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18 October 2021

# DEPARTMENT OF PUBLIC ENTERPRISES: 2020/21 ANNUAL REPORT ANALYSIS

## TABLE OF CONTENTS



## 1. INTRODUCTION

The Department of Public Enterprises (DPE) provides shareholder oversight to seven State Owned Companies (SOCs): Alexkor SOC Limited, Denel SOC Limited, Eskom SOC Limited, the South African Forestry SOC Limited (SAFCOL), South African Airlines (SAA) SOC Limited, South African Express Airlines (SAX) SOC Limited and Transnet SOC Limited, for the 2020/21 financial year. The Department's primary objective is to ensure that the State's shareholdings in these companies are financially sustainable and deliver on Government's strategic objectives.

The Department received an unqualified audit opinion for the 2020/21 financial year, with an emphasis of matter on its irregular expenditure. The Department spent 99.9 per cent of its budget, under spending R103.5 million for the financial year. The Department achieved 74.2 per cent of its targets, which was revised on 30 June 2020. However, performance by the entities overseen by the Department has been declining over the years. Currently, only Eskom and SAFCOL were able to table their 2020/21 annual financial statements, with the remaining five entities unable to table their annual financial statements due to liquidity constraints (Denel), and differing audit opinions (Transnet).

The paper gives an analysis of the Department's Annual Report for the 2020/21 financial year.

## 2. MANDATE OF THE DEPARTMENT[1]

The Department of Public Enterprises (DPE or the Department) undertakes shareholder oversight for Government and is currently instructed by the Executive Authority to oversee strategic State-Owned Companies (SOCs). Currently, the DPE does not have a legislated constitutional mandate. The DPE is recognised as a Government Department through Proclamation No. 82 of 1999. It has an agreed and assigned dual responsibility to:

- Direct and support improvements in the financial, commercial and operational performance of the SOCs and their contribution to the South African economy; and
- Make a positive contribution to the transformation of the South African economy in line with the National Development Plan (NDP) to create a better and sustainable economic environment for all South Africans.

The DPE aims to drive investment, productivity and transformation in the Department's portfolio of state-owned companies (SOC), their customers and suppliers to unlock growth, drive industrialisation, create jobs and develop skills. The Department's portfolio has seven state-owned companies namely; Alexkor, Denel, Eskom, South African Forestry Company (SAFCOL), South African Airways (SAA), South African Express Airways (SAX), and Transnet.

The vision of the Department is to create an enabling environment in which SOCs add real economic value by focussing on operational excellence, commercial viability and fiscal prudence. This will drive developmental objectives, industrialisation, job creation and skills development.

The mission of the Department is to provide clear strategic direction and oversight to the Department's SOCs, seeking to ensure that the SOCs:

- Are financially sustainable, adequately funded and operationally robust;
- Have operating models that keep pace with global development and innovation;
- Provide reliable, high-quality and cost-effective services and infrastructure to industry and our citizens;
- Secure investment and funding for strategic industrial development; and
- Align with national developmental objectives.

The Department's overall mandate is to ensure that the SOCs within its portfolio are directed to serve Government's strategic objectives as outlined in the NDP and further articulated in the New Growth Path, and the Industrial Policy Action Plan. The Department does not directly execute programmes but seeks to leverage the state ownership in the economy to support the delivery of key outcomes outlined in the NDP and the Medium Term Strategic Framework (MTSF). The expansion of rail capacity, productivity improvements at the ports and the delivery of the current build programme are key deliverables that have been highlighted in the MTSF.

[1] Department of Public Enterprises (2020b). This section is taken directly from this report.

The NDP specifically mentions state owned companies and the role they play in improving infrastructure in the country. The plan identified "institutional weaknesses related to state-owned companies responsible for network infrastructure".[2] The plan goes on to state that "averting such problems requires clear institutional arrangements, transparent shareholder compacts, clean lines of accountability and sound financial models to ensure sustainability".[3] The plan sets out clear actions required to address the institutional weaknesses identified. Infrastructure is also highlighted in the NGP as a driver of job creation, which has been echoed in several of the President's State of the Nation Addresses (SONAs). The role of skills development by SOCs is also highlighted in the SONAs.

