

2019

The inefficiency of the department of Roads and Public Works paying rates and taxes on vacant and unused government buildings since custodianship of properties was transferred from the Office of the Premier to the department in 2013/14 financial year.

STUDENT NAME: KENEILWE JENNIFER

MOGALE

CLUSTER: ADMINISTRATIVE SERVICES

PROVINCE: NORTHERN CAPE

Summary

I have done an expenditure analysis of rates and taxes paid by the Department of Roads and Public Works on vacant and unused buildings. The department is having a challenge of paying the rates and taxes as the budget is not enough. The properties are leased out to Non-Governmental Organisations at a below market related fee; it does not make good economic sense to keep on paying for buildings that does not benefit the department or the province whilst on the other hand the buildings are dilapidating and depreciating thus reducing their monetary value.

The rates and taxes bill was R1 714 906 in 2015/2016 and the department paid 86 % of the amount paid; in 2016/17 R1 305 419 was owed and 83 % was paid; in 2017/18 R1 457 153 was owed and 36 % was paid; and in 2018/19 the department owed an amount of R1 450 992 and only managed to pay 30%.

In order to relieve the department off the pressure, it is advisable that the department should dispose the vacant and unused properties. It is best to sell the buildings at the current market value wherein the department will realise a savings for paying municipal rates and taxes. Furthermore, the assets are no longer serving its intended purpose in terms of service delivery.

This document is not for quoting or circulation. It was done as part of the NT training exercise on the spending review methodology and is intended for discussion purposes. Further, there were some data limitations and both the appropriate level of information, and its correctness could not be independently verified.

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1. Introduction

The purpose of the report is to analyse how much the department of Roads and Public Roads is spending for rates and taxes for vacant and unused buildings; and further determine whether the department needs to keep the buildings or not. The department of Roads and Public Works is responsible for the management of government's immovable assets, to provide accommodation solutions to all provincial departments and government owned entities, to acquire and dispose of immovable assets.

As stated in the 2017/18 Annual Report, the department is currently managing 2125 land parcels which includes state domestic facilities, private facilities awaiting to be acquired, registered and unregistered state properties. The department is liable for municipal rates and taxes for all these land parcels. Rates and taxes remain one of the province's biggest challenge: non-payment has implications for municipalities' finances and performance; some municipalities experience power cuts by Eskom due to non-payment; the interest on unpaid charges accumulates on unsettled accounts, which reflects negatively as accruals.

The report focuses on the 40 buildings that are currently vacant. The department used to allocate security personnel to ensure the safekeeping of buildings; however, this has proven to be an expensive exercise. To avoid unoccupied buildings to being vandalised and running the risk of becoming havens for criminals, the department looked at an alternative way to placing costly security on vacant unused properties. In an attempt to promote social responsibility, the Department has placed Non- Governmental Organisations (NGOs) and Non-Profit Organisations (NPO) to occupy vacant properties. Considering that NGOs and NPOs are non -profit making organizations, the department is leasing out these properties at R1 per annum rate or at a rate below market.

