



MINISTRY
PUBLIC WORKS
REPUBLIC OF SOUTH AFRICA

**BUDGET VOTE SPEECH
VOTE 7: PUBLIC WORKS**

**TW NXESI
MINISTER OF PUBLIC WORKS
16 JULY 2014**

Rebuilding the Department of Public Works

1. Introduction

- Honourable Chairperson
- Honourable members of Cabinet and MECs
- Honourable Chairperson and members of the Portfolio Committee
- Honourable Members of Parliament

Let me also recognise in the gallery the presence of:

- Chairpersons and CEOs of our Public Entities and professional councils;
- Members of the Audit and Risk Management Committee;
- The Director-General and senior management of the Department of Public Works, as well as HoDs of provincial departments;
- Representatives of the construction and property industries, as well as leaders of labour
- The participants from DPW's Young Professionals training scheme and EPWP programmes;
- Pastor Mathebula of the Hope Restoration Church; Pastor Mahlangu of the Christian Church of Zion;

- Members of my family, and particularly my wife;
- Distinguished guests, ladies and gentlemen

Welcome. My Budget Vote input seeks to cover the following:

- To present the budget vote and commitments for 2014/2015;
- To account for what we have done as a Department over the last year – 2013/2014;
- To provide a progress report to the House on the turnaround strategy for Public Works; and
- To briefly share with the House my vision for the next 5 years of this Administration.

To this end a detailed document will be distributed for the information of Honourable Members. Today, Deputy Minister, Honourable Jeremy Cronin, will report on the following areas – which he is driving:

- Policy, legislation and the public entities; as well as
- The Expanded Public Works Programme.

In the time available, I will provide a strategic overview of where we are as a Department - in two parts:

- To map out – at a high level - our vision and priorities for the next 5 years of this Administration; and
- To provide a progress report on the Turnaround Strategy for the Department of Public Works.

2. Turnaround Strategy: Rebuilding the Department of Public Works

During 2012, with the support of National Treasury, we developed a Seven Year Plan to Rebuild the Department of Public Works. The plan envisages 3 phases:

- Phase 1: Stabilisation
 - Phase 2: Efficiency enhancement, and
 - Phase 3: Sustainable development
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- **Phase 1:** The stabilisation phase was necessitated by poor performance by DPW and the lack of adequate management and financial controls culminating in eight years of adverse audit findings – as well as high levels of fraud and corruption evidenced in the reports of the Public Protector and the SIU. We are two years into the Seven Year Plan and I can report that we have stabilised core business areas: leases, the Immovable Asset Register and finances:
 - **Lease Review** – With National Treasury we have conducted an audit of 2,162 properties leased-in from the private sector, and introduced more robust systems to manage the leasing portfolio. The Department has overhauled SCM processes in the leasing environment and negotiated, with National Treasury, a special dispensation to fast track the re-signing of expired leases. As a result:

- We were able to renegotiate leases downward in 50% of cases.
- The Treasury dispensation places a 5.5% ceiling on escalation of leases – below inflation - with further savings to the state.
- The Audit also highlighted leases where fraud and collusion is suspected (*eg. empty buildings we were paying for.*) These have been flagged for forensic investigation.

In the past, poor management in the leasing environment also resulted in contraventions of the Occupational Health and Safety Act. Inspections will now be prioritized on an annual basis.

- Another area of stabilisation is ***The Immovable Asset Register*** – Simply put: for the first time in the history of the South African state, Public Works has produced a reliable register of state properties which is 95% complete. National

Public Works accounts for 107,000 properties on some 30,000 land parcels. 95% of these assets have been physically verified. This is a game changer: we now have a much better idea of what we own. And we can start to use this massive property portfolio to leverage economic development and job creation.

I need to mention that in cleaning-up and developing the Immovable Asset Register, as DPW, we have cooperated with the Department of Rural Development and Land Reform and the Surveyor-General. We have also worked closely with provincial departments of Public Works – through MinMec - to assign custodianship of land parcels.

- ***Clean audit project*** – The other major stabilisation project - was to urgently stabilise the finance and supply chain management environment. For the 2012/13 financial year, the audit outcome of the Department's main account

improved from a disclaimed opinion to a qualified audit opinion. The qualifications that affected the Department's Main Account were reduced from eight (8) to three (3).

The audit outcomes of the PMTE (Property Management Trading Account) also improved considerably. Although the disclaimed opinion remained in 2012/13, the number of qualifications reduced from twelve (12) to four (4).

The team is committed – and expecting - to further improve audit outcomes for 2013/14.

The employment of 64 unemployed commerce graduates as interns has been a success story of the clean audit project. They are now eligible to participate in internal recruitment processes.

A formal skills transfer programme and on-the-job training on the revised processes in finance and

supply chain management have been implemented to embed the stabilisation initiatives.

In relation to irregular expenditure, all transactions were revisited for the period 2009/10 to 2012/13. This exercise entailed trawling through 1.5 million payment batches and tender files – there are no short-cuts to good governance and compliance. All irregular expenditure and fruitless and wasteful expenditure identified will be investigated, and action taken.

