

# DPE

**STRATEGIC PLAN**

**2016/2017 – 2020/2021**

**ANNUAL PERFORMANCE PLAN**

**2016/2017**



**public enterprises**

Department:  
Public Enterprises  
**REPUBLIC OF SOUTH AFRICA**

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**dpe**  
**STRATEGIC PLAN**  
**2016/2017 – 2020/2021**

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**MS LYNNE BROWN, MP**

**MINISTER'S FOREWORD**



Government has committed itself to redirect the economy and through implementation of strategic projects that will significantly change the course of the economy. It is widely accepted that the economy is significantly challenged with most productive sectors, such as mining being in distress. This requires Government to act differently and ensure that strategic programmes that can uplift the economy in the short term and set it on a path with better economic outcomes, are implemented. This requires the State to leverage all its levers (policy, regulation and shareholding) to exert greater influence on the economy.

The Department's Strategy recognises the role that the SOCs have to play to support the broader development goals as defined in the National Development Plan. The significance of this role cannot be underscored more firmly, it is the central duty the DPE has to all South Africans. The Strategy has been designed with this firmly in mind and it has been carefully structured to ensure rigorous policy alignment to our National Development Plan, New Growth Path, Industrial Policy Action Plan, and all other national planning policy documents.

The last 5 years (2009-2014) has illustrated the increasing role of SOC in the economy through the implementation of the build or capacity expansion programme. The investments by the SOCs have played a critical role to shield the economy and minimise the impact of the global economic slowdown experienced by most economies.

This Strategy will be implemented in the constrained environment where continued State Ownership in the SOCs is being questioned. The experiences of the Department have shown that with a focused Strategy, SOCs turnaround can be achieved and their contribution to the developmental goals be maximised. This further empowers Government to transform the economy and accelerate the deracialisation of the economy.

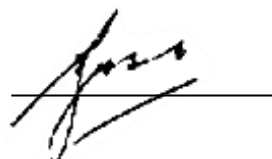
The SOCs within the Department's portfolio represents just over 70 percent of the total assets of the schedule 2 enterprises. This requires that this portfolio is carefully managed and directed to effect the transformation of the economy.

The Strategy demonstrates an explicit articulation of concrete steps required to reinvigorate SOCs. There is bold wisdom to have conceived this as a living document, fully able to metamorphosise as our society demands.

I am confident that between the Department and the ambitious nature of the Strategy there is mutual symbiosis and am of the belief that the Strategy is precisely what is suited to the abilities of the Department to execute. There are huge dependencies that will affect the delivery of the strategy, these include amongst others:

- Creation of a supportive policy framework that will allow state owned companies to execute on their mandates diligently; and
- Coherence within the government on the role of the state owned companies and the development of a new architecture of the shareholder function to support the implementation of national policies.

I will continue to offer strategic vision and ensure this Strategy becomes an integral part of our national agenda.

A handwritten signature in black ink, appearing to read 'Lynne Brown', is written over a horizontal line.

Ms Lynne Brown, MP  
Minister



## **MR MOGOKARE RICHARD SELEKE**

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### **DIRECTOR-GENERAL**



The South African economy has been on the back foot since 2008. Economic growth over the past five years (2009 – 2014) has been significantly lower when compared to the preceding five years (2004 – 2008). This has largely been as a result of the slow recovery in the global economy. While the economy experienced positive annual growth since 2009, this has been substantially lower than the targeted 5 percent.

The current economic performance indicates that the structural challenges identified in the National Development Plan such as infrastructure deficit, skills development, regulatory uncertainty are likely to remain unless extra-ordinary interventions are implemented to significantly change the current economic outlook.

The great emphasis on the delivery of the build programme is essential as well as forming strategic partnership with other spheres of Government to create new opportunities for growth and development of new industries.

The Department's Strategy recognises that the transformation of the economy must be prioritized and the SOCs have the capacity to use their investment and operational activities to drive the investment and transformation of the economy.

The Medium Term Strategic Framework (MTSF) 2014 – 2019 will be implemented in a significantly constrained economic environment. This will make the achievement of the objectives defined in the MTSF even more difficult. This will require the strengthening of the execution capacity within the Department and in government in general.

New execution arrangements are necessary as the resource constraints are likely to remain during the current MTSF period.

The Strategy of the Department is intended to ensure that the current state owned companies' performance is significantly improved to ensure that they contribute to the critical developmental outcomes.

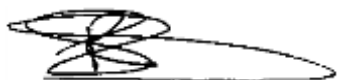
This will require the Department to implement initiatives that will ensure the financial sustainability of the SOC, eventually eliminate their huge dependency in the fiscus and support the transformation agenda of the State. The repositioning of the state owned companies and improving the current state owned companies' architecture is central to the successful execution of the Strategy. The trend shows that there are improvements in the performance of the portfolio and this must be sustained in the MTSF period. New funding arrangements that will unlock private sector investments to augment the capacity of the SOCs, without diminishing the realisation of the developmental outcomes, will be explored.

Increasing the current investment levels to 25 percent of the GDP cannot be carried by the balance sheet of the SOC or the fiscus and necessitate a partnership between the SOC and the private sector to drive the current investment programme. This is crucial to:

- Firstly, increase the capacity of the economy to grow and address the current infrastructure deficit;
- Secondly, create the demand in the short term for the supplier industries;
- Thirdly, develop new industrial capabilities that will support the competitiveness of the industrial or productive sectors linked to the delivery of infrastructure projects; and
- Fourthly, alter the spatial economy through development of new industrial zones and corridors supported by the SOC value chains.

The strategy will also require a significant re-organisation of the Department. The

re-organisation of the Department will be focused on building the delivery capacity within the current legislative framework. This will include forming strategic partnership with universities to boost the current capacity of the Department.



Mr Mogokare Richard Seleke

Director-General

# EXECUTIVE SUMMARY

The Medium Term Strategic Framework (MTSF) 2014 – 2019 outlines the priorities that government needs to pursue in the current administration period. The MTSF recognises the tight economic environment within which the first five years of implementation of the National Development Plan will occur. This has forced the government to take a leading role in driving investments in the economy whilst creating conducive environment to attract private sector investment.

Furthermore, the fiscal space that existed between 2009 and 2014 that allowed government to implement a countercyclical policy to support the economy has been diminished significantly. Most of the SOCs are also facing tough operating conditions, which limits their ability to drive the developmental agenda of the State. These conditions have required the Department to develop a strategy that is able to support the realisation of the Government's developmental goals whilst minimising risks presented by the current economic context.

The Strategy recognises that the State needs to play an increasing role to support the turnaround of the South African economy. This is in line with the Nine Point Plan approved by Cabinet Lekgotla in July 2015. This strategy presents the Department's contribution to advance the implementation of the Nine Point Plan as it seeks to re-ignite the South African economy. This Strategy builds on the S3 Strategy developed by the Department in March 2015. The assessment of the previous strategy has shown that the stabilisation interventions have improved the performance of the portfolio but there are some risks that remain that warrants the further extension of the timeframes to ensure that the improvement in the performance of the SOCs' is sustained and accelerated.

As highlighted above, the economy remains constrained and the SOCs need to support the turnaround of the economy. The DPE as the shareholder representative thus plays a vital role in the execution of the SOCs reforms including the institutional and legislative framework adjustments that will ensure that SOCs play their role in the advancement of the South African economy, in particular, the re-industrialisation of the economy.

In the current administrative period, focus is required to be placed onto the execution of the Medium-Term Strategic Framework (MTSF), a derivative of the National Development Plan (NDP).

The primary focus of the MTSF, in relation to the DPE's span of control surrounds investment into enabling infrastructure, through two organisations in particular; Eskom and Transnet. The investment programmes of the two SOCs have been identified as important drivers for the turnaround of the South African economy in both the Nine Point Plan and Industrial Policy Action Plan. The successful execution of the build programme is central to the current strategy.

Ensuring that challenges faced by SOCs as well as those persisting within the rest of the institutional model (enabling challenges), are addressed over the next five years, will be crucial to ensuring a turnaround of the economy.

The DPE response to the challenges faced within the system is the S3 Strategy. The S3 provides an overarching strategy for the DPE over the next five years, in its attempt to achieve policy targets, whilst strengthening its function as a Shareholder. The strategy can be disaggregated into three distinct phases: Stabilise, Strengthen, and Solidify – each speaking to the DPE's performance within the economy, and the impact on the economy itself.

Strategic outcomes of the strategy include the following:

- Ensuring financial stability of SOCs.
- Improving commercial viability of operations.
- Delivery of capital projects.
- Supporting the acceleration of the transformation of the South African economy.
- Advancing re-industrialisation of the South African economy.
- Strengthening the role of the Shareholder.
- Improving alignment and efficiency across the institutional model.

A series of projects aimed at achieving the above outcomes over the next five years is to be developed and implemented.

## Glossary

Below is a glossary of acronyms used in the Department of Public Enterprises

ACSA	Airports Company of South Africa
AFDB	African Development Bank
AGM	Annual General Meeting
APP	Annual Performance Plan
BB-BEE	Broad Based Black Economic Empowerment
CAPEX	Capital Expenditure
CFO	Chief Financial Officer
CS	Corporate Services
CSDP	Competitive Supplier Development Programme
DAFF	Department of Agriculture, Forestry and Fisheries
DCT	Durban Container Terminal
DEA	Department of Environmental Affairs
DG	Director-General
DDG	Deputy Director-General
DHET	Department of Higher Education and Training
DM	Deputy Minister
DMR	Department of Mineral Resources
DOC	Department of Communications
DOD	Department of Defence
DOE	Department of Energy
DOT	Department of Transport
DPE	Department of Public Enterprises

DRDLR	Department of Rural Development & Land Reform
DTI	Department of Trade and Industry
DTPS	Department of Telecommunications and Postal Services
EDI	Electricity Distribution Industry
EE	Economic Equity
EIA	Environmental Impact Assessments
EMP	Environmental Management Plan
ExCo	Executive Committee
FET	Further Education and Training
FMCG	Fast Moving Consumer Goods
FOSAD	Foundations of Security Analysis and Design
FSN	Full Services Network
GCH	Gross Crane Move per hour
GFB	General Freight Business
HR	Human Resources
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
IGR	Inter-Governmental Relations
IP	Intellectual Property
IPO	Initial Public Offering
IPP	Independent Power Producers
IRP	Integrated Resource Plan
ISMO	Independent System and Market Operator
EIPA	Economic Impact Policy Alignment

JV	Joint Venture
KLF	Komatiland Forests
KPI	Key Performance Indicator
LTTS	Long Term Turnaround Strategy
MDS	Market Demand Strategy
MISS	Minimum Information Security Standards
MOU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
MTSF	Medium Term Strategic Framework
MYPD	Multi- Year Price Determination
NCPM	National Corridor Performance Measurement
NDP	National Development Plan
NEDLAC	National Economic Development and Labour Council
NERSA	National Energy Regulator
NGP	National Growth Path
NT	National Treasury
PAIA	Promotion of Access to Information Act
PBMR	Pebble Bed Modula Reactor
PICC	Presidential Infrastructure Coordination Commission
PFMA	Public Finance Management Act
PPP	Public-Private Partnerships
PRC	Presidential Review Committee
PSJV	Pooling and Sharing Joint Venture

PSP	Private Sector Participation
R&D	Research and development
RBCT	Richard Bay Container Terminal
RMC	Richtersveld Mining Company
SAAT	South African Airways Technical
SAFCOL	South African Forestry Company Ltd
SAQA	South African Qualification Authority
SAX	South African Express Airways
SCM	Supply Chain Management
SIP	Strategic Integrated Projects
SLA	Service Level Agreement
SOCs	State Owned Companies
SSA	State Security Agency
TEU	Twenty-foot Equivalent Unit
TNPA	Transnet National Ports Authority
TOR	Terms of Reference
TFR	Transnet Freight Rail



# PART A: STRATEGIC OVERVIEW

## INTRODUCTION AND BACKGROUND – THE DEPARTMENT OF PUBLIC ENTERPRISES

### 1. **Aim**

The aim of the Department is 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.

### 2. **Mission**

To provide decisive strategic direction to the SOC, so that their businesses are aligned with the national growth strategies arising out of the NDP.

### 3. **Values**

- **Bold** – we must dare to be brave.
- **Professional** – we must deliver work that reflects a professional level of care and skill.
- **Caring** – this must be expressed in how we watch over and support the Department's people. Integrity – we must do the right thing irrespective of implications.
- **Fun** – create an environment where people look forward to coming to work.
- **Passion** – we are out to make the South African economy competitive – this requires high passion. Batho
- **Pele principles** – guide our engagements with our clients and other stakeholders.

### 4. **Mandate**

The Department's function has evolved since its inception as the Office of Privatisation and Deregulation. Notwithstanding that, there is still no founding legislation for the Department. In the current economic context, the SOCs have emerged as key instruments for the State to drive its developmental objectives of creating jobs, enhancing equity and transformation. This evolution underpins the overarching shareholder management process aimed at providing strategic rationale for government's continued ownership in the SOC.

In the current context, the mandate of the Department is to ensure that the SOC within its portfolio are directed to serve Government's strategic objectives as outlined in the

National Development Plan 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 support the delivery of key outcomes outlined in the National Development Plan and the MTSF.

The SOC under the Department's portfolio form the cornerstone of the economy and their capacity must be strategically utilised to support the delivery of the outcomes of the NDP.

Strengthening of oversight tools is therefore crucial to ensure that the companies supports the radical socio-economic transformation agenda as articulated in the NDP and MTSF.

## 5. Strategic Objectives

Over the Medium Term Strategic Framework (MTSF) period, the Department will seek to achieve the following strategic objectives and this will inform the programmes and allocation of resources going forward.

*Table 4: The DPE strategic objectives*

Strategic Objectives	Outputs	Impact
Ensure financial sustainability	SOC balance sheets Improved SOC balance sheets Funding options identified and implemented	SOCs are enabled to fund build programmes and general business operations

Strategic Objectives	Outputs	Impact
<p>Ensure SOCs maintain commercially viable operations</p>	<p>Increased electricity reserve margin</p> <p>Improve productivity at the ports</p> <p>The shift from road to rail for the transportation of road friendly freight</p> <p>Improvement in the performance of strategic corridors</p>	<p>Increased productivity of SOCs</p> <p>Increased shareholder value</p>
<p>Accelerate capital project delivery</p>	<p>Increased infrastructure investments as a percentage of GDP</p> <p>Monitoring of the current build programme to ensure delivery within provided timeframes</p> <p>Assessment of the SOCs investment plans to ensure alignment with the NDP</p>	<p>Enhanced infrastructure, thus greater economic capacity</p>
<p>Accelerate the transformation of the South African economy</p>	<p>Development and implementation of transformation programme in line with the current BBBEE Codes</p> <p>SOCs Skills Development Programmes</p>	<p>Accelerated deracialisation of the economy</p> <p>Increased number of learners trained in critical and scarce skills</p>

Strategic Objectives	Outputs	Impact
<p>Explore initiatives to support development of SMMEs, cooperates as well as rural and township enterprises including businesses owned by targeted groups<sup>1</sup></p>	<p>Development of support packages for the targeted enterprises within the value chain in which the SOCs participate</p> <p>MOU with Small Business Development Department concluded</p>	<p>Increased participation of targeted enterprises in the SOCs value chain</p>

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<sup>1</sup> Targeted groups refers to women, youth, black and people with disabilities

Strategic Objectives	Outputs	Impact
<p>Advancing the re-industrialisation of the South African economy</p>	<p>Review of the competitive supplier development programme (CSDP)</p> <p>Assessment of the current procurement legislation framework and their impact on localisation</p> <p>Increase the local content on the build programme in line with the Industrial Policy Action Plan (IPAP)</p> <p>Identify industrialisation opportunities in the aerospace and other industrial sectors in which SOCs operate</p> <p>Build a business case for the access of industrial incentives for SOCs involved in manufacturing</p>	<p>Reduction in import leakages</p> <p>Development of new industrial capabilities</p> <p>Improvement in the performance of productive sectors of the economy</p>
<p>Accelerate development of skills to support the needs of the economy</p>	<p>Accelerate the current skills development programmes</p> <p>Develop financing options to support the scaling up of the skills development initiatives</p>	<p>Increased number of skilled people to support the broader development of the economy</p>

Strategic Objectives	Outputs	Impact
Strong shareholder	<p>Reorganised shareholder model</p> <p>Repositioning of the DPE through improved internal processes</p> <p>Competent and capable board appointed</p> <p>Knowledge sharing platforms created</p> <p>Performance management system implemented</p>	<p>Improved SOC management</p> <p>Improved performance and consequence management</p>
Alignment and efficiency across institutional model	<p>Shareholder policy</p> <p>Revised shareholder model and role</p>	<p>Increased ability to manage SOCs</p> <p>Clearly defined roles and responsibilities</p> <p>Improved decision-making</p>

## PART B: Programmes

The Department comprises three programmes, namely:

### 5.1 **Programme 1: Administration**

Provide strategic management, direction and administrative support to the department, which enables the Department to meet its strategic objectives.

### 5.2 **Programme 2: Legal and Governance**

Provide legal services and corporate governance systems, and facilitate the implementation of all legal aspects of transactions that are strategically important to the Department and the SOC and ensure alignment with Government's strategic intent.

### 5.3 **Programme 3: Portfolio Management and Strategic Partnerships**

Align the corporate strategies of the SOC with government's strategic intent, and monitor and benchmark their financial and operational performance and capital investment plans.

## SOCs

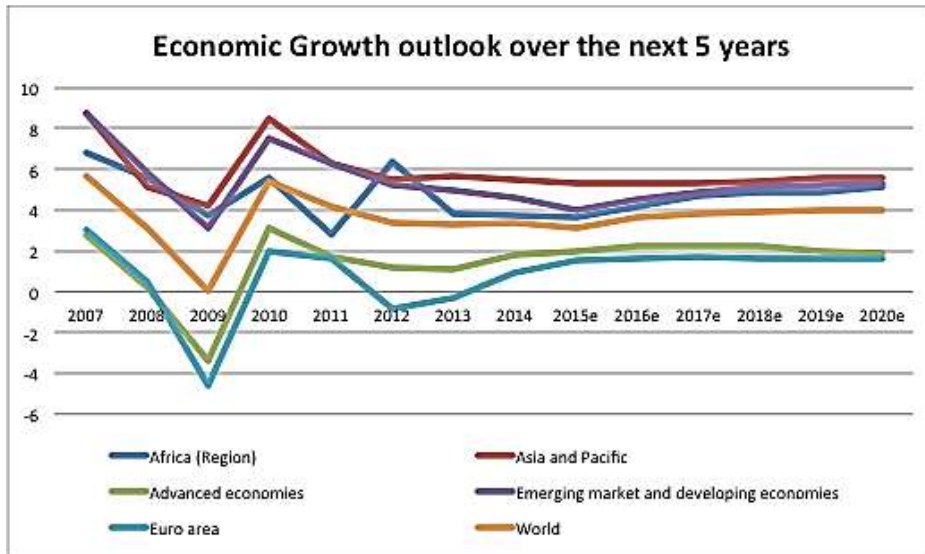
The DPE manages a portfolio of state owned companies. These are:

- **Alexkor:** A diamond mining company primarily operating in Alexander Bay and the greater Namaqualand.
- **Denel:** A defence company and although it is established as a private company in terms of the Companies Act of 2008, Government exercises full control over the Company.
- **Eskom:** Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agriculture and residential customers and redistributors.
- **SAFCOL:** South African Forestry Company Limited is the Government's forestry company, conducting timber harvesting, timber processing and related activities both domestically and regionally.
- **SAX:** South African Express is a domestic and regional air carrier with a mandate to be an African airline.
- **Transnet:** Transnet is a freight and logistics company responsible for pipelines, ports and rail transport infrastructure operations in South Africa.

## 6. THE CONTEXT FOR THE STRATEGY

### Understanding the Environment

The world economic outlook released by the International Monetary Fund (IMF) shows that the global economy is not in the good state, in particular, the emerging market economies such as China, South Africa and Russia. The poor performance of the global economy reflects the state of the developed countries such as the European Union where output has slowly recovered as well as the declining commodity prices that has resulted in turmoil in extractive economies or commodity dependent countries. The weak commodity prices reflect the restructuring of the Chinese economy which is shifting from export oriented to consumption driven economy with less dependency on the commodities.



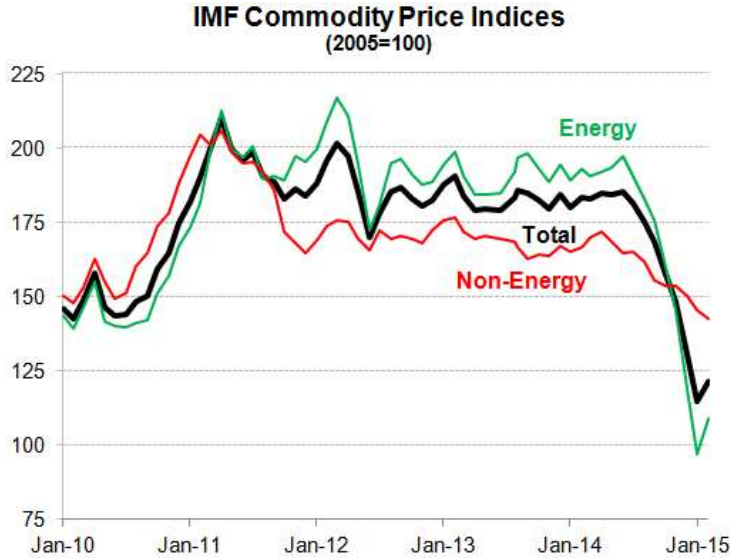
Source: IMF World Economic Outlook, October 2015

The depressed commodity prices represent a major structural shift in the global economy and most specific the role of China. The decline in the commodity prices has shown that the model pursued by most commodity dependent country such as South Africa is not sustainable and required major adjustment.

The economic outlook shows that the recovery of advanced economies will stabilise at around 2 percent over the next five years driven by the recovery in the United State of America.



Furthermore, the growth in the Euro Area showed positive signs. The recovery in global economic growth shows significant improvement but this is still far below the pre-crisis levels.