The Department plays an instrumental role in implementing the NDP Outcome 6 which seeks to achieve an efficient, competitive and responsive economic infrastructure network. This forms the core mandate of the Department in the current administration period. The key objectives of Outcome 6 are:

- Increasing the electricity reserve margins;
- Increasing investment to 25 percent of the Gross Domestic Product (GDP);
- Increasing rail volume to 330 million tonnes; and
- Increasing ports' productivity.

The Department through the entities seeks to achieve the NDP goals.

## 3. 2020/21 ANNUAL PERFORMANCE PLAN[4]

The Department presented their Annual Performance Plan (APP) for 2020/21 to the Committee on 20 May 2020. In the document, the Department identified the following Strategic Impact Areas (SIAs):

- Socio-economic Impact – to enable a better and more sustainable economic environment through the re-industrialisation of the South African economy.
- Oversight – ensure alignment across SOCs and uniformity of oversight models and their execution.
- Sustainability – ensure stable and predictable SOC service levels underpinned by enhanced financial, commercial, operational and environmental performance.

In the APP the Department, presented 32 performance targets related to the relevant programmes and outcomes. Programme 1: Administration had two performance indicators with a budget of R164.3 million. Programme 2: SOC Governance Assurance and Performance had 6 indicators with a budget of R54.6 million. Programme 3: Business Enhancement and Industrialisation had 24 performance indicators with a budget of R37.6 billion. These amounts were later revised in the Adjusted Appropriation in October 2020.

Subsequent to the Department submitting their APP, a revised SP and APP was tabled to Parliament in July 2020. In the revised APP submitted in July, some indicators were removed

[2] The Presidency (2012) National Development Plan, Executive Summary, pg 35.
[3] Ibid.
[4] Department of Public Enterprises (2021) This section comes from this report

and new indicators presented. In the revised APP for 2020/21, Programme 2: SOC Governance Assurance and Performance went from 6 indicators to 8 indicators, while Programme 3: Business Enhancement and Industrialisation went from 24 indicators to 21 indicators. The total number of performance indicators reduced from 32 indicators to 31 indicators. The Committee was not made aware of the revised APP while reasons provided for the removal and insertion of performance indicators mainly stated that outcomes, outputs and output indicators were revised to align to the Medium Term Strategic Framework (MTSF). However, this calls into question the Department's whole strategic planning framework as one of the fundamental planning documents of government is the MTSF. It states in the Framework for Strategic Plans and Annual Performance Plans issued in 2010 that all government institutions are required to align their Strategic Plans, Annual Performance Plans and Annual Operational Plans with the MTSF.

Thus in the Annual Report 2020/21, the Department reports on progress on performance indictors up until 30 June 2020, and then on progress on the revised performance indicators until the end of March 2021.

The Department of Planning, Monitoring and Evaluation (DPME) issued Circular 2 of 2020 dated 20 May 2020 which made allowance for the revision and re-tabling of the 2020/25 Strategic Plans and 2020/21 Annual Performance Plans to respond to the Covid-19 pandemic and special adjustment budget. The circular states that the purpose of re-tabling of these plans is to incorporate the interventions and adjusted 2020/21 budget allocation in response to the Covid-19 pandemic and to prioritise government programmes and projects for continued service delivery.[5] Thus changes in the SPs and APPs must be in response to the Covid-19 pandemic and budget adjustments. As the Department does not deliver services directly to the public, nor received funding for Covid-19 interventions, the circular is not applicable to the Department of Public Enterprises.

Similarly, the DPME issued the Revised Framework for Strategic Plans and Annual Performance Plans. In the Framework it states, "Ideally, a SP should not be revised during the five-year planning period but may be revised during this period if there are significant changes to policy, in the service delivery environment or in the planning methodology." It further states that institutions must reflect the revisions to the SP through the re-tabling of the whole SP or the tabling of an Annexure to the APP. The re-tabled SP must also be published on the institution's website.[6]

Similarly, the Framework states that revisions to the APP are allowed when revisions to the SP, as described in the Framework, will require revision of the outcomes and related outputs to the APP, or when targets changed as a result of the in-year budget adjustment process must be reflected in a re-tabled APP.[7] DPME does not want SP and APP's to be revised too frequently as it makes monitoring over the five year period difficult.

