

*Full Length Research Paper*

# **An analysis of the process of providing Office Accommodation for National State Departments in South Africa**

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**The National Department of Public Works has the responsibility of providing office accommodation to all state departments nationally, The objectives of the paper are to establish a base for evaluating the performance of the process and secondly investigate the performance against this base. Critical success factors were found to be: Better site search and space management, Effective maintenance policy, Extensive feasibility studies, Standardised lease agreements, Effective property management, Sustainable site procurement and Client-driven service delivery. In the performance evaluation it was found that turn-around times were poor due to lack of resources, asset registers were incomplete, the frequency and quality of maintenance services rendered were unsatisfactory, and the implementation of Public Private Partnerships (PPPs) in the procurement of new sites were not seen as adequate partly due to political pressures.**

**Keywords:** Office accommodation; state departments; provision of accommodation; process of accommodation, state departments.

## **INTRODUCTION**

Various studies investigated the contribution of public infrastructure to economic performance in a country (Munnell, 1992; Duffy-Deno and Eberts, 1989; Berndt and Hansson, 1991). Based on wide-ranging evidence, the studies showed that government spending influences income levels and that governments can therefore use it to influence the economic performance of a country. Duffy-Deno and Eberts (1989) investigated the effect of public investment, in the form of both current outlays and capital stock, on regional personal income. Aschauer (1989) and Munnell (1990) found a positive correlation between public infrastructure and productivity aggregated to the national level. Eberts (1990) investigated different aspects of public infrastructure and regional economic development, such as the effects of investment in public

infrastructure on regional growth, whether growth is a result of productivity or production, and the effect of household location decisions.

The studies mentioned above concentrate on the use of infrastructure by the public in order to produce goods and services efficiently. However, government plays a pivotal role in the economy and its functioning is very much reliant on its own infrastructure, specifically property. Although this is debatable, state infrastructure could be classified as public infrastructure. Despite the fact that it is not available for use by the general public, it is also supplied within the same framework as public infrastructure and would be influenced in a similar way. This type of infrastructure could, however, be seen as an overhead to government's functioning and a leakage from

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available funds for the balance of infrastructure supply. It is therefore necessary that it be supplied as effectively as possible in order to limit the negative influence of costs associated with it on other government functions. In this regard Munnell (1992) investigated the influence of policies with regard to infrastructure investment and economic growth, while Miller (2012) found traces of a negative impact of government spending on private investment, especially in the short run, which could be due to construction activities or unnecessarily high costs and ineffective application. Alterman (1988) investigated the involvement of the private sector in the supply of public services, which is generally a method of increasing effectiveness, while Grimsey and Lewis (2002) investigated the risks associated with private sector involvement. In more recent studies, Forrer et al (2010) specifically address the public accountability for public-private partnerships.

With the above in mind, this paper specifically addresses the policy framework for the supply of office accommodation in the government sector in order to assess the effectiveness of the supply of this type of asset.

The outcome of the research is a detailed analysis of the workflow as well as the proposed system that would balance service delivery with the operational needs of each department.

### Overview and aims of the paper

The government of the Republic of South Africa (RSA) has 44 state departments and several agencies. Each has its own unique requirements for office accommodation. The nature of the services rendered by each department determines the specific needs of that department. These departments are stationed in Cape Town, as the legislative capital of the country, and also in Pretoria as the administrative capital.

The Department of Public Works (NDPW) plays a central role as custodian of all state buildings and services all national state departments both in Cape Town and Pretoria. Departments such as Police, Justice and Defence are the biggest clients of NDPW, with smaller clients being Tourism, Energy Affairs, etc. All of these departments are clients of NDPW as far as their accommodation needs are concerned. Should a department wish to buy or construct a building, it consults NDPW and the latter has to produce an appropriate intervention. This means that an individual client department does not have to employ property experts, but only maintain a small staff complement to serve as a link between the department and the NDPW.

The aims of the paper are as follows:

(1) To investigate the challenges faced by the Department of Public Works in providing office accommodation to state departments in the country.

(2) To identify the critical success factors in the provision of state office accommodation in the public sector in order to establish a basic point of reference for the study.

(3) The study is limited to head offices that are located in Cape Town and Pretoria, which will serve as an adequate group to clarify any loopholes regarding the relationship between Public Works and other state departments.

The internal procedure documents are analysed and compared with the literature review in order to assess the effectiveness of current processes and procedures.

### RESEARCH METHODOLOGY

The research is divided into the analysis of specific process documents and legislation that deals with the supply of services in the Government sector, followed by the empirical analysis that is performed by way of a purposive non-probability sampling. The population consisted of the head office of the National Department of Public Works (NDPW) and its 11 regional offices. Not every staff member at NDPW could be sampled. In order to ensure reliability of data collected, only staff from core business functions were included in the sample and corporate services staff were excluded. Corporate services refer to Information Technology, Human Resources, Finance and Provisioning.

Out of a possible forty four state departments, only thirty seven could be sent questionnaires. The aim was to test the satisfaction of the users with the procedures followed by DPW. A response rate of 62% was achieved. It was also crucial to cross-validate the users' responses with the responses from DPW's staff. This process helped a great deal in establishing the satisfaction of DPW's staff with its own policies and to gauge the extent to which procedure documents are applied. A total of twenty two questionnaires were sent to regional officials (two per region) and a response rate of 68% was achieved. At the head office, there are six core business units and they were all sampled. Business units such as Information Technology, Human Resources and Finance were excluded as they do not perform core functions. The response rate from the Head Office was 100%. The feedback from the questionnaires was interpreted against the critical success factors as determined by the analysis of processes documentation and legislation in order to reach a conclusion.

### ABOUT THE DEPARTMENT

South Africa is a constitutional state with three tiers of government, national, provincial and local government. Together, these tiers form the executive administration of the state that has operational autonomy. Consistent with the principle of the separation of powers, the judiciary is another organ of the state that enjoys operational independence, although administratively it is under the auspices of the Department of Justice.

The administration consists of 44 state departments, located both in Cape Town and Pretoria, but since the latter is the administrative capital, administrative buildings are there. Like most Central Business Districts (CBDs), Pretoria has been deserted by most big corporates. The state has tried various projects to preserve the CBD as 'the place to be', including the Rekgabisia Tshwane Project (RKTP). The state has realised that it is almost the only big investor that is left in town and it is not willing to allow its departments to acquire property outside the CBD.

