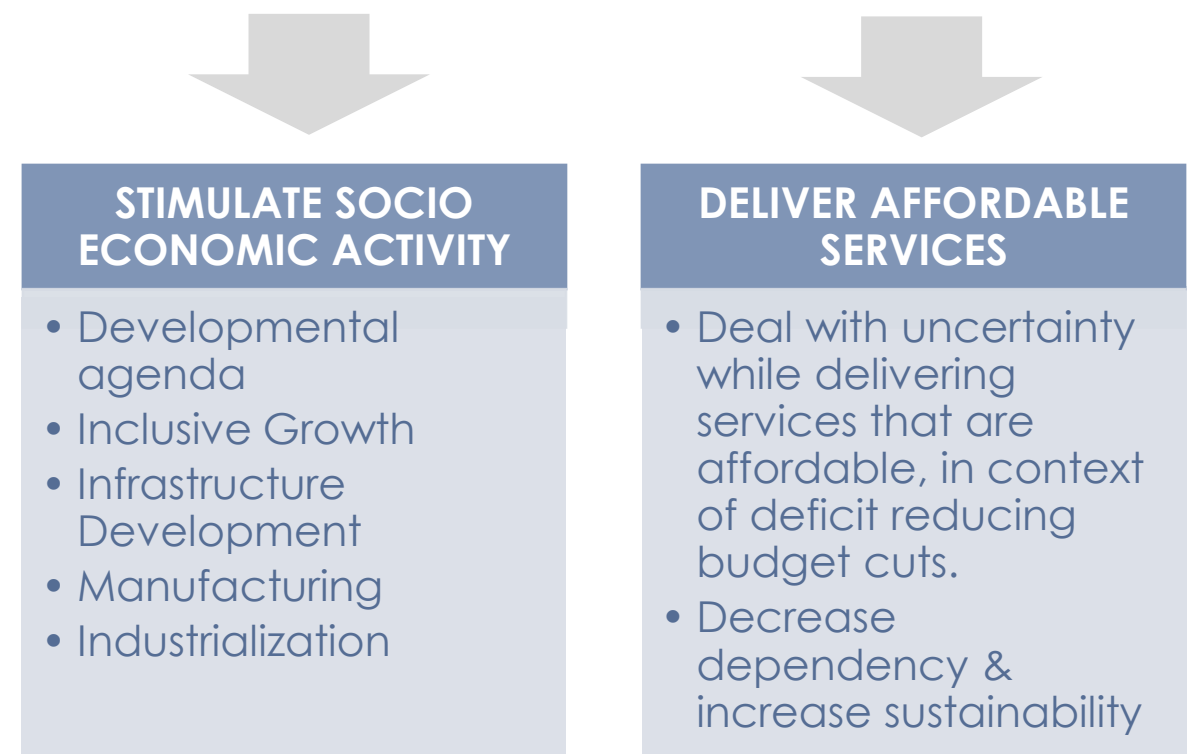
THE FUTURE IS OUR CHOICE

NDP unfolds challenges we face but creates opportunities to address



OUR CHALLENGE?

Tight fiscal and economic space requires us to do more with less (\$)



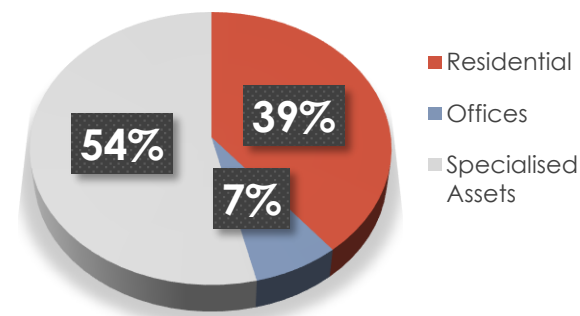
RECOGNISE: Property as important socio-economic lever to exert visible impact in driving capital formation, investment growth and social development.

FUTURE STATE

our position

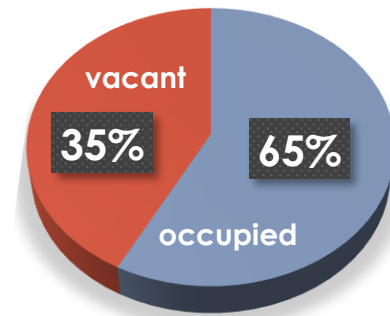
- PMTE remains a critical strategic priority to **build value to- and bring savings to the State.**
- The PMTE currently manages what was traditionally the core business of the Department and today represents the largest Real Estate portfolio in South Africa.

Accommodation Type



36.8 million m²

Land Parcels



5.4 million hectares

31 March 2017

Land Parcels: 29 322

Buildings: 93 943

Deemed Gross Cost: => R149 billion

Replacement of the above will be unaffordable

Leases: 2597

Approximate Spend: => **R4 billion p/a**

- As a **catalyst**, the effective optimisation of this portfolio holds extensive benefits and opportunities in respect of Government's broader **developmental agenda** and **socio-economic transformation**.
- The current challenging economic and fiscal environment however, requires all spheres of Government to intensify **expenditure efficiency** and **cost saving efforts**. The PMTE is in a position to significantly contribute towards cost containment, reducing waste, resource preservation and improving the composition of Government spending on accommodation.
- The PMTE to commercialise business by reducing the cost of doing business and implement revenue generating initiatives to lessen its fiscal burden.



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SECTION B

Turnaround Progress



TURNAROUND context

KEY HISTORICAL ISSUES (prior to 2012)

- an **unstable strategic direction** due to high turnover of political and executive leadership;
- the need to develop and **apply business-like principles** of efficiency in the acquisition, usage and disposal of government immovable assets;
- **failure to develop the capacity** required to manage its large real estate portfolio;
- **declining capacity** due to turnover of professionals;
- an **incomplete asset register**;
- **state properties underutilised** whilst private sector leasing-in expanding;
- **ICT system** not supporting the core business;
- **inappropriate** organisational structure;
- multiple **negative audit** outcomes.



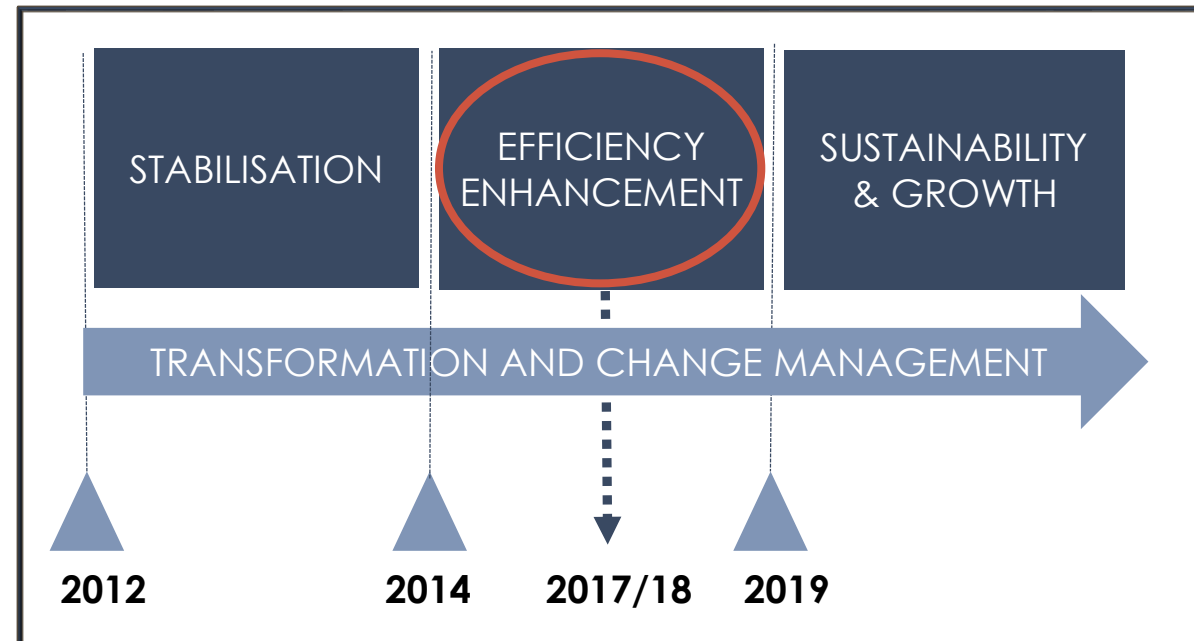
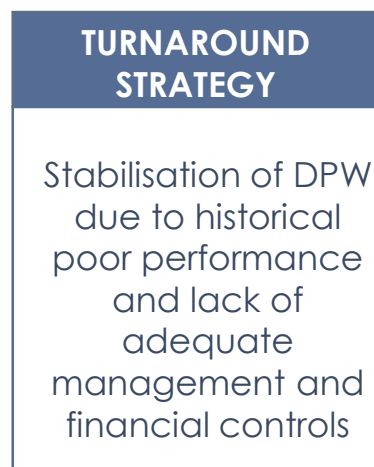
TURNAROUND context

BACKGROUND

- In **2011**, adverse audit findings and the then new Minister's engagements with DPW = confirmed that department was in dire state, with areas of dysfunction.
- Corruption, mismanagement and poor performance led to DPW failing to deliver on its mandate.
- Prior attempts at change failed due to leadership instability and ineffective change management.
- In **November 2011**, Minister commissioned a rapid diagnostic on the state of affairs
- Report and findings presented in **January 2012**,
 - detailing problems of mismanagement and misalignment
 - pointed to need for fundamental reorganisation, and immediate interventions to stabilise the Department.
- Diagnostic findings assisted department to identify and set priorities for stabilisation actions .

