



ANALYSIS OF THE DEPARTMENT OF PUBLIC ENTERPRISES STRATEGIC PLAN 2015/16 – 2018/19 AND THE ANNUAL PERFORMANCE PLAN 2015/2016

15 May 2015

1 INTRODUCTION

Government departments are required by legislation through the Public Finance Management Act to develop a Strategic Plan that outlines the objectives to be pursued by the Department over the Medium Term. This briefing will make an overview of the Strategic Plan for the period 2015/2016 to 2020/21 as it pertains to the Department of Public Enterprises (DPE) and also look at the Department's Annual Performance Plan for the 2015/16 financial year. The purpose of the paper is to assist Committee Members with a better understanding of what is contained in the Department's planning documents and to enable Members to engage the Department on their plans for the medium term period.

2 OVERVIEW OF THE STRATEGIC PLAN 2015/2016 – 2018/2019

In her opening remarks the Minister of Public Enterprises, Ms Lynne Brown states that the Department, over the five years, would have assisted the SOCs to:

- Accelerate economic growth along an inclusive and sustainable path;
- Ensure higher levels of employment creation and decent work;
- Reduce inequality substantially; and
- Ensure meaningful black participation in the ownership, control and management of the economy.

2.1 THE MANDATE OF THE DEPARTMENT¹

The Department of Public Enterprises aims to drive investment, productivity and transformation in the Department's portfolio of state-owned companies, their customers and suppliers to unlock growth, drive industrialisation, create jobs and develop skills. The Department's portfolio of state-owned companies include Alexkor, Denel, Eskom, South African Forestry Company, South African Express Airways, and Transnet.

The mission of the Department is to provide decisive strategic direction to the SOC, so that their businesses are aligned with the National Growth strategies arising out the National Development Plan (NDP).

The Department's overall mandate is to ensure that the SOC 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

¹ Department of Public Enterprises (2015a).



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.

2.2 THE STRATEGIC GOALS OF THE DEPARTMENT²

The Department has identified the following strategic objectives over the next five years:

- Ensure SOC financial sustainability;
- Ensure SOCs maintain commercially viable operations;
- Accelerate capital project delivery;
- Strong shareholder; and
- Alignment and efficiency across institutional model.

The Department has developed a three-phased approach to achieving the above objectives. The strategy is to be approached in a phased manner (1-12 months, 12-36 months and 36-60 months), each phase strengthening the DPE's role and the impact that it is to influence. The three phases are stabilisation, strengthening and solidification.

The Department has identified three priority projects across the five strategic objectives and have prioritised these projects as follows:

- i. Priority project 1 encompasses the first strategic objective of financial sustainability.
- ii. Priority project 2 encompasses the strategic objectives relating to commercially viable operations and capital projects delivery.
- iii. Priority project 3 encompasses the strategic objectives relating to a strong shareholder and alignment and efficiency across institutional model.

Each of the above priority projects are associated with the three phases of the Department's strategy.

2.3 ISSUES OF CONCERN FOR THE COMMITTEE

There are serious shortcomings with regards to the DPE Strategic Plan in its current format. For starters, the Strategic Plan does not follow the National Treasury guidelines of the Framework for Strategic Plans and Annual Performance Plans issued in August 2010. The title of the Strategic Plan states the period 2015/16 – 2018/19, which only covers three financial years. The Strategic Plan should cover five financial years from 2015/16 – 2019/20. This is an obvious oversight on the part of the Department.

² Ibid



Inherent in the current Strategic Plan are the following challenges:

- The Strategic objectives are not linked to a programme;
- The Strategic objectives are set out in phases, and does not give a breakdown of the five years as required;
- The Strategic objectives are not linked to resource considerations i.e. budgets;
- Long-term infrastructure and other capital plans are not included;
- Although most of what is required by the Framework is included with regards to legislative mandates and situational analysis, the way it is laid out makes it challenging to understand.

The Strategic Plan is not broken down per programme as required, nor has the associated budget of the five years been included. This will make it difficult to assess the progress made by the Department after the five years have elapsed. It will also make it challenging to align the Strategic Plan to the Annual Performance Plan.

It should also be noted that although the Strategic Plan is not aligned to the National Treasury's Framework, the Department's Annual Performance Plan for 2015/16 is aligned to this Framework. Therefore the Department is aware of the National Treasury's Framework for Strategic Plans and Annual Performance Plans.

3 OVERVIEW OF THE ANNUAL PERFORMANCE PLAN 2014/15

The Department's medium term focus will be on facilitating a conducive environment for repositioning SOCs to advance their developmental mandate. It will also prioritise enhancing the efficiency of strategic transport corridors and the implementation of Government's support package to Eskom. The focus will be on improving internal efficiencies and the functioning of the Department. Support for the achievement of the National Development Plan (NDP) goals will form the central part of the oversight function. To this end, the personnel is expected to remain constant at 223, excluding interns and graduates.³

In relation to Government's 12 Outcomes, the Department is primarily contributing to creating an efficient, competitive and responsive economic infrastructure network (Outcome 6) of the Medium Term Strategic Framework (MTSF).⁴ 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 2015/16 Annual Performance Plan is targeted to implement the Strategic Plan of the Department for the current administration period (2014-2019). The focus in the current

³ Department of Public Enterprises (2015b)

⁴ National Treasury (2014)



financial year (2015/16) is to ensure that SOCs within the Department's portfolio remain financially stable for them to be able to advance the developmental mandate.

