



# SHAREHOLDER COMPACTS SIGNED WITH THE SOC

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Presenter:

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## Presentation outline

- Legislative and policy context for Shareholder's Compact
- Logical Planning, Monitoring and Evaluation Framework
- Target development process
- Overriding SOC's Mandate
- Key components of the Compact
- Performance against agreed targets
- Challenges and Lessons Learnt
- Status update on portfolio of SOC Compacts
- Annex: Key Performance Areas illustration

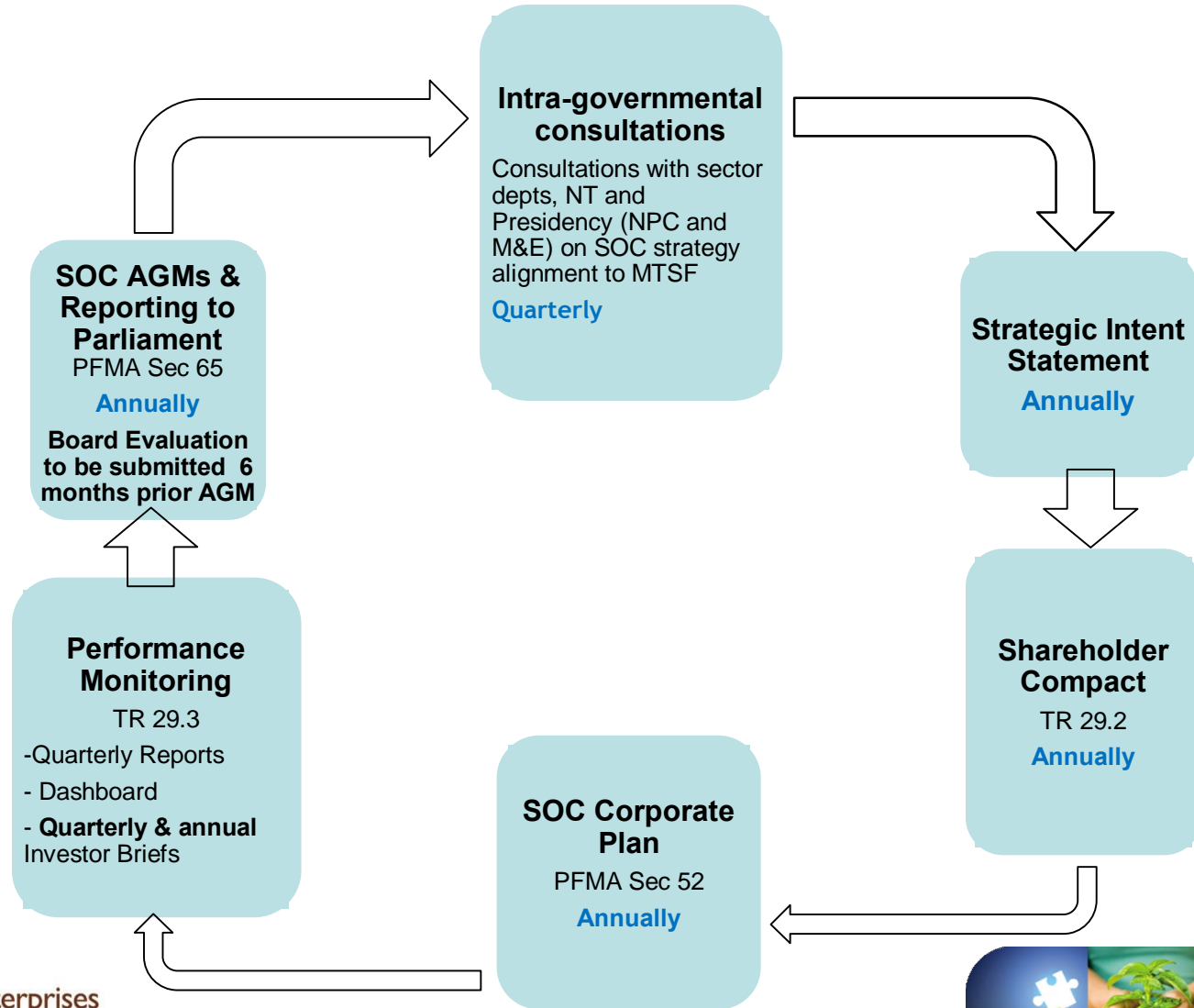


## Strategic and policy Context for Shareholder Compacts

- In terms of the Treasury Regulations 29.2 all SOC must conclude a shareholder's compact with the executive authority on an annual basis. The Shareholders compact documents the mandate, key performance measures and indicators to be attained as agreed between the accounting authority and executive authority.
- State-Owned Companies ("SOCs") have a dual mandate in that they have commercial and non-commercial imperatives;
- It is therefore critical to define clear objectives for performance measures and targets for financial, operational and socio economic performance;
- The Shareholder Compact sets out annual key performance indicators and key performance measures in support of the Strategic Intent and ensures that adequate Risk Management systems are in place to manage risks on significant contracted programmes and internal controls;