TURNAROUND

stabilisation & efficiency key areas



RESTRUCTURE THE DEPARTMENT TO:

- Develop accurate and credible IAR
- Implement asset investment management strategy
- Implement facilities management and maintenance strategy
- Improve Lease Management
- Improve construction project delivery
- Address adverse audit outcomes
- Improve corporate governance
- Address capacity constraints - Technical capacity, Property Professionals and Project Managers (ratio +/- 1:20), We are striving towards 1:10 (industry norm 1:5)

TURNAROUND: STABILISATION achievements to date

| TAU DIAGNOSTIC FINDINGS | PROJECT DESCRIPTION | ACHIEVEMENTS TO DATE |
|---|---|--|
| Leadership instability | High rate of change of executive and administrative leadership | <ul style="list-style-type: none"> Management and leadership STABILISED Key positions have been filled Organisational structure approved |
| Year-on-Year Audit Disclaimers for both DPW & PMTE | Clean Audit Project | <ul style="list-style-type: none"> DPW moved from DISCLAIMER to UNQUALIFIED PMTE from DISCLAIMER on 13 items to QUALIFICATION on 2 areas |
| Policy and Regulation (Department Implementor and Regulator conflict of interest) | Operationalisation of the new DPW Operationalisation of the PMTE | <ul style="list-style-type: none"> New budget structures for DPW and PMTE are approved. Transfer of functions and budget from DPW to PMTE finalised |

TURNAROUND: STABILISATION

achievements to date

| TAU DIAGNOSTIC FINDINGS | PROJECT DESCRIPTION | ACHIEVEMENTS TO DATE |
|--|--|--|
| Prestige | Poor planning and management; lacked policy, norms and standards | <ul style="list-style-type: none"> • Norms and standards for category 1 & 2 (Presidents and Executive) developed and being implemented • Norms and standards for category 3 being developed • Presidential Handbook developed and adopted by parliament • Ministerial Handbook reviewed and awaiting approval • Policy guidelines for Judiciary, national key points, security for private residences developed • SCM being review for national events including Term Contracts and Panels for Service Providers |
| Asset Management (Asset register incomplete and inaccurate) | Compilation of the GRAP compliant IAR | <ul style="list-style-type: none"> • GRAP compliant Immovable Asset Register FINALISED • Physical verification completed (100%) • Assets valued at R117 billion as at end of March 2017 from a reported AFS value of R 3 billion in 2012/13 financial year • Asset Management Dispensation completed • Currently clearing backlog on the completion of vesting process |

TURNAROUND

efficiency enhancement phase

DPW EFFICIENCY ENHANCEMENT PHASE FOCUSING ON THE FOLLOWING

- Strengthen the DPW inter-governmental co-ordination role which includes the following
 - Policy Formulation for the sector
 - Setting sector norms & standards
 - Monitoring & evaluation of sector
- Strategies to Build State capacity in the built environment
- Enhancing governance, risk and compliance
- Meeting the needs of our Prestige clients

THE DEPARTMENT HAS STABILISED

- Several specific urgent actions have been identified and executed under stabilisation phase.
- There is also a need for systemic improvements across the organisation.
- These include the development of
 - service delivery model,
 - business processes,
 - ICT systems, and
 - review of organizational structure for alignment with service delivery model.
- These key elements drive the content of the second phase focusing on efficiency improvements

TURNAROUND

DPW efficiency enhancement focus

Public Works Sector Coordination

- Coordination of IGR Forums
- Performance Monitoring of the Sector
- Integrated Planning

Policy Formulation

- Review of the Public Works White Papers to culminate into the Public Works Act.
- Promote growth and transformation in the property and construction sectors.
- Regulation of the construction and property sectors

Building State Capacity in the Built Environment

- Coordination of the 6 Built-Environment professional councils
- Create institutional capacity through the skills pipe line programme
- To support the sector with GIAMA implementation throughout the asset life cycle

Enhance governance across sector

- Intensify implementation of anti-fraud and corruption strategy.
- Governance model to promote good practices and the delivery of services
- Compliance model to ensure adherence to all prescripts
- Drive service delivery improvements through a comprehensive operations management framework.
- Integrated planning and M&E across the sector

Prestige

- Development of policy, norms and standards
- To improve service delivery timeframes

TURNAROUND

PMTE efficiency enhancement focus

Operationalization of PMTE

- National Treasury Regulation 19
- Complete and credible IAR
- Business Improvement Intervention

Capacity Building

- Organizational Structure
- Skills Gap (Public Works Academy)
- Human Capital Investment

Delivery Model

- Infrastructure Delivery Management System (IDMS) & Standard for Infrastructure Procurement and Delivery Management (SIPDM)
- Business Process Review
- Maintenance Reforms
- ERP

Finance & SCM Efficiency Enhancements

- Procurement Reforms
- Saving initiatives
- Revenue generation

Transformation

- Policy
- Programmes



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SECTION C

PMTE Operationalisation – Progress



OPERATIONALISATION

progress NT REG.19

NT conditional approval of the Property Management Trading Entity was granted in 2006 subject to the following conditions:

| | <i>Compliance in terms of NT conditions</i> | |
|----|---|---|
| 1. | Operate a separate and complete GRAP-compliant set of accounts | Achieved |
| 2. | Effective financial controls in place | <ul style="list-style-type: none"> Improvements ongoing Development of the Finance Model underway |
| 3. | Policy and reporting framework in place to track both commitments and cash flow | Achieved |
| 4. | All people and institutional arrangements in place | <ul style="list-style-type: none"> Structure has been streamlined and approved in line with DPSA and NT recommendations Critical positions identified Posts are in the process of being filled |
| 5. | Draft Delegations developed and responsibilities of the departmental key account managers specified | Delegations framework (PFMA/GIAMA) for the PMTE approved |
| 6. | DPW must seek approval from National Treasury to establish a Property Management Trading Entity. The PMTE must comply with all the conditions for trading entities contained in Treasury Regulation 19. | Not achieved (Pending full compliance with conditions) - Development of Detailed Implementation plan (roadmap) commenced under Project 1 of Turnaround |

OPERATIONALISATION capacity

STRUCTURE

- Finalised approved organisational structure in collaboration with DPSA and NT (September 2016)
- Dedicated Industry Research Unit established - inform investment decisions
- Direct accountability model adopted for each business area
- **Critical positions identified**
- **Filling of posts commenced with HR**

