

14/014 PC PUB ENT



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

RESEARCH UNIT

PO Box 15 Cape Town 8000 Republic of South Africa
Tel: 27 (21) 403 8273 Fax: 27 (21) 403 8118
www.parliament.gov.za

ANALYSIS OF THE DEPARTMENT OF PUBLIC ENTERPRISES ANNUAL REPORT FOR THE YEAR ENDED 2013/14

10 October 2014

1. INTRODUCTION

The Department of Public Enterprises (DPE) provides shareholder oversight to eight State Owned Companies (SOCs): Alexkor SOC Limited, Broadband Infraco SOC Limited, Denel SOC Limited, Eskom SOC Limited, the South African Forestry SOC Limited, South African Airways SOC Limited, South African Express SOC Limited and Transnet SOC Limited. 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.¹

1.1 The Legislative Mandate

DPE exercises shareholder oversight over eight SOC's. All the SOC's are incorporated as companies in accordance with the provisions of the Companies Act, 2008. Except for Denel, all the SOC's are established in terms of their own enabling legislation which sets out the purpose, mandate and objectives for which they were founded. DPE is both the founder and the administrator/custodian of all legislation relating to the establishment of SOC's.

1.2 Mission Statement

The State Owned Companies are strategic instruments of industrial policy and core players in the New Growth Path (NGP). The Department aims to provide decisive strategic direction to the SOC's, so that their businesses are aligned with the national growth strategies arising out of the NGP. It will do this by ensuring that their planning, investments and activities are in line with government Medium Term Strategic Framework (MTSF) and the Minister's delivery agreement commitments.²

1.3 Government Strategy and Objectives

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's 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 (IPAP) and various other charters.³

¹ Department of Public Enterprises. (2014). Annual Report.

² Ibid.

³ Department of Public Enterprises. (2012). Strategic Plan 2012/13-2016/17.



The NDP specifically mentions state owned companies and the role they play in improving infrastructure in the country. The plan specifically identified the “institutional weaknesses related to state-owned companies responsible for network infrastructure”.⁴ 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”.⁵ 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 was echoed in the President’s State of the Nation Address (SONA) delivered in February 2013. The role of skills development by SOCs was also highlighted in the SONA.

1.4 Key Strategic Objectives

The Department focused on the following strategic objectives for the 2013/14 financial year:

- Increased oversight on the implementation of the build programme of SOC in particular Eskom and Transnet;
- Strengthening capacity of the Department to oversee the build programme;
- Facilitate creation of a supportive policy environment for the SOC to increase investment in the economy;
- Promote increased localisation of procurement spend through the Competitive Supplier Development Programme (CSDP); and
- Explore ways to support financially challenged SOC⁶.

The Annual Report provides a brief report on the achievements of the Department with regard to its target areas. This brief aims to give Committee Members a brief summary of the Department of Public Enterprises annual report, highlighting achievements and challenges.

2. TECHNICAL QUALITY ANALYSIS

The Department’s annual report is within the prescribed format although targets set are vague and determining the achievement of targets is difficult. Planned targets are broad and determining achievement is subjective to the Department.

3. PERFORMANCE ANALYSIS

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. These three programmes are Administration, Legal and Governance and Portfolio Management and Strategic Partnerships.

⁴ National Development Plan, Executive Summary, pg 35.

⁵ Ibid.

⁶ Department of Public Enterprises. (2013a)



The annual report indicates that the Department achieved 82.9 per cent of its set targets, which is 68 out of 82 set targets, 14 or 17.1 per cent of their targets, were therefore not achieved during the year under review.⁷ This is an improvement on the 32 per cent not achieved in the previous financial year.

Programme 1: Administration

Purpose: Provides strategic management, direction and administrative support to the Department, which enables the Department to meet its strategic objectives.