I am very pleased to announce that compliance with the President's injunction to pay service providers within 30 days has greatly improved. This is a very obvious way in which government departments can support small and emerging businesses.

Phase 2 of the Turnaround: Efficiency enhancement – This is where we seek to improve the business model and processes of the Department. This will be the focus

of the next 5 years. Critically this involves the following strategies and actions:

- First, implementing a structure which aligns with the mandate of the Department, principally:
 - The operationalization of the PMTE (Property Management Trading Entity) in line with earlier Cabinet decisions – to ring fence and professionalise the property business. This massive property portfolio (Seven times the size of GrowthPoint) includes 73,000 properties used by government departments, and some 30,000 properties largely unutilised. The priorities of the PMTE include:
 - At a strategic level, to advertise and headhunt property professionals from the private sector to be employed on performance based contracts.
 - To consolidate the improvements in the lease environment;

- To improve the maintenance and security of state assets through the National Infrastructure Maintenance Strategy (NIMS), to establish best practice and norms and standards for maintenance of state assets;
- To progressively reduce leasing-in in favour of rehabilitating our own stock for occupation by government. (Currently 2,700 buildings are leased-in at a cost of R3.2 billion);
- To work with emerging black estate agents to market our unutilised stock and to manage the leases;
- To seek public-public partnerships with other entities already working in the property management space to develop state assets.

In relation to PMTE and the management of state properties, the vision is as follows:

- to ring-fence, better manage, maintain and optimally utilise this massive state property portfolio to build value and to bring savings to the state;
 - as well as other socio-economic benefits – particularly job creation and empowerment;
 - whilst improving service to client departments.
- The second focus of organisational development in the Department is to fully operationalize the Governance Risk and Compliance Branch - to drive compliance and the anti-fraud and corruption campaign.

In 2012, I announced that the Turnaround Strategy stood on two legs: improving the way we do business as DPW, and combatting fraud and corruption.

In the stabilisation phase, we depended heavily on the expertise of the SIU to investigate fraud

and corruption. Ninety-five (95) cases were referred to the SIU for investigation, of which 75 have been finalised. This resulted in disciplinary action against 50 employees; 23 of which resigned before the commencement of the disciplinary hearing. Of the remaining 27, five received final written warnings, seven were dismissed and 15 cases are pending.

Civil action has been instituted against employees and contractors in eight matters, mainly claims for damages or action to have voidable lease agreements set aside.

For serious cases we will continue to use the SIU. However, the establishment of the GRC Branch marks a milestone: embedding capacity, in-house, to detect and prosecute wrong-doing, and developing systems to quash opportunities for those who would wish to engage in fraud and corruption. The Branch is tackling a backlog of 250 internal cases reported since 2009/2010. Of

the 158 completed investigations, 93 disciplinary charges have been recommended and 15 criminal cases reported to the SAPS.

- The GRC Branch is also driving a proper process of strategic planning incorporating risk management, performance management and process re-engineering. An important objective is to develop a new Service Delivery Model – in line with DPSA (Department of Public Service and Administration) requirements - which is based on the needs of client departments and enhancing the performance of DPW.

- In the Construction Project Management environment, lack of planning over years has led to under-spending on the budget, as well as cost over-runs and delays on individual projects. This is being addressed through:
 - greater coordination between branches and units along the construction value chain;

- The establishment of Technical Joint Teams to liaise directly with clients, and
 - The introduction of a proper planning methodology – in the form of IDMS (Infrastructure Delivery Management System).
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- The Department has also developed an ICT (Information Communication Technology) plan to be implemented as part of the second phase of Turnaround.
 - *Human Resources Management and Organisational Development* – It is not enough to have a good plan. You also need the right people – committed and willing to embrace change – together with the right mix of skills. At Exco level, the key management positions of Director-General, Chief Financial Officer and Deputy Director-General: Corporate Services were filled. An acting Deputy Director General was seconded from the State Security Agency to

commission the newly established Governance, Risk and Compliance Branch.

We are addressing the lack of technical and professional capacity as follows:

- Insourcing skills during the stabilisation phase. This necessary spending on consultants will reduce, as we build capacity in-house.

- Recruiting – some 45 professional and technical positions have been filled to date.

- Developing our own skills. The Department's Schools Programme to improve Maths and Science teaching and learning supports learners from disadvantaged communities. Together with the CETA (Construction Education and Training Authority), the Department, this year, awarded 132 bursaries to students enrolled in built environment undergraduate and postgraduate programmes. Currently there are 1,149

participants in the various training programmes of the Department.

- We are resuscitating the Workshops to improve the quality of service to clients and to develop technical skills and capacity. In collaboration with private sector companies some 293 artisans are being trained by the Department during 2014/2015.

- **Phase 3:** Sustainable development – this is where we fundamentally review the mandate, purpose and responsibilities of Public Works across the different spheres of government - culminating in a Public Works Act.