Challenges

- Funding limitations for ideal structure
- Vacancy levels on technical skills

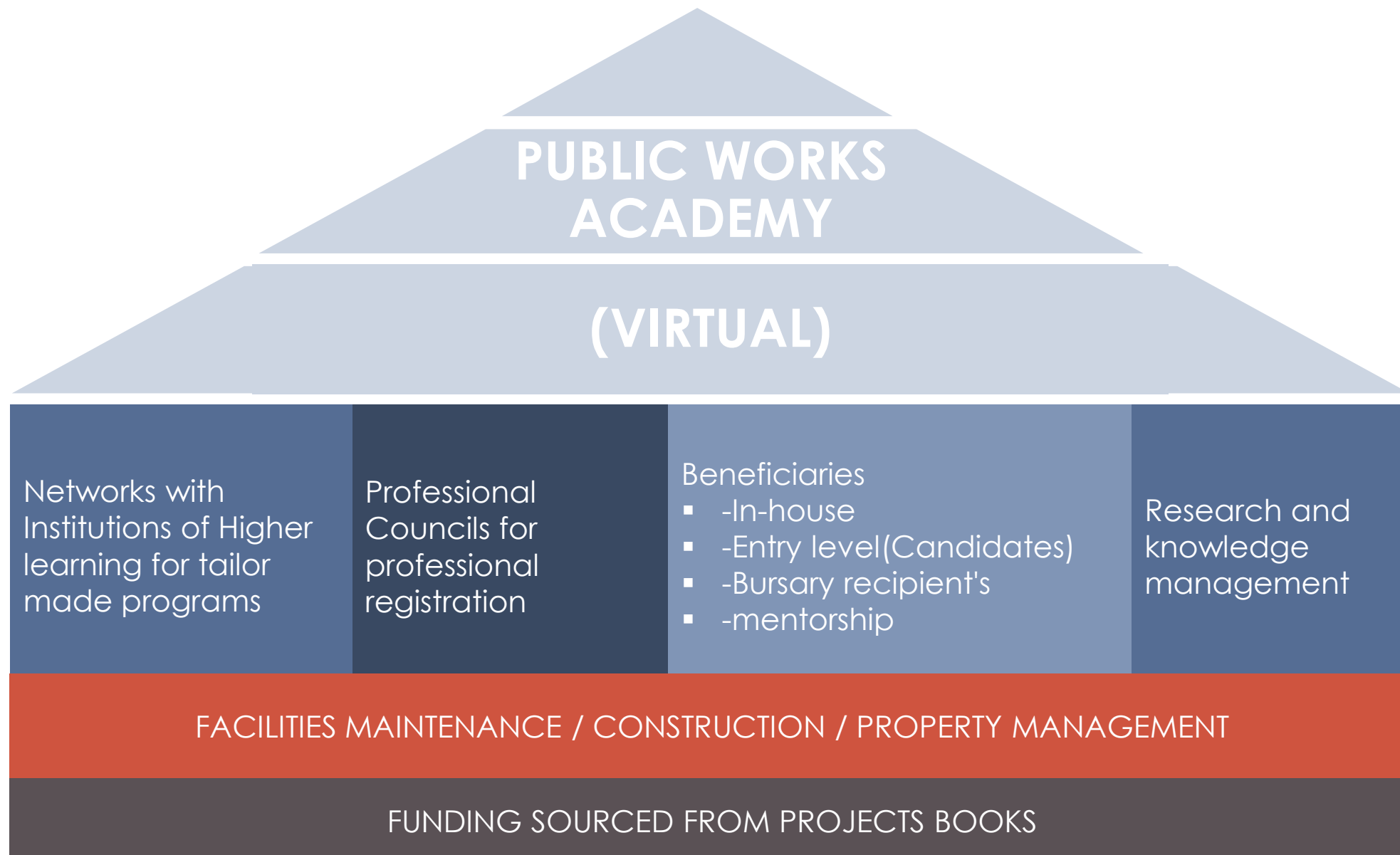
Capacity Building

- Commenced implementing technical capacity building initiatives to address specific skills requirements.
- Partnerships to re- and up-skill DPW through tailored programmes:
 - Property Owners Association (SAPOA)
 - Public Works Academy through Coega Development Corporation (CDC)
- Programmes include: Facilities Management; Property Management; Construction Management; Certificates for Commercial Property Practitioners; and Professional Development.
- Enlisted institutions = Wits University, the University of Pretoria and the UCT Graduate School of Business.



CAPACITY BUILDING

public works academy



CAPACITY BUILDING

candidacy programme

| ITEM | BLOEMFONTEIN | CAPE TOWN | DURBAN | HEAD OFFICE | JO'BURG | KIMBERLEY | NELSPRUIT | POLOKWANE | PORT ELIZABETH | PRETORIA | Grand Total |
|-------------------|--------------|-----------|--------|-------------|---------|-----------|-----------|-----------|----------------|----------|-------------|
| Filled | 9 | 11 | 10 | 85 | 15 | 11 | 13 | 6 | 14 | 17 | 191 |
| vacant | 9 | 6 | 10 | 112 | 23 | 0 | 1 | 5 | 16 | 27 | 209 |
| Total post | 18 | 17 | 20 | 197 | 38 | 11 | 14 | 11 | 30 | 44 | 400 |
| % of Filled Posts | 50,00% | 64,71% | 50,00% | 43,15% | 39,47% | 100,00% | 92,86% | 54,55% | 46,67% | 38,64% | 47,75% |

Vacancies includes Construction Project Managers, Engineers, Architects, QS and Town Planners

- To mitigate against vacancies, skills gap candidates will be identified in critical areas and places in a candidacy programme
- The candidates will be placed with companies that are contracted by DPW
- The companies will train and mentor the candidates. Once registered these professionals will revert back to DPW and placed in permanent positions or linked to maintenance programmes (as specialists in HVACs, Lifts, Boilers, etc.). This will include placing the professional registered candidates in programme to resuscitate the DPW workshops
- Retiring DPW Technical Employees will be identified as mentors when they retire and placed in the programme to support the candidacy programme
- The candidacy programme will support skills requirements for SIPDM and IDMS implementation
- DPW will ring-fence funds from Goods and Services for the implementation of this programme
- Detailed presentation on the plans and budget being finalised with NT

CAPACITY BUILDING

candidacy programme

| Young Professional Candidates Programme | | | |
|--|---------------|----------|--------------|
| CANDIDACY FIELDS | COST PER ITEM | QUANTITY | COST |
| Structural Engineering | R 549 639 | 11 | R 6 046 029 |
| Electrical Engineering | R 549 639 | 11 | R 6 046 029 |
| Mechanical Engineering | R 549 639 | 11 | R 6 046 029 |
| Construction Project Management | R 549 639 | 11 | R 6 046 029 |
| Landscape Architect | R 475 758 | 5 | R 2 378 790 |
| Architect | R 475 758 | 10 | R 4 757 580 |
| Town Planning | R 475 758 | 5 | R 2 378 790 |
| Quantity Surveying | R 475 758 | 10 | R 4 757 580 |
| Total Cost | | | R 38 456 856 |
| Note: Rates are as per OSD salary grading's. | | | |
| Positions to be advertised in August 2017 | | | |

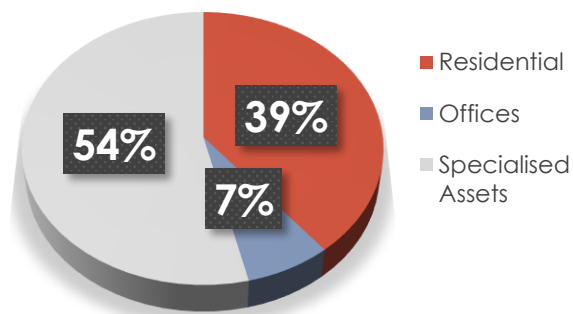
OPERATIONALISATION

immovable asset register

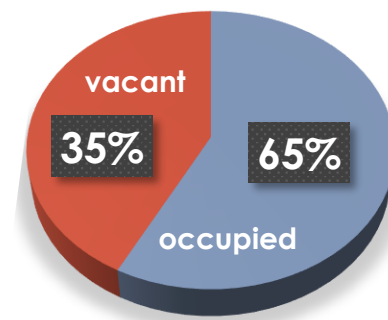
IAR ACHIEVEMENTS AS AT JULY 2017

- Completeness of land parcels under the custodianship of DPW from 2012/13
- DPW moved from a disclaimer to a qualification for immovable assets for 2012/13
- Completed physical verification and high level condition assessment in 2015/16
- Complete and GRAP compliant IAR finalised during 2015/16
- DPW applied the deemed cost model/fair value in order to eliminate assets recorded at R1
- AFS 31 March 2017 => deemed gross value of assets **R149 billion** (as opposed to the R3,5 billion in 2012/13 financial year where most of the assets were recorded at R1)
- Development of the State Domestic Facilities Framework to regularise and formalise legacy arrangements (State facilities or buildings constructed on tribal or private land)
- Spatially Enhanced Asset Information (GIS and software tools to develop and maintain the IAR)

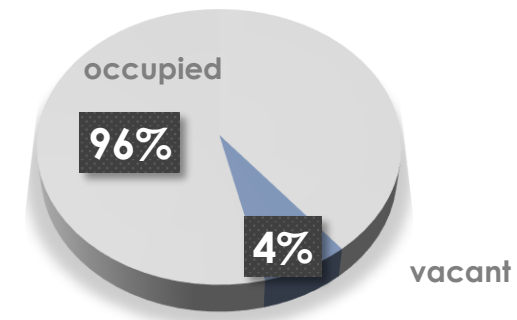
Accommodation Type



Land Parcels



Building Occupancy



PROJECT DELIVERY MODEL

IDMS (future outlook)

