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2014 BUDGET VOTE 11 ANALYSIS: THE DEPARTMENT OF PUBLIC ENTERPRISES

30 April 2014

1 INTRODUCTION

The implementation of various budget reforms in South Africa has contributed to greater transparency in public finances and allowed for more effective allocation of state resources. Another unique aspect of South Africa's political system is that the Minister of Finance delivers a speech annually which is intended to inform the public about key budget allocations being made. This analysis will begin with a brief overview of the budget as it pertains to the Department of Public Enterprises (DPE). Remaining sections will delve into budget allocations specifically for the Department of Public Enterprises (DPE) as reflected in the Estimates of National Expenditures (ENE), which is published after the Budget Speech by the National Treasury. Finally, this analysis will determine what steps the Portfolio Committee on Public Enterprises must take in conducting its oversight on DPE based budget allocations.

2 OVERVIEW OF THE 2013/14 FINANCIAL YEAR

During 2011/12 to 2014/15, the Department revised their vision statement and strategic plan. This has been done in order to reflect the impact of the State-owned Companies (SOCs) investment and operational activities on economic growth and development. These changes required the Department to build new capabilities, expand the responsibilities of existing units and restructure the organogram to provide for these skills. Thus the Department's spending focus over the 2013/14 medium term was to continue to strengthen and expand the Department's oversight capacity over the state-owned companies' plans and the rollout of the strategic integrated projects, including Transnet's fleet procurement plans and Eskom's build programme. The personnel establishment was expected to increase to 227 over the medium term, with spending on compensation of employees increasing accordingly.

In aid of the above objectives, the Department was allocated a budget of R294.1 million in 2013/14 of which it spent R199.9 million or 68 per cent by December 2013. This included an amount for transfers and subsidies amounting to R57.250 million allocated to Denel for the eighth indemnity claim by Denel Aerostructures under the 2007 indemnity agreement with government for the A400M contract.[1] Excluding this transfer, the Department has an available operational budget of R236.7 million of which R142.4 million or 60.2 per cent was spent by the end of the third quarter of 2013/14, the majority being spent on compensation of employees and goods and services.

The programme Administration received R130.9 million in aid of its support function with its primary focus to create an organisational environment necessary to achieve the objective

[1] National Treasury Estimates of National Expenditure 2014

outlined in the Department's Strategic Plan. The focus was on providing administrative support to the minister and corporate services, and providing for the Department's human resource need. The programme has spent 65.5 per cent by the third quarter of the 2013/14 financial year, mostly for compensation of employees and goods and services.[2]

The strategic objective for the programme Legal and Governance is to ensure effective shareholder oversight of all the SOC by providing legal services which include transaction and contract management support to the Department; as well as ensure that the Department and its portfolio of SOC comply with legal and regulatory requirements. In aid of this, the programme received a budget of R22.3 million, which was expected to go towards spending on compensation of employees, which was projected to grow significantly over the period. Actual expenditure to the end of December 2013, amounted to R16.4 million of the available budget of R22.3 million or 73.6 per cent of the budget has been spent. Expenditure in this programme increased by R0.8 million or 5.4 per cent, year-on-year. The increase is primarily due to additional spending on compensation of employees and inflation related increases.[3]

The strategic objectives for the programme Portfolio Management and Strategic Partnerships was to ensure effective shareholder oversight and monitoring across all state-owned entities; support Eskom in ensuring security of electricity supply; reduce dependence on the fiscus by monitoring cost escalations, delivery schedule and workmanship quality for the capital investment programme and developing innovative funding mechanisms; implementation of the PBMR care and maintenance programme; and support increased access to broadband, amongst others. The programme received R140.8 million and had spent 69.3 per cent by the end of December 2013. This was mainly driven by the transfer of R57.3 million for the indemnity claim against Denel Aerostructures.[4]

In aid of these objectives a modelling framework to assess the economic and financial linkages of state-owned company investments was completed in 2012/13, and a climate change policy framework for SOCs was launched in 2012/13. In 2013/14 the subprogramme Economic Impact and Policy Alignment analysed and monitored the state-owned companies' dashboards and completed a transformation dialogue report.[5]

