



PMTE



PROPERTY MANAGEMENT TRADING ENTITY Implementation of GIAMA & Effecting Government Priorities



public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

HEAD PMTE – Mr Jacob Maroga
Portfolio Committee: Public Works and Infrastructure
21 August 2019



public works

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Public Works
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

public sector led infrastructure development



THE ASPIRATION OF THE UNION



CONSIDERING OUR IMPACT ON SERVICE DELIVERY

The DPWI manages assets on behalf of the people. These assets serve as physical spaces for their primary interactions with Government. The way in which these “spaces” are experienced therefore profoundly impacts their view of the State and its ability to serve its citizens.

DPWI

Must enable National Government to deliver services through the provision of convenient and accessible accommodation



| National DPWI (PMTE) | | Provincial Departments | Municipalities | Other (SoE's, Entities etc.) |
|----------------------|------------|------------------------|----------------|------------------------------|
| SAPS | DHA | Health | Metropolitan | Transnet |
| Defence | Arts & Cul | Education | Local | ACSA |
| Justice | DSD | Housing | District | Sanral |
| DCS | DoL etc. | Major Infrastructure | | |



SECTION A

REVISITING THE INTENTION

Addressing the State's Property Management Challenge





1. THE STATE'S INTENTION State Property Agency

- The **1997 DPWI White Paper: Towards the 21st century** encapsulated the State's Property Challenges and recommended various interventions with respect to:
 - Property Investment Management
 - Property & Facilities Management
 - Construction Project Management
- **In May 1999, Cabinet approved, in principle, the creation of a State Property Agency (SPA) to effectively manage the State's immovable assets based on these recommendations**





2. REVISITING THE STATE'S PROPERTY CHALLENGE DPWI white paper 1997

PROPERTY INVESTMENT PROBLEM STATEMENT included:

- **Lack of uniform guidelines for property investment decisions**
- Fragmentation of the state's portfolio
- **Size and diversity of the portfolio**
- Inefficiencies in the public works portfolio
- Absence of an integrated management information system
- Lack of appropriate skills
- Lack of accountability by client departments

PROPERTY INVESTMENT POLICY INTERVENTIONS included:

- Establishing a **management information system and asset register**
- Gradual devolution of responsibilities to the client
- Establishing a **property investment policy** for the entire government
- Innovation and best practice





2. REVISITING THE STATE'S PROPERTY CHALLENGE DPWI white paper 1997

PROPERTY & FACILITIES MANAGEMENT PROBLEM STATEMENT included:

- Inappropriate organisational structure
- **Lack of skilled property professionals**
- **Incomplete/inaccurate inventory of assets**
- Disaggregated/disjointed management information systems
- Absence of performance measurement
- Client dissatisfaction
- **Lack of client accountability as accommodation costs included in the DPWI vote**
- Maintenance backlog
- Inefficient management of leaseholds



PROPERTY & FACILITIES MANAGEMENT POLICY INTERVENTIONS included:

- **Restructuring the property and facilities management** division to ensure client accommodation needs are met in an effective, efficient and cost effective manner
- Define roles and responsibilities between head office and the regions
- Obtain and operationalise information management systems
- Addressing the maintenance backlog



2. REVISITING THE STATE'S PROPERTY CHALLENGE DPWI white paper 1997

PROJECT MANAGEMENT PROBLEM STATEMENT included:

- **Lack of responsibility throughout the project cycle**
- **Slow project execution**
- Inability to innovate in key project areas including design specification and procurement options
- **Inadequate quality assurance**
- Inappropriate management information systems
- Large numbers of projects with different levels of complexity and geographically dispersed

PROJECT MANAGEMENT POLICY INTERVENTIONS included:

- **Engaging the construction industry over best practice codes**
- Improved inter-governmental relations
- Good practice benchmarks
- Practice guidelines
- Organisational transformation
- **Enhancing project management**

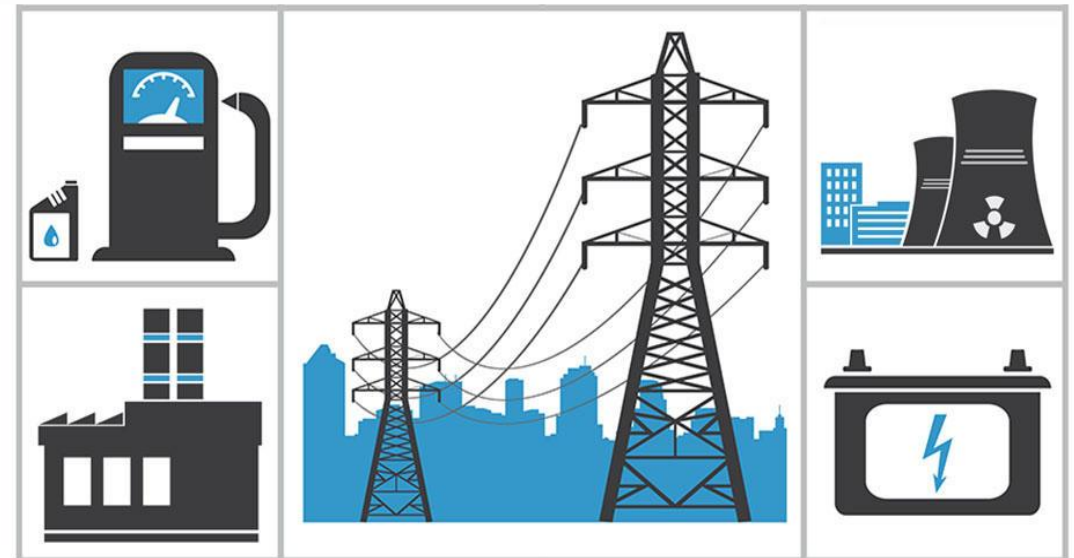




3. GENERAL CHALLENGES public infrastructure in SA

GENERAL ISSUES AFFECTING GOVERNMENT INFRASTRUCTURE

- Inadequate funding due to low tariffs
- Tariffs do not adequately make provision for capital
- Tariffs do not adequately make provision for maintenance
- Lack of proper controls for adequate infrastructure investment
- Lack of proper asset information to adequately manage portfolios
- In SA context - Infrastructure not developed to services all citizens (pre/post 94)



Examples:

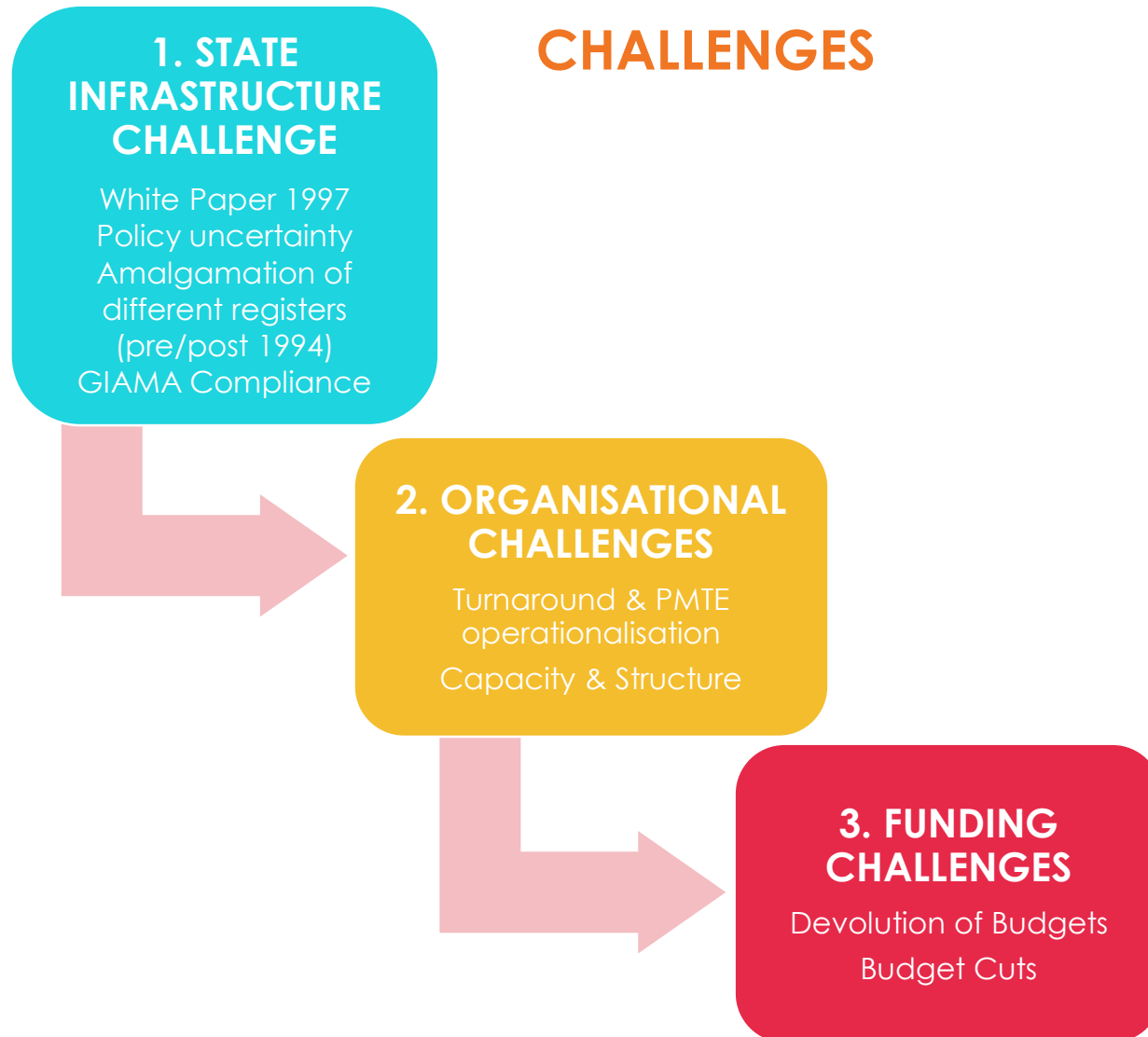
In their **2017 Infrastructure Report Card For South Africa**, the South African Institution of Civil Engineering (SAICE) has awarded South Africa's public infrastructure an **overall grade of D+**

A = World-class, B = Fit For The Future, C = Satisfactory For Now, D = At Risk Of Failure, and E = Unfit for purpose.

Above can be overlaid on the PMTE portfolio



4. PROBLEM STATEMENT the State's property challenge



How do we marry where we currently are with planning for the future?

The journey towards where we need to go, must first consider and recognise where we currently are.





5. STAKEHOLDER EXPECTATION

State property management

CABINET

- **Ring-fenced and focused service delivery agency** with responsive administrative and operational arrangements to:
 - Optimize the State's Property Business
 - Expedite / enhance service delivery
 - Introducing "**new money**" to become less reliant on the fiscus
 - Bring savings to the State
 - Address Spatial Imbalances of the pre-1994 (small & rural towns / harbours / provision of land => human settlement & land reform)
- Professionalizing the State by attracting and retaining **technical property skills** through competitive / market related rates
- Direct accountability

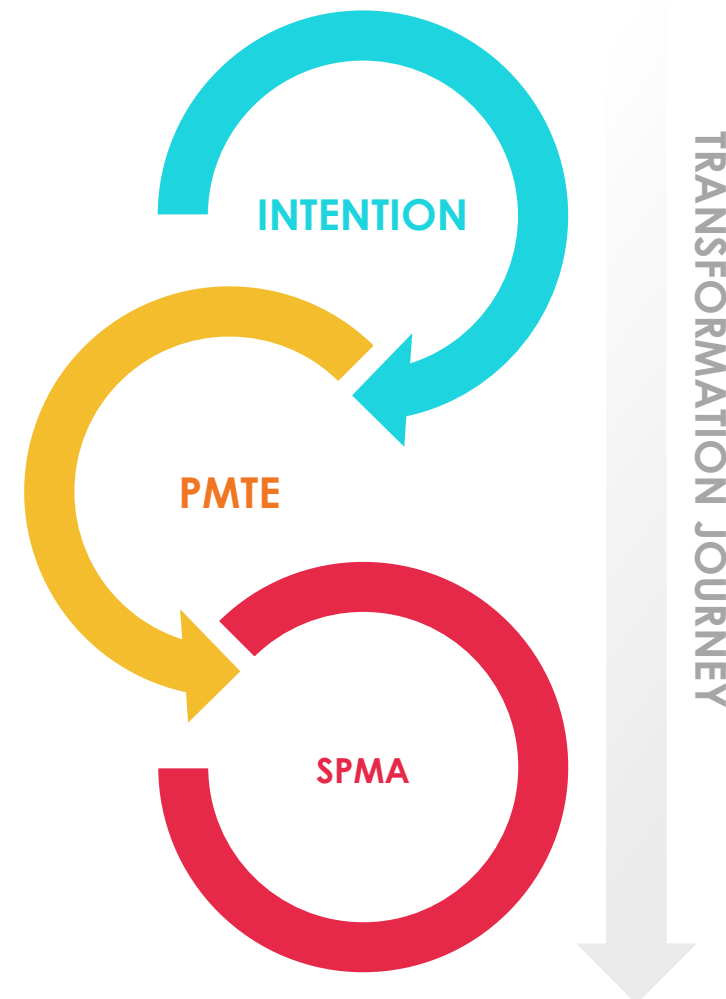
NATIONAL TREASURY

- **Full cost recovery based business** and funding model
- **Financial sustainability** in the medium to long term.
- Ring-fence Property Business to **separate DPWI as the regulator from PMTE as the implementer.**
- Application of **business-like principles** of efficiency in the acquisition, usage and disposal of government immovable assets



6. NATIONAL TREASURY interim solution / mechanism

- A joint NT / DPSA Technical Committee was engaged from **May 2002** and recommended a **trading entity** as an **interim mechanism** towards the end-state (SPA)
- In **2006** the establishment of the PMTE was approved by National Treasury as an **Interim Mechanism** (Trading Account) in response to:
 - a) **State Public Finance Management reforms** including the passing of the **PFMA** in 1999
 - b) The **Devolution of Budgets** and accommodation charges 2006
 - c) The subsequent passing of **GIAMA** in 2007





7. 2006 DEVOLUTION of budgets

Devolution of Budgets and Introduction of Accommodation Charges

- In line with PFMA immovable asset reforms, departmental budgets residing in the Public Works vote were devolved to client departments in 2006.
- DPWI prepared a framework for the devolution of accommodation related charges and **created the trading account** to use the accommodation related charge income to manage, maintain and replace state-owned properties, and to pay leases, where any **surplus accrued on the trading account would be used to build up capital** which may in time be used to finance (or partially finance) the acquisition of additional properties.





Government Immovable Asset Management Act (GIAMA)

- provide a uniform immovable asset management framework to promote accountability and transparency within government;
- ensure effective immovable asset management within government;
- ensure coordination of the use of immovable assets with service delivery objectives of a national or provincial department and the efficient utilisation of immovable assets;
- **optimise the cost of service delivery** by:
 - ensuring accountability for capital and recurrent works;
 - the acquisition, reuse and disposal of an immovable asset;
 - the maintenance of existing immovable assets;
 - protecting the environment and the cultural and historic heritage; and
 - improving health and safety in the working environment.

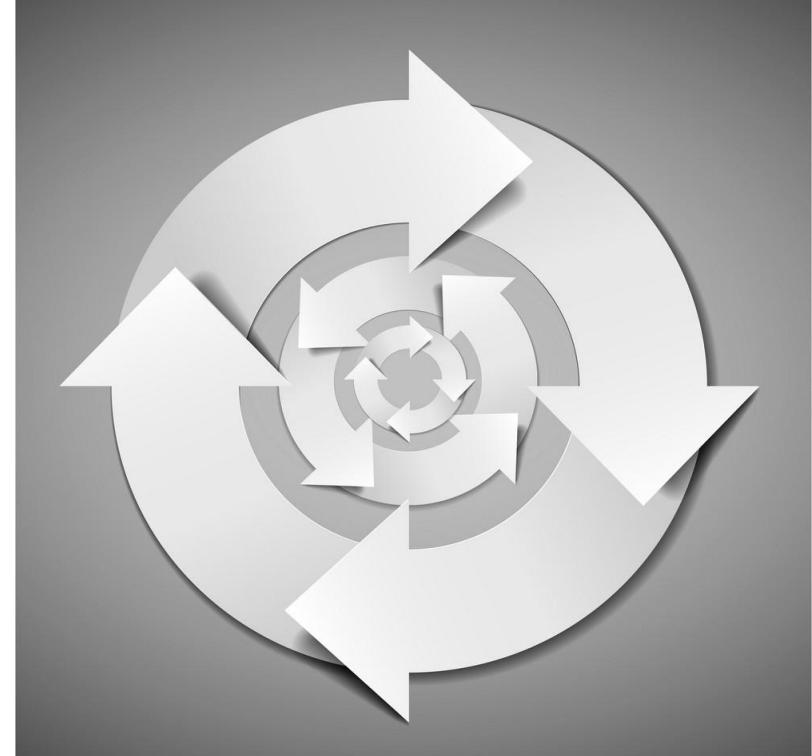




SALIENT POINTS

- The **Minister of DPWI was appointed as custodian of immovable assets** which vest in the national sphere of government. The Minister acts as the caretaker of immovable assets and is given the powers to acquire, manage or dispose of these assets.
- GIAMA regulates immovable asset management by means of **contractual relationships between the custodian and national user departments.**
- The custodian is required to annually prepare a custodian immovable asset management plan (C-AMP).
- The user department is required to annually prepare a user immovable asset management plan (U-AMP).
- **The preparation of asset management plans represents the backbone of the immovable asset planning and budgeting process.**
- The **implementation of GIAMA has proven to be difficult** particularly the development and budgeting of credible asset management planning on an annual basis .