- The IDMS represents the approach and best practise to the delivery of public infrastructure and focusses on three main delivery processes, namely: **Portfolio Management**, **Project Management** and **Operation and Maintenance**
- It is the proposed **Delivery Model** within the Service Delivery Framework and more specifically the Service Delivery Improvement Plan to ensure the improvement of infrastructure service delivery
- Accommodation needs of client departments are recorded in the **User Asset Management Plan (U-AMP)** prepared by them with the assistance of DPW/PMTE as part of the Portfolio Planning process within the IDMS, informed by the Immovable Asset Register and Condition Assessments of buildings
- DPW/PMTE as the custodian of immovable assets prepares a **Custodian Asset Management Plan (C-AMP)** as part of the Portfolio Planning process within the IDMS informed by the U-AMPs of client departments, which is derived from the Strategic Plan of the custodian
- The planning and execution of new infrastructure -, refurbishment – and renovation projects, as well as the decision to enter into leases, as well as the maintenance of assets are informed by investment decisions taken by the custodian once the C-AMP has been finalised. These will inform the Infrastructure Programme Management Plans (IPMPs) and Infrastructure Programme Implementation Plans (IPIPs)
- The IDMS will ensure that planning, execution and maintenance of assets are aligned with the National Treasury MTEF funding cycle through IPMPs
- **42 U-AMPS received from clients and the CAMP developed**
- **IPMPs for SAPS, DOJ, DCS, DOD, DAC have been completed and workshopped with clients**

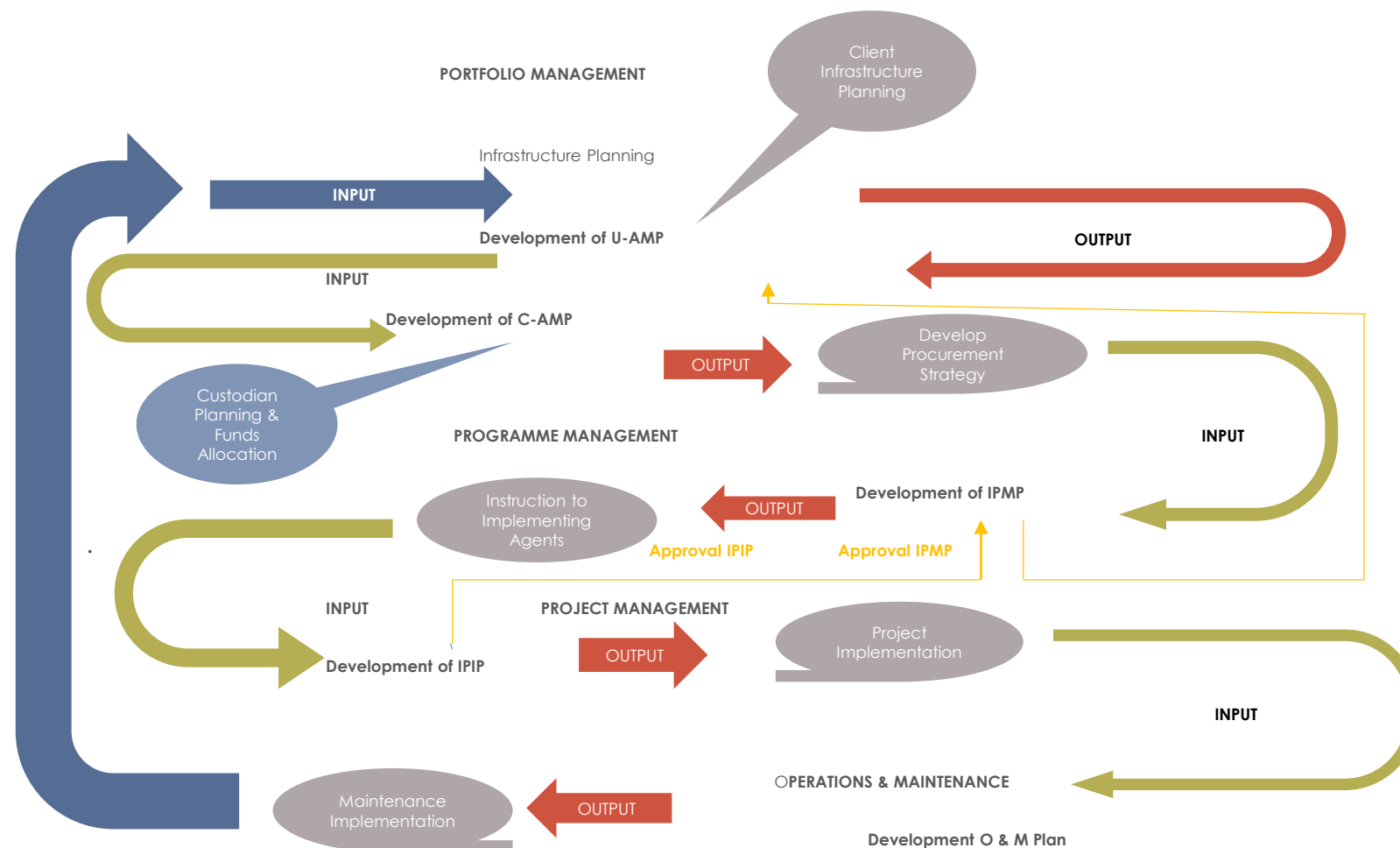
PROJECT DELIVERY MODEL

IDMS (future outlook)



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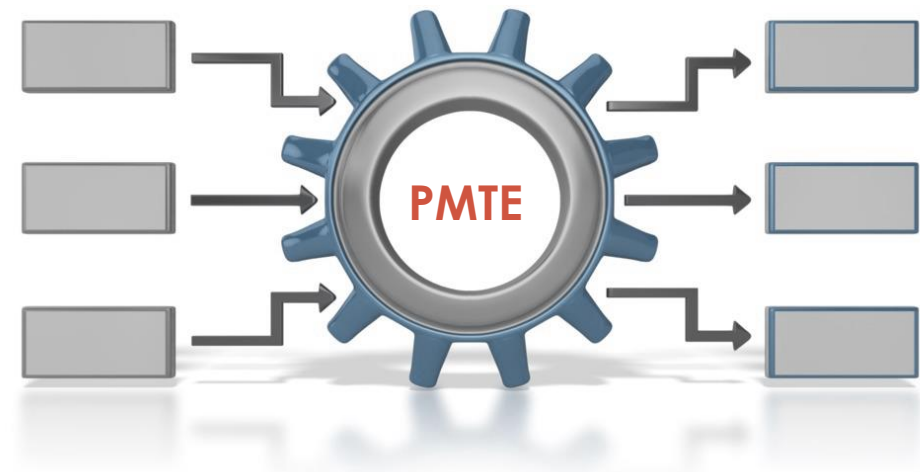
P M T E