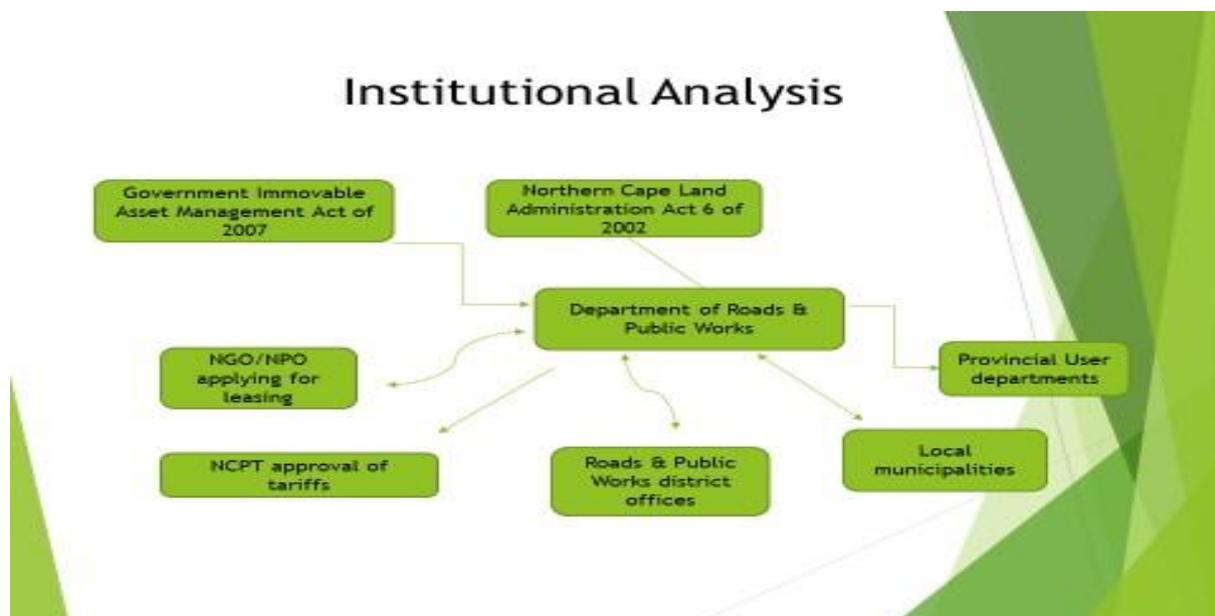
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Although the vacant buildings are not charged market related rentals and the institutions leasing are paying for maintenance and municipal services, the department is still liable for rates and taxes.

The report was compiled using the asset register maintained by the department as at 2017/18 financial year; and the rates payment schedule per property as provided by the department. The BAS data provided gives a global figure of rates and taxes for all properties, which made the exercise to analyse difficult and time consuming. Furthermore, the department is reluctant to provide information.

Some of the buildings that are listed in the asset register as vacant properties do not appear in the rates payment schedule indicating that the department is not paying rates and taxes on these buildings therefore resulting in creating a debt being owed to municipalities. There are also discrepancies noticed of the department not paying rates for other properties for all the years under review.

2. Policy and Institutional Information



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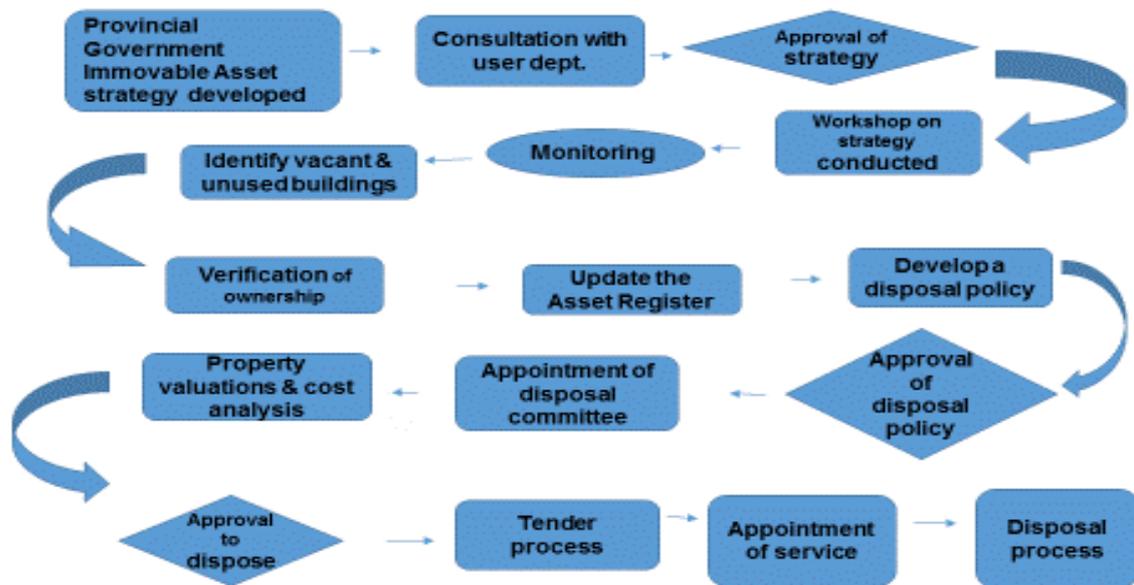
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The Government Immovable Asset Management Act of 2007 was developed aimed at providing a uniform framework that is held or used by a national or provincial department to ensure the use of the asset is aligned with the service delivery objects of that department. The act requires issuing of guidelines and minimum standards in respect of immovable asset management by a national or provincial department.