3.1 PROGRAMME AND SUB-PROGRAMME PLANS

3.1.1 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.⁵

The programme includes the Ministry, the Office of the Director-General and Support Services. The programme is currently made up of the following sub-programmes: Ministry; Management; Corporate Services; Chief Financial Officer; Human Resources; Communications; Strategic Planning, Monitoring and Evaluation; Inter-governmental and Stakeholder Relations; Internal Audit and Office Accommodation.

Programme 1 is a support function and its primary focus is to create an organisational environment necessary to achieve the objectives outlined in the Department's Strategic Plan (SP) and Annual Performance Plan (APP).

Programme 1 performance indicators are not related to the strategic objectives as stipulated in the Strategic Plan, but instead are related to improved service delivery, and operational efficiency.

Issues of Concern

In the 2014/15 APP, the Department had a key indicator as being Business Process Mapping with the 4th quarter target being "Review DPE structure in line with the work study, gap analysis and benchmarking report" (page 26). In the 2011/12 financial year, the Department had introduced a new budget structure.

In the current 2015/16 APP, the Department has a key indicator as being 'DPE critical business processes re-engineered'. How is the 2011/12 budget structure change, and the 2014/15 DPE structure alignment process, different from the current business process re-engineering?

In the 2014/15 APP, the Department had a performance indicator "3 Year Evaluation Plan". This is not mentioned in the 2014/16 APP. Why is this?

Although the programme is in support of the Department's APP and Strategic Plan, there is no performance indicators relating to the APP or the Strategic Plan. Why is this?

⁵ Department of Public Enterprises, (2015b).



3.1.2 Programme 2: Legal and 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 Government's strategic intent.⁶

Over the medium term the programme will ensure the effective shareholder oversight of state owned companies by:

- Providing legal services and coordinate governance systems;
- Facilitate the implementation of all legal aspects of transactions that are strategically important to the department and SOCs;
- Ensuring that financial and operational risk management processes are embedded throughout the department as and when required;
- Addressing constraints on SOC contract negotiations and management to improve commercial competence and contribute to economic growth and development on a regular basis.
- Providing assistance on developing and negotiating shareholder compact framework annually in terms of the PFMA;
- Providing guidance on appropriate delegation frameworks between the SOC boards and executive management on a regular basis; and
- Advising the Minister regularly on the appointments of board of directors including remuneration, preparations for the Annual General Meetings (AGM), conducting annual reviews of ownership policies.

Sub-programmes

The **Management** sub-programme comprises the office of the deputy director general, which provides strategic leadership and management of the programme personnel. This sub-programme had a staff complement of 2 and 82 per cent of the budget is used for compensation of employees.

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 12 and 62.5 per cent of the budget is used for compensation of employees whilst the balance of the budget is used on goods and services which includes, expert legal advice and normal operational expenditure.

⁶ Department of Public Enterprises (2014b)



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.

Issues of Concern

The above programme is to advise the Minister on board of directors' remuneration, amongst other things. The Department should update the Committee on the progress on the Remuneration Review which was put on hold to allow the Presidential Review Committee on State Owned Entities to consider this matter, as the Review was finalised in early 2013.

One of the performance indicators on page 38 states a Government Shareholder Management Bill. The Department should update the Committee on this process and the progress to date.

In the 2014/15 APP, Programme 2 had 5 performance indicators. The current 2015/16 APP only has 3, of which two were mentioned in the 2014/15 APP. These relate to the Risk Modelling tools and guidelines and the Government Shareholder Management Bill. However, in the current APP no audited/actual performance indicator is stated for the 2014/15 financial year. Why is this?

In the 2014/15 APP, the Department had a performance indicator relating to the SOC procurement framework for the Programme. The Department should explain why this indicator is no longer in the APP.

3.1.3 Programme 3: Portfolio Management and Strategic Partnerships

The purpose of the programme is to align the corporate strategies of the SOCs 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.⁷

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

⁷ Department of Public Enterprises (2014b)



Modular Reactor and Broadband Infraco, and provides strategic leadership and management of the programme's personnel.⁸

The sub-programme comprises:

- Management - comprises of the Office of the Deputy Director-General, which provides strategic leadership, and management of the programme;
- Eskom – shareholder management and oversight of the Eskom business, including the generation, transmission and distribution of electricity with particular emphasis on ensuring security of supply. To also provide strategic financial and transactional analysis of Eskom businesses as well as monitoring of its capital investment programme. Provide oversight of the implementation of the PBMR care and maintenance programme to preserve intellectual property and assets.