PROJECT DELIVERY MODEL

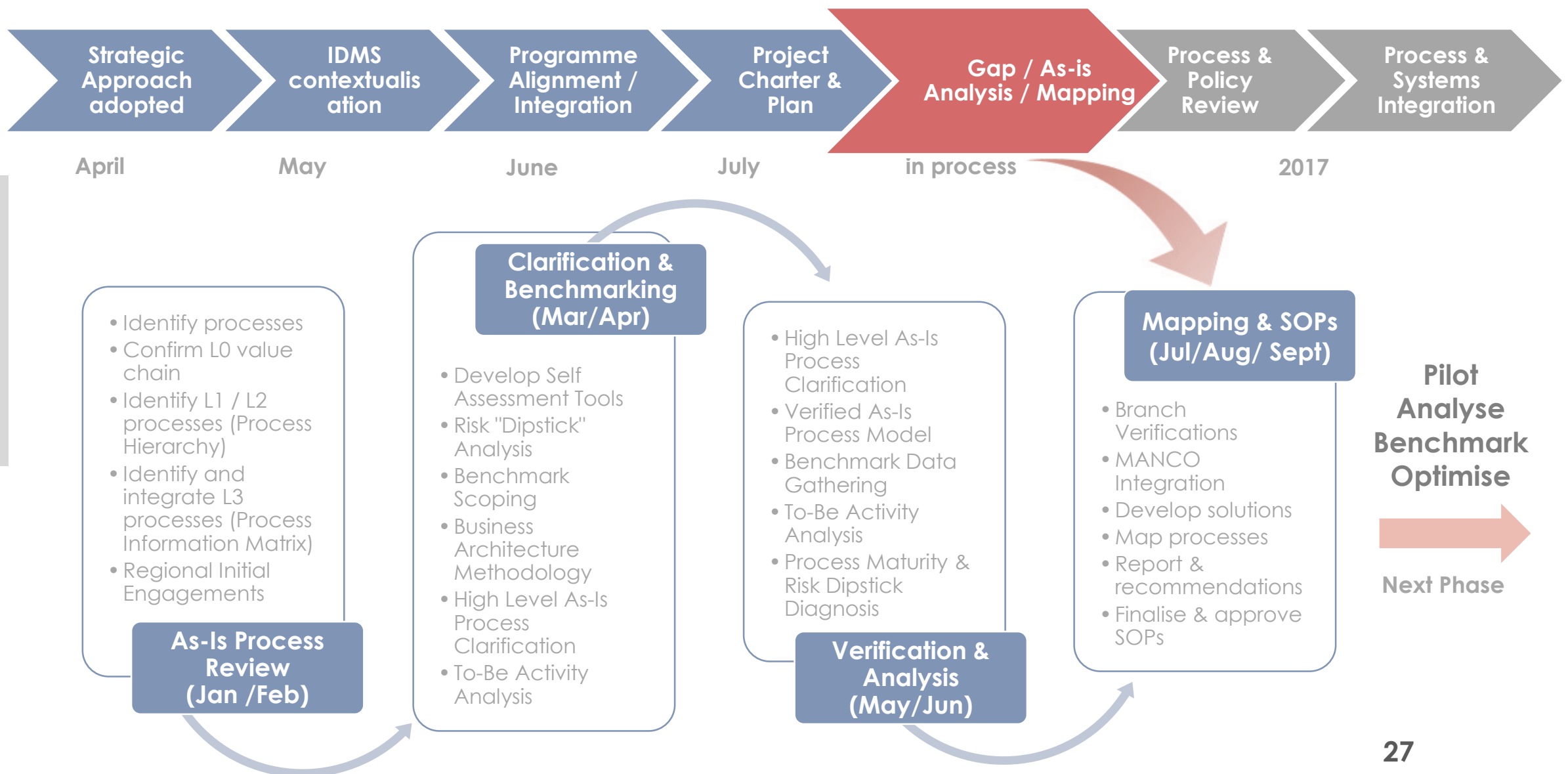
business process review

- Business processes, activities, systems and policies has to be adequately aligned to the strategy of the PMTE and needs to be effectively reviewed to improve efficiencies
- A project has been initiated under the Turnaround that includes National and piloting in identified regional offices
- The intention of the project is to examine the business processes in each of the 6 PMTE programmes and recommend improvements to existing processes that will assist to enhance core business efficiency
- The project focusses on the **consolidation of all existing business processes, evaluation thereof, the mapping of new processes, piloting and eventual implementation**. This includes the development of procedures required to support the business and result in Standard Operating Procedures for each line function



PROJECT DELIVERY MODEL

business process review



PROJECT DELIVERY MODEL

construction project management

DESIGN AND EXECUTION EFFICIENCIES

- Projects in design and construction stages managed efficiently including timeous payment to service providers.
- PMO assisted with IDMS implementation and it is currently being rolled out with user departments.
- PMO assisted with the Drafting of IPMP's and IPIP's for 5 major clients & DPW.
- PMO appointed SP through DBSA to audit project files for accuracy and completeness and reliability of information.

CAPACITY

All MOA and implementation plans with implementing agents have been finalised and projects allocated to IAs to address capacity challenges of Project Managers

- DBSA has provided professional staff in terms of the Capacity programme
- **Cubans professionals** – arrived in SA in December and have been deployed to the Regions.
- **Retired and Young professionals deployed in critical areas**

PROJECT DELIVERY MODEL

business process review

SCM PROCESSES ALIGNMENT TO CONSTRUCTION

- Adjudication currently in progress for consultants (QS, Engineers, Architects) to register for Professional Services Panels
- Committee finalising specifications for contractor panels

FACILITIES MANAGEMENT AND MAINTENANCE

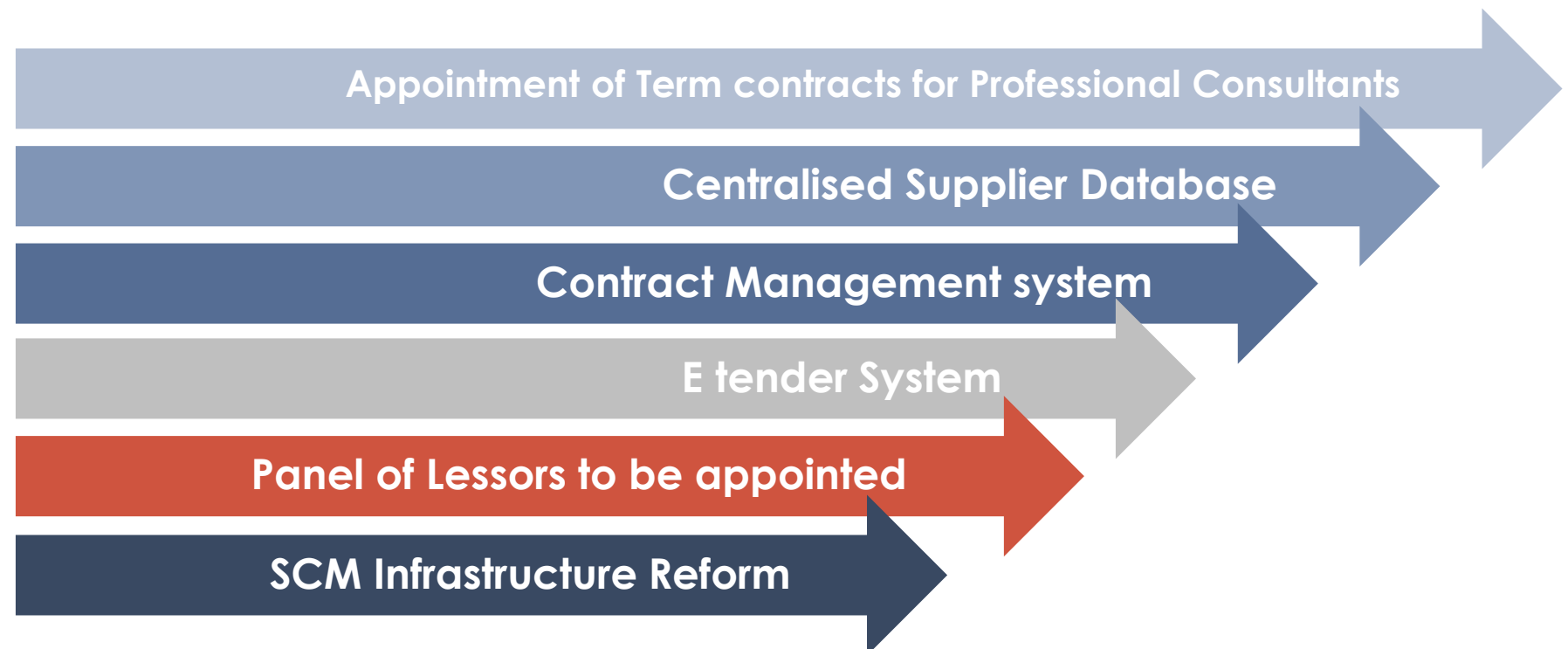
- Strategy is to increase the proportion of Preventative Maintenance in order to reduce the number of unscheduled breakdowns. Requires investment in the Condition Assessment of our property portfolio.
- Top 300 Programme initiated that focuses on improved services and cost management for priority and strategic facilities of the State.
 - Operationalisation NIMS
 - Development of Maintenance plans
 - Funding critical component programme

SCM EFFICIENCY ENHANCEMENT procurement reforms

SITUATIONAL ANALYSIS

- The need to improve efficiency and effectiveness of procuring goods and services within SCM
- Implementation of systems to improve controls and combat fraud and corruption
- Concerns on value for money
- Develop policies for procuring serviced for Infrastructure projects and leases
- Implementation of panels to facilitate operational requirements

Initiatives:



The reforms are aligned to the **Public Procurement Bill**

SCM EFFICIENCY ENHANCEMENT

procurement reforms

PROCUREMENT REFORMS

- The Department is implementing the **use of panels** of professional consultants per Province/Region who are appointed through an open tender process. The benefit of this initiative is not only an expedited procurement process but also a cost saving as the fees charged are discounted below the Council rates.
 - **reduce government rental expense,**
 - achieve **effective and efficient delivery of accommodation to User Departments,**
 - **shorten turnaround time on delivery of accommodation** as well as
 - to **comply to the Constitution and National Treasury prescripts on procurement.**
- **Implementing agents** (Organs of State) are used to deliver projects resulting in reduced project management costs.
- All day to day maintenance as part of FM are primarily procured from service providers holding CIDB Grades 1 & 2. These service providers are primarily SMME's with an additional benefit that the more work allocated and completed by them, the potential to increase their CIDB grading increases.