The ACT further gives guideline in relation to a disposal of an immovable property, the custodian must consider whether the immovable asset concerned can be used by another user or jointly by different users; in relation to social development initiatives of government; and in relation to government socio-economic objectives, including land reform, black economic empowerment, alleviation of poverty, job creation and redistribution of wealth.

The Northern Cape Land Administration Act 6 of 2002 specifies that the premier of the province may dispose of a provincial state land subject to conditions determined by him or her and the department responsible for the administration of the land. The Premier is designated, in relation to immovable asset that vest in the provincial government is the custodian in the provincial sphere of government.

3. Programme Chain of Delivery



At the provincial level, the department of Roads and Public Works develops the provincial Government Immovable Assets Strategy policy in line with the Government Immovable Asset Management Act of 2007. And then the department consult with provincial user departments that have been allocated properties to get inputs. After the completion of the consultation process with user departments, the department of Roads and Public Works approves the strategy in consultation with Provincial Treasury. After approval, the strategy is then circulated to user departments for implementation, and then the department of roads and public works conducts a workshop on the strategy to give clear understanding and direction.

After the workshop, the department assuming the oversight role of monitoring the state of occupancy in the buildings through reports received from departments. The department of Roads and Public Works then identifies the vacant and unused buildings that need to be disposed. The department verifies the legal ownership of properties and update the

Immovable Asset register/ database accordingly. The department then develops a Disposal Policy and after approval thereof, and then a disposal committee is appointed.

The disposal committee conducts property valuations and cost analysis for disposals. After valuations and analysis, and then the Head of Department or the Premier approves the submission to dispose. After approval, and then the supply chain management starts with the bidding process, and then the service provider is appointed. The service provider conducts the disposal process and then compiles a disposal report to the department. The department then facilitate conveyancing.

The department must do the reconciliations and then deposit the proceeds from the disposal of properties to the Provincial Exchequer Account. The department then conducts a post disposal process to check if all properties were sold as per Service Level Agreement. If there are remaining properties that do not have offers and did not attract any bidding, the department must determine why. After conducting the analysis, the department resubmit the properties for re-auctioning as per mandated asset disposal.

4. Expenditure Observations

Table 1: Rates and taxes owed by the department for 2015/16 to 2018/19

| Type of buildings | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | |
|--------------------|----------|---------------------|----------|---------------------|----------|---------------------|----------|---------------------|
| Care Centre | R | 430 123.20 | R | 533 905.50 | R | 303 933.12 | R | 320 682.42 |
| Complex | R | 29 969.06 | R | 33 283.20 | R | 40 134.98 | R | 31 069.28 |
| Hospital | R | 50 195.93 | R | 51 854.20 | R | 68 738.63 | R | 73 008.00 |
| Hostel | R | 31 831.80 | R | 33 909.40 | R | 33 145.53 | R | 50 289.73 |
| Library | R | 13 151.81 | R | 14 466.94 | R | 19 530.44 | R | 20 260.87 |
| School | R | 246 915.37 | R | 184 082.30 | R | 338 609.18 | R | 358 929.61 |
| School | R | 50 896.56 | R | 54 218.48 | R | 48 049.20 | R | 62 415.00 |
| School & Hostel | R | - | R | - | R | - | R | 171.00 |
| Sportfield | R | 10 632.16 | R | 10 971.89 | R | 15 389.10 | R | 19 133.54 |
| Teacher centre | R | 613 477.00 | R | 168 565.40 | R | 588 720.40 | R | 513 546.60 |
| Trustees | R | 1 159.50 | R | 1 252.26 | R | 1 402.56 | R | 1 486.68 |
| Grand Total | R | 1 478 352.39 | R | 1 086 509.58 | R | 1 457 653.13 | R | 1 450 992.72 |

The table above illustrates the amount owed by the department for rates and taxes for the period under review per type of building.