In the 2013/14 financial year, the Programme focused on improving processes and systems to facilitate effective planning and performance monitoring within the organisation. The programme's capacity was enhanced by the appointment of a Deputy-Director-General: Corporate Management to provide strategic direction within the programme and improve systems in order to enhance organisational performance. The Department also significantly reduced its vacancy rate from above 10 per cent in 2012/13 to below 2 per cent at 1.8 per cent.

The programme achieved 19 of 21 planned targets, with those targets not achieved relating to irregular expenditure being incurred of R711 000 against of target of zero irregular expenditure incurred and an approved IT governance structure which was not approved by the end of the financial year and has been deferred to the 2014/15 financial year.

Issues for Consideration:

- ***On page 37 of the Annual report it states that the Department has implemented a "use it or lose it" policy which requires that a vacant post is filled within three months by a unit or the post is transferred to a unit where a need for additional capacity exists. This policy may not take into account the scarcity of skills needed for the post making it difficult for the post to be filled in three months. The Committee should request the Department to detail how the risk of choosing ill-qualified persons to the posts are mitigated.***

Programme 2: Legal and Governance

Purpose: Provide legal services and corporate governance systems, as well as facilitates the implementation of all legal aspects of transactions that are strategically important to the Department and SOCs, and ensures alignment with Government's strategic intent by, among others, monitoring the state owned companies' indicators.

The new Remuneration Standards were submitted to the Minister and tabled in Cabinet on two occasions. Based on the Minister's recommendation, the final submission to Cabinet is

⁷ Department of Public Enterprises: (2014): Annual Report 2013/14.



expected during the term of the new administration. Some of the achievements of the Programme include:

- Successful implementation of the R2 billion legal claim instituted by Londoloza/Paharpur against the Department and Safcol.
- The appointment of a liquidator to administer and manage the liquidation of Aventura.
- Drafting the Transformation Guidelines for the transformation of the SOC legal environment.
- Successful negotiations to facilitate Eskom's exit from an onerous contract in Senegal.

The programme achieved 6 of 9 planned targets. Of the targets not achieved, the review of the Eskom/BHP Special Pricing Agreement, the position paper on Eskom and Trasnet copper theft challenges were not finalised. One project, the Eskom Energy Manatalia project, was not finalised since the mandate has since changed. The above two targets have been moved to the 2014/15 financial year.

Issues to consider:

- *The winding up of the Diabo Share Trust was to be finalised in the previous financial year, and has still not been finalised. In the 2012/13 Annual Report of the Department it was stated that "as at 5 March 2013, 1 000 of the 5 847 beneficiaries of the Diabo Share Trust had been paid out. The Department has extended the contract with the Service Provider with three months to pay the remaining beneficiaries. The trust is expected to be wound up in the 2013/14 financial year."⁸ However, nothing is mentioned regarding this process in the current Annual Report. Have the 4 847 beneficiaries been paid out to-date? Has this matter been finalised?*
- *On page 129 of the Annual Report it states that an amount of R214 million was received by DPE as beneficiaries could not be located. How will these funds be utilised?*
- *The Committee should request the Department to explain the contract Eskom is involved in Senegal that it now exited.*

Programme 3: Portfolio Management and Strategic Partnerships

Purpose: To align the corporate strategies of the SOCs with Government's strategic intent, and monitor and benchmark their financial and operational performance and capital investment plans. To align shareholder oversight with Government's overarching economic, social and environmental policies, and build focused strategic partnerships between SOCs, strategic customers, suppliers and financial institutions.

Sub-programme – Energy and Broadband Enterprises includes Eskom, Pebble Bed Modular Reactor (PBMR) and Broadband Infraco. The DPE and Eskom have engaged different

⁸ Department of Public Enterprises. (2013b) pg.27.



stakeholders in an attempt to find mitigation strategies to ensure the projects are on schedule. The Department has continuously engaged Eskom to ensure improvement in the execution of current maintenance plans, operational practices, electricity generation, transmission and distribution efficiency and maintenance of an adequate reserve margin. The Department pushes Eskom, through the Shareholder Compact, to improve its demand savings programmes and its contribution to economic transformation, in particular procurement and critical skills development. The Department also launched the Emerging Miners Strategy, which seeks to promote participation and increase black ownership in the coal mining sector. The Department has also been working closely with Broadband Infraco to assist the company diversify its customer base, improve its revenues and reduce operational costs by improving maintenance to the national long distance network.