The sub-programme **Manufacturing Enterprises** exercises shareholder oversight over Denel, Alexkor and the South African Forestry Company (SAFCOL). Oversight over Alexkor includes the review of Alexkor's strategy to enhance financial sustainability, and overseeing the implementation of the Richtersveld Deed of Settlement. Oversight over SAFCOL includes forestry management, timber harvesting, timber processing and related activities, both domestically and internationally as well as oversight of the entity's restructuring.

Issues of Concern

The Department has gone from 10 performance indicators given in 2014/15 to only 1 performance indicator in the 2015/16 financial year. What are the reasons?

In the 2014/15 APP, a performance target relating to CAPEX project risk register is mentioned with a 2014/15 target being an Assessment of Eskom CAPEX program. This target is similar to the current target relating to the Progress report on the Delivery of Eskom's capital Programme produced, on page 46. What has been the outcome of the previous years' performance with regards to this?

The sub-programme **Transport Enterprises** exercises shareholder oversight over Transnet, and South African Express Airways (SAX). The sub-programme is organised in terms of management and shareholder oversight over the three companies' performance against targets. The Department will closely monitor the implementation of the Transnet market demand strategy, and the capital roll out programme and other key programmes.⁹ The sub-programme will monitor and assist with the implementation of SAX 20:20 Vision and Austerity Measures, in line with the Guarantee conditions, facilitate strategic interventions with National Treasury relating to the resolution of the network feeder model and provide strategic guidance to strengthen the financial positions of SAX to ensure their long-term sustainability.

Issues of Concern

⁸ National Treasury (2015)

⁹ National Treasury (2015)



Most of the performance indicators for this sub-programme relate to Transnet, what specific interventions is the Department planning with respect to SAX?

Again, the number of targets have been substantially reduced from the 2014/15 financial year to the current financial year. The Department should explain this change in direction.

The sub-programme **Economic Impact and Policy Alignment** aligns state-owned companies with overarching government economic, social and environmental policies and implement strategic interventions to contribute towards achievement of national objectives in support of economic growth and transformation.

The sub-programme comprises:

- Management – comprises of the Office of the Deputy Director-General, which provides strategic leadership, and management of the programme;
- Environmental Policy Alignment – oversee alignment and implementation of SOC Strategically Important Developments (SIDs) with special focus on Eskom and Transnet build programmes. Oversight and alignment of the Climate Change Policy Framework for SOC in support of national policies and the green economy.
- Economic Policy Alignment – focuses on appropriate macro-economic modelling and research to enhance the links between industrial policy, macro-economic policy and the role of the SOC. Economic modelling will be outsourced to relevant institutions to determine the impact of SOC investment and operations on the economy including the impact on customers and suppliers; and
- Transformation, Skills and Youth Development – focuses on the provision of scarce and critical skills by the SOC in support of the National Skills Agenda, the New Growth Path and the National Development Plan. Transformation and youth development areas will form new areas for incorporation into SOC Shareholder Compacts.

The activities and outputs of this sub-programme entails systematic coordination and partnerships with the relevant government Departments with primary mandate on the above as well as other key stakeholders.

The sub-programme **Strategic Partnerships** drives the building of strategic relationships between SOC and key customer and supplier sectors to transform the sectoral and social composition of the economy.

The sub-programme comprises:

- Management – comprises of the Office of the Deputy Director-General, which provides strategic leadership, and management of the programme;
- Project Oversight – definition of catalytic investments to be driven by DPE and oversight of project implementation from pre-feasibility to completion, including the design of relevant compacts;
- Funding Mechanisms – development of innovative funding structures and design of associated compacts with relevant partners;
- Strategic Relationships – development of overarching procurement leverage policies; oversight of SOC fleet procurement design and implementation, and development and implementation of capability building programmes and institutions.



Issues for Consideration

The two performance indicators given for the sub-programme Economic Impact and Policy Alignment for 2015/16 were also indicated in the 2014/15 APP. What has the performance been to-date on these indicators, as the 2014/15 performance is not given in the 2015/16 APP, noted on page 54?

The number of performance indicators have been reduced from 7 to only 2 for the sub-programme Economic Impact and Policy Alignment.

The number of performance indicators have been reduced from 9 in 2014/15 to only one in 2015/16, noted on page 55. Once again no previous performance indicators are given for 2014/15 so progress cannot be noted on this indicator.

Given the reduction in performance indicators as well as the reduction in oversight of SAA and Broadband Infraco, however the budget only decreases by 3.2 per cent over the medium term. This suggests that the responsibilities and the budget allocation might not be properly aligned.

Similarly, the Committee should request the Department to explain what has happened to the resources used to oversee SAA and Broadband Infraco, as this responsibility now lies elsewhere but the resources remained with DPE.

4 CONCLUSION

The Strategic Plans of Departments are intended to give an overview of what the Department intends to achieve over the next five years in line with budgetary expectations. The Annual Performance Plan takes this a step further and breaks down the five year overview to a yearly overview with quarterly targets. The Department of Public Enterprises Annual Performance Plan allows one to understand what they will be doing and what they plan to achieve by the end of the 2015/16 financial year. However, given the different formats of these two documents, it will be difficult to assess the Department's progress over the five year period.



5 REFERENCES

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The Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999)

