



independent complaints directorate

Department:
Independent Complaints Directorate
REPUBLIC OF SOUTH AFRICA

Briefing to the Portfolio Committee on Police, National Assembly

LEASE OF ICD HEAD OFFICE BUILDING, PRETORIA

**S35, First Floor, NCOP Wing, Parliament
Tuesday, 15 November 2011 at 09:30**



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TABLE OF CONTENTS

- Annual Report 2010/11 briefing, 1 November 2011: **Questions posed by members**
- Annual Financial Statements 2010/11: **Breakdown of expenditure on operating leases**
- Allocation of new head office accommodation:
 - **Background**
 - **Procurement process followed**
 - **Factors taken into consideration:** Current staff complement, IPID anticipated future growth, SSA security prescripts, expiry of lease agreements and contingent liabilities
 - **Communication with DPW:** Available options, directive by DPW
- Particulars of lease agreement: Structura Building vs City Forum Building
- Financial Implications
 - **Comparison:** Previous *versus* current lease commitments
 - **Budget allocations:** Operating leases 2012 – 2015
 - **Reasons for under-budgeting and funding of needs:** Operating leases 2012 – 2015
- Conclusion: **Steps taken and going forward**

Annual Report 2010/11 briefing, 1 November 2011

Questions posed by members

- Request for a breakdown of expenditure on operating leases:
 - 2009/10 (R4,236,938.50)
 - 2010/11 (R15,567,632.75)
- Request for figures in respect of expenditure on -
 - the lease of Head Office building (expenditure on rental)
 - refurbishment costs (capital expenditure)
- Impact on service delivery?

Annual Financial Statements 2010/11: Breakdown of expenditure on operating leases

BREAKDOWN OF OPERATING LEASES REFLECTED IN 2010/11 ANNUAL FINANCIAL STATEMENTS

	2010/2011	2009/2010	MOVEMENT
	R	R	R
Photocopiers	355,459.89	370,999.69	-15,539.80
Disability equipment (Once off event in support of Disability Day)	-	150.00	-150.00
Buildings	15,212,172.86	3,865,788.81	11,346,384.05
TOTAL	15,567,632.75	4,236,938.50	11,330,694.25

Analysis of movement in Operating Leases - Buildings:

The 2010/11 expenditure (R15,567,632.75) included backdated billing received from DPW in terms of the 2006 to 2010 financial years, after DPW's first initial reconciliation exercise to correct billing to National Departments. Further reconciliation exercises done by DPW resulted in revised increased invoices to National Departments.

Allocation of new head office accommodation

BACKGROUND

- Prior to the move to the City Forum building (114 Vermeulen street), the ICD has been occupying two buildings: Old Mercedes Benz and ICD House Building.
 - The ICD House building was occupied in 1998 when the ICD Head Office had a staff complement of only 46.
 - Due to departmental growth, ICD House could no longer accommodate all Head Office staff.
 - To address the space shortage, the OMB building was leased in 2005 by Public Works and allocated to ICD.
 - However, managing two buildings was not only costly but also resulted in administrative challenges.
- A needs analysis was forwarded to National Department of Public Works (NDPW). The needs analysis was accompanied by confirmation of funds to the amount of R6,190,000.00

Allocation of new head office accommodation PROCUREMENT PROCESS FOLLOWED

ACTION	DATE
Needs analysis forwarded to NDPW, together with confirmation of funds in the amount of R6,190,000.00.	24 October 2007
NDPW sent Procurement Instruction to the Regional Office accompanied by the needs assessment and confirmation of funds for the attention of the Regional Manager to commence with the procurement process.	26 October 2007

Allocation of new head office accommodation PROCUREMENT PROCESS FOLLOWED (cont)

ACTION	DATE
Invitation to view buildings: Structura, Trevenna, City Centre and Lukasrand. As a result, Structura was recommended.	26 March 2008
ICD was informed that the Structura building was not available due to non compliance with BEE prescripts.	March 2008
ICD invited to view other buildings: Van Riebeeck, Triamphal and the Meintjies building, which was recommended with conditions.	30 March 2008

Allocation of new head office accommodation PROCUREMENT PROCESS FOLLOWED (cont)

ACTION	DATE
ICD received confirmation from DPW that the Structura building is available as it now complied with BEE prescripts. ICD confirmed interest in the Structura building.	17 July 2008
Revised Procurement Instruction approved by DPW for the Structura building.	03 August 2008
DPW signed a lease agreement with the owner of the Structura building (to be allocated to ICD).	15 October 2008
Commencement of refurbishment of the Structura building and installation of network cabling.	February 2009

Allocation of new head office accommodation PROCUREMENT PROCESS FOLLOWED (cont)

ACTION	DATE
ICD was supposed to occupy the Structura building in May 2009, which was postponed to June 2009, and then to September 2009, as the building was not yet ready for occupation.	May 2009 – September 2009
Meeting between ICD & DPW to discuss the way forward. In the very same meeting DPW proposed that departments swop buildings so that ICD will move to the City Forum building and the Department of Human Settlements to the Structura building.	29 January 2010

Allocation of new head office accommodation PROCUREMENT PROCESS FOLLOWED (cont)