According to the National Department of Public Works (2010), the Department manages a massive property portfolio that comprises more than 108,562 properties countrywide of which

**Table 1.** NDPW's turnaround times in location searching.

<b>Deliverable</b>	<b>Expected time-frames (days)</b>
Do needs assessment/obtain additional information from user	10
Identify stakeholders per purpose	7
Locate and collect spatial data information about the site	14
Compile and lodge applications for: development, the removal of restrictions, the approval of sub-divisions and consolidations, the establishment of townships and changes in land use.	14
Ensure tenure type and options	7
Conduct land-use inspections or site visits in respect of the area locally	14
Determine and recommend the potential use of a site to the User	7
User confirmation of site	7
Facilitate (via AIM) procurement of site (private site)	7
Issue site clearance certificate to confirm compliance with TP laws/requirements	2

Source: National Department of Public Works (South Africa, 2005:13).

72,816 are buildings and improvements.

All 44 state departments require offices. The responsibility of providing such office accommodation lies with the National Department of Public Works. By the same token, the responsibility of providing state office accommodation for provincial governments lies with provincial departments of Public Works. The Department deals with matters such as acquisition, maintenance and utilisation.

The head office deals with strategic issues such as policy, asset management and advisory functions. The regional offices are concerned with the actual client service matters since they are in day-to-day contact with user departments.

The process of providing office accommodation in the public sector is centred on the following process / framework, which is discussed in this report in the following sequence:

- (i) Location search
- (ii) Rent vs acquisition decision
- (iii) Conducting feasibility studies
- (iv) The use of PPPs in office development

### **Location search**

#### **Brief overview**

LaGro (2008: 13-14) refers to Kevin Lynch's description of site planning: 'Site planning is the art of arranging the external physical environment to support human behaviour. It lies along the boundaries of architecture, engineering, landscape architecture, and city planning, and it is practised by members of all professions. Site plans locate structures and activities in three-dimensional space and, when appropriate, in time. Equally important, site planning also involves choices about where not to build. Site planning must be informed, therefore, by a thorough understanding of the site's character and context.'

#### **Turnaround times in location searching**

Table 1 (internal scenario) in the internal procedure document of the National Department of Public Works, 'Turnaround times in location searching' (South Africa, 2005), indicates the turnaround times for the delivery of a new site, where the land concerned does not have any restrictive conditions. It takes 89 days for the Department to deliver a new site to the requesting user department.

When sourcing new accommodation, governments should also consider economic factors that would affect their staff. According to Hack (1999:6), factors deserving attention are the following:

- (i) There must be a high quality labour force.
- (ii) There must be excellent labour-management relations, based on past industrial experience.
- (iii) Taxes should be moderate at both local and central government levels.
- (iv) Availability of local financing incentives is desirable but not essential.
- (v) The site must be within a 60 minutes' drive of a commercial airport.
- (vi) Availability of a courier service is desirable.

### **Rent vs. Acquisition decision**

#### **Brief overview**

*Should the user department lease or acquire?* Again, acquisition takes the form of two methods. The user department can acquire accommodation by either buying an existing building or by constructing a new building. With the latter option, they have the further option of buying vacant land and building; or buying a completely new site and building. This last option means that the user department would pay for both land and construction costs.

#### **Leasing as an option**

Public Works leases buildings on behalf of state departments. What user departments need to do is to submit a needs analysis statement, and Public Works will then source a building for them. To avoid problems, lease agreements are standardised, with escape clauses factored in.

#### **Internal NDPW procedure document: Turnaround in leasing**

The turnaround times stipulated for the Department of Public Works in the Department's procedure document (South Africa, 2010:14) are listed in table 2 below. The stipulated turnaround times allow 153 days for the steps culminating in the signing of a lease agreement or contract. The longest step is tender and bid

**Table 2.** NDPW's turnaround times in leasing.

<b>Deliverable</b>	<b>Expected time-frames (days)</b>	
User Department confirms needs/specialised requirements and budget via KAM HO	30	User Department NDPW (AIM)
PI issued by KAM HO to Regional Office	5	
Procurement strategy submitted to Bid Committee	21	NDPW
Tender and bid evaluation	60	NDPW
Budget confirmation by User Department via KAM HO	10	User Department
Final approval by Bid Committee	7	NDPW
Signing of lease agreement/contract	20	NDPW
Refurbishment and installation of tenant under the terms of the (new) contract. Time-scale depends on the extent of the refurbishments necessary or required by the tenant and the size of the property in m <sup>2</sup>	30 - 180	NDPW User department Lessor
Informing of User Department	7	
Site handover	7	NDPW
Management of leases: Manage terms and conditions of lease	Duration	NDPW

Source: National Department of Public Works (South Africa, 2005:14).

**Table 3.** NDPW's turnaround times in acquisition.

<b>Deliverable</b>	<b>Expected time-frames (days)</b>	<b>Actioning component and stakeholder</b>
Donation	60	
Expropriation	120	
Indigenous	90	
Prescription	90	
<b>Common law</b>		NDPW
Negotiated procedure	30	
Open tender	90	
Quotation	15	
Exchange of property	90	

**Source.** National Department of Public Works (South Africa, 2005:15).

evaluation which takes 60 days.

### **Acquisition as an option**

The only alternative to leasing is owning. To own the site, one has three further options: buy an existing site with a building erected, buy a vacant site and then build, or utilise existing vacant land and then build. As to which option to choose depends on various factors, for example time, funds and availability.

It is necessary to point out that the government of South Africa does not prioritise the acquisition of properties, unless under exceptional circumstances such as expropriation. This makes sense, given the high number of unutilised assets in their portfolio. However, circumstances do arise where Public Works has to buy a property.

### **Internal NDPW procedure document: Turnaround times in acquisition**

Table 3 provides the turnaround times for the National Department of Public Works when acquiring sites by expropriation, or by

purchasing them by open tenders, and other means. As can be seen, it takes the Department 90 days to buy property in a negotiated procedure.

### **Methods of acquisitions**

(i) Buying an existing site with an existing building on it.

Buying an existing building also entails buying the land as well. The process to be followed has already been discussed in 3.3 above under site selection.

Pomazal (2001: 48) states that, 'Buying is often most beneficial when financing real property, because it will appreciate and gain value over time. Owning real estate—and the structures on it—is almost always a good investment for the long haul. Property owners build equity and reap the benefits of the property's increasing value.'

Buying an existing building is appropriate under the following circumstances:

- When time does not allow building: it can take up to 36 months to build a high-rise office building, depending on the complexity of the structure. If it is not worth waiting for, then buying an existing

**Table 4.** NDPW's turnaround times in maintenance.

<b>Deliverable</b>	<b>Expected time-frames</b>	<b>Actioning component and stakeholder</b>
Receive complaint from user department via call centre DPW assess the nature of service as per above categories to facilitate implementation	Ad-hoc	User department
Term/contracts – request contractor to execute	10 – 30 days	DPW
Services below R 30 000	77 days	DPW
Services above R 30 000	77 – 136 days	DPW
Emergency work	1 – 5 days	DPW

Source: National Department of Public Works (South Africa, 2005:17).

building is the answer.