Table 2: Rates and taxes Trend Analysis for 2015/16 to 2018/19 financial year and the trend percentage analysis over three years.

| Type of buildings | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | | CAGR | | | |
|--------------------|----------|---------------------|----------|---------------------|----------|-------------------|----------|-------------------|-------------|-------------|-------------|-------------|
| Care Centre | R | 430 123.20 | R | 533 905.50 | R | 303 933.12 | R | 226 424.88 | 24% | -43% | -26% | -19% |
| Complex | R | 29 969.06 | R | 33 283.20 | R | 35 945.68 | R | 21 586.60 | 11% | 8% | -40% | -10% |
| Hospital | R | 50 195.93 | R | 51 854.20 | R | 54 990.90 | R | 58 406.40 | 3% | 6% | 6% | 5% |
| Hostel | R | 31 831.80 | R | 33 909.40 | R | 24 040.80 | R | 39 221.31 | 7% | -29% | 63% | 7% |
| Library | R | 13 151.81 | R | 14 466.94 | R | 15 624.35 | R | 16 208.70 | 10% | 8% | 4% | 7% |
| School | R | 246 915.37 | R | 184 082.30 | R | 31 846.56 | R | 11 005.01 | -25% | -83% | -65% | -65% |
| School & Hostel | R | - | R | - | R | - | R | - | 0% | 0% | 0% | 0% |
| Sportfield | R | 10 632.16 | R | 10 971.89 | R | 25 717.61 | R | 13 205.87 | 3% | 134% | -49% | 7% |
| Teacher centre | R | 613 477.00 | R | 168 565.40 | R | - | R | - | -73% | -100% | 0% | -100% |
| Trustees | R | 1 159.50 | R | 1 252.26 | R | 1 402.56 | R | 1 486.68 | 8% | 12% | 6% | 9% |
| Grand Total | R | 1 478 352.39 | R | 1 086 509.58 | R | 531 940.94 | R | 437 477.44 | -27% | -51% | -18% | -33% |

The analysis indicates that the payment has decreased from R1.478 352.39 in 2015/16 to R437 477.44 in 2018/19 that is an average of 33 per cent decline over the years.

The decline in payment is attributed to:

- The late payments of accounts due to the late submission of supporting documentation;
- The delay in the implementation of approved tariffs by municipalities,
- Confirmation of banking details and lack of municipal policies;

Moving forward, the department has taken initiatives to visit the relevant municipalities for the required documentation to avoid late payments. Provincial Treasury is assisting municipalities with tariff reviews and also with developing policies in an effort to improve internal control systems. The department and Provincial Treasury has established a debt committee where all municipalities are expected to participate in order to deal with the billing of utilities and rates debt.

Table 2 (a): Growth analysis for rates and taxes debt owed for 2019/20 to 2021/22 financial years

| Type of buildings | 2015/16 to 2018/19 Rates & Taxes debt owed | | | | MTEF Growth projection | | | |
|--------------------|--|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|-----------------------|--|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | |
| Care Centre | R 430 123.20 | R 533 905.50 | R 303 933.12 | R 320 682.42 | R 337 999.27 | R 356 927.23 | R 376 201.30 | |
| Complex | R 29 969.06 | R 33 283.20 | R 40 134.98 | R 31 069.28 | R 32 747.02 | R 34 580.85 | R 36 448.22 | |
| Hospital | R 50 195.93 | R 51 854.20 | R 68 738.63 | R 73 008.00 | R 76 950.43 | R 81 259.65 | R 85 647.67 | |
| Hostel | R 31 831.80 | R 33 909.40 | R 33 145.53 | R 50 289.73 | R 53 005.37 | R 55 973.68 | R 58 996.25 | |
| Library | R 13 151.81 | R 14 466.94 | R 19 530.44 | R 20 260.87 | R 21 354.96 | R 22 550.84 | R 23 768.58 | |
| School | R 246 915.37 | R 184 082.30 | R 338 609.18 | R 358 929.61 | R 378 311.80 | R 399 497.27 | R 421 070.12 | |
| School | R 50 896.56 | R 54 218.48 | R 48 049.20 | R 62 415.00 | R 65 785.41 | R 69 469.39 | R 73 220.74 | |
| School & Hostel | R - | R - | R - | R 171.00 | R 180.23 | R 190.33 | R 200.60 | |
| Sportfield | R 10 632.16 | R 10 971.89 | R 15 389.10 | R 19 133.54 | R 20 166.75 | R 21 296.09 | R 22 446.08 | |
| Teacher centre | R 613 477.00 | R 168 565.40 | R 588 720.40 | R 513 546.60 | R 541 278.12 | R 571 589.69 | R 602 455.53 | |
| Trustees | R 1 159.50 | R 1 252.26 | R 1 402.56 | R 1 486.68 | R 1 566.96 | R 1 654.71 | R 1 744.06 | |
| Grand Total | R 1 478 352.39 | R 1 086 509.58 | R 1 457 653.13 | R 1 450 992.72 | R 1 529 346.33 | R 1 614 989.72 | R 1 702 199.17 | |

