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**MEDIA STATEMENT BY MINISTER OF PUBLIC WORKS AND
INFRASTRUCTURE, PATRICIA DE LILLE AND DEPUTY MINISTER
NOXOLO KIVIET**

**DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE HOSTS FIRST
LANDLORDS CONFERENCE TO ENGAGE THE PRIVATE SECTOR ON
IMPROVING LEASING OPERATIONS FOR THE PROVISION OF STATE
ACCOMODATION**

Today, the deputy Minister, Noxolo Kiviet and I hosted the first Landlords Conference with private landlords which the Department of Public Works and Infrastructure leases properties from to provide office accommodation to government departments.

The conference at the Birchwood Hotel saw more than 300 delegates in attendance, most of them property owners/landlords as well as representatives from NERSA, banks, and property associations like the South African Property Owner's Association and the Property Sector Charter Council.

Our intention with calling this conference today was to forge a greater understanding and links between the department and private landlords so that we improve our respective processes and operations and work together more seamlessly and more productively.

The Department of Public Works and Infrastructure (DPWI) is responsible for the provision of accommodation for government departments.

This is achieved through a hybrid model where DPWI uses State-Owned Property and Leasing-in from the private sector. However – at the moment – there is an over-reliance on the private sector.

Just as companies exist to provide services and make a profit, government has a responsibility to delivery services but to do so effectively while practising sound financial management.

While we want to support and do business with the private sector, we also have a duty to optimise utilisation of our many buildings we own as the State landlord and custodian of state-owned properties.

The purpose of the conference was to engage with landlords and other stakeholders on the following:

- SIP 28 - the PV and Water Savings on government buildings project
- The Refurbish Operate and Transfer programme to improve state-owned facilities and improve efficiencies our leasing portfolio
- Month to month leases
- The Green building policy
- Corruption

This was a critical engagement as there are a number of challenges in our work of letting properties for use by government departments.

The issues that we are confronted within this work are complex at times but that does not mean we can't fix things. We simply must.

ENERGY and WATER DEMAND MANAGEMENT

PV and water savings on government buildings

I conveyed to the landlords that as DPWI we are doing our part and we now turn to private sector to do their part by putting in measures to reduce water and energy demands in their buildings that we lease from them.

Following the announcement by President Cyril Ramaphosa on Monday evening on actions to address the electricity crisis, on Tuesday, we announced that DPWI supported by National Treasury's Government Technical Advisory Centre's (GTAC) transactional advisor will publish the Request for Proposals (RFP) for the commencement of the Integrated Renewable Energy and Resource Efficiency Programme (iREREP).

The RFP will be released in the next week for the procurement of the Programme, which will be the largest programme for the procurement of renewable energy and resource efficiency for public facilities.

The DPWI as the largest landlord and facilities manager in the country, has a responsibility to not only deliver and manage quality infrastructure but to combat climate change and enhance sustainable development through its mandate - such as providing buildings for government service delivery.

The DPWI property portfolio is big user of electricity and water and generates a significant amount of waste.

Recent studies places annual electricity and water consumption at an estimated 4021 Gigawatt hours 39 million kilolitres respectively, with over 822 kilotons of waste generated.

This equates to an average annual expenditure on electricity and water of R2.4 billion and R1.8 billion respectively.

We encourage all private sector participants across renewable energy, energy and water efficiency, alternative waste management sectors and through their various roles to participate in the RFP as we further cement partnerships between Government and the Private Sector.

In line with President's announcement on Monday evening for us reduce demand while we work on increasing supply, I appealed for the landlords' help to drive down demand in their private offices that we rent from them.

In the 2021/22 financial year, DPWI spent over R764 million for the year and an average monthly payment over R63 million on municipal services payments on leases from the private sector.

I also appealed to the landlords that we want to see a reduction of 50% in electricity and water use and within the next year through them implementing water and energy efficiency measures in their buildings.

REFURBISH, OPERATE AND TRANSFER PROGRAMME

Another innovative strategy by DPWI to improve efficiencies in the State's property portfolio, is the Refurbish, Operate and Transfer programme (ROTP).

The programme is part of the DPWI's plan to pursue a more efficient strategy to improve the state of its infrastructure asset base and enable client departments utilizing these assets to deliver services and have a developmental impact through:

- The improvement of office accommodation through efficient asset management throughout the planned life of the asset and aims to re-orientate the State towards long-term view of public infrastructure management.
- Promoting spatial inclusivity, spatial integration, and equitable access through the active planning, developing and refurbishment of state assets within mixed-use precincts to counter the historical spatial injustices and to benefit from upgraded infrastructure.
- Promoting sustainability and contributing to the NDP 2030 and sustainable development goals by prioritising stimulus of the Green Economy through sustainable buildings and precinct design in line with DPWI's Green Building Policy.
- Unlocking National Priorities by promoting economic development and driving inclusive growth through job creation, Women and Youth development, SMME development, skills development, and training within the entire build environment value chain.
- Leveraging funding from public & private sector.

The immovable asset portfolio under the custodianship of the DPWI comprises of approximately 30 000 land parcels (4.7 million hectares of land on which some 90 000 facilities (equivalent to 33.9 million square meters of floor space) are located.

The ROTP is a strategy for the management of DPWI's High Priority Facilities.

