

## **PUBLIC WORKS BUDGET DEBATE**

8<sup>th</sup> May 2013

Jeremy Cronin, Deputy Minister

When I joined the Ministry of Public Works in June last year, the Department was still in the midst of very difficult but absolutely necessary fire-fighting. Minister Nxesi who was appointed a few months before me, in late 2011, arrived to find three large and daunting files on his desk – from the Auditor General’s Office, from the Special Investigations Unit, and from the Public Protector. Cracking down on corruption, dealing decisively with malpractices, focusing inward on ourselves – all of this has been a necessary posture.

But while the Turnaround and Stabilisation effort continues, the Department is now relatively stabilised. I would like to believe that many old-hands in the Department, professional colleagues who have remained at their posts, now have a renewed sense of purpose. They have been joined by new appointments, including Director General, Mziwonke Dlabantu and a new CFO, Cox Mokgoro.

All of this means that we can now focus more intently on our key strategic responsibilities, we can begin to look outwards and forwards, and not just inwards and backwards. One such essential move is to take seriously what is surely our core strategic responsibility – our multi-billion rand property portfolio.

### **The Property Management Trading Entity**

According to the SA Property Owners Association (SAPOA) the South African property market is worth some R4,9-trillion – of which R188-billion is owned by national government departments and public entities.

Although not all of this, of course, falls under the National Department of Public Works, we are certainly the largest single property owner (whether public or private) in SA. Unfortunately we have not always managed this multi-billion rand asset with the necessary public sector professionalism.

We often say that “we have good policies, we just fail to implement them”. I am sure this is often true. But this too easily excuses the policies themselves and the need to self-critically evaluate them as we learn from experience. Back in 1997 the DPW White Paper identified structural and operational weaknesses that impeded DPW’s performance in property management. The White Paper championed budgetary reforms that would introduce a quasi-market mechanism into the relationship between DPW and what were now called “client” departments using state-owned accommodation.

Capital expenditures, rental and rates costs for state-owned accommodation would now be devolved out of DPW’s budget and transferred to the budgets of national departments. In the words of the White Paper:

*“client departments will [then] be required to pay a fee comprised of a capital charge, a notional rent and management fee, for the accommodation and related services which the DPW will provide. This will entail the DPW developing mechanisms for service level agreements with clients, thus ‘contractorising’ its most important set of external relationships.”*

This marketization of the relationship between DPW and “client” departments was not necessarily entirely misguided. However, in keeping with the times, it was encased unfortunately within a set of neo-liberal/new public management assumptions and priorities. The first of these was that introducing a market mechanism into the relationship would result in transparency, budgetary cost-cutting, and the right-sizing of what was said to be a “bloated state”. What this assumption neglected was that for the new “contractorising” relationships to be set-up, considerable initial expenditure (at least) would be required, particularly on professional skills, to capacitate the DPW to run a Property Management Trading Entity, not least given the vast portfolio it would be dealing with.

The second problem is that the policy then got stuck between its budget reduction ambitions and its equally neo-liberal ambitions to set up a new property SOE, spun out of the Department and modelled on private property companies – a publicly-owned Growth Point, if you like. Again, it is not as though there is nothing to be learnt from private sector property companies – but a Property Management Trading Entity within the DPW should have

different developmental priorities and possibilities – beyond business efficiency to achieve profit maximisation. These priorities should include using our property portfolio to help catalyse integrated urban development to turn around the decay of many of our CBDs, for instance. We also need to integrate much more fully labour intensive approaches (and the EPWP) into the maintenance of our property portfolio. Likewise there are many possibilities for driving green retro-fitting and accessibility – the public sector property portfolio should be a trend-setter in these important social and developmental objectives, rather than the laggard that it often currently is.

Finally in April 2006, in line with the White Paper, the DPW devolved its maintenance, property rates, municipal services and leasing budgets to its national user departments and introduced accommodation charges.

At the same time it was recognised that this budgetary reform would require structural changes within the DPW. In response to DPW's White Paper, National Treasury approved the establishment of a **Property Management Trading Entity** (PMTE) in March 2006. The approval was subject to several requirements including –

*During the first year of operation of the trading entity, Public Works must seek approval from National Treasury to establish a fully-fledged trading entity by 1 April 2007, which would comply with all the conditions for trading entities ....*

In 2006, the Department developed a draft business case for the establishment of the “fully fledged” PMTE, but, I suspect for reasons noted above, it was never finalised. The Department also failed to properly segregate the functions of its “main account” from those of the PMTE. This has contributed significantly to both the Department and the PMTE receiving disclaimed audit opinions over the past few years. Added to this, the manipulation of narrow BEE objectives in the space of these new “contractorised” arrangements – (manipulation by established and aspirant property developers, and dishonest elements within the Department) – further muddied the waters. What had set out to be an intervention to achieve greater transparency and cost-saving has turned out often to be the exact opposite. It is time to make a new beginning.

## **Interim measures**

To address these long-delayed issues, the Department, with effect from 01 April 2013, has now adopted interim structural measures to clearly segregate the functions of the PMTE and DPW's Main Account. All relevant Asset and Property Management functions within DPW have now been ring-fenced to form part of the PMTE's operations.

At present, the PMTE is operating as an account rather than a fully-functional trading entity.