SECTION B

TURNAROUND 2012

Improving State Property Management





1. SEVEN YEAR PLAN

Improving State Property Management

TIMELINE

- Since the 2006 approval, the **full operationalisation of the PMTE didn't happen** and existed as Trading Account only – implications.
- In response to various challenges faced by the Department, the Minister launched the **Seven Year Business Improvement Plan in 2012** aimed at:
 - Addressing Fraud & Corruption / Mal Administration
 - Improving Business & Operationalise the PMTE
- To address the original Cabinet Directive to strengthening the ability of the State to manage its property portfolio in an efficient, effective and economic manner, a **property management improvement programme** was designed and made the responsibility of a capacitated PMTE and included:
 - Full Operationalisation of PMTE in line with 2006 approval
 - Establishment of state property management vehicle
 - Lease review and business improvement process
 - Re-building a complete and credible immovable asset register



public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

2. THE NEED FOR TURNAROUND Departmental Challenges

| BRIEFING NOTE (2012) FOCUS AREAS | STATUS |
|--|---|
| Unstable strategic direction - high turnover of political and executive leadership | Improved |
| Need to apply business-like principles of efficiency | Cabinet approval of SPMA Business Case |
| Underspending of budgets ascribed to inefficiencies in the DPW | Turnaround interventions underway |
| Failure to develop capacity required to efficiently manage its large real property portfolio | Reorganisation of PMTE structure to respond to business needs (CoE budget constraints) |
| Declining capacity due to turnover of professionals | Establishment of Professional Services Branch working closely with CBE and Professional Councils |
| Incomplete asset register | GRAP compliant IAR complete (componentisation next phase) |
| High levels of Corruption and Fraud | Established GRC branch and SIU proclamations |
| Opacity of budget – no transparency | Separate PMTE and DPW budget structures 2014/15 |
| Exorbitant leases | SCM dispensation for lease with OCPO, process of renegotiation underway |
| Late submission and erroneous reconciliation of invoices | Substantially dealt, but dealing with legacy challenges as evident with high debtors and bank overdraft |
| Outstanding debt owed to municipalities | Continual Intergovernmental intervention necessary |
| Implement consistent or stable direction taking cognisance of government's desired long-term property management arrangements | Cabinet approval of SPMA Business Case in line with original 1999 Cabinet intention |

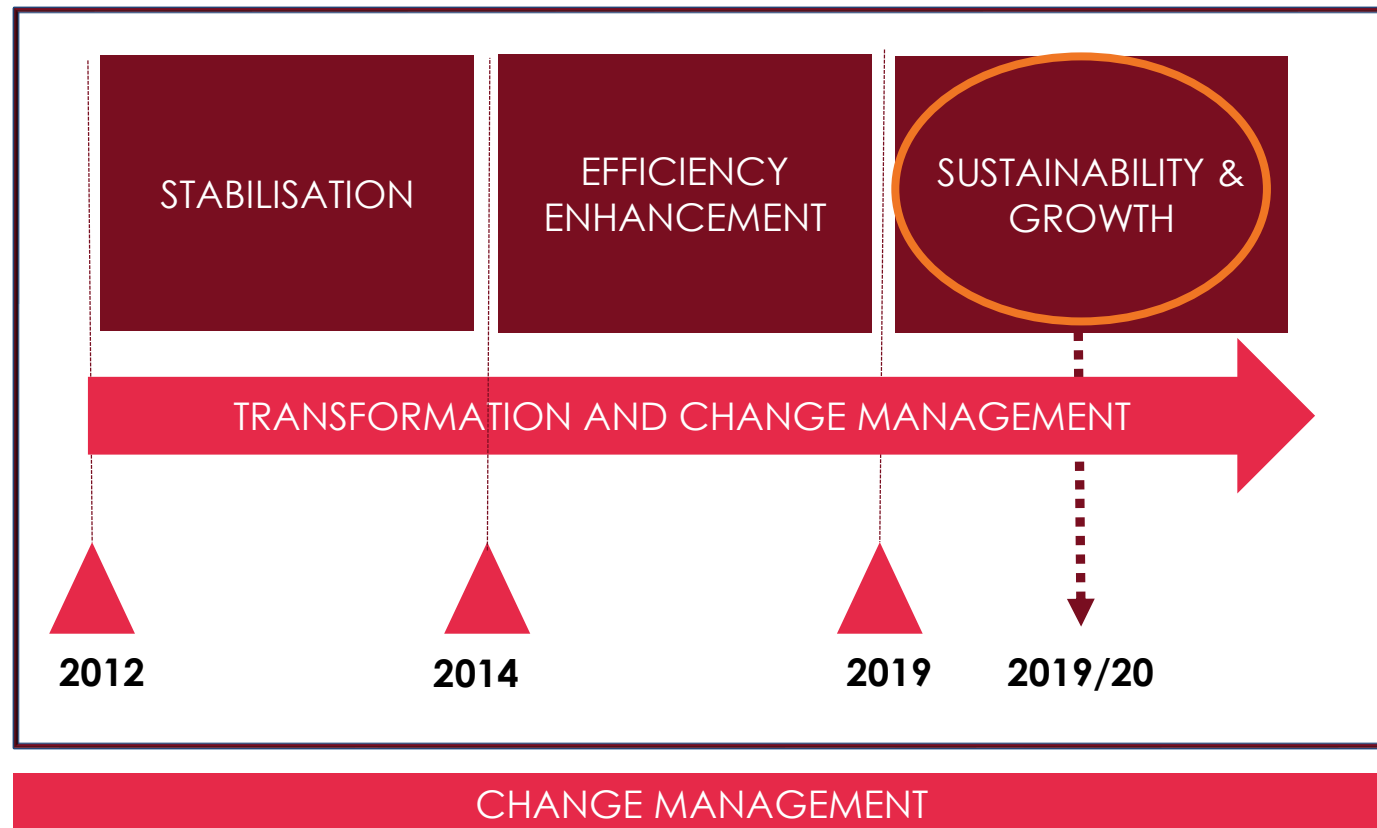


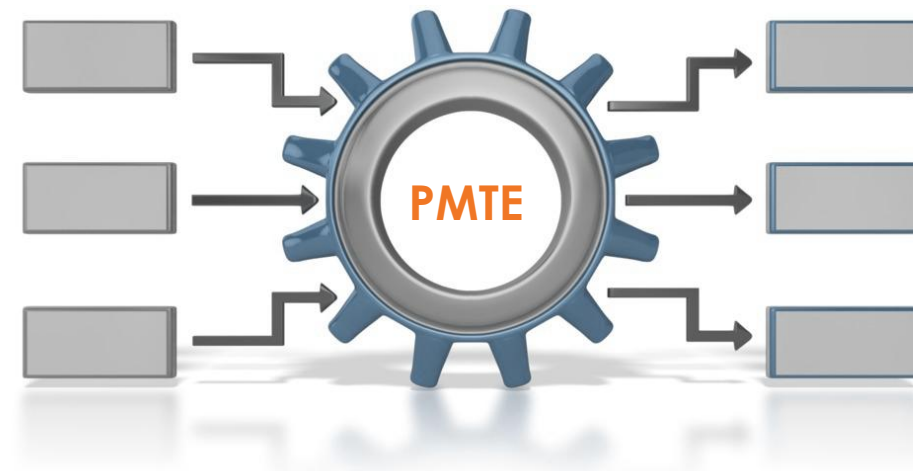
3. PMTE in the context of DPW recovery



TURNAROUND STRATEGY

Stabilisation of DPW due to historical poor performance and lack of adequate management and financial controls





SECTION C

WHAT IS THE PMTE?

trading entity & operating model





1. STAKEHOLDER EXPECTATION state property management

Operationalisation = 2x SIDES

Regulatory Compliance (Interim Mechanism)

- **NT 2006 Conditions** for establishing the entity
- **NT Regulation 19** compliance
- **NT expectations** for full operationalisation
- **DPSA** resources (PSR / PSA)

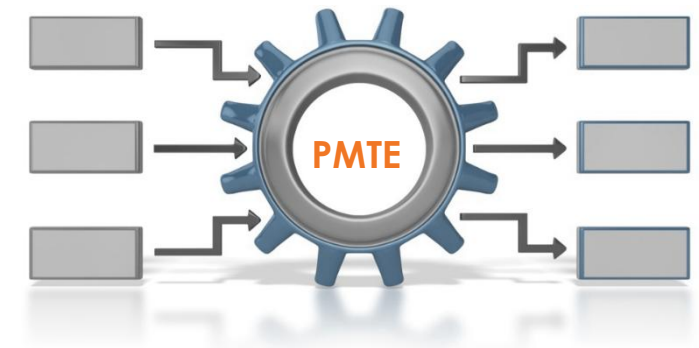
Substantive form of the entity (End-State)

- **Vision:** What are we trying to achieve?
- **Stakeholder Expectations:**
 - Public (Service Delivery)
 - Client Departments
 - Portfolio Committee
 - Cabinet
 - Employees
- **Institutional Relationship** with DPWI
 - Performance compacts
 - Reporting
 - Governance
- **Business**
 - Form
 - Model
 - Skills



2. PMTE what is a trading entity?

- A Trading Entity is a ring-fenced operation, with a separate trading account, within the administration of a Department (NT Reg. 19)
- A Trading Entity is premised on the idea of running on a **financially sustainable basis to lesson fiscal reliance**.



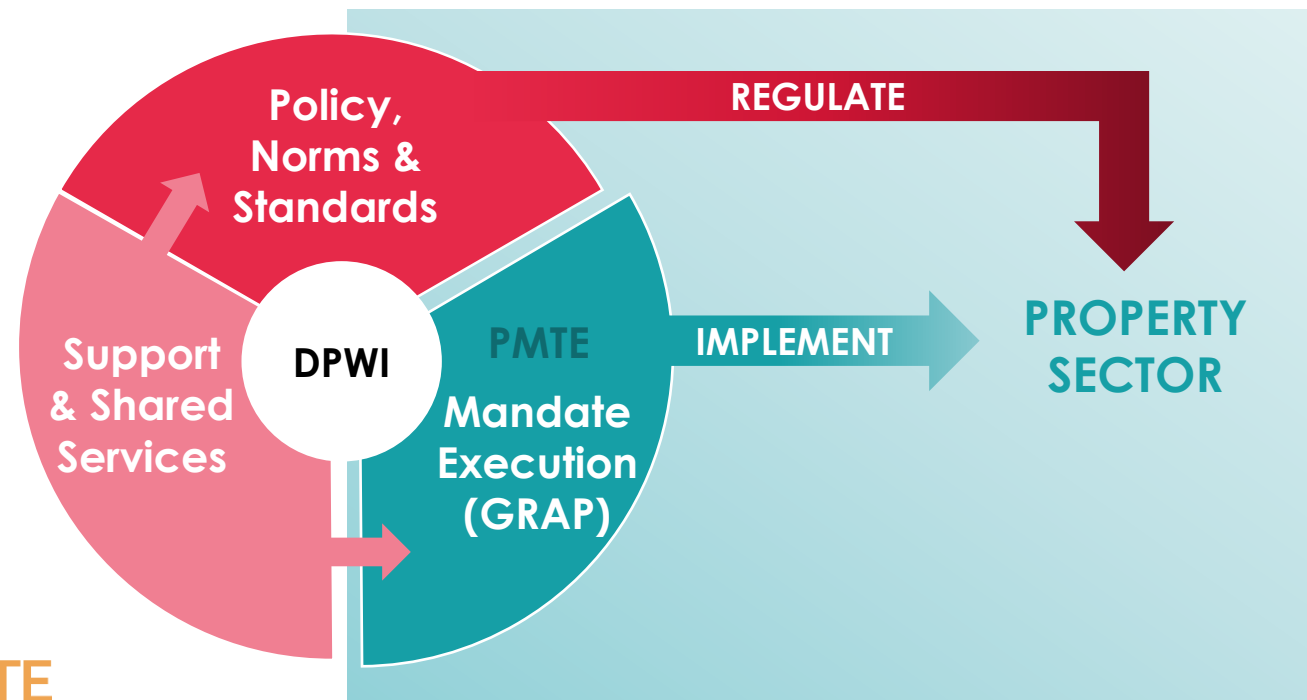
BUSINESS PRINCIPLES:

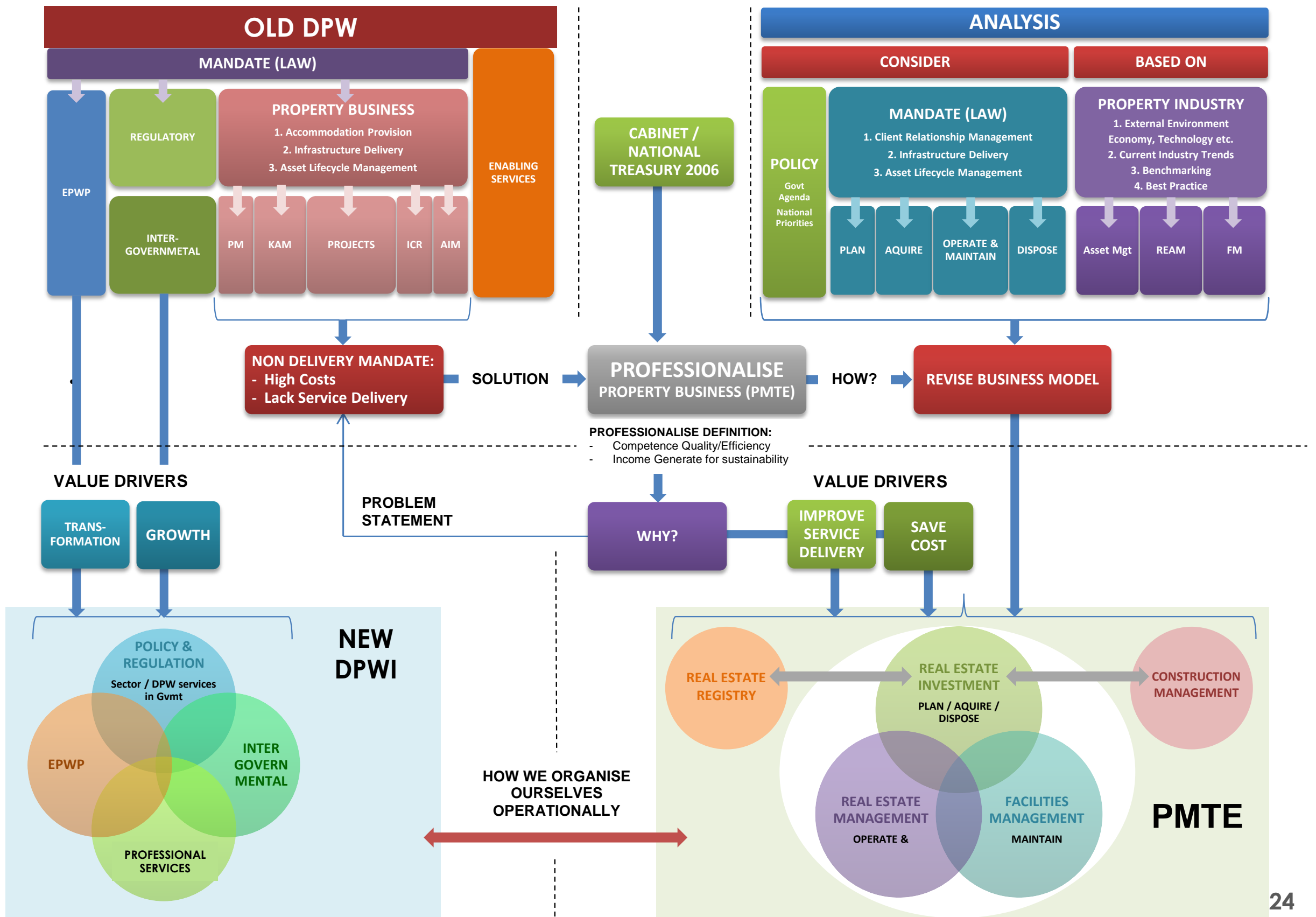
- **Full Cost recovery:** PMTE must function on business-like principles, in line with NT Reg 19, and provide services on “ full-cost recovery basis”
- **User Charge:** The PMTE must charge departments for renting state owned accommodation and recover all costs (rates & taxes; maintenance; refurbishments; capital for new acquisition)
- **Management fee:** PMTE must charge 5% management fee (includes the management of private leases)
- **Itemized Billing** for accommodation must be introduced (Exemption granted)
- **Overdraft:** PMTE must demonstrate credible, efficient & effective plan to eliminate the overdraft.
- **Financial sustainability:** Charge market rates for use of property & **Leverage portfolio for revenue generation**
- **Private Sector Partnerships:** **Optimising the portfolio to generate additional revenue**



3. WHAT IS THE PMTE? PMTE and the DPWI Main Vote

- **The PMTE is a grouping of key operations within DPWI** focussed on delivering the DPWI core mandate:
The provision of accommodation and rendering of infrastructure development services to User Departments at National Government level; as well as the planning, acquisition, management and disposal of National Immovable Assets.
- Separation DPWI's Mandate Execution Responsibility from its Policy Setting Role in same space it regulates
- Different legislative requirements in management and accounting for operations (Cash vs. GRAP)
- **Therefore separate Programme Budget Structures, Strategic Plans and APPs**
- PMTE has been established as a **ring-fenced operation within the administration** of the Department (PFMA Reg.19) and not a separate entity outside the Department.



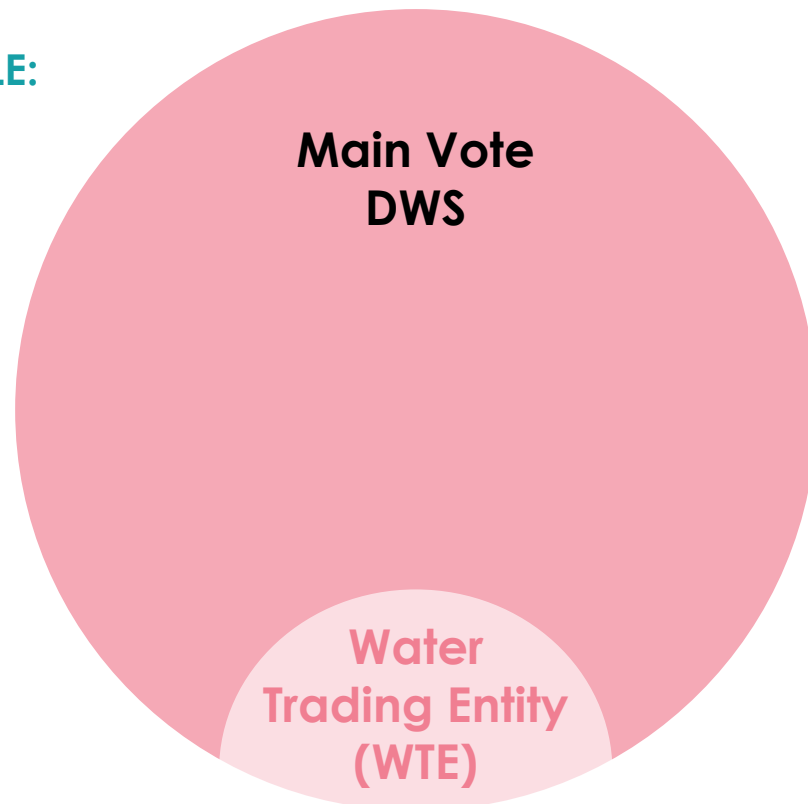




3. PMTE scale of the operation

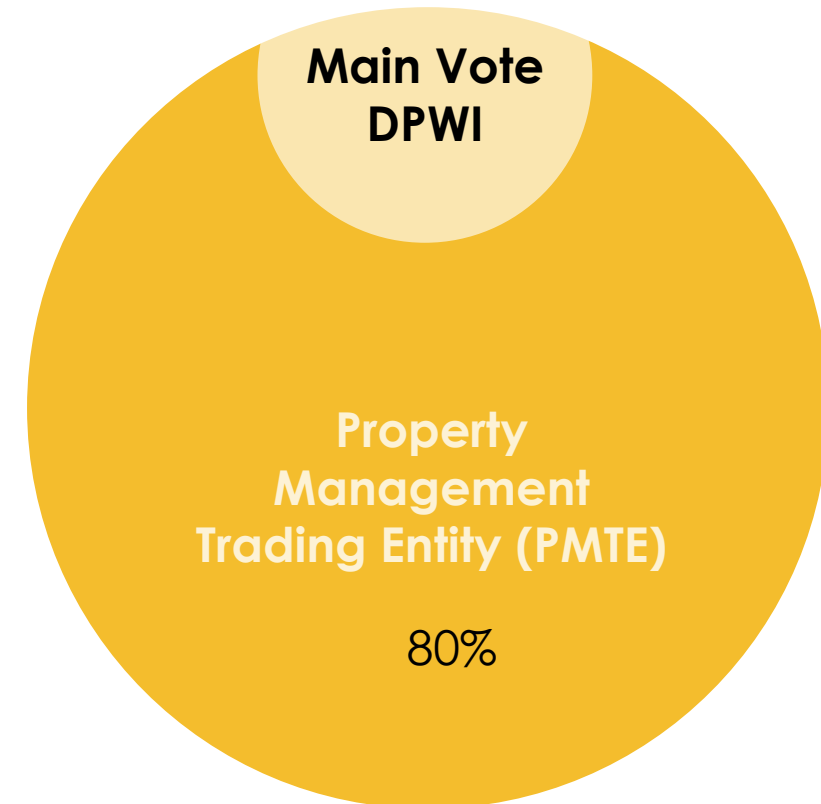
- A Trading Entities is ideally a ring-fenced operation, with a separate trading account, within a Department, premised on the idea of running on a **financially sustainable basis to lesson fiscal reliance**.
- PMTE is effectively the **custodian of the majority operation of DPWI**, reporting through the lesser Main Vote **(An industrial scale operation, managed through a Department)**

EXAMPLE:



Department of Water & Sanitation

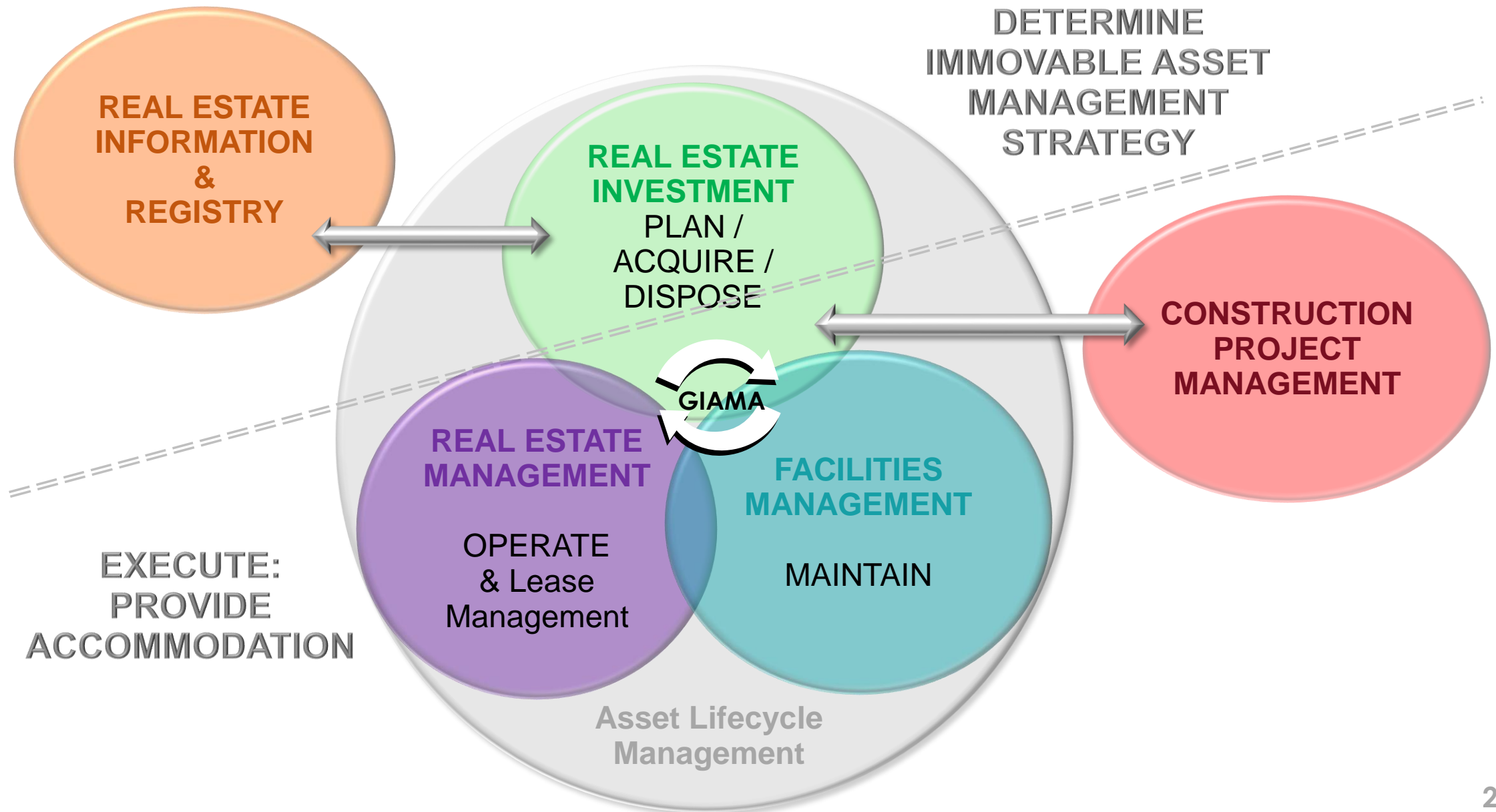
VS.