More detail on the discrepancies between the original APP submitted in May 2020 and the Annual Report performance indicators are discussed below.

[5] DPME (2020)
[6] DPME (n.d.)
[7] Ibid.

**Issues for Consideration**

The Department revised their APP in July 2020. The Committee should request the Department to explain why their performance indicators were revised and why the Committee was not informed of this.

The current MTSF is for the period 2019 to 2024. The Department's Strategic Plan covers the period 2020/21 to 2024/25, therefore there was no need to revised these documents. The Committee should request the Department to outline its strategic planning tools as it is clearing not adequate if it required a revision of the SP and APP.

The reasons for the revisions to the SP and APP are not highlighted in the documents, nor are the revisions highlighted, as required by the Revised Framework for SP's and APP's to be presented in an Annexure. This is in contravention of the guidelines given by the DPME. The Department should account for this infraction of government frameworks.

## 4. PERFORMANCE ANALYSIS[8]

The Department is primarily contributing to creating an efficient, competitive and responsive economic infrastructure network (Outcome 6) of the Medium Term Strategic Framework (MTSF). Furthermore, the Department, through the activities of its SOCs, contributes to other outcomes such as decent employment through inclusive growth (Outcome 4), a skilled and capable workforce to support an inclusive growth path (Outcome 5) and a vibrant, equitable and sustainable rural communities with food security for all (Outcome 7).

The Department, over the medium term will continue to oversee its seven SOCs. Furthermore, over the medium term, the department will continue to focus on enhancing reforms to stabilise SOCs' and strengthening its oversight capacity to ensure that the SOCs in its portfolio are sustainable and contribute to investment in key infrastructure.[9]

### 4.1. Programme and sub-programme performance[10]

The Department has 3 programmes. The performance against targets are given below.

#### 4.1.1. Programme 1: Administration and Corporate Management

The purpose of this programme is to provide strategic management and support services to the Department.

The programme includes the Office of the Director-General/Management. The programme is currently made up of the following sub-programmes: Management; Security and Facilities

[8] Department of Public Enterprises (2020a) This section comes from this report.
[9] National Treasury (2020)
[10] Department of Public Enterprises (2020a) This section comes from this plan.

Management; Information Management and Technology; Office of the Chief Financial Officer; Human Resources; Communications; Strategic Management; and Internal Audit.

**Table 1: Programme 1 Performance Achievement**

| Outcome | Output Indicator | Annual Target | Actual Achievement |
|---|---|---|---|
| Promote alignment and efficiency across Institutional Model | Number of training interventions provided (WSP) | 15 | Achieved |
| Improved ICT and business alignment and enhanced oversight | Development of the DPE Enterprise Business Architecture (EA) | Development of the Architecture Masterplan | Achieved |

**Source:** DPE Annual Report 2020/2021

The Department did not revise the above indicators. Both indicators for the programme was achieved.

The Department's core functions require significant administrative support, which programme 1: Administration does. The programme spent R118.4 million or 83.1 per cent against a budget of R142.5 million for the 2020/21 financial year. The programme under spent by R24 million which was mainly due to vacant posts within the programme. The primary cost drivers under goods and services include operating lease, property payments, computer services and audit fees.

**Issues for Consideration**

One of the output indicators relates to implementation of Architecture Masterplan. The Department should advise the Committee what the outcome of this indicator will be? Does it relate to the performance tracking solution discussed under the Department's priorities?

### 4.1.2. Programme 2: State-Owned Companies Governance Assurance and Performance

The purpose of this programme is to provide and enforce SOCs' governance, legal assurance, financial and non-financial performance monitoring, evaluation and reporting systems, in support of the Shareholder, and to ensure alignment with Government's priorities.