FINANCE EFFICIENCY ENHANCEMENT

response to tight fiscal space

NEED FOR PARADIGM SHIFT

- Focus on financial sustainability
 - Creative cost cutting measures/ cost recovery initiatives
 - Exploration of revenue generating initiatives on back of extensive portfolio appropriately segmented
 - Develop a financial sustainability model for the PMTE
- Devise strategies to minimise reliance on the fiscus
- Engage with NT to develop an appropriate legislative and policy environment to enable the above
- Systematic and Central Co-ordination of Revenue Generation efforts (establishment of a Commercial Hub in the Office of the CFO)

FINANCE EFFICIENCY ENHANCEMENT

response to tight fiscal space

ENERGY AND WATER SHARED SAVINGS PROGRAMME

- Implement resource-efficient technologies in the facilities of PMTE to share in the verified savings based on municipal utility bills.
- Shared Savings Programme contracts are for a duration of seven years and it is expected that they will yield significant financial savings to the state over the medium term.
- Telemetry System provides improved capability of remote monitoring and evaluation of utility services as well as greater control of our spending on energy and water.

LEASEHOLD RENEGOTIATION

- Renegotiate all significant leases that are above market rate (current leases)
- Ensure all renewal are at market rate or below market (negotiate with significant landlords), negotiate escalation rate
- Technical team will negotiate with small landlords
- Regulate tenant installation (set threshold, eg max 20% of the lease rental)
- Increase the use of state properties
- Create panel of landlords and negotiate rates

FINANCE EFFICIENCY ENHANCEMENT

response to tight fiscal space

UTILISATION OF PROPERTIES NOT OCCUPIED

- Development of a strategy to enhance opportunities for letting to the public and private sectors (with the view of generating income to sustain the portfolio).
- Avail properties to variety of emerging entrepreneurial in the construction and property sectors.
- Where properties are identified as having no utilisation potential, a disposal option will be considered.
- Toolkit has been developed to calculate property and / portfolio specific charges which will be rolled out progressively over the entire portfolio ensuring an improved income stream for property development and maintenance.
- Options to convert certain residential to guest houses for government officials, to reduce hotel accommodation (use Cape Town as a pilot project)
- Appoint panel of estate agencies to manage all leases (charge market rentals, collect rentals and evicts tenants that are not adhering to lease agreements)
- Identification of land and un-used facilities for Student Accommodation



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SECTION D

STIMULATING ECONOMIC ACTIVITY



STIMULATING ECONOMIC ACTIVITY

small harbours & state coastal property

EXAMPLE: SMALL HARBOURS AND STATE COASTAL PROPERTY DEVELOPMENT

Attracting Investment, in State Coastal Maritime Infrastructure and Properties, to Grow Businesses, Create Jobs, Stimulate Economic Growth and Redistribute Wealth,

AIM:

- Ensuring territorial integrity through the Management of Small Harbours and Coastal Properties.
- Access to State Coastline, Maritime Infrastructure, Small Harbours and Bays
- Ensure inclusive Economic Growth and Development through the Empowerment of Local Communities
- Empowering Coastal Communities in Skills Development, Education and Enterprise Development
- Energise the Growth of Coastal Infrastructure
- Unlocking the Economic Potential of South Africa's Oceans
- Delivering on the aspiration of the National Development Plan 2030
- Fundamental change in how government accelerates delivery



STIMULATING ECONOMIC ACTIVITY

urban & rural development

EXAMPLE: URBAN & RURAL PRECINCT DEVELOPMENT

Develop government precincts in collaboration with municipalities, provinces and sector departments in 40 urban and 40 rural targeted municipalities

AIM:

- Address spatial imbalances (NDP)
- Development of integrated Government Precincts in metros, urban and rural areas (IDPs & SDFs)
- Ensuring accessible services to the public
- Develop project pipeline that supports integrated development
- Reduce the lease portfolio
- Catalyst for development in Urban and rural areas

IMPACT:

SUPPORT RADICAL ECONOMIC TRANSFORMATION: INFRASTRUCTURE DEVELOPMENT, JOB CREATION & ECONOMIC STIMULUS

STIMULATING ECONOMIC ACTIVITY

precinct development

DEVELOPMENT PLANNED IN PRIORITISED URBAN & RURAL PRECINCTS

METROS:

Tshwane

- Planned Development = 1,1 mil m² in bulk
- Construction Cost Estimate = **26,6 billion**

EThekweni, Johannesburg, Buffalo City & CT

- Planned Development = 217 000m²
- Construction Cost Estimates = **R10,2 billion**

URBAN:

Mbombela, Polokwane, Secunda, Vredenburg, Matlosana

- Phase 1 Planned development = 47 000m²
- Construction Cost Estimates = **R1 billion**

RURAL:

Mount Fletcher, Howick, Idutywa, Mandeni, KwaMhlanga, Chrtsiana & Carolina

- Phase I Planned development = 27 000m²
- Construction Cost Estimates = **R 500 million**

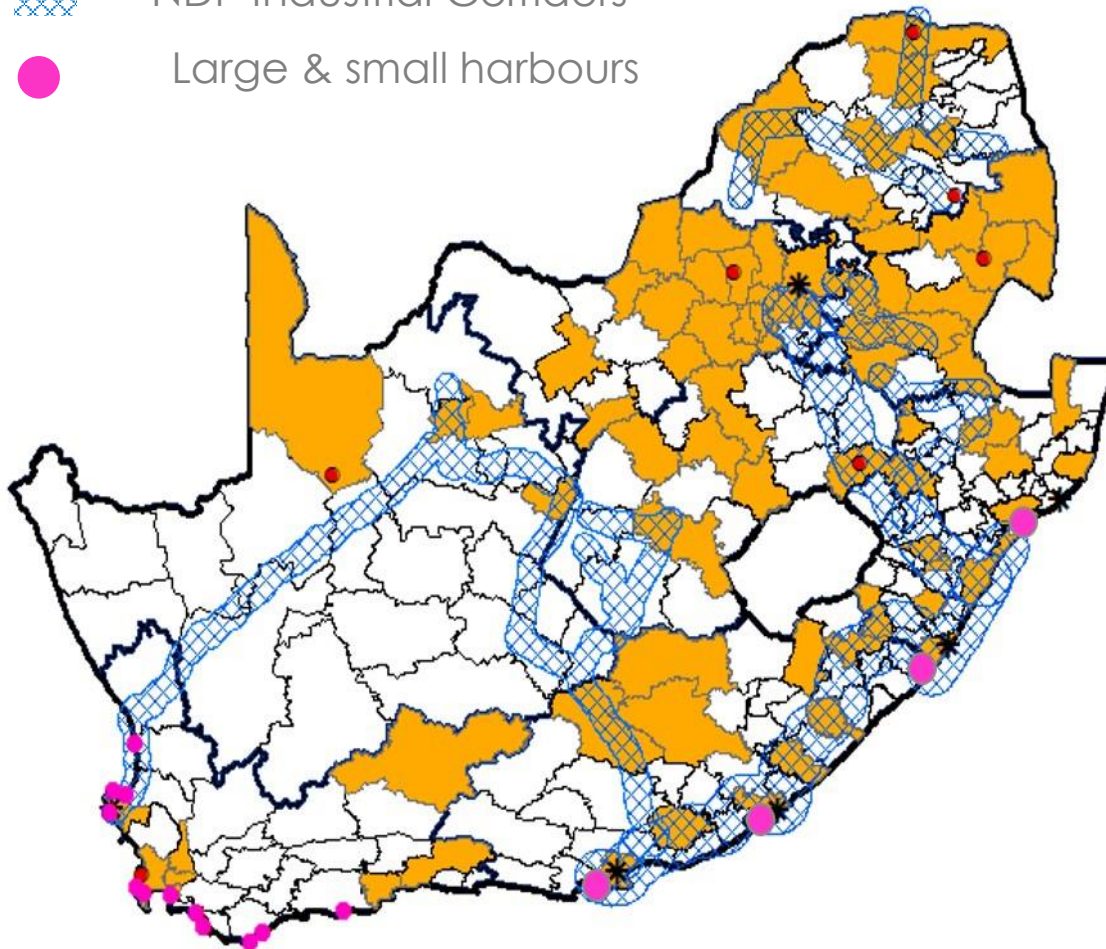


STIMULATING ECONOMIC ACTIVITY

spatial targeting

SPATIAL TARGETING TO SUPPORT INDUSTRIAL DEVELOPMENT ZONES

- Targeted municipalities
- Special Economic Zones
- Industrial Development Zones
- NDP Industrial Corridors
- Large & small harbours



The municipalities indicated in orange on the map present targeted municipalities for government precinct and economic development.