The number of posts in the Department amounted to 222 posts by the end of December 2013, which increased from the 191 posts in September 2012, an increase of 31 posts. This accounts for the increase in expenditure on compensation of employees.[6] Expenditure on compensation of employees increased by 21.5 per cent, when compared to the same period in the previous financial year. The Department has spent R95.5 million or 72.4 per cent on compensation of employees by the end of December 2013. The personnel establishment is

[2] National Treasury Standing Committee on Appropriations 3rd Quarter Expenditure Report 2013
[3] Ibid.
[4] National Treasury Estimates of National Expenditure 2014
[5] National Treasury Estimates of National Expenditure 2014
[6] Ibid.

expected to increase over the medium term to 265 posts, which will include 6 graduates and 30 interns.[7]

Despite these measures put in place the Minister had to meet with key stakeholders in the construction of the Medupi Power Station to resolve the labour crisis, which occurred there in April 2013 so that workers could go back to work as to prevent further delays in construction.[8] The Minister also had to appoint a task team to develop a long term strategy for South African Airways aimed at addressing operational and financial challenges faced by the national carrier.[9] This shows that earlier detection of operational problems is required and interventions introduced to avoid the above mentioned interventions. Parliament advised in the Budget Review and Recommendations Report for 2013 that the Department considers introducing the Shareholder Management Bill, which will empower the Department to carry out its oversight responsibilities over state-owned companies more effectively.

The Department failed to sign all 8 shareholder compacts six months into the 2013/14 financial year, with SAA and Broadband Infraco's shareholder compacts and corporate plans outstanding. The second quarter assessment of South African Airways was not completed as the Department was awaiting the resubmission of the annual financial statements, which would be based on the approval of the government guarantee.[10] This shows that stronger Departmental oversight is required to ensure that shareholder compacts and corporate plans are signed and reviewed timeously.

3 BUDGET VOTE ANALYSIS 2014

3.1 THE MANDATE OF THE DEPARTMENT

The Department of Public Enterprises aims to drive investment, productivity and transformation in the Department's portfolio of state-owned companies, to unlock growth, drive industrialisation, create jobs and develop skills.

The Department's overall mandate is to exercise shareholder responsibility over the 8 State-owned Companies. The Department aims to ensure the sustainability of the state-owned companies and supports the government's strategic priorities of economic growth, expanding employment and developing infrastructure.

3.2 THE STRATEGIC GOALS OF THE DEPARTMENT

The Department is focusing on implementing the National Development Plan during the 2014/15 financial year. The main goal of the Department is to ensure that the state-owned

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[7] Ibid
[8] Minister Malusi Gigaba intervenes to end industrial action at Medupi Power Station
[9] Minister Gigaba receives SAA long-term turnaround strategy
[10] National Treasury (2013) AENE

companies support the implementation of the National Development Plan and contribute to the achievement of outcomes outlined in the plan.[11]

The Department's strategic goals over the medium term are to:

- Ensure the alignment of state-owned companies with developmental outcomes
- Promote good corporate governance
- Build internal capacity to enhance the Department's ability to execute its strategic plan
- Stabilise and strengthen the state-owned companies, focusing on their balance sheets and funding options
- Drive economic infrastructure investment to enhance the capacity of the economy, with emphasis on the strategic integrated projects
- Leverage off state-owned companies' procurement spending to support industrialisation and transformation.[12]

2.3 POLICY PRIORITIES FOR 2014/15

As a shareholder representative on behalf of Government, the Department does not have the mandate for developing policies. However, some of the powers and duties of the Department are intertwined with those of other Government Departments who are key role players in the SOC regulatory environment. These include the Department of Energy, the Department of Transport, the Department of Communications, and the Department of Mineral Resources, among others. However, the Department and its SOC are required to align with various other economic policies such as the National Development Plan (NDP), the New Growth Path (NGP), the Industrial Policy Action Plan and various other charters.[13]

The National Development Plan specifically mentions state-owned companies and the role they have to play in improving infrastructure in the country. The plan specifically identified the "institutional weaknesses related to state-owned companies responsible for network infrastructure".[14] 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".[15] The plan sets out clear actions required to meet the institutional weaknesses mentioned above. Infrastructure is also highlighted in the New Growth Path as a driver of job creation, which was echoed in the President's State of the Nation Address delivered in February 2014.

