

Media Briefing: Department of Public Works Budget Vote

Summary Statement

TW Nxesi, Minister of Public Works

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Welcome to the members of the media.

The budget vote for Public Works will take place tomorrow at 10.00 am in Room E249. The full speech will be distributed to the media tomorrow morning at 7.00 am – embargoed until the delivery of the speech.

The broad purpose of a budget vote speech is for the minister to account for what the Department did last year, and to explain what they intend to do with the money that has been budgeted for the coming year.

In the case of Public Works – a department which we can all agree has experienced major challenges – it is also imperative to report to Parliament on the progress made in addressing those challenges and returning the Department to full functionality.

The turnaround project to ‘Rebuild the Department of Public Works’ is now well under-way:

- We now have the funding from National Treasury;

- The core of the Turnaround Team – now renamed the Business Improvement Unit - is in place under the office of the Director-General so that we build capacity in the Department – not the Ministry - so if the Minister is recalled tomorrow it will not derail the whole turnaround.
- The planning processes are well-advanced – with annual, 3-year and 7-year plans in place – developed in consultation with National Treasury.
- We have also – crucially – stabilised the leadership of the Department. When we started out on this journey 18 months ago, I said that much of DPW’s problems could be traced to a long period of unstable and constantly changing leadership. We also said that any turnaround strategy would need to be led from the top. I believe we have now stabilised leadership with the appointment of the new DG and CFO, and other changes at leadership level.

While the turnaround project that we designed consists of 23 discrete projects, our key focus has been on taking control of five key areas:

1. Developing a complete credible register of state immovable assets
2. Conducting a comprehensive audit of leases and the establishment of a Lease Management Framework.
3. Ensuring progressively improving audit outcomes for the DPW;
4. Actively reducing fraud and corruption in the DPW, and
5. Operationalising the Property Management Trading Entity (PMTE).

I can report clear progress on all these projects.

- ***Combatting fraud and corruption***

We have worked closely with the SIU (Special Investigations Unit) to investigate a number of irregular leases and projects – some 40 investigations in all, of which 13 are completed. This has resulted in successful disciplinary actions, the dismissal of three officials including one DDG, and court actions to recover monies wrongly paid by the Department. I need to add, that as recently as last week, further suspensions of officials took place – pending disciplinary processes.

SIU investigations, together with recent findings of the Competition Commission, tell the same story: over-pricing and collusion between some officials and sections of the construction industry – a timely reminder that it takes two to tango; that corruption and greed in the private and public sectors are mutually reinforcing each other.

The Prestige projects constitute a major area of collusion and irregular expenditure which has attracted negative publicity - deservedly. Given this profile, we have taken firm control of Prestige by centralising it, implementing a new structure, and creating a direct reporting line to the Director-General. This has already been accomplished, resulting in the cancellation of two high-priced projects, saving the Department R18 million.

Let me add: all prestige projects are now undergoing investigation. The process is complete in regard to Pretoria. We are now looking at Cape Town.

Similarly many of the problems surrounding the security upgrade at Nkandla are rooted in the failure of supply chain management processes, poor management and lack of accountability. As a Department we completed our investigation at the beginning of the year. We have referred our findings to the SIU for further investigation. We are also cooperating with the Public Protector's investigation. Parliament is planning to discuss our report, and the Auditor-General has undertaken to audit Prestige projects.

I can assure honourable members, no stone is being left unturned. I have given an undertaking, that as a Department, we will act against any official where evidence of wrong-doing exists.

In the light of these recurring problems, we have started to enhance investigating capacity within the Department:

- Short-term, as part of the funding for the Turnaround, Internal Audit was empowered to commission forensic investigations. Some 19 investigations have been completed.
- We are also establishing an internal Compliance and Enforcement Unit –advised by SARS – as part of a separate Risk Management Branch.
- Looking forward, we are establishing a separate Supply Chain Management (SCM) Branch. In this regard, as the Minister of Finance announced in his 2013 Budget Speech, National Treasury will be working closely with DPW to review and strengthen SCM processes.

Our broad approach can be characterised as follows:

- We will investigate and prosecute cases of fraud and corruption, but
- It is equally important to put in place robust systems – and here I am quoting from our colleagues in SARS - with the aim: to make it easy for weak people to do the right thing, and difficult for bad people to do the wrong thing.

We also trust that the Competition Commission will work with the Department and its relevant entities to develop a longer-term approach to combatting collusion in the construction sector.

- ***The Immovable Assets Register***

The state land reconciliation with Deeds Office records has been substantially completed and the Asset Register updated – led by service provider, Ernst and Young – working closely with officials in the Department.

This exercise involved scrutinising the records of some 180,000 land parcels, ascribing custodianship to the responsible department or level of government, and commencing the vesting process where necessary - a complex process involving numerous stakeholders. The figures we now have will form the basis of a physical verification process due to commence in July 2013.

The aim is to substantially complete the Immoveable Assets Register by 31 March 2015. National DPW still has to allocate custodianship to some 4,500 land parcels, and approximately 24,000 land parcels need to be vested – a lengthy process which will take until March 2016 to complete.

My main point: although this is a lengthy exercise, I am very confident that we are on-track for the creation of an Asset Register that will – for the first time ever - accurately reflect the state's assets.