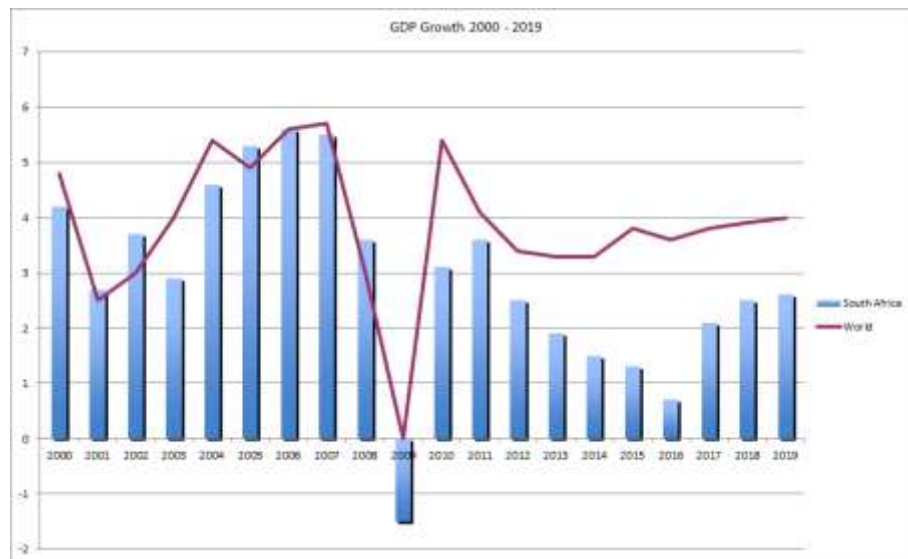


Source: IMF, 2015

The state of the global economy has had a profound impact on the South African economy. This is reflected by the decline in the performance of the productive sectors of the economy.

As a result, the South African economy has struggled to recover to the growth levels prior the economic crisis and has not been able to sufficiently create the opportunities for more labour absorption.

Between 2002 and 2007, the South African economic growth accelerated but was adversely affected by the global financial crisis. As seen in figure 1 below, the country has experienced weak economic growth since the 2008 global recession. The growth rate has failed to meet target levels of between 3% - 5%.



Source: IMF & BUDGET REVIEW, 2016

Capital formation has itself experienced some challenges. Gross Fixed Capital Formation (GFCF) has not been a priority leading up to 2005<sup>2</sup>; this has resulted in slow growth and had a negative impact on local industry and human capital. In addition, this poor investment performance has stifled the country's manufacturing capabilities<sup>3</sup>.

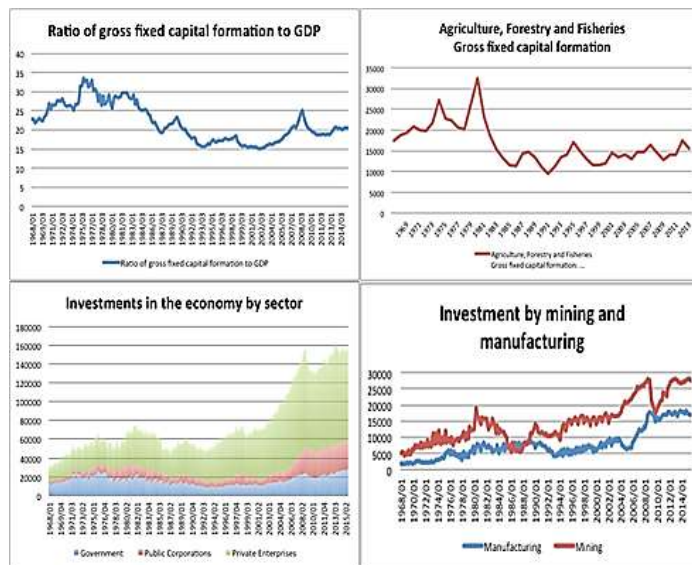
In the period between 2009 and 2014 the government began to lay a foundation for accelerated investment in the economy with the creation of the Presidential Infrastructure Coordination Commission, the 20 Year Infrastructure Plan<sup>4</sup> and the Infrastructure Development act, however, this has not been enough to create an infrastructure network capacity to support the productive sectors of the economy.

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<sup>2</sup> Standard and Poor's (2014)

<sup>3</sup> Global Credit Portal (2014)

<sup>4</sup> The 20 Year Infrastructure Plan outlines the Strategic Infrastructure Projects (SIPs)



Finally, the investments by the productive sectors such as mining and manufacturing are leveling off, which will make the realisation of the 30 percent of the GDP investment target even more difficult to realise.

Amidst all of this, the importance of the role of the State has been reinforced. State intervention within the context of a developmental state is crucial to economic development, particularly in light of the large scale of investment required and the associated risk.

Investments by the SOCs have played an essential role to support demand in the economy and begin to build capacity required for growing the economy. The Nine Point Plan sets out big-push interventions that are essential to turnaround the South Africa's growth story.

However, key levers have to be pulled by the State in order to place the country on the growth trajectory that will enable the developmental state to realise outcomes defined in the National Development Plan. The National Development Plan defined the structural challenges that the South African economy currently face. To respond to these structural challenges, a series of actions have been proposed that need to be implemented within a specified timeframe. These actions will require significant improvement in the capacity of the state. This also includes the further repositioning of the State Owned Companies (SOCs). The NDP indicates that for the triple challenges of unemployment, poverty and inequality, the state needs to play transformative and developmental role. This requires a well and effectively coordinated institutions.

In the 2009 – 2014 Medium-Term Strategic Framework, the Government adopted a 'developmental state' approach in driving the change in the economy. Developmental states are typically characterised by significant government intervention within the economy. In this system, the government directs the course of development by identifying sectors or businesses (in the South Korean case), which it will promote to lay the foundation for further development<sup>5</sup>. There are a number of conceptual tools, which the government uses to direct economic processes. These include, but are not limited to, creating synergies between factors like human capital, innovation and making complementary investments in physical and social capital. In terms of policy, the state works with non-state actors and markets to address coordination, governance, innovation and growth related challenges.

Industrialisation and economic nationalisation<sup>6</sup> are key drivers of the developmental state. A crucial aspect of the industrialisation project is to grow the manufacturing sector<sup>7</sup> and promote foreign direct investments. Economic nationalism is about stimulating export led growth and increasing beneficiation.

In the South African context, these two elements appear starkly in the focus that the government has now placed on economic development and how it enables this development through its various policy measures (e.g. the National Development Plan, New Growth Path and the National Industrial Policy Framework) which accomplish high levels of national objectives (e.g. Industrialisation)<sup>8</sup>.

Being a developmental state and driving industrialisation as well as economic nationalism imposes a number of responsibilities on the South African government. Firstly, for South Africa to grow, its focus must be placed on the following key drivers of growth, namely: investment in the economy, creating an enabling policy framework that will support the growth of the productive sectors, facilitating private sector investments and raising exports. These have been outlined in

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<sup>5</sup> Lim, W. (2014) "Chaebol and Industrial Policy in South Korea" *Korea's Leading Think Tank*

<sup>6</sup> Identification of priority sectors that can drive export growth.

<sup>7</sup> Cramer, C. (1999) "Can Africa Industrialize by processing primary commodities?" The Case of Mozambican Cashew Nuts" *World Development*, 27(7)

<sup>8</sup> Woo-Cummings, M. (1999) *The Developmental State*

Chapter 4 of the NDP. The State has the levers that it can leverage to change the current growth and development trajectory.

These levers are<sup>9</sup>:

### **Strategy**

- Develop national policy to steer and direct South Africa on a sustainable growth path;
- Consideration for a different stakeholder compact to unite the public sector, business, labour and civil society in a partnership geared to implement this shared programme;
- Establish clear, measurable and time bound targets for common programmes, and for monitoring their implementation; and
- Reinforce inter-governmental and integrated planning across spheres of government and between different governmental departments.

### **Financing**

- Ensuring prudent macroeconomic policy and counter cyclical fiscal management measures  
Provision of guarantees to facilitate required investments.

### **Technology**

- Strengthen the research and development institutions to systematically enhance South Africa's existing technological capacity;
- Proactively respond rapidly to global technology developments and to partner with the private sector to access new technologies; and
- Take larger risks on the first-of-a-kind projects that will identify Translate broad objectives into programmes and projects and to ensure implementation.

In summary, these three levers are required to be executed upon by the State, given the scale, complexity and associated risks of the requirement to develop the economy. Furthermore, institutional innovations across all levels of Government will be required to facilitate this growth.

The NDP and other policy framework such as the New Growth Path and the Industrial Policy Framework provide the overarching framework required to change the structure of the economy.

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<sup>9</sup> DPE Study (2007)

The current MTSF recognises that the private sector demand will remain subdued and that the State need to pull levers necessary to kick start the economy. The SOC have been identified as the critical tool that can be leveraged to support growth in the short to medium term.

Leveraging its SOCs to facilitate the redirecting of the economy in line with the South African Government's developmental state agenda is essential. SOCs are the State's primary tool in delivery of its developmental role. These entities act as the implementing agents across the country for national level policy imperatives. The Government invests in SOCs to provide them with the capacity required for them to provide essential services critical for the restructuring of the economy. Within this notion, the delivery of national infrastructure to enable investment in critical areas of the economy is key.

As the Government uses its SOCs to drive its objectives, the SOCs implicitly have a critical function, which they need to deliver on. SOCs enable economic growth through crucial activities. Firstly, they implement national policy by driving infrastructure expansion to meet and push economic demand.

Secondly, SOCs raise the technology base of the economic industrial sectors, driving the competitiveness of the country on a local and global scale. Therefore, through its SOCs, South Africa can achieve a high level of investment and export competitiveness to ensure and enable sustainable levels of economic growth that will drive development. SOCs are also required to be good employers as well as exhibit exemplary social responsibility. The State should prioritise ensuring that SOCs are enabled to perform as required so that systemic impact can be achieved.

A period of major under-investment in South African infrastructure has however, left SOCs in a compromised situation. Figure below shows how, historically, investment in infrastructure in South Africa has been relatively low. In recent years, this trend took a drastic and abrupt turn with SOCs investing heavily in infrastructure. Given the sudden nature of these large investments, and the little time for cost recovery in terms of returns on investment, SOCs now find themselves in precarious financial position.

With key infrastructure projects, yet to be completed before capital costs can be recovered, South African SOCs are dealing with a major funding gap whose effect spills over to their operational in/efficiencies. In order to secure future revenue, the funding gap within the SOC environment will need to be addressed through innovative solutions that will attract private investment and protect the assets of the State.

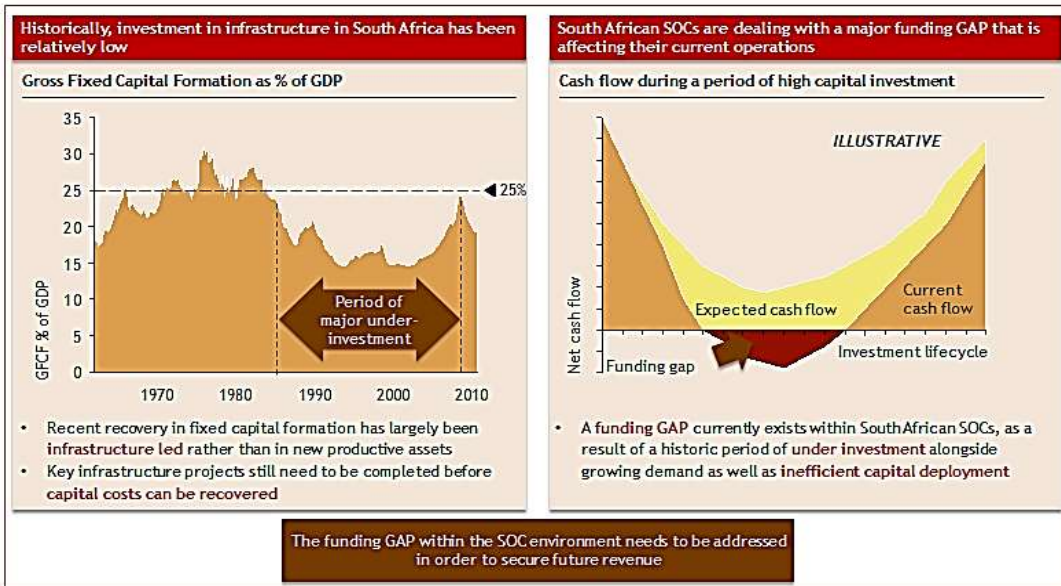


Figure 1: Major Under-investment in South African Infrastructure

## Understanding the players and their role

### The institutional model

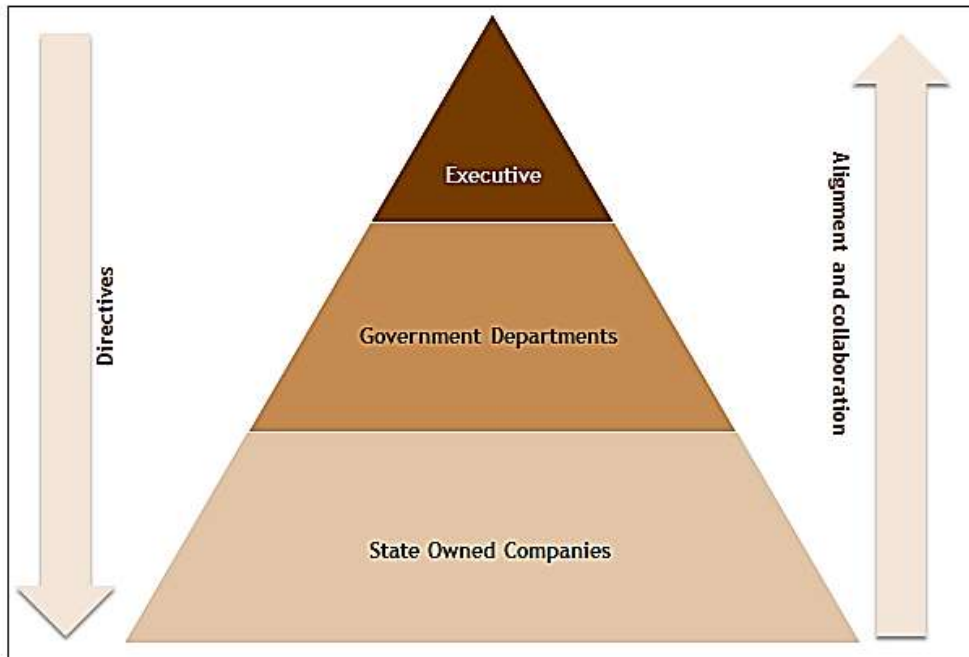


Figure 3: State Institutional model in context

In trying to change the poor narrative of South African SOCs and enable the government to fulfill its developmental state agenda through these companies, it is important to understand the players, which influence this narrative and their roles.

The three tiers of government (national, provincial and local) together with the three arms of government (Cabinet, Legislative and Judiciary) form part of an institutional model in which each plays a distinct purpose within the State. Direction and support is provided by the Executive (Cabinet) and filtered down to the SOCs. National strategic planning occurs at the executive level of this institutional model, and government departments distil this within their various capacities as either a funder (National Treasury), policy maker, shareholder or regulator. The SOCs are then expected to execute on national objectives while maintaining financial sustainability. In accordance with the developmental state paradigm, alignment, collaboration and coordination need to occur throughout this institutional model.

The Legislative arm (Parliament), consists of elected representatives whose key mandate is to undertake oversight over department, including SOCs in this case as well as make laws for the country. Finally, the judiciary system is the court system.

Government departments scrutinize, translate and oversee execution of the State plan. Within the context of this strategy, the following key activities at this level are worth mentioning; setting and implementing functional policies, regulating the market environment, provision of oversight to SOCs and their strategy, and monitoring the financial and operational performance of SOCs.

SOCs are created by Government and are companies in which the state may be a major or majority shareholder. They operate the State's commercial affairs, often with public policy objectives, and at their core, are required to deliver on the objectives of the State.

The interaction between these layers and players which make up this institutional model need to be in sync so as to enable the growth and economic development required by a developmental state. The right direction and support, which needs to be filtered down from the Executive to the SOCs, whilst a conducive and supportive structure guides and enables the process.

### **The Shareholder in context**

The government as Shareholder and "owner" of the SOCs should be the essential link between stakeholders at various levels of this institutional model. The shareholder's interaction within this systemic model can be understood in terms of its unique position, which enables it to interact with the Executive and various spheres of government as well as the SOCs. Specifically, the Shareholder



has access to the Executive Government where it can ensure alignment and collaboration with national policy setting, based on SOC capability and capacity. Within this sphere of interaction, the shareholder can also intercede and manage Executive expectations in respect of SOCs.

At the Government Department level, the shareholder has even easier access and ought to leverage synergies and collaborate with its peer Governmental Departments. Here too it can intercede and mediate on behalf of SOCs to the policy makers and regulators.

Furthermore, there is the role that the shareholder plays in relation to the SOCS, which it governs. Here the purpose of the shareholder is broadly defined as one of management, monitoring the performance of SOCs and ensuring that national policy is executed at SOC level. This specific SOC function is executed through an iterative process of to-and-fro, to ensure alignment and oversight is perfectly balanced.

The primary tasks of the Shareholder consist of the following three functions, each of which is applicable at a certain level within the institutional model.

### **Alignment**

Ensure alignment with national policy based on SOC capability and capacity Intercede and manage Executive expectations in respect of SOCs.

### **Collaboration**

Leverage synergies and collaborate with peer Government Departments and interact with organisations outside of South Africa where applicable Intercede and mediate on behalf of SOCs in respect of policy makers and regulator. Facilitate collaboration among the SOC to promote efficiencies and eliminate duplication.

### **Oversight**

Manage and monitor performance of SOCs, Translation of national policy objectives at SOC level.

### **Intervention**

Strategically intervene to ensure that SOCs remain sustainable and discharges its mandate diligently. Protect the assets of the State and take action if this is threatened. Should the Shareholder successfully performs these functions, it will be in a better position to translate national objectives to SOCs and oversee effective execution.

## The DPE in context

The DPE is the State's strategic shareholder and plays a critical role in driving national policy. The importance of the Department cannot be understood outside of the national economic policy framework (NDP, NGP, IPAP and MTSF), which it is responsible for executing upon through its SOCs. It is an ideal positioning within the State institutional model, as well as the strategic importance of the SOCs within its ambit, primes the DPE as a crucial organisation in the context of the developmental state. The figure below highlights a conceptual process of how national policy is required to be translated by the DPE, prior to being executed upon by its SOCs.

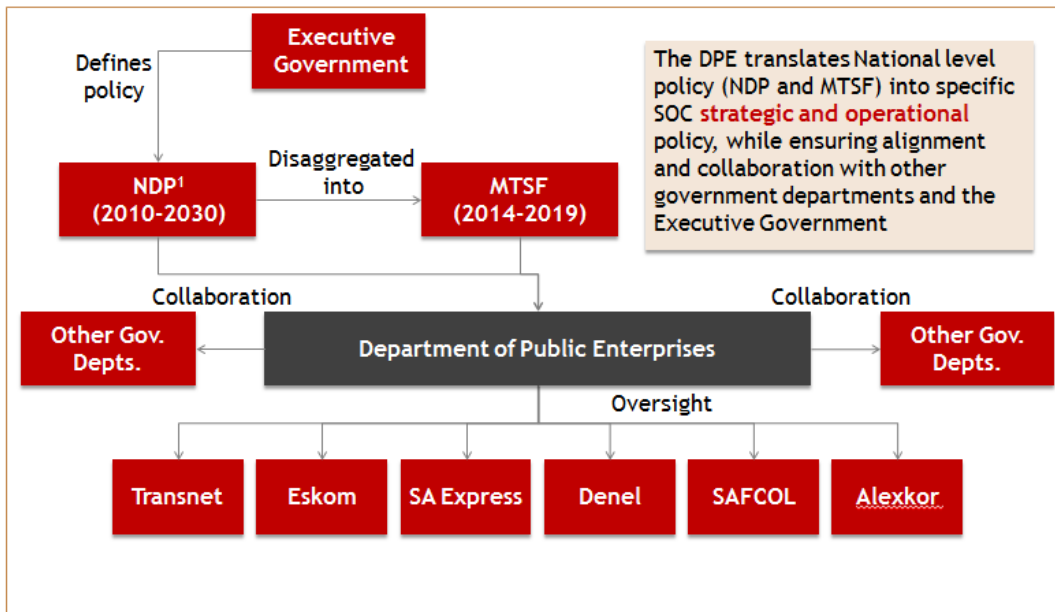


Figure 4: Conceptual model, demonstrating the translation of the NDP

## National Policy guides the DPE's outlook for the next five years

### The National Development Plan

The National Development Plan (NDP) is an economic policy framework for the whole country and offers long-term strategic direction. It defines a desired destination and identifies the role of different sectors of society in reaching that goal. Budget allocation will be shaped by the NDP for the next 15 years.

The NDP aims to eliminate poverty and reduce inequality by 2030 and highlights the fact that improving the quality of public services is critical to achieving transformation. According to the plan, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

The NDP will be implemented in three five-year phases. Each of these phases will have targets and will be monitored by the Medium-Term Strategic Framework (MTSF)<sup>10</sup>. The section below highlight the NDP goals that would need to be supported by the DPE through alignment of SOC mandates:

- Increase employment from 13 million in 2010 to 24 million in 2030;
- Ensure that skilled, technical, professional and managerial posts better reflect the country's racial, gender and disability makeup;
- Broaden ownership of assets to historically disadvantaged groups;
- Produce sufficient energy to support industry at competitive prices, ensuring access for poor households, while reducing carbon emissions per unit of power by about one-third;
- Make high-speed broadband internet universally available at competitive prices;
- Realise a developmental, capable and ethical state that treats citizens with dignity; and
- Play a leading role in continental development, economic integration and human rights.

## **Medium-Term Strategic Framework**

The MTSF for the 2014/15 – 2018/19 administration periods builds on the progress made from the previous administration period. It applies to a number of Government departments and SOCs and functions as a guideline for planning. The 2014 – 2019 MTSF focuses on four key areas within the infrastructure development arena to enable downstream economic growth.

As outlined in Figure 5 below the MTSF (in relation to the DPE's span of control) highlights four key objectives:

- Increasing the electricity generation reserve margin from 1% to 19% in 2019
- Increasing tonnage moved on rail from 207 to 330 Mt in 2019
- Improving operational performance of sea ports and inland terminals from 28 to 35 average GCM/H by 2019
- Increasing the investment rate to 25% of GDP

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<sup>10</sup> National Development Plan 2030

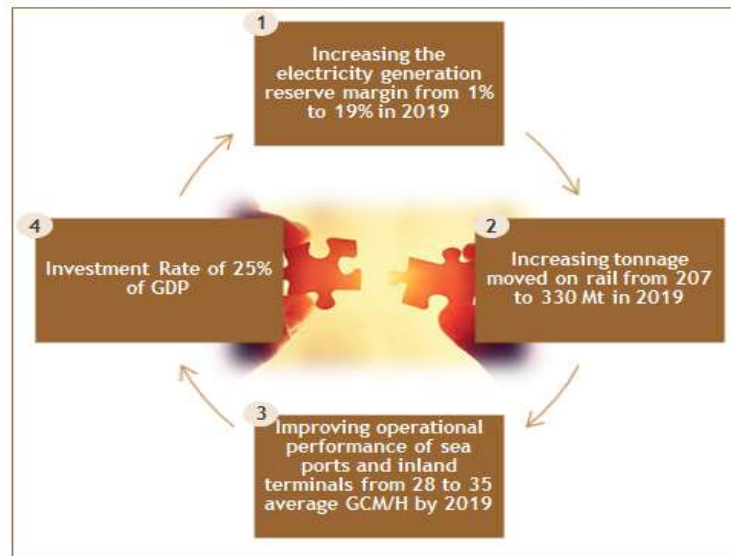


Figure 5: MTSF targets for 2019

This infrastructure expansion relies heavily on two SOCs in particular; Transnet and Eskom. In order for this infrastructure programme to be successful, all stakeholders are required to perform their role in enabling SOC service delivery<sup>11</sup>.