Department of Public Works

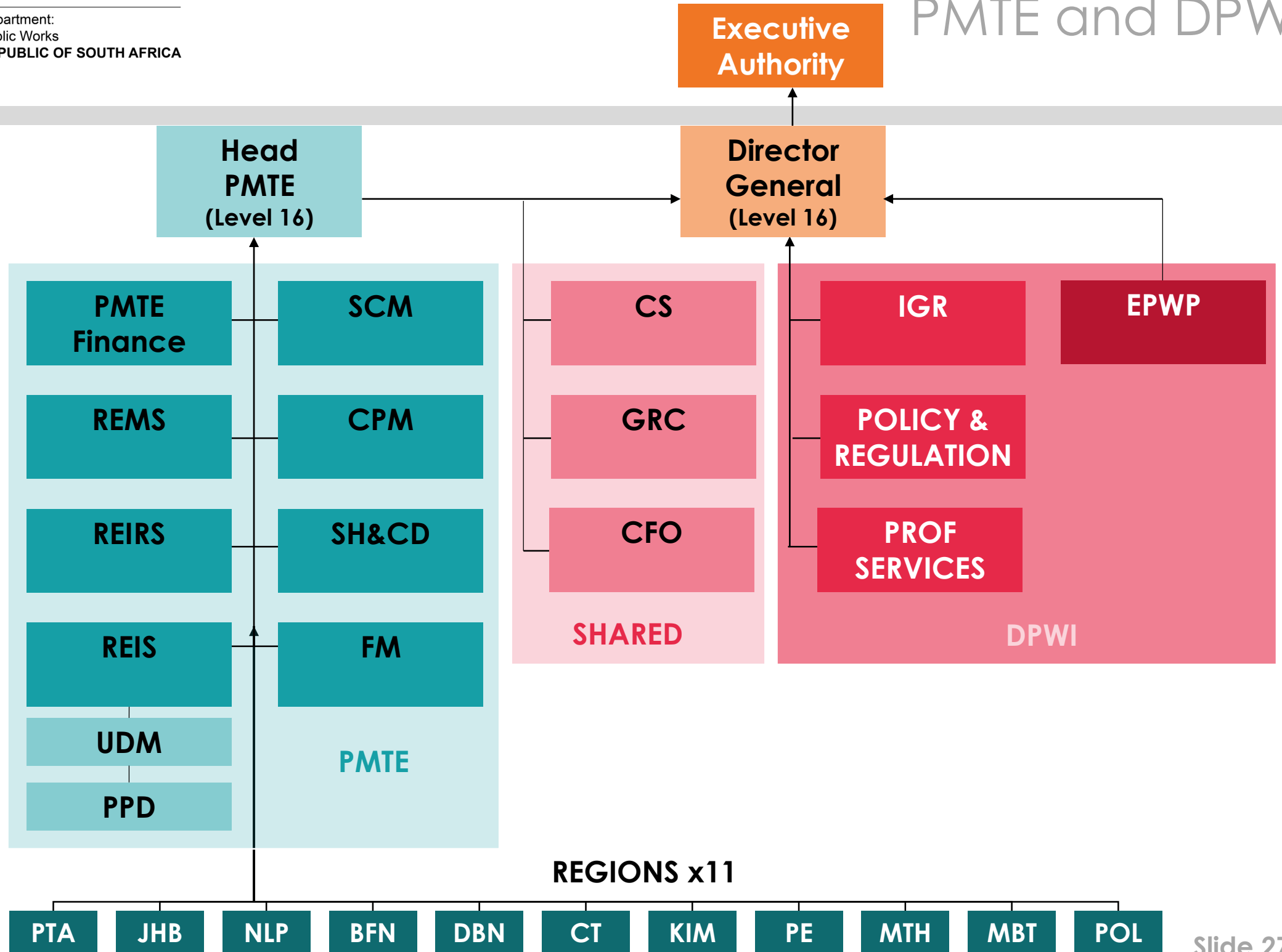


5. PMTE operating model





6. CURRENT MACRO ORGANISATION PMTE and DPWI





7. DPWI REGIONS implementing the core mandate

- Regions are National DPWI's **“Implementing Arms”** spread across the country
- Regions therefore constitutes the majority operation of the PMTE.
- One (1) Regional Office per province, except for the **Eastern Cape** and **Gauteng** with two (2) each.
- Regions are National DPWI **“Asset Managers”** responsible for:
 - Managing the provision of accommodation to National Users within those regions
 - Sound management of National Immovable Assets that fall within those regions
- Regions are not responsible for the management accommodation for clients and/or assets that fall within the responsibility of other spheres of Government **eg. Roads, Clinics, Schools, etc.**
- Regional functions - *property management, construction project management, facilities management etc.* are **accounted for by respective Divisional Heads** at national level, but are **strategically managed and supported by the Regional Manager.**
- Regional Managers therefore facilitate the integration and coordination of activities of various functions within the Region for the effective and efficient implementation of the Departmental strategic plan.



8. PMTE PROGRESS state of compliance

In line with original approval, the PMTE needs to fully comply with NT 2006 conditions to become **“fully fledged” trading entity**. Below is the PMTE’s current position in terms of meeting these conditions.

| <i>Conditions in terms of NT approval</i> | |
|---|---|
| 1. The Trading Entity must operate a set of accounts (separate from the DPW accounts) with its own Paymaster General’s bank account. | <p>Achieved</p> <ul style="list-style-type: none"> • PMTE accounts separately from the main account (2006). • Transacts from a separate PMG bank account • Separate budget since 2006 • New programme budget structure implemented 2015/16 |
| 2. Financial control measures/issues must be in place. | <p>Achieved</p> <ul style="list-style-type: none"> • Financial policies in place • Financial delegations in place • Internal Control Directorate established |
| 3. The AO of DPW must formulate a policy and reporting framework for the Trading Account including quarterly reporting and monthly management systems to track both commitments and cash. | <p>Achieved</p> <ul style="list-style-type: none"> • PMTE adopted GRAP reporting 2013/14 financial year. • Policy and reporting framework in place (PMTE MANCO, etc.) • Reporting monthly to EXCO |



8. PMTE PROGRESS state of compliance

| Conditions in terms of NT approval | |
|---|--|
| 4. All people and institutional arrangements must be put in place. | Achieved <ul style="list-style-type: none">• PMTE functions identified• Organisational Structure concurred by NT and DPSA, and approved by EA• Separate PERSAL system implemented• Staff migrated to new structure• Critical vacant positions identified• Filling of positions ongoing |
| 5. Delegations must be operational, specifying the responsibility for each of the departmental key account managers. | Achieved <ul style="list-style-type: none">• Delegations framework for the PMTE has been finalised and approved. |
| 6. During the first year of operation of the trading entity, DPW must seek approval from NT to establish a “full-fledged” Trading Entity. | Engagements with NT is at an advanced stage |



SECTION D

END STATE

where are we heading?





CABINET APPROVAL

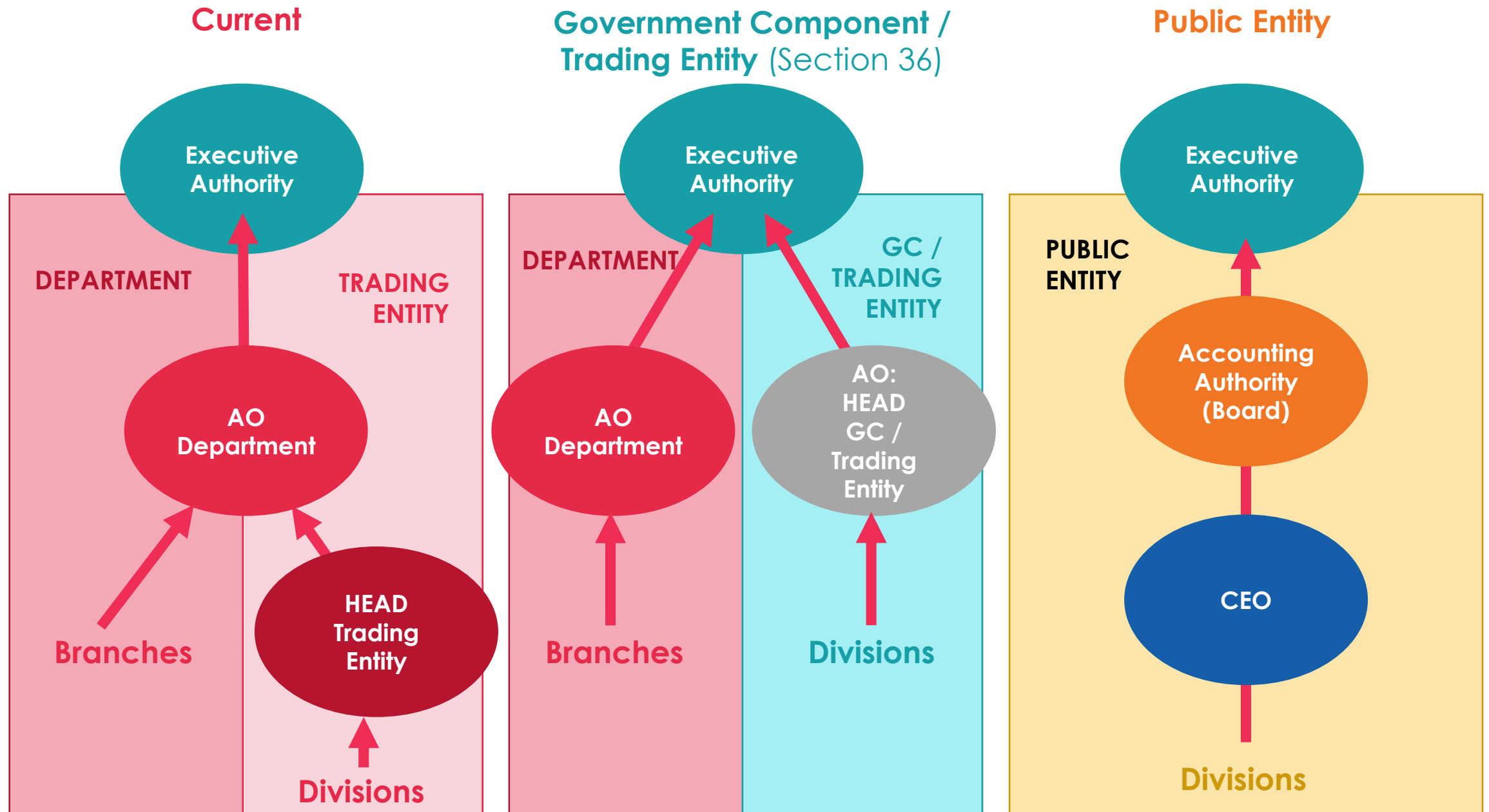
- In **2014, Cabinet approved** the Business Case for the PMTE and the Feasibility Study for the establishment of a Government Component as the eventual institutional form
- Commenting on the Feasibility Study, the **Minister of DPSA** recommended that:

*The name of PMTE change to “**State Property Management Agency**” once established as a Government Component as it is not advisable to reflect the financial management model (a trading entity) in the name of the entity and more importantly, identifying the State as the main recipient of services in the title.*

- In **2015** Cabinet endorsed progress on operationalisation of PMTE
- In **2017 & 2018** Cabinet reiterated the need for an autonomous **State Property Agency**



2. GOVERNANCE OPTIONS accountability & line of sight



3. END-STATE

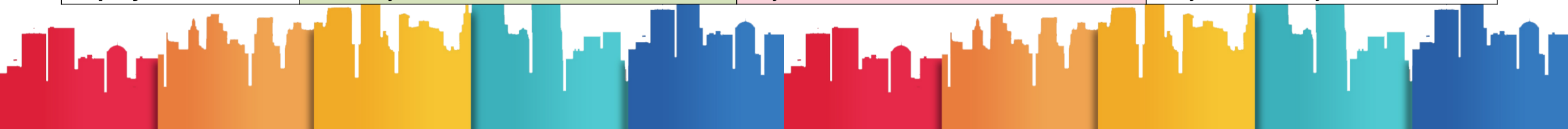
trading entity vs. government component vs. public entity

| | DPWI | TRADING ENTITY | GOVERNMENT COMPONENT | PUBLIC ENTITY |
|--|---|--|--|---|
| STATUS | | | | |
| Legal Status | Department of State | Not a separate juristic person | Not a separate juristic person | A separate juristic person outside the Public Service |
| Governance | Executive Authority Accounting Officer | Executive Authority Accounting Officer Head (Optional) | Executive Authority Board is optional Head/CEO is Accounting Officer | Has Governing Board as Accounting Authority |
| Independence | None | | Separate from Department but linked to policy | Autonomous from Department |
| Accountability to Executive Authority | Constitution and Legislation | | Direct accountability to Executive Authority | Regulated by the Act establishing the entity |
| Accountability to Department | All obligations on department apply to trading entity | | None, but have reporting duties | None |
| Mandate | Constitution, Legislation and PSA | | Derived from delegation or assignment from the Executive Authority | Derived from Act establishing the entity |
| Main Funding | Parliament via Department | Parliament via Department & own revenue | Parliament via Department & own revenue | Parliament via Department & own revenue |
| PFMA | Applicable DG is Accounting Officer | | Applicable Head of GC is Accounting Officer | Applicable Board is Accounting Authority |

3. END-STATE

trading entity vs. government component vs. public entity

| | DPWI | TRADING ENTITY | GOVERNMENT COMPONENT | PUBLIC ENTITY |
|--------------------------------|---|---|--|---|
| ACCOUNTING | | | | |
| Account | Modified Cash basis | GRAP | GRAP | GRAP |
| Revenue | Unable to retain surplus funds from operations | Ability to generate and retain surplus funds from operations (approval by NT) | Ability to generate and retain surplus funds from operations (approval by NT) | Ability to generate and retain surplus funds from operations (approval by NT) |
| EMPLOYEE CONDITIONS | | | | |
| PSA | Applicable | | Applicable | Not Applicable |
| Law Governing employees | PSA and regulations, and sectorial determinations | | PSA and regulations, and sectorial determinations | Act Establishing the entity LRA, and other |
| Conditions of Service | PSA and Public Service Regulations | | Public Service Regulations | Policies as determined by entity |
| Remuneration | PSA and Public Service Regulations | | Determined by bargaining processes, but occupation specific dispensation is possible | Determined by entity's board, subject to NT and DPSA guidelines |
| Pension fund membership | GEPF | | GEPF | Depends on entity GEPF may apply |
| Employee Relations | Governed by Public Service Regulations | | Governed by Public Service Regulations | Governed by entity's policies |
| Deployment | Anywhere within Public Service | | Anywhere within Public Service | Only within entity |





SECTION E

STATE OF THE ESTATE

programmes effecting Government priorities





1. PMTE as a lever of change and impact

NB! We have to recognise property as an important socio-economic lever to exert visible impact in driving capital formation, investment growth and social development.

- Central feature of the sixth democratic administration is **IMPLEMENTATION**
- **SONA 20 June 2019**, the President announced seven priorities that will fast track South Africa's path to prosperity which included:
 - Economic transformation and job creation;
 - Education, skills and health;
 - Consolidating the social wage through reliable and quality basic services;
 - Spatial integration, human settlements and local government;
 - Social cohesion and safe communities;
 - A capable, ethical and developmental state; and
 - A better Africa and World.