The NDP therefore recognises the challenges that currently exist in the infrastructure sector and proposes a wide range of actions that will need to be implemented to achieve the desired outcomes. In this regard, the Department's Annual Performance Plan (APP)

[11] National Treasury Estimates of National Expenditure 2014
[12] National Treasury Estimates of National Expenditure 2014
[13] Department of Public Enterprises Strategic Plan 2012/13-2016/17
[14] National Development Plan, Executive Summary, pg 35
[15] Ibid

integrates the proposed actions and ensures that mechanisms are put in place to effectively implement interventions required to support the achievement of government outcomes.

The Department recognises the focus on investment in the economy and drives infrastructure plans within its portfolio of companies to support the investment driven economic growth strategy. The Department offers strategic direction to the state-owned companies with regard to defining market demand, formulating infrastructure plans, addressing capital requirements and financing requirements to achieve the goals of the national developmental plan to attract private investors and reduce inequality.[16]

An amount of R24.3 million over the medium term has been allocated to the sub-programme Intergovernmental Relations to create closer working relationships with other government Departments. The sub-programme Strategic Planning, Monitoring and Evaluation was allocated R19.4 million to carry out this function for the Department, under programme 1: Administration.

The strategic goals of the Department are well aligned to meet the objectives of the NDP, namely, to provide decisive strategic direction to the state-owned companies by ensuring they have credible business and capital expenditure plans; and to ensure the reliable generation, distribution and transmission of electricity.

In order to meet these goals the Department has set the following strategic objectives for the programme Legal and Governance:

- Ensure effective shareholder oversight of all SOC by providing legal services which includes transaction and contract management support to the Department
- Ensure that the Department and its portfolio of SOC comply with legal and regulatory requirements
- Monitor the implementation of the logical framework across the SOC and review its impact on governance
- Strengthen risk management mechanisms and ensure adherence to implementation of mitigation strategies.

The Department has set the same strategic objectives as in the 2013/14 financial year for the Portfolio Management and Strategic Partnership programme. Namely, to ensure effective shareholder oversight and monitoring of the state-owned companies within the Department's mandate; Support Eskom in ensuring security of electricity supply; reduce dependence on the fiscus by monitoring cost escalations, delivery schedule and workmanship quality of the capital investment programme and developing innovative funding mechanisms; Implementation of the PBMR care and maintenance programme; and support increased access to broadband, amongst others.

[16] National Treasury Estimates of National Expenditure 2014

The Department plans to strengthen their oversight function over the state-owned companies by increasing its capacity over the medium term for which the Department received R78.3 million in additional allocations in the 2013/14 financial year. The Department will continue to expand the Department's capacity to carry out its oversight role in relation to the state-owned companies and improve internal efficiencies and the functioning of the Department. The Department will contribute to the objectives of the NDP through Eskom's build programme and Transnet's capital expenditure programme in order to improve industrial capabilities, provide sustainable jobs and improve the productive capacity of the economy.

2.4 EXPENDITURE TRENDS

The spending focus over the medium term will be the implementation of the National Development Plan by strengthening and expanding the Department's oversight capacity over the state-owned companies' plans and the rollout of the strategic integrated projects, including Transnet's fleet procurement plans and Eskom's build programme.

The Department comprises three programmes, of which Programme 3: Portfolio Management and Strategic Partnerships comprised the largest part of the budget for the period 2010/11 to 2013/14. Between 2010/11 and 2013/14, certain state-owned companies, such as Denel and Broadband Infraco, received non-periodic recapitalisation payments.[17] Overall expenditure therefore decreases over the medium term as the Department does not expect to make transfer payments or payments for financial assets to any of the state-owned companies. In 2014/15, Programme 3 only constitutes 37.4 per cent over the medium term as no transfers to the SOCs are foreseen.

Expenditure decreased by 18.3 per cent over the period 2010/11 to 2013/14 due to the once-off payments mentioned above to Denel and Broadband Infraco. Over the medium term expenditure decreases by 1 per cent, mainly due to the R57.3 million transferred to Denel for the indemnity claim against Denel Aerostructures.

Over the medium term, the Department received no additional funds, except the adjustment for inflation.