# Planning, Monitoring and Evaluation Framework



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# Number of policies that define our national economic development priorities

**Medium Term Strategic Framework (MTSF)**

**The New Development Plan & New Growth Path**

**Industrial Policy Action Plan (IPAP 2)**

- “ Increasing the rate of investment in fixed assets (particularly infrastructure capacity), technologies and skills to support the growth process.
- “ Enhancing the competitiveness of the economy through better infrastructure services, fiscal discipline and skills upgrading.
- “ Increasing the labour absorbing capacity of the economy
- “ Leveraging public procurement to support the industrialisation programme of government
- “ Promoting social compacts around development objectives.

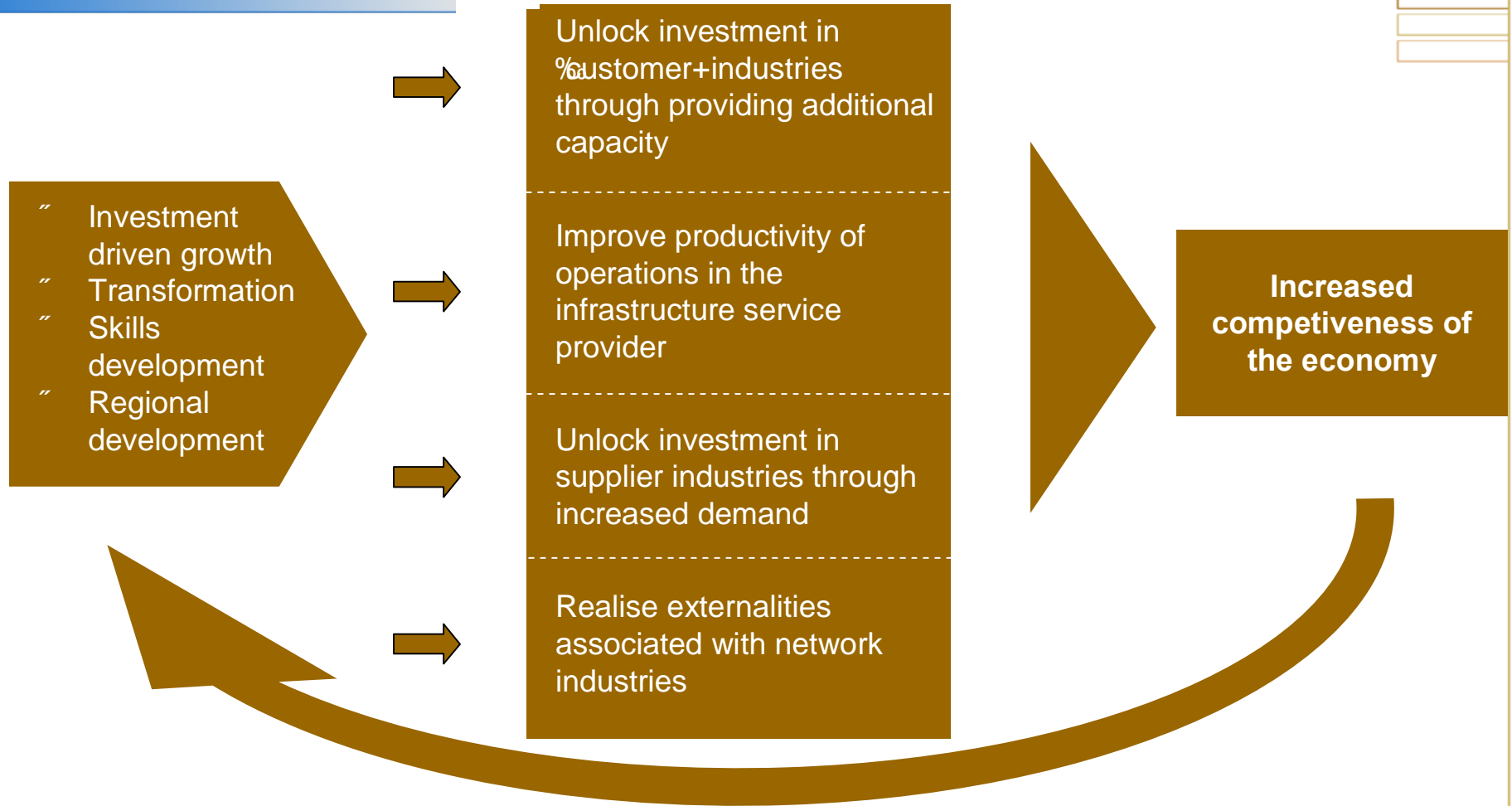


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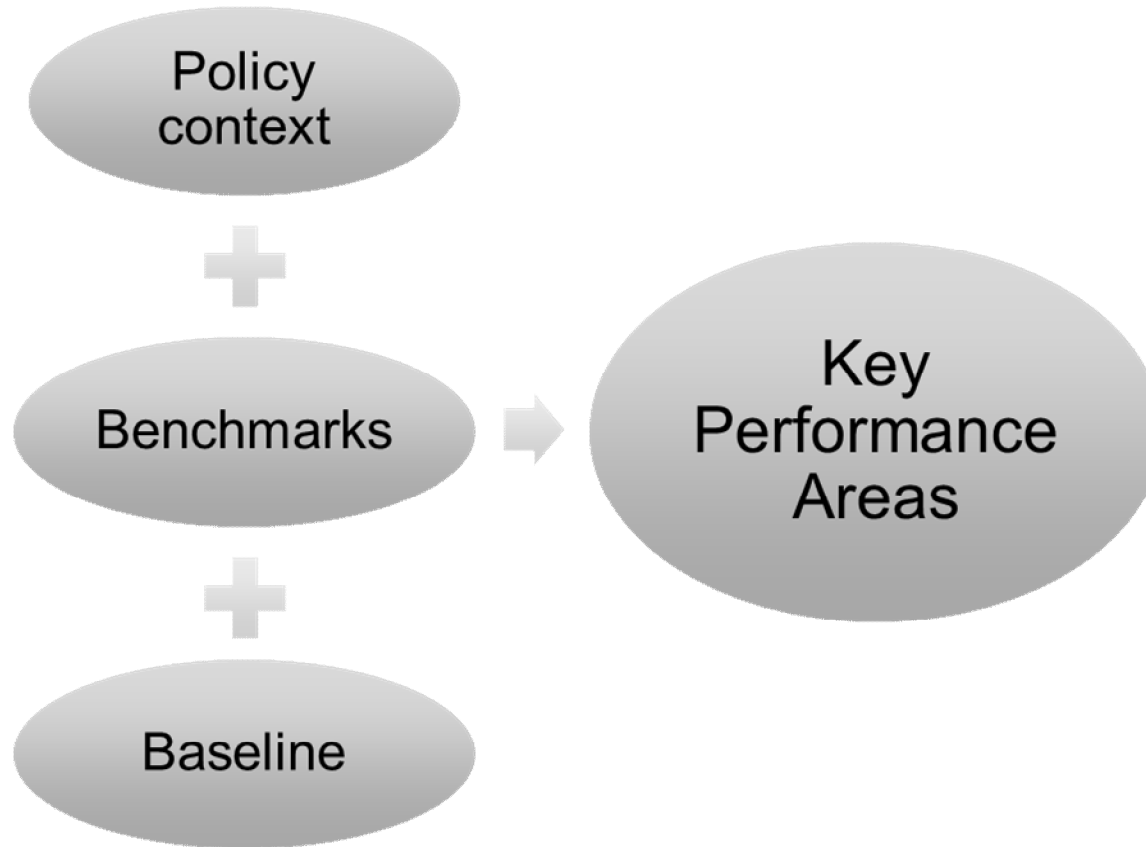
# Government outcomes and SOC mandates



**Sustained Growth Requires Continuous Investment!!!**



## Process of developing targets



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## Shareholder Compact

The primary governance tool setting out the objectives and key performance areas and targets to be achieved by the SOC.

### Example of Mandate:

- Provide transportation of passengers, cargo and mail, air charters and other related aviation services and promote frequency of services on lower density routes and to expand regional air services capability in the Republic and to the African continent and surrounding islands.
- Diversify and grow customer base

### Example of Strategic Objectives for South Africa

- Provide passenger, mail and cargo air services on a sustainable basis;
- Assist in lowering the cost of doing business in South Africa by providing affordable air services within acceptable benchmark standards
- Continuously seek opportunities for growth and partnership within the region in order to expand the route network.