IMPLICATIONS FOR PMTE

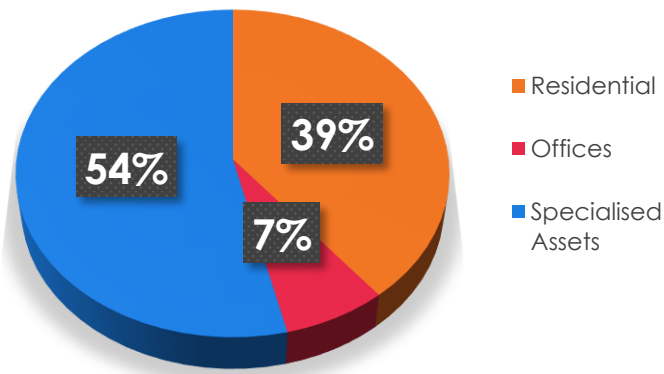
1. Above priorities require uncompromised efforts to effectively **optimise the portfolio to serve as a catalyst**
2. As a custodian of State land, the PMTE has central role in **reversing the legacy of apartheid spatial injustice**
3. The PMTE's primary role is to ensure that these **assets are well maintained and cost effectively managed.**



2. STATE OF THE ESTATE where are we now?

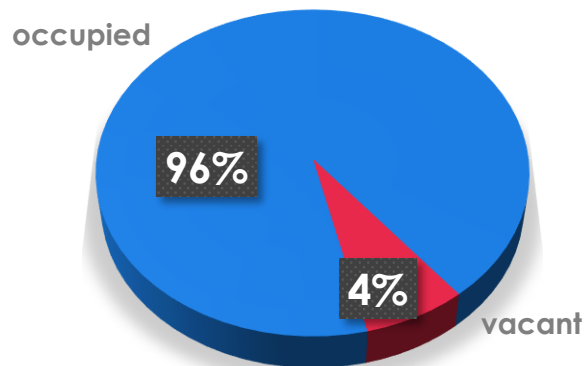
STATE OF GOVERNMENT ESTATE

Accommodation Type

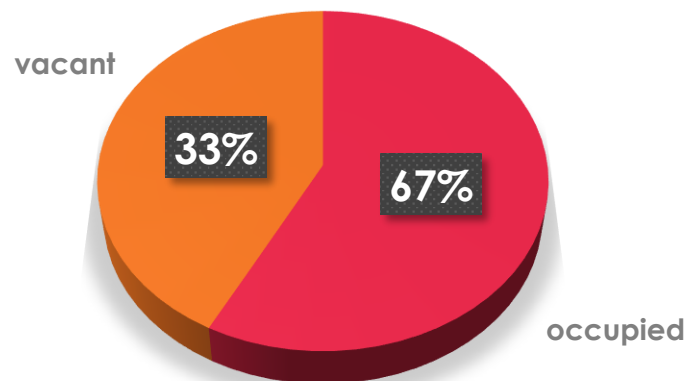


+/- 34 million m²

Occupancy



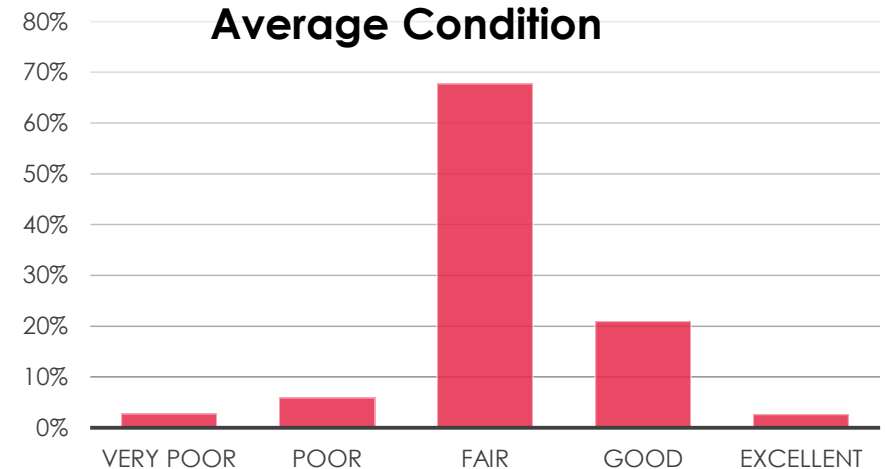
Land Parcels



+/- 4.7 million hectares

Land Parcels: 29664
Buildings: 89626
Value: R126 billion

Average Condition



Desktop condition assessment:

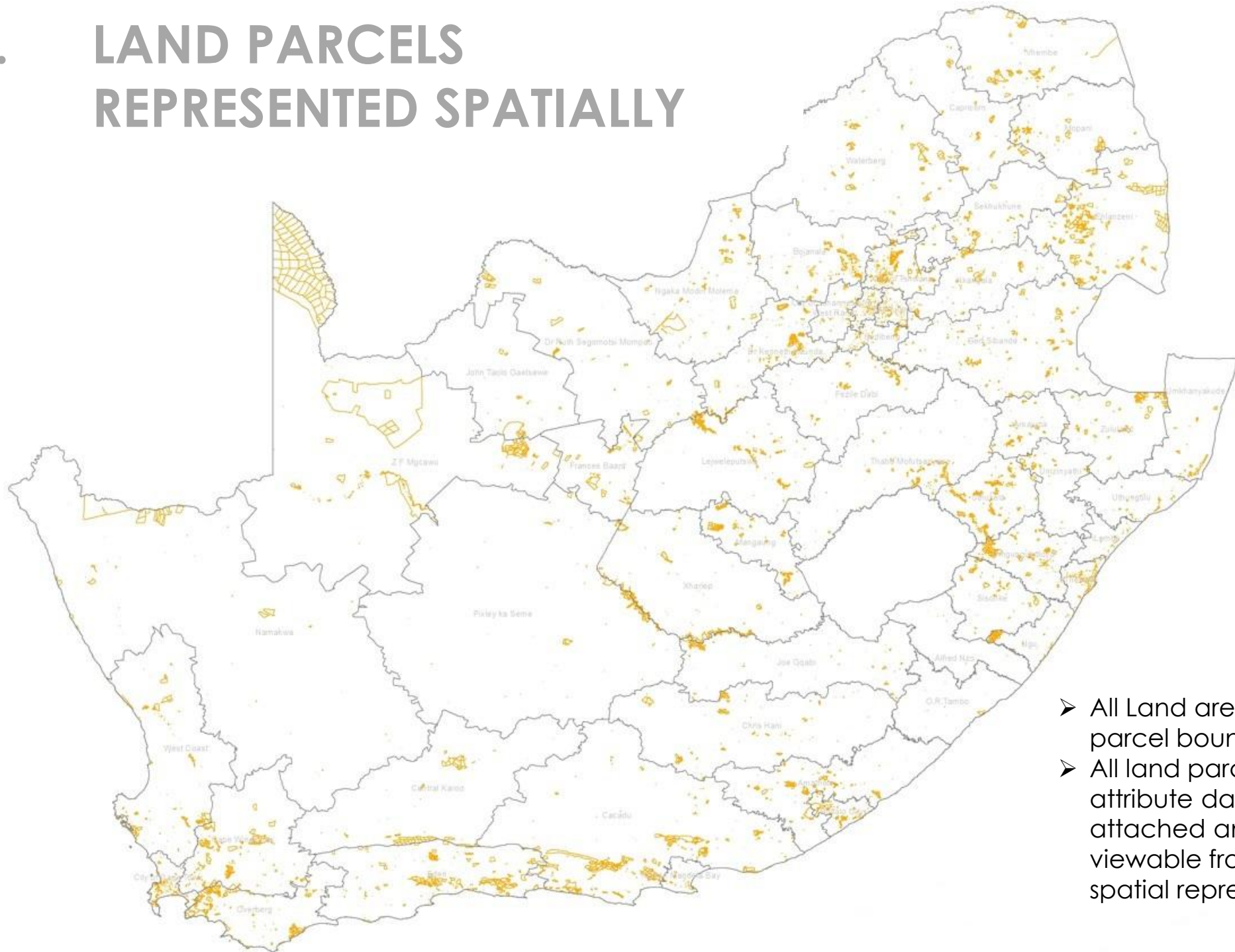
- 23% = good condition
- 69% = fair
- 8% (approx. 7 200 facilities) = poor



3. ASSET REGISTER Status & GRAP compliance

- Part of establishment of the PMTE, was adoption of the **GRAP** effective from 2013/2014.
- The full compliance to GRAP standard with respect to the **valuation of the immovable assets register (IAR)** was however only effective from 2016/2017 after the expiry of the Transitional Provision
- Therefore from 2013/2014, the PMTE was in a position to provide the AGSA with an auditable extensive database of the assets and satisfied the following questions relating to the register:
 - Could the PMTE prove the **PHYSICAL EXISTENCE** of the assets? - **YES!**
 - Does the PMTE know **WHERE** these assets are? - **YES !**
 - Can the PMTE prove its **OWNERSHIP** of the assets? - **YES!**
 - Can the PMTE prove the **TOTAL NUMBER** of assets? - **YES!**
- **This is being confirmed by the various audit reports of the AG since 2013/2014.**
- The only outstanding matter in respect of the assets since the financial year 2016/2017 to fully satisfy the GRAP requirements, is the determination of the value to these assets.

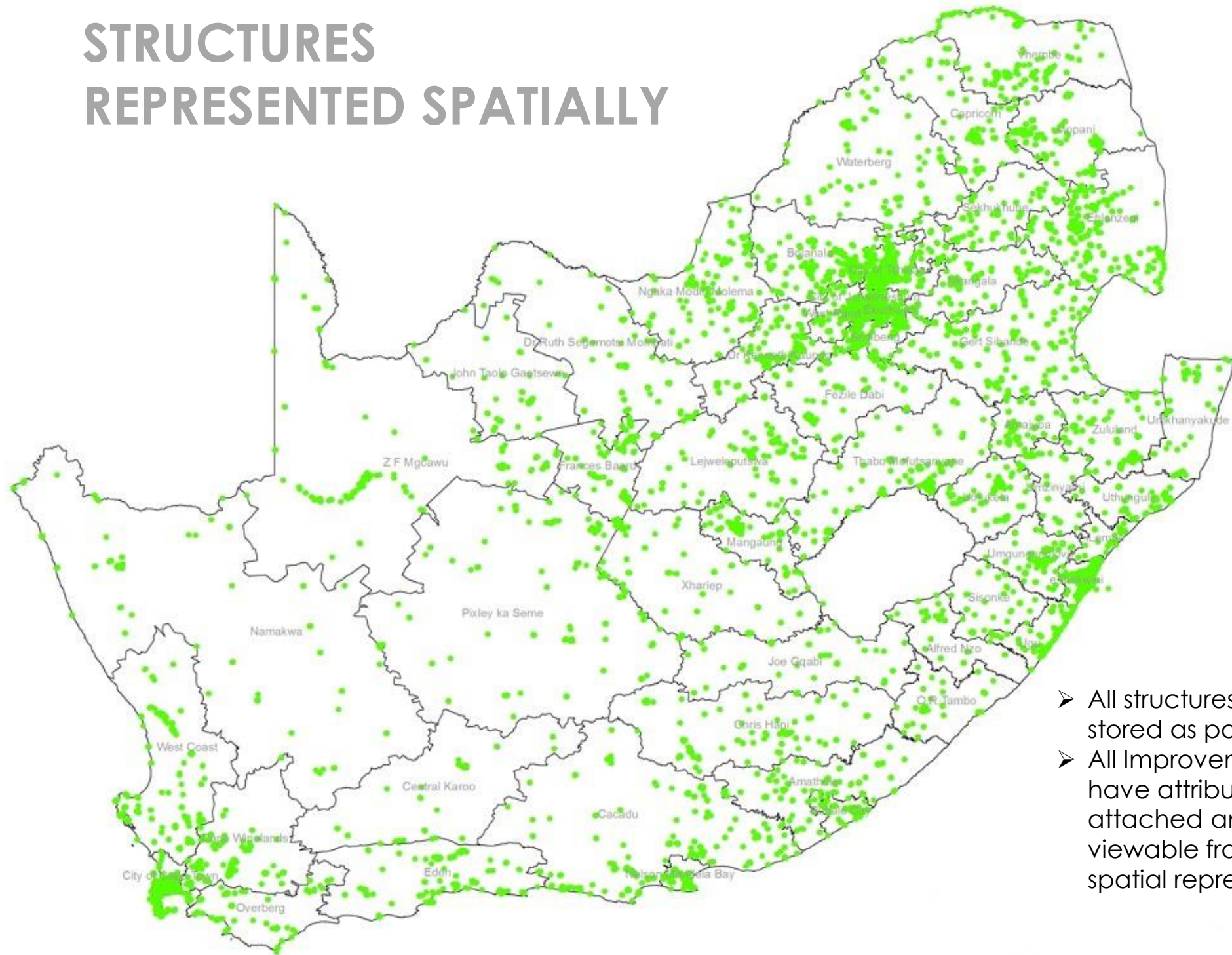
4. LAND PARCELS REPRESENTED SPATIALLY



- All Land are stored as parcel boundaries
- All land parcels have attribute data attached and viewable from the spatial representation



5. STRUCTURES REPRESENTED SPATIALLY



- All structures are stored as polygons
- All Improvements have attribute data attached and viewable from the spatial representation





public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA



ESRI®

5. INNOVATION GIS / system reforms

Rates and taxes for Tshwane | Land and building showing rates and t...

https://dpwgispro-svr.ndpw.local/portal/apps/Viewer/index.html?appid=5d755d512d7f47948f900bcb572ab560

Land and building showing rates and t... Find address or place

Layers

- Rates and taxes

| (1 of 2) | |
|------------------------|--------------------|
| Branch | DEPARTMENT (WORKS) |
| Zoning_of_URBAN__RURAL | GOVERNMENT |
| VACANT | NO |
| ACQUISITIO | 41,365.00 |
| UNIQUE_P_1 | 256,117.00 |
| INVOICE_NUMBER | 392302 |
| BAS_SUBMIT | 22/10/2015 |
| PAYMENT_DESCRIPTION | RATES; PROPE |
| AMOUNT | 361599.96 |
| IAR_PROVIN | Gauteng |
| INVOICE_DATE | 22/10/2015 |
| AUTHORISED | 22/10/2015 |

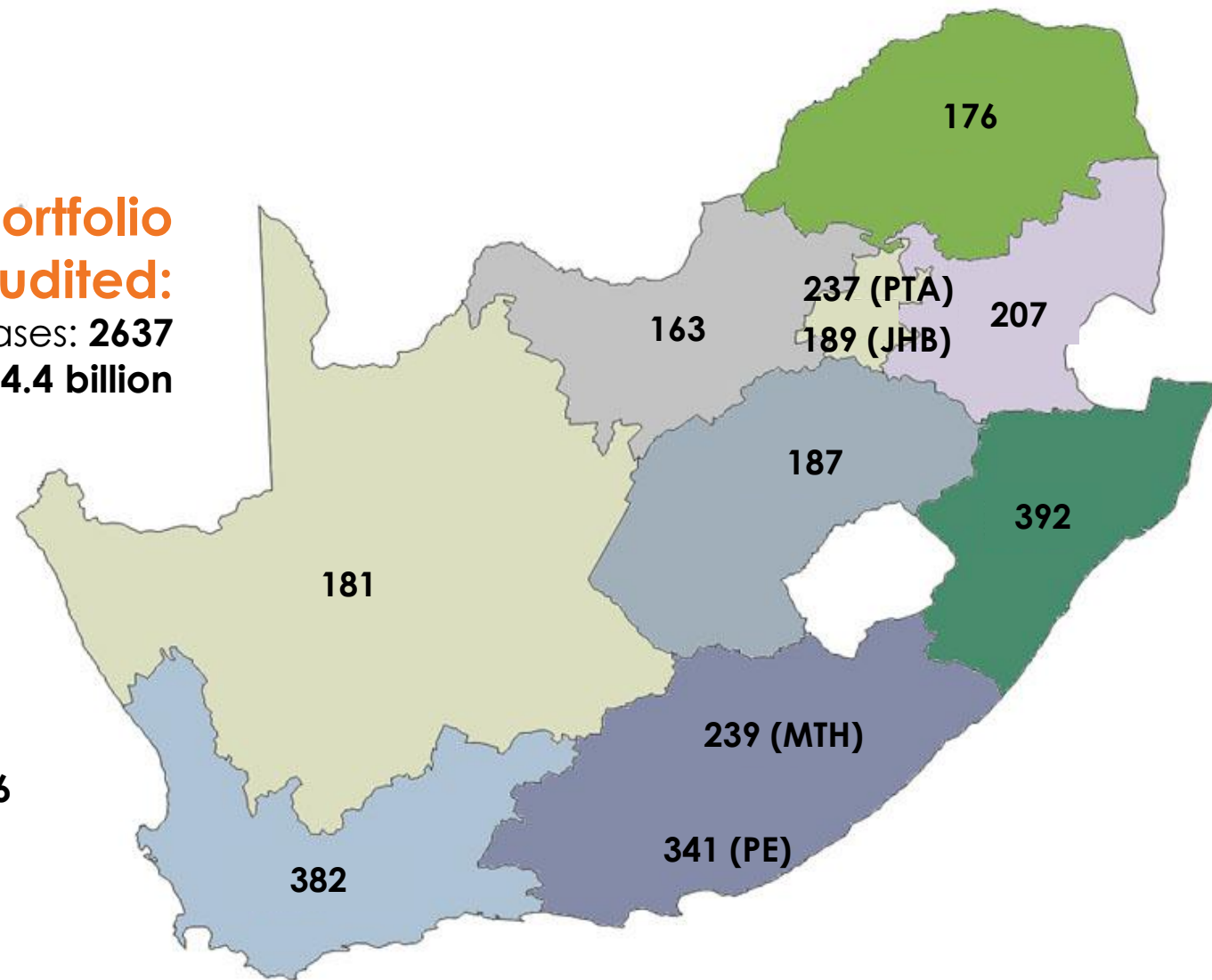
POWERED BY esri CNES/Airbus DS, DigitalGlobe

6. LEASEHOLD

number of leases per region

Leasehold portfolio
17/18 audited:
 Total number of Leases: **2637**
 Expenditure: **R 4.4 billion**

Current 18/19
unaudited:
 Total number of Leases: **2566**
 Expenditure: **R 4.5 billion**