**Table 2: Programme 2 Performance Achievement**

| Outcome | Output Indicator | Annual Target | Actual Achievement |
|---|---|---|---|
| **Sub-programme: Governance, Legal Assurance, Risk Profiling and Mitigation** | | | |
| Strengthen the governance system of SOCs and promote institutional alignment | Annual assessment of independent Board Performance | Annual Board Evaluation Report | Not Achieved |

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| in the execution of the oversight function | | | |
| Strengthen shareholder oversight through the Memorandum of Incorporation (MOI) | SOC MOIs standardised | Revised MOI approved | Not achieved |
| **Sub-programme: Financial Assessment and Investment Support** | | | |
| Improved independent financial sustainability of SOCs | Number of SOC quarterly financial reviews and reports produced | 20 | 20 |
| | Number of corporate plans reviewed | 5 | 4<br>Alexkor corporate plans was not reviewed |
| | Number of consolidated progress report on SOCs' audit findings | 2 | 2 |
| | Standardised methodology and frequency of payment of dividend | SOCs Dividend Policy Framework developed | Achieved |

**Source**: DPE Annual Report 2020/2021

Two additional performance targets were added in the revised APP for the 2020/21 financial year.

**Table 3. Programme 2 Revised Performance Achievement**

| Revised APP | Outcome | Output Indicator | Annual Target | Actual Achievement |
|---|---|---|---|---|
| **Sub-programme: Governance, Legal Assurance, Risk Profiling and Mitigation** | | | | |
| Added | Improved governance and accountability | Number of identified "High Risk" SOE governance systems reviewed and recommendations implemented | Implementation of the Risk Integrity Management Framework (RIMF) | Achieved |
| Added | | Presidential State-Owned Enterprise Council (PSEC) established | Establishment of PSEC through Presidency | Achieved |

**Source**: DPE (Revised) Annual Performance Plan 2020/2021

Of the eight performance indicators, three were not achieved.

The programme has the smallest budget of the three programmes of the Department, expenditure amounting to R37.3 million for the 2020/21 financial year. This amounted to 81.9 per cent of the R45.5 million budget appropriated for the year. The programme under spent by R8.2 million. The majority of the budget goes to compensation of employees, with the balance going to goods and services. Spending on goods and services was mainly on payments for legal services and the development of the framework on SOC Risk and Integrity.

**Issues for Consideration**

The Department should advise the Committee how much it cost to the develop the Framework on SOC Risk and Integrity? How much input did the Department have in the drafting of the framework, given its capacity shortages?

The Department should advise the Committee on the reasons for not achieving the three performance indicators.

The Committee should request the Department to explain why the additional indicators were necessary.

### 4.1.3. Programme 3: Business Enhancement and Industrialisation

The purpose of the programme is to provide sector oversight to ensure that state-owned companies contribute to the advancement of industrialisation, transformation, intergovernmental relations and international collaboration services. The programme will also support the shareholder in strategically positioning and enhancing the operations of state-owned companies.[11]

Through this programme, the Department contributes to the enhancement of the performance of SOCs on an ongoing basis by:[12]

- Conducting reviews, research and modelling of pipeline and new business enhancement opportunities within SOCs;
- Assessing operations of SOCs and developing mitigation instruments in conjunction with policy departments, regulatory bodies and industry; and
- Conducting research, modelling job creation and transforming instruments for SOCs to inform compact alignment imperatives, promote SOCs' contribution to inclusive economic growth, unlock bottlenecks affecting SOCs and inform evidence-based policy formulation.

[11] Department of Public Enterprises (2020a)
[12] Ibid

**Table 4: Programme 3 Performance Achievement**

| Outcome | Output Indicators | Annual Target | Actual Achievement |
|---|---|---|---|
| **Sub programme: Business Enhancement Services** | | | |
| Increase the contribution of SOCs to support the transformation of South African economy | Increase % spend on SOC's local content | Four assessment reports on SOC's 75% spend on local content | Achieved |
| | Increase % spend on SOC's Preferential Procurement | Four assessment report on SOCs 75% spend on Preferential Procurement and Broad-Based Back Economic Empowerment (BBBEE) level 6 compliance | Achieved |
| | % increase in SOC CSI programme allocation | Four assessment reports on 0.2% spend on SOC's CSI programme | Achieved |
| Support the development of small, medium and micro enterprises (SMMEs) | Annual value of enterprise development contributions | Four assessment reports on SOCs' 1% Total Measured Procurement Spend (TMPS) contribution | Achieved |
| Accelerate the development of skills to support the needs of the economy | Number of new learners enrolled into SOCs' skills development programmes | 4 Assessment reports measuring SOCs' 3% spend of leviable amount | Achieved |
| Increase the contribution of SOCs to support the transformation of South African economy | SOCs' implementation in line with the DPE Africa Strategy | Report on alignment of two SOC Africa market entry plans to DPE's Africa Strategy | Achieved |
| **Sub programme: Energy and Resources** | | | |
| Improved governance and accountability | Number of Shareholder compacts signed per year (Eskom, Alexkor and SAFCOL) | 3 Shareholder compacts (2020/21) signed (Eskom, Alexkor and SAFCOL) | Not achieved. Alexkor and Eskom Shareholder Compacts not signed |
| % of SOCs' Operational efficiency (Promote the operational excellence of SOCs) | SAFCOL's increased revenue | Four progress report on SAFCOL's implementation of the Timbadola re-investment project | Achieved |
| | Restructuring for Alexkor | Proposed shareholding structure for Alexkor mining rights | Achieved |