Transnet and Eskom, both of which fall under the ambit of the DPE as the shareholder, and therefore play a vital role in the success of the MTSF, particularly in terms of infrastructure projects. The DPE is the sole shareholder of some of the largest SOCs in the country, including Eskom and Transnet. The collective Asset Value for the DPE's SOCs is over R900bn, with Eskom and Transnet accounting for R891bn, ~98% of this value. The DPE thus plays a critical role in shaping the outcomes of the MTSF and ultimately the NDP As shown in the Figure below. The DPE portfolio represent over 80% of the value of assets of the schedule 2 entities.

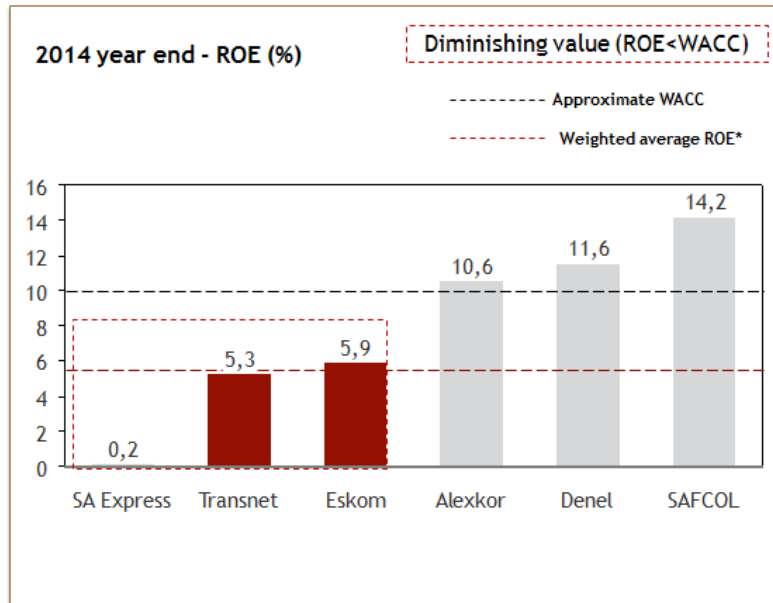
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<sup>11</sup> Medium-Term Strategic Framework (2014 – 2019)

Table: Value of the portfolio R'm			
	Total Assets	Liabilities	Net Assets
Eskom	R562 884	R440 637	R122 247
Transnet	R328 439	R186 111	R142 328
Denel	R9 687	R7 760	R1 927
Alexkor	R240	R181	R59
SAFCOL	R5 099	R1 359	R3 740
SAX	R1 696	R1 641	R55
Portfolio	R908 045	R637 689	R270 356

Figure 6: The importance of Transnet and Eskom

These organisations are, however, not providing sufficient returns on investments made. As seen in figure below, the return on equity for the DPE's SOCs versus their estimated weighted average cost of capital is low.



*Figure: Average ROE relative to WACC across DPE's SOCs*

These two major SOCs have been tasked to drive the investments in the economy to ensure that the economy has capacity to grow in the medium to long term and use their investment to protect the economy in the short term. Both Eskom and Transnet are in better position to support the government objectives.

## **NINE POINT PLAN**

The 2015 SONA entailed the 9 action plans that were going to be implemented by government to ignite the economy. This recognises that the economy has not grown fast enough and long enough. The 9 action plans support the implementation of the MTSF and does not represent a new plan rather than outline apex priorities. Addressing the electricity challenge and support the reforms in the SOC will form part of the action plans that will be directly be implemented and supported by the Department.

## **CHALLENGES**

The challenges, which the country faces in achieving the objectives of the NDP and the MTSF, particularly in relation to SOCs, can be categorised in two themes. The first is what Strategy refers to as the core challenges. Core challenges exist at the SOC level, and predominantly affect the ability of the State to deliver on its responsibility of creating and sustaining positive economic impact. The second theme of challenges is herein referred to as the enabling challenges. Enabling challenges exist in the environment that supports the state in implementing national policy. These challenges are evident within executive (Cabinet), government departments and in the SOCs themselves. The third theme of challenges refers to the need for the transformation of the South African economy including creating opportunities for the disadvantaged and promoting sectors that can support the industrialisation of the economy.

The effect of these challenges is to limit the efficiency of policy implementation and execution thereof. These challenges need to be addressed in parallel to ensure SOCs are in a position to deliver on their national objectives and ensure strong economic growth, high investment in the economy and foster a competitive export market.

Core challenges are made up of three components and typically apply to the SOC environment: limited ability to meet demand and financial instability. The enabling challenges can be further broken down into three high-level elements, namely; issues surrounding interactions across the institutional model including engagements with other spheres of government, oversight, and internal challenges within the DPE. The last set of challenges relates to the transformation of the South African economy.

The SOCs have a bigger role to transform the economy and support shifting the economy to a different growth path with better developmental outcomes. Each of these will now be explained in detail.

## **CORE CHALLENGES**

### **Inability to meet demand**

SOCs - Eskom and Transnet in particular - are unable to meet current levels of demand. This directly impacts their ability to support stable and sustainable growth in the South African economy. In particular this challenge can be further broken down into areas regarding the current fleet of these organisations, execution of the new build programmes for which they are responsible, and a broader category that highlights the limited sources of supply within the country.

### **Current fleet**

With regards to the current fleet, issues around deferred maintenance are of crucial concern and are themselves outcomes of poor operational strategies or external pressures being placed onto maintenance activities. Furthermore, operational inefficiencies around ageing fleet, limited skills and ineffective processes also contribute to the poor state of current fleet.

### **New Build**

In terms of the new build programmes, SOCs face challenges around funding and operational efficiency. There are currently insufficient funds to secure required debt for new build programmes, and poor credit ratings exacerbate this by increasing the cost of borrowing. Ageing fleet, limited skills to execute on specialised tasks, ineffective processes, and ineffective procurement are some of the operational efficiency issues, which these SOCs face.

### **Limited sources of supply**

There is an issue in terms of the overreliance on SOCs for specific commodities and this is seen more in Eskom than in any other. There is heavy reliance on Eskom to supply electricity to the country, with only 5% of South Africa's electricity supply coming from sources outside of Eskom.

### **Financial Instability**

A number of South African SOCs are in weak financial positions, particularly some of which are critical in terms of contribution to the economy. The weak financial position which some of the SOCs find themselves in has resulted in a limited ability to fund commercial and expansion activities and they are consequently unable to deliver on NDP and MTSF targets. Some of these categories of challenges as well as examples (non-exhaustive) are discussed below. However, the stabilisation programme has yielded results in improving the performance of the DPE's portfolio and this must be sustained to be able to support the implementation of government priorities.

### **Revenue**

The constrained revenues experienced by SOCs affect their financial positions significantly, as they are expected to fund their current operational, and expansion-activities through the use of their own balance sheets. Two issues come across strongly within this category, pricing and lost revenue.

Eskom was, for example, not able to secure a 16% tariff increase and the strain this put on its balance sheet partially resulted in the utility having to receive a huge bail out from the government. Uncollected debt and load shedding downtimes are some critical areas where revenues where revenues are lost.

### **Cost**

High costs erode profits and are typically indicative of weak operational efficiency. Due to operational issues, significant cost overruns have occurred due to delays in new build programmes. High substitution costs for electricity generation and breakdowns of existing fleet are issues, which have had negative impacts on costs. Managing costs within the SOCs is essential to ensure that they don't drive up the cost of doing business that will erode the overall competitiveness of the economy. The following areas must receive increased attention from the shareholder:

- The management of primary energy cost must receive increased attention from the shareholder and new contracting options must be explored;
- Inefficiencies in the procurement and the management of contracts;
- Management of staff cost and the need to ensure that salary adjustment are prudent



- Delivery of the build programmes and ensuring that further budget overruns are averted;
- Financial Planning; and
- The capital structures of SOCs are also sub-optimal. There is high reliance on debt funding for expansion operations. Poor forecasts made have resulted in hedging losses, further eroding value within the SOC.

## **ENABLING CHALLENGES**

A set of challenges exists within the aspects of the State institutional model, which focus on delivering support to SOCs. This text refers to these challenges as enablement challenges. There are three high level areas of enablement challenges, namely; interactions across the institutional model, oversight, and internal DPE challenges.

### **Interactions across the institutional model**

- These interactions are critical to the successful delivery of national policy and typically relate to activities within the institutional model limiting collaboration, alignment of the shareholder model and duplication of function. The following challenge categories exist (a non-exhaustive example is again provided).

### **Separation of functions**

- There is unclear reporting and accountability lines and overlaps exist in function, limiting effective and unbiased decision-making.

### **Shareholder model standardisation**

- There is no standardised approach to shareholding within the State. The shareholder policy being developed must respond to enhancing and harmonising the current institutional architecture.

### **Delegation of Authority**

- Processes require high levels of authorization, causing bottlenecks within the system, and turn-around times are thus negatively affected.

### **Limited collaboration**

- Collaboration across the level of Government Department and SOCs is ineffective, thereby not allowing for leveraging of particular skills, expertise and scale in the execution of similar tasks. The creation of a conducive policy framework has not been optimum and has affected the financial viability of some SOC.

### **Oversight**

- The DPE faces challenges in fulfilling its oversight function. These challenges include the following broad areas, with a non-exhaustive example of each being provided below:

### **Finance**

- Limited consequence management implemented for poor financial performance within the SOC.

### **Governance**

- Adhering to high standard of good governance is essential as the SOCs belong to the society. Weaknesses in governance erode public confidence and tend to undermine the impact that SOCs have on the South African economy and society in general. Maintaining stability at the Board is essential for the sustainability of the SOC. Capacity of the Boards must be assessed to ensure that they have capacity to deliver on the complex mandates of SOCs.

### **Strategy**

- Poor alignment and translation of national objectives into strategy and limited upward management of stakeholders when SOCs require support. SOCs strategies must be aligned to the development strategies of the State and their contribution must be evaluated on a continuous basis.

## **Operations**

- Submissions, review and monitoring processes are lengthy between the SOC and the DPE, constraining efficient and flexible decision-making.

## **Internal DPE**

- The DPE is a key shareholder within the current institution and it faces the following internal challenges that lead to underperformance and mismanagement of its SOCs<sup>12</sup>.

## **Structure**

- The roles and responsibilities are unclear and the current structure is not conducive to integration, therefore synergies within departments are not leveraged.

## **Processes**

- Internal processes are not coordinated effectively and Turn-around-Time is long, resulting in delays in decision- making.

## **Skills**

- Capacities and capabilities within the DPE do not enable efficient delivery at present. The DPE is not fully equipped to carry out their function and these impedes their ability to manage their SOCs effectively.

## **Systems**

- IT infrastructure within the DPE is limited, leading to significant inefficiencies in the processing and flow of information upwards and downwards.

## **Transformation challenges**

- The South African economy remains constrained, which affects the Government's ability to respond to the developmental challenges. Furthermore, the transformation and deracialisation of the economy has been slow and the SOCs must play an active role to promote participation of the previously disadvantaged.

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<sup>12</sup> DPE Strategy Planning Session (1-3 December 2014)

## **Promoting industrialisation**

- The SOCs have the capacity to promote the industrialisation of the economy based on their procurement capacity as well as their manufacturing capabilities. Stronger emphasis on the realisation of higher local content in the procurement expenditure of SOCs is required and must be complemented by the revision of the current legislative framework.

SOCs must also support the development of first of kind projects that have capacity to increase our industrial capabilities. Over the five-year period, emphasis will be on the following on:

- Support the development of new initiatives in the aerospace industry that will increase South Africa's design and manufacturing capabilities in advanced manufacturing;
- Develop an upgrading programme of the SOCs manufacturing facility and collaborate with the DTI on structuring possible government support;
- Facilitate the continued implementation of the competitive supplier development programme as part of promoting localisation in the build programme; and
- Implementation of a comprehensive regional industrialization programme that will leverage on the SOCs value chain and support economic planning in small and rural towns municipalities;

## **Small Business Development Support**

The small and medium enterprises are critical for the creation of jobs in the South African economy. The Department of Small Business Development (DSBD) is developing a comprehensive strategy to support these enterprises. The Department is concluding a Memorandum of Understanding with DSBD to ensure that SOCs contribute to the development of small business. Furthermore, the Department will monitor progress on the implementation of current initiatives by the SOCs and will explore introducing guidelines that can be used by SOCs to promote small businesses.

## **Skills Development**

Since the adoption of the New Growth Path's National Skills in 2011, a total of 23 277 trainees were trained in various scarce and critical skills development interventions in SOC within DPE portfolio. This reflects the shows the transformative capacity of the SOCs to support the development needs of the economy.

The scale of the skills development programmes needs to be improved to ensure that RSA has enough skills to execute the build programme and promote the growth of the productive sectors of the economy.

In the 2015/16 financial year, the Department has collectively compacted the SOC's to enrol 5 776 trainees in various scarce and critical skills comprising 2 385 artisan trainees, 539 technician trainees, 280 engineering and 20 cadet pilot trainees respectively, as well as 2 552 trainees in various sector specific training programmes. All these programmes will largely benefit unemployed youth.

Over and above training for their own operational requirements, SOC are also assisting to train additional skills for the national pool. This is achieved with additional funding solicited from the National Skills Fund (NSF), as part of implementing the collaboration agreement between the DPE and DHET. Through this collaboration agreement, SOC with capacity have received funding to optimise their training facilities to train for the national pool.

To date, three SOC have collectively received funding to the tune of R406 million to train 2 447 artisan trainees. Of this amount, Transnet received R175 million to train 1 000 artisan trainees. These trainees are in their final year of study and will be graduating at the end of October this year, 2016; Denel has received R57 million to train 197 artisan trainees and Eskom has received R174 million to train 1 250.

Trainees for the Denel and Eskom are in their 2<sup>nd</sup> and 1<sup>st</sup> of study respectively, with the last batch of recruitments envisaged to be finalised in this last quarter of the 2015/16 financial year.

## THE SOC REPORTING TO THE DPE AND DPE PROGRAMMES

### THE SOCs REPORTING TO THE DEPARTMENT

Table 1: List of all the SOCs reporting to the DPE as well as their founding legislation

Name of Entity	Founding Legislation	Nature of Business
Alexkor	Alexkor Limited Act 116 of 1992	Alexkor is a diamond mining company primarily operating in Alexander Bay and the greater Namaqualand.
Denel	None	Denel is a Defence company and although it is established as a private company in terms of the Companies Act, Government exercises control over the Company.
Eskom	Eskom Conversion Act 13 of 2001	Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agriculture and residential customers and redistributors.
South African Forestry Company Limited	Management of State Forests Act 128 of 1992	South African Forestry Company Limited is the Government's forestry company, conducting timber harvesting, timber processing and related activities both domestically and internationally.
South African Express Airways	South African Express Act 34 of 2007	South African Express is a domestic and regional air carrier with a mandate to be an African airline.
Transnet	Legal Succession to the South African Transport Services Act 9 of 1989	Transnet is a freight and logistics company responsible for ports and rail transport infrastructure operations in South Africa.

### THE DEPARTMENT'S STRATEGY

The performance of SOC has been very mixed, while they have played a critical role in driving investments in the short term, their financial position has weakened. This places an additional strain to the Shareholder to ensure that the financial sustainability of SOC is improved whilst they execute on the priorities defined in the MTSF.

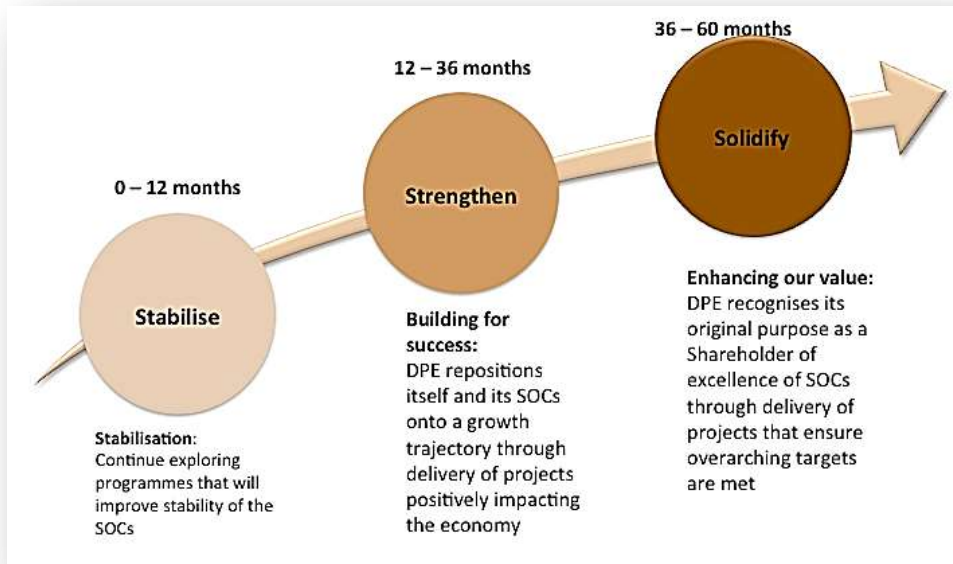
The strategic plan for the Department must therefore provide a clear roadmap for improving the financial and operational sustainability of its SOCs', and ensure that all SOCs support the execution of nation policy priorities.

The DPE has firm goals and targets in place, driven by the NDP and MTSF. Systemic challenges can be overcome at each level and the DPE can play a role in driving the change that is required, which will allow the system to progress. Once optimal performance has been achieved, the DPE can promote ways and means to keep moving South Africa forward, such that the goals outlined in the NDP and MTSF are met, ensuring a better life for all South Africans. The Department has designed its strategy to ensure that the SOCs fulfil their role in supportive the achievement of objectives defined in the NDP.

### **DPE Strategy: three-phased approach**

In March 2015, the Department tabled the S3 Strategy that provided a roadmap on how the Department will transform the performance of the SOCs as well as the institutional architecture within which the Department and the SOCs operate. The S3 strategy emphasises the need to strengthen SOCs through a comprehensive stabilisation programme and ensure that they have capacity to deliver on their developmental obligations. These five years are 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 figure below highlights these phases and the transition of the DPE, through a process of Stabilisation, Strengthening and Solidification.



*Figure: DPE Strategy's envisioned impact on the Department*

In order to successfully implement the Strategy, the DPE needs to ensure that it addresses the current core challenges faced by its SOCs first. Developing action plans to demonstrate the DPE's role in sustaining its SOCs will ensure that the DPE re-affirms its credibility and remains relevant as a shareholder. Once complete, focus can shift towards In line with the challenges defined above; the key strategic outcomes, which the DPE must seek to obtain, ought to be around the following:

- Across the three phases, the DPE will play a leading role to ensure that the core, enabling as well as transformation challenges described above are addressed. This will also require increased engagements between the Department and different stakeholders.
- Key strategic outcomes for the Strategy are derived from the challenge themes to be addressed, and are discussed in detail within the Strategic Priorities section below.
- Elements within the core outcomes and the enabling outcomes will be achieved at different phases within the three-phased approach, depending on the urgency requirements of the interventions developed and the interdependencies within the interventions. Critical projects required to resolve the challenges faced can be tailored towards each particular strategic outcome desired.



Key strategic outcomes		Description of outcome		
i	<b>Core Outcomes</b>	<b>Financial Sustainability</b>	<ul style="list-style-type: none"> <li>SOCs are entirely capable of funding their own operations, without requiring State intervention</li> <li>Focus can be placed on running of efficient operations as the financial pressure has been alleviated</li> </ul>	Interventions within this segment are intended to resolve core capacity challenges, particular within Transnet and Eskom*, which directly impacts MTSF targets
		<b>Commercially viable operations</b>	<ul style="list-style-type: none"> <li>Operations that are efficient and effective such that desired operational target levels are achieved, allowing for expansion of operational capability and capacity to occur</li> </ul>	
		<b>Capital projects delivery</b>	<ul style="list-style-type: none"> <li>Capital project targets are met, in line with strategic and policy expectations, thereby enabling the rest of the economy to prosper, driving up investment, GDP and exports</li> </ul>	
ii	<b>Enabling Outcomes</b>	<b>Strong Shareholder</b>	<ul style="list-style-type: none"> <li>DPE's oversight of SOC's is strengthened, allowing it to play a more integral role and have a greater say in decisions going forward</li> <li>DPE is internally, a robust and flexible organisation, that acts as the benchmark for its peers</li> </ul>	Interventions that enable the institutional model to perform effectively, whilst supporting core outcomes as well
		<b>Alignment and efficiency across institutional model</b>	<ul style="list-style-type: none"> <li>Stakeholders are aligned across the institutional model, ensuring a collaborative and synergistic approach to delivery of policy</li> <li>Improved ability to fast-track major decisions</li> <li>Outreach programme (provincial, local and international)</li> </ul>	

Key strategic outcomes		Description of outcome		
iv	<b>Transformation Outcomes</b>	<b>Industrialisation</b>	<ul style="list-style-type: none"> <li>Increasing the local content in the build programme in line with IPAP</li> <li>Defining new initiatives that will improve industrial base and accelerate industrialisation</li> </ul>	Interventions within this segment are intended to resolve core capacity challenges, particular within Transnet and Eskom*, which directly impacts MTSF targets
		<b>Skills development</b>	<ul style="list-style-type: none"> <li>Accelerate the implementation of the current skills development programme</li> <li>Engage on financing options</li> </ul>	
		<b>Enterprise development</b>	<ul style="list-style-type: none"> <li>Identifying opportunities that will increase participation of enterprises owned by the perviously disadvantaged</li> <li>Explore set asides in partnership with DSBD</li> </ul>	

Figure 9: Core outcomes expected across the three phases

Enablement as well as transformation challenges will be focused on simultaneously across the three phases to ensure that adequate support is provided across the institutional environment to facilitate the delivery of required targets.

## **Projects to be executed upon in the first phase**

This Strategy is made up of eight key projects that have been planned for execution within the next year. These projects will be aimed at setting in motion the delivery of core strategic outcomes and enabling outcomes as discussed previously. A brief discussion of each of the projects can be seen below.

### **Financial Sustainability**

#### **SOC sustainability**

The objective of this project is to create a framework to identify gaps in SOCs' financial position, as well as determine and execute potential funding interventions that can be leveraged by SOCs. Creating a path to financial sustainability therefore seeks to stabilise the SOCs within the DPE's span of control. By setting SOCs on a path to financial sustainability, the DPE will positively impact South Africa's economy by ensuring the delivery of key services (i.e. Eskom and Transnet), economic growth and subsequently contribute to stabilising the economy.