- When the budget does not make provision for building: under normal circumstances, replacement cost is less than market value, and it is therefore normally cheaper to build than to buy. In their appraisal of the Fischer-Dipasquale-Wheaton (FDW) model, Du Toit and Cloete (2003:21-22) observe that it is not always true that property values and construction costs are synonymous, that is, valuations do not always reflect prevailing market prices. They give the example of the sale of the Carlton Centre in 1999, which realised R34m despite its replacement cost being estimated at R800m. It must be said that situations like these are exceptions and do not normally occur.

- When space does not allow building: This is the case in most CBDs around the world. Land has become a prized commodity in areas such as the CBDs of Johannesburg, Cape Town, Durban and Pretoria.

#### (ii) Buying vacant land and then building

This option is suitable only where land is not scarce. It also depends on whether the site that has been identified would serve the purpose. For the Department of Home Affairs, which must be situated close to a busy area, this option may be difficult. The reason is that busy places do not always have available vacant land. However, a unit such as the Department of Tourism, which does not have that level of activity, may be allowed to find space on the outskirts—such as the Pretoria suburbs Montana and Pretoria East, where land is available.

#### (iii) Utilising existing vacant land to build

Undeniably, this option is the better of the above two, but is not always feasible due to lack of land stock. A company may have land stock available, but not at the desired location. The government has too many unutilised pieces of land countrywide and this may be a preferred method if costs are to be saved.

#### **Labour-intensive methods: job creation or quality?**

Some capital works are wholly outsourced by Public Works to the private sector. These include construction of government buildings, maintenance, cleaning and security. The state is only involved in managing the Service Level Agreement (SLA).

Expanded Public Works Programme (EPWP) is a programme where the private sector is involved but with the main condition being that they may not use capital-intensive methods. While it is good to employ people in large numbers, the problem with EPWP is that it is time consuming. Where time is of the essence, it is always advisable not to use EPWP, especially for major projects.

Watermeyer and Thumbiran (undated online paper) highlight the plight of government with labour intensive projects such as the Expanded Public Works Programme. *'The Expanded Public Works*

*Programme (EPWP), a short to medium-term programme aimed at reducing poverty and creating employment, spent around R3.6 billion during the 2004/5 financial year on infrastructure. Overall, 4 478 municipal infrastructure grant projects were registered with the Department of Provincial and Local Government over this time, totalling R13 billion. The Expanded Public Works Support Programme analysed the spending and found that the average size was a mere R3 million, while only 2% exceeded R20 million. After seeing these numbers, Cabinet raised concerns over the small size, limited impact, and limited visibility of many of the EPWP projects'.*

#### **Maintenance management in the department**

##### **Brief overview**

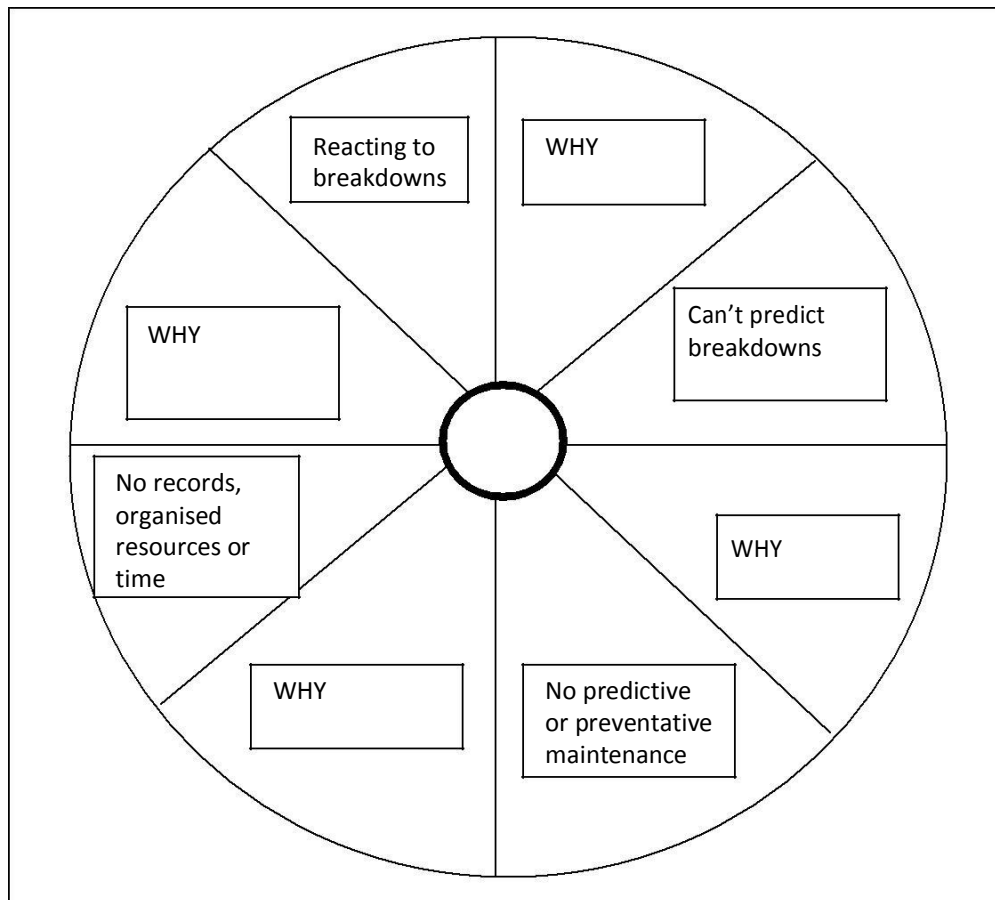
Maintenance is also a factor to be considered as it affects user departments. User departments have expectations from NDPW which do not always materialise. Informal engagements with staff of the Department revealed that approximately 90% of the maintenance of state buildings in South Africa is outsourced by the Department.

Every user department wants its building to last as long as possible, at the lowest possible cost. The quality of finishes and specifications must also be supreme in order to ensure a long and stable service to the owner. However, to ensure such longevity requires funding. Buildings have to be maintained according to set criteria. Every organisation has its own maintenance policy. Such policy must give guidance on which areas of the property need to be maintained, when to maintain them, what resources to use, how much to spend as well as who has to perform such maintenance. It is now clear that a maintenance policy has to answer the *which, when, what, how* and *who* questions.

In South Africa, the government passed the Government-wide Immovable Assets Management Act (No 19 of 2007). The aim of the legislation was not to centralise but to harmonise asset management in government. One of the major concerns of the Act is maintenance. According to s6(1)(b) of GIAMA, every user department must have its own User Asset Management Plan (U-AMP). The National Property Education Committee (2001c: 4) underlines that, 'Property managers very often do not know what facilities they are responsible for, where and what these facilities are, or what the conditions and maintenance requirements are, because they do not have complete and up-to-date asset registers while regular proper condition assessment audits are very seldom, if ever, done.'