Thus, although the Department budget decreases from R294.1 million in 2013/14 to R259.8 million in 2014/15, the budget will increase by 5 per cent from 2014/15 to R285.6 million in 2016/17 due to increases in compensation of employees.

The Department's total spending on consultants' averages 25 per cent and 24 per cent of total spending on compensation of employees in 2014/15 and over the medium term, respectively. Spending on consultants is expected to decrease to R35.2 million in 2015/16, mainly for highly technical research projects requiring specialised skills, especially dealing

[17] National Treasury Estimates of National Expenditure 2013

with the infrastructure projects of Eskom and Transnet. The Department also plans to grow its establishment over the medium term from 243 to 265 posts in order to support these infrastructure projects. Compensation of Employees grows by 6.1 per cent from R66.4 million in 2013/14 to R79.3 million in 2016/17 due to the additional allocations to grow the Departments' establishment which ends in the 2015/16 financial year and thereafter grows by inflation and funds received for the improved conditions of service.
The Department received approval to grow its establishment by 12 posts in August 2012 due to the introduction of new sub-programmes to deal with Intergovernmental Relations and Strategic Planning, Monitoring and Evaluation as well. The ratio of support to line function staff is 1.85:1.[18]

2.4.1 EXPENDITURE TRENDS FOR DEPARTMENTAL PROGRAMMES

Table 1[19]

Programme	Budget				Nominal Rand change	Real Rand change	Nominal % change	Real % change
R million	2013/14	2014/15	2015/16	2016/17	2013/14-2014/15		2013/14-2014/15	
Programme 1: Administration	131.0	152.1	160.5	158.3	21.1	12.2	16.11 per cent	9.33 per cent
Programme 2: Legal and Governance	22.3	24.0	25.5	26.9	1.7	0.3	7.62 per cent	1.34 per cent
Programme 3: Portfolio Management and Strategic Partnerships	140.8	83.7	93.3	100.5	- 57.1	- 62.0	-40.55 per cent	-44.02 per cent
TOTAL	**294.1**	**259.8**	279.3	285.7	**- 34.3**	**- 49.5**	**-11.66 per cent**	**-16.82 per cent**

Table 1 describes the changes in allocations from the years 2013/14 and 2014/15. From this the following can be concluded. For programme 1: Administration, the nominal increase of 16.1 per cent in 2014/15, with real growth of 9.3 per cent. Programme 1 account for the second biggest allocation of the Department's overall budget with 58.5 per cent of the budget in 2014/15. Programme 2: Legal and Governance receive the smallest allocation of 9.2 per cent in 2014/15. The programme increases by 7.6 per cent in 2014/15 or in real terms by 1.3 per cent. Programme 3: Portfolio Management and Strategic Partnerships accounts for the second largest allocation of the budget, accounting for 32.2 cent of the budget in 2014/15. Programme 3 allocations has decreased by 40.6 per cent in nominal terms and 44.0 per cent in real terms from R140.8 million in 2013/14 to R83.7 million in 2014/15. Overall the Department's budget decreased by 16.8 per cent in real terms from R294.1 million in 2013/14 to R259.8 million in 2014/15.

[18] Ibid
[19] Figures reflected in this table are obtained from the Estimates of National Expenditure 2013

2.4.1.1 Programme 1: Administration

The purpose of this programme is to provide strategic management, direction and administrative support to the Department, which enables the Department to meet its strategic objectives.[20]

The spending focus over the medium term will be on supporting the Department in playing its oversight role over state-owned companies by providing administrative support to the minister, and corporate and human resource services to the Department. The programme will focus on improving the Department's efficiency and productivity by reconfiguring its business, which will enable it to carry out its mandate; and will put in place a three-year rolling evaluation plan to assess the impact of programmes implemented by the Department and state-owned companies.[21]

Over the medium term, the majority of the allocation is within compensation of employees, which will provide technical and administrative support to the Department. Expenditure on compensation of employees constitutes 48.5 per cent over the medium term. Expenditure on compensation of employees increased between 2010/2011 and 2013/14 by 15.9 per cent due to funding received for improved conditions of service as well as the increase in personnel to establish new sub-programmes. Over the medium term, expenditure on compensation of employees grows by 6.1 per cent from R66.4 million to R79.3 million. The number of personnel is expected to increase from 138 in 2013/14 to 141 in 2016/17 within the programme.

Spending on consultants is expected to increase significantly by 18.2 per cent over the medium term due to the reassignment of consultants from the Portfolio Management and Strategic Partnerships programme to this Administration programme, following the reorganisation of the Department's programme. The consultants support the minister and director general in achieving the Department's strategy. Goods and services constitute 49.1 per cent of the budget over the medium term with consultants, constituting 10.4 per cent of the goods and services budget. Travel and subsistence constitute 11.6 per cent of the goods and services budget, which is required by the programme to carry out its oversight function of the state-owned companies, situated throughout South Africa.

2.4.1.2 Programme 2: Legal Governance

The purpose of this programme is to provide legal services and corporate governance systems, as well as facilitating the implementation of all legal aspects of transactions that are strategically important to the Department and state-owned companies', and ensures alignment with Governments strategic intent.[22]

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[20] Department of Public Enterprises Annual Performance Plan 2012/13
[21] National Treasury Estimates of National Expenditure 2014
[22] Department of Public Enterprises Annual Performance Plan 2012/13

Sub-programmes

The **Management** sub-programme comprises the office of the deputy director general, which provides strategic leadership and management of the programme's personnel. This sub-programme had a staff complement of 2 in 2013/14.[23]

The sub-programme **Legal** provides internal legal services and oversight support to sector teams. This entails providing legal services, including transaction and contract management support to the Department, as well as work specifically related to sector teams' oversight of commercial activities of state-owned companies within their portfolios. This sub-programme had a staff complement of 11 in 2013/14.[24]

The sub-programme **Governance** develops, monitors and advises on legislative, corporate governance and shareholder management systems for the Department and its portfolio of state-owned companies. Risk and compliance management is a component of this unit which is responsible for developing and implementing risk and compliance with laws and regulations. This sub-programme had a staff complement of 6 in 2013/14.[25]

The spending focus over the medium term will be on increasing the programme's capacity to provide legal services, and transactions and contract management support; and on facilitating the creation of a legislative framework for the Department's mandate to ensure compliance with applicable legislation and enhance corporate governance procedures by state-owned companies. The programme's budget increased by 15.1 per cent from R14.7 million in 2010/11 to R22.3 million in 2014/15 due to increase in the compensation of employees budget, which comprised 61.5 per cent of the budget during this period. The programme's budget is expected to increase by 6.4 per cent to R26.9 million in 2016/17.

The legal component constitutes the largest unit of the programme at 53.6 per cent of the budget of the medium term, followed by Governance at 35.2 per cent. The Legal unit increases by 7 per cent from R11.8 million in 2013/14 to R14.5 million in 2016/17.

Over the medium term, 74.5 per cent of the programme's budget is allocated to be spent on compensation of employees, with the number of personnel expected to increase from 19 in 2013/14 to 27 posts in 2016/17. The increase in personnel is a continuation of the increase in establishment seen in 2013/14. Compensation of employees increases by 9.9 per cent over the medium term, from R15.4 million in 2013/14 to R20.5 million in 2016/17. Although spending on consultants decreased between 2010/11 and 2013/14 as the internal capacity to perform legal services increased, due to an expected increase in transaction services, contractual agreements and governance agreements, spending on legal costs is expected to increase over the medium term. Although it is stated that legal costs are expected to increase, the table in the budget documentation does not give the figures for Legal costs for this statement to be verified.

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[23] National Treasury Estimates of National Expenditure 2014
[24] Ibid
[25] Ibid

2.4.1.3 Programme 3: Portfolio Management and Strategic Partnerships

The purpose of the programme is to align the corporate strategies of the State-owned Companies with government's strategic intent, as well as monitoring and benchmarking their financial and operational performance and capital investment plans. To align shareholder oversight with overarching government economic, social and environmental policies as well as building of focused strategic partnerships between the State-owned Companies, strategic customers, suppliers and financial institutions.[26]