Financial sustainability of SOC such as Denel, Alexkor, SAX and SAFCOL remains crucial as these SOC operate within the productive sectors of the economy. Their financial and operational performance is critical for certain sectors e.g. construction for SAFCOL.

#### **Commercially viable operations**

##### **Setting the economy on the path to no load-shedding (Eskom)**

This seeks to understand the key levers that can be pulled to augment the current capacity problem facing Eskom. A firm understanding of the possibility of load shedding and the potential mechanisms to minimise this possibility is a prime objective of this project. Emphasis will be placed on the key supply and demand interventions as well as their impact on the electricity reserve margin. This will focus on the implementation of the key actions to improve operation performance of the fleet. This will also assess the impact of the short- to medium-term interventions targeted to stabilise the power system on the long term vision for Eskom that will be defined by the Shareholder.

### **Increased volumes across rail and port (Transnet)**

On the path to increased volumes across rail and port (Transnet) seeks to understand the key levers which can be pulled to augment the current capacity problems facing Transnet. Through pulling capacity and efficiency levers, Transnet will be able to improve volumes moved through the ports and on its rail network. Emphasis will be placed on increasing crane moves and increasing rail capacity to improve overall volumes transported across the rail network.

The objective of this project from a DPE perspective will therefore be to create a framework to identify gaps in Transnet's rail and port operations, as well as identify and execute potential interventions that be leveraged by Transnet to improve volumes.

### **Capital projects delivery**

On the path to accelerating capital programmes across Eskom and Transnet. This project involves the creation of a framework that will enable the DPE to identify any gaps in capital expansion projects and to re-steer the organisations responsible for this capital delivery onto a path re-aligned to achievement of targets within the build programmes. This will then enable the DPE to mitigate any potential risks by developing and implementing interventions where needed. The DPE will focus mainly on Eskom and Transnet during this intervention as these SOCs are in the midst of executing major expansion programmes.

### **Strong Shareholder**

Improved performance management systems for SOC (Boards and executives). The management of SOC boards is a crucial lever, which the DPE uses to ensure that SOCs achieve their targets and deliver on their mandates. The sub-par performance of some of South Africa's SOCs is partially the result of ineffective board management. This is itself an outcome of a number of factors, ranging from incomprehensive KPIs to weak corrective action in response to poor performance.

As part of the efforts to transform SOCs, the DPE needs to create and operate within a new performance management system, which will provide it with the right information, oversight power and communication tools to monitor performance and execute on its mandate of driving national objectives and ensuring sustainability in and through its SOCs. This project's objective will be to be to develop and implement this performance management system as a continuation of existing efforts to improve this aspect of the DPE's role.

## **Reorganising the DPE**

Another critical enabling element within this strategy and specifically in ensuring that the DPE is able to execute on it, is re-organising its internal operational model so that it supports the initiatives outlined within this strategy. DPE structure is a standard hierarchal Government structure which does not afford effective engagement and deployment of specialist service; there is also major inefficiencies and duplications due to outdated workflows and business processes implemented, In 2012, the structure was expanded and new cross cutting units established however the workflows and business processes were never reviewed and updated at a departmental level to accommodate the changes. The objective of this project is there for to reorganize the DPE so that it is structurally equipped to handle the implementation and monitoring of newly proposed interventions. In addition, this new configuration will need to be flexible enough to enable the swift and optimal implementation of any new projects going forward. Furthermore, other internal issues impacting on the effectiveness and efficiency of execution by the DPE are to be addressed.

## **Alignment and efficiency across the institutional model**

### **Set up a government decision making body**

The Inter-Ministerial Committee (IMC) is being established to oversee the review of individual SOC mandates and performance (e.g. Centers of Excellence, Steering Committees, regular meetings, and the development of the SOC Act etc.). The objective is to achieve a greater level of integrated business planning between Ministers put together to ensure efficient decision-making and consequent SOC service delivery.

### **Amend and develop policies – shareholder role and model**

Currently, there is limited clarity on the roles of various stakeholders, unclear reporting and accountability lines and the current oversight models lack uniformity. Oversight by the shareholder departments is at time weak and as a result, the mandate and role of the shareholder is not fully executed upon. In order for the MTSF to be realized, the State will need to separate and define functions of each shareholder.

The objective of this project is for the DPE to make recommendations to the State on policies, which need to be developed or amended in order to ensure increased alignment between SOCs, uniformity with regards to the oversight models, and uniformity when approaching and executing projects.

## **Strengthen inter-governmental relations**

This will be focused on increasing engagement between the SOCs and other spheres of government. This will ensure that SOCs support the execution of socio-economic projects and drive meaningful change in society.

An inter-governmental relations framework will be developed to direct the execution of the programme. This will also facilitate a closer relationship between the SOCs and the public at large.

## **Transformation of the economy**

As highlighted in above section, this will focus on supporting the acceleration of the industrial policy programme of government and deracialisation of the economy. The following projects will be pursued:

- Support the development of new initiatives in the aerospace industry that will increase South Africa's design and manufacturing capabilities in advanced manufacturing;
- Develop an upgrading programme of the SOCs manufacturing facility and collaborate with the DTI on structuring possible government support;
- Facilitate the continued implementation of the competitive supplier development programme as part of promoting localisation in the build programme; and
- Increase support to small enterprises that operate within the SOCs value chains.

## **Accelerate skills development programmes**

### **Interventions across projects**

In order to successfully deliver on the projects depicted above as well as those to be envisioned within the next phases of the strategy, a number of interventions can be explored. Some of these interventions have already been deliberated across various arenas. This will be further outlined in the Annual Performance Plans of the Department over the next five years.

## Risk Management

A number of key risks have been identified that could affect the successful delivery of the S3 Strategy. These have been broadly categorised into three distinct areas.

Risks	Risk Description	Interventions
Policy alignment and coordination	Risks that occur due to key stakeholders not aligning in terms of strategic objectives and the decision-making process related to these, resulting in ineffective strategic execution.	<ul style="list-style-type: none"> <li>- Develop and implement a plan to enhance the department's outreach programme and</li> <li>- Pursue coherent strategic initiatives across SOCs</li> <li>- Establish partnerships with stakeholders to facilitate policy alignment geared to optimise socio-economic impact of SOCs</li> </ul>
Operational efficiency and effectiveness	These are risks that may occur as result of the department's lack adequate capabilities (people, processes, infrastructure systems/tools) to provide Shareholder oversight on SOCs	<ul style="list-style-type: none"> <li>- Enhance procurement recruitment and talent strategies</li> <li>- Review, enhance and standardize business processes</li> <li>- Develop methodologies to inculcate results-based performance planning, monitoring and evaluation</li> <li>- Secure adequate office space to ensure a conducive working environment</li> <li>- Review the organizational structure to enhance efficiencies</li> </ul>
Externalities	<p>External risks that may occur as a result of factors beyond the DPE's control such as:</p> <ul style="list-style-type: none"> <li>- Labour unrest;</li> <li>- Deterioration of credit rating;</li> </ul>	<ul style="list-style-type: none"> <li>- Optimise efficiencies and effectiveness in the infrastructure build programme delivery to stimulate growth</li> <li>- Identify levers to reduce SOCs reliance on the fiscus</li> </ul>

Table 2: The key risks for the DPE over the next 5 years

## SWOT ANALYSIS

Table 3: The Strengths, Weaknesses, Opportunities and Threats for the DPE

Strengths	Weaknesses
Dedicated and passionate workforce	Internal organisation is ineffective and inefficient
Strategically positioned within the economy to influence change	Oversight provided to SOCs is limited, impacting on the DPE's ability to influence key decisions
Overseeing companies that are the corner stone of the economy	Lack of common view on shareholder oversight
Strong financial management systems and practices	Lack of clarity on roles and responsibilities

Opportunities	Threats
Position the Minister as an "activist" shareholder representative	Not all enabling sector policies and legislations are in place
Stimulate economic growth through infrastructure rollout programme Drive industrialization and localization	Recapitalization of SOC in a constrained fiscal policy framework
Drive SOC transformation	Slow economic growth
Drive new built programme	Absence of a clear legislative framework setting out the DPE's shareholder mandate
Development of a new organizational model and functional structure in line with the strategic objectives set for the Department's new Medium Term Expenditure Framework.	
Alignment with other Government policy departments e.g. alignment with DOE on Eskom	



## ORGANISATIONAL STRUCTURE

The DPE has adopted a programme-based organisation structure. The high-level structure is presented in the diagram below.

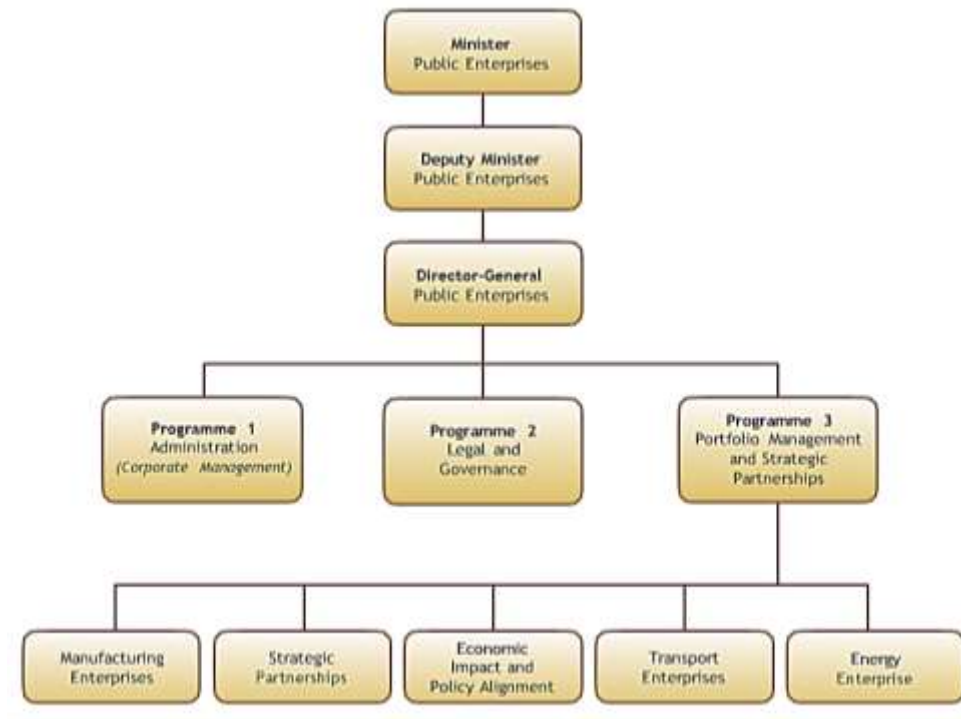


Figure 12: The DPE Organisational Design

The Department will adopt a matrix organisation structure. The matrix structure will promote collaboration in the delivery of the strategic objectives, reinforce and broaden technical excellence and facilitate efficient use of resources.

## SHAREHOLDER MANAGEMENT

In April 2013, Cabinet accepted the Report and recommendations of the Presidential Review Committee (PRC) on state owned enterprises. In June 2013, the Report was presented by the Presidency to the Portfolio Committee on Public Enterprises. The Department has taken a decision to hold in abeyance the development of the Government Shareholder Management Bill (GSM) in order to align its work with the Presidency's implementation of the PRC's recommendations, in particular on the proposed enactment of a single overarching legislation governing all SOCs.

The Department promotes an activist approach to shareholder oversight, to enable it to drive certain key initiatives together with the SOCs. This will require strengthening of Department's ability to provide strategic direction to the business operations of SOCs and improve the monitoring of financial and operational performance of companies. To achieve this, the Department would need to improve the collection of information and develop industry benchmarks that will be used to assess the performance of companies to be able to decisively intervene where there are challenges.

### **LINK TO OTHER PROGRAMMES**

The work of the Department is interlinked to the work of policy departments such as Departments of Energy, Transport and Telecommunications and Post. The work of the Department through its SOC would further contribute to implementation of other programmes of government such as the Industrial Policy Action Plan and National Skills Development Strategy. Strengthening of coordination structures at the national level to ensure coherency in the delivery of programmes that are crucial to the achievement of government's economic strategy as outlined in the New Growth Path is essential.

The creation of an enabling policy, regulatory and operating environment for SOC to support the delivery of the Department's strategy is crucial. In this regard, the Department will continue to engage Departments in the energy, ICT, transport and defence sectors. This will ensure that sectorial policies create an enabling environment to support the delivery of key outcomes of inclusive growth and employment.

### **RISK MANAGEMENT**

The Department continued its implementation of an integrated system of risk management in accordance with the Enterprise Risk Management (ERM) Framework. The framework enables the Department to effectively manage key risks that could prevent it from achieving its objectives.

The Department's EXCO, chaired by the Director-General, fulfilled the role of the Risk Management Committee and was supported by the Audit Committee in effectively overseeing the management of key risks.

## STATE OWNED COMPANIES

### Alexkor

Alexkor was established in terms of the Alexkor Limited Act (1992) to mine marine and land diamonds in Alexander Bay. Alexkor is exploring opportunities in energy in line with the energy security objectives of government's 2014-2019 medium term strategic framework's, specifically outcome 6 (an efficient, competitive and responsive economic infrastructure network), through coal and limestone mining opportunities, which will require the organisation to expand its operations beyond Northern Cape.

Alexkor has further commissioned a study into non-mining activities in Northern Cape that the Richtersveld community could possibly pursue from the proceeds of the pooling and sharing joint venture.

In 2007, the Government and the Richtersveld community reached a settlement for the establishment of a joint venture, whereby Alexkor and the Richtersveld Mining Company, on behalf of the community, have placed their marine and land mining rights under the control of the joint venture.

Since April 2011, all diamond sales were for the account of the pooling and sharing joint venture. Alexkor generates no other income from operations apart from its 51 per cent share in the joint venture. The company posted a profit of R29.7 million in 2013/14, compared with a loss of R14.0 million in 2012/13. Alexkor was recapitalised by R350 million in the 2012/13 medium term expenditure framework, which had a positive impact on the company's financial statements and, as a result, its profitability improved significantly. Part of the R350 million was used to invest in a diamond beneficiation plant, which assisted in creating more than 200 direct and indirect jobs.

Additional economic opportunities for the community are expected as mining operations expand in the next two to three years.

Alexkor has met its financial obligations in terms of the 2007 deed of settlement obligations. The deed of settlement included amongst others the restoration of land and mineral rights, formation of Pooling and Sharing Joint Venture, environmental rehabilitation and establishment of the formal township development at Alexander bay.

As a result, the town was promulgated in November 2013 and now forms part of the Richtersveld municipality. The settling of the rehabilitation liability will give rise to 200 jobs over the 15-year life of the project with 40 jobs created to date. The project intention is to ensure that that the land is environmentally safe and economically exploitable for the community.

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## **Eskom**

Eskom's mandate is to generate, transmit and distribute electricity. The company is governed by the Eskom Conversion Act (2001). According to the national development plan, South Africa will need to meet about 29 000 Megawatts of new power demand between 2012 and 2030. As a result, more than 40 000 Megawatts of new power capacity needs to be built.

In line with this vision, the focus for 2014/15 has been on finalising the response to the Multi Year Price Determination 3 (MYPD3), securing the balance of the required funding to complete the new build programme, which aims to expand the company's generation and transmission capacity to meet the country's growing demand for energy , improving the rollout of the new build programme, improving operational performance and maintenance of assets to ensure security of supply, contracting with independent power producers in line with government procurement processes, and assess the role of Eskom in the implementation of the integrated resource plan for electricity 2010.

Eskom generates 95 per cent of the electricity used in South Africa and 45 per cent of the electricity used in Africa. Eskom's reserve margin has been steadily declining since 1999 due to a lack of significant investment in generation capacity. In recent years, Eskom has had to rely on deferring maintenance of power plants to meet demand and address the constrained power system to avoid load shedding. The consequence of this has been an increase in maintenance backlogs and a decline in power plant performance.

Eskom has had to reprioritise and respond to a shortfall in revenue following the electricity price increase decision, which was 8 per cent versus 16 per cent annually over five years, which means that the borrowing plans will also, need to be revised to cover its liabilities and operational costs. The new funding gap until 2017 is now estimated at R200 -13824. Over the five year period until 2019/20, Eskom's build programme is estimated to cost R280 billion.

In December 2014, Cabinet approved the Five Point Plan targeted to address the short and medium term challenges on the supply of electricity and begin to lay a foundation critical for the creation of a sustainable electricity industry. The improvement in the energy availability factor and reducing the risk of load shedding will remain the focus over the next 3 years.

Additionally, Eskom has, since 2004, been undertaking a capacity expansion (build) programme to ensure the secure and reliable supply of electricity. Completed projects between 2005/06 and 2013/14 include the Komati, Camden and Grootvlei power stations that were once not operational but have now returned to service, and the finalisation of two open cycle gas turbines.

As a result, Eskom has cumulatively installed and commissioned 6 137 Megawatts of additional generating capacity into the system, and installed 5 498km of transmission networks, increasing its transmission substation capacity by 27 565 megavolt amperes.

### **South African Forestry Company Limited**

The South African Forestry Company Limited's mandate is to ensure management of sustainable forests and to play a catalytic role in the realisation of the state's afforestation, rural development and transformation goals.

The company's operating performance over the past three financial years has been worsening as a result of a slow recovery in its primary market, the residential construction sector, as well as rigid business structures. Despite this, the company's profit increased from R74 million in 2012/13 to R510 million in 2013/14 as a result of fair value adjustments. Cash generation from operations has been under strain due to increasing logistical and labour costs and an inelastic pricing environment. The performance has constrained the business in investing in downstream operations, which is critical in sustaining the forestry operations and reducing dependence on saw-log customers.

The company's solvency, however, remains solid to ensure that it continues trading as a going concern. This will be critical when it commences with its capital investment programme, in line with the envisaged future role by the department, which sees increased investment in value adding activities.

The company has expanded its rural development contribution in line with the national development plan's vision, and is implementing the social compacts agreed with rural communities within its operations. These compacts will ensure that communities are involved in the company's operations through enterprise and skills development opportunities. Additional corporate social investment programmes concentrate on education, recreational centres, and health care through donation of timber framed structures.

## **South African Express Airways**

South African Express Airways is a regional carrier operating domestic and regional flights established in 1994, serving secondary routes in South Africa and the continent, which include regional routes to Botswana, Namibia, the Democratic Republic of the Congo, Zimbabwe and Zambia. It also provides feeder air services that connect with South African Airways' network.

The airline has experienced challenges with regards to operational and financial performance, as well as maintaining proper systems of internal control. As a result, the 2010/11 annual financial statements were withdrawn in November 2011 due to an overstatement of assets on the balance sheet. The financial statements were restated in August 2012, resulting in a reduction of the airline's equity position from R1.2 billion to R0.4 billion.

Following the restatement of the 2010/11 annual financial statements, the airline received a qualified opinion for the 2011/12 financial statements and another qualified audit opinion for the 2012/13 annual financial statements. The impact of weak internal controls and the losses in recent years have affected the airline's ability to raise funds without government support. To address the weak performance as well as to address the breach of covenants that resulted from the reduction of equity from R1.2 billion to R0.4 billion, a guarantee of R539 million was granted in March 2013.

The focus over the medium term will be to expand operations in the African market and to partner with South African Airways to establish other hubs in Africa and thereby increase inter-regional trade in line with the objectives of the national development plan. Furthermore, South African Express Airways intends to strengthen its balance sheet to restore confidence in its financial position and performance over the MTEF period and beyond through the implementation of the airline's long term turnaround strategy.

South African Express Airways has acknowledged the need to address its poor performance and reliance on government for financial support, and in 2013 developed a long term turnaround strategy called the 20:20 Vision. The main focus of the 20:20 Vision is to assess, review and define a new business model that will improve the sustainability of the organisation going into the next 20 years. The cornerstone of the 20:20 Vision is South African Airways' long term turnaround strategy. The objective is to ensure alignment of the strategic direction of these two state owned airlines so as to derive maximum value for government as the shareholder. This will be achieved through collaboration, cooperation and coordination between the airlines.

The implementation of the 20:20 Vision has been slow, and as a result has not yet yielded the expected outcomes of a positive turnaround. Due to the deteriorating position of South African Express Airways, the airline has had to develop a recovery plan to address the cash drain and to put the airline back on the path to recovery. The department, through the shareholder compact, will ensure the initiatives outlined in the 20:20 Vision and the recovery plan are agreed upon, and performance against these targets will be monitored on a monthly and quarterly basis.

The three main issues the airline plans to address with the 20:20 Vision are the relationship with South African Airways, the feeder model conflict, and the business growth to maximise economies of scale.

### **Transnet**

Transnet's mandate is to assist in lowering the cost of doing business in South Africa, enabling economic growth, and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost effective and efficient manner within acceptable benchmarks, in line with outcome 6: an efficient, competitive and responsive infrastructure network, of government's 2014-2019 medium term strategic framework.

In March 2014, Transnet announced its largest ever procurement transaction when it signed a R50 billion contract with four original equipment manufacturers to acquire 1 064 locomotives over the next four years. This was an affirmation of Transnet's commitment to infrastructure investment in the country in spite of the weak economic climate. The procurement of 1 064 locomotives is part of a market demand strategy that is underwritten by a R300 billion rolling capital investment programme over seven years. At least two thirds of the market demand strategy investment programme will be allocated to rail projects to address ageing infrastructure and rolling stock. The remaining third of the programme has been allocated to ports and pipeline infrastructure and equipment so as to ensure that complementary capacity is created and sustained.

Since the inception of the strategy in 2011/12, Transnet has spent more than R80 billion, R31.8 billion of which was spent in 2013/14 in line with the Market Demand Strategy with most of the expenditure in the past three years concentrated on rail infrastructure maintenance and revitalisation as well as acquisition and refurbishment of rolling stock. Transnet has also spent on the acquisition of ports equipment as well as on the New Multi Product Pipeline. The investment programme complements



Transnet's role and participation in a number of existing strategic integrated projects, particularly as a coordinator of a project that focuses on a logistics and industrial corridor between Durban, Free State and Gauteng.

Due to this investment drive, the level of Transnet's debt related to its equity capital will come under pressure as Transnet continues to increase borrowings to fund infrastructure. However, Transnet is still expected to raise funding on the strength of its balance sheet and maintain a gearing ratio of less than 50 per cent.

In 2013/14, Transnet's revenue increased by 12.8 per cent, from R50.3 billion to R56 billion mainly due to tariff increases across various service lines as well as volume growth in certain components of the business. The increase in revenue enables Transnet to remain committed to the market demand strategy.