##### **Internal NDPW procedure document: Turnaround in maintenance**

Table 4 indicates the turnaround times for the National Department



**Figure 1.** Willmott's Vicious circle of reactive maintenance.  
Source: Yardley (2002:1).

of Public Works when responding to a maintenance request. As can be seen, it takes the Department at least 77 days to deliver a maintenance job of less than R30 000, while jobs above the threshold are responded to within a maximum of 136 days, which is approximately half a year.

### **The dangers of reactive maintenance**

Organisations that do not have maintenance policies end up with reactive maintenance practices. The typical scenario is given in Exhibit 1.

The danger explained in the above scenario occurs in most institutions. Willmott, in Yardley (2002: 1-2) explains the dangers of reactive maintenance by making use of what he calls *vicious cycle of reactive maintenance*. 'We know that reactive or breakdown maintenance is not a sensible strategy to follow, but how many managers responsible for the maintenance function get trapped in the vicious circle . . .'. Willmott's vicious cycle of reactive maintenance is depicted in Figure 1.

It is interesting to note that managers can find themselves going round in circles for ages, due to lack of maintenance.

Reactive maintenance should be avoided at all costs. Effectively, the lack of maintenance planning results in costs that are far more than the avoided maintenance costs.

Maintenance managers should therefore be sensitive to dubious maintenance plans.

### **Conducting feasibility studies**

Graaskamp (1970) as quoted in National Property Education Committee (2006:4) maintains that a real estate project is feasible when the real-estate analysts determine that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for fit to a context of specific constraints and limited resources.

### **Steps in financial feasibility study**

The financial feasibility steps as given by National Property Education Committee (2006:27) are shown in exhibit 2. This is only an indication—not every project will follow exactly the same process.

The steps are briefly explained as follows.

**Socio-economic and political considerations in feasibility studies:** In the City of Johannesburg, every alienation or lease of council property needs to be approved by all the municipal-owned entities. In terms of section 14(1) of the Municipal Systems Act, the property can only be alienated if it is required for a basic municipal service. Requests for comments are circulated to all Municipal Owned Entities (MOEs) and the property is only alienated if none of them disagrees.

In addition to consent from MOEs, the ward councillor of the area in which the property is located should also consent. This is to make sure that the alienation of the property has the approval of the community representative, and thus to avoid political arguments

**Table 5.** NDPW's turnaround times in doing feasibility studies.

<b>Deliverable</b>	<b>Expected time-frames</b>	<b>Actioning component and stakeholder</b>
Assess U-AMP/C-AMP to identify suitable sites as per options analysis reports (concurrent process with AIM)	3 - 6 months	NDPW (AIM and PS)
Submit preliminary site investigation reports (possible sites) to AIM for submission to user with high-level cost estimates. Execute prioritised TP services (Town Planning Implementation Programme)	1 month	NDPW (PS)
Compile site acquisition plan aligned to CWIP	1 week	NDPW (PS)
Deliverable	Expected time-frames	Actioning component and stakeholder
Assess U-AMP/C-AMP to identify suitable sites as per options analysis reports (concurrent process with AIM)	3 - 6 months	NDPW (AIM and PS)
Submit preliminary site investigation reports (possible sites) to AIM for submission to user with high-level cost estimates. Execute prioritised TP services (Town Planning Implementation Programme)	1 month	NDPW (PS)

Source: National Department of Public Works (South Africa, 2005:12).

and point scoring and ensure that the politicians are sensitised about the matter at the start of the planning stage.

There are unwritten political laws in every country. For example, every major construction project may have to involve local service providers. Projects that do not satisfy such requirements are normally rejected.

The Department of Public Works also has the provision that, before a state property can be alienated, the Key Account Management Unit must confirm with all state departments and other organs of state that they do not need the property or do not have any future plans for it.

#### ***Internal NDPW procedure document: Turnaround times for feasibility studies***

Table 5 is about turnaround times taken by internal units of National Department of Public Works in procuring sites. As can be seen, Options analysis takes a minimum of three months, compilation of high-level cost estimates one month. Please note that feasibility is studied at various levels, that is, town planning for site clearances, investment analysis for cost estimates and financial viability of projects, professional services for aspects such as geotechnical studies.

#### **The importance of Public-Private partnerships in the provision of office accommodation**

##### ***Overview of building procurement in Government***

Governments worldwide are involved in major capital projects. These are financed from capital expenditure (Capex) budgets. When new buildings are constructed, tenders are normally advertised and the contract is awarded to the winning bidder. In South Africa, procurement is governed by the Preferential Procurement Policy Framework Act No 5 of 2000. The Act is a very small piece of legislation with only four pages. It applies to all organs of state, national and provincial departments, state enterprises and municipalities.

Rather than prescribing a policy for these state organs, the Act

requires state organs to determine their preferential procurement policies and implement them within the set framework. The framework is broad but section 2 lays down basic elements of the framework, e.g. a point system based on price and the employment of previously disadvantaged individuals (PDIs). Section 3 offers some flexibility in that it gives the Minister powers to exempt a state organ from complying with the framework, if doing so (i) shall be in the interests of national security (ii) the likely tenderers are international suppliers or (iii) it shall be in the public interest.

Sadly, in building construction, contractors who have skills and experience of major projects are frequently individuals who do not belong to the designated groups as defined in legislation. Consequently tenders for high-rise office buildings are awarded to them subject to conditions which normally include subcontracting to PDIs. User departments communicate their needs and the responsibility to construct lies with Public Works.

Offices are also leased from the private sector and that is also governed by the preferential procurement framework. Hence traditional procurement (for both leasing and construction) applies when the state has enough Capex funds. It so happens that major projects require millions of rands and Treasury cannot provide the required funding within the relevant Medium Term Expenditure Framework (MTEF) period. This is where the assistance of the private sector is sought. In that scenario, the operational and financial responsibility to build is given to a private party and then ownership is given to the state. The sections that follow are devoted to this model.

##### ***Public Private Partnership defined***

Zulu (2007:14) defines a Public Private Partnership (PPP) as a partnership between the public sector and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector.

The Accounting Standards Board (2008:7) further expands the definition by stating that in terms of this the private party assumes some substantial financial, construction, technical and operational risks in the design, financing, building and operation of a project. This study is confined to PPPs in the delivery of office accommodation for user departments and thereof excludes the provision

of other types of buildings. Various forms of PPPs exist, but the descriptions of such forms are actually beyond the scope of this study. It is, however, sufficient to mention that PPPs for the provision of office accommodation normally require the state to derive maximum benefits from the arrangement, where the private party assumes substantial risk in terms of capital and operations.

## **The use of PPPs in south africa**

### **Overview**

In quoting Scontech, Zulu (2007:15) states: 'PPPs are relatively new in South Africa and support for service delivery through PPPs varies across government departments'. The biggest PPP in the country so far is the Gautrain, both in terms of value and size. Most PPPs in South Africa ventured into health and correctional sectors, e.g. Kutama Sinthumule Correctional Centre in Limpopo and Inkosi Albert Luthuli Hospital in KwaZulu Natal. The Kutama Sinthumule is a fully-fledged PPP in that it is a Finance, Design, Construct, Operate, Maintain project.

One of the highlights of buildings constructed directly by the user department is the SAPS 10111 Call Centre in Midrand, which was developed by the user department directly and not Public Works as usual. Public Works was only called in to enrol the facility on the repair and maintenance programme. This was done in the interest of speed and it was completed within 24 months.

In order to pave the way for proper implementation of PPPs, National Treasury issued Practice Note No 01 of 2004 pursuant to section 76(4) (g) of the Public Finance Management Act. Although the decision to either procure by PPP or own equity lies solely with the public entity, National Treasury needs to approve a PPP application and also makes recommendations on the implementation, even though such implementation guidelines are not prescriptive.

### **Land availability**

In situations where a site needs to be found for construction of new building for a state department, the state needs to make land available.

For example the National Treasury (2004:65) highlights that, 'In the majority of PPPs that involve the construction of infrastructure, the (public) institution will make land (sometimes with existing buildings and infrastructure located thereon) available to the Private Party. During the Project Term the Private Party will manage the operation and maintenance of such land and infrastructure'.

The above provision is required to facilitate the delivery of the project and also to save funds. It may not always make sense to allow the private party to sell land to the state while Public Works has available land parcels available in that area.

Quick delivery of projects is sometimes jeopardised when it is found that the specific land parcel on which the building is constructed has a land claim on it. To mitigate this possibility, paragraph 11.1.3 of the Practice Note requires the user department to commission 'a thorough investigation by qualified experts of all property rights, title and land use restrictions' attached to the property. Should any claim or restriction be exposed, a new site should be investigated and the process should start from the beginning.

It is possible that an organ of state may require accommodation in an area where Public Works does not have vacant land. In such a case, the private party can be given a mandate to negotiate a land acquisition. Since transfer in the Deeds Office may take longer, that must not be allowed to derail construction. To mitigate that problem, a Land Availability Agreement is normally signed, allowing construction while the registration process is in progress.

Finally, section 32 requires maintenance to be the responsibility of the private party. 'The private party should base its costing on a forecast capital replacement programme of plant, machinery, equipment, fixtures, fittings and/or furniture designed to maintain the facilities in order to meet the required output specifications'.

### **Examples of PPPs in South Africa**

Although it was said by some authors that PPPs in South Africa are still new, the country saw some PPPs in the form of development leases in the past. A prime example is the ones entered into by the City of Johannesburg. With a development lease, the council signs an agreement with a private party where the party develops the property on council land and operates the property on a pure profit basis for a longer term, normally 40 years. This is endorsed on a title deed as a notarial lease. The private party pays a ground lease, based on the land value or a nominal rental for the duration of the lease. At the end of the lease, the entire property together with the improvements are owned by the council with no compensation paid to the private party.

Examples are as follows:

The City of Johannesburg entered into a development lease with Happiness for the Handicapped in 1963 where the latter developed offices on Erf 5103 Johannesburg. The lessee paid a nominal rental of R499 per year without escalation for the entire period. The lease expired in 2008 and ownership of the building went to the City and the City's balance sheet instantly grew by R10.3m, which was the market value at the expiry of the lease. Now the City may lease the property to any one for R85 000 per month, which is the market rental as per valuation.

Another example, still in the City of Johannesburg, is the Wesbank head office along the N1 freeway in Cresta. The City owns the land. The company entered into a 40-year lease with the City to build the state-of-the-art office facility. Now Wesbank owns the building while the City owns the land. At the end of the lease, the building will be owned by the City.

National government has not yet ventured to a significant extent into development leases but it is hoped that the state could be attracted to the idea in the near future. Development leases are seen as off-balance-sheet financing while on the other hand stimulate growth since land is a scarce commodity.

Most PPPs that were approved are for hospitals and prisons. Particular attention in this study is on office accommodation and that focus should not be lost. PPPs in office developments have not been particularly noticeable. However, there are some that are still in progress, see Annexure E.

The landmark PPP in office accommodation is the Department of Trade and Industry offices, known as DTI campus in Pretoria CBD. It is a modern facility which is accessible to the disabled and has modern finishes and specifications. This is a flagship PPP project on a 25-year master concession for the design, construction, life-cycle management and financing of a multi-purpose structure. Asset management and support functions are part of the agreement.

Annexure E lists PPP projects by national departments as at December 2010. Six of these projects are for office accommodation. Judging by this, the government is moving swiftly into this area of financing. It is believed that the rise in the number of PPP projects will relieve the state of major Capex constraints, where the private sector provides funding and the state concentrates on its service delivery mandates.

### **PPPs as alternatives to traditional procurement**

In its key findings on the Infrastructure Partnerships Australia, The Allen Consulting Group (2007: 1) made the following observations:



1. On a contracted \$4.9 billion of PPP projects, the net cost over-run was only \$58 million. For \$4.5 billion of traditional procurement projects, the net cost over-run amounted to \$673 million.
2. With respect to time over-runs, on a value-weighted basis we found traditional projects were likely to be completed later than PPPs relative to the budget. For example, between the signing of the final contract and project completion, PPPs were found to be completed 3.4 per cent ahead of time on average, while traditional projects were completed 23.5 per cent behind time. This difference is statistically significant.
3. While smaller traditional projects were completed ahead of time, we found that project size had a marked (statistically significant) negative impact on time over-runs compared with PPPs, whose timeliness of completion were not negatively impacted by size of project.

### **Challenges facing PPPs**

In South Africa, PPPs are not favoured by the Left and by the beginning of 2010 Zwelinzima Vavi, the general secretary of the Congress of South African Trade Unions (Cosatu), vehemently disapproved of the adoption of PPPs by most state departments. His concern was mainly that PPPs encourage, as he put it, 'capitalism' and 'imperialism', while on the other hand leaving the poor at the mercy of unscrupulous investors.

On the possible problems faced by PPPs, Raquel and Andrade (2010:209) caution as follows:

*'For most governments, the usage of PPPs is uncommon and their level of activity and sophistication is low and this is difficult to modify. The upgrade of activity and sophistication of PPP projects faces a number of challenges, such as the need to improve institutions, processes and procedures to deliver those projects'.*

The above caution by the authors shows that PPPs do not offer an automatic success but require state institutions to be prepared by implementing proper training and alignment of tools and methodologies to suit the arrangement.

On the other hand, Sanger and Crawley (2009:1), showing a political position, state that (in Canada) 'P3s had been used by politicians as a form of off-book accounting to make it appear as if public spending and deficits were lower than they actually were—but then public auditors forced governments to include these obligations on their books'. This, however, clearly demonstrates the difference between Canadian and South African politicians on the question of the economy.

### **The need for PPPs in state office developments**

The need for PPPs in state office developments derives from the importance of cost saving by the state, which is already running at a deficit as mentioned by Pravin Gordhan, Minister of Finance, in his budget speech in March this year. Bovis (2010: 197) states that the integration of public markets, through the principles of transparency, non-discrimination and objectivity in the award of public contracts, will bring substantial savings to the public sector, rationalise and allocate more efficiently human and capital resources and increase productivity and competitiveness of European firms. The same is expected to happen in South Africa.

Coghill and Woodward, in Hodge and Greve (2005:82) make the point that 'Where projects involve the private sector partner providing the finance for the project through a BOOT (Build, Operate, Own, Transfer) scheme, the government concerned is able to enjoy the provision of infrastructure at seemingly no cost'

It is well accepted that keeping public expenditure low would enable the state to bring down income taxes.

Looking at the figures supplied in the budget vote speech of the

\$Minister for Safety and Security, Charles Nqakula, in 2007 some savings could have been made if PPPs were used. 'The budget allocation in respect of capital works, maintenance, property rates, municipal services and property leases was R1 627 billion in 2006/2007 but stands at R2 045 billion for the current period'.

For the year 2006/2007 alone, the private sector could have taken over 67% of this budget, translating into

R1.09 billion. Applying a similar rate to the following fiscal year, a saving of R1,37 billion could have been realised. The risk taken up by private parties is at least two-thirds of the total Capex. 'In part, shifting the infrastructure development responsibility to the private sector is the result of dissatisfaction with the performance of state-led development programs that have simply not worked', (Zulu, 2007: 7).

### **The following are some benefits of PPPs to the state**

- (i) Nurturing the small, macro, medium and emerging (SMME) sector through subcontracting.
- (ii) Reducing government spending and ultimately the budget deficit.
- (iii) Creating employment.
- (iv) Saving costs on materials as a result of negotiations between suppliers and the private parties.
- (v) Increased tax revenues to SARS.
- (vi) By involving property experts in maintenance, building longevity is enhanced and operating costs are brought down.

In conclusion, the country is facing major expectations by the electorate, which is why everything that appears to have economic implications, has political connotations. Each and every step the government takes or plans to take is put under a microscope, debated, criticised, recommended, declined, etc. Yet, ultimately, not all voters are happy.

The universal truth is that saving in expenditure is 'good news' to most. An example is a PPP agreement that requires the state to pay 30% while the private party has to cover 70% of the cost. If the total project cost is R2bn, the state would only spend R600m, which translates into a saving of R1.4bn. That saving could be used to train artisans, increase grants to orphans or even offer bursaries to needy medical students. Understanding that PPPs lead to saving is not relative to a specific political ideology. It is, however, acknowledged that the implementation of some PPP arrangement creates doubts and eventually leads people into believing that they are not cost effective. Stacey (1997:105) agrees: '... companies are in business to make money, purely private provision ... results in the provision of public services on a strictly profit seeking basis'. This doubt can be avoided by an agreement which can also limit price increases to predetermined levels, e.g. CPI-linked increases. The public sector must ensure a relatively appealing environment, in which at least a fighting chance exists for the private sector to make a return by providing whatever service it has engaged to offer.

It was indicated that the main problem with PPPs in South Africa is uncertainties caused by the political landscape and the approach to its implementation. The concern of the unions is that private parties to PPPs have the liberty to retrench people while on the other hand they enjoy the use of state funds. It was also shown by means of examples how the state could save funds and re-channel them to other causes such as training of artisans and sponsoring student doctors. For that matter, it becomes clear that opponents of PPPs do not necessarily have a problem with PPPs as a concept but what they question is the implementation. Robust debates and interactions should result in mutual agreements for a coordinated approach to the implementation of PPPs.

Taking the above into consideration, the following important aspects have been inferred, which serve as a foundation for the

critical success factors in the provision of office accommodation:

- (i) Better site location
- (ii) Effective maintenance policy
- (iii) Extensive feasibility studies
- (iv) Effective leasing policy
- (v) Effective acquisition policy
- (vi) Sustainable site procurement
- (vii) Systems-driven service delivery

## RESULTS AND DISCUSSION

As mentioned in the discussion of methodology, in order to evaluate service delivery as well as user departments' satisfaction with the provision of office accommodation, questionnaires were sent to DPW as supplier of property services, and to the user departments as the clients of DPW. From this the following outcomes could be formulated:

*Responses from user departments indicated that 43% of the users had two years' or less experience in property, 43% had between three to four years' experience and 13% had five to six years' experience, while 17% indicated that they had a poor knowledge of how to deal with property matters, 48% indicated below average knowledge, 9% indicated average knowledge, 26% above average knowledge, and there were no responses indicating good knowledge. This indicated that the user departments are largely in the hands of DPW as the majority of the respondents had fairly little experience in dealing with property matters and they also acknowledged the shortage of skills to actually deal with these issues. 87% of them responded that they would need more training in order to deal with these functions.*

In dealing with the procurement process, 74% of user department respondents indicated that they were not involved in negotiations for their space requirements, and the process was driven entirely by DPW, yet 90% of DPW respondents indicated that they do involve the user departments. User departments also indicated that they were not kept informed of progress, with 48% responding that they never received feedback, 30% indicating some feedback and 22% indicating that they always received feedback. However, according to the DPW Business Process Manual, the process, involves six committees; 65% respondents experienced this as a negative impact on the process and felt that the number of committees made the process too complicated, while 13% indicated that they were indifferent about it, and 22% experienced it to have a positive impact on the process. Even though the DPW service delivery standards indicate a period of 153 days for the process to be completed and 100% of user department respondents indicated that this period was too long, only 29% of the DPW respondents indicated that they always met this timeline. With regard to the proposal by the Minister of Public Works to

discontinue leases dealt with directly by user departments, 17% of user department respondents indicated that they strongly disagreed that this would have a negative impact on their department if implemented, 4% disagreed, 17% did not know if it would have an impact while 39% agreed and 22% strongly agreed that it would impact their department negatively. Although user departments have their own budgets and forecasts for property expenditure, 17% indicated that they disagreed with the values at which properties are leased, while 83% indicated they did not have knowledge about the market relevance of the leases. No responses were received that agreed with the values. From these responses, it is evident that user departments are not satisfied with the level of service obtained, yet they do not really have the skills and know-how to do it better themselves. They are furthermore also limited by the stringent processes that are in place.

With regard to maintenance, although DPW are supposed to perform all maintenance, 39% of user departments indicated they would prefer to do it themselves, 22% indicated that they agree it must be performed by DPW, while 39% indicated it must be shared. In terms of this duty of DPW, 39% of respondents indicated dissatisfaction with the properties they occupy, 30% were moderately satisfied, while 30% were satisfied. In terms of the condition assessment, 74% indicated that this function was performed by external consultants employed by DPW. DPW respondents confirmed this delegation, with 80% indicating it as such, 71% indicating it to be the function of the regional DPW offices, not the head office. Of DPW respondents, 57% indicated the maintenance function to be performed in-house, 33% indicated outsourcing to external service providers appointed by DPW, while 10% indicated that it is performed by outsourcing to external service providers directly appointed by the user departments. In order to regulate this function, it is necessary for user departments to have

*User Asset Management Plans (U-AMP) in place. 65% of user department respondents indicated that they did not know whether they had a U-AMP in place, 22% indicated they did not have a U-AMP and only 13% indicated that they did have a U-AMP. To measure service delivery, respondents were questioned on the adherence to timelines for maintenance tasks, 35% of user department respondents indicated that the 77 days target for maintenance tasks below R30,000 was never adhered to and 65% indicated that it was sometimes met, no responses indicated that it was always met. This is partly confirmed by DPW respondents of which 33% confirmed that the time-limit was never met, 24% indicated it was sometimes met, while 43% were of the opinion it was always met.*

With regard to the overall property management function, 39% of user department respondents believed that it should be wholly decentralised to the individual departments, while 17% indicated it should be a shared process

**Table 6.** Resource barriers to DPW service delivery:

	Never (%)	Seldom (%)	Sometimes (%)	Often (%)	Always (%)
Budget constraints	14	19	19	19	29
Staffing shortage	5	10	19	14	52
Time constraints	19	19	33	19	10
Internal equipment	62	10	10	10	10
Transport	19	29	14	24	14
Policy constraints	67	10	10	5	10
Political factors	71	5	5	10	10
Economic factors	14	5	5	10	10
Internal red tape	14	14	10	52	10

with DPW. Only 17% were of the opinion that it should remain the function of DPW. However, 100% of DPW respondents indicated that the budget allocation by user departments was not sufficient, indicating that, although user departments were of the opinion that they should perform the asset management function themselves, their budget allocations were not sufficient, and therefore it might not have the desired result if the management function were decentralised. DPW respondents confirmed that the information received from user departments was complete, clear and unambiguous, with 77% indicating a majority satisfactory level with the information. However, user departments were not considered to be really co-operative in the processes, with 14% indicating that they found the user departments somewhat cooperative, 29% indicating that they disagreed that there was cooperation and 29% strongly disagreeing that there was cooperation. To address various shortcomings in state operations, there was some reliance's on public-private partnerships (PPP's). The majority of respondents were not happy with the pace at which the Department engaged in PPPs for office developments. The literature suggests that PPPs in South Africa are highly politicised and the main threat is that PPPs do not guarantee job security. The findings were that PPPs could yields economic benefits to both the country and its workforce. This includes reducing capital expenditure and increasing savings. As was mentioned in the National Department of Public Works 2009-2010 Annual Report (South Africa, 2010), no new PPPs were contracted in the 2009/2010 financial year. Only DPW respondents were asked about PPPs and 76% were not happy with the pace at which PPPs were implemented for office developments, while 67% agreed that PPPs were essential in government's office development projects. A simple majority of 52% agreed that the implementation of PPPs would improve the speed and quality of projects and 47% agreed that costs would come down. As for new sites, it was conceded in the National Department of Public Works 2009-2010 Annual Report (South Africa:64) that no PPP had been contracted in the current year, despite six projects for office development being in the pipeline. This anomaly shows a pitfall of the Department's procurement system.

Owing to budget (48%) and time (29%) constraints, the respondents feel that the Department is moving at a very slow pace in procuring new sites. The need for a PPP method is therefore imperative. We benchmarked this situation with the situation in Australia, where it was reported that cost over-runs in traditional procurement was 15% as opposed to 1.2% in PPPs. Responses to these questions support the findings of The Allen Consulting Group (2007). As the UK Commercial Secretary to Treasury, Lord Sassoon, was quoted by HM Treasury (2010: 1), the UK government is committed to PPPs, including those delivered via the Private Finance Initiative (PFI), and believe that such arrangements will continue to play an important role in delivering Britain's future infrastructure. Traditional procurement is the exception rather than the rule. In South Africa, the reverse is true and traditional procurement is still the rule while the PPP route is the exception. It was shown how the state could save money and improve service delivery by prioritising PPPs as a default method of site procurement. PPPs, when coupled with the existing Contractor Incubator Programme, can play an instrumental role in promoting local economy and improve SMMEs.

The feedback from DPW respondents when asked to rate the effect of resource barriers on the efficiency of DPW's service delivery, is provided in Table 6. From this it is evident that the majority of the listed items do not stand out be barriers and most of the resources are sufficient in order to provide acceptable service. Two factors that did however stand out were staffing shortage and internal red tape.

## CONCLUSION AND RECOMMENDATIONS

The following factors were identified that directly affect the service delivery of DPW and especially the supply of office accommodation within the state sector:

*Human resources*  
*Financial resources*  
*Other equipment*  
*Processes*

Human resources were found to be lacking both quantitatively and qualitatively. There are reports that staffing shortages at DPW make it difficult to meet required service delivery targets, while it is reported that more training in the user departments could streamline processes in order to improve the cooperation between DPW and the user departments.

Financial resources are considered by DPW to always be a barrier, as the budget allocations by user departments are not sufficient. This also links back to the skills of human resources at the user departments to adequately provide for this.

Other equipment such as IT, stationery, transport, etc. are not found to be a real problem; however, there is some negative feedback on the use of some of the equipment such as IT software, again linking the problem back to human resources and the training of people to acquire the desired skills to perform the required functions.

Processes are also found to be a major barrier. There are differences of opinion as to who should be responsible for certain tasks, but also reports of undesired red tape and processes that are too involved as a cause of long turnaround times. The international tendency to make more use of PPPs is very slow to be implemented and there are communication gaps seen that causes major barriers to optimum service delivery. This would also to a large extent link back to human resources, with regard to management style, management ability and skills, and the ability of individuals to correctly communicate the processes and progress thereon. It is therefore concluded that it is imperative that the human resources factor should be carefully considered, with more training, not only for DPW, but also for user department representatives, in order for communication channels to be more open, understanding of processes clearer, budget constraints resolved, and the use of systems and other resources fully understood. This could then also pave the way for further update process flow policy and service delivery policy.