ACTION	DATE
ICD submitted a letter showing interest to occupy the City Forum building, together with a request for a copy of the lease agreement, advise on the availability of alternative buildings and reimbursement of expenditure incurred at the Structura building.	03 February 2010
DPW responded by indicating that if ICD does not occupy the City Forum building, fruitless expenditure will be incurred, as DPW will not have a justification of securing other buildings and ignore existing commitments (City Forum and Structura).	05 February 2010
DPW informs ICD of adjusted rental for OMB and the possibility of incurring fruitless expenditure as a result of litigation.	18 June 2010

Allocation of new head office accommodation PROCUREMENT PROCESS FOLLOWED (cont)

ACTION	DATE
ICD again formally requested DPW for a copy of the lease agreement.	08 July 2010
ICD received an incomplete lease agreement from DPW.	09 July 2010
Follow-up for submission of the complete lease agreement was made. No response received from DPW.	July – November 2010
ICD occupied the City Forum building.	15 September 2010
ICD received a complete hard copy of the lease agreement. (DPW signed the lease agreement with the owner of the City Forum building on 14 April 2009, at that stage to be allocated to the Department of Human Settlements.)	November 2010

Allocation of new head office accommodation

FACTORS TAKEN INTO CONSIDERATION

- 2009/10 Head Office staff complement: 99
- IPID anticipated future growth
- State Security prescripts
- Expiry of lease agreements (OMB and ICD House)
- Contingent liabilities

Allocation of new head office accommodation

COMMUNICATION WITH DPW

- Request for alternative accommodation / options
- Directive by DPW

Particulars of lease agreement

STRUCTURA

- **PARTIES:** Lessor: **SECHABA PROPERTY INVESTMENTS (PTY) LTD**
Lessee: **NATIONAL DEPARTMENT OF PUBLIC WORKS**
- **PROPERTY**
 - **Structura building, 359 Church Street**
- **LEASE PERIOD**
 - **8 years, 11 months**
- **RENTAL**
 - **R323,682.40 (incl Vat) per month**
 - **9% escalation per annum**
- **DATE OF SIGNATURE: 20 October 2008**
- **DATE OF COMMENCEMENT: Occupation date**

Particulars of lease agreement

CITY FORUM BUILDING

- **PARTIES:**
 - Lessor: MAJESTIC SILVERTRADING 275 (PTY) LTD
 - Lessee: NATIONAL DEPARTMENT OF PUBLIC WORKS
- **PROPERTY**
 - 114 Vermeulen Street
- **LEASE PERIOD**
 - 9 years, 11 months
- **RENTAL**
 - R729,280.75 (incl Vat) per month
 - 10% escalation per annum
- **DATE OF SIGNATURE:** 14 April 2009
- **DATE OF COMMENCEMENT:** 1 March 2009

Financial Implications

COMPARISON: Previous versus current lease commitments

LEASE BREAKDOWN				
LEASES	PREVIOUS LEASES		BUILDING IDENTIFIED BY ICD	BUILDING RECOMMENDED BY DPW
	OMB	ICD HOUSE	STRUCTURA	CITY FORUM
2010/2011	R69,723.29	R133,568.45	R384,567.06	R802,208.83
	R203,291.74		R384,567.06	R802,208.83
2011/2012	N/A		R419,178.10	R882,429.76

Financial Implications

BUDGET ALLOCATIONS: Operating leases 2012 - 2015

2012/15 MTEC budget submission

The ICD requested funding for operating leases (which includes the lease of photo copy machines and office accommodation) in the 2012 - 2015 budget submission for the following amounts:

- 2012/13: R10,578,000 (of which R9,092,000 is devolved funds)
- 2013/14: R11,159,000 (of which R9,592,000 is devolved funds)
- 2014/15: R11,716,000 (of which R10,072,000 is devolved funds)

However, the total projected amounts payable for office accommodation for all ICD Offices during the 2012 - 2015 MTEF period (rounded off to the nearest thousand) will be as follows:

- 2012/13: R21,113,000
- 2013/14: R23,225,000
- 2014/15: R25,547,000

Financial Implications

REASONS FOR UNDER-BUDGETING: Operating leases 2012 - 2015

The projected shortfall in respect of the budget for operating leases during the 2012 - 2015 MTEF period will amount to -

- R10,535,000 (2012/13);
- R12,066,000 (2013/14); and
- R13,831,000 (2014/15).

Reasons for under-budgeting in respect of operating leases

Calculations were based on:

- Original commitment (confirmation of funds) to DPW;
- Rental for Structura (as it was purely a swop of buildings);
- Historic costs (rental expenditure);
- System of devolved funds; and
- Reconciliation of DPW lease register (resulted in backdated billing).

Financial Implications

FUNDING OF NEEDS: Operating leases 2012 - 2015 (cont)

OPTION 1

The ICD will submit an application to National Treasury for the allocation of additional funding in respect of the shortfall anticipated for the lease of office accommodation.

OPTION 2

Reprioritisation of expenditure.

Conclusion

STEPS TAKEN

- **Review of internal processes**
- **Discussions commenced with National Treasury**
- **Referral for legal opinion**
- **Discussions commenced with DG of DPW**

Conclusion

GOING FORWARD

- **Effect / impact on service delivery?**
- **Adequate financial planning: Future Budget submissions**
- **Effective risk management**
- **Establishment of Corporate Governance Unit**
- **Remedial Action Plan**



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