Over the past five years, rail volumes have increased at an average growth rate of 4 per cent, resulting in a total tonnage increase of 32 million tonnes. The volume growth in automotive and containers on rail for the 2013/14 was 25.2 per cent, which shows that migration from road to rail is beginning to gain momentum in alignment with the government objectives, and is expected to grow over the MTEF period.

**dpe**

**ANNUAL PERFORMANCE PLAN**

**2016/2017**

## Official sign-off

It is hereby certified that this Annual Performance Plan was developed by the management of the Department of Public Enterprises under the guidance of Mr Mogokare Richard Seleke, and was prepared in line with the current Strategic Plan of the Department of Public Enterprises.

It accurately reflects the performance targets which the Department of Public Enterprises will endeavor to achieve given the resources made available in the budget for the 2016/2017 financial year.

**Mr Gcina Hlabisa**

Director: Strategic Planning, Monitoring and Evaluation

Signature: 

Date: 10/02/2016

**Mr Thomas Matjeni**

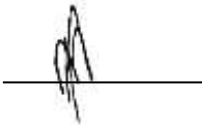
Acting Chief Financial Officer

Signature: 

Date: 10/02/2016

**Mr Melanchton Makobe**

Acting Deputy Director-General: Corporate Management

Signature: 

Date: 10/02/2016

**Mr Mogokare Richard Seleke**

Director-General


Signature: 

Date: 10/02/2016

Approved by:

**Ms Lynne Brown, MP**

Minister

Signature: 

Date: 10/02/2016

The table below lists the SOCs that report to the Minister:

Name of Entity	Legislative Mandate	Minister's Financial Relationship with the SOCs	Nature of Operations
Alexkor	Alexkor Limited Act 116 of 1992	Shareholder Representative	A diamond mining company that operates primarily in Alexander Bay and the greater Namaqualand area.
Denel	None	Shareholder Representative	A defence company and although it was established as a private company, in terms of the Companies Act of 2008, Government exercises full control over the company.
Eskom	Eskom Conversion Act 13 of 2001	Shareholder Representative	Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agriculture and residential customers and re-distributors.
South African Forestry Company	Management of State Forests Act 128 of 1992	Shareholder Representative	The South African Forestry Company Limited is the Government's forestry company. It conducts timber harvesting, timber processing and related activities, both domestically and regionally.
South African Express	South African Express Act 34 of 2007	Shareholder Representative	South African Express is the domestic and regional air carrier with a mandate to be an African airline.
Transnet	Legal Succession to the South African Transport Services Act 9 of 1989	Shareholder Representative	Transnet is a freight and logistics company responsible for pipelines, ports, and rail transport infrastructure and operations in South Africa.

# **PART A: STRATEGIC OVERVIEW**

## **UPDATED SITUATIONAL ANALYSIS**

### ***1.1 Understanding the Environment***

The Department discharges its mandate within a particular environment. This environment is influenced by the institutional architecture of government as well as the economy.

It is therefore fundamental that the situational analysis correctly diagnoses these two factors that create a context within which the Department's plan must be executed. Over the past 12 months, the Department has been forced to adjust and respond to the institutional factors as well as the economic context.

This section focuses on the state of the economy as well as the institutional architecture factors that influence and shape the Department's strategies.

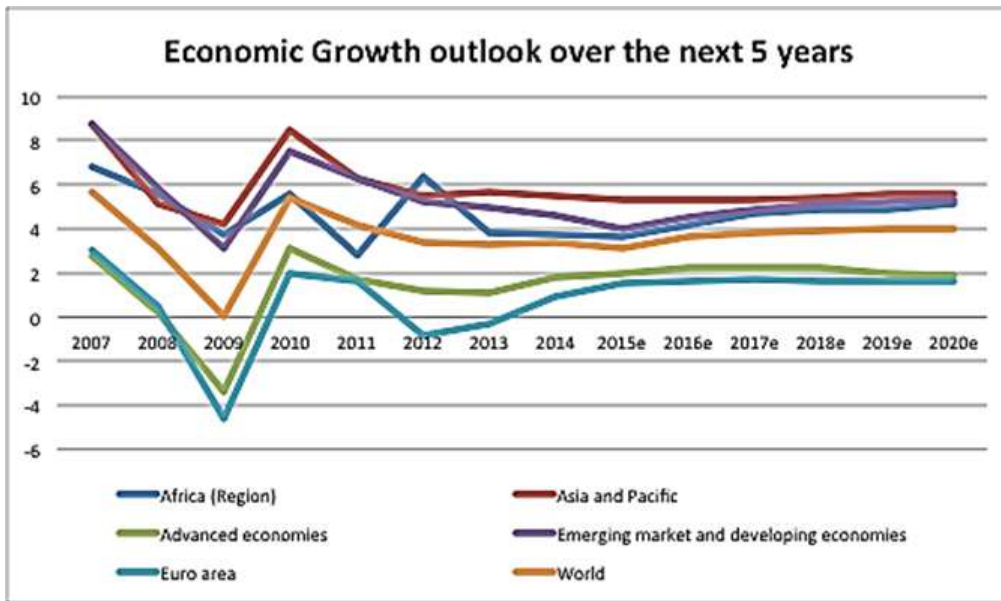
### ***1.2 Economic outlook***

In 2014, the current administration approved the Medium term Strategic Framework (MTSF) that defines the priorities and contextualise the state of the economy. The MTSF recognised that the performance of the economy over the next 5 years may be more challenging compared to preceding 5 years from 2009 – 2014.

The world economic outlook released by the International Monetary Fund (IMF) shows that the global economy is not in the good state, in particular, the emerging market economies such as China, South Africa and Russia. The poor performance of the global economy reflects the state of the developed countries' economies such as the European Union where output has slowly recovered as well as the declining commodity prices that has resulted in turmoil in extractive economies or commodity dependent countries. This has also increase risk aversion which has affected currencies of emerging market economies as well as their stock markets.

The impact of the global slowdown has caused most of the emerging economies to embark on reforms to address weaknesses in their economies e.g. the Chinese Government has also embarked on reforms focused on shifting the dependency of the economy on exports and focuses on the development of domestic demand.

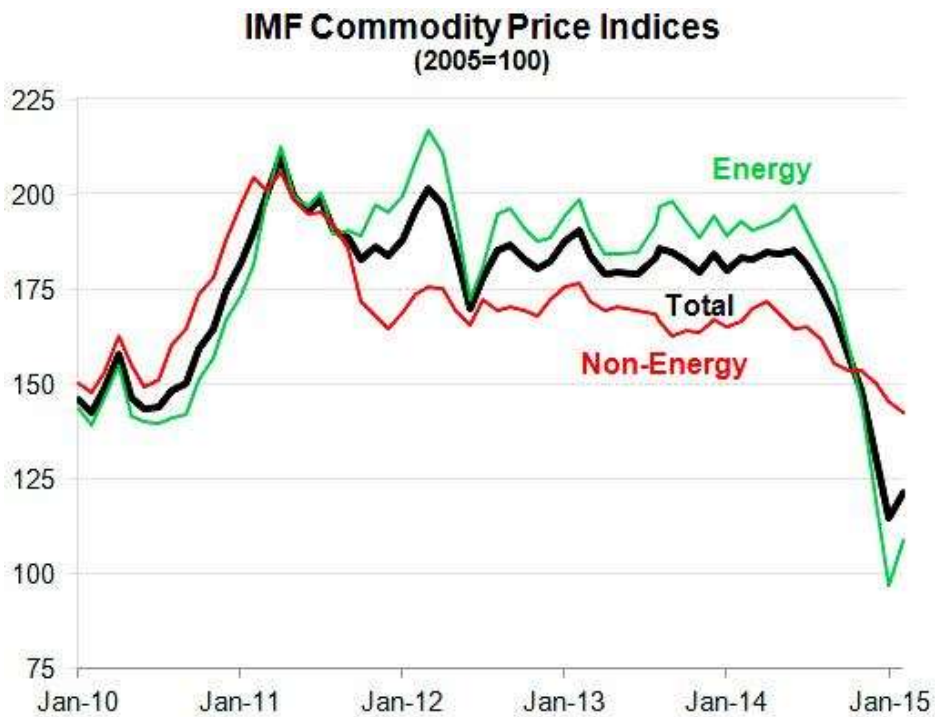
This structural adjustment as well as the continued weak global economic has resulted in sustained period of weak commodity prices. Over the next five year growth in the global economy will remain weak and unlikely to recover to pre-crisis level. However, growth in the African region will remain dynamic and this present a new opportunity for South Africa to cultivate this market.



Source: IMF World Economic Outlook, October 2015

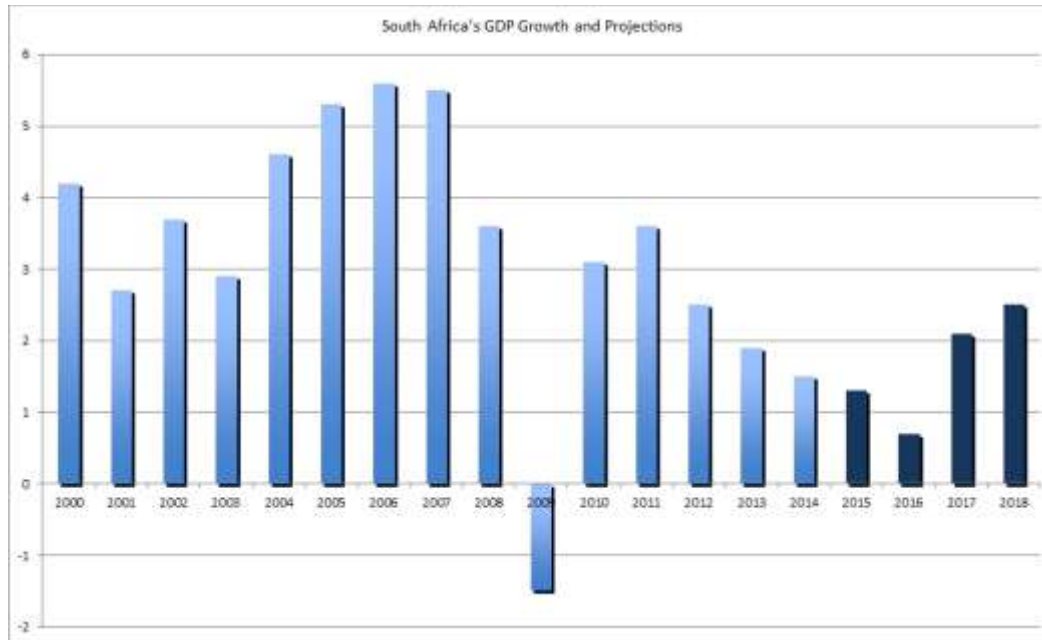
The depressed commodity prices represent a major structural shift in the global economy and most specific the role of China. The decline in the commodity prices has shown that the model pursued by most commodity dependent country such as South Africa is not sustainable and require major adjustment.

The economic outlook shows that the recovery of advanced economies will stabilise at around 2 percent over the next five years driven by the recovery in the United State of America. Furthermore, the growth in the Euro Area showed positive signs. The recovery in global economic growth shows significant improvement but this is still far below the pre-crisis levels.



Source: IMF, 2015

The state of the global economy has had a profound impact on the South African economy. This is reflected by the decline in the performance of the productive sectors of the economy. As a result, the South African economy has struggled to recover to growth levels prior the economic crisis in 2008 and has not been able to sufficiently create the opportunities for more labour absorption. Between 2002 and 2007, the South African economic growth accelerated but was adversely affected by the global financial crisis. As seen in figure 1 below, the country has experienced weak economic growth since the 2008 global recession. The growth levels have been below the target of 5 percent.



Source: IMF WOE, 2016

Capital formation has itself experienced some challenges. Gross Fixed Capital Formation (GFCF) was not a priority leading up to 2005<sup>13</sup>. This resulted in slow growth and had a negative impact on local industry and human capital.

In addition, this poor investment performance stifled the country's manufacturing capabilities<sup>14</sup>. In the period between 2009 and 2014, the government began to lay a foundation for accelerated investment in the economy with the creation of the Presidential Infrastructure Coordination Commission (PICC), adoption of the 20 Year Infrastructure Plan<sup>15</sup> and the Infrastructure Development act, however, this has not been enough to create an infrastructure network capacity to support the productive sectors of the economy. Finally, the investments by the productive sectors such as mining and manufacturing are leveling off, which will make the realisation of the 30 percent of the GDP investment target even more difficult to realise.

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<sup>13</sup> Standard and Poor's (2014)

<sup>14</sup> Global Credit Portal (2014)

<sup>15</sup> The 20 Year Infrastructure Plan outlines the Strategic Infrastructure Projects (SIPs)



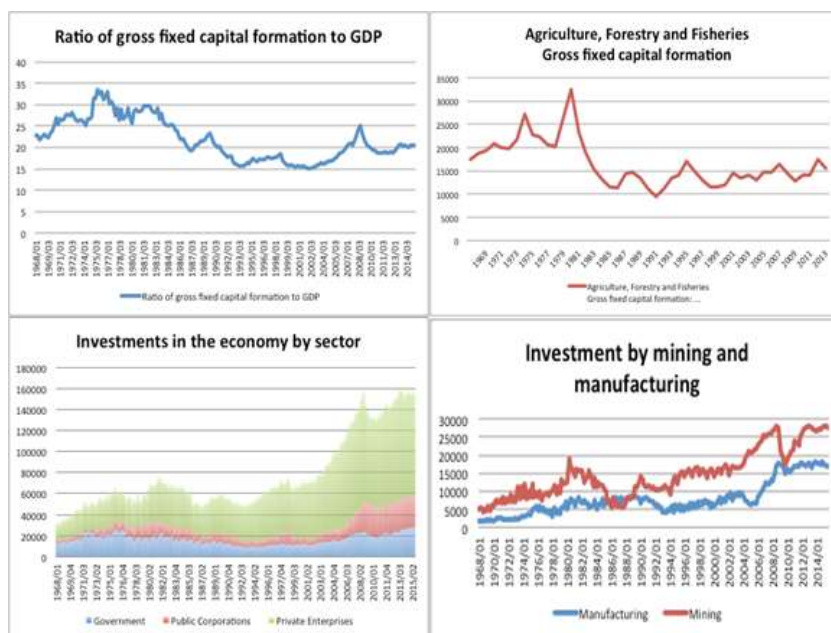


Figure 1: Investment trends in the economy

Amidst all of this, the importance of the role of the State has been reinforced. State intervention within the context of a developmental state is crucial to economic development, particularly in light of the large scale of investment required and the associated risks. Investments by the SOCs have played an essential role to support demand in the economy and begin to build capacity required for growing the economy.

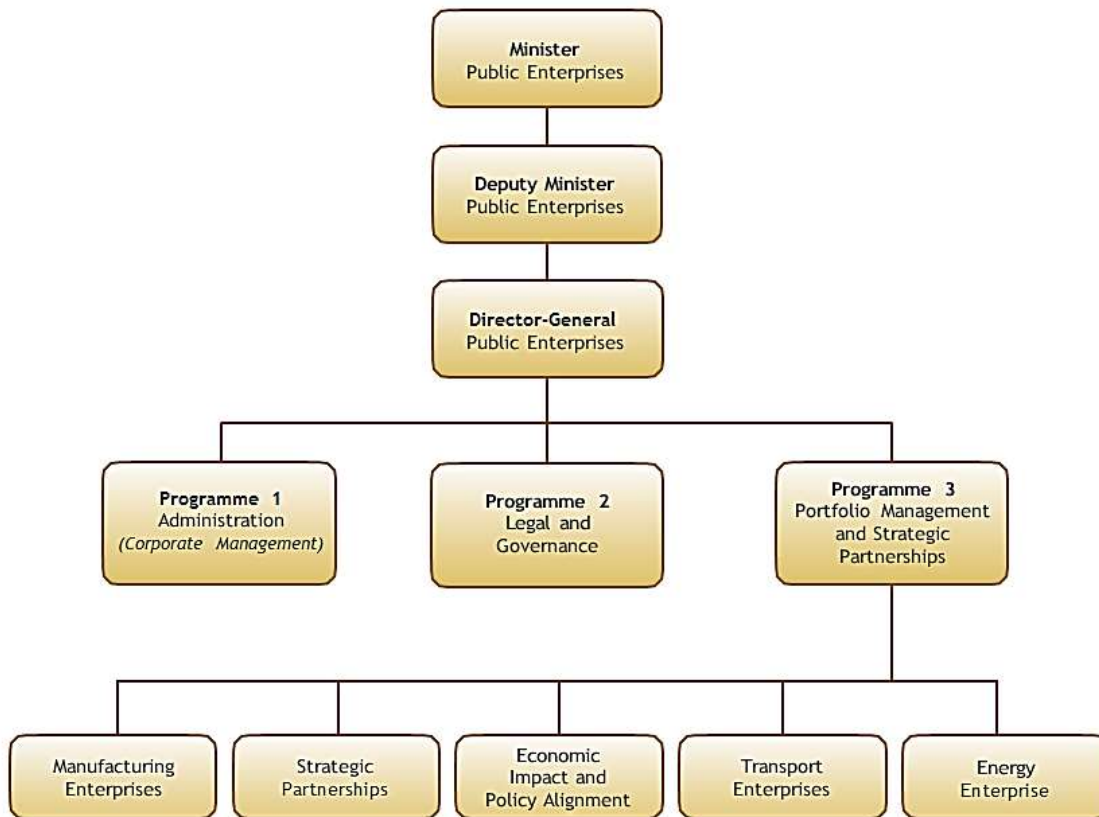
In 2015, government adopted a Nine Point Plan which sought to respond to the highlighted economic situation. The Nine Point Plan sets out big-push interventions that are essential to turnaround the South Africa's growth story. The Department has committed itself as well as the SOCs within its portfolio to support the implementation of specific interventions contained in the Nine Point Plan.

The World Bank has indicated that there is a 40% chance that South Africa may slide into recession and this makes the sustained implementation of the Nine Point Plan critical. However, key levers have to be pulled by the State in order to place the country on the growth trajectory that will enable the developmental state to realise outcomes defined in the National Development Plan. The National Development Plan defined the structural challenges that the South African economy currently face. To respond to these structural challenges, a series of actions have been proposed that need to be implemented within a specified timeframe.

These actions will require significant improvement in the capacity of the state. This also includes the further repositioning of the State Owned Companies (SOCs). The NDP indicates that for the triple challenges of unemployment, poverty and inequality, the state needs to play transformative and developmental role. This requires well and effectively coordinated institutions.

The SOC reform architecture is being reviewed to ensure that the State has the capacity to implement its economic strategies. Given the strategic significance of SOCs, improving their performance will have a wider economic impact.

### 3.3 Organisational Structure



## Overview of Programmes

PROGRAMME 1 - ADMINISTRATION AND CORPORATE MANAGEMENT		
	Ministry	Minister
		Deputy Minister
	Management	Director-General
		Corporate Management
	Corporate Services	Security and Facilities Management
		Information Management and Technology
	Chief Financial Officer	Chief Financial Officer
	Human Resources	Human Resources
	Communications	Communications
	Strategic Planning, M and E	Strategic Planning, Monitoring and Evaluation
	Inter-Governmental and Stakeholder Relations	Inter-Governmental and Stakeholder Relations
	Internal Audit	Internal Audit
PROGRAMME 2 - LEGAL AND GOVERNANCE		
		Management
		Legal
		Governance
		Risk
PROGRAMME 3 - PORTFOLIO MANAGEMENT AND STRATEGIC PARTNERSHIPS		
	<b>Energy Enterprises</b>	
		Management
		Eskom

<b>Manufacturing Enterprises</b>	
	Management
	Denel
	Alexkor
	SAFCOL
<b>Transport Enterprises</b>	
	Management
	Transnet
	South African Express Airways
<b>Economic Impact and Policy Alignment</b>	
	Management
	Environmental Policy Alignment
	Economic Policy Alignment
	Transformation, Skills and Youth Development
<b>Strategic Partnerships</b>	
	Management
	Project oversight
	Funding Mechanisms
	Supplier Relationships

## **REVISIONS TO LEGISLATIVE AND OTHER MANDATES**

As the shareholder Ministry, on behalf of Government, the Department's mandate continues to evolve to ensure that SOCs within its portfolio are clearly directed towards the prioritised outcomes. Furthermore, the Department has been tasked with developing proposals on the SOC Reform as part of supporting the implementation of Government's economic strategy and programmes. The development of an overarching shareholder management process aimed at providing enduring strategic rationale for the SOCs forms the foundation for the reform process.

Expansion of the role of the SOCs within the current economic management framework has required the Department to introduce measures to ensure that SOCs contribute to the following:

- Promotion of economic growth by facilitating development of new industrial capabilities through supplier development and expansion of local content particularly in the build programme;
- Expansion of training and skills development programmes to support the Government to develop skills required by the economy;
- Achievement of minimum standards of universal service and affordability for key services such as rail and electricity;
- Strengthening inter-governmental relations to enhance coordination between the SOCs and other spheres of government; and
- The correction of past social injustice through execution of transformative programmes.

While there is alignment between the SOCs activities and the priorities defined by government in the National Development Plan and MTSF, there are still challenges in relation to the shareholder function and how it interfaces with other functions of Government e.g. policy making and regulatory functions.

This challenge partially contributes to the current performance of SOCs and their weaknesses. The development of the overarching legislation for SOCs will begin to address this challenge and ensure that the performance by SOCs is improved.

The February 2015 Cabinet Lekgotla took a number of resolutions to support the strengthening of SOCs through the implementation of the Presidential Review Committee (PRC) on SOCs. Consequently, the Department will be developing legislation on the SOCs.

The purpose of the legislation will be to codify the shareholder function and ensure that there is a clear legislative framework to support the management of SOCs, clear delineation of roles, and clarity on the required level of private sector involvement in SOCs businesses.

## **2.1 PENDING COURT CASES**

Litigation remains a significant and inherent shareholder risk as the Minister (Shareholder Representative) is often cited as a defendant whenever SOCs are sued. The Department continues to manage this risk by working closely with the State Attorney's Office to reasonably extricate the Minister wherever possible. There are pending court case(s) against Alexkor, Eskom and Transnet, the details of which may not be disclosed as they are sub-judice.

## **2.2 KEY EVENTS IMPACTING THE PORTFOLIO**

Over the past twelve months major events occurred in the policy and SOCs operational environment that significantly altered the Department's execution of the oversight mandate. The occurrence of these events has been informed by both the need to strengthen Government's shareholder oversight, optimize its shareholding in some key sectors as well as directly improve operational and financial performance of SOCs.

In July 2015, Government adopted the Nine Point Plan, which is targeted to re-ignite the South African economy. The Plan prioritised interventions that are essential to drive the implementation of the National Development Plan and achieve the goals that have been set out in the current MTSF. Given the state of the economy and weak private sector investments, there is increased dependency on the investments by SOCs in the short to medium term.