public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

7. PRECINCT DEVELOPMENT spatial transformation and spatial justice

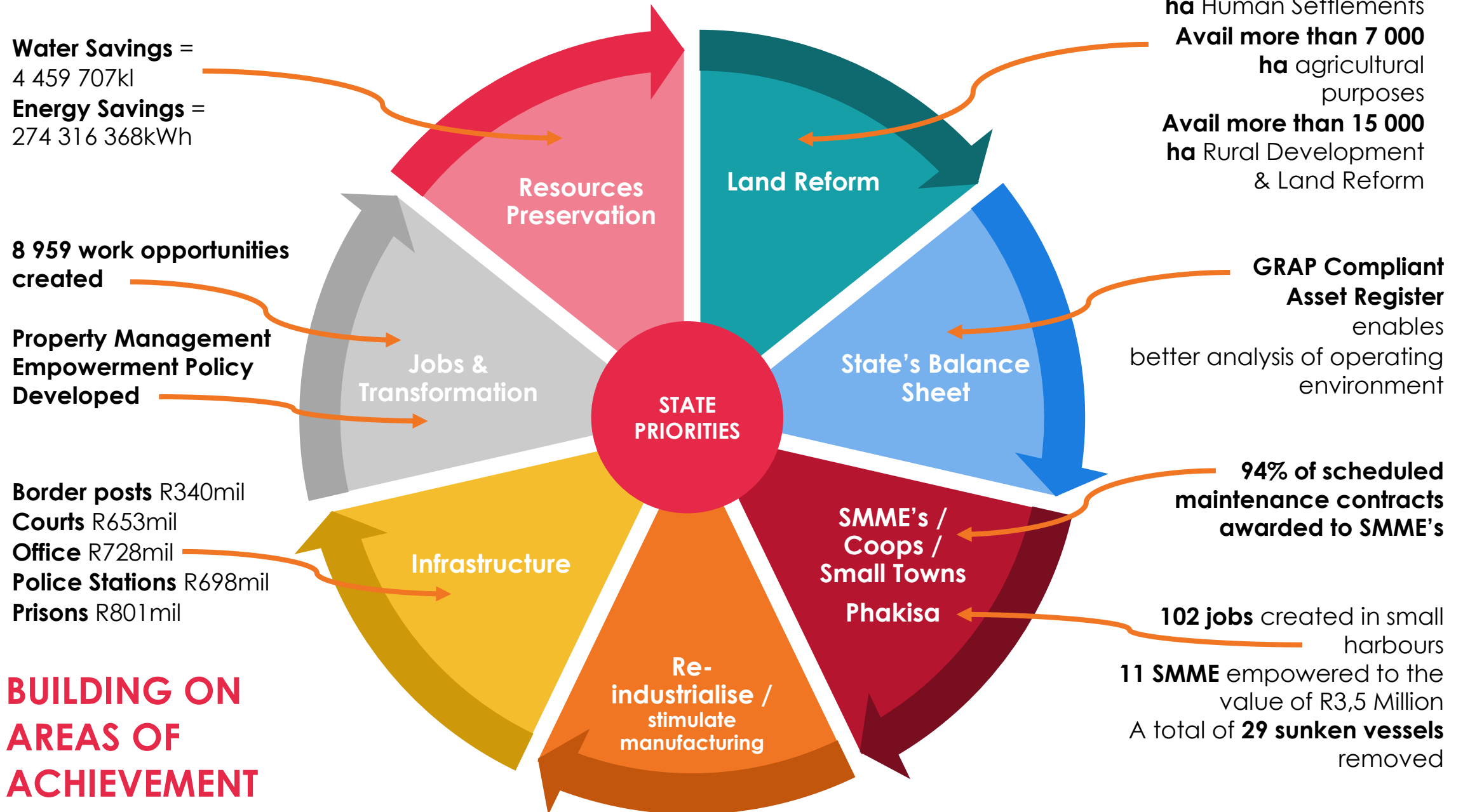
Tshwane Master Plan





8. OTHER SUCCESSES

state priorities





SECTION F

CRITICAL ISSUES

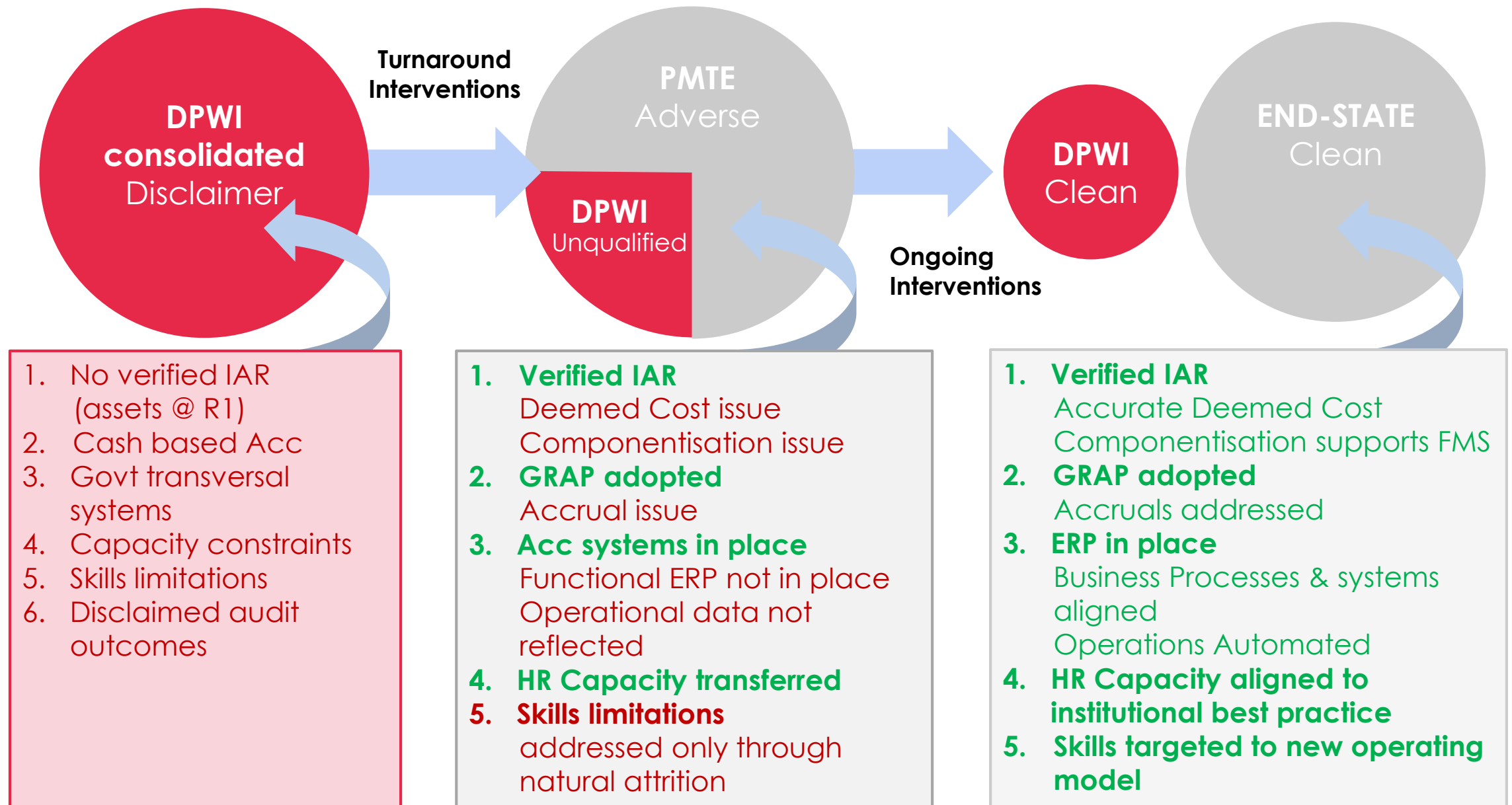
affecting the current operating model of the PMTE





1. JOURNEY transitional dynamics

The process of addressing major **historic** issues – **creates new**, although less significant issues





public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

2. PROBLEM STATEMENT capability of State



COMPLEX “TECHNICAL” ASSETS

- Ageing portfolio, **high maintenance backlog**.
- **Outsourcing model** towards maintenance provides conducive environment for ballooning costs (*Asset management by Procurement*)
- **Centralised Custodianship vs. Decentralised budgets**.
- Lack of **technical competence** to engage technical issues adequately and interface technical expertise from sector.
- Currently operating in **run-to-failure** mode where relief is provided only after failure.
- Client budgets for maintenance is not commensurate with the **extent of portfolio**.
- **Lifecycle maintenance and operations costs are not quantified or budgeted for**





3. LIFECYCLE COSTING and the funding gap

INITIAL COSTS

- Planning & Design
- Construction & Site Development
- FFE

15%

85%

Operations
(25-30%)

Initial Costs + Future Costs =

LIFE CYCLE COSTS (LCC)

FUTURE COSTS

- Energy
- Maintenance & Repair
- Staffing & Operations
- Renovations
- Interest
- Salvage

BACKLOG just on 3x cases (Ops emergencies)

- Telkom Towers = R250mil
- Civitas = R150mil
- 1 Mil = R200mil

**ACTIVE PROJECTS
2018/19 = R26bn**

Therefore:

R147bn is required over the life cycle without commensurate commitment by client departments!!!

(This excludes current portfolio deemed value of R126 bn)

For every R1 of capital invested, you need R6 through the life cycle

Civitas / LP Court
- 1 Billion each



Ice Berg Analogy



4. OPERATING PARADOX operating via procurement

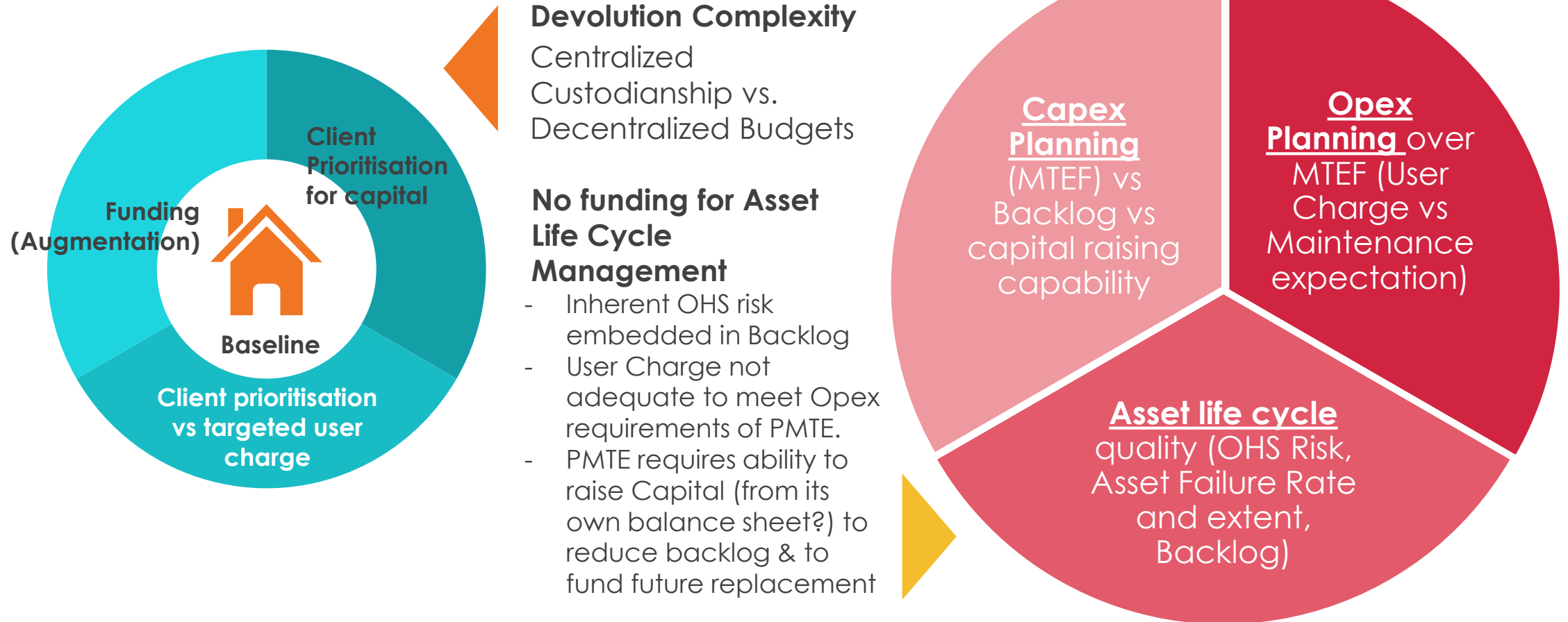
- **“Tenderising the State”** - State Capacity versus Tenders
 - Skills flowing out into private sector and sourced back at a higher rate
 - The Department more geared towards procurement of services and lacks technical knowledge to target and/or even achieve optimal asset life
- **Private sector approach** – ROI, Long Range, Independent source of capital provides incentives to keep costs down + encourages good governance and audit in return for access to capital.
- **Public Sector approach** – Inherent system that incentivises ballooning costs + governance is compliance exercise + audit is managed instead of being performance measuring tool



- **Government KPI's is about spending and incentivising expenditure.**
- PMTE = **Industrial scale operations** embedded in Government Department.
 - Infrastructure oversight custodian (like: AGSA, NT on PFMA, DPME etc.)



5. KEY ROOT CAUSES PMTE mode of delivery



CHALLENGES UNDERMINING ADEQUATE ASSEST MANAGEMENT

- Budget allocations inadequate / absent / not ring-fenced
- Failure to institutionalise technical competence
- New projects without maintenance plans, and not quantified or budgeted for
- Lack of asset management plans and/or accountability where it exists



6. KEY ROOT CAUSES

poor condition of portfolio

FUNDING & DEVOLUTION - devolved budgets VS. centralised custodianship

- **Ideal user charges** (as determined) to adequately maintain the portfolio are **unaffordable** to the fiscus and not adequately funded through the baselines of Users
- User Departments continued **reprioritisations** and/or reductions of infrastructure **budgets** – have been posing additional risk with regard to repair, upgrades and refurbishments
- Result is a significant **repair and refurbishment backlog** which **led** to the deterioration of the condition of the portfolio

INSTITUTIONAL CAPACITY & FORM

- DPWI has gradually been **losing the requisite competence** to address and solve technical complexities present throughout the asset lifecycle (result of state tenderisation)
- Current state of portfolio is exacerbated by DPWI's inability to adequately engage professional solutions offered by private sector service providers
- In effect, moving from a technically capable organisation to a mere administrative and procurement entity leading to ballooning costs of infrastructure maintenance



MODE OF DELIVERY: REACTIVE OR EMERGENCY MAINTENANCE (Day-to-Day)

- Currently operating in **run-to-failure mode** where relief is provided only after failure
- In response, corrective maintenance is initiated through the procurement of services from external contractors – at excessive costs
- Considering extent of portfolio, maintenance requests translates into DPWI call centre **processing over fifty thousand calls per year**
- User Departments are responsible for emergency maintenance below R100 000, but few have the capability to execute which leads to increasing pressure on DPWI

OHS COMPLIANCE ISSUES

- DPWI capacity to perform inspections is limited to approx. 2 600 facilities per year
- **Of late, numerous crisis points have exposed the acute levels of OSHA non-compliance** in some State-owned and leased Head Office facilities such as Civitas (DoH), Agrivaal (DPSA), Poyntons (DCS)
- Lack of in-depth knowledge of the condition of all facilities, and risk of growing number of OHS non-compliance, poses the risk of serious disruption of service delivery



HIGH VALUE PURCHASES AND INVESTMENTS – requirement for dispensations

Civitas (DoH), Union Buildings, 3x Military Hospitals (DoD), Telkom Towers (SAPS), 4x High Courts, Exxaro Building (Defence)

- Capability to address / solve key issues associated with these facilities **doesn't fit within current procurement dispensation** (Disjuncture between Government Process & Reality)
- Technical Infrastructure is operating within Government Procurement Regime
- For sake of protecting Government Investment & Service Delivery, **dispensation is required** to address these issues which has biggest impact on the image / reputation of the Department / Minister

Example: Financial Lease/Capital Injection for TT; Transfer of High Courts to DPWI including TFM etc.

- **Current mode of delivery requires dispensations to be adequately addressed** (becoming the norm) **where normal mode of delivery** (Government procurement regime) **takes too long and problems get bigger before we can solve it**

How do we fix ourselves concurrently whilst implementing dispensation?

- Requires rearrangement / reorganisation / reconfiguration of business



CRITICAL COMPONENTS AND PORTFOLIO RISKS – requirement for dispensations

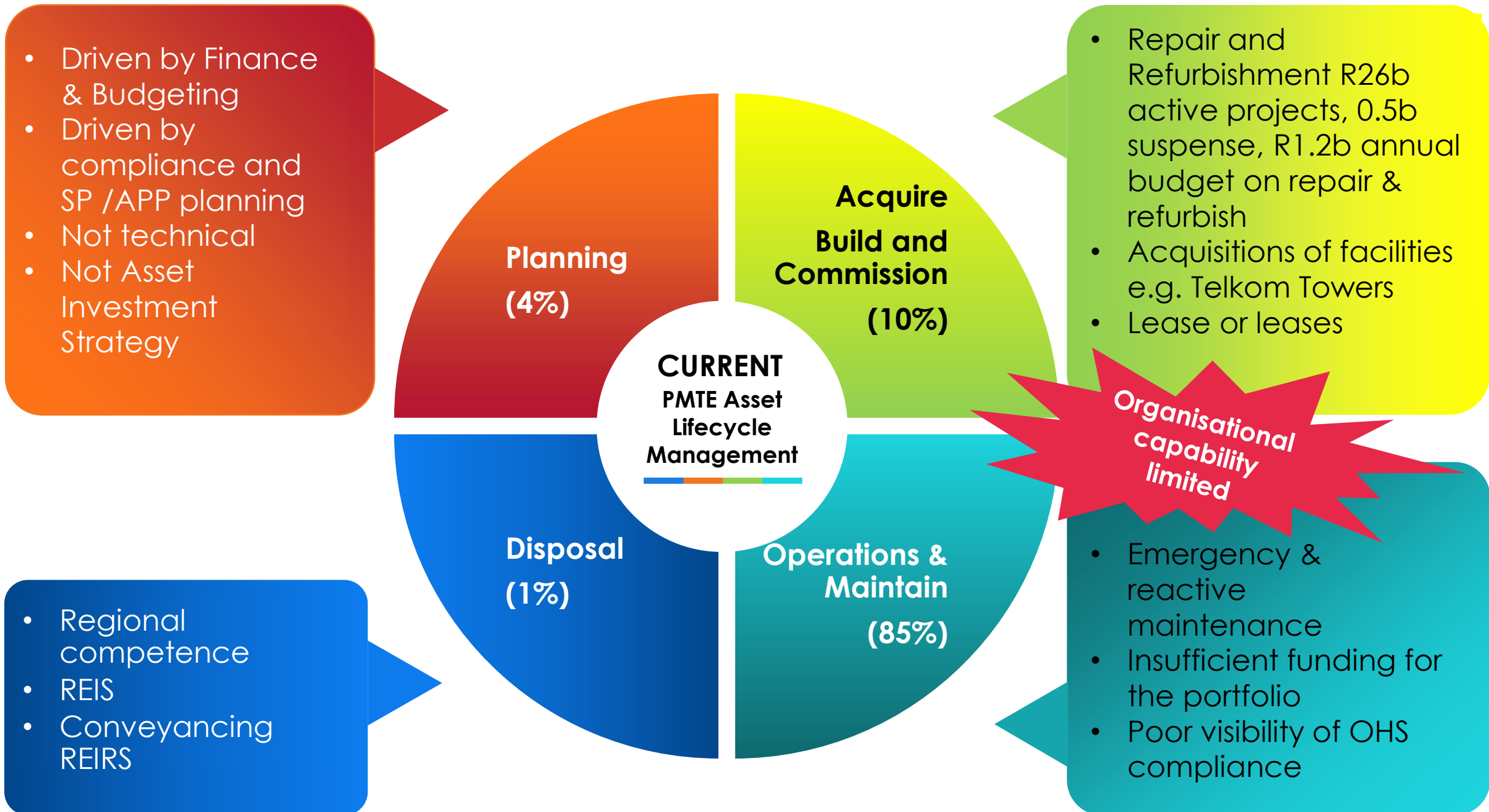
Over 80% of Boilers within the department are out of the useful life (capex timing is critical to avoid catastrophic risks), waste water and water treatment plants not adequately budgeted for (opex and capex)

- Technical Infrastructure is operating within Government Procurement Regime
- Critical Components identified above present significant portfolio risks, can lead to loss of life.
- The funding required to intervene is not available in the baseline e.g. Water Maintenance was funded from Turn Around. Boilers Renewal Program competing for a constrained capital base.
- For sake of protecting Government Investment & Service Delivery, **dispensation is required** to address these issues which has biggest impact on the image / reputation of the Department / Minister

Example: Capital Injection for Boilers ; Increase in Opex baseline for Water Treatment plant operations.



