



**PRESENTATION TO THE PORTFOLIO COMMITTEE  
ON PUBLIC ENTERPRISES  
DPE 2015/16 QUARTER 3 PERFORMANCE**

**DATE: 2 MARCH 2016**



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# Presentation outline

- **PURPOSE OF THE PRESENTATION**
- **PROGRESS ON SOC REFORM**
- **CURRENT OPERATIONAL ENVIRONMENT AND INFLUENCE ON POLICY**
- **STATE OF THE SOC PORTFOLIO (2014 AND 2015 COMPARISON)**
- **PROGRESS ON PREDETERMINED OBJECTIVES**
- **SOC SCORE BOARD**
- **DPE PERFORMANCE TRENDS**
- **EXPENDITURE ANALYSIS**
- **HUMAN RESOURCES ANALYSIS**
- **CONCLUSION**



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# The focus and strategic context of the presentation

## **Strategic context**

- The economy remains significantly challenged and the private sector investments are drying up
- The dependency on the State is increasing in the short term to ensure that the implementation of the NDP commence to achieve the national vision
- The SOCs have seen increased demand from the shareholder as it pursues the Developmental State agenda

## **Nine Point Plan**

- Government announced the Nine Point Plan in 2015 as part of re-igniting the South African economy
- The work on strengthening the SOCs to advance the developmental goals has been prioritised
- The Plan recognises that the current structure of the economy needs to be change to maximise the developmental outcomes

## **Purpose of the presentation**

- Provide progress on the work that has been done to reform SOCs
- Highlight the current state of the economy and its influence on policy choices around State Ownership
- State of the SOC portfolio
- Progress on key indicators driven by the SOCs
- Progress against the APP of the Department

# Implementation of the Cabinet Lekgotla Resolution has commenced and interdepartmental structures to support it established (1)

	Resolution	Lead Department	Progress
1.	Develop the overarching shareholder policy defining the criteria for state ownership	DPE	A draft shareholder policy has been developed and consultations with government coordination structures will commence in February 2016 and will be tabled at Cabinet by end of the current financial year.
2.	Determine the appropriate shareholder ownership model	DPE	The shareholder model forms an important component of the shareholder policy. 4 models have been identified and two are being intensely interrogated. A proposal on the model has been completed and awaits consultation process.
3.	Establish an Inter-Ministerial Committee comprising of DPE, NT, DOE, DOT and DTPS to promote prioritisation, alignment and coordination across focus SOCs to achieve government's objectives to be led by the Deputy President	Presidency	The IMC has been established
4.	Establish Inter-Departmental Forum to support the IMC	NT/DPE	The Inter-Departmental Forum has been established.
5.	Support the proposal to separate the function of Shareholder, Policy- maker and Regulator across SOCs where applicable	DPE	The shareholder model will determine the interface of the 3 functions performed by the state. This will also be part of the Shareholder Policy
6.	Develop and implement standardised approach to the appointment of SOC Boards	DPSA	The draft Board appointment manual has been developed and will be submitted to Cabinet by end of the current financial year.

Completed

No progress

In progress

# Implementation of the Cabinet Lekgotla Resolution has commenced and interdepartmental structures to support it established (2)

	Resolution	Lead Department	Progress
7.	Develop a robust private sector participation (PSP) framework	NT	Options for the PSP have been developed. The key principle of the PSP is that it must not result in the state losing control on strategic assets
8.	Develop the framework for the disposal of non strategic assets to fund critical SOCs with the first list submitted to the Inter-Ministerial Committee by June 2015	NT	Principles for the disposal of assets has been developed. However further engagements are required on the approach.
9.	Separation of the developmental and commercial mandates	NT	This will be incorporated into the shareholder policy.
10.	Training and skills development to be part of developmental mandates	NT	
11.	IMC to reconsider proposals to empower boards	DPSA/DPE	This will form part of the SOC Bill.
12.	Linking of remuneration to SOC performance	DPE	The Draft Remuneration Standards have been developed and tabled at Cabinet Committee. Further consultations are underway. This will be submitted to Cabinet by end of the current financial year.

