



1 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 R272.5 million or 92.6 per cent by March 2014, unspent funds amounting to R21.7 million. The budget included an amount for transfers and subsidies amounting to R57.5 million, of which R57.3 million was 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 R214.8 million or 90.7 per cent was spent by the end of the fourth 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 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 R132.9 million or 101.5 per cent by the fourth 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 March 2014, amounted to R23.1 million of the available budget of R22.3 million or 103.5 per cent of the budget has been spent. Expenditure in this programme decreased by R0.3 million or 1.3 per cent, year-on-year. The decrease is

¹ National Treasury Estimates of National Expenditure 2014

² National Treasury Standing Committee on Appropriations 4th Quarter Expenditure Report 2013



primarily due lower spending on goods and services (mainly for business and advisory consultancy services, and venues and facilities).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 R116.3 million or 82.6 per cent by the end of March 2014. Expenditure in this programme was mainly driven by the transfer of R57.3 million for the indemnity claim against Denel Aerostructures.⁴ The decrease in spending was attributed to delays in the implementation of some major projects.

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 March 2014, 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 21.3 per cent, when compared to the same period in the previous financial year. The Department has spent R127.8 million or 96.9 per cent on compensation of employees by the end of March 2014. The personnel establishment is expected to increase over the medium term to 265 posts, which will include 6 graduates and 30 interns.⁷

Expenditure on Good and services decreased by 7.3 per cent when compared to the same period in the previous financial year. The Department has spent R83.7 million or 82.7 per cent of the R101.3 million revised budget for Goods and Services. The decrease in spending was mainly due to delays in the implementation of some major projects specifically the National Corridor Performance Measurement (NCPM), the telecoms benchmarking study, harmonising procurement policies and planning frameworks in Eskom and Transnet, the review of the Roovalk programme and Denel's Strategic Equity Partnership Study.

Despite the above 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

³ Ibid.

⁴ National Treasury Estimates of National Expenditure 2014

⁵ National Treasury Estimates of National Expenditure 2014

⁶ Ibid.

⁷ Ibid



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.

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