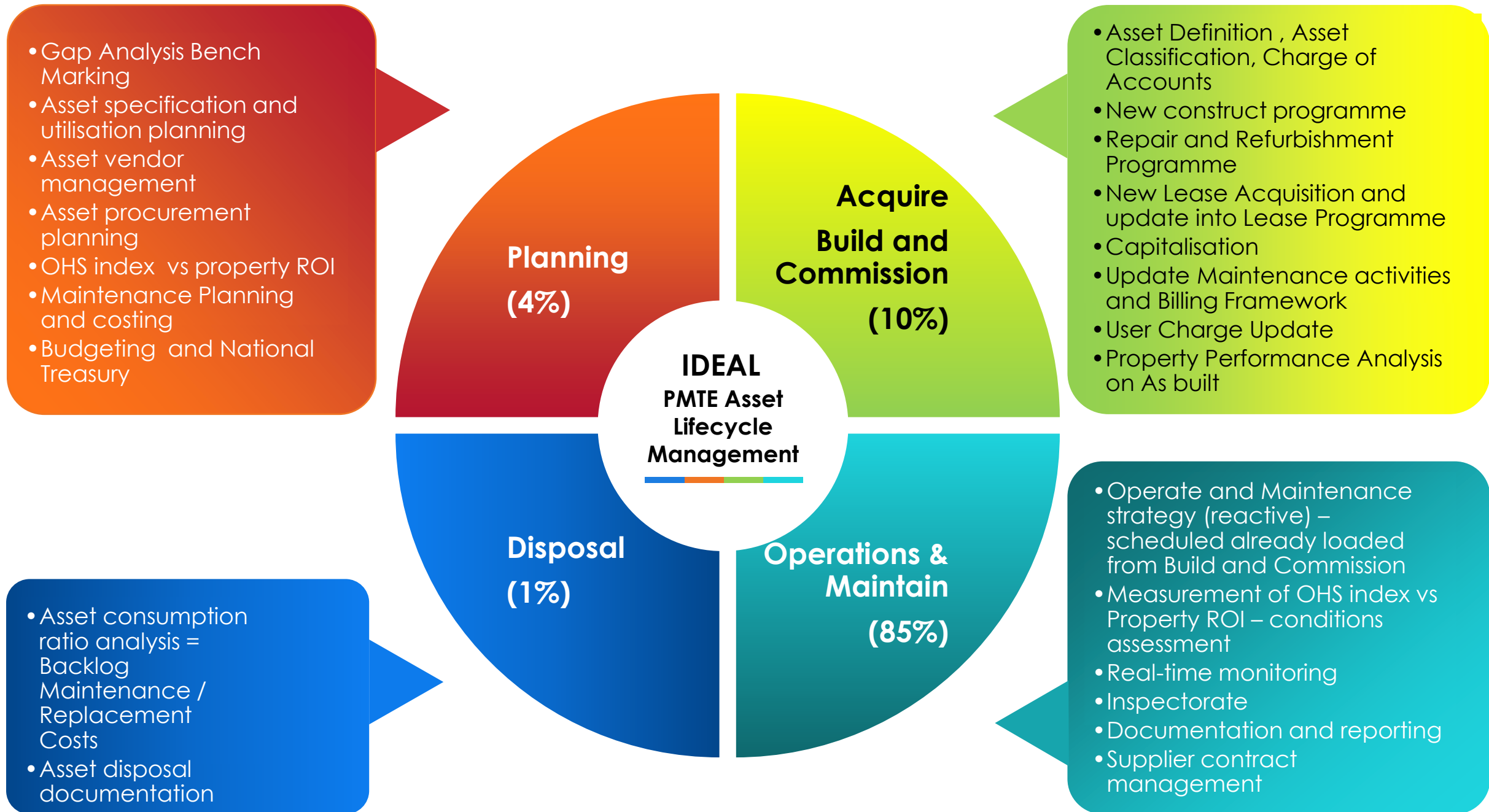
9. PMTE LIFECYCLE REALITY current / actual





10. ASSET LIFE CYCLE MANAGEMENT

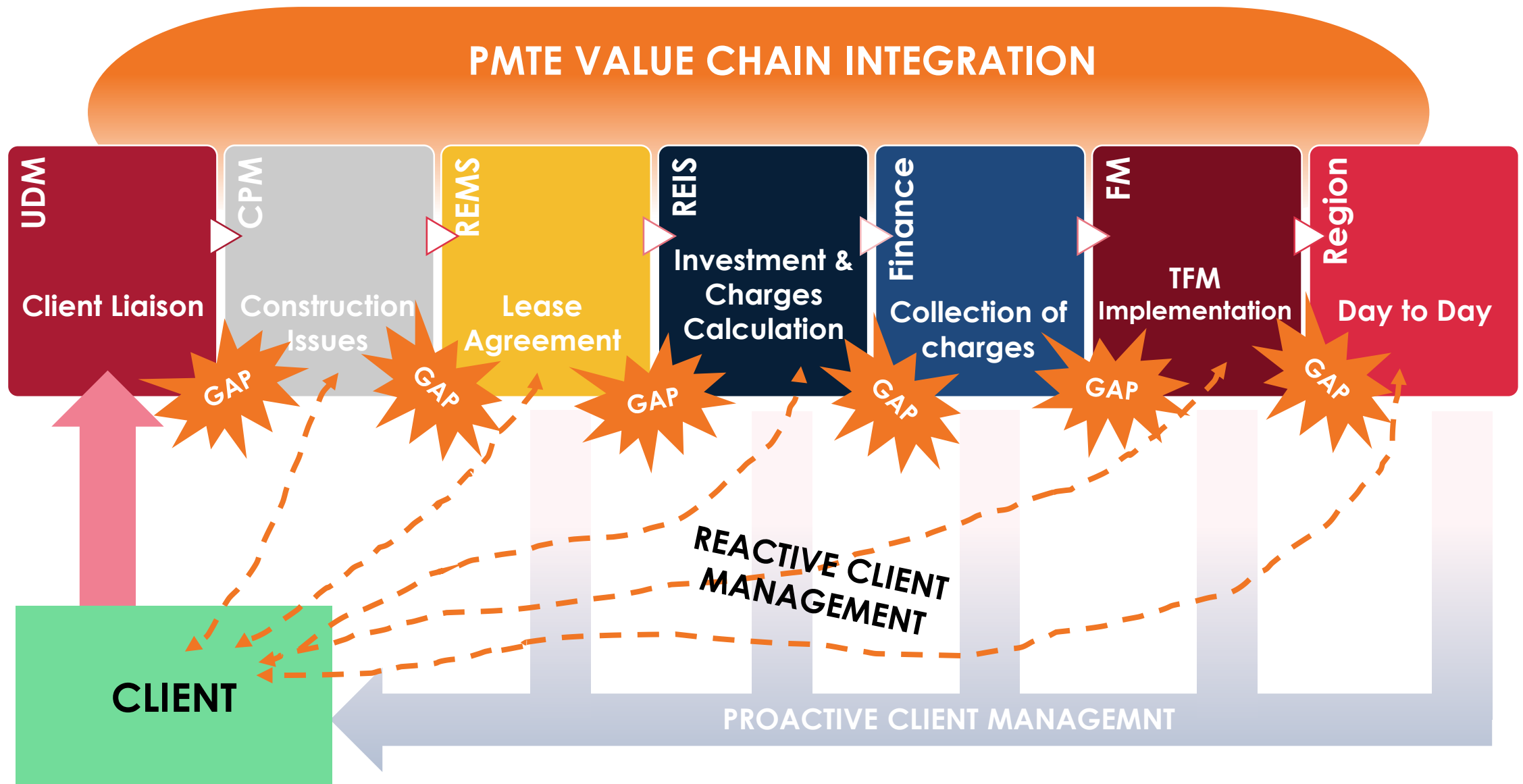
ideal





11. PMTE INTEGRATION GAPS

general client issues





12. KEY OPERATIONAL ISSUES

areas of focus

- Interventions for management controls to address shortcomings

1) GRAP COMPLIANCE

- Imbedded GRAP competence across PMTE

2) AUDIT OUTCOMES

- Organisation wide audit awareness and readiness process

3) FINANCIAL SUSTAINABILITY

- Funding Strategy, Finance Model and User Charge Model
- Client Disputes and Outstanding Debt
- Visibility of procurement

4) CLIENT RELATIONSHIP MANAGEMENT

- Joint Task Teams (MANCO & Clients)
- Early warning systems of Client Accommodation Issues

5) OPERATIONS, LEASES, REPAIR & MAINTENANCE MANAGEMENT

- Strengthening the core: Life Cycle Asset Management
- Renewal and cost efficiencies in leasing
- Lessons from the Pilot Top 300 programme

6) VALUE CHAIN GAPS & LACK OF INTEGRATION (SILOs)

- Improve Business Efficiencies
- Business Model & Processes

7) ERP/ICT-ROLL-OUT

- Archibus roll-out of outstanding modules
- Proof of Concept for Property Management Digital Strategy eg. Telemetry



13. INTERVENTIONS

business improvement programmes

BUSINESS IMPROVEMENT PROGRAMMES

- The PMTE has been pursuing the above-mentioned **operating reformation** by introducing interventions with a view of **improving efficiencies, cost savings** and **the way we do business**. These include:
 - Business Process Review and Standard Operating Procedures
 - Service Delivery Model & IDMS implementation
 - PMTE Process & Systems (Archibus & SAGE) and automation of processes and procedures
 - TFM and Telemetry
 - Capacitation and Resourcing
- The above mentioned interventions also introduce **new proactive controls and measures** to address operational inefficiencies **as well as procurement gaps and risks** but is therefore often being resisted.



OPERATIONALISING THE PMTE

- Establishment of PMTE has been premised on the idea of adopting a **business-like approach** in managing the portfolio.
- **PMTE has been failing to adequately institutionalise required technical competence** to manage the issues outlined above
- PMTE remains **operating as a Government Department** instead of industrial size public institution as intended by Cabinet and NT
- PMTE has been pursuing **operating reformation** by introducing interventions with a view of improving efficiencies
- NT / DPWI joint responsibility to affect separation of the PMTE as the implementer from the Main Vote as the regulator

HIGH PERFORMANCE CENTRE (HPC)

- DPWI has commenced the process of establishing HPC consisting of professionals sourced from various strategic partners by means of secondment, in the interest of capacitating the DPWI with the technical competence to address the major maintenance and engineering deficits it currently faces.

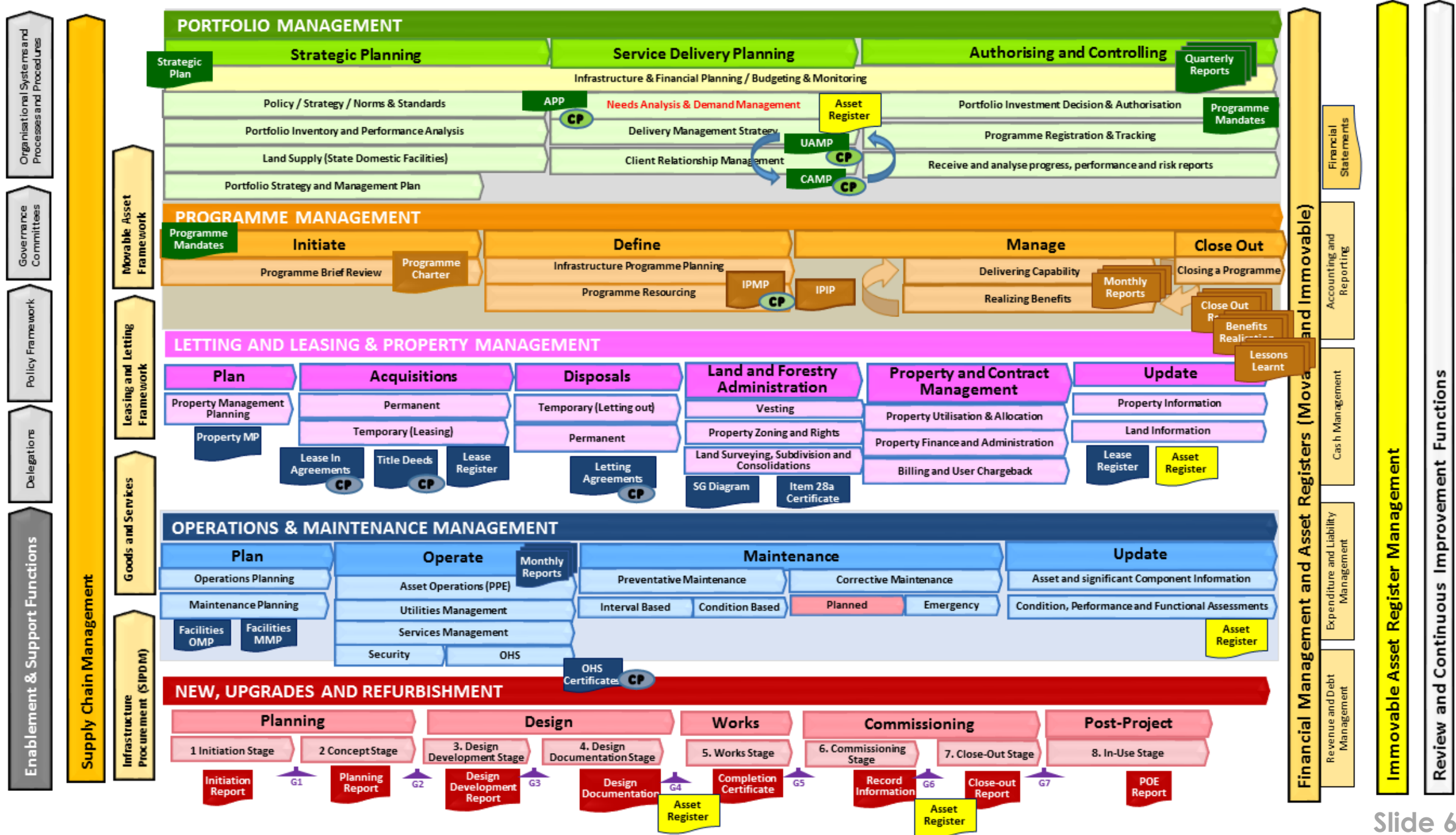


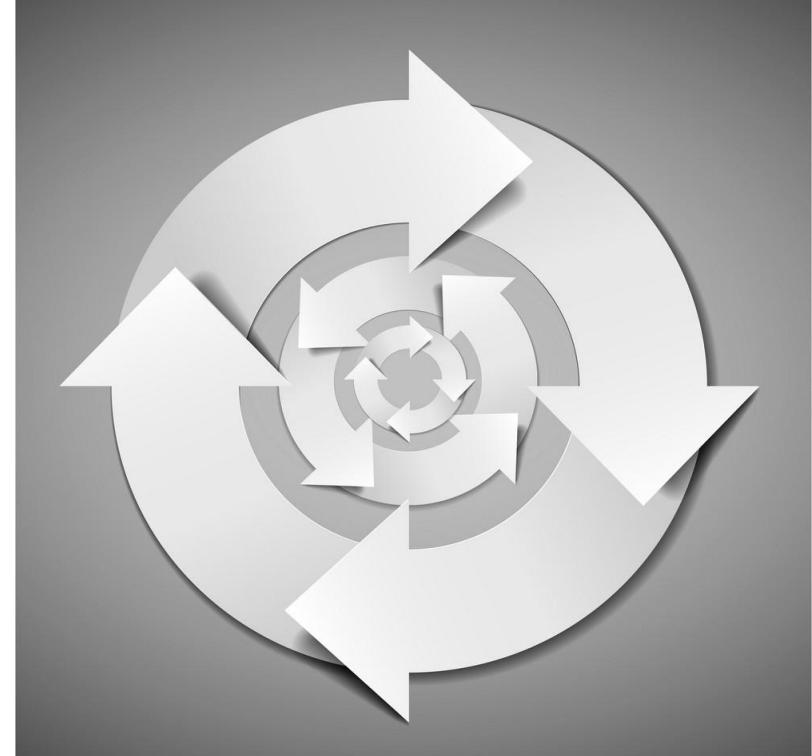
15. IDMS IMPLEMENTATION PMTE new operating model

- As part of the BPR, the PMTE has developed a **customised infrastructure delivery standard specific for PMTE** for Infrastructure **“Asset”** Management instead of just Infrastructure **“Project”** Management
- It is centred around the core outputs of the PMTE in line with its core mandate
 - Leasing, Letting & Property Management
 - New, Upgrades and Renewals
 - Operations and Maintenance Management
- Is aligned to the IDMS and SIPDM and therefore introduces suitable Portfolio and Programme Management methodologies where the Control System is comprised of **Control Cycle (CP) Deliverables**, each of which must be signed off
 - A CP Deliverable supports legislative requirements, including DoRA, PFMA and GIAMA
- The Operating Model therefore serves as a **“placemat”** or **basis** that informs additional layers:
 - Non core, cross cutting and support functions
 - GRAP compliance
 - Business Processes and Standard Operating Procedures
 - Delegations & Institutional Arrangements



16. IDMS IMPLEMENTATION example PMTE operating model





SECTION G

TOWARDS FULL COST RECOVERY
addressing a partially funded mandate



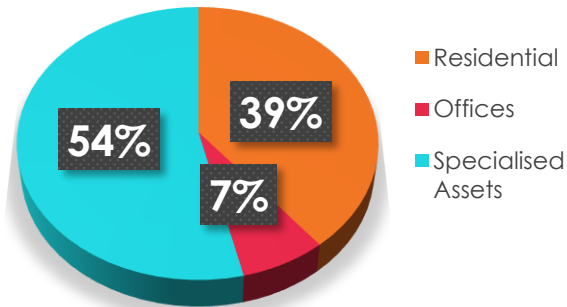


1. PROBLEM STATEMENT

complexities of the portfolio

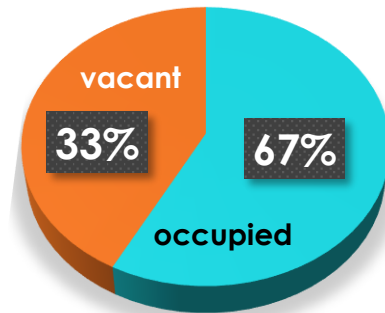
- Failure to effectively provide and maintain suitable, accessible and safe accommodation, **impedes Government's ability to effectively deliver services.**
- Lack of knowledge on condition of facilities (eg. OHS for State-owned & leased) leads to risk of **shutting down key facilities** and disrupting the functioning of Government
- Biggest risk, is the **likelihood of a total collapse** should the current trajectory of lack of adequate maintenance continue, and the dire consequences for the State

Accommodation Type



+/- 34 million m² floor space

Land Parcels



+/- 4.7 million hectares

31 March 2018

Land Parcels: 29 664

Buildings: 89 626

Deemed Gross Cost: => R126 billion

Leases: 2566

Approx Spend: => R4.5 billion p/a

- The portfolio is **unique in nature** in that there is no uniformity across the 90 000 and/or adequate records

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



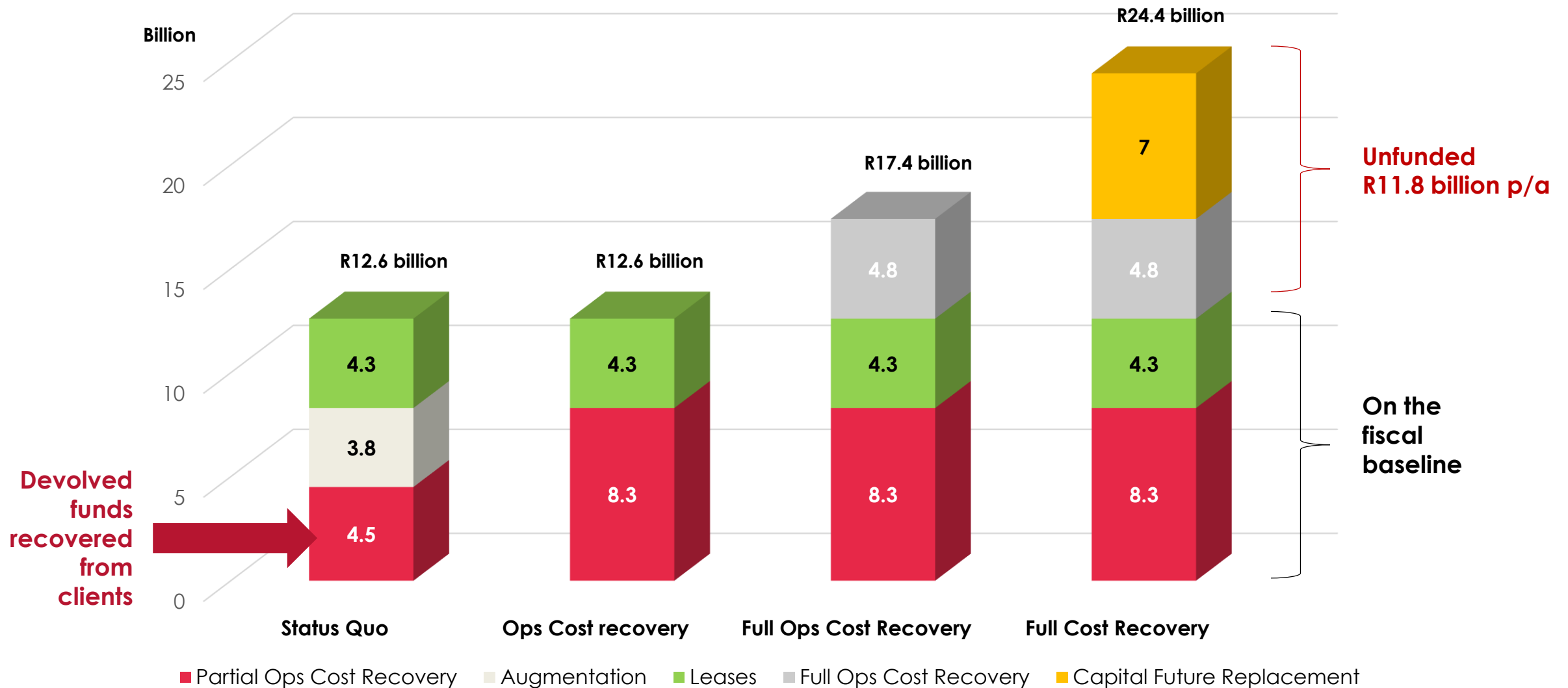
2. PARTIALLY FUNDED MANDATE practical realities

- Current Accommodation budget (fiscal baseline) is not sufficient to cover the current funding gap to adequately manage the portfolio
 - Excess capacity alone (7%) – cannot cover the funding gap.
- Current excess assets have a deemed cost of approximately **R7.4bn**
- Even if the assets are disposed, the proceeds are once off, whilst on the other hand the funding gap is annual recurring cost
- To determine the efficiencies, analysis is being done on the **operating cost ratio vs. portfolio value** and benchmarked against private sector
- Therefore ongoing discussions on **funding strategy** (fiscus/user charges; revenue generation initiatives & cost savings; leveraging private sector funding)