Completed

No progress

In progress

# The current environment and influence policy

- The economy, in general, has been significantly challenged and this is affecting both the State Owned and Privately Owned Enterprises
- Some of the SOCs have been worst affected and others have managed to withstand the tough operational environment
- However, this challenging environment has been leveraged to suggest a different approach to State intervention in the economy which may erode its capacity to implement the current economic policy framework
- Therefore, the SOCs reform must ensure that:
  - SOCs are stabilised in the short term and introduce an optimum institutional framework
  - Enhance the SOCs' contribution to the transformation of the South African economy, and
  - Fundamentally change the perceptions of the society towards SOCs through implementation of aggressive outreach programmes

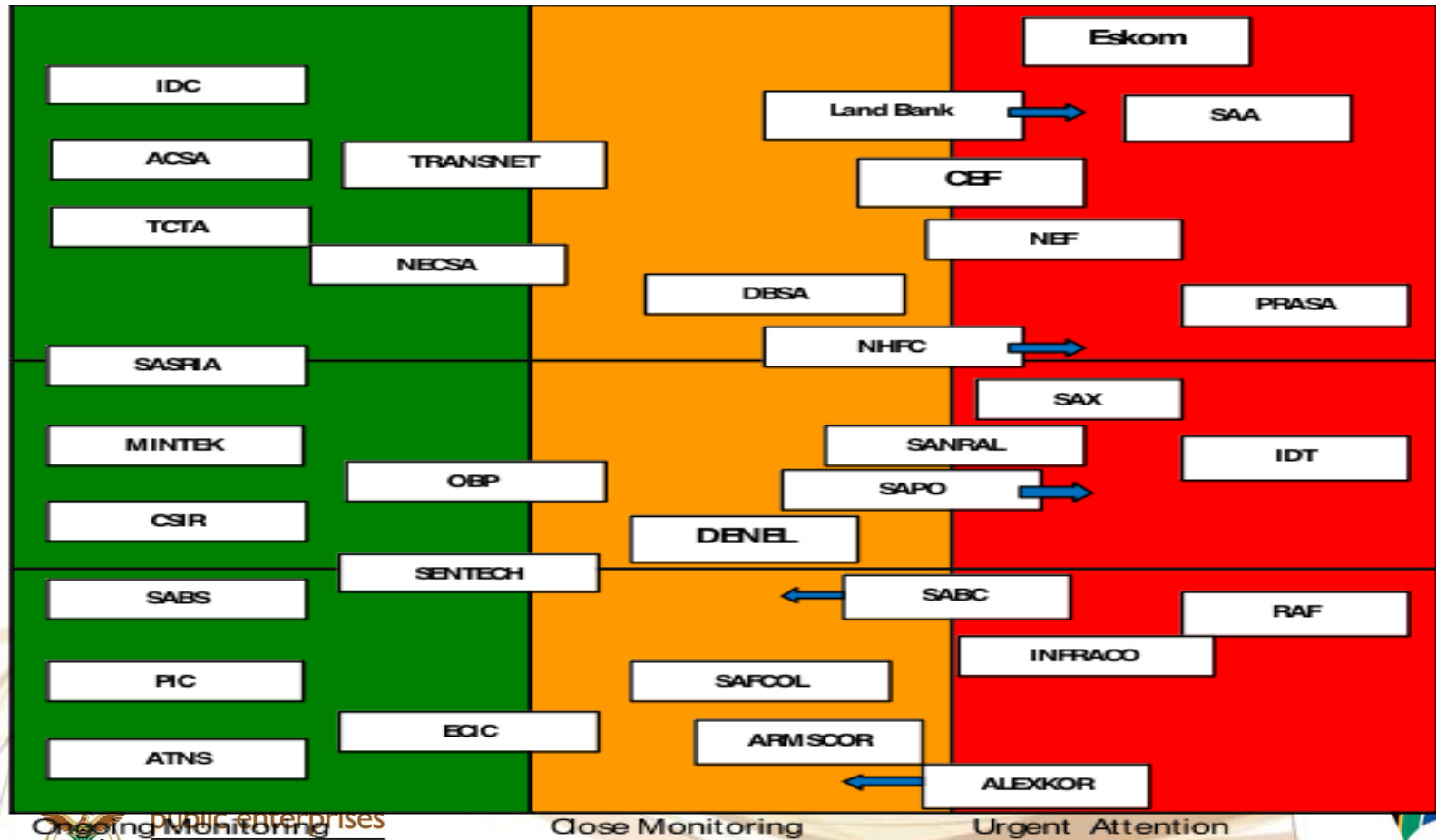


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# Performance of Government portfolio at the end of 2014 with most of the essential SOCs such as Eskom experiencing challenges