| | | | |
|---|---|---|---|
| | Eskom planned Capacity Adherence (infrastructure/build programme) | Four progress reports on Eskom's delivery of infrastructure programme | Achieved |
| Improve the Energy Availability Factor (EAF) to ensure constant supply for electricity | Maintenance of security supply and prudent fleet management | Four assessment reports of Eskom's performance generation fleet | Achieved |
| Separate and unbundle Eskom to eliminate cross-subsidisation and improve efficiency | Implementation of the Eskom Special Paper | Two progress reports on the status of the unbundling process | Achieved |
| **Sub programme: Transport and Defence** | | | |
| Improved governance and accountability | Number of Shareholder Compacts signed annually (Transnet, SA Express, SAA and Denel) | Two 2021/22 Shareholder Compacts signed (Transnet, Denel) | Not achieved.<br>No Shareholder Compacts signed |
| Promote operations efficiency | Monitor Denel's contract execution to increase cashflow | 4 assessment reports on Denel's contract execution to support cashflow targets | Not achieved, as at 30 June 2020.<br>Indicator revised |
| Increase access to affordable and reliable transport system | Alignment of Transnet Freight Rail (TFR) strategy with capacity plan | Inputs into the long-term rail strategy | Not achieved as at 30 June 2020.<br>Indicator revised. |
| Corporatise Transnet National Ports Authority (NPA) | TNPA corporatisation | Final report on the corporatized NPA | Not achieved, as at 30 June 2020.<br>Indicator revised |
| Improvement in General Freight Business (GFB) volumes moved annually. (3 GFB corridors) i.e. Natal corridor, Cape Corridor, South Corridor. | Efficient performance in GFB corridor volumes | 4 assessment reports on the % increase in rail volumes and Rand/TKM | Not achieved, as at 30 June 2020.<br>Indicator removed. |
| Improved on rolling stock (locomotives, wagons) reliability and infrastructure maintenance | Assessment reports on kilometre track maintained and rolling stock reliability | 4 Assessment reports on kilometre track maintained and rolling stock reliability | Not achieved, as at 30 June 2020<br>Indicator revised |
| % Increase in Port Terminal Equipment reliability | Assessment of port terminal equipment | Report on the port equipment reliability. | Not achieved as at 20 June 2020.<br>Indicator revised |
| Reliable, safe, effective, fully integrated and economically competitive | Assessment of interface on road, rail and port systems | Four assessment reports on the improvement of land and marine interfaces | Not achieved, as at 30 June 2020.<br>Indicator removed. |

| | | | |
|---|---|---|---|
| land and marine (road, rail and port) system | | | |
| **Sub programme: Research and Economic Modelling** | | | |
| Increase the contribution of SOCs to support the transformation of South African economy | Socio-economic Impact Assessment reports of SOC's selected capital projects | One socio-economic impact assessment report of SAFCOL's selected capital projects completed | Achieved |
| | Number of industry specific research conducted | Five industry specific research conducted | Achieved |