Let me summarise where we are with the Turnaround:

- As a matter of urgency we are consolidating the stabilisation work;

- As the main focus of the next five years we seek to enhance the efficiency of our current business operations – employing better planning, performance management and ICT solutions as our tools; and
- Simultaneously, we are embarking upon a fundamental policy review, culminating in a Public Works Act, to refresh and clarify the mandate of Public Works and to establish a platform for sustainable development.

3. Specialised Services

Let me address some of the specialised services provided by Public Works.

Prestige Portfolio

The Prestige Property Management Unit is now centralised in the DG's office and is undergoing restructuring with a view to greater specialisation. The key here is to improve the management of customer

relations and communication with departments and individual clients.

The following actions have been taken in respect of the Parliamentary villages:

- We have revived the Parliamentary Villages Management Board;
- The initial phase of renovations in the Parliamentary villages was completed during May and June. The second phase will start during the recess period in September;
- We have identified furniture items that need to be replaced, and these are being delivered;
- Upgrading of the security system is underway;
- A development plan has been drafted and will be put to the Parliamentary Villages Management Board for consultation and implementation.

In respect of Ministers' and Deputy Ministers' official accommodation, I requested the SIU to investigate all Prestige projects involving excessive cost escalations:

- As a result, the Director of Prestige in Pretoria was charged and dismissed.
- In the case of Cape Town, we will report to Parliament, once the SIU completes its investigation.
- Costs for renovation of State-owned houses have now been capped at 30% of the market value of the property;

Inner City Regeneration

The Inner City Regeneration Branch, soon to be renamed “Spatial Planning and Development”, has broadened its scope to include Metros other than Tshwane, as well as towns, districts and small rural towns. This also supports the broader outcomes of rural development and improved local government, and gives impetus to the impending Integrated Urban Development Framework announced by the President.

Provision of state land

Assets are held by Public Works in support of the service delivery obligations of the government and other social imperatives such as land reform and habitable human settlements.

During 2013/14, 128 hectares was approved for release for human settlements. A further 22 properties were identified for release in the current year for human settlement.

Accessibility Programme

Under the Accessibility Programme, 15 buildings were made more accessible for people with disabilities, seriously under-achieving on our target of 100 buildings for 2013/2014. This was due to contractual problems – but there can be no excuses. I fully expect Parliament to hold us to account on this matter. However, we are now confident of an improved procurement environment and, a further 51 buildings are prioritised for this current year.

4. The Strategic Vision for 2014-2019

Let me summarise five key priority areas in my Policy Statement and Vision for the next five years:

- 1. One:** *The creation of 6 million work opportunities for poor and unemployed people through the labour-intensive delivery of public services and infrastructure. Public employment programmes must facilitate community participation, and provide tangible benefits to communities, the society and the economy.*

- 2. The second priority area:** *The operationalization of PMTE (Property Management Trading Entity) and the transformation of the core property business (including construction management). This necessarily includes a programme to rebuild technical and professional capacity in the Department.*

This is the core business of Public Works – custodianship of state immovable assets and provision of accommodation to government – and accounts for 75% of the Departmental allocation.

3. **Three:** *The operationalization of the Governance, Risk and Compliance Branch to drive anti-corruption and to spearhead the second phase of the Turnaround – Efficiency Enhancement - using the tools of planning, Service Delivery Improvement Plan and performance management. This also means working with HR and Change Management to promote a committed performance driven work culture.*

4. **Fourth priority area:** *In consultation with all stakeholders – particularly the wider Public Works family in the provinces - a policy review culminating in a Public Works Act. This will provide a solid foundation for the third phase of Turnaround:*

Sustainable Development, and will clarify and refresh the mandate of Public Works.

5. Five: *In partnership with our entities, the charter councils and relevant stakeholders, a renewed and sustained programme of action to transform the Built Environment – the construction and property sectors – as part of the second more radical phase of transition to democracy.*

This must include support for black and female contractors and property practitioners; as well as the production of black professionals and artisans in the Built Environment disciplines.

5. Concluding remarks

In my 2012 Budget Vote, I likened the Department of Public Works to a patient in ICU. In 2013, with some improvements, I said that we had now stopped the

bleeding and the patient was being stabilised. Today, in 2014, I can inform Honourable members that the patient is fully stabilised and responding well to medication. We confidently expect that the patient will be discharged in the very near future.

I would like to conclude by thanking the following people.

- The President for entrusting me with the stewardship of the Public Works portfolio
- The Auditor-General, Public Protector, members of the parliamentary committees and the external Audit and Risk Management Committee for their oversight and constructive engagement
- The SIU for arming us in the fight against corruption
- National Treasury and DPSA for their support in developing a turnaround strategy

- I particularly want to thank the DG and officials of the Department of Public Works who are actively assisting in the process of rebuilding. My message to them – and to honourable members - is this:
 - We have stabilised the Department;
 - We have a plan to rebuild Public Works;
 - Together we can make Public Works work.

I thank you.