# Interventions implemented by the Minister

## Summary of Ministerial interventions to stabilise SOCs

Leadership Stability	<ul style="list-style-type: none"> <li>The review of all the Boards was completed</li> </ul>
	<ul style="list-style-type: none"> <li>The appointment of new directors to strengthen the Boards of the SOCs as part of refocusing SOCs</li> </ul>
	<ul style="list-style-type: none"> <li>Executive leadership at the SOCs has been strengthened with appointments of CEOs and/or CFOs (Eskom, Transnet, and SAX)</li> </ul>
Financial support to SOCs	<ul style="list-style-type: none"> <li>Eskom R23 billion support package and conversion of the R60 billion debt into equity</li> </ul>
	<ul style="list-style-type: none"> <li>Guarantees extended to SAX of over R1 billion to ensure that the company secures its going concern status</li> </ul>
	<ul style="list-style-type: none"> <li>Denel's R850 million bond re-issuance successfully raised and over-subscribed</li> </ul>
	<ul style="list-style-type: none"> <li>USD5 billion secured for Transnet through the China Development Bank</li> </ul>
Operational sustainability	<ul style="list-style-type: none"> <li>Maintenance programme optimised at Eskom resulting in reduced load shedding</li> </ul>
	<ul style="list-style-type: none"> <li>Build programme progressing well with the first Unit at Medupi Commissioned</li> </ul>
	<ul style="list-style-type: none"> <li>Securing agreement with the Department of Defence on the role of Denel and strengthening of the order book</li> </ul>
	<ul style="list-style-type: none"> <li>Despite challenging operational environment, Transnet has managed to increase volumes but this affect future investment commitments</li> </ul>
	<ul style="list-style-type: none"> <li>Industrial relations have been stabilised, particularly, at Eskom construction sites, SAFCOL</li> </ul>



# Interventions implemented by the Minister

## Summary of Ministerial interventions to stabilise SOCs

### Strategies of SOCs

- Exploration of new opportunities as part of diversification strategies of SOCs e.g. Alexkor, SAFCOL, and Denel
- Inter-departmental Task Team established in 2014 to facilitate the implementation of SAA/SAX turnaround strategies. Some progress has been achieved with some of the action plans - joint strategic direction required from Minister of Public Enterprises and Minister of Finance