Sub-programmes

The sub-programme, **Energy and Broadband Enterprises,** manages the portfolio of state-owned companies whose focus is energy and broadband, including Eskom, Pebble Bed Modular Reactor and Broadband Infraco, and provides strategic leadership and management of the programme's personnel. In 2013/14 the Department focused on the completion and protection of the state's intellectual property strategy and on monitoring the implementation of the care and maintenance of the Pebble Bed Modular Reactor Company. This sub-programme had a staff complement of 23 in 2013/14.[27]

The sub-programme **Manufacturing Enterprises** exercises shareholder oversight over Denel, Alexkor and the South African Forestry Company. The sub-programme is organised in terms of management and shareholder oversight over the companies. In 2013/14, the Department continued to monitor the execution of activities linked to the deed of settlement with the Richtersveld community supported by the transfer of R350 million in 2012/13 to help Alexkor meet all its obligations related to that settlement. This sub-programme had a staff complement of 14 in 2013/14.[28]

The sub-programme **Transport Enterprises** exercises shareholder oversight over Transnet, South African Airways and South African Express Airways. The sub-programme is organised in terms of management and shareholder oversight over the three companies' performance against targets. The Department closely monitored the implementation of the Transnet market demand strategy, and the capital roll out programme and other key programmes.[29] The sub-programme has a staff complement of 21 in 2013/14.

The sub-programme **Economic Impact and Policy Alignment** aligns state-owned companies with overarching government economic, social and environmental policies. The sub-programme is organised into: management, which provides strategic leadership and management of the sub-programme's personnel; environmental policy alignment, which oversees alignment and implementation of state-owned companies' strategically important developments, with a special focus on Eskom's and Transnet's build programmes, and provides oversight and alignment of the climate change policy framework for state-owned companies in support of national policies and the green economy; economic policy integration, which focuses on appropriate macroeconomic modelling and research to

[26] Department of Public Enterprises Annual Performance Plan 2012/13
[27] National Treasury Estimates of National Expenditure 2014
[28] Ibid
[29] National Treasury Estimates of National Expenditure 2014

enhance the links between industrial policy, macroeconomic policy and the role of state-owned companies; and skills development and transformation, which focuses on providing scarce and critical skills by state-owned companies in support of the national skills agenda and the new growth path as well as optimising state-owned companies' skills training facilities through national skills funding, among others. In 2013/14 the sub-programme analysed and monitored the state-owned companies' dashboards and completed a transformation dialogue report. This sub-programme had a staff complement of 11 in 2012/13.[30]

The sub-programme **Strategic Partnerships** ensures that state-owned companies maintain commercial sustainability and attain desired strategic outcomes and objectives. The sub-programme is organised into: management, which provides strategic leadership and management of the sub-programme's personnel; project oversight, which entails defining catalytic investments to be driven by the Department and overseeing project implementation from pre-feasibility to completion; funding mechanisms, which assist in developing innovative funding structures and designing associated compacts with relevant partners; and supplier relationships, which develops overarching procurement leverage policies, oversees fleet procurement design and implementation including panel reviews, and develops and implements capability building programmes and institutions. This sub-programme had a staff complement of 8 in 2013/14.[31]

Over the medium term the focus will be on enhancing capacity to oversee strategic infrastructure projects. This includes the training of staff and developing new project management tools to improve oversight of the current build programme.

Over the period 2010/11 and 2013/14, Energy and Broadband Enterprises and Manufacturing enterprises constituted 91.9 per cent of the programme's budget. This was due to the following transfers:

- R181.3 million in 2010/11, R116.3 million in 2011/12, R118.3 million in 2012/13 and R57.3 million in 2013/14 to Denel for indemnity claims and a further R700 million in 2012/13 to recapitalise the company in the Manufacturing sub-programme; and
- R36 million in 2010/11 to Alexkor to establish a joint venture with the Richtersveld community under the out-of-court settlement and R350 million in 2012/13 to address obligations in terms of the deed of settlement in the Manufacturing sub-programme.
- R20 million in 2010/11 and R40 million in 2011/12 to the Pebble Bed Modular Reactor Company for the decommissioning and dismantling of the plant and implementation of the care and maintenance programme.
- R138.6 million to Broadband Infraco for capital and operational costs; reflected as a payment for financial assets during 2010/11.