**Source**: DPE Annual Report 2020/2021

**Table 5. Revised Programme 3 Performance**

| Revised APP | Outcome | Output Indicators | Annual Target | Actual Achievement |
|---|---|---|---|---|
| **Sub programme: Business Enhancement Services** | | | | |
| Removed | Reduce vulnerability to risks associated with climate change | Adaptation to Climate Change Impact | Climate Change Risk Report | None |
| Removed | Transition to low carbon economy by reducing emission | SOCs' implementation of the Paris Climate Agreement | Compile a consolidated report on SOCs' implementation of Climate Change Mitigation Plans | None |
| **Sub programme: Energy and Resources** | | | | |
| Added | Supply of energy secure | Explore embedded generation (SSEG) options to augment generation capacity by 1000MW by 2024 | Two progress reports on the additional embedded generation capacity added | Achieved |
| Added | | Implement Eskom Roadmap for reformed electricity supply industry | Two progress reports on the implementation of the Eskom roadmap | Achieved |
| **Sub programme: Transport and Defence** | | | | |
| Revised | Improved governance and accountability | Progress report on implementation of the strategic initiatives to turnaround Denel | Four quarterly progress reports on the implementation of the strategic initiatives to turnaround Denel | Achieved |

| | | | | |
|---|---|---|---|---|
| Revised | Increase access to affordable and reliable transport system | Progress reports on rolling stock expansion and update | Four progress reports on rolling stock expansion and upgrade | Not achieved |
| Revised | | Final report on the corporatisation of TNPA | Four quarterly progress reports on the corporatisation of TNPA | Not achieved |
| Revised | Increase access to affordable and reliable transport system | Assessment reports on port equipment reliability | Four assessment reports on port equipment reliability | Not achieved |

**Source**: DPE (Revised) Annual Performance Plan 2020/2021

Of the revised performance targets, the Department achieved 16 of the 21 performance indicators. Most of the targets not achieved is within sub-programme Transport and Defence relating to the revised performance indicators with respect to Transnet and Denel. The shareholder compacts for Eskom, Alexkor, Denel and Transnet were not signed during the 2020/21 financial year.

The programme has an adjusted budget of R77.4 billion of which the Department spent R77.3 billion or 99.9 per cent, under spending by R71.2 million. The majority of this was for Payments for financial assets as transfers to the entities:

- Eskom received R56 billion for payment of government guaranteed debt;
- SAA received R18 billion in support of the Business Rescue Plan and settlement of government guaranteed debt;
- SA Express received R143.4 million for settlement of government guaranteed debt;
- Denel received R576 million for settlement of debt and recapitalisation.

At the end of the financial year, an amount R2.7 billion for SAA subsidiaries although not physically paid, it is reported in the annual financial statements as a payable and was disbursed during the 2021/22 financial year.

**Issues for Consideration**

The Department should advise the Committee why the Shareholder Compacts for Eskom, Denel, Alexkor and Transnet were not signed during the year.

Why is there no performance indicator relating to the performance of the South African Airways (SAA)?

The Department should advise the Committee on the reasons for not achieving the revised performance indicators regarding Transnet.

Most of the performance indicators of the Department rely on the number of progress reports finalised. How are these "progress reports" going to help improve the performance of the SOCs?

## 5. FINANCIAL PERFORMANCE[13]

The Department had an original appropriated total budget of R37.8 billion in February 2020 for the 2020/21 financial year. However, in the adjusted estimates of national expenditure tabled in October 2020, the Department received a further R39.7 billion, with the total appropriation of R77.6 billion. This amount is mainly for Payments for financial assets as transfers to the state-owned companies (SOCs) amounting to R77.5 billion.[14] The balance of R258 million is used by the Department for its operations. The transfers to entities include the following:[15]

- R56 billion for Eskom for settlement of government guaranteed debts.
- R20.7 billion for SAA for settlement of government guaranteed debts and implementation of the business rescue plan.
- R567 million for Denel in aid of recapitalisation.
- R164 million for South African Express Airways to eliminate government's contingent liability exposure.

At the end of the financial year, the Department spent R77.8 billion of the R77.9 billion. This includes an amount of R410.3 million of direct charges against the National Revenue Fund of the final appropriation. The expenditure of R410.3 million is for settlement of the SAA and SAX government-guaranteed debt obligations respectively. The Department spent 99.9 per cent of the final appropriation, of which R219.3 million is for departmental operations and R77.3 billion as transfers to the SOCs, as stated above. The under expenditure of R103.5 million primarily relates to compensation to employees due to vacant posts and payments for financial assets which is a result of unspent funds for SAX and SAA.

The Department did not incur any unauthorised expenditure in the current financial year. The irregular expenditure of R32.5 million was incurred in the previous financial years and relates to material deficiencies in the appointment of a service provider.