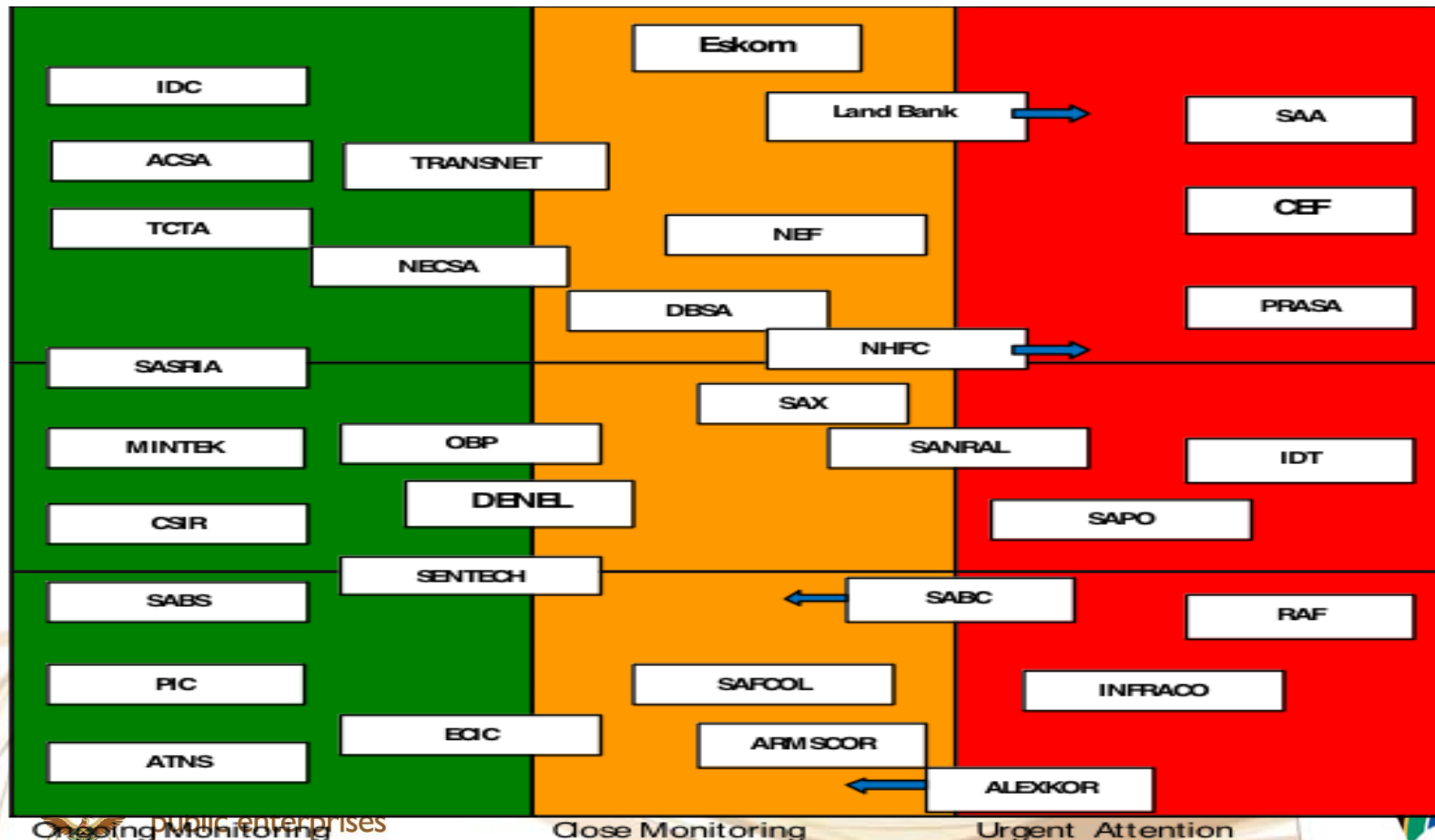


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Performance of Government portfolio at the end of Quarter 3 has been mixed with some SOCs demonstrating improved performance e.g. Eskom, and SAX)



# Predetermined objectives as defined in the MTSF



- Without the realization of Government's build programme largely carried by the SOCs, realising the developmental objectives will be challenging
- The build programme remains the backbone to ensuring stability in the security of supply in key areas as well as to reignite the economy
- Government adopted a Nine Point Plan to respond to the economic challenges which places SOCs at the centre



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# Progress on pre-determined objectives

## Investment in the economy

- Transnet spent R17.9 billion on its capital investments programme in Year To Date (YTD) Q3, 1% lower when compared to the same period a year ago.
- Eskom has invested R40 billion YTD with the two units at Ingula targeted for synchronization in the next financial year

## Reserve Margins

- Eskom purchased 6 525GWh from IPPs for the nine months to 31 December 2015 at a cost of R11 billion.
- The commissioning of Medupi Unit 6, coupled with lower than expected demand, contributed to the improved system status and reduced the risk of load shedding during the third quarter.

## Volume moved by rail

- The third quarter of 2015/16 saw the Q3 YTD target being missed by 4%.
- The tough operating conditions in mining and low commodity prices are having effect

## Port productivity

- This quarter has seen the Ship Working hours at DCT Pier 2 improve by 10.3% compared to the previous year (2014/15 average SWH: 58)
- By end of quarter 3 of the 2015/16 year, the Gross Crane Move Per Hour (GCM/H) for Pier 1 and Pier 2 Container Terminals were both 27 moves per hour, while a year ago they were 23 and 24, respectively.



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SOCs Score Board		SA EXPRESS		Eskom		Alexkor		Denel		Safcol		Transnet	
KRA	KPIs	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
Leadership	Chairperson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	CEO	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No
	CFO	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes
Operational sustainability													
	Are SOC delivering on their mandate	YES	YES	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Financial sustainability	AFS on-time submission	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Guarantee Exposure	R1.106 b	R1.106 b	R200bn	R217bn	N/A	N/A	1.85bn	1.85bn	N/A	N/A	R3.5bn	R3.5bn
	Profitability	R132m loss	R1m	R3bn	R8bn	R82mn	R36m	R270mil	R39mn	R144mn	R50mn	R5.3bn	R959mil
Legal and Governance	Shareholder Compact Signed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Corporate Plan Submitted	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Annual Report submitted on time	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes



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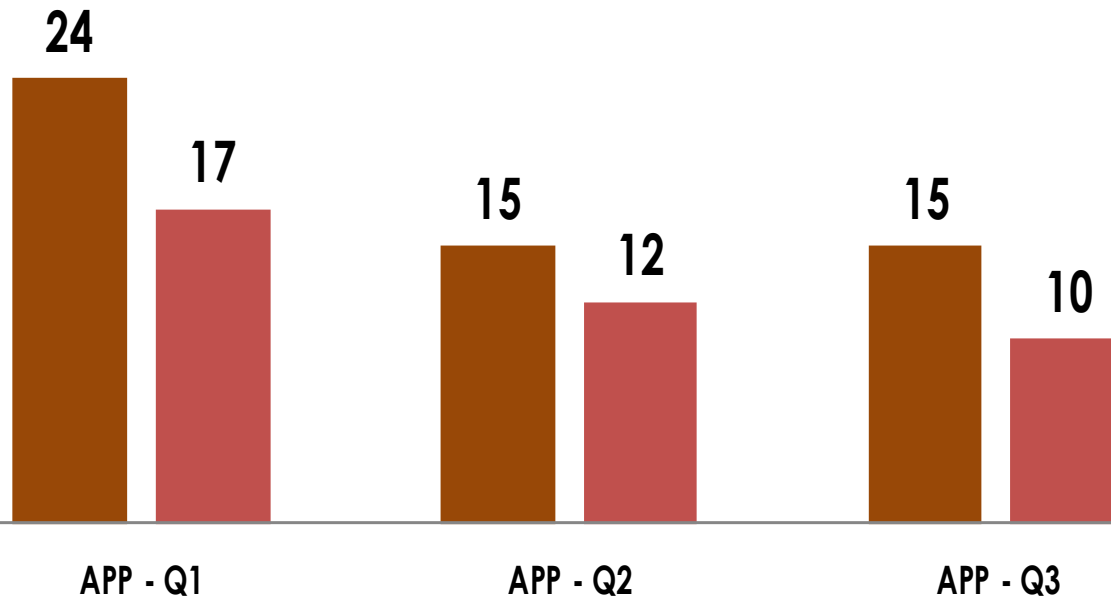
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# Department's Q1 - Q3 PERFORMANCE

## APP overall performance

■ Milestones ■ Achievement



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# Q3 Non-Achieved Targets

Performance Indicators	Target missed in quarter 3
Denel Capital Structure	SOC DPE alignment on study findings and progress report on the implementation plan
Create a path to financial sustainability for Transnet	Assess the impact and severity of the threats to financial sustainability
National Corridor Performance Management (NCPM) System	Review output of the NCPM and sign off
Private Sector Participation Framework Developed	Contracting Service Provider to review PSP policy and development of funding framework and Disposal of Non-Core and Non-Strategic Assets (Land / property listed and unlisted assets and subsidiaries)
Funding Framework	
Disposal of Non-Core and Non-Strategic Assets (Land / property listed and unlisted assets and subsidiaries)	



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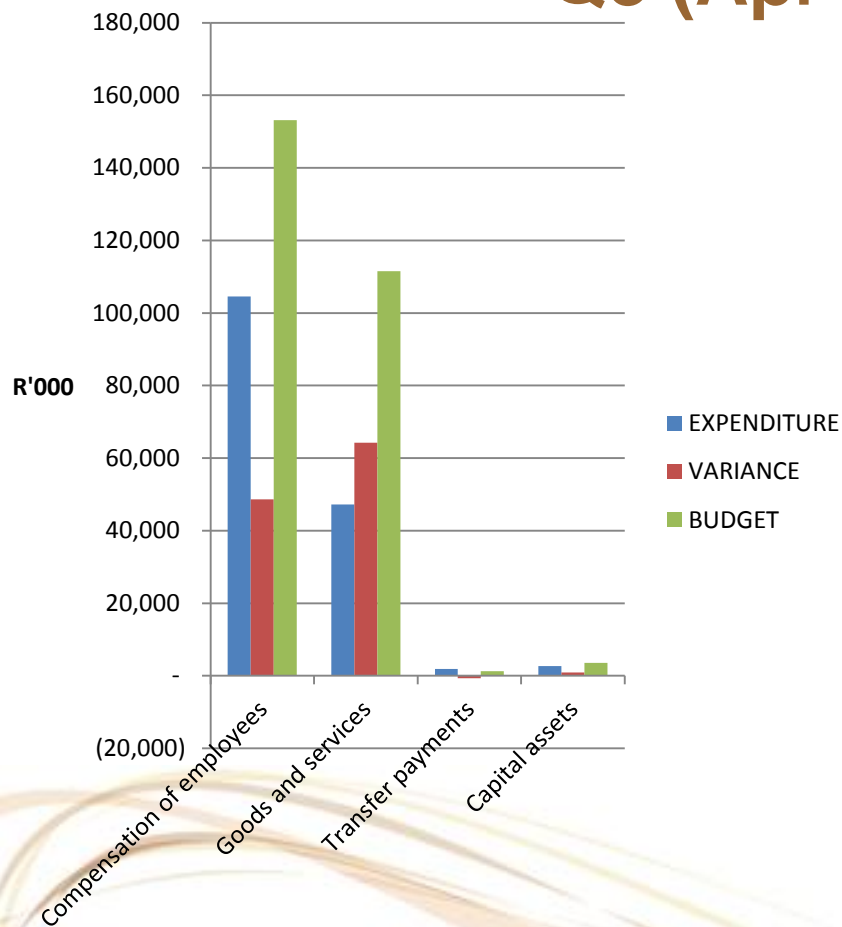
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# SPENDING ON MAJOR ITEMS