The programme achieved 9 of 10 planned targets. Of the targets not achieved, the draft report on Industry Benchmark Studies for Eskom and Broadband Infraco were not completed. The project has been deferred to the 2014/15 financial year due to “changes in the operating environment of the SOC”.⁹

Issues to consider:

- ***The Industry Benchmark Studies for Eskom and Broadband Infraco was not completed due to significant changes in the operating environment of the SOC. What significant changes is the Department referring to?***
- ***On page 46 of the Annual Report, for the performance indicator “Assessment of the delivery of Eskom’s capacity expansion programme” it states that the study conducted to Assess Eskom practices on the implementation of capacity expansion programme was completed. What was the outcome of this study and what recommendations were made regarding Eskom’s capacity expansion programme? Are the recommendations being implemented by Eskom?***

Sub-programme – Manufacturing Enterprises provides the management and oversight of Denel, Alexkor and South African Forestry Company (SAFCOL). The Department continued to monitor Denel’s turnaround strategy and business sustainability and focused on the re-alignment of Alexkor and Safcol’s role as a state-owned mining and forestry companies, respectively. Of the 12 targets reported on, 2 targets were not achieved.

The targets not achieved includes: SAFCOL’s shareholder compact was not finalised and SAFCOL was not given a new mandate as the performance indicator required. The new mandate for SAFCOL was not approved as the SOC corporate strategy was not submitted within agreed timeframes to the Department for review and approval by the shareholder.

Issues to consider:

⁹ Department of Public Enterprises: (2014): pg.46



- ***The new role of SAFCOL which was due to be presented to Cabinet during the first quarter of the 2013/14 financial year. When will the new role of SAFCOL be presented to the Committee?***
- ***The Committee should enquire if SAFCOL's shareholder compact has been finalised? What mitigating strategies have been put in place to ensure that shareholder compacts are finalised timeously?***

Sub-programme – Transport Enterprises aligns the corporate strategies of South African Airways (SAA), South African Express (SAX) and Transnet with Government's strategic intent and monitors and benchmark's their financial and operational performance. The Department evaluated and approved Transnet's PFMA Section 54 application to purchase 1 064 locomotives, which is instrumental in the drive to move more volume on rail. The Minister of Public Enterprises re-established the Ministerial Task Team (MTT) to monitor the implementation of the Long-Term Turnaround Strategy (LTTS). Of the 16 targets set in this sub-programme for 2013/14, 3 targets were not achieved.

The targets not achieved included: approval of Transnet's PFMA application to concessioning 3 pilot branch lines, assessment of the logistics costs in the economy, and the development of the National Corridor Performance Measurement (NCPM) tools and indicators. The completion of these projects have been deferred to the 2014/15 financial year.

Issues to consider:

- ***Most of the targets not achieved occurred in programme 3: Portfolio Management and Strategic Partnerships. The Department should explain how service delivery impacted on the targets not being met? What remedial steps are being put in place to ensure projects are completed timeously?***
- ***According to the Annual Report of the Department of Transport a Rail Transport Policy could not be finalised due to delays by the DPE to sign it. The Committee should request the Department to explain the delay in signing the document? This has also not been mentioned in the Annual Report of DPE, why is this?***

Sub-programme – Economic Impact and Policy Alignment (EIPA) purpose is to align Shareholder oversight of SOCs in relation to Government's over-arching economic, social and environmental policies; and to implement strategic interventions to contribute towards achievement of national objectives in support of economic growth and transformation. The key strategic objectives for 2013/14 include benchmarking on carbon tax, SOC policy deep dives and the DPE position paper on carbon tax was completed. Of the 7 planned targets, 1 target was not achieved, relating to transformation framework and development of reporting tool. The project has been deferred to the 2014/15 financial year and to be developed in parallel to approval of the Transformation Framework and Guidelines that are currently under development.