This has further increase the need to re-organise the current institutional architecture of the SOCs management to enhance their efficiency and developmental impact. During this period, the Department embarked on the implementation of the turnaround strategies of both Eskom and South African Express (SAX). This was fundamental in ensuring that the financial position of these entities is significantly improved. The assessment of their performance (operation and financial) has shown improvements but key risks remain and require active shareholder interventions. These risks have been further worsened by the posture that some commercial banks have taken on the funding of some SOCs.

The past twelve months also saw the synchronization of the first Unit of Medupi in the new build programme. Despite the delay and challenges in delivery of the Unit, this achievement is a great milestone and has confirmed that South Africa still possesses the capacity to execute mega and complex infrastructure projects. This lays an important foundation to stabilise the supply of electricity.

The lessons learned on the current build programme on pre-planning, contracting, financing and post transaction monitoring needs to be codified to ensure that delivery of mega projects is significantly improved.

Denel is one of the SOCs that have been successfully turned around. This has given the company a solid launch pad to advance its capabilities and create strategic partnerships that will deepen its manufacturing capabilities. Fuelled by South African rocket science and satellite technology, Denel has launched Spaceteq as a newly formed space engineering business unit.

This follows the incorporation of satellite manufacturer SunSpace into the Denel Group in July 2013 in a move, which optimises the highly advanced engineering and technology skills between the combined businesses.

This strengthens Denel's position as a leader in innovative and advanced aerospace systems and technology. Space has been identified as one of South Africa's "five grand challenges." The Departments of Science and Technology (DST) and Trade and Industry (DTI) have identified satellite production as a high-technology manufacturing niche that South Africa should be pursuing. Therefore, the new strategy of the Department has been framed to support the reform of the SOCs to ensure that Government's role in the economy is optimised and support the advancement of developmental state aspirations as outlined in the NDP.

This will be done whilst the Department will be re-organised to strengthen its capacity to deliver on the mandate. The APP contains specific interventions to realise the objectives of the new strategy of the Department.



## OVERVIEW OF BUDGET AND MTEF ESTIMATES

OVERVIEW OF BUDGET AND MTEF ESTIMATES: Table 1 Department of Public Enterprises

	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriation	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Programmes								
Administration	108,635	115,367	133,295	156,859	156,859	158,587	155,485	164,058
Legal and Governance	19,518	23,477	23,158	24,311	24,311	23,829	26,235	27,558
Portfolio Management and Strategic Partnerships	215,524	1,225,450	112,943	138,368	138,368	85,065	92,594	98,179
Total for programmes		1,364,29	269,396	319,538	319,538	267,481	274,314	289,795

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

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	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriation	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
	343,677	4						
Direct charge against the National Revenue Fund	-	-	-	-	-	-	-	-
Departmental total	343,677	1,364,294	269,396	319,538	319,538	267,481	274,314	289,795
Change to 2014 Budget Estimate					(63,141)			

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

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	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriati on	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
<u>Economic classification</u>	-	-	-	-	-	-	-	-
Current payments	182,622	192,906	208,439	252,077	252,077	263,810	270,485	285,777
Compensatio n of employees	93,867	102,730	124,868	147,065	147,065	152,265	166,206	176,662
Salaries and wages	93,867	102,730	124,868	147,065	147,065	152,265	166,206	176,662
Social contributions	-	-	-	-	-	-	-	-
Goods and	88,755		83,571		105,012	111,545	104,279	109,115

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

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	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriation	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
services		90,176		105,012				
Administrative fees	131	866	527	810	810	793	830	919
Advertising	1,778	1,962	4,705	2,515	2,515	2,667	2,517	2,515
Assets less than the capitalisation threshold	362	444	357	1,055	1,055	1,053	1,031	1,139
Audit costs:								
External	4,117	1,908	2,087	2,200	2,200	2,213	2,204	2,261
Bursaries:								
Employees	629	393	463	1,400	1,400	1,007	1,054	1,111

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

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	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriati on	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Catering: Departmental activities	1,136	1,341	1,621	749	749	1,316	1,152	1,153
Communication (G&S)	3,260	3,741	3,741	3,645	3,615	4,641	4,393	4,913
Computer services	2,726	3,078	4,126	3,974	3,974	4,884	4,730	5,542
Consultants and professional services: Business and advisory services	26,668	22,837	12,741	35,349	35,529	38,083	32,682	37,924
Consultants and	2,396		1,878		3,059	3,282	3,402	3,698

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

OVERVIEW OF BUDGET AND MTEF ESTIMATES: Table 1 Department of Public Enterprises

	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriation	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
professional services:		430		3,059				
Legal costs								
Contractors	1,012	2,250	909	1,898	1,898	2,032	1,738	1,847
Agency and support / outsourced services	2,542	4,110	2,624	3,479	3,479	840	1,476	800
Entertainment	60	32	19	312	312	310	311	323
Fleet services (including government)	765	805	1,190	1,108	1,108	1,538	1,175	1,587

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

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	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriation	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
motor transport)								
Inventory: Clothing material and accessories	-	-	29	-	-	-	-	-
Inventory: Food and food supplies	122	113	-	-	-	-	-	-
Inventory: Fuel, oil and gas	-	21	-	-	-	-	-	-
Inventory: Materials and supplies	85	64	2	-	-	2	3	4

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

OVERVIEW OF BUDGET AND MTEF ESTIMATES: Table 1 Department of Public Enterprises

	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriation	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Inventory: Medical supplies	1	8	2	-	-	-	-	-
Inventory: Medicine	-	2	-	-	-	-	-	-
Inventory: Other supplies	24	25	-	-	-	-	-	21
Consumable supplies	-	34	822	708	708	839	1,172	974
Consumable: Stationery, printing and office	2,028	2,693	2,375	1,361	1,361	1,572	1,507	1,536



## OVERVIEW OF BUDGET AND MTEF ESTIMATES

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R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
supplies								
Operating leases	1,720	1,814	1,297	1,790	1,790	3,412	3,248	2,086
Property payments	6,884	9,137	7,504	8,472	8,472	8,918	9,380	9,850
Travel and subsistence	24,329	23,499	24,017	24,919	24,769	25,855	24,967	23,075
Training and development	2,386	1,624	1,858	2,604	2,604	2,112	2,004	2,093
Operating payments	1,655	3,618	1,132	1,491	1,491	1,326	1,093	1,374
Venues and facilities	1,939	3,327	7,545	2,114	2,114	2,564	2,005	2,104

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

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	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriati on	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rental and hiring	-	-	-	-	-	286	205	266
Transfers and subsidies	156,978	118,638	57,612	63,392	63,392	105	111	117
Provinces and municipalities	-	-	2	-	-	-	-	-
Municipalities	-	-	2	-	-	-	-	-
Municipal bank accounts			2					
Public	156,255		57,250		63,141	-	-	-

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

OVERVIEW OF BUDGET AND MTEF ESTIMATES: Table 1 Department of Public Enterprises

	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriati on	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
corporations and private enterprises		118,313		63,141				
Public corporations	156,255	118,313	57,250	63,141	63,141	-	-	-
Other transfers to public corporations	156,255	118,313	57,250	63,141	63,141			
Households	723	325	360	251	251	105	111	117
Social benefits	-	-	-	196	196	-	-	-
Other transfers to	723		360		55	105	111	117

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

OVERVIEW OF BUDGET AND MTEF ESTIMATES: Table 1 Department of Public Enterprises

	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriation	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
households		325		55				
Payments for capital assets	4,071	2,742	3,250	4,069	4,069	3,566	3,718	3,901
Machinery and equipment	3,922	2,649	2,769	4,069	4,129	3,464	3,614	3,795
Transport equipment	1,411	-	563	3,356	3,056	2,853	3,005	-
Other machinery and equipment	2,511	2,649	2,206	713	1,073	611	609	3,795
Software and other	149		481	-	-60	102	104	106

## OVERVIEW OF BUDGET AND MTEF ESTIMATES

OVERVIEW OF BUDGET AND MTEF ESTIMATES: Table 1 Department of Public Enterprises

	Audited outcome	Audited outcome	Audited outcome	Adjusted appropriati on	Revised Estimate	Revised baseline	Revised baseline	Revised baseline
R million	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
intangible assets		93						
Payments for financial assets	6	1,050,00 8	95	-	-	-	-	-
Total economic classification	343,677	1,364,29 4	269,396	319,538	319,538	267,481	274,314	289,795

### **3.1 Relating expenditure trends to strategic outcome oriented goal**

The assets held by Government through SOCs oversight constitute essential part of South African national wealth (R900 billion), hence the need to manage these assets with extra care and accountability. Therefore, constant monitoring and evaluation of the SOCs must be informed by the need to achieve the best possible results (financial, operational and social) at any given time.

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 also be on improving internal efficiencies and the functioning of the Department. Support for the achievement of the NDP goals will form the central part of the oversight function.

To this end, the personnel establishment is expected to remain constant at 223, excluding interns and graduates. Currently, a large number of positions are in Corporate Management and this must be reversed as the Department intends to build its capacity and focus in the specialist fields.

To carry out the Department's high level stakeholder interactions, intergovernmental and coordinating activities and general oversight role of the Government's investment in SOCs, personnel travel extensively domestically and internationally; and the Department relies on the services of consultants who conduct highly technical research in the transport, manufacturing, and energy sectors. As a result of Cabinet budget reductions, travel and subsistence being the largest spending items are expected to decrease over the medium term. The Department intends to rationalise the use of consultants and draw on internal capacity where possible.

Other reductions to the budget are the result of the transfer of the shareholder oversight function of Broadband Infracore to the Department of Telecommunications and Postal Services (DTPS).

In relation to the following is the Department's contribution towards achieving the outcomes that have been prioritised by Government:

- 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).
- The Outcome 6 chapter the core of the performance agreement between the President and the Minister; furthermore
- The Department, through the activities of its SOCs, contributes to other outcomes such as decent employment through inclusive growth, skills and rural development.

### **3.2 Creating an efficient, competitive and responsive economic infrastructure network (Outcome 6)**

The past MTSF was adopted during the recession. One of the key objectives was to stabilise the economy and place it on a different growth trajectory. At the centre of this objective was:

- implementation of the capital expenditure programme that would address the capacity constraints experienced by the economy during high growth periods between 2005 and 2007; and
- to act as a stimulus to jump-start the economy. In this regard, Eskom's build programme, as well as the Transnet capital expenditure programme, formed the core of the Government's infrastructure investment strategy. This remains a priority in the current MTSF.

The progress that has been made to accelerate infrastructure investment in the economy is highlighted below as well as the SOCs' contribution to other outcomes.

#### **Resolving energy challenges**

The legacy of Apartheid policies left behind inadequate infrastructure for the majority of South Africans.

Although investments in generation capacity far surpassed demand of the time (for the minority), investment required to evacuate power to service a large population was not adequate. This required that the Government to fast track investments in expanding transmission and distribution infrastructure post 1994 to ensure universal access to basic services including electricity.

Eskom as an implementing agent of Government policies has largely been consistently providing electricity to the population. Even when challenges arose in meeting the demand, the majority of South Africans were still connected. Not only is Eskom's focus in ensuring consistent electricity, it continues to support Government's policy for universal access.

Post 1994 to August 2015, 6.63 million households were connected to the grid, of which the majority of connections were done by Eskom. The current medium term strategic framework further allocate R5 billion for 335 000 connections. These plans have improved household access from 35 % pre 1994 to approximately 91% in 2014/15 and are in course reach the universal access as envisaged by the Integrated National Electrification Plan.

DPE and Eskom's active participation in the War Room led to better co-ordination in the implementation of the Cabinet's 5-Point Energy Plan in resolving the energy challenges. The following activities were implemented:

- Provision of R23 billion equity injection and conversion of the R60 billion to strengthen the balance sheet and improve financial discipline and prudence in its finances;
- The conversion of the R60 billion subordinated loan and the equity injection has significantly assisted Eskom to fund its operations;
- Load shedding minimized and the risk of load shedding greatly minimized. South Africa has seen only two hours and twenty minutes of load shedding since August 2015; and
- Eskom has connected 1800 MW IPPs to the grid of the target of 3 725 MW In pursuit of security of supply.

#### **Eskom's capacity expansion programme**

- Since the commencement of the Eskom New Build Programme in 2005 up until September 2015, 7 032 Megawatts (MW) of new generation capacity have been commissioned; 6 018 kilometres of transmission lines and 31 590 MVA transmission capacity erected to evacuate power.
- At the completion of the build programme, Eskom's installed generation capacity will be 17 384 MW, 9 756 km and 42 470 MVA. Eskom's capacity expansion programme is progressing well.
- Medupi Power Station Project: On 26 May 2015 Medupi Unit 6 achieved full load of 800MW following its first synchronisation on 2 March 2015. At peak, 18000 direct jobs and 2000 indirect jobs were created by the Project, of which approximately 10 000 people were employed



from the local communities. In 2013, a Medupi Leadership Initiative was launched, which works with the local authorities and business co-operatives to offer Medupi employees and contractors with skills development, job opportunities and SMME incubation opportunities. In addition to this, Medupi has a local content and industrialisation procurement scheme which spent R66 billion in South Africa.

Since the beginning of the Medupi Project in August 2007, it has invested in excess of R2.3 billion in the socio economic development initiatives in Lephalale. These include amongst others roads, bridges, sewer treatment plants, community halls, crèches and electrical infrastructure. Reasonable investment has been made on maths and science interventions and extensive training in primary schools as well as in the Jobs Funds Smallholder Support Programme for local farmers. It has in conjunction with its contractors trained 2 513 South Africans, of which 60% were local to Limpopo. The Project has trained 102 local business owners, and has 32 businesses, of which 18 are in full incubation and 14 in pre-incubation. Eskom and its contractors have placed contracts in excess of R3.5 billion with Lephalale and Waterberg district-based suppliers since the commencement of the project.

### **Kusile Power Station Project**

- Since its inception in 2008, Kusile Project has created 17 945 direct jobs and trained 3 518 South Africans in skills ranging from Artisans, Technicians, Engineers and Non-technical trades. The Project is on track to achieve synchronisation of the first Unit in November 2017. In June 2015, Kusile achieved a significant milestone when the Unit 1 boiler hydro test was successfully completed. On 28 October 2015, the Kusile Project celebrated two significant milestones; these are first coal intake and the filling up of the raw water Reservoir. In excess of R107 million was spent by the Kusile Project in supporting community development projects spanning Education, Science, Community Safety, Health and Welfare. The Project has been instrumental in making a positive impact in the lives of the people of both the Nkangala District and Mpumalanga Province. Notably, Kusile has spent in excess of R8 million in the establishment of a mobile bus clinic to alleviate the burden on the Public Health Care system in the Province.
- In terms of Eskom's Renewable Programme: The Sere wind farm, which is a flagship project for renewable energy projects in Eskom aimed at supporting Government's commitment of transitioning towards a low-carbon economy is fully operational. This project reached full commercial operation on 31 March 2015 and it continues to provide an additional 100 MW to the grid. The number of jobs created at the height of the construction of the project was 564, with the majority from the surrounding Koekenaap area in Western Cape.

## **Power Delivery Projects**

- Power Delivery to enable the economy and the livelihood of the people through Eskom's networks has had many successes, significant amongst these are:
  - o Completion and energizing of a 350km transmission line called Eros-Vuyani-Neptune between East London and Harding; and the energizing of the Vuyani substation in Umtata. All of which formed part of the R1.8 billion Greater East London project. The Vuyani substation in Umtata was completed in May 2014 and launched by the Deputy Minister, Mr Magwanishe in November 2014. The line and substation are important because they will improve the network reliability, solve distribution problem and solve the capacity related problem and enable further electrification of households in the former Transkei area.
  - o Completion of the R1.6 billion Kimberly Strengthening scheme in July 2015, comprising of the 428km Mercury-Mookodi-Ferrum transmission line, which runs from Mercury Substation near Orkney in the North-West via a new substation called Mookodi, then Ferrum Substation in the Khathu area in Northern Cape. This transmission line will support the growing and future loads in the Sishen area.

For the financial year 1 April to October 2015, construction of an additional 147km of Transmission line on various projects, with an additional 194km planned for completion by March 2016.

## **Transnet**

Despite the tough operating environment that have had major impact on mining and other productive sectors of the economy, Transnet has continued to implement the Market Demand Strategy (MDS). In this regard, Transnet has implemented its capacity expansion programme as well as ensuring that there are productivity improvements, particularly, at the sea ports to support the overall competitiveness of the South African economy. Although Transnet had to delay some of its infrastructure expansion programme, it continues to maintain the high capital expenditure programme.

Over the past 5 years, Transnet capital investment has grown by an average of 12% per annum (increasing from R21.5bn in 2010/11 to R33.9bn in 2014/15). Some of the investment included the following projects:

## **General Freight Business rolling stock renewal**

- As at September 2015, 60 Class 43 Diesels Locomotives for GFB have been received and accepted into operations.
- All 95 class 20E electric locomotives were delivered and accepted into operations by March 2015.
- Transnet has concluded contracts with four OEMs for the delivery of the 1064 locomotives, namely China South Rail (CSR), China North Rail (CNR), Bombardier Transport and General Electric. 153 locomotives are expected to be delivered in the 2015/16 financial year. The overall project cost is approximately R50bn and the total locomotive delivery is expected to be completed by the 2018 financial year.

## **Expansion of the Export Coal Line**

- In 2014/15, Transnet entered into a transaction to acquire 100 locomotives as part of the coal fleet renewal. As at March 2015, 25 locomotives were received and the remaining locomotives are expected to be delivered in the 2015/16 financial year.

## **Manganese expansion**

- During the 2015/16 financial year, Transnet has commenced construction with the expansion of the Manganese export capacity from 7mt to 16mpta. The project is expected to be completed by the 2022 financial year. The estimated overall project cost is R26.6bn.

## **Increase coal export line capacity from current 77mt to 81mt**

- The project life cycle stage is at an execution phase in which design and plans are finalized and the procurement process for all work packages is almost complete. The project is still expected to be completed by March 2019 in line with the MTSF target.

## **Expansion of the Waterberg coal line**

- Phase 1 of the Waterberg upgrade (which related to the Matlabas loop extension) has been completed and created capacity of 2 million tons (mt). The feasibility study of Phase 2 which entails creation of 4mt of additional capacity has been completed and construction commenced during the second quarter of the 2015/16 financial year. This Phase is expected to be completed by March 2016.

- Furthermore, Transnet has continued to support the implementation of the Oceans Economy. In this regard, TNPA has adopted a two-pronged approach to funding the implementation. It is funding all the investments required to refurbish the existing facilities (i.e. initiative 5); and the investments in new facilities (initiatives 2, 7 and 8) will be co-funded through private sector participation ("PSP").
- Initiative 2 is the acceleration of identified ship/rig Repair and Supply Base investments at the Port of Saldanha; Initiative 7 is the dredging at the Port of Richards Bay to accommodate the introduction of a floating dock; and Initiative 8 is the Refurbishment of the East London slip way to accommodate boat building.

TNPA has allocated R2 billion over 5 years to invest in the refurbishment of the existing repair facilities, including cranes and other equipment utilised at these facilities, and R320 million to invest in the Ports of Cape Town, Durban, East London, Port Elizabeth and Saldanha Bay.

The total estimated co-funded investment of R14.615 billion in new facilities at the Ports of Saldanha Bay (R13.2billion to develop oil and gas repair and supply base facilities); Richards Bay (R900m to develop ship repair facilities); and East London (R515m to develop boat building facilities).

Progress in project execution is more advanced in the refurbishment projects, which are 100% funded and managed by TNPA; whereas the investments in new facilities are not as advanced because the Transaction Advisors are still engaging international stakeholders to test the investment appetite in the market and subsequently inform the scoping of the business cases for the PSP process. The report is expected by the end of September 2015.

It is important to note the progress on the projects to refurbish the existing ship repair facilities as follows:

- The Department has approved the operating model for existing ship repair facilities.
- Scope of works has been completed for all projects.
- Projects are at various different stages of planning and execution. The refurbishment of outer dry dock caisson and procurement of equipment in Durban; refurbishment of Lead In Jetty in Port Elizabeth and upgrade of Offshore Supply Base in Saldanha are all in execution phase.
- A total of 177 construction related jobs have been created through initiative 5 over the last 12 months at the various ports (79 jobs in Port Elizabeth; 68 jobs in Durban and 30 Jobs in Saldanha), just on the TNPA side.

The productivity at the Ports remains a major challenge and engagement with Transnet has commenced. This is particularly true of the Ports of Durban and Ngqura. The Gross Crane Move Per Hour for Pier and Pier 2 remain below the target of 35 as outlined in the MTSF. Transnet continues to invest and undertake debottling activities to ensure that there are improvements in this area.

### **3.3 Outcome 4: Decent employment through inclusive growth**

The SOCs within the DPE has a direct role in supporting the reindustrialization of the South African economy. As a result, a number of interventions have been introduced to support localization, expand RSA's capabilities in advanced manufacturing as well as support technology development. This has been directed towards supporting the implementation of the Industrial Policy Action Plan.

In 2007, the Department introduced a Competitive Supplier Development Programme (CSDP) to increase localization in the SOCs' capex programme. Transnet has gone into a range of partnerships with incubators and funders and has set up a one stop shop to support small businesses. Thus far, three hubs have been established in three provinces, namely, Gauteng (Caltorn Centre), Northern Cape (De Aar) and Western Cape (Saldana Bay), other hubs are yet to be established across the country. A coherent and sustained demand platform creates greater procurement leverage to the buyer to achieve transformation objectives, as well as the creation of strong black industrialists. One of the major Transnet CSDP initiatives was the EMD 50 locomotives which had 66% of its components sourced locally.

Siyahamba Engineering, a small South African engineering company was transformed through a 90% B-BBEE acquisition and is now part of the GE's supply chain. Other South African companies such as Reelin Investments have also benefited from the programme. Two sleeper manufacturers were developed. Rail to Rail, a South African Company that was established in 2007 received a contract to manufacture concrete sleepers for Transnet. Through this contract, 85 direct new jobs were created, R73 million invested in plant. GPT group set up a plant in April 2009 to meet the order of 1 million concrete sleepers from Transnet, as a result 40 direct new jobs were created.

The recent 1064 locomotives procurement has stringent local content, skills development and training commitments as dictated by the CSDP. 70% of the contract value (R35 billion) has been committed for Supplier Development by the four Original Equipment Manufacturers (OEMs) whom Transnet awarded the contract to, namely; China North Rail, China South Rail, Bombardier Transportation and General Electric.

Transnet's 95 Electric locomotives assembled in South Africa has seen 409 jobs created and maintained, 110 individuals skilled, 10 small businesses promoted and Technology transferred. Localization of R883 million and Industrialisation of R255 million were achieved.