**Based on these findings, it is therefore recommended that:**

Top management revisit the possibility of 'short-circuiting' the turnaround times of key deliverables, which are quite long, possibly resulting in unhappy user departments. Of particular concern here is the acquisition of new sites where the land is subject to title-deed or town-planning restrictions. The processes should be as fast as possible while ensuring that standards are not compromised.

The Asset Register be improved by adopting an all-encompassing system that interfaces GIS, the Deeds Office System, PMIS and WCS. By using 'loose' systems that do not automatically update each other, synchronisation may be lost due to various units reporting differently on similar properties.

Particular consideration be given to PPPs as a form of procurement and financing strategy. Where new buildings need to be developed, a combination of internal and external experts must be sourced at a planning stage. Where possible, internal staff be seconded to PPPs to ensure skills transfer.

The Strategic Management Unit (SMU) strive to customise service delivery standards which should suit both the user departments and DPW as the custodian within the prescripts of Government Immovable Asset Management Act. This became clear from the fact that respondents do not seem to be well appraised regarding the process of compiling Asset Management Plans.

User departments be allowed to perform some minor maintenance without having to refer them to DPW, provided they fall below set limits.

The Policy Unit takes cognisance of the recommendations, consider the foundation proposed above and explore the feasibility of applying them in its Asset Management Policy.

In its quest to improve service delivery, the Department constantly engage the services of the Council for Built Environment to advise on enhancing its processes and systems so as to reduce costs, enhance productivity, improve turnaround and reduce delivery times.

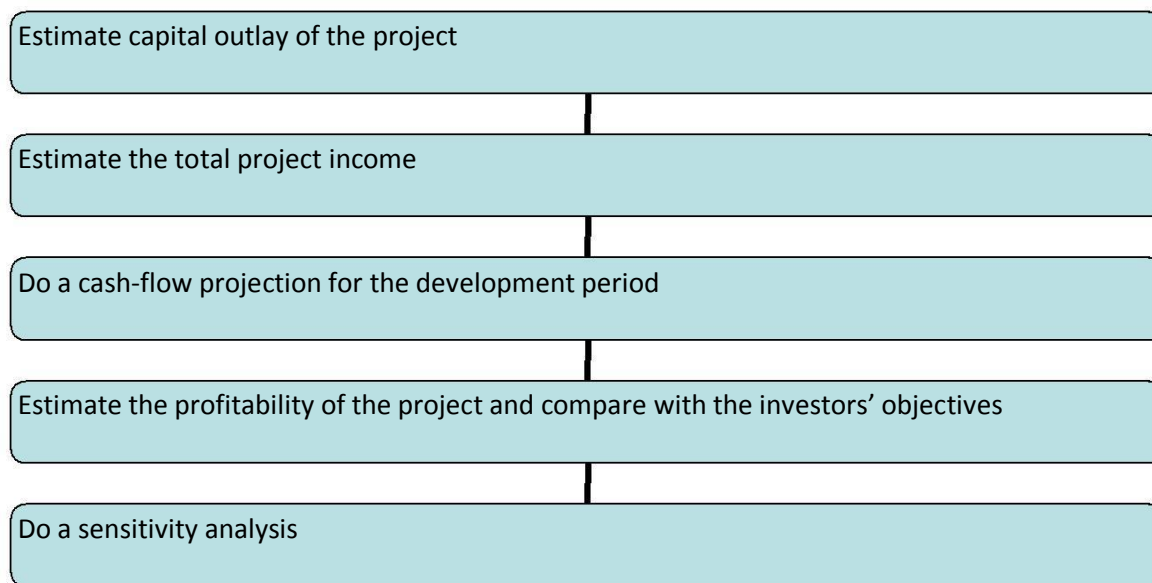
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The Department of Home Affairs occupied the new building four years ago. They had confidence in their builder to an extent that they did not bother about a maintenance plan immediately. Last month a major rain storm caused the roof to leak, causing damage to computer servers on the third floor. This was not the first time it rained. The amount of water that flowed into the server room was so huge that the damage to the hard drives was catastrophic. The hard drives were taken to a popular data recovery expert in Midrand and she said that due to the extent of the damage, the hard drives could not be recovered. This meant that all ID and passport applications have been lost. Upon inspection by maintenance experts, it was found that only a minor replacement of water proofing, which is normally carried out by other companies once every three years, could have saved the department R15m they had lost in unrecovered data. Although the department reacted by adopting a policy of renewing waterproofing every two years, the reaction was good but late. It could not save

**Exhibit 1.** Typical scenario of reactive maintenance.



**Exhibit 2.** Steps in financial feasibility.

Source: National Property Education Committee (2006:27).

Internal scenario

<b>Scenario</b>	<b>Incompleteness of the Asset Register</b>
Source	National Department of Public Works (South Africa, 2010:123)
Description	It is stated that there are some immovable assets that are not accounted for
Effect	When new offices are sought for a user department, Public Works first has to peruse its Asset Register to see whether it has available stock. Available stock can either be vacant land or improved property. With the incompleteness of the Register, available stock would not be identified and the Department may spend unnecessarily on new sites from the private sector while own sites are indeed available. This view was also shared by the Auditor General as he passed a qualification.
<b>Scenario</b>	
<b>Scenario</b>	<b>Effective use of contractors</b>
Source	National Department of Public Works (South Africa, 2010: 205 – 207)
Description	The Contractor Incubator Programme has greatly improved the service level, time schedule and quality of work rendered
Effect	The previously long cycle was shortened by this new policy, which improved turnaround time. Outsourcing maintenance to small contractors actually helps the Department to speed up the turnaround
<b>Scenario</b>	
<b>Scenario</b>	<b>Feasibility Studies</b>
Source	Service Delivery Standards, Revision 1 – 1 March 2010, p.12
Description	Red tape, capacity and insufficient budget may cause regional offices to panic as feasibility study takes at least 1 month
Effect	It takes 1 month to conduct feasibility analysis internally (Town Planning, Portfolio Analysis). This results in backlogs. Although an Investment Analysis can take 2 days to complete, approval requirements for officials to travel to sites take long. The budget is also a problem. As of valuation, which falls under feasibility studies, a red tape is created, where the report is done and signed by a candidate valuer within one day, approved by a professional valuer within one more day, but still be subjected to a second approval by Land Affairs Board (LAB). The LAB is not an internal structure. Budget allocation also poses a problem for travelling by valuers. The regional offices complain mainly of overdue valuations, which lead to unhappy user departments.