Table 2 (b): Growth analysis for rates and taxes payments for 2019/20 to 2021/22 financial years

| Type of buildings | 2015/16 to 2018/19 Rates & Taxes payments | | | | MTEF Growth projection | | | |
|--------------------|---|-----------------------|---------------------|---------------------|------------------------|---------------------|---------------------|--|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | |
| Care Centre | R 430 123.20 | R 533 905.50 | R 303 933.12 | R 226 424.88 | R 238 651.82 | R 252 016.33 | R 265 625.21 | |
| Complex | R 29 969.06 | R 33 283.20 | R 35 945.68 | R 21 586.60 | R 22 752.28 | R 24 026.40 | R 25 323.83 | |
| Hospital | R 50 195.93 | R 51 854.20 | R 54 990.90 | R 58 406.40 | R 61 560.34 | R 65 007.72 | R 68 518.14 | |
| Hostel | R 31 831.80 | R 33 909.40 | R 24 040.80 | R 39 221.31 | R 41 339.26 | R 43 654.26 | R 46 011.59 | |
| Library | R 13 151.81 | R 14 466.94 | R 15 624.35 | R 16 208.70 | R 17 083.97 | R 18 040.67 | R 19 014.87 | |
| School | R 246 915.37 | R 184 082.30 | R 31 846.56 | R 11 005.01 | R 11 599.28 | R 12 248.84 | R 12 910.28 | |
| School | R 50 896.56 | R 54 218.48 | R 38 439.36 | R 49 932.00 | R 52 628.33 | R 55 575.51 | R 58 576.59 | |
| School & Hostel | R - | R - | R - | R - | R - | R - | R - | |
| Sportfield | R 10 632.16 | R 10 971.89 | R 25 717.61 | R 13 205.87 | R 13 918.99 | R 14 698.45 | R 15 492.17 | |
| Teacher centre | R 613 477.00 | R 168 565.40 | R - | R - | R - | R - | R - | |
| Trustees | R 1 159.50 | R 1 252.26 | R 1 402.56 | R 1 486.68 | R 1 566.96 | R 1 654.71 | R 1 744.06 | |
| Grand Total | R 1 478 352.39 | R 1 086 509.58 | R 531 940.94 | R 437 477.44 | R 461 101.22 | R 486 922.89 | R 513 216.73 | |

Table 2(a) and (b) above shows the Medium Term Estimates Framework (MTEF) growth projections of the rates and taxes payments & debt owed respectively. The projections are calculated using the 2019 MTEF guideline CPIX which was 5.4 per cent in 2019/20; 6 per cent in 2020/21; and 5.5 per cent in 2021/22 financial years. The projections for payments are based on the actual amount that was paid in 2018/19.

5. Performance

The programme is performing well in terms of implementing the GIAMA strategy in the province, which is evident in maintaining the Immovable Assets Register. In the previous years, the user departments acquired their own properties through construction by other implementing agents. These properties remained in the books of the user departments until 2013/14 when section 42 of the PFMA and National Treasury Sector Specific Guide was enforced by the Auditor General. The custodian at that time the properties was with the Office of the Premier until the matter was rectified in 2013/14.

In graph 1 below, the department had an arrear of R380 000 in 2015/16; and reduced to R50 000 in 2016/17; and then increased to R800 000 in 2017/18 and again slightly increased to R850 000 in 2018/19 financial year. The fluctuations are because of rebates received because municipalities' charges rates on a monthly basis and levy interest the moment the bill is not settled. The interests on the debt is written off when the department settles the total current account on time.

Graph1: Analysis of rates, rebates, payment and arears for the period 2015/16 to 2018/19 financial year

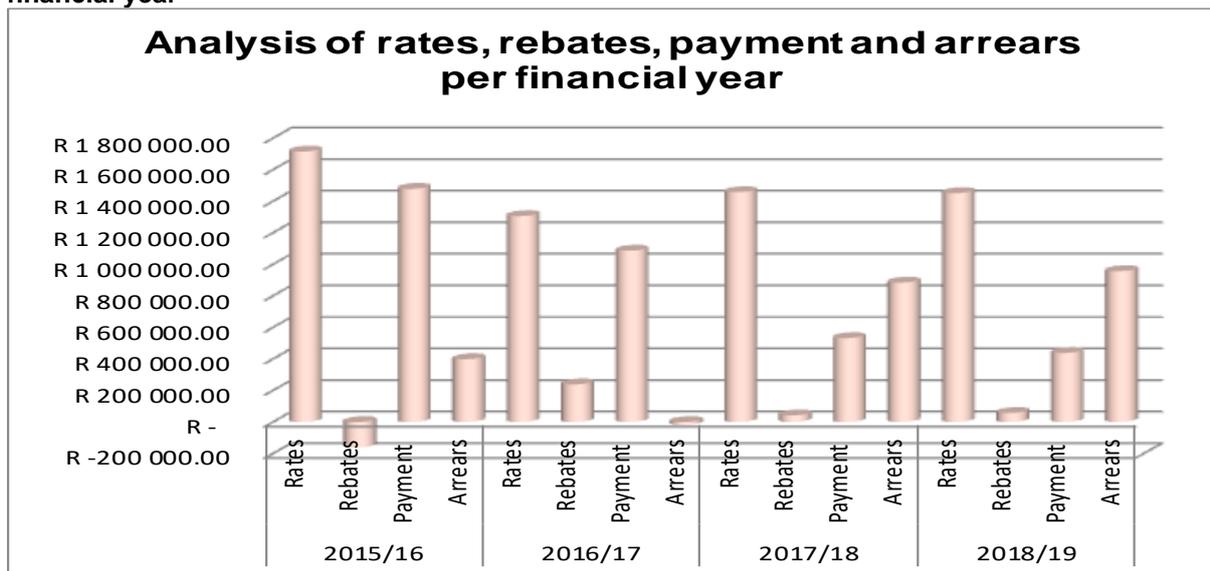
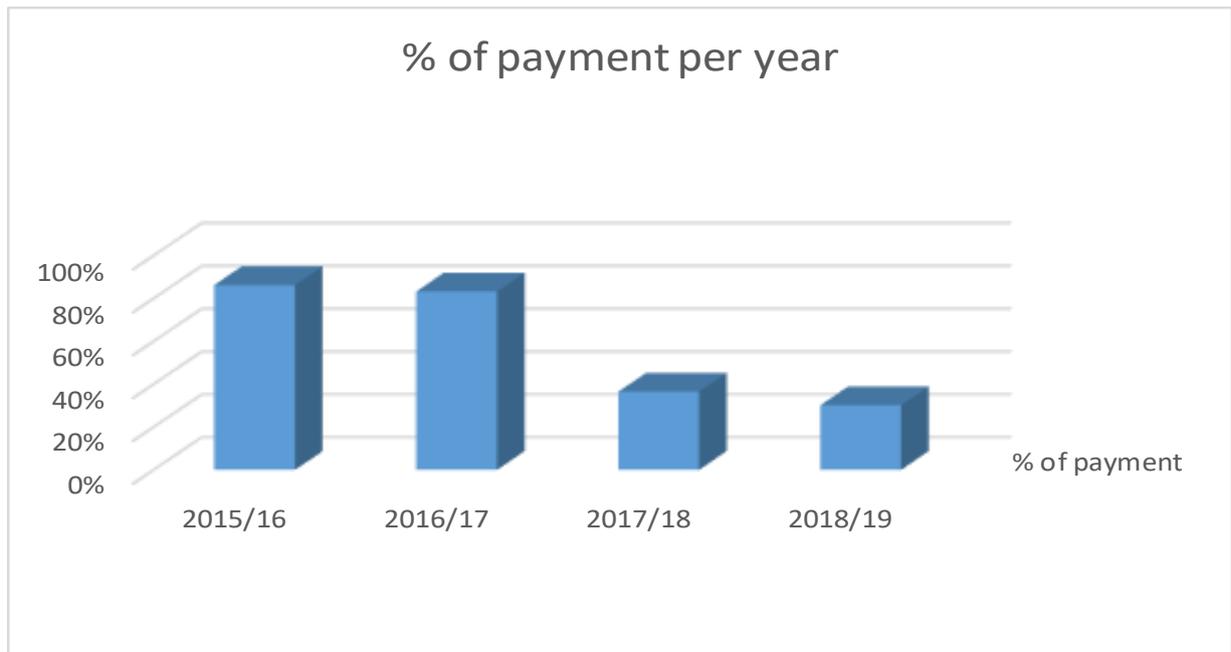


Chart 1: Percentage of actual payment for rates and taxes from 2015/16 to 2018/19



The department has paid 86 % in 2015/16; 83 % in 2016/17; 36 % in 2017/18; and 30 % in 2018/19. The department is not meeting its financial obligations of paying the rates and taxes due to underfunding.

6. Options

Currently as per the grading rate the properties are between 3 and 4 which means that they are fair and poor in condition. The department has an option to renovate the buildings and rent them out to private stakeholders at market related prices. However this exercise will not produce fruitful prospects as most of these buildings are located in areas where economic activity is slow. Hence it does not make financial sense for the department to renovate.

Option 1: Transfer of ownership

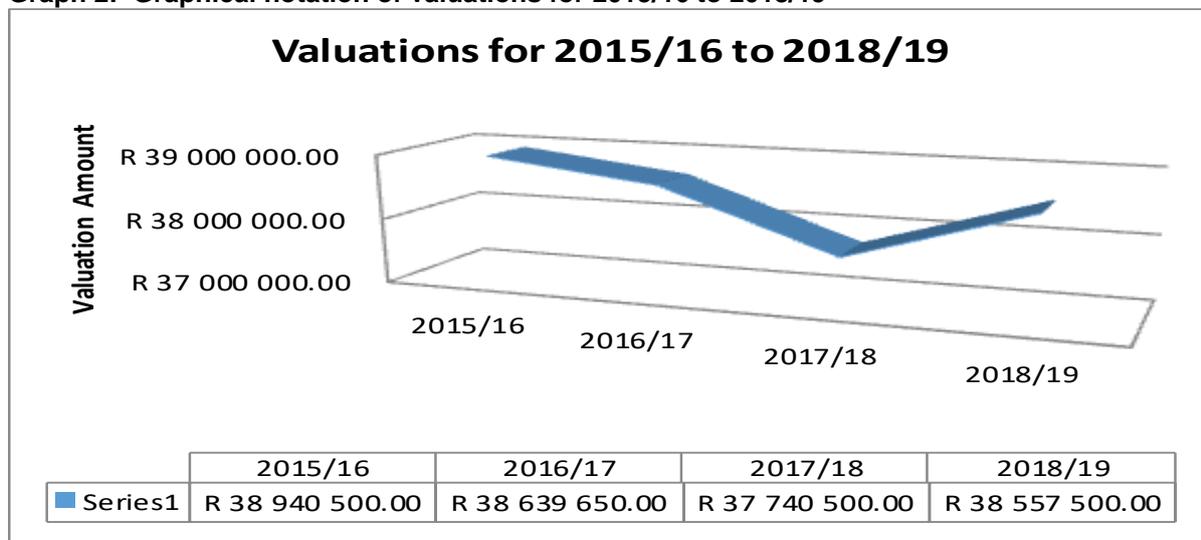
Non-Government Organisations are rendering services on behalf of the department of Social Development with the requirements as outlined in the National Development Plan 2030; and Medium Term Strategic Framework. The department must monitor compliance with the Public Management Finance Management Act and Non-Profit Organizations Act to enable non-profit organizations to provide services as guided by the specifications plan.