**South African Companies benefiting from the build programme are indicated in the table below**

No.	SA Supplier Name	Services
1	Wabtec	Brakes and Braking Systems
2	Penbro	Power generation & Metal Fabrication
3	Booyco	Heat Ventilation and Air Conditioning
4	DCD	Engineering
5	FNB	Batteries
6	Siyahamba	Coach & Locomotive Equipment
7	Ansys	Locomotive Control Systems
8	Radel	Electro Mechanical products
9	Proseat	Component Manufacturers
10	Hiperconn	Jumper Plugs & Sockets on all rolling stock
11	Minus40	Heat ventilation and Air Conditioning

## Transnet

Engineering is partnering with Technology Localisation Implementation Unit (TLIU) on the Technology Assistant Programme (TAP) to incubate suppliers, of these suppliers 88% are majority Black Owned, 87.5% are EMES and 12.5% are QSE's.

Transnet also developed the concept of Further Recognition Criteria to incentivise suppliers to compete on commitments they will make to transformation whilst delivering on the requirements of procurement.

Furthermore, Denel continue to implement projects that support the development of advanced industrial capabilities and has become a global player in defence and aerospace industry. The company has managed to significantly expand its order book to over R30 billion. Furthermore, the company is investigating the development of the Small African regional Aircraft.

### **3.4 Outcome 5: A skilled and capable workforce to support an inclusive growth path**

SOCs within the DPE portfolio committed to support the National Skills Agenda through implementation of various skills initiatives, with a specific focus on scarce and critical skills. These initiatives include alignment of skills development programmes to the National Skills Development Strategy (NSDS) and National Skills Accord in support of the NGP and NDP. To ensure alignment to these interventions, the Department has established partnerships with the Department of Higher Education and Training (DHET), the Economic Development Department (EDD) and the Department of Trade and Industries (DTI). This is crucial to ensure that the skills development capacity of SOC is leveraged to develop core and critical skills to meet the economy's requirements.

The commitments made by SOC and partnerships with relevant Government departments has resulted in the enhancement of provisioning of scarce and critical skills by SOC to address skills gaps not only within SOC themselves but as well as closing the national scarce and critical skills gaps. Thus SOC alignment to the National Skills Accord focuses on the following commitments:

- **Commitment 1:** Expand the level of training using existing facilities more fully.
- **Commitment 2:** Make internships and placement opportunities available within workplaces.
- **Commitment 5:** Improve funding of training and the use of funds available for training and incentives.
- **Commitment 8:** Improve the role and performance of FET Colleges.

Since the commencement of the implementation of the New Growth Path and the signing of the National Skills Accord in 2011, a total of **23 277** trainees were trained in various scarce and critical skills development interventions in SOC within DPE portfolio. Of this number, **5 286** new trainees were enrolled in various scarce and critical skills during 2014/15 financial year, which includes **790** artisan trainees; **616** technician trainees; **387** engineering trainees; and **11** Cadet Pilots. Further, a total of **3 320** trainees were enrolled in various sector specific scarce and critical skills programmes.

Eskom has also trained in its pipeline in collaboration with its supplier network, **1 916** Matriculants in artisan trade skills programmes and placed **541** Graduates in workplace experiential learning programmes through their Strategic Youth Development Initiative (SYDI).

SOC continue to provide support to TVET colleges through various partnership agreements, focusing on learner and lecturer support, donation of machinery and equipment, review and curriculum support as well as participation in TVET College Councils.

In the main, Eskom and Transnet respectively, are playing a very key role in this space. Over and above the existing partnerships and support, both Transnet (through one of their suppliers, Hamisa Holdings (Pty) Ltd); and Eskom through their Foundation, have expanded this support to Technical High Schools and are currently jointly donating machinery and equipment for the Welding and Electrical Workshops at Mamellong Comprehensive School in the Tsakane, within the Ekurhuleni Metro.



## PART B: PROGRAMME AND SUB-PROGRAMME PLAN

### 4.1 PROGRAMME 1 – ADMINISTRATION AND CORPORATE MANAGEMENT

#### 4.1.1 Purpose of the programme

Provide strategic leadership, management and support services to the Department.

#### 4.1.2 Programme Overview

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.

#### Corporate Services is responsible for:

- **Security and Facilities Management** – Provide a safe and secure environment and internal administration and facilities services to internal customers.
- **Information Management and Technology** – Provide IT services and applications as strategic tools for business enablement, coupled with a comprehensive Records Management, Knowledge Management, Library and Information Services.
- **Office of the Chief Financial Officer** is responsible for Financial Management Services to ensure compliance with various legislation including the Public Finance Management Act, 1999 (Act No 1 of 1999), Public Audit Act, 2004 and Treasury Regulations; and efficient and effective supply chain management services
- **Human Resources** is responsible for assisting line management to implement operational excellence and developing the Human Capital potential in the Department.
- **Communications** is responsible for repositioning the DPE as a strong shareholder Department; make the DPE brand relevant and meaningful to ordinary South Africans; impact media relations and media communication; and improve employee engagement.
- **Strategic Planning, Monitoring and Evaluation** is responsible for co-ordination, management and oversight of outcomes based performance reporting of the Department; implementation of performance monitoring and evaluation processes for individual programmes and business units as a mechanism for measuring delivery of our strategic objectives; and reporting to various stakeholders.

- **Inter-Governmental and Stakeholder Relations** is responsible for coordination, support and provision of advice to the Minister, Deputy Minister, Director-General and the Department on matters related to the Intergovernmental, International and Stakeholder Relations.
- **Internal Audit** Provide independent and objective assurance and consulting Internal Audit services designed to add value and improve the Department's operations. Assist the Department to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **4.2 PROGRAMME 1 – ADMINISTRATION**

### **4.2.1 Strategic Objective Annual Targets**

The Department's Strategic Plan identifies the optimization of the organization structure, improving the internal operation processes and facilitates the repositioning of the Department through strengthening of the intergovernmental programme. In this regard the Programme has identified the following strategic objectives:

- Strengthen the delivery capacity of the Department through the optimization of the structure as well as increased investments into technology
- Increase engagements between the Department and key stakeholders such as provincial governments, universities, business and other civil society formations
- Optimise internal processes to fast track decision making.

**PROGRAMME 1: ADMINISTRATION STRATEGIC OBJECTIVES AND ANNUAL**

Strategic Objectives	5 year Strategic Plan Targets	Audited/Actual performance		Estimated performance	Medium-term targets			
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
To strengthen and enhance internal process flows and systems	Maintain level 5 ICT systems maturity level	None	None	Approved ICT strategy	5 systems improvement projects implemented focused on business process optimisation and EIP	Reports on implementation of integrated enterprise-wide ICT architecture plan and schedule for implementation	Reports on implementation of integrated enterprise-wide ICT architecture plan and schedule for implementation	Reports on implementation of integrated enterprise-wide ICT architecture plan and schedule for implementation
To support service delivery through implementation of the intergovernmental engagement programme	IGR engagements conducted to drive a shared and common vision and strategic priorities for DPE	DPE international engagements programme	DPE international engagement programme	DPE international engagement programme	Reports on the impact of the number of programmes implemented	Reports on the impact of the number of programmes implemented	Reports on the impact of the number of programmes implemented	Reports on the impact of the number of programmes implemented

**PROGRAMME 1: ADMINISTRATION PERFORMANCE INDICATORS AND ANNUAL TARGETS FOR 2016/17**

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Strategic objective: Strengthen and enhance internal process flows and systems</b>							
ICT architecture plan and schedule for implementation	None	None	Approved ICT strategy	5 systems improvement projects implemented focused on business process optimisation and EIP	Reports on implementation of integrated enterprise-wide ICT architecture plan and schedule for implementation	Reports on implementation of integrated enterprise-wide ICT architecture plan and schedule for implementation	Reports on implementation of integrated enterprise-wide ICT architecture plan and schedule for implementation
<b>Strategic Objectives: Support service delivery through implementation of intergovernmental engagement programme</b>							
DPE intergovernmental engagement programme	DPE international engagement programme	DPE international engagement programme	DPE international engagement programme	Reports on the impact of the number of programmes implemented	Reports on the impact of the number of programmes implemented	Reports on the impact of the number of programmes implemented	Reports on the impact of the number of programmes implemented

**PROGRAMME 1: ADMINISTRATION PERFORMANCE INDICATORS AND QUARTERLY TARGETS FOR 2016/17**

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Strategic objective: Strengthen and enhance internal process flows and systems</b>						
ICT architecture plan and schedule for implementation	Quarterly	5 systems improvement projects implemented focused on business process optimisation and EIP	5 systems projects business cases presented at the ICT steering committee	Business cases approved	Progress on implementation of the 5 projects	Progress on implementation of the 5 projects
<b>Strategic Objectives: Support service delivery through implementation of intergovernmental engagement programme</b>						
DPE intergovernmental engagement programme	Quarterly	Reports on the impact of the number of programmes implemented	Develop Intergovernmental engagement programme  Report on Implementation of the Inter-governmental Programme	Report on Implementation of the Inter-governmental Programme	Report on Implementation of the Inter-governmental Programme	Report on Implementation of the Inter-governmental Programme

**Expenditure Estimates - Table 2: Administration**

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Subprogrammes								
Ministry	31,861	30,036	31,342	34,283	34,283	35,963	38,062	36,265
Management	8,240	4,173	9,269	17,298	17,298	24,238	15,187	15,881
Corporate Services	23,920	28,334	27,056	29,100	29,100	26,996	28,740	34,317
Chief Financial Officer	11,171	10,074	11,281	12,125	12,125	12,283	12,738	13,466
Human Resources		12,698	17,618	25,153	25,153	20,854	21,025	22,177

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	9,499							
Communications	13,050	12,840	14,227	11,453	11,453	9,953	10,369	10,989
Strategic Planning, Monitoring and Evaluation	-	3,379	4,807	7,553	7,553	6,729	6,717	7,089
Intergovernmental Relations	-	1,772	6,711	7,157	7,157	8,077	8,475	8,961
Internal Audit	4,285	3,276	3,743	4,655	4,655	4,976	5,202	5,494
Office Accommodation	6,609	8,785	7,240	8,082	8,082	8,518	8,970	9,419
Total	108,635	115,367	133,294	156,859	156,859	158,587	155,485	164,058

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Economic classification								
Current payments	103,835	112,390	129,632	152,590	152,590	154,916	151,656	160,040
Compensation of employees	51,287	56,714	66,659	74,664	74,664	74,502	79,333	87,761
Salaries and wages	51,287	56,714	66,659	74,664	74,664	74,502	79,333	87,761
Social contributions	-	-	-	-	-	-	-	-
Goods and services	52,548	55,676	62,973	77,926	77,926	80,414	72,323	72,279
Administrative fees		718	527	810	810	793	830	919



	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	131							
Advertising	1,771	1,883	4,221	2,515	2,515	2,667	2,517	2,515
Assets less than the capitalisation threshold	362	442	354	1,055	1,055	1,053	1,031	1,139
Audit costs: External	4,117	1,908	2,087	2,200	2,200	2,213	2,204	2,261
Bursaries: Employees	629	393	463	1,400	1,400	1,007	1,054	1,111
Catering: Departmental activities	974	1,147	1,309	635	635	1,110	1,023	1,016
Communication (G&S)	2,8	3,344	3,220	2,759	2,759	3,447	3,191	3,667

	2012/13		2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome		Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	64								
Computer services	2,726		3,078	4,125	3,974	3,974	4,884	4,730	5,542
Consultants and professional services: Business and advisory services		3,237	2,325	7,887	20,623	20,623	19,135	12,754	13,168
Consultants and professional services: Legal costs		96	-	-	893	893	1,000	1,000	1,117
Contractors		983	2,130	809	1,898	1,898	2,032	1,738	1,847
Agency and support / outsourced services		2,199	3,558	1,361	3,479	3,479	840	1,476	800
Entertainment			30	19	252	252	247	243	254

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	57							
Fleet services (including government motor transport)	765	805	1,149	1,108	1,108	1,538	1,175	1,587
Housing	-	-	-	-	-	-	-	-
Inventory: Clothing material and accessories	-	-	25	-	-	-	-	-
Inventory: Food and food supplies	122	113	-	-	-	-	-	-
Inventory: Fuel, oil and gas	-	21	-	-	-	-	-	-
Inventory: Materials and supplies	61	63	1	-	-	2	3	4
Inventory: Medical supplies	1	3	-	-	-	-	-	-

	2012/13		2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome		Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Inventory: Other supplies	24		25	-	-	-	-	-	21
Consumable supplies	-		34	624	708	708	839	1,172	974
Consumable: Stationery, printing and office supplies	2,021		2,616	2,248	1,361	1,361	1,572	1,507	1,533
Operating leases	1,720		1,814	1,292	1,790	1,790	3,412	3,248	2,086
Property payments	6,884		9,137	7,504	8,472	8,472	8,918	9,380	9,850
Transport provided: Departmental activity	-		-	-	-	-	-	-	-
Travel and subsistence	16,4		14,838	14,951	16,385	16,385	18,441	17,742	16,077

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	18							
Training and development	1,932	1,068	1,650	2,604	2,604	2,112	2,004	2,093
Operating payments	1,078	2,352	1,076	1,491	1,491	1,326	1,093	1,374
Venues and facilities	1,376	1,831	6,071	1,514	1,514	1,630	1,003	1,058
Rental and hiring	-	-	-	-	-	196	205	266
Transfers and subsidies	723	227	318	200	200	105	111	117
Provinces and municipalities	-	-	2	-	-	-	-	-

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Municipalities	-	-	2	-	-	-	-	-
Municipal bank accounts	-	-	2	-	-	-	-	-
Municipal agencies and funds	-	-	-	-	-	-	-	-
Households	723	227	316	200	200	105	111	117
Social benefits	-	13	269	145	145	-	-	-
Other transfers to households	723	214	47	55	55	105	111	117

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Payments for capital assets	4,071	2,742	3,249	4,069	4,069	3,566	3,718	3,901
Machinery and equipment	3,922	2,649	2,768	4,129	4,129	3,464	3,614	3,795
Transport equipment	1,411	-	747	3,056	3,056	2,853	3,005	-
Other machinery and equipment	2,511	2,649	2,021	1,073	1,073	611	609	3,795
Software and other intangible assets	149	93	481	(60)	(60)	102	104	106
Payments for financial assets	6	8	95	-	-	-	-	-

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Total	108, 635	115,367	133,294	156,859	156,859	158,587	155,485	164,058



#### **4.2.2 Performance and Expenditure Trends for Administration**

The spending focus over the medium term will be on supporting the Department in playing its oversight role over SOCs by providing administrative support to the Minister, including corporate and human resource services to the Department. The programme will also focus on improving the Department's efficiency and productivity by reconfiguring its business, which will enable it to carry out its mandate; and will put in place a three-year rolling evaluation plan to assess the impact of programmes that have been implemented by the Department and its SOCs.

Thus over the medium term, the bulk of the programme's allocation will be spent on compensation of employees, who provide strategic and administrative support to the Department. Spending on this item is projected to grow following the reconfiguration. The number of personnel will not increase significantly however the expenditure will increase by 5.5 per cent over the medium term.

There will be a decrease in expenditure on goods and services over the medium terms as a result of Cabinet budget reductions; this is directly linked to reductions in consultants and travel subsistence. The significant items are consultants and professional services. The utilisation of consultants provides the specialist expertise required particularly in the transport, manufacturing, and energy sectors.

#### **4.3 PROGRAMME 2 – LEGAL, GOVERNANCE & RISK**

##### **Programme Purpose**

Provide legal services and corporate governance system, and facilitate the implementation of all legal aspects of transactions that are strategically important to the Department and State Owned Companies (SOC).

##### **4.3.1 Strategic Objective Annual Targets for 2016/17**

Ensure effective shareholder oversight of SOC by:

- Providing legal services and coordinated governance systems on an ongoing basis.
- Facilitate the implementation of all legal aspects of transactions that are strategically important to the Department and SOC on an ongoing basis.

- Ensuring that financial and operational risk management processes are embedded throughout the Department as and when required over the medium term.
- Addressing constraints on SOC contract negotiations and management to improve commercial competence and contribution to economic growth and development on an ongoing basis.
- Providing assistance for developing and negotiating shareholder compact frameworks annually in terms of the Public Finance Management Act (1999).
- Providing guidance on appropriate delegation frameworks between the boards of SOC and executive management on an ongoing basis.
- Advising the Minister of Public Enterprises on an ongoing basis on the appointments of boards of directors including preparations for annual general meetings; and conducting annual reviews of ownership policies, governance, appointments, remuneration and the performance of the boards and executive management.

**4.3.2 Legal, Governance and Risk Strategic Objectives and Annual Targets**

Strategic Objectives	5 year Strategic Plan Targets	Audited/Actual performance		Estimated performance	Medium-term targets			
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Strengthen the shareholder function	Completion of the Shareholder Policy and Shareholder Management Bill	Presidenti al Review Committe e (PRC) on State Owned Enterprises Recomm endations	12 Resolution adopted by Cabinet Lekgotla on the implementatio n of PRC recommendat ions	SOC Stabilisation Programme  Draft Concept paper on Shareholder Policy	Approved concept paper on Shareholder Policy	Draft Bill on Shareholder Managemen t  Public consultations on the Bill	Draft Shareholder Management Bill tabled in Parliament	Adoption of the Bill into law
Completion of the liquidation of Aventura	Completion of the repeal Act for the	Appointm ent of the liquidator	Draft Bill to repeal the Overvaal Act 127 of 1993	Bill to repeal the Overvaal Act 127 of 1993 approved by Cabinet	Draft Bill tabled at Parliament	Bill signed into Law	None	None
Strengthen the shareholder function	Strengthening of risk management practices within the Department	None	Feasibility report on the risk modelling tool completed	Feasibility Report on Risk Modelling Tool	Risk modelling tool developed	Roll-out of the risk modelling tool	None	None

### 4.3.3 Legal, Governance and Risks performance indicators and annual targets for 2016/17

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Strategic objective: Strengthen the shareholder function</b>							
Shareholder Concept Paper	PRC on SOC Recommendations	12 resolutions adopted by Cabinet to implement the PRC recommendations	SOC stabilization programme  Draft Concept paper on Shareholder Policy	Approved Concept Paper on shareholder policy	Draft Bill on Shareholder Management	Draft Shareholder Management Bill tabled in Parliament	Adoption of the Bill into law
<b>Strategic objective: Completion of the liquidation of Aventura</b>							
Repeal of the Overvaal Act 123 of 1993	Appointment of the liquidator	Draft Bill to repeal the Overvaal Act 127 of 1993	Bill to repeal the Overvaal Act 127 of 1993 approved by Cabinet	Draft Bill tabled at Parliament	Bill signed into Law	None	None

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Strategic objective: Strengthening of risk management practices within the Department</b>							
Shareholder risk management tools and guidelines	None	Feasibility report on the Risk Modelling Tool	Feasibility report on Risk Modelling Tool	Outcomes-Based Shareholder Risk Reporting Procedure Manual	Rollout of the risk tool	None	None

**4.3.4 Legal, Governance and Risk Quarterly Targets for 2016/17**

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Strategic Objective: Strengthen the shareholder function</b>						
Shareholder Concept Paper	Quarterly	Draft concept paper on shareholder policy	Draft concept paper developed and commencement of government consultations	Presentation to the IMC	Draft Concept paper approved for external consultations	None
<b>Strategic objective: completion of the liquidation of Aventura</b>						
Repeal of the Overvaal Act 123 of 1993	Quarterly	Draft Bill tabled at Parliament	Project Plan for the Bill developed and approved	Draft Bill submitted to Cabinet	Draft Bill issued for external consultations	Bill introduced to Parliament for consultation
<b>Strategic objective: Strengthen risk management practices within the Department</b>						
Risk Modelling Tool Shareholder Risk Management Tools and Guidelines	Quarterly	Outcomes-Based Shareholder Risk Reporting Procedure	Project Plan developed and Approved Consultation	Develop Outcomes-based Risk Reporting Procedure	Develop Outcomes-based Risk Reporting Procedure	Roll-out of approved Templates and Procedure

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
		Manual	and awareness with internal and external Stakeholders	Manual and Practice Notes	Manual and Practice Notes	Conduct Capacity Building and Awareness Workshops

#### 4.3.5 Reconciling Performance Targets with the Budget and MTEF

Expenditure Estimates

Table 3: Legal, Governance and Risk

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Sub-programmes								
Management		2,252	3,021	2,826	2,826	2,956	3,067	3,244

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	1,822							
Legal	12,775	13,370	12,704	12,335	12,335	13,127	14,461	15,329
Governance	4,921	7,855	7,434	9,150	9,150	7,746	8,707	8,985
Total	19,518	23,477	23,159	24,311	24,311	23,829	26,235	27,558
<u>Economic classification</u>	-							
	-	-	-					
Current payments	19,518	23,450	23,146	24,311	24,311	23,829	26,235	27,558



	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Compensation of employees	13,206	14,111	15,178	17,542	17,542	18,773	20,486	20,443
Salaries and wages	13,206	14,111	15,178	17,542	17,542	18,773	20,486	20,443
Social contributions	-	-	-	-	-	-	-	-
Goods and services	6,312	9,339	7,968	6,769	6,769	5,056	5,749	7,115
Administrative fees	-	148	-	-	-	-	-	-

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Advertising	-	41	-	-	-	-	-	-
Assets less than the capitalisation threshold	-	2	-	-	-	-	-	-
Catering: Departmental activities	54	74	46	24	24	28	28	31
Communication (G&S)	78	124	139	204	204	544	572	600
Computer services	-	-	-	-	-	-	-	-

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Consultants and professional services: Business and advisory services	422	4,322	2,458	2,450	2,450	655	1,287	2,442
Consultants and professional services: Legal costs	2,300	430	1,878	2,166	2,166	2,282	2,402	2,581
Contractors	28	84	98	-	-	-	-	-
Agency and support / outsourced services	343	552	1,197	-	-	-	-	-

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Entertainment	1	2	-	14	14	13	13	14
Inventory: Materials and supplies	24	-	-	-	-	-	-	-
Inventory: Medical supplies	-	2	-	-	-	-	-	-
Consumable supplies	-	-	3	-	-	-	-	-
Consumable: Stationery, printing and office	2	74	1	-	-	-	-	3

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
supplies								
Operating leases	-	-	4	-	-	-	-	-
Travel and subsistence	2,547	2,753	1,723	1,831	1,831	1,358	1,266	1,255
Training and development	120	170	156	-	-	-	-	-
Operating payments	275	325	34	-	-	-	-	-
Venues and facilities		236	231	80	80	176	181	189

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	118							
Rental and hiring	-	-	-	-	-	-	-	-
Transfers and subsidies	-	27	13	-	-	-	-	-
Households	-	27	13	-	-	-	-	-
Social benefits	-	-	-	-	-	-	-	-
Other transfers to households	-	27	13	-	-	-	-	-

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Payments for capital assets	-	-	-	-	-	-	-	-
Payments for financial assets	-	-	-	-	-	-	-	-
Total	19,518	23,477	23,159	24,311	24,311	23,829	26,235	27,558

## **Performance and Expenditure Trends**

The spending focus over the medium term will be on increasing the programme's capacity to provide legal services and transaction and contract management support; and on facilitating the creation of a legislative framework for the department's mandate to ensure compliance with applicable legislation and enhance corporate governance procedures by SOCs. As a result, the *Legal and Governance* sub programmes receive the bulk of the programme's allocation over the medium term. In line with the laws governing SOCs, the Minister is obliged to exercise care in carrying out these responsibilities.