3. FULL COST RECOVERY? what does it mean?

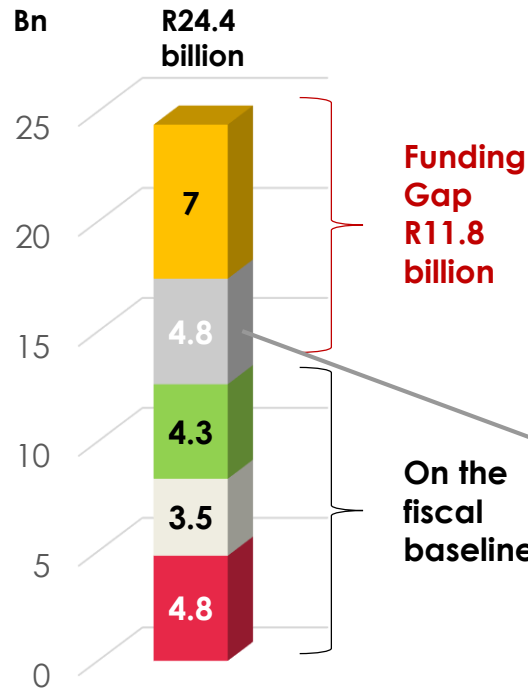
Towards full cost recovery



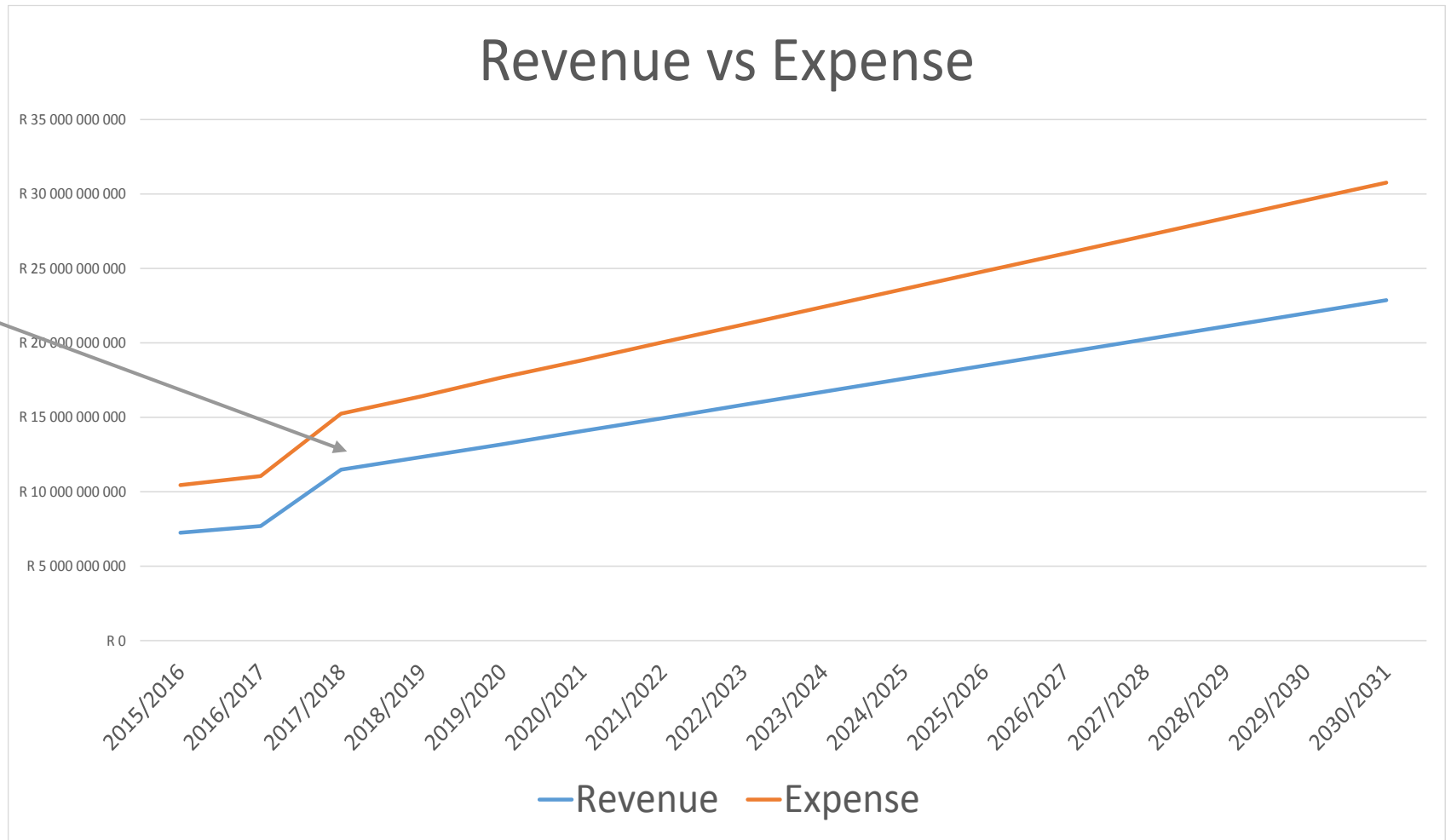
BACKLOG MAINTENANCE NOT INCLUDED estimated @ R74bn



4. OPERATING FUNDING GAP Baseline 10 Year Forecast



CUMALATIVE OPERATIONAL FUNDING GAP OVER NEXT 12 YEARS



Forecast qualifications:

- Reported actuals for 2015/16 and 2016/17
- Full year budget for 2017/18
- MTEF for 2018/19 – 2020/21
- Forecast method: Weighted Average
- Operational expenses (Capital Payments excluded)
- DPWI Augmentation excluded

| 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| MTREF | MTREF | MTREF | FY1 | FY2 | FY3 | FY4 | FY5 | FY6 | FY7 | FY8 | FY9 | FY10 |
| -R4.8bn | -R8.58bn | -R13.34bn | -R18.44bn | -R23.84bn | -R29.56bn | -R35.59bn | -R41.93bn | -R48.58bn | -R56.55bn | -R62.82bn | -R70.41bn | -R78.32bn |

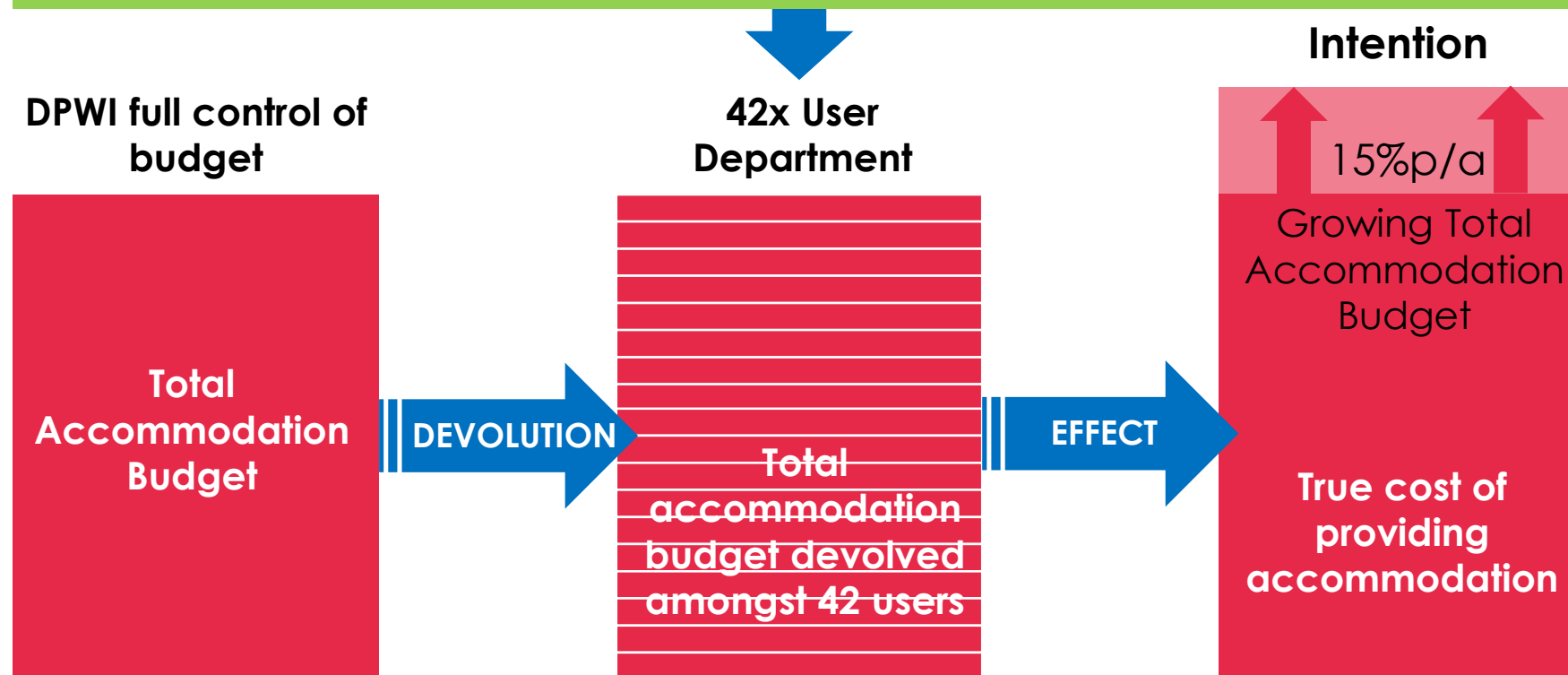
5. COMPLEXITY

devolution of budgets **VS.**
 centralised custodianship

INTENTION

managing devolved budgets **VS.** centralised custodianship

Clear visibility on true costs related to running a Department



OPERATING COSTS:

property rates, maintenance & rehabilitation, and refurbishment / replacement



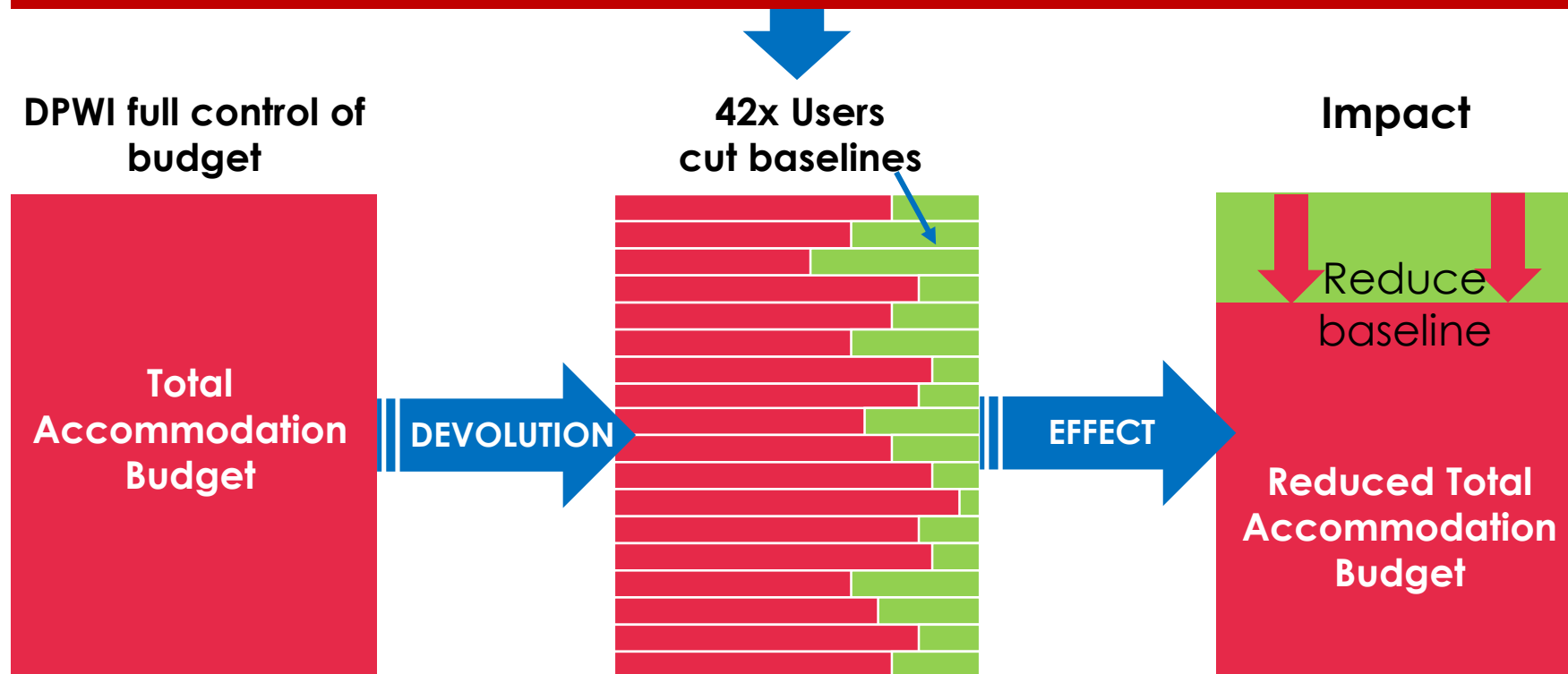
5. COMPLEXITY

devolution of budgets **VS.**
centralised custodianship

REALITY

managing devolved budgets **VS.** centralised custodianship

User Departments reprioritise accommodation budgets



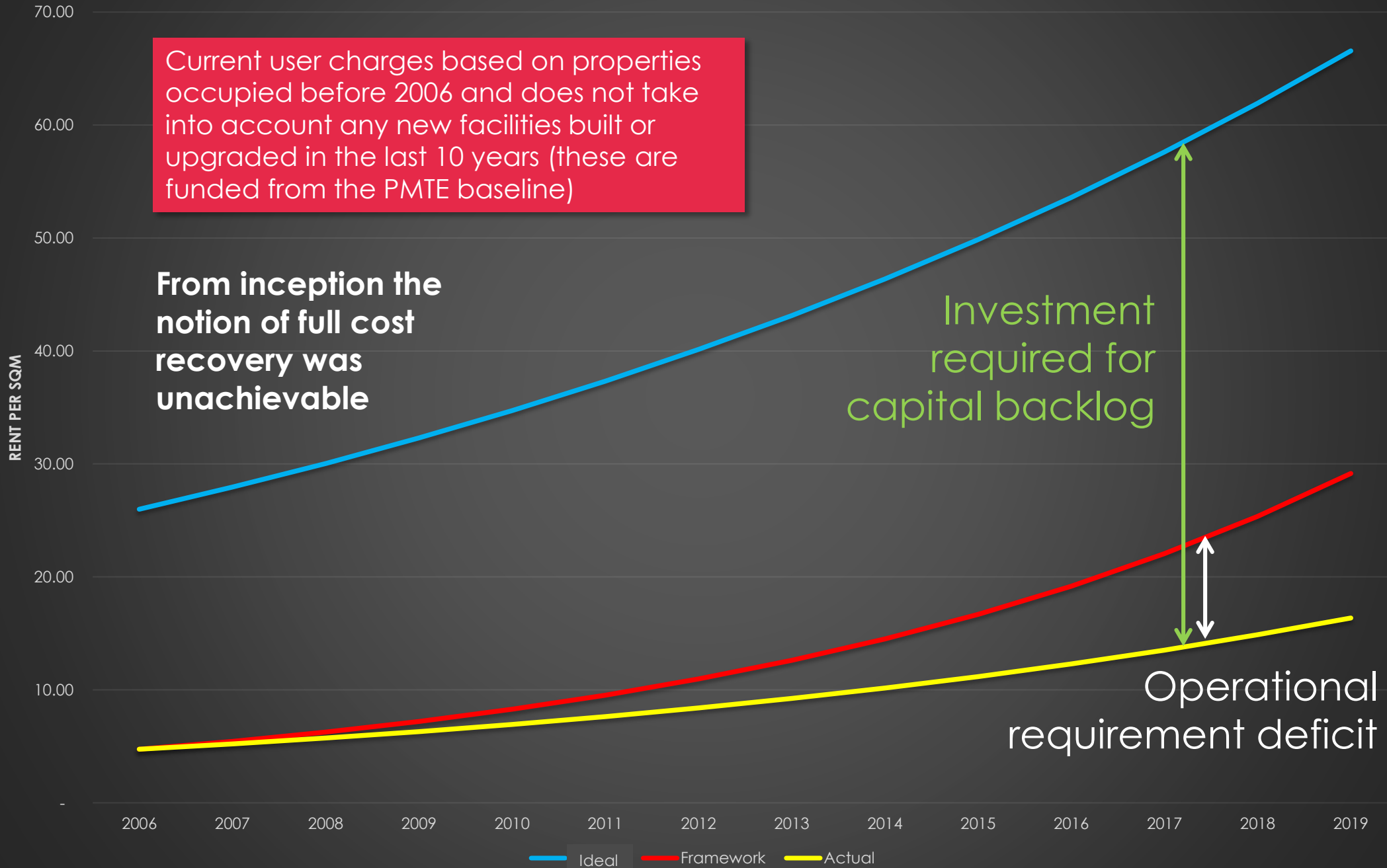
SOLUTION:

budgets for accommodation should be ring-fenced in client's baseline



accommodation charges funding gap

IDEAL VS FRAMEWORK VS ACTUAL OFFICE ACCOMMODATION





7. ACCOMMODATION CHARGES challenges with maintaining the baseline

- Devolved accommodation charges were intended to grow by 15%
- Users were expected to fund the increases within their own baseline - this did not happen.
- **Contrary to this**, users have been decreasing their baselines every time a cut is implemented by NT
 - ***EXAMPLE: DCS has indicated that they will be cutting the accommodation charges budget by R 1 745 180 000 over the MTEF. This represents a 48,5% cut of their R 3 594 161 000 baseline amount. They have indicated that this is due to a R 1 919 000 000 cut of their baseline by NT. This means that they are passing 90% of their total baseline cut through to the PMTE.***
- The PMTE is dependent on the accommodation charges of Users as it accounts for the majority of its revenue.
- If cuts are allowed, it not only deteriorates the baseline and revenue stream of the PMTE, but it makes planning impossible as these funds are used to pay property rates, refurbishments, repairs and maintenance.
- Projects are committed against these funds and a budget cut necessitates the suspension of projects during design and/or tender. As a portion of the budget is already committed, the PMTE will face a situation where even day-to-day maintenance will have to be suspended.
- **The PMTE effectively experiences a “double” cut through its own baseline, as well as through cuts in accommodation charges recovered from users.**