The first phase will focus on 5 pilot sites in the City of Tshwane.

The second phase will be the rest of the under-utilized or unutilized facilities to be selected from the DPWI asset register.

The ROTP has been reviewed and revised to focus on the long-term leasehold strategy wherein private sector participants will bid for a long-term leasehold on the state-owned fixed assets.

Private sector participants will then be responsible for the necessary improvements and maintenance of these assets to be suitably occupied for an agreed long-term lease period.

Where suitable, the DPWI and its User Departments will be tenants, and elsewhere the private sector leasehold will enable other suitable uses.

The ROTP programme aims to enable private sector participation in both leasing, managing and protecting state assets, whilst also contributing to the mission of a transformed, inclusive and vibrant active property market.

The Pilot Phase has been structured into the following: Phase 1A: Telkom Towers Precinct (5 buildings) in the City of Tshwane where the tenant is the South African Police in one section.

Phase 1B: Public Works House and the Civitas Buildings also in the Tshwane CBD.

MONTH TO MONTH LEASES

One of the key issues we must fix is that of month to month leases.

Over the years the Department had a recurring audit finding pertaining to the number of month-to-month leases that led to irregular expenditure.

This situation has been improving over the past 5 years where the Department had over 1700 leases (out of 2000) that were on month-to-month in 2017 to just under 200 out of (2400) leases on month-to-month to date.

A few years ago, in light of the serious problems caused by month to month leases and its associated costs, the department commissioned a study.

Comparison of gross rentals (derived in this review) to market rates, such as published in the Rhode report, showed close to 56% of the leases sampled had rentals over market rates. Of these leases, rentals were on average 45% more than market rates.

In the Pretoria region, rental amounts were more than 66% above market rates.

Durban, Port Elizabeth, and Johannesburg had over 60% of leases above the market rate, while Cape Town was estimated at 50% above the market rate.

This shows from the leases sampled, Government is paying a premium compared to market rates.

This report led to the department embarking on a drive to reduce its leasing-in costs by implementing several strategies such as:

- Adoption of the Rhode Report as an independent tool to guide the department of rental rates across the country
- Capping of escalation rate at 6% for all lease renewals
- Identifying Landlords with a National Footprint and negotiating such leases at a central point.
- Requesting clients for longer rental period mandates to reduce rental rates and also to support the efforts of implementing the department's Property Empowerment Policy (PEP).

Many leases are operating on a month to month basis due to processes not being finalised and agreed to for longer term leases.

At the end of last year, I instructed that month to month leases need to be stopped and this was done for the sole reason that this was being flagged as irregular expenditure by the Auditor General.

My duty as the executive Authority is to have oversight of the department and ensure that we practice prudent and sound financial management as we are dealing with tax payers' money.

When this kind of over market related payments come to light, it is the Minister who gets called to account to the people in Parliament or through the media.

Our duty is to spend public funds wisely and not to make profit or spend more than we are supposed to.

My responsibility to ensure that the department achieves value for money and that we conduct our financial affairs in line with the Public Finance Management Act and not to have matters flagged as wasteful or irregular expenditure by the Auditor General.

I conveyed to the landlords that the issue of month to month leases is one that we fix because it is simply irregular expenditure.

We have been engaging landlords since last year on the issue of month to month leases.

With the renegotiating of the leases we have been able to save government R273million and the process is ongoing.

PRECINCT DEVELOPMENT

I also updated the landlords on DPWI's Precinct Planning and Development project.

Due to population growth mainly in metros due to urbanisation, there is a deliberate infrastructure planning interventions in the metro areas.

This is further supported by the Cabinet memorandum of 2001, where government departments must remain within the Inner City in support of inner regeneration and growth and development.

In this regard, most of the Government Head Offices are situated in Tshwane, which is a hybrid of state-owned and leased accommodation.

The establishment of the Government Estate Development Framework will facilitate the development of a further 900 000 square meters of state-owned development across the following Precincts in Tshwane:

Northern Gateway, Civic Precinct, Caledonian Precinct Government Boulevard, and Ceremonial Boulevard within the Northern Gateway precinct and Salvokop which is a mixed-use precinct gazetted as Strategic Infrastructure Project.

The Salvokop development will focus on phase 1 to develop 360 000 square meters of Head Office Complex for four National Government Departments.

This flagship project is jointly executed by DPWI, the National Treasury, and the City of Tshwane which we launched a few weeks ago as DPWI is currently installing bulk services for the precinct development.

CORRUPTION

On the issue of corruption, in May 2021, we launched the Infrastructure Built Anti-Corruption Forum as part of our efforts to tackle corruption and deal with the trust deficit between government and the private sector.

The forum is chaired by the head of the Special Investigating Unit (SIU), Advocate Andy Mothibi and has oversight of all infrastructure projects within the Infrastructure Investment Plan.

The forum is in place to bolster efforts to fight corruption and to put systems in place to prevent and detect corruption. It is led by the SIU and DPWI and consists of members from law enforcement agencies, civil society, built environment professional bodies, academia and the business sector.

CONCLUSION

I appealed to the landlords to work with us so that we can help build South Africa back up better. It is my hope that the strategies and solutions we discussed today will be implemented with urgency by all to see improved operations with leasing matters.

ENDS

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