Over the medium term, the programme's budget decreases by 10.6 per cent from R140.8 million in 2013/14 to R100.5 million in 2016/17. The decrease is due to the Department not making transfers to the state-owned companies in the foreseeable future.

[30] Ibid
[31] Ibid

Compensation of employees increases by 11.9 per cent from R50.1 million in 2013/14 to R70.1 million in 2016/17. Compensation on employees is expected to grow significantly due to the planned increase in the establishment from 90 in 2013/14 to 97 in 2016/17, to strengthen the strategic function of the Department on infrastructure projects. The Department makes use of consultants for specialised services in transport, manufacturing and broadband sectors, which is still a necessity, despite the increase in the staff complement. Due to the realignment of functions expenditure on goods and services is expected to decrease by 3.2 per cent over the medium term from R33.4 million in 2013/14 to R30.3 million in 2016/17.

3. KEY ISSUES FOR CONSIDERATION BY PARLIAMENT

Capacity to strengthen the Departments oversight role is highlighted in the 2014/15 financial year, with an emphasis on the need for specialists to effectively monitor SOCs in their different sectors. Funding for the additional posts is required to increase the staff complement in order to effectively monitor the SOCs.

With the operational and financial instability of some of the SOCs, the Department needs to put in place measures to assist the SOCs and identify risks to government's developmental goals. The Department needs to put measures in place that are more proactive, than reactive, as shown in the case of the striking workers as Medupi, Kusile and Ingula. The fact that no transfers to the SOCs are budgeted for over the medium term is a step in the right direction. This is an indication that the SOCs are becoming financially self-sustainable and those that are still struggling are compelled to improve their financial performance.

The Departments budget decreases by 1.0 per cent over the medium term mainly due to transfers to Denel and Alexkor in the 2012/13 financial year. Over the medium term, the Department is not projecting to make any transfers to the SOCs which reduced its reliance on the fiscus. The Department needs to ensure that the Shareholder Management Bill is introduced and finalised to empower the Department to carry out its oversight responsibilities more effectively. Performance measures were not met timeously in the 2013/14 financial year, as only 7 of 8 shareholder compacts were signed six months into the 2013/14 financial year. Thus although the Department has increased its capacity for oversight, it is not reflected in the Department's performance for the 2013/14 financial year.

The Department should be proactive in identifying and managing SOCs in financial and operation risk sooner and putting corrective measures in place before SOCs find themselves in crisis.

What specific plans or policy frameworks is the Department putting in place to address this? Has any international comparative studies been done and best practices implemented?

The Department has budgeted for transfers to the state-owned companies in years 2009/10 to 2012/13. No transfers are expected to be made over the medium term.

What plans has the Department put in place in order to ensure that no further transfers are required by the state-owned companies, especially amid reports that Eskom will require a R50 billion capitalisation[32]?

Spending on consultants within programme 3 is expected to increase from R19.6 million in 2013/14 to R21.3 million in 2016/17, mainly in aid of skills needed in support of transport, manufacturing and broadband sectors.

Which companies were given these contracts and what processes are followed in determining how consultants are selected?

In the previous financial year, the Department stated that it wished to increase its staff complement to 227 posts. In the current budget, it shows that the Department has funded posts of 243.

Does the Department have the appropriate approvals from the Department of Public Service and Administration and National Treasury?

The Department plans to increase its current capacity to 265 posts over the medium term to strengthen its oversight capacity.

What are the job descriptions of these posts? What skills do the posts require?

The Department states that it will focus on improving the Department's efficiency and productivity by reconfiguring its business.

What does the reconfiguration entail, especially in light of the fact that the Department introduced a new budget structure in 2011/12? What will the current reconfiguration entail and what effects will this have on the 2014/15 budget?

The Department states that it wants to increase staff numbers to increase capacity for oversight functions, however, Eskom still requires financial support, while Transnet has been delayed in finalising the New Multi-Prodcut Pipeline (NMPP)[33].

What is the Department doing to resolve these issues with respect to these entities?

One of the strategic objectives for the programme Portfolio Management and Strategic Partnerships is to support Eskom in ensuring security of electricity supply.

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[32] Kolver, (2014)
[33] Munshi, (2014)

How will the Department go about doing this, given the current electricity supply crisis?

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