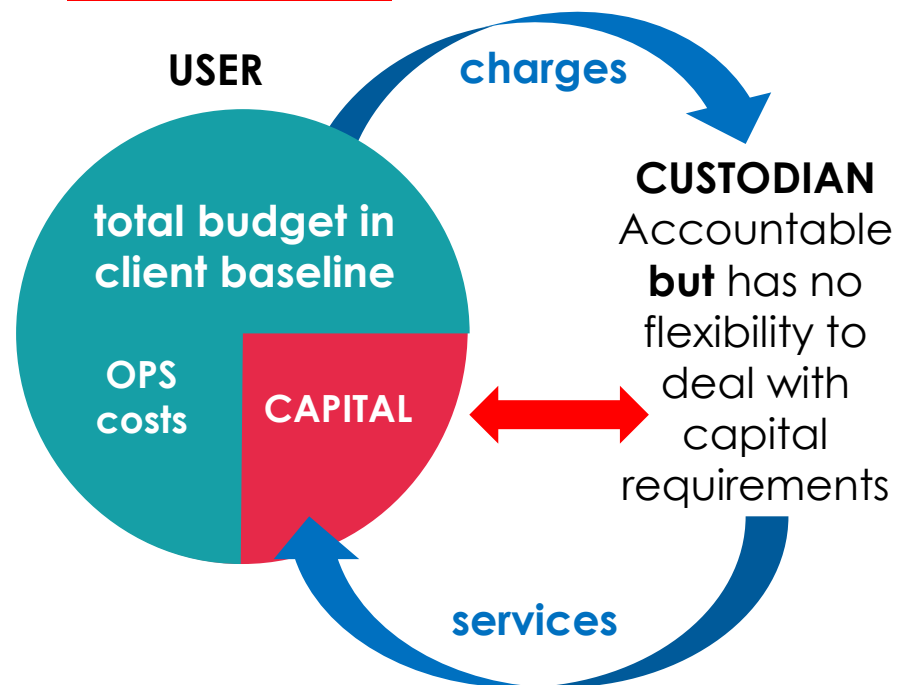
PARADOX

single year planning / budgeting **VS.** multi-year commitment

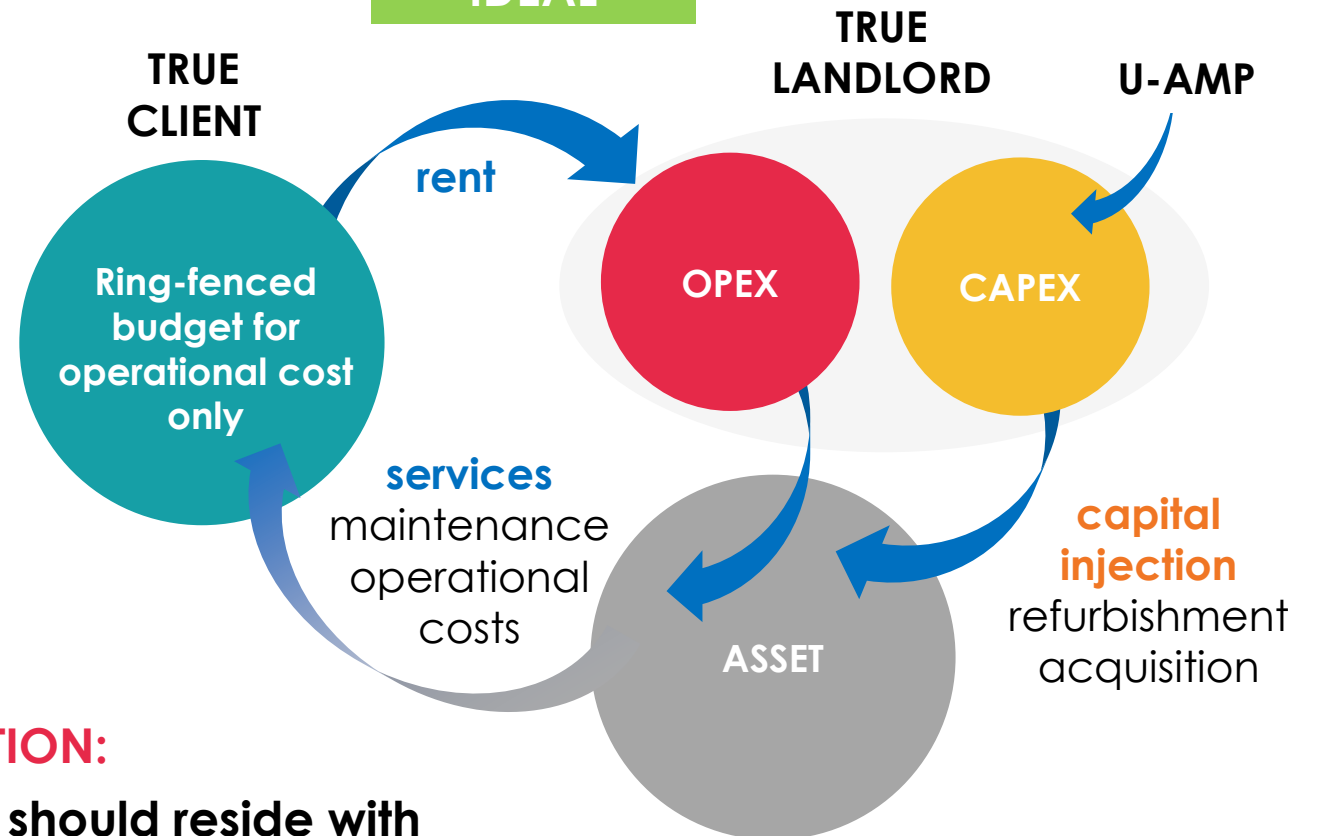
TENANT / LANDLORD RELATIONSHIP

User Departments reprioritise budgets, earmarked for PMTE capital commitment, mid-term

CURRENT



IDEAL



SOLUTION:

budgets for capital should reside with custodian to effect long-term planning



10. CAPITAL INFRASTRUCTURE challenges with maintaining the baseline

- The PMTE depends on Users' budgets to plan and execute projects.
- Although budgets are allocated over the MTEF, only the first year is fixed - outer years are indicative and can be cut.
- This poses a problem for infrastructure delivery – Multi Year

CHALLENGES:

- Clients approve projects but suspend money in later years when projects are already underway
 - **EXAMPLE: Justice, DCS, DHA and DAC have cut their respective budgets during 2017/18 (citing that it was due to a NT cut to their budgets) from R 1.7b to R 891m. The cuts were only communicated at the beginning of that financial year. At that stage contractors were already on site and consultants were appointed to do design**
- **Implications:**
 - All tenders had to be cancelled, all design work had to stop and the PMTE was not in a position to pay contractors already appointed
 - PMTE had to **pay some contractors against its bank overdraft** to avoid legal action



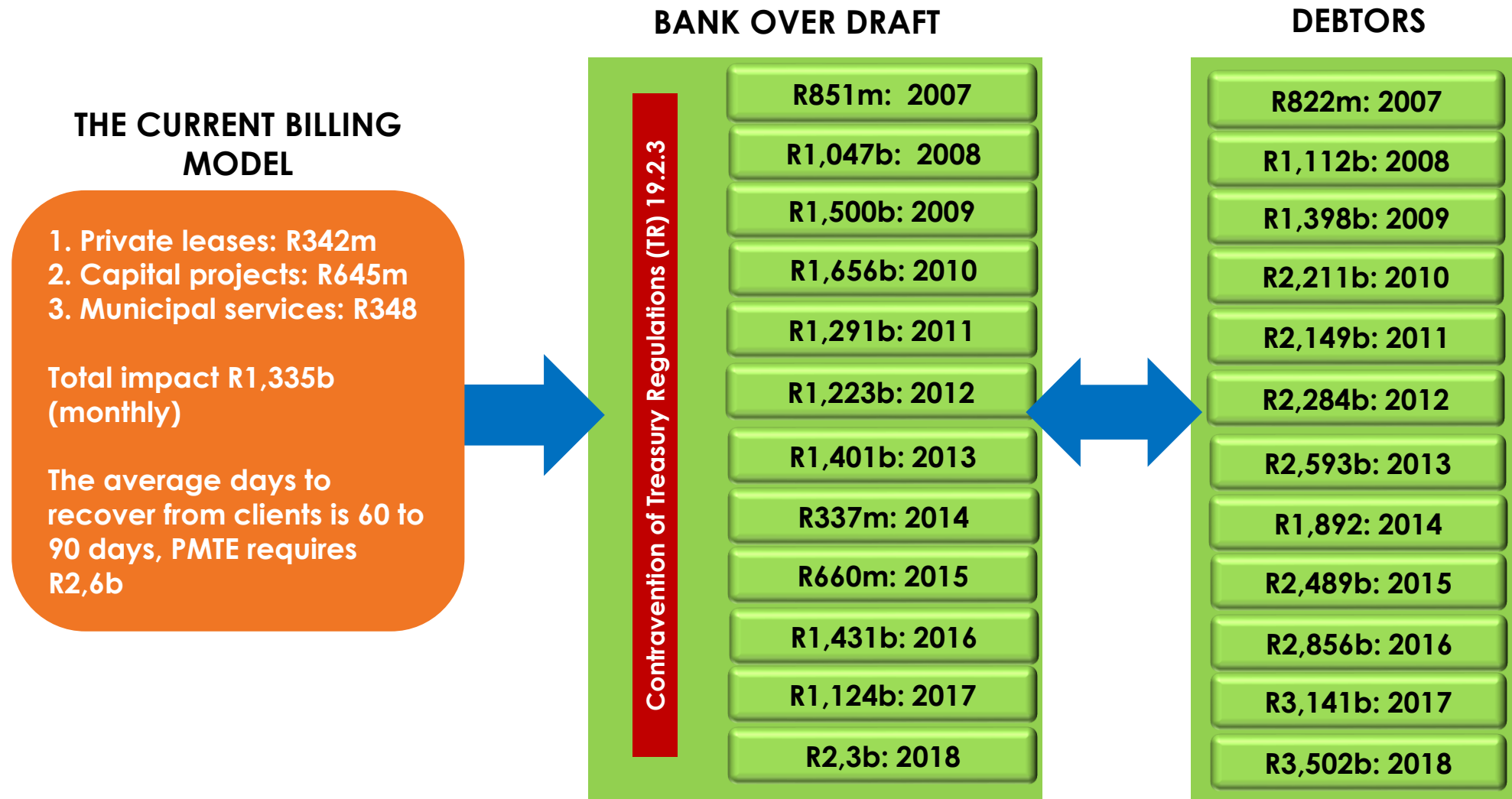
11. CHALLENGES of devolved budgets – knock-on effect

KNOCK ON EFFECT – Client Issues

- Closure of client facilities due to statutory contraventions (Dept Labour, Water Affairs, Municipalities)
- Increasing breakdown incidents logged by clients due to poor condition of facilities
- Poor performance of critical components related to service delivery to the citizens (e.g. lifts, boilers, air conditioning, water systems)
- Accommodation charges vs client expectations
- The performance of Newly Constructed Facilities



12. BANK OVERDRAFT & outstanding claims



If all debtors were to settle the outstanding debt of R 3,5b (31 Mar 2018) the bank overdraft would be resolved



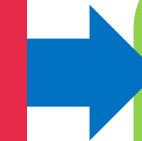
13. BANK OVERDRAFT & outstanding claims

KEY INITIATIVES

- Ring fence all clients budget
- Full implementation of User Charge Model

- **Release lease payment on 1st of each month (R342m) effective 01/08/18**
- **Claim quarterly in advance for leases (R1,026b)**
- **Claim in advance for projects based on cash-flow Projections (R645m)**

- Claim a deposit from clients equivalent to monthly expenditure (R348m)
- Charge interest on all over due amounts
- Cut the service for all clients not paying
- Joint task team – resolve clients complaints
- NT intervention
- Ministerial intervention
- Cabinet intervention – get resolution of cabinet
- Operationalisation and financial sustainable



Impact of change of billing model = R2bn

- NT approval
- Implementation of integrated systems
- Collaborated efforts



14. SUSTAINABILITY INITIATIVES

funding strategy & revenue

FUNDING STRATEGY - OFSP

- To adequately maintain the portfolio, recognition of the **full asset lifecycle costing** needs to be appreciated, where both the initial cost and life cycle cost over the asset lifecycle must be quantified, made visible and provisioned for
- User Charges currently recovered forces DPWI to adopt a **reactive approach**
- The implementation of the **revised tariff structure** remains the most appropriate and feasible solution in addressing the maintenance backlog and financial sustainability challenges of the PMTE
- DPWI however recognises that fiscus cannot provide all the required financial relief
- In this regard, DPWI has developed a **funding strategy** coordinated and managed by a dedicated Operationalization and Financial Sustainability Programme (OFSP) to:
 - **Forecast different financial sustainability** options through the developed Finance Model;
 - Drive the **revision of Tariff Structures** for all property categories;
 - Implement initiatives to **eradicate the bank overdraft**; and
 - Identify and incubate **new Revenue Generation Initiatives** that includes private sector investment.



15. SUSTAINABILITY INITIATIVES

procurement reforms

PROCUREMENT REFORMS

- **Fit for purpose SCM regime for business of the PMTE**
 - Procurement of property (leases)
 - reduce government rental expense,
 - achieve effective and efficient delivery of accommodation to User Departments,
 - shorten turnaround time on delivery of accommodation as well as.
 - Infrastructure Procurement (construction & maintenance projects, etc) – SIPDM, **use of panels** of professional consultants. The benefit of this initiative is not only an expedited procurement process but also a cost saving as the fees charged are fixed and agreed upfront
- **Implementing agents** (Organs of State) are used to deliver projects resulting in expedited delivery of projects.





16. SUSTAINABILITY INITIATIVES

revenue generation & cost savings

LEASEHOLD RENEGOTIATION

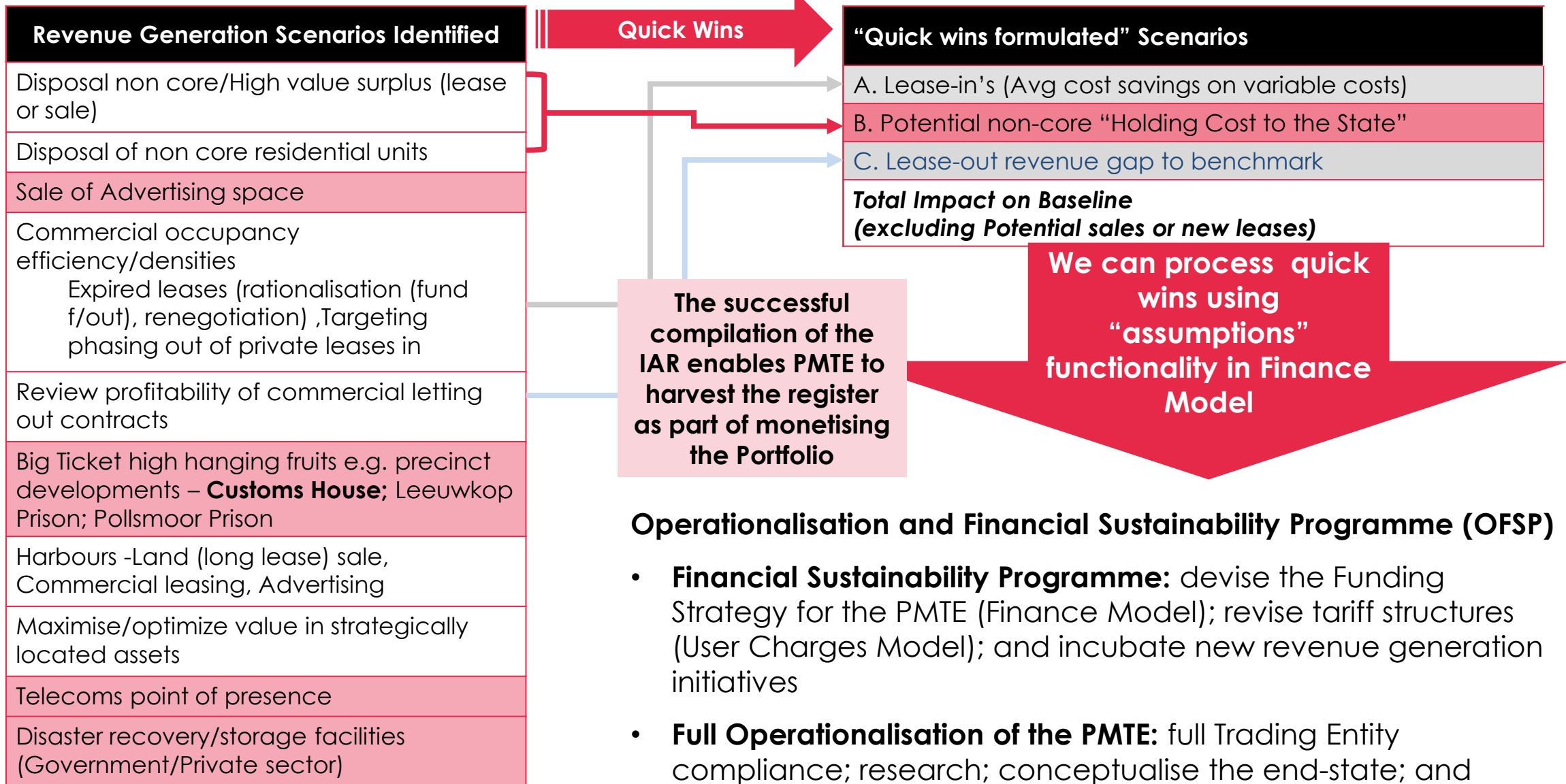
- Renegotiate all significant leases that are above market rate (current leases)
- Market Research of Pretoria Leasehold portfolio

UTILISATION OF PROPERTIES & LAND NOT OCCUPIED

- **Striking a balance between releasing the properties for the public good vs. sustainability requirements of the PMTE.**
- 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 entrepreneurs** in the construction and property sectors.



17. REVENUE GENERATION identified scenarios



Operationalisation and Financial Sustainability Programme (OFSP)

- **Financial Sustainability Programme:** devise the Funding Strategy for the PMTE (Finance Model); revise tariff structures (User Charges Model); and incubate new revenue generation initiatives
- **Full Operationalisation of the PMTE:** full Trading Entity compliance; research; conceptualise the end-state; and establish the State Property Management Agency (SPMA)



18. OTHER SCENARIOS telecoms point of presence

- Use the geographic national footprint of portfolio to create national broadband
- Currently engaging **Broadband Infraco (BBI)**, an SOC of the Department of Post and Telecommunications charged with the SA Connect programme to roll out a broadband infrastructure using our extensive geographic spread of buildings as internet points of presence
- This can be a platform to exploit opportunities arising from the 4th Industrial Revolution





19. OTHER SCENARIOS sale of advertising space

- Possible buildings to be used for advertising have been identified
- Initial scope was limited to Gauteng, Western Cape and Kwazulu-Natal
- Returns will depend on the demand per advertising location
- The nature and extent of PMTE financial benefits will depend on nature and extent of contractual terms





20. SAVINGS INTERVENTIONS

energy savings

- Energy Saving Technologies
- Energy mix through the implementation of Renewable Energy Projects
- Independent measurement and verification of savings
- Replacement of Inefficient boilers
- Resource Efficiency initiative for leasing portfolio
- Automated Reporting of energy savings
- Awareness drive

Solar PV Panels



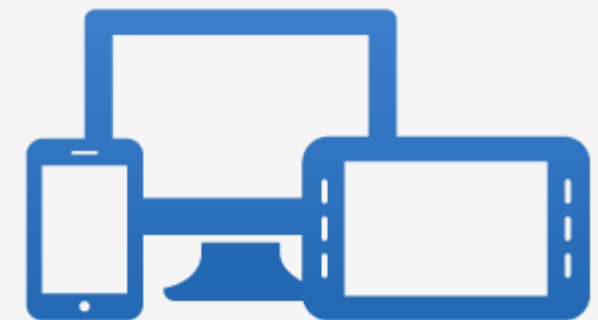
Energy Saving Technologies



Behavioural Changing Campaigns



Unified Communications





21. SAVINGS INTERVENTIONS water infrastructure maintenance

Water Resources

- Borehole construction and alternate water supply opportunities

Water Treatment

- Compliance to Blue Drop Standards as well as licensing of plants

Bulk Water and Distribution

- Reduction of water losses and wastage, increasing water use efficiency,
- compliance of facilities to No Drop standards and awareness creation on using water wisely

Wastewater Treatment

- Compliance of water treatment plants to Green Drop Standards as well as licensing of plants

Water Quality

- Development of a water quality management system, accreditation of analytical methods, and creation of a proficiency testing scheme.





public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

22. GREEN BUILDING policy

PUBLIC WORKS GREEN BUILDING POLICY



public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

Principles

- Sets out principles to develop, maintain and operate portfolio of buildings and reduction impact on the environment for more resource efficient – energy, water in existing and newly built buildings

Job Creation – Green Jobs

- Policy lays out basis for creation of green jobs; upskilling and training and improved working and living conditions.

Provide Leadership

- Provide Leadership for in Green Buildings and Green Economy



SECTION H

GOING FORWARD
our approach





- The journey towards the State's objective to have an **effective vehicle to manage its expansive portfolio**, saw the establishment of the PMTE in response to Government-wide reforms (PFMA, GIAMA, Devolution)
- The PMTE journey has unpacked key concepts necessary to address and to improve the management of State property
- **Professionalizing and capacitating of property management to the State** has a direct impact on State's ability to deliver services to the citizens
- The PMTE creates the **platform to enable the introduction of "New Money"** to compliment the fiscus
- The PMTE's benefit for the new DPWI is affording it the space to execute its bigger mandate (regulation & policy) more effectively
- PMTE Business Improvement Initiates currently underway, **will set the standard for the entire Public Sector** Property and Infrastructure Management





PMTE

PROPERTY MANAGEMENT TRADING ENTITY

- National Department of Public Works (NDPWI)
- Head Office: Public Works
CGO Building
Cnr Bosman and Madiba
Pretoria Central
Private Bag X65
Pretoria
0001
- Website: <http://www.publicworks.gov.za>

THANK YOU



public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA