



**public works**

Department:  
Public Works  
REPUBLIC OF SOUTH AFRICA

**MINISTER OF PUBLIC WORKS  
REPUBLIC OF SOUTH AFRICA**

# **Executive Property Owners Breakfast**

**Park Hyatt Hotel, Rosebank, Johannesburg, 14 June 2013**

## **Keynote Address:**

**TW Nxesi MP, Minister of Public Works**

## PROTOCOL

- Programme Director
- Chairperson, CEO and members of the Property Sector Charter Council
- Chairperson, CEO and members of SAPOA
- President and members of BAPCO
- President, Deputy President and members of SAIBPP
- President, CEO and members of SACSC
- Committee members and members of SAREITS
- Leaders and representatives of the property sector
- Representatives of SOEs and government departments
- Ladies and gentlemen

Good morning. It gives me great pleasure to join you this morning for this important occasion – and to share some ideas with you.

Thanks to the Property Sector Charter Council for hosting the inaugural launch of the Executive Property Owners Breakfast - with a view to discussing the challenges in the property sector that need to be addressed by both public and private sector - under the theme: *"WORKING TOGETHER TO BUILD A PROSPEROUS AND TRANSFORMED PROPERTY SECTOR"*.

I want to speak about the role of the Department of Public Works in relation to property policy and transformation – and more generally, discuss the Department's Turnaround strategy in as far as it relates to property issues.

The Department remains responsible for the regulation and transformation of the construction and property sectors, and to advise government on best practice in this respect. Racially skewed property ownership patterns need to be addressed, and the construction

industry has to create an environment where emerging contractors graduate into sustainable businesses.

The following processes were finalised in the last year:

- The Construction Sector Charter Council was registered as a section 21 Company.
- The National Contractor Development Programme (NCDP) was launched in December 2012 to co-ordinate contractor development.

On the property policy side, the Property Sector Charter Code was gazetted in June 2012 – a journey which started – I am told – in 2003. The objectives of the Property Charter include the following:

- Promote economic transformation in the Property Sector in order to enable meaningful participation of black people including women;

- Unlock obstacles to property ownership and participation in the property market by black people;
- Promote property development and investment in under-resourced areas;
- Achieve a substantial change in the racial and gender composition of ownership, control and management and enhance the participation of black people, including black women and designated groups in the property sector;
- Promote employment equity in the property sector and encourage diverse organizational cultures;
- Increase the pool of intellectual capital amongst black people, particularly women;
- Contribute towards increased investment in the skills development and training of existing and new black professionals, particularly women;
- Enhance entrepreneurial development and increase the number and expertise of BBBEE firms and SMMEs providing services and products to the sector;

- Increase the procurement of goods and services from BBBEE suppliers;
- Facilitate the accessibility of finance for property ownership and property development;
- Encourage good corporate citizenship amongst enterprises in the sector, including
- participation in corporate social investment projects
- Promote investment in the property sector and contribute to growth of the sector.

The role and mandate of the Charter Council includes the following:

- To constitute an executive structure with adequate capacity;
- To oversee and monitor the implementation of the charter;
- To receive, consider and approve enterprise annual BBBEE reports;
- To issue guidance notes on the interpretation and application of the Charter;

- To prepare an annual report on progress in implementing the Charter; and
- To liaise with and report to the BEE Advisory Council on transformation of the sector.

Now we come to the issue of implementation – and here we must honestly acknowledge that implementation has not been as rapid as we would have hoped. There are a number of reasons for this – many to do with the historic challenges which were experienced by the Department of Public Works.

Let me share those challenges with you.

You will no doubt remember that when I was appointed as Minister some 18 months ago, it was against a backdrop of scandal and negative media around the Department.

The Department's past performance has been characterised by corruption and mismanagement,

evidenced by eight years of qualified audits, and disclaimers in the past two financial years.

The root causes of this deteriorating situation can be attributed to a lack of controls in Supply Chain Management practices, poor lease management, lack of accountability of our Regional Offices, lack of an appropriate accounting platform for the Property Management Trading Entity as well as the non-existence of a reliable Immovable Asset Register.

Compounding these challenges is the fact that, all too often, there is a misalignment between the mandate and the structure of the Department. A case in point is that despite the fact that our property portfolio represents the majority of the business of DPW (70%), DPW has no Property Management Branch and employs no property management professionals.



Let me give you a sense of the magnitude of the challenge. In a diagnostic of the Department, which I initiated immediately after my appointment, one important finding was that the estimated size of the property portfolio of Public Works was seven times the size of the largest private sector property portfolio - Growth Point. However, whilst the return on the Growth Point portfolio averaged 16% per annum, the return on the Department's portfolio was estimated at barely 1%.

We are addressing the challenges. Measures include:

- Establishing a property and facilities management branch; and
- Recruiting property professionals from the private sector to assist us in this regard.

More generally, last year the Department embarked on a turnaround project that aims, over time, to return the

Department to a state of full functionality. We have now put in place the building blocks for turnaround:

- We have the funding from National Treasury for the turnaround;
- The core of the Turnaround Team is in place under the office of the DG so that we build capacity in the Department – not the Ministry - to address stabilisation and for the long haul of transformation. 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. Increasingly we talk less about ‘turnaround’, and use the language of ‘Rebuilding Public Works’.
- We have also – crucially – stabilised the leadership of the Department with the appointment of the new

DG and CFO. When we started out 18 months ago, we 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.

The key focus of the Turnaround has been on taking control of five key areas:

1. Developing a complete and 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. What is of specific importance this morning – given the nature of this event - is that these key projects are all related to issues of property and the core business of Public Works – which is to provide accommodation to government.

- ***Combatting fraud and corruption***

We have worked closely with the SIU (Special Investigations Unit) to investigate irregular leases and projects – some 40 investigations in all, of which 23 are completed. This has resulted in successful disciplinary actions, the suspension of six officials and the dismissal of three, including one DDG. We have instituted court actions to recover monies wrongly paid

by the Department. We are also awaiting reports from disciplinary hearings involving a further two senior officials.

Arising out of the completed investigations into Prestige in Pretoria, the SIU has recommended that we suspend and discipline the responsible officials – which we have started to implement.

SIU investigations, taken 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; as well as
- the same collusion in regard to leases between some officials and some landlords – as well as clear evidence of fronting – an unintended consequence of BEE policies being pursued.

This is a timely reminder that it takes two to tango; that corruption and greed in the private and public sectors are mutually reinforcing each other.

But it leaves us with a dilemma: how do we guard against these abuses, whilst still pursuing transformation objectives and implementing BEE principles?

In the light of this, we have started to enhance investigating capacity within the Department:

- Internal Audit was empowered to commission forensic investigations. Some 19 investigations have already 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 we are working closely with National Treasury 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 but in place robust systems – and here I am quoting from our SARS colleagues – with the intent: “to make it easy for weak people to do the right thing, and difficult for bad people to do the wrong thing.”

- ***The Immovable Assets Register***

It remains a major concern that the state does not have a comprehensive, reliable register of its assets. This is a major priority of the Turnaround, and I can report solid progress.

The state land reconciliation with Deeds Office records has now been substantially completed. 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. We anticipate that we will have a comprehensive reliable register in place by end of 2016.

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 state property portfolio for economic development. This will also assist us to drive the transformation of the property sector in South Africa.

- ***Audit of Leases***

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.

- ***Improving audit outcomes***

The Clean Audit project aims to achieve a clean audit by the end of this financial year. 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 instruction 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.

Irregular expenditure is also a key focus of the Clean Audit Project. This involves the inspection of every transaction in terms of compliance with supply chain management policy. 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)***

In 2006 Treasury approved the establishment of the Property Management Trading Entity within DPW to address accounting problems and to focus attention on the property business of the Department. This came with an 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. A detailed business case is under development and will be submitted to Cabinet for approval in August, 2013.

## **Concluding remarks**

Ladies and gentlemen, I trust that you will appreciate that for DPW to move forward – particularly on transformation of the property and construction sectors – we had to first get our own house in order.

That is what we are doing with the Turnaround strategy:

- I believe we now have the building blocks in place for the Turnaround;
- We have stabilised the Department; and
- We are making real progress in tackling the immediate – and systemic - challenges;

In terms of the property portfolio – and this has major implications for the property sector generally:

- We have operationalised the PMTE;

- We are restructuring the Department to focus on property management;
- We are building a reliable asset register;
- We are cleaning up lease management; and
- We are getting a handle on fraud and corruption.

In relation to property policy and transformation of the property sector, as DPW we need to do the following:

- Review existing policies and policy processes – with a view to addressing past problems and abuses – whilst re-focusing on transformation;
- Most importantly, we need to engage with the property sector – key representatives and organisations – with a view to developing policies and initiatives in consultation with the sector – that includes yourselves.

And I am very mindful of the many concerns that have been expressed by your representative organisations, for example, in relation to:

- The expiry and non-renewal of DPW leases. This was a very unfortunate consequence of the decision to withdraw certain powers from regions – in the face of mounting evidence of corruption. Part of the lease audit is exactly to put in place a robust lease management framework to address the problems;
- Another concern is the need for a clear planned maintenance strategy. Discussions are under way exactly to establish a National Infrastructure Maintenance Strategy to provide guidelines for the maintenance of state assets. Clearly this will involve partnerships with the private sector.
- Another concern which has been expressed is the lack of policy clarity on the part of DPW

which in turn causes uncertainty in the market. As the Department we have to plead guilty as charged. But this is exactly why we need to enhance our engagement with the property sector – exactly to address these policy deficits.

- An important part of this process and engagement will be to ensure a fully-functioning Property Sector Charter Council is in place. [In this respect I need to refer to the important joint research project into the property sector - between the Council and the Department.]

Colleagues, we are at a crossroads. As we re-establish the functionality of the Department, we simultaneously need to reclaim the mandate of the Department – including in relation to property policy and transformation. As Minister of Public Works I am fully aware of the role we have to play as the catalyst for change and transformation in the sector – and I commit

the Department to this process. We can only achieve this if we work with the property sector.

To quote our President: “working together we can achieve more.”

I thank you.