Fruitless and wasteful expenditure of R1.7 million incurred in the previous financial year form part of the expenditure of R32.5 million as the two relate to the same matter. Consequence management has been implemented.

The Department spent R141.2 million or 77.9 per cent on compensation of employees, with a budget of R184.2 million. An amount of R71.8 million or 95.8 per cent was spent goods and services with a budget of R75.0 million for the 2020/21 financial year. The main cost drivers within goods and services were consultants: business and advisory services amounting to R23.9 million, operating leases amounting to R13.5 million, computer services amounting to

[13] Department of Public Enterprises (2021)
[14] National Treasury (2020)
[15] Ibid

R8.1 million and legal services amounting to R6 million. Other cost drivers included external audit costs, communication and property payments. Payments for capital assets amount to R5.2 million of which the whole budget was spent on machinery and equipment.

The Department has an approved establishment of 214 posts, while only 170 posts were filled by 31 March 2021, a vacancy rate of 21 per cent.

The Department states that it is reviewing its organisational structure. The new structure is expected to be approved and published during the 2022/23 financial year and come into effect in the 2023/24 financial year. The review has been necessitated by:

- Additional capacity requirements to improve governance, anti-corruption controls and recover stolen funds from the SOCs. A dedicated unit is in the process of being set up, with contracted resources being utilised in the interim.
- The Operational and Capital Programmes execution capacity of the Department and the SOCs requires improvement. A service delivery-based methodology is being developed, and a Delivery Support Unit (DSU) has been set up in SPME to oversee the work and house the capability.
- Additional expertise is required in the Governance unit to support the Presidential SOE Council (PSEC) work, as well as the development of the SOE Bill.[16]

During 2011/12 the department undertook an organisational review process with the aim of addressing specific challenges impacting on the service delivery of the department. This resulted in the department being restructured, from six programmes to three.

**Issues for Consideration**

On page 12 of the Annual Report, it states that, "An amount of R9 million that was disbursed to SAFCOL in 2016/17 for development and implementation of six community-based enterprise projects was returned to the department during the 2020/21 financial year as R9.9 million including interest."[17] The Department should account for why this project did not materialise four years after the money was transferred to the entity.

On page 14 of the Annual Report, it states, "The Department received donation in kind of R1.9 million and R450 000 worth of expertise form the World Bank, for the contracting of Strategy Execution Advisors (SEA). SEAs provide technical advisory services to assist the department with the establishment of the Delivery Design Unit, as well as the creation of a results-based framework intended to support the repurposing of the State-Owned Enterprises environment."[18] The Committee should request the Department to elaborate on this engagement of the SEAs.

The department states that it has a critical capacity shortage. With the liquidation and sale of SA Express, the Department will have one less entity to oversee. What will happen with

[16] DPE (2021) pg. 20
[17] DPE (2021)
[18] DPE (2021)

this additional capacity in the Department? How will the Department ensure that they are fully capacitated with the requisite skills?

The Department spent R24 million on consultants for the 2020/21 financial year, or 17 per cent of the compensation of employees expenditure. The Committee should request a list of the consultants used, the projects worked on and the cost of these consultants, to ensure that the Department is getting value for money.

## 6. CONCLUSION

Each year government departments are required to submit their annual performance plans for the year. The Committee hold the Department to account for the success or failure of the Department to meets its goals by the end of the financial year. As an oversight department over seven SOCs, the Department needs to ensure that the SOCs are financially stable and contributes to the country's developmental goals. The Department spent 99.9 per cent of its appropriated budget mainly due to transfers to the SOCs mostly for settlement of government guaranteed debt due to the entities being unable to service their own debt. Of its operational budget, the Department only spent 80 per cent of its budget for compensation of employees, reflecting a vacancy rate of 21 per cent.

The Departments lack of capacity is reflected in its 74 per cent achievement against its performance targets. It is also reflected in the fact that it revised its Strategic Plan for 2020/21 to 2025/26 and the Annual Performance Plan for 2020/21, not taking into account the Department of Planning, Monitoring and Evaluation's Revised Framework for Strategic Plans and Annual Performance Plans. As an oversight institution, the Department should set the example in following government prescripts.

## 7. REFERENCES


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