The map indicates that the targeted municipalities include all :

- Special Economic Zones
- Industrial Development Zones and
- NDP Industrial Corridors
- Large and Small Harbours

The PMTE, through its construction and SCM programmes, will support economic development through spatial targeting of industrial development zones to stimulate the manufacturing of building materials e.g. Bricks, steel, glass

STIMULATING ECONOMIC ACTIVITY

industrialisation

CONSIDERING OUR IMPACT ON THE BLACK INDUSTRIALISATION PROGRAMME

- Black Industrialists Policy/Programme constitutes a major part of Government's broad industrialization initiative for expansion of SA's industrial base and injection of a new entrepreneurial dynamism in the economy.
- Focus on Manufacturing / Industrialization / Inclusive Economic Growth.
- Given DPW's premier role in infrastructure development at a time when the private sector construction industry is in a downward cycle, there is huge opportunity for DPW to make a substantial contribution towards Radical Economic Transformation by driving economic growth and the State's Developmental Agenda:
- DPW's total Infrastructure and Maintenance budget is **R23 Billion (MTEF)**
- This illustrates the PMTE's economic impact with regards to not only purchasing & bargaining power in terms of materials, but also poverty alleviation in terms of labour spend.
- **Categories of Spend on Construction:**
 - **Labour: +/- 40% (Includes local beneficiation)**
 - **Material: +/- 60%**
- Therefore, in conjunction with other Government institutions and the private sector, DPW is in a position to provide coherent and coordinated support for the entry of black businesses into strategic and targeted industrial sectors and value chains.



public works

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SECTION E

TRANSFORMATION



TRANSFORMATION

our approach

BALANCED APPROACH

TRANSFORMATION = 2x SIDES

POLICY

PROGRAMME DEVELOPMENT

Derive value from State Assets

- State Portfolio
 - FM
 - REMS (letting)
 - CPM (BoT)

Features

- Ownership i.t.o. designated groups – black, disabled, woman etc.
- Accessible – low minimum investment outlay
- Low relative risk – government leases carry lower default risk and good diversification
- Competitive returns – market related
- Empowering emerging players
- Incorporate BEE scorecard, PMTE objectives
- Improved participation – broader base, across value chain
- Non-listing enables control over various aspects of the value chain

PROPERTY MANAGEMENT EMPOWERMENT POLICY

Policy assist to **remove obstacles to market access, address inequities in representation and participation, strengthen the initiatives introduced** by Government in dealing with Black Economic Transformation and challenge the prevailing status quo that largely supports the previously advantaged.

To this end, the policy is designed specifically to focus on uplifting and progressing black-owned enterprises in the following key intervention areas;

- Education, Skills Development and Training
- Small Business Support through Enterprise Development
- Access to Markets and Finance
- Market Development and Economic Empowerment
- Policy Development, Advocacy and Recognition
- Enforcement, Monitoring and Evaluation



EMPOWERMENT preferential procurement

- The DPW has implemented PPR 2017 (effective 01 April 2017).
- DPW published SCM Circular prescribing mandatory prequalification for quotations and tenders in accordance with specific thresholds.
- In order to achieve economic transformation and inclusive growth, the Department leverages its buying power to advance the various designated groups as per the PPR 2017.
- Tenders greater than R30 mil subjected to mandatory sub-contracting of 30% of value of the tender.
- Labour intensive construction & infrastructure tenders subjected to job creation targets (EPWP).

DESIGNATED GROUPS TARGETED BY DPW

- Exempted Micro Enterprises (EME) and Qualifying Small Business Enterprises (QSE) = **SMME's**
- An EME or QSE 51%< owned by **black people**
- An EME or QSE 51%< owned by black people who are **youth**
- An EME or QSE 51%< owned by black people who are **women**
- An EME or QSE 51%< owned by black people with **disabilities**
- An EME or QSE 51%< owned by black people living **in rural or underdeveloped areas or townships**
- A **co-operative** which is at least 51% owned by black people
- An EME or QSE which is at least 51% owned by black people who are **Military veterans**

EMPOWERMENT

DPW preferential procurement plan

THE DEPARTMENTAL PREFERENTIAL PROCUREMENT PLAN IS AS FOLLOWS:

- Targeting B-BBEE Level 1 & 2, Exempted Micro Enterprises and Qualifying Small Business Enterprises for all transactions up to R10 Million.
- Targeting B-BBEE Level 1 & 3, Exempted Micro Enterprises and Qualifying Small Business Enterprises for all transactions above R10 Million up to R30 Million.
- Targeting B-BBEE Level 1 & 4, Exempted Micro Enterprises and Qualifying Small Business Enterprises for all transactions above R30 Million up to R50 Million.
- Mandatory sub-contracting at least 30% of contract value in all transactions exceeding R30 Million for all contracts.



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SECTION F

FINANCIAL SUSTAINABILITY:
growing risk



FINANCIAL SUSTAINABILITY

funding constraints

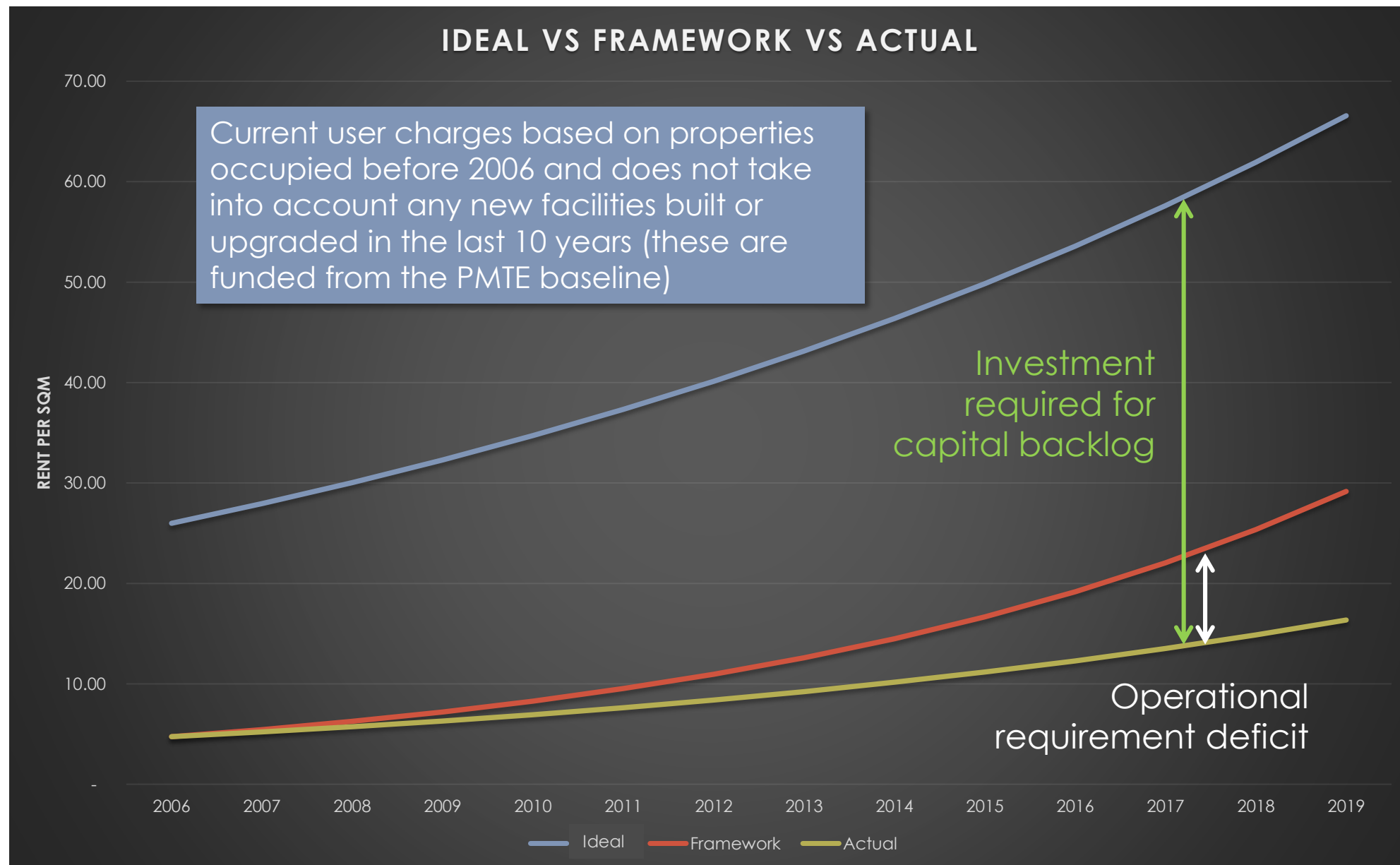
- In line with PFMA immovable asset reforms, departmental budgets residing in the DPW vote were devolved to all departments in 2006.
 - **Aim:** transparency on full costs of managing and replacing accommodation-related immovable assets and reflect it in budget of the department which utilises the assets for service delivery.
- The accommodation charges were intended to pay for property rates, maintenance and rehabilitation, and major refurbishment or replacement of existing state-owned properties.
- 2006 accommodation charges were calculated per Client per facility type. Based on the calculations, the **charges proved to be unaffordable to the fiscus**. The total amount had to fit within the baseline on DPW's budget Vote
- This led to a proportionate reduction in the rate per facility type. (E.g. an office building should have been charged at **R26/m²**, but were only charged at **R4.74/m²**)
- As part of the Devolution Framework, it was envisaged that this amount should grow by 15% year-on-year to reach a point of self-sustainability by 2017
- The actual growth was only 10% on average (5% over the last 5 years) which gave rise to a **funding gap of R3.6 billion** in the 2017/18 financial year
- This translates to a **R7.82/m² shortfall** on office buildings only