## **Medium/long term measures:**

The intention is for the PMTE to be suitably positioned and structured to enable the Department to better deliver on its mandate to (a) provide fit-for-purpose accommodation to its user departments at appropriate rentals; and (b) obtain and retain funds for future property developments. We have therefore commenced a fast-tracked process to develop policy options for the long term operating model for the PMTE in order to finalise and submit the business case for approval.

It is envisaged that this process will be concluded in August / September 2013.

## **Legislation**

Another area in which we are beginning to see a shift from internal fire-fighting towards assuming forward-looking responsibility for our strategic responsibilities – is in the area of legislation. And again we are picking up on a long delayed matter.

The second sub-clause of the "Property Clause" in our Bill of Rights reads:

*"Property may be expropriated only in terms of law of general application – for a public purpose or in the public interest..."*

But, as we speak, there is no such legislated "law of general application" outlining an administratively just process in cases of expropriation, and ensuring just and equitable compensation for those expropriated. There was

an attempt in 2008 to pass an Expropriation Act, but the Draft Bill was withdrawn.

This Portfolio Committee now has an historic responsibility later this year to finally pilot a constitutionally-compliant (indeed, a constitutionally REQUIRED) Expropriation Act through Parliament. Since we last reported to the Committee in mid-April on the Draft Bill gazetted for public comment we have received a significant number of public responses.

We would like to use this opportunity to thank all of those who have made submissions, our departmental officials are busy processing them. I understand that many inputs are generally supportive. Others raise concerns which appear to be based on mis-readings of the Draft Bill – but that often tells us something – that our intentions are not coming through as clearly as they might. Expropriation is an emotive issue and, therefore, not all of the submissions received are constructive, some are quite emotional. Many of these are, in effect, not quarrelling with the Draft Bill, but with the requirements of the Constitution itself – which, for instance, explicitly does not regard market value as the sole criteria in assessing compensation.

## **IDT**

Among the many challenges confronting the DPW is the sustainability of one of our key developmental entities – the Independent Development Trust. The IDT was established in 1990, as an independent, civil society, grant-making agency with a R2 billion government endowment earmarked by the apartheid government for the enhancement of the standard of living conditions of disadvantaged communities – basically a last gasp attempt to create a black middle class buffer in the face of impending democratic change.

In April 2000, the Trust was reconstituted as a Schedule 2 Public Entity in terms of the Public Finance Management Act. In March 2007, Cabinet took a decision that *“IDT must be transformed into a government development agency that will implement projects which are commissioned by government departments. It must cease to be a civil society organization, an independent agency or a funding agency”*.

The changes and expansion of IDT's mandate since its inception have eroded the R2 billion capital injection it received back in 1990. The entity is currently severely constrained financially and is being sustained through State funding. For IDT to continue to exist it needs to be redefined within a prescribed mandate that will ensure over a predetermined period IDT becomes self-funded and sustainable. Over the past few years there has also been the matter of mandate creep leading to duplication in function with other State institutions.

We believe that the IDT has a critical developmental role to play – particularly in regard to the project management of social infrastructure construction (schools, clinics, community centres, libraries, etc). Private sector contractors and even government departments or municipalities often fail to foster active community participation in the planning, construction and maintenance of social infrastructure. This results in a sense of community alienation - and even, sometimes, in the wanton destruction of what is meant to be community-owned public property. An active, developmental approach to project managing the construction of social infrastructure is the critical niche we believe the IDT needs to specialise in.

In line with all this, the Department (working closely with Treasury) is actively developing a new business model for the IDT. We have set ourselves the task of producing an agreed business model for the IDT by the end of July this year.

### **Expanded Public Works Programme**

Earlier this year an international workshop on Public Employment Programmes was jointly hosted by UCT and the UN's ILO here in Cape Town. As the DPW we were actively involved in the event. I am not sure if South Africans appreciate the extent to which many countries (now also facing serious unemployment crises) are extremely interested in our own EPWP and particularly the sheer scale of it, as well as the multi-sectoral and innovative approaches we have pioneered.

When the programme was first started, I think that the belief was that it was to be of short duration. Alas, we now know that our unemployment crisis is deeply systemic and stubbornly present. Even the National Development Plan

envisages some 431,000 EPWP participants in 2030 on its more optimistic growth projection of 5,4%. It rises to 2,6million participants a year if the growth rate is 4,8%.

In the present 13/14 financial year we are committed to accelerating participating numbers. This will be achieved, through amongst other things:

- Working with Provincial Roads Departments to ensure increased labour-intensity on projects funded by the Provincial Roads Maintenance Grant.
- Increased technical support to municipalities to ensure projects are designed and implemented labour-intensively. Technical support will be provided to at least 255 municipalities in this financial year, with a particular focus on the 23 least resourced districts in line with the PICC's Strategic Integrated Project 6.
- EPWP will continue to promote skills development by implementing programmes like the National Youth Service where youth are trained in artisan trades in, for instance, the built environment. The DPW is targeting 3,500 youth this financial year as part of our contribution to the NYS programme.

The budget we are debating today will, I believe, enable us to consolidate the important shift of emphasis now under-way in the DPW – from fire-fighting and inward-looking through stabilisation to a much more active and strategic forward drive.