Sub-programme – Strategic Partnerships is responsible for overseeing the design and implementation of strategic programmes and projects, of related extra-ordinary funding initiatives and of complex procurements and on-going supplier relationships involving various stakeholders. The unit continued to monitor the progress in the roll-out of the CSDP, it facilitated the innovative funding solution by signing MOUs (memorandum of understanding) with Development Bank of Southern Africa (DBSA). The purpose of the MOU is to support the origination, feasibility, preparation and funding of major projects, specifically those managed by SOCs under the portfolio of DPE. The establishment of the Project Management Office (PMO) was achieved, which will be implemented in the 2014/15 financial year. The PMO aims to provide project management support services on state integrated projects.

Of the 7 planned targets, 5 were achieved and 2 were not achieved. The targets not achieved related to Business Plans for the Strategic Infrastructure Projects (SIPs), and the Private Sector Participation (PSP) Framework which was not completed. These projects have been deferred to the 2014/15 financial year.

4. HUMAN RESOURCES

The Department had a vacancy rate of 1.8 per cent, significantly reduced from 11.8 per cent in the 2013/14 financial year. This has been the result of a recruitment drive that was implemented during the 2012/13 and 2013/14 financial years. The Department states that it still needs additional posts to be able to deliver on its Strategic Plan; a productivity study is currently underway to develop a business case for additional positions.

An amount of R272.468 million was spent on personnel costs, with R1.857 million being spent on training, which is less than 1 per cent of personnel costs. 46.8 per cent of employers are male, while 54 per cent are female. Of the total number of employees, 6 or 3 per cent have disabilities. The majority of employees are within senior management (levels 13-14) at 34 per cent, 30 per cent are professionally qualified and mid-management (levels 9-12) and 23 per cent are skilled technical and academically qualified workers (levels 7-8). In terms of employment equity, 86 per cent of the Department's work force is African, 5 per cent is Coloured, 3 per cent is Indian and 6 per cent is White. Only 147 employees have participated in training and skills development programmes.

Issues to consider:

- ***On page 82 of the Annual Report, the Department reports on "Abnormal Appointments". The Department should explain what is meant by this statement.***
- ***Why is there a discrepancy between total number of employees as stated on page 82 as 283 (Personnel costs) and page 91 as 216 (Employment Equity)?***



- *The Department has not established an HIV/AIDS committee as proposed by the Public Service Regulations (2001). The Department should state why this has not been done.*
- *The Department has spent less than 1 per cent on training of personnel. The Department should state why training is not given more priority.*
- *The Committee should enquire from the Department if any of their deferred targets were due to budget constraints.*

5. ANALYSIS OF EXPENDITURE TRENDS

Table 1: DPE Allocation and Expenditure trends

Department of Public Enterprises (R'm)	Expenditure Performance For the Five Year Period Reviewed				
	2009/10	2010/11	2011/12	2012/13	2013/14
Allocation	3 991.2	555.5	353.3	1 376.7	294.1
Actual Expenditure	3 983.3	540.0	346.1	1 367.0	272.5
Percentage Spent	99.8	97.2	98.0	99.3	92.7
Budget Left Unspent	7.9	15.5	7.2	9.7	21.6

As shown in the table above, the DPE has consistently spent within 2 per cent of its budget over the past five years, except in the 2010/11 financial year, in which the department under spent by 2.8 per cent. The reason given for the under spend in the 2013/14 financial year, was due to posts not being filled due to the scarcity of specialist skills in the market as well as the delayed or postponed implementation of some projects as a result of changes in the internal and external policy environment.

The department was allocated R236.9 million for the 2013/14 financial year. The budget allocation increased by R57.3 million during the Adjusted Estimates of National Expenditure (AENE), resulting in a total of R294.1 million in voted funds. Of the allocated budget of R294.1 million, R272.5 million was spent, resulting in an amount of R21.7 million or 8.0 per cent not being spent. The unspent balance of R16.7 million will be surrendered to the National Revenue Fund (NRF) and an amount of R5.0 million will be requested from National Treasury as rollovers for nine projects/contracts to be completed in the 2014/15 financial year.

At the end of the 2013/14 financial year virements¹⁰ amounting to R4.8 million were shifted from Programme 3 towards Programme 1 and Programme 2 for Compensation of Employees and Goods and Services. In addition, the virement was to fund, among others, audit fees, travel administration costs, project funding and IT for software and computer equipment. The virements do not exceed the 8 per cent threshold as specified by the PFMA, section 43 (2).¹¹

Table 2: Programme Expenditure for 2012/13 and 2013/14

¹⁰ According to Section 43 of the PFMA, "An accounting officer for a department may utilise a saving in the amount appropriated under a main division (programme) within a vote (department) towards the defrayment of excess expenditure under another main division (programme) within the same vote (department), unless the relevant treasury directs otherwise."

¹¹ Department of Public Enterprises. (2014). Annual Report.



Programme (R'm)	2012/13			2013/14		
	Final Appropriation	Actual Expenditure	Expenditure as % of Final Appropriation	Final Appropriation	Actual Expenditure	Expenditure as % of Final Appropriation
Administration	117.1	115.4	98.5%	134.7	133.3	99.0%
Legal and Governance	24.2	23.5	96.9%	23.4	23.2	98.8%
Portfolio Management Strategic Partnerships	1 235.4	1 228.2	99.4%	136.0	116.0	85.3%
Total	1 376.8	1 367.0	99.3%	294.1	272.5	92.6%

Expenditure in *Programme 1: Administration* amounted to R133.3 million or 99.0 per cent of the allocated budget of R134.7 million. This is an increase on the R115.4 million spent in the previous financial year, mainly due to the fully functional Inter-Governmental Relations sub-programme that was established in 2012/13, and the appointment of the DDG: Corporate Management in the Management sub-programme, amongst others. Under spending remained within the 2 per cent benchmark.

Expenditure in *Programme 2: Legal and Governance* amounted to R23.2 million or 98.8 per cent of the R23.4 million budget. There was no substantive change to expenditure on this programme during the period under review.

Expenditure in *Programme 3: Portfolio Management and Strategic Partnerships* amounted to R116.0 million or 85.3 per cent of the budgeted amount of R136.0 million. The decrease from the R1.2 billion spent in the 2012/13 financial year is due to the payment for financial assets disbursed to Alexkor and Denel amounting to R1.050 billion, as well as R118.3 million allocated to Denel in respect of an indemnity claim to Denel/SAAB Aerostructures. An amount of R57.3 million was disbursed to Denel Aerostructures in 2013/14 for payment of the eighth indemnity claim. Under-spending in this programme is due to delays in the implementation of some major projects.

The department spent R127.8 million or 97.1 per cent of the compensation of employees budget of R131.6 million, while R83.7 million or 82.6 per cent was spent of the goods and services budget of R101.4 million in the 2013/14 financial year. The underspending of 2.9 per cent and 17.4 per cent respectively, was due to some posts not having been filled due to a scarcity of specialist skills in the market, and the under spending on goods and services was due to some projects being delayed or postponed due to changes in the internal and external environment.

Of the R57.7 million allocated for Transfers and subsidies, R57.6 million was spent. Transfers mainly consisted of the R57.3 million allocated to Denel in respect of an indemnity claim to Denel/SAAB Aerostructures, as mentioned above. The balance of transfers went to Households and Provinces and municipalities.