FINANCIAL SUSTAINABILITY

funding constraints

GROWING ACCOMMODATION CHARGES FUNDING GAP



FINANCIAL SUSTAINABILITY

funding constraints

IMPLICATIONS OF FUNDING GAP ON CONDITION OF PROPERTY PORTFOLIO AND PMTE BASELINE

- Upkeep of entire portfolio is not adequately funded in User Departments' baselines which resulted in significant repair and refurbishment backlog which led to deterioration of the condition of portfolio
- The financial impact of addressing the condition of our portfolio to an acceptable level to operate a sustainable business will be significant to the PMTE

EXAMPLE

- Based on Top 15 strategic properties, estimated accommodation charges required to implement a desired / sustainable FM strategy far exceeds funding currently available
- 17/18 ENE accommodation charges allocation for total portfolio is only **R4.5 billion**
- If the desired FM strategy for the top 15 is implemented, a **capital injection** of **R0.65 billion** would be required immediately – this excludes operating costs (rates / maintenance etc.)
- The capital injection will uplift the condition of the facilities
- Upliftment of the portfolio is also a prerequisite for revenue generation through increased user charges

FINANCIAL SUSTAINABILITY

example

TOP 15 (TFM Approach)

Objective of the Top 15 Programme is to Pilot the Facilities Management Delivery Model with Core Elements of FM - to eventually be rolled-out for entire portfolio focusing on:

- Electrical
- Primary
- Mechanical
- The prioritisation process is based on the extent of resource consumption (energy and water), strategic nature of the accommodation, capital investment since 2009, type of accommodation (Security Cluster, national museums and archives, priority facilities of the DOL, and prestige facilities in Pretoria).
- Conditions Assessment
- Development of Planned Maintenance Strategy (Capital refurbishment throughout the life cycle of the components)
- Management of OHS Act compliance
- Implementation of Total Facilities Management (TFM) on prioritized facilities

FINANCIAL SUSTAINABILITY

top 15 case study

| FACILITIES NAME | SQUARE METERS | ESTIMATED COST FOR BACKLOG MAINTENANCE | PRIMARY ELEMENTS. | MECHANICAL INSTALLATIONS. | ELECTRICAL INSTALLATIONS. |
|--------------------------------------|---------------|--|-------------------|---------------------------|---------------------------|
| TELKOM TOWERS | 214130.1 | R 232 567 685.42 | R 81 583 985.00 | R 58 240 376.20 | R 75 552 049.22 |
| AGRIVAAL | 65378.33 | R 2 771 090.00 | R 2 143 650.00 | R 526 690.00 | R 100 750.00 |
| CIVITAS | 110942 | R 11 144 554.75 | R 3 913 877.25 | R 5 341 000.00 | R 1 889 677.50 |
| CGO | 53379 | R 6 883 841.90 | R 2 129 463.90 | R 4 281 000.00 | R 473 378.00 |
| 1 MILITARY HOSPITAL | 71195 | R 58 329 364.50 | R 5 469 770.00 | R 51 760 094.50 | R 1 099 500.00 |
| LABORIA | 24927 | R 17 987 869.60 | R 15 212 769.60 | R 1 363 500.00 | R 1 411 600.00 |
| ARCADIA FORENSICS | 8017 | R 6 687 380.00 | R 2 776 100.00 | R 1 005 500.00 | R 2 905 780.00 |
| SILVERTON FORENSICS | 13435 | R 15 451 910.00 | R 11 732 330.00 | R 1 592 000.00 | R 2 127 580.00 |
| DEQUAR HEAD QUARTERS | 71664 | R 91 016 322.00 | R 59 312 922.00 | R 11 673 200.00 | R 20 030 200.00 |
| DEPARTMENT OF HOME AFFAIRS. | 46267 | R 174 529 960.00 | R 48 940 960.00 | R 23 332 000.00 | R 102 257 000.00 |
| DEPARTMENT OF SCIENCE AND TECHNOLOGY | 18125 | R 4 345 410.00 | R 3 996 010.00 | R - | R 349 400.00 |
| DEPARTMENT OF LAND AFFAIRS. | 23893 | R 7 238 520.00 | R 7 238 520.00 | R - | R - |
| PRETORIA NORTH HIGH COURT | 8130 | R 17 723 415.00 | R 4 571 165.00 | R 11 072 500.00 | R 2 079 750.00 |
| TOTAL. | 730898.43 | R 646 677 323.17 | R 249 021 522.75 | R 170 187 860.70 | R 210 276 664.72 |

* 2 additional facilities in progress

OPERATIONALISATION

strategic reprioritisation

Programme **Management Meeting with National Treasury on 27 June 2017** resolved that continuous engagement is required to address PMTE financial sustainability challenges.

Attended **MTEC Industrial Development and Trade Technical Group on 4 August 2017**. Presented on strategic reprioritisation areas to “invest” in PMTE as social-economic activity enabler and cost saving/revenue generating organisation. Focus:

1. Implementation of reasonable user-charges to address historical shortfall by:

- considering reprioritisation within Client-Department baselines for accommodation
- considering reprioritisation of wider fiscal priorities (Consider impact on Government)
- reconsidering PPP approach versus immediate capital investment

2. Reprioritise from goods & services for compensation for the short to medium term

- Revise employment regime to address vacancy levels on technical skills and limitations of “streamlined” structure.

3. Exit strategies / renegotiation of costly lease-in contracts to intensify spending on:

- Infrastructure Development, refurbishment and rehabilitation
- Capital and operational backlog: Improved condition enables potential private sector involvement and transaction to generate additional revenue to reduce reliance on fiscus and contribute towards sustainability
- Strategic & Policy initiatives to stimulate Socio-Economic activity.



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SECTION G

Recommendations



RECOMMENDATIONS

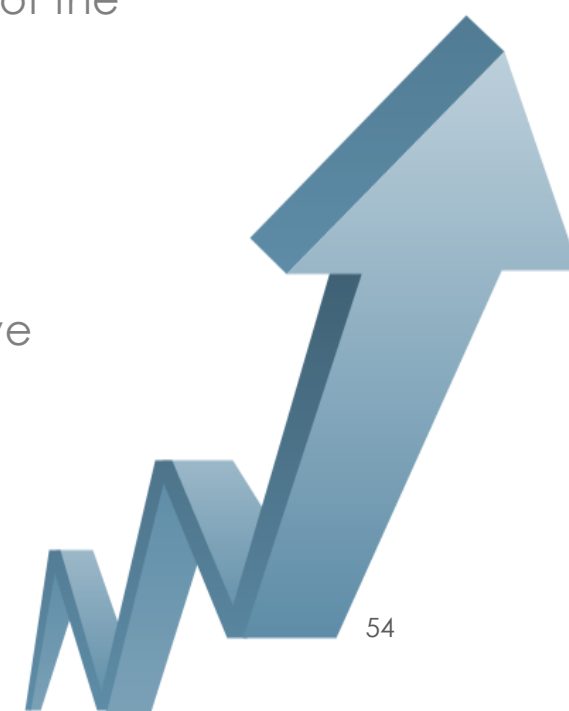
response to tight fiscal space

ACKNOWLEDGING OUR OBLIGATION TO:

- focus on financial sustainability
 - creative cost cutting measures/ cost recovery initiatives
 - exploration of revenue generating initiatives on back of extensive portfolio appropriately segmented
 - develop a financial sustainability model for the PMTE
- devise strategies to minimise reliance on the fiscus

WE RECOMMEND THAT Portfolio Committee:

- supports PMTE's position as enabler of socio-economic activity as the custodian of the State's portfolio.
- notes efficiency enhancement initiatives of PMTE to reduce cost of providing accommodation and to stimulate revenue generation.
- notes the need for reasonable user-charges to cover total operational costs – maintenance / rates / custodian service fee / capital planning
- endorses Government's investment in the PMTE as vehicle that stimulates inclusive growth.



End

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THANK YOU



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