## Q3 (Apr – Dec 2015)



Item	Budget	Expenditure	Variance	Percentage Spent
Compensation of employees	153 109	104 514	48 595	68.26
Goods & Services	111 525	47 243	64 282	42.36
Transfer Payments	1 268	1 915	(647)	150.1
Capital Assets	3 586	2 682	904	74.80
Total	269 488	156 354	113 134	58.02



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# REASONS FOR VARIANCE

## On spending on major items

- The total budget of the department is R269m and R156m (58%) has been spent as at the end of Q3.
- The underspending on compensation of employees is as a result of delays in filling vacant positions, mainly due to verification process.
- The underspending on goods and services is as a result of delayed projects as indicated in the APP.
- A transfer payment to the amount of R15 billion was disbursed to Eskom during July and December 2015 respectively.
- The expenditure on capital assets is in terms of minor and major assets purchased by the Department.



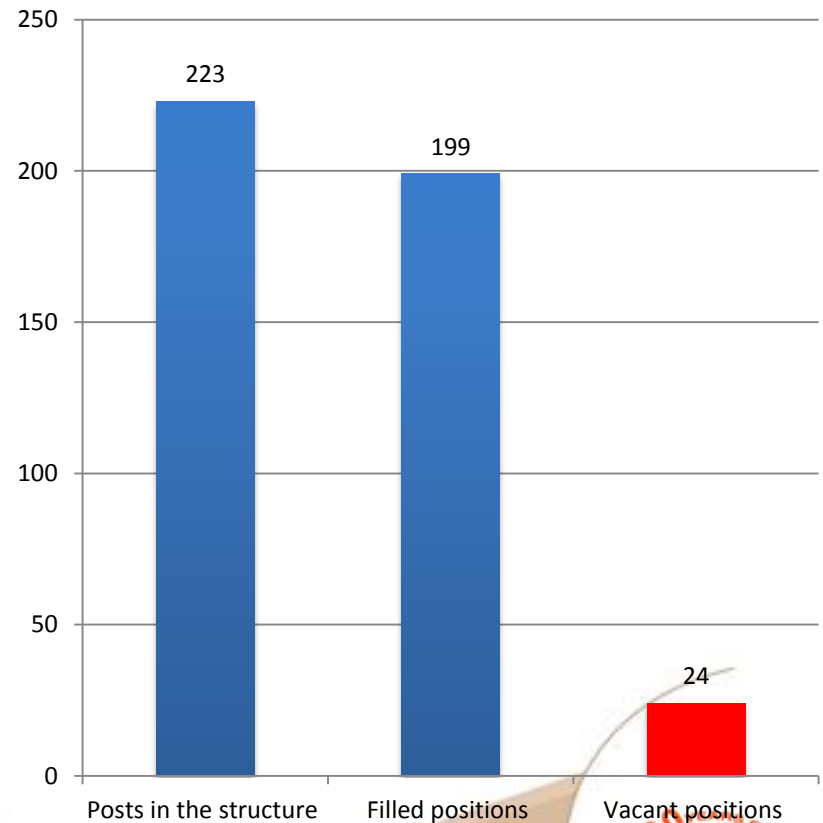
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# Human resources vacancy rate

- The current vacancy rate is 10.76%
- The Department is continuing to fill the vacant positions
- Furthermore, the Department is assessing its current structure



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# Conclusion

- Pursuing the developmental agenda is the primary focus of the Department as SOCs are an important instrument for the Developmental State
- The performance of the SOCs have been mixed, however, their commitment to advancing the priorities of the State has remained despite tough operational environment
- Most of the SOCs' operational indicators are pointing to a right direction e.g. productivity at the ports, reduction in the frequency of load shedding
- The Department achieved 10 out of 15 targets in the quarter under review



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# THANK YOU



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