Payments for capital assets consisted of machinery and equipment; and software and other intangible assets. Of the R3.3 million allocated, 97.2 per cent was spent, mostly on machinery and equipment.

An amount of R97 000 was allocated under Payments for financial assets. R95 000 was spent on staff debt which was written off.

Fruitless and wasteful expenditure amounted to R530 000, the majority of which related to conferences surrounding the 5th BRICS Summit which had to be cancelled due to circumstances out of the control of the Department. The Department stated it would in future avoid hosting events of this nature as there are key variables beyond the control of the Department.

Table 3: Summary of Audit Outcomes for the Five year period

Department	2009/10	2010/11	2011/12	2012/13	2013/14
Public Enterprises	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings

The department has succeeded in maintaining a clean audit opinion for the last five financial years, with no additional matters highlighted in the last four financial years. However, the audit highlighted an additional matter for consideration by the department in the 2012/13 financial year. The Department corrected the matter in the 2013/14 financial year and the Auditor-General did not highlight any matters for the 2013/14 financial year.

5. KEY ISSUES FOR CONSIDERATION BY PARLIAMENT

- The Department should clarify all performance information and thereafter commit to working to improve the technical quality of their report moving forward. The eDepartment should provide a thorough report on service delivery with measurable targets and achievements.
- The Department should assess how the delay in formulating guiding principle frameworks or models for SOCs, has impacted on SOCs businesses and their ability to attain their developmental goals.
- The Department should finalise the Private Sector Participation Framework as soon as possible to enable the SOC to leverage private sector resources.



- The Committee should request the Department to explain what happens once quarterly assessments of the SOC are done. What remedial steps are taken if the assessments are not favourable?
- The scope of the Department's Service Delivery Improvement Plan (page 25 of the Annual Report) relates to administrative tasks. The Department should broaden the scope to service delivery aspects as well.
- A request for roll-overs relating to nine projects will be requested from the National Treasury. However, per the Departments Annual Report, 6 projects will be deferred to the 2014/15 financial year, while 4 projects requires further engagement, totalling 10 projects to be finalised. How will the 10th project for financed?

6. CONCLUSION

The Department of Public Enterprises have not be able to spend its entire budget within 2 per cent, as it did in previous financial years, only managing to spend 92.6 per cent of its budget. However, the Department did receive an unqualified audit opinion with no findings or matters of emphasis, which is an improvement on the 2012/13 financial year. The Department has managed to improve on its performance by meeting 82.9 per cent of its targets, an improvement on the 68 per cent it achieved in the previous financial year. Although some of the targets have been shifted to future years, the delay in meeting targets could have severe consequences on the developmental goals of the SOCs. By the Department not providing guiding frameworks for the SOCs to work within, the SOC will continue to operate in an uncertain environment.

REFERENCES

Department of Public Enterprises (2013a). *Strategic Plan and Annual Performance Plan 2013/14. Presentation to the Portfolio Committee on Public Enterprises*. 19 March 2013. Parliament of RSA. Cape Town.

Department of Public Enterprises (2014). *Annual Report 2013/14*. Pretoria, Department of Public Enterprises.

Department of Public Enterprises (2013b). *Annual Report 2012/13*. Pretoria, Department of Public Enterprises.

Department of Public Enterprises (2012). *Annual Report 2011/12*. Pretoria, Department of Public Enterprises.



Department of Public Enterprises (2012). *Annual Performance Plan 2012/13*. Pretoria, Department of Public Enterprises.

Department of Public Enterprises (2012). *Strategic Plan 2012/13 – 2016/17*. Pretoria, Department of Public Enterprises.

National Development Plan 2030, (2012), *Executive Summary – National Development Plan 2030 – Our Future – Make it Work*. Available from:

<http://www.npconline.co.za/MediaLib/Downloads/Downloads/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf> (Accessed 15 April 2013), Pretoria, National Planning Commission.