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# Performance for the year ended 31 March 2013/14

SOC	Performance overview - level of non-achievement of planned targets.	Year-on-year movement
Broadband Infracore	21 out of a total of 27 targets achieved. Poor performance due to slow filling of vacancies at executive level, operational strategy needed to improve business processes and governance shortcomings resulting in poor internal controls	
Denel	Achieved 88% targets (15 out of 17 targets were met/exceeded.) Denel did not achieve the number of engineering and Denel Training academy artisan trainees.	
SAA	13 out of total of 29 targets achieved. Net retained earnings not achieved due to increase in fuel and maintenance costs as well as lower passenger revenue.	
SAX	Financials were withdrawn and updated Annual Report has been submitted to external auditors who were expected to complete the audit by the end of March 2013	
Transnet	Transnet achieved 54% of all compacted targets in 2012 and 52.9% in 2013. The low performance in 2013 was due to the drive of Market Demand Strategy which also increased the number of KPI's compacted. However, there was a 3.3% increase in volumes and increase of revenue by 9.4%.	
Alexkor	Achieved 94% (16 out of a total of 17 targets were achieved). The only target not achieved was carat production due to late commencement of land mining activity.	
Eskom	Of a total of 33 key strategic targets, Eskom has 19.	
SAFCOL	Achieved 67% (24 out of the 36 targets were met or exceeded) of the targets. Main areas of non-achievement is the financial returns and IFLOMA related	

## Challenges and lessons learnt

- Ensuring alignment between the compact targets and executives performance (remuneration and benefits of executive managers),
- Too many targets (quantity vs quality) that makes performance complex
- Protracted shareholder compact negotiations process
- Balancing achievement of developmental objectives and financial sustainability in a constrained economic environment, and
- No clear punitive measures for non-performance



## key interventions to enhance oversight

- To respond to these challenges, the Department has introduced a number of initiatives to enhance the compacting process:
  - Remuneration Standards to align executive pay with company performance ,
  - SOC Quarterly Reporting Guidelines to enhance oversight on the implementation,
  - Regular engagements between the Minister, AGSA, Chairpersons and CEO,
  - Development of the Government Shareholder Management legislation (GSM Bill).



**Compact  
3/14**

**Compact  
2014/15**

SAA	Approved	In final stages of negotiations	
SAX	Approved	Approved	
TRANSNET	Approved	Approved	
DENEL	Approved	Approved	
SAFCOL	Approved	Approved and awaiting signature by the Acting Chairperson	
ALEXKOR	Approved	Approved	
ESKOM	Approved	Approved	
BROADBAND INFRACO	Approved	Approved	



## Conclusion

- The Department will continue to enhance the shareholder compacting process to ensure that SOC support the objectives and priorities of government
- Monitoring of performance of SOC will remain a focus to improve accountability
- The development of the Shareholder Management Bill is fundamental to provide a legislative framework for oversight





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# THANK YOU



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# KEY PERFORMANCE AREAS: Transnet

# ANNEXURE



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# Transnet's Key Performance Areas

Key Performance Area	Key Performance Indicator	Rationale behind measurement
Financial value creation	<ul style="list-style-type: none"> <li>“ Return on Assets, Cash Interest Cover, Gearing, Opex as a percentage of revenue</li> </ul>	<ul style="list-style-type: none"> <li>“ Profitability and sustainability</li> </ul>
Market share	<ul style="list-style-type: none"> <li>“ Volumes</li> </ul>	<ul style="list-style-type: none"> <li>“ Increase market share, Road to rail strategy</li> </ul>
Productivity and customer service	<ul style="list-style-type: none"> <li>“ Locomotive utilisation</li> <li>“ Cycle times</li> <li>“ Wagon turnaround times</li> <li>“ On time departure and arrivals</li> </ul>	<ul style="list-style-type: none"> <li>“ Improve efficiencies ( best practice)</li> <li>“ Provide good customer service to attract customers</li> </ul>
	<ul style="list-style-type: none"> <li>“ Lean six sigma implementation</li> </ul>	<ul style="list-style-type: none"> <li>“ Improve processes and competitiveness</li> </ul>
	<ul style="list-style-type: none"> <li>“ Anchorage, Ship turnaround time, Berth occupancy and utilisation</li> </ul>	<ul style="list-style-type: none"> <li>“ Improve efficiencies and ports productivity</li> </ul>
	<ul style="list-style-type: none"> <li>“ Gross Crane moves per hour</li> </ul>	<ul style="list-style-type: none"> <li>“ Improve efficiencies and ports productivity</li> </ul>
Market share, service reliability and capacity utilisation	<ul style="list-style-type: none"> <li>“ Volume, delivery time and reliability, usage of capacity</li> </ul>	<ul style="list-style-type: none"> <li>“ Increase market share (road to rail)</li> <li>“ Asset utilisation</li> <li>“ Reliable Customer service</li> </ul>