In light of this, and taking into consideration that most if not all of the vacant properties are used by NGO's that are being charged R1 or below the market rental fee. The department of Roads and Public Works must transfer ownership of the buildings to the department of Social Development. The transfer of properties to social development will also mean that the burden for paying rates and taxes will be carried by the department.

Table 3: Valuations amounts of properties for 2015/16 to 2018/19

| Types of buildings | | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|--------------------|----------|----------------------|------------------------|------------------------|------------------------|
| Care Centre | R | 10 452 000.00 | R 10 452 000.00 | R 10 452 000.00 | R 10 452 000.00 |
| Complex | R | 2 086 000.00 | R 2 086 000.00 | R 2 086 000.00 | R 1 995 500.00 |
| Hospital | R | 3 567 100.00 | R 3 567 100.00 | R 3 567 100.00 | R 3 567 100.00 |
| Hostel | R | 1 270 500.00 | R 1 270 500.00 | R 1 270 500.00 | R 1 718 000.00 |
| Library | R | 1 600 000.00 | R 1 600 000.00 | R 1 600 000.00 | R 1 600 000.00 |
| School | R | 4 456 900.00 | R 9 006 900.00 | R 7 006 900.00 | R 7 006 900.00 |
| School | R | 1 483 000.00 | R 1 483 000.00 | R 1 483 000.00 | R 1 825 000.00 |
| School & Hostel | R | - | R - | R - | R 5 000.00 |
| Sportfield | R | 1 015 000.00 | R 1 015 000.00 | R 1 015 000.00 | R 1 128 000.00 |
| Teacher centre | R | 12 950 000.00 | R 8 099 150.00 | R 9 200 000.00 | R 9 200 000.00 |
| Trustees | R | 60 000.00 | R 60 000.00 | R 60 000.00 | R 60 000.00 |
| Grand Total | R | 38 940 500.00 | R 38 639 650.00 | R 37 740 500.00 | R 38 557 500.00 |

Graph 2: Graphical notation of valuations for 2015/16 to 2018/19



Option 2: Disposal of buildings

The other option is for the department to dispose these properties by auction. A savings will be realised once, but going forward the department will be able to meet the financial obligation of paying for municipality rates and taxes to the remaining buildings. The department can use some of the proceeds from the disposal to settle all outstanding municipal accounts and start each year on a clean slate. The auction will unburden the department as it will curb and avoid vandalism and the property value to depreciate due to non-maintenance.

Table 3 and Graph 2 above show the valuation amount of the properties from 2015/16 to 2018/19 financial year. The valuation is slightly fluctuating over the years, however the current value of the properties is R38 000 000. This is the estimated amount that the department to make if the buildings are sold at book value.

7. Recommendations

It is recommended that the department should dispose all properties that are vacant and unused. It is costing the department on average R1 000 000 per year to keep these properties versus the minimal income amount of R1 value received from leasing them out. There are instances where the department is having to pay for municipal services that were unpaid by the previous tenant. It is also risky for the department to lease the properties which are dilapidating and may be a hazard to the occupants.

It should be noted that to dispose the properties, due diligence should be exercised by:

- Ensuring that all applicable legislations governing the disposal of government properties are exhausted;
- Ensuring that the consultative process is thorough and involves all relevant stakeholders ;
- Conducting a conditions assessment to establish the current valuations of these properties.
- The Heads of both departments to present the findings to the Executive Council of Northern Cape Province within one month, which will depend on the availability of the members.
- Establishing a task team comprising of Property Management official, Asset Management and Finance official to conduct a thorough research to determine the viability of disposing government properties.

8. Action

The following actions will be taken:

- I will share the report with the Head of Department of Provincial Treasury and Roads and Public Works within three months after finalisation.
- Write a letter for the establishment of a task team to work on the process of disposing these buildings.
- Assist the department in verifying the vacant buildings and conduct a conditions assessment.
- Compile monthly and quarterly reports to give progress on the status of disposal.