Let me make a further point: that this is a real game-changer. With a sustainable register of state immoveable assets in place, we will have at our disposal the tools to leverage this massive property portfolio for economic development. [State property has an estimated value of R300 billion – approximately seven times the value of the largest private property portfolio (GrowthPoint)].

- ***Audit of Leases***

One of the key functions of the Department is to provide office accommodation to National Departments. The Department presently manages a portfolio of 2,788 leased properties across the Republic. In his 2012 Budget speech, the Minister of Finance announced Treasury's support for a national audit of leases by DPW – a timely response to the numerous lease scandals at the time.

To date, 100% of these leases have been reviewed. Of these, 1,316 required attention, revision or renewal. These we regard as backlog

leases – 365 of these leases have already been addressed.

Recommendations for the remaining 951 leases will be in place by the end of June, 2013.

Let me give you a sense of the challenges we face with regard to leases. At this stage only 42% of floor plans and tenant contact details are in place. In other words basic information to accompany leases was either not collected, or lost - impacting our ability to conduct a physical verification of leased accommodation, and resulting in delays.

- ***Improving audit outcomes***

The Clean Audit project was initiated in December 2012 to address audit queries – and includes a consortium of specialist service providers which has been deployed across the Department’s Head Office and 11 regional offices. I am pleased to announce that the Department has appointed 64 unemployed commerce graduates as part of this initiative. Indeed this is working out so well, that the DG has requested that we employ an additional 40 unemployed graduates.

The team is progressively clearing the myriad negative audit findings in the areas of Finance and Supply Chain. Skills development of Finance and Property staff is a secondary, but vitally important, output of this project.

A key area of focus is the reduction of late payments and compliance with the President’s injunction to pay suppliers within 30 days. As part of this

project, the DG and I are visiting the regions to meet with service providers, and to work with officials to address complaints.

The verification of expenditure – and the highlighting of irregular expenditure – is also a key area of focus of the Clean Audit Project. This involves the inspection of every transaction in terms of compliance with supply chain management policy. Given over 1,1-million transactions a year, this is a huge task. I am pleased to confirm that all transactions for the Department and the PMTE will be fully tested for the 2013/2014 financial year – in order to eliminate irregular expenditure going forward.

- ***Operationalising the PMTE (Property Management Trading Entity)***

Let me explain the background to this: In 2006 Treasury approved the establishment of the Property Management Trading Entity within DPW with the injunction that a business case be submitted within two years. The failure to finalise these processes contributed significantly to both DPW and PMTE receiving negative audit opinions in subsequent years.

I am pleased to confirm that we have now formalised the establishment of the Entity with effect from 1 April 2013. A detailed business case is under development and will be submitted to Cabinet for approval in August, 2013.

I need to conclude by highlighting the areas of Public Works – which despite all the flaws – remain productive due to the hard work of officials:

- 214 capital infrastructure projects were completed in 2012/2013. *[One of these was an upgrade to the runway at Waterkloof Air Force Base.]* Currently 518 projects are in the construction phase, with 300 targeted to be complete by end of March 2014.
- Some 42 government buildings were made more accessible for people with disabilities during 2012/2013; with a further 146 buildings prioritised in the current year.
- DPW has also begun to rebuild the technical and professional capacity of Public Works – appointing and training professionals, and establishing joint teams with client departments to enhance service delivery.
- We are currently rolling out low cost bridges in the Eastern Cape – before extending the programme to other provinces. These bridges, as well as providing safe river crossing during rainy seasons – especially for school children – also improve access and social and economic mobility for entire communities.
- EPWP (Expanded Public Works Programme) remains a successful and effective part of government’s response to the triple challenge of poverty, unemployment and inequality. Our initial target in the second phase of the EPWP - for the period 2009-2014 - was to create 4.5 million work opportunities. This has now been increased to nearly 5

million new job opportunities – with a special emphasis on unemployed youth and women. As part of this, some 8,000 youth will be recruited for artisan training to be employed by the national and provincial departments of public works.

Moreover, in our choice of projects we seek to improve the quality of life of particularly poor communities. Examples include:

- Construction and road maintenance projects.
- Working for Water projects involving removal of alien vegetation – which is a threat to water tables.
- Home Community Based Care projects in which caregivers are trained to look after sick patients in their homes.
- The Community Safety Programme currently running in four municipalities will be replicated in other provinces in the future.
- A cemetery maintenance programme is being piloted in rural municipalities.

The EPWP programme is making a real difference to people's lives. Indeed, this week I visited the Lentegour Police Station in Mitchell's Plain – a state of the art project of Public Works. We were engaged by community members who impressed upon us the positive impact of EPWP for individuals and the community.

I am also pleased to announce that the problem of under-spending on the disbursement of the EPWP incentive grant – which amounted to

R358 million in 2011/2012 - has been eliminated in financial year 2012/2013, as a result of revisions to the grant model.

As we move into Phase III of EPWP, we have to ensure that all stakeholders are on board – including municipalities and provinces, that they are supported where necessary – and that, collectively, we further upscale EPWP programmes.

In conclusion:

- Whilst we must never underestimate the magnitude and scope of the task we face as Public Works, even so:
- We have now stabilised the Department;
- We are making real progress in tackling the immediate – and systemic – challenges; and
- We have put in place the building blocks – and we have a plan – to rebuild Public Works.

I thank you.