Specialist corporate legal expertise is frequently required to assist on issues including proposals by SOCs, and the assessment of contractual obligations and transactions. Spending on consultants who provide legal services decreased between 2011/12 and 2013/14 as the internal capacity to perform this function increased. However, due to an increase in transaction services, contractual arrangements and governance arrangements, spending on legal costs is expected to increase over the medium term.

Over the medium term, 73.9 per cent of the programme's budget is allocated to spending on compensation of employees.



## **4.4 PROGRAMME 3 - PORTFOLIO MANAGEMENT AND STRATEGIC PARTNERSHIPS**

### **4.4.1 Programme Purpose**

Align the strategies of the SOC with government policy and strategy, and monitor and benchmark their financial and operational performance and capital investment plans. Align shareholder oversight with overarching government economic, social and environmental policies, and build focused strategic partnerships between the SOC, strategic customers, suppliers and financial institutions.

The sub-programmes in this programme are as follows:

- Energy Enterprises exercise shareholder oversight over Eskom;
- Manufacturing Enterprises exercise shareholder oversight over Denel, Alexkor and South African Forestry Company;
- Transport Enterprises exercise shareholder oversight over South African Express (SAX) and Transnet;
- Economic Impact and Policy Alignment aligns SOC with overarching government economic, social and environmental policies; and
- Strategic Partnerships ensures that SOC maintain commercial sustainability and attain desired strategic outcomes and objectives.

### **4.4.2 Energy Enterprise objectives**

- Provide shareholder management and oversight of the Eskom business, including the generation, transmission and distribution of electricity with particular emphasis on ensuring security of supply.
- Ensure the legal regulatory compliance of Eskom by regularly engaging with relevant stakeholders such as the Department of Energy, Environmental Affairs and Water Affairs and with the National Energy Regulator of South Africa regarding policies and regulations affecting Eskom.
- Reduce Eskom's dependence on funding from the fiscus by monitoring costs escalation for its capital investments programme and operations in order to cost effectively rollout the build programme.
- Exercise oversight to ensure that Eskom's capital investment support local suppliers industry by monitoring the implementation of the competitive supplier industries by the company's quarterly report to assess progress.

- Provide support to address the municipal debt challenges to ensure continued provision of services to business and society at large.

### **Eskom SOC limited**

Support the security of supply by:

- Examine Eskom's maintenance plans, operational practices, electricity generation and distribution efficiency, and its reserve margin on an ongoing basis;
- Ensuring that Eskom supplies electricity by monitoring evaluation and engaging Eskom on system security and the new build programme to alleviate constraints on an ongoing basis;
- Facilitating engagement between Eskom and other spheres of government to address municipal debt; and
- Monitoring the rollout of the capital investment programme to ensure that it is delivered on time, is of appropriate quality and within budget.

### **Subprogrammes**

- *Management* - comprises the office of the Deputy Director-General which provides strategic leadership and management of the programme personnel.
- *Eskom* - shareholder management and oversight of 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. Additionally, provide oversight of the implementation of the PBMR care and maintenance programme to preserve intellectual property and assets.

**Strategic Objective Annual Targets for 2016/17**

Strategic Objectives	5 year Strategic Plan Targets	Audited/Actual performance	Estimated performance	Medium-term targets				
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Oversee improvement in Eskom's operations to stabilise supply of electricity	Increased electricity reserve margin	None	None	Implement strategies aimed at improving operations	Improved operations to minimise load shedding	improved operation	Continued stability of existing Eskom fleet and set-up for diversification of base-load	Continued stability of existing Eskom fleet and set-up for diversification of base-load
Oversee delivery of the build programme	Increased infrastructure investments  Increased electricity reserve margin	None	None	Delivery of Medupi, Kusile, Ingula and Sere Wind Farm	Review and Monitor the delivery of the build programme	Ensure Eskom capital projects are on track, with sustained momentum through effective delivery mechanism	MTSF infrastructure targets met	Monitor Eskom build programme
Support Eskom to reduce municipal and residential	Reduction of municipal and	None	Inter-Departmen	Engagements with	Conceptualisation of	Implementation of the	Implementation of	Implementation of the

debt	residential debt		tal Task Team established	provinces that have high incidents of municipal defaults	the municipality capacitation programme	programme and stakeholder engagement	the programme and stakeholder engagement	programme and stakeholder engagement
Future role of Eskom in the electricity industry	Defining of the future role of Eskom in the delivery of the generation capacity	Implementation of IRP 2010	Implementation of IRP 2010	Eskom's growth strategy	Exploration and definition of new market opportunities as Part of Africa Strategy	Implementation of new market opportunities as part of Africa Strategy	Implementation of new market opportunities as part of Africa Strategy	Implementation of new market opportunities as part of Africa Strategy

#### 4.4.3 Programme Performance Indicators and Annual Targets for Energy Enterprises for 2016/17

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Ensure improved and sustainable operations within Eskom</b>							
Oversee improvement in Eskom's operations to stabilise supply of electricity	None	None	None	Improved operations to minimise load shedding	improved operation	Continued stability of existing Eskom fleet and set-up for diversification of base-load	Continued stability of existing Eskom fleet and set-up for diversification of base-load
<b>Ensure delivery of Eskom's build programme</b>							
Progress report on the Delivery of Eskom's capital Programme			Delivery of Medupi, Kusile, Ingula and Sere Wind Farm	Review and Monitor the delivery of the build programme	Ensure Eskom capital projects are on track, with sustained momentum through effective delivery mechanism	MTSF infrastructure targets met	Monitor Eskom build programme

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Support Eskom to reduce municipal and residential debt</b>							
Reduction of the municipal and residential debt	-	Inter-Departmental Task Team established	Engagements with provinces that have high incidents of municipal defaults	Conceptualisation of the municipality capacitation programme	Implementation of the programme and stakeholder engagement	Implementation of the programme and stakeholder engagement	Implementation of the programme and stakeholder engagement
<b>Future role of Eskom in the electricity industry</b>							
Identification of new opportunities to support regional development	Implementation of IRP 2010	Implementation of IRP 2010	Release of the Integrated Energy Plan by DOE	Exploration and definition of new market opportunities as Part of Africa Strategy	Implementation of new market opportunities as part of Africa Strategy	Implementation of new market opportunities as part of Africa Strategy	Implementation of new market opportunities as part of Africa Strategy

### Quarterly targets for financial year 2016/17

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Improved Eskom's financial sustainability	Quarterly	Position paper on Eskom's financial sustainability	None	Update to Cabinet on Eskom turnaround and GSP implementation	None	Report on Eskom's optimal capital structure
Improved operation and minimised load shedding trends	Quarterly	Improved operations to minimise load shedding	None	None	Position paper on Eskom's operational sustainability to minimise load shedding	None
Progress on the Delivery of Eskom's capital Programme	Quarterly	Review and Monitor the delivery of the build programme	Report on the status of the build programme	Report on the status of the build programme	Report on the status of the build programme	Report on the status of the build programme
Reduction of the municipal and residential debt	Quarterly	Conceptualisation of the municipality capacitation programme	Engagement with provinces with high incidents of defaults	Draft municipality capacitation programme developed	Stakeholder engagement on municipal debts	Stakeholder engagement on municipal debts
Identification of new opportunities to support regional development	Quarterly	Exploration and definition of new market opportunities as Part of Africa Strategy	Engagement with Eskom on the potential opportunities in Africa	Project Pipeline developed	List of feasible projects completed	Approval of project list secured

## **4.5 MANUFACTURING ENTERPRISES**

### **4.5.1 Manufacturing Enterprises objectives**

- Ensure continuous alignment between shareholder strategic intent and the objective of state owned companies in the defence, mining and forestry sector by annually reviewing their enterprise strategies and mandates in the context of industry and sectorial policy shifts, and alert their boards and enterprises to material deviations.
- Support the state owned companies in delivering on their outcome as set out in the shareholder compacts and corporate plan by benchmarking key performance measures annually and analysing quarterly and annual reports in order to assess the extent of progress.
- Collaborate with other state owned companies to contribute to achieving the national economic development objectives.

#### **Denel SOC limited**

- Oversee the development of a long term growth strategy to achieve financial stability and growth of manufacturing export products.
- Leverage off the company's advances manufacturing capability through securing work packages in support of the industrialisation drive aligned with the industrial policy action plan.
- Monitor the implementation of the turnaround plan over the medium term to ensure Denel's sustainability.
- Ensure Denel's ongoing sustainability by monitoring the implementation of the multi-year turnaround plan over the medium term.
- Ensure the proper balance between the need to develop indigenous capabilities in response to national defence equipment requirements and the need to cooperate and collaborate with international armaments companies in the context of high development costs and the importance of having access to selected market.



### **Alexkor SOC limited**

- Ensure increased diamond production and promote the financial stability of the joint venture by monitoring the implementation of Alexkor's strategy to promote financial sustainability, and monitoring the pooling and sharing joint venture turnaround strategy, on a quarterly basis.
- Ensure collaboration and alignment of the two state owned mining companies to provide a clear indication to market by developing a collaborative model with AEMFC over the medium term.
- Contribute to developing sustainable economic activities linked to the agricultural sector by continuously supporting and coordinating the joint efforts of the Department with the Department of Mineral Resources and the Department Rural.
- Development and Land Reform to stabilise the Richtersveld region and make use of revenues.

### **South African Forestry Company SOC limited**

- Oversee the implementation of the land restitution strategy for claims over the Komatiland Forests land claims settlement model, to ensure meaningful benefits to the successful land claimants over the medium term.
- Oversee the formulation and implementation of the South African Forestry Company corporate strategy within the forestry sector over the medium term.
- Engage with DAFF, DRDLR and the DTI to ensure the warehousing of the shares held by SAFCOL in the four privatised forestry companies by either NEF or another relevant government entity.
- Reduce the reliance on the sawlog market by supporting the development of the new business strategy over the medium term.

## **Subprogrammes**

*Management* comprises the office of the Deputy Director-General which provides strategic leadership and management of the programme personnel.

- *Denel* – Shareholder management and oversight of Denel's financial performance and strategy implementation.
- *Alexkor* – Shareholder management and oversight of Alexkor including review of Alexkor's strategy to enhance financial sustainability, and overseeing the implementation of the Richtersveld Deed of Settlement.
- *SAFCOL* – shareholder management and oversight including forestry management, timber harvesting, timber processing and related activities, both domestically and internationally as well as oversight of the entity's restructuring.

**4.5.2 Strategic Objective Annual Targets for 2016/17**

Strategic Objectives	5 year Strategic Plan Targets	Audited/Actual performance		Estimated performance	Medium-term targets			
		2013/14	2014/15		2015/16	2016/17	2017/18	2018/19
Support the re-industrialisation of the South African economy	Strengthening of RSA's advance manufacturing capabilities	None	Assessment of the industrial and development benefit emanating from the Rooivalk Programme	Publication of the Rooivalk Review	Roadmap for the Rooivalk Combat Helicopter	Implementation of the Roadmap	Implementation of the Roadmap	Implementation of the Roadmap
	Development of the Small Africa Regional Aircraft (SARA)	None	None	Concept for the SARA developed	Feasibility of the SARA as the national flagship programme within the aerospace industry	None	None	None
Support the transformation of the South African	Leverage SAFCOL for enterprise development opportunities	None	None	None	DPE-SAFCOL and Mpumalanga Economic Development	Implementation of the agreement	Implementation of the agreement	Implementation of the agreement

economy	with Mpumalanga Government				and Tourism agreement on joint enterprises development opportunities			
	Economic impact assessment of the SAFCOL Strategy	None	None	None	Assessment of the economic impact of the SAFCOL's Corporate Strategy	None	None	None
Alignment and efficiency across institutional model	Assess and review Richtersveld Diamond Deposit	None	None	Proposals on the optimal exploration programme of the diamond resource	Implementation of the programme	Implementation of the programme	Implementation of the programme	Implementation of the programme
	Review of the Deed of Settlement (DoS) between Government, Alexkor and Richtersveld Community	Implementation of the current DoS	Implementation of the current DoS	Implementation of the current DoS	Amendment of the DoS	Implementation of the amended DoS	Implementation of the amended DoS	Implementation of the amended DoS

### 4.5.3 Programme Performance Indicators and Annual Targets for Manufacturing Enterprises for 2016/17

Denel, Alexkor and SAFCOL

Programme performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Strategic objective: Support the re-industrialisation of the South African economy</b>							
Development of the Rooivalk Roadmap	None	Assessment of the industrial and development benefit emanating from the Rooivalk Programme	Publication of the Rooivalk Review	Roadmap for the new Rooivalk Programme	Implementation of the Roadmap	Implementation of the Roadmap	Implementation of the Roadmap
	None	None	Concept for SARA developed	Feasibility of the SARA as the national flagship programme	None	None	None
<b>Strategic objective: Support the transformation of the South African economy</b>							
DPE-SAFCOL and Mpumalanga Economic Development and Tourism Cooperation agreement	None	None	None	Cooperation agreement between DPE, and Mpumalanga Government	Implementation of the cooperation agreement	Implementation of the cooperation agreement	Implementation of the cooperation agreement

Programme performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Economic Impact assessment of the SAFCOL Strategy	None	None	None	Assessment of economic impact of the SAFCOL's corporate strategy	None	None	None
<b>Strategic objective: Alignment and efficiency across institutional model</b>							
Assess and review Richtersveld Diamond Deposit	None	None	None	Proposals on the optimal exploration programme of the diamond resource	Implementation of exploration programme proposals	Implementation of exploration programme proposals	Implementation of exploration programme proposals
Review of the DoS between Government, Alexkor and Richtersveld Community	Implementation of DoS	Implementation of DoS	Implementation of DoS	Amendment of DoS	Implementation of the amended agreement	Implementation of the amended agreement	Implementation of the amended agreement

4.5.4 Quarterly targets for financial year 2016/17

Denel, SAFCOL, and Alexkor

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Strategic objective: Ensure SOC financial sustainability</b>						
Optimisation of Denel's Capital Structure	Quarterly	Review of the Denel's capital structure completed	None	None	None	Report on the review of Denel's Capital structure
<b>Strategic objective: Support the re-industrialisation of the South African economy</b>						
Development of the Rooivalk Roadmap	Quarterly	Roadmap for the new Rooivalk Programme	Workshop with the Department of Defence, the South African Air force (SAAF), ARMSCOR and Denel and other stakeholders on the future of Rooivalk helicopter held.	Draft Cabinet Memorandum containing recommendations on the future state of the Rooivalk Programme	Formal Roadmap for the Rooivalk helicopter developed	Funding of the programme secured

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Development of SARA	Quarterly	Feasibility of SARA as the national flagship programme	Present proposals on SARA to the Cluster	Consultation with key stakeholders undertaken	Cabinet Memorandum on the SARA project developed	None
<b>Strategic objective: Support the transformation of the South African economy</b>						
DPE-SAFCOL and Mpumalanga Economic Development and Tourism Cooperation Agreement	Quarterly	Cooperation Agreement between Mpumalanga Government signed	Workshop on the cooperation framework held and identification of economic development opportunities held	Draft memorandum of cooperation developed	Memorandum of cooperation signed	First project from the cooperation unveiled
Assessment of economic impact of the SAFCOL's Strategy	Quarterly	Economic Impact Assessment completed	Assessment and benchmarking completed	Recommendations on the effectiveness of the strategy based on the economic impact study developed	None	None



**Strategic objective: Alignment and efficiency across the institutional model**

Assessment and review of the Richtersveld Diamond Deposit	Quarterly	Recommendation on the optimal exploration of the diamond resource	Workshop with stakeholders	Desktop study on the Richtersveld Diamond Deposit completed	None	Review of the diamond deposit completed and recommendation on the exploration programme submitted for approval to Minister
Review of the DoS between Government, Alexkor and Richtersveld Community	Quarterly	Amendment of the current agreement	Draft proposals on the amendment of the current agreement	Engagement with Alexkor and the Richtersveld Community completed	Proposal on the amendment submitted to the Minister	Amendment of the current agreement concluded

**4.6 TRANSPORT ENTERPRISES**

**4.6.1 Purpose of the programme**

To align the corporate strategies of Transnet, and South African Express Airways (SAX) with Government's strategic intent and to monitor and benchmark their financial and operational performance.

**4.6.2 Programme objectives**

To align the corporate strategies of Transnet and South African Express Airways (SA Express) with government's strategic intent and to monitor and benchmark their financial and operational performance, on an ongoing basis by:

- Assessing the corporate strategies of Transnet, SA Express in line with government's strategic intent;
- Supporting Transnet and SA Express in delivering their outcomes by identifying:

- Appropriate benchmarks and key performance measures for their respective shareholder compacts;
- Creating an enabling environment for transport enterprises to promote an appropriate balance between the enterprises' commercial interests, stability and developmental objectives;
- Monitoring effective utilization of existing logistics infrastructure, the planning of new infrastructure and the provision of optimal services; and
- Support the achievements of the long term sustainability of SA Express.

**Transnet SOC limited**

- Oversee the implementation of the market demand strategy by monitoring the rollout of Transnet's capital expenditure programme on a quarterly and annual basis to assess any significant deviations from the corporate plan as well as potential cost overruns and time delays;
- Contribute to the national freight logistic strategy by developing a strategic paper in this regard; and
- Develop a strategic possession on the rail economic regulator.

**South African Express Airways SOC limited**

- Monitor the implementation of SA Express 20:20 Vision and austerity measures;
- Engaging with policy departments on the strategic direction of policy and regulation in the aviation sector;
- Develop a strategic proposal for the optimal group structure of the state owned airlines; and
- Facilitate the review of commercial arrangements to support SA Express' long-term financial and commercial sustainability.

**4.6.3 Strategic Objective Annual Targets for 2016/17**

Strategic Objectives	5 year Strategic Plan Targets	Audited/Actual performance		Estimated performance	Medium-term targets			
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Creating an enabling environment for transport enterprises to promote an appropriate balance between the enterprises', commercial interests, stability and developmental objectives.	Develop strategic positions to guide policy and regulatory frameworks.	None	None	None	Formulate position on the establishment of the Rail economic regulator  Formulate position on the National Freight Logistics Strategy	Develop strategic positions to guide policy and regulatory frameworks.	Develop strategic positions to guide policy and regulatory frameworks.	

Support the achievement of the long term sustainability of SA Express	Monitoring and creating an enabling environment for the implementation of SA Express' turnaround strategy	None	Monitored the implementation of the SAX Turnaround Strategy	Monitored the implementation of austerity measures and 20:20 Vision	Develop a strategic proposal for the optimal group structure of the state owned airlines  Facilitate the review of commercial arrangements to support SA Express' long term financial and commercial sustainability.	Monitoring and creating an enabling environment for the implementation of SA Express' turnaround strategy	Monitoring and creating an enabling environment for the implementation of SA Express' turnaround strategy

**4.6.4 Programme Performance Indicators and Annual Targets for Transport Enterprises for 2016/17**

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<p><b>Strategic objective: Creating an enabling environment for transport enterprises to promote an appropriate balance between the enterprises', commercial interests, stability and developmental objectives.</b></p>							
<p>Formulate position on the establishment of the Rail economic regulator</p> <p>Formulate position on the National Freight Logistics Strategy</p>	None	None	None	<p>Formulate position on the establishment of the Rail economic regulator</p> <p>Formulate position on the National Freight Logistics Strategy</p>	<p>Develop strategic positions to guide policy and regulatory frameworks.</p>	<p>Develop strategic positions to guide policy and regulatory frameworks.</p>	

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Strategic objective: Support the achievement of the long term sustainability of SA Express</b>							
<p>Develop a strategic proposal for the optimal group structure of the state owned airlines</p> <p>Facilitate the review of commercial arrangements to support SA Express' long term financial and commercial sustainability.</p>	None	Monitored the implementation of the SAX Turnaround Strategy	Monitored the implementation of austerity measures and 20: 20 Vision	<p>Develop a strategic proposal for the optimal group structure of the state owned airlines</p> <p>Facilitate the review of commercial arrangements to support SA Express' long term financial and</p>	Monitoring and creating an enabling environment for the implementation of SA Express' turnaround strategy	Monitoring and creating an enabling environment for the implementation of SA Express' turnaround strategy	

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
				commercial sustainability.			

#### 4.6.5 Quarterly targets for Transport Enterprises for 2016/17

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1st	2nd	3rd	4th
<b>Strategic objective: Creating an enabling environment for transport enterprises to promote an appropriate balance between the enterprises', commercial interests, stability and developmental objectives. Support the achievement of the long term sustainability of SA Express</b>						
Formulate position on the establishment of the Rail economic regulator	Quarterly	Strategic Position on the National Freight Logistics Strategy	Provide preliminary comments to DoT and do research on the National Freight Logistics Strategy	Consultations with Transnet and DPE on the National Freight Logistics Strategy	Finalise and present the strategic position to Exco for approval	Review the strategic position in line with Exco comments if necessary
Formulate position on the National Freight Logistics Strategy		Strategic Position on the establishment of the Rail economic regulator	Conduct research on Rail Economic Regulation to develop a strategic position for DPE	Consultations with Transnet and DPE on Rail Economic Regulation	Finalise and present the strategic position to Exco for approval	Review the strategic position in line with Exco comments if necessary



## 4.7 ECONOMIC IMPACT AND POLICY ALIGNMENT

### 4.7.1 Purpose of the programme

To align Shareholder oversight of SOC in relation to 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.

### 4.7.2 Programme objectives

- Oversee and supervise processes to conduct macro-economic modelling, research and impact evaluation to ensure SOC's contribution towards economic growth. Enhance alignment between national industrial policy, macro-economic policy and the role of SOC's as well as monitor implementation.
- Oversee processes to ensure that SOC's comply with the environmental laws and optimise the impact of SOC's on the reduction of carbon emissions and development of a green economy, while supporting SOC business needs.
- Oversee alignment and implementation of SOC's economic and social transformation agenda in support of national policies and economic growth, with specific focus on skills development, job creation, procurement/BBBEE and corporate social investments targeted at designated groups (youth, women, PWD and co-operatives, etc).

Sub-programme comprises:

- **Management** - comprises of the Office of the Deputy Director General, which provides strategic leadership, and management of the programme and special projects (i.e. property disposal)
- **Environmental Policy Alignment** - oversee alignment and implementation of SOC Strategically Important Developments (SIDs) with special focus on Eskom's and Transnet's 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 modeling and research to enhance the links between industrial policy, macro-economic policy and the role of the SOC. Economic modeling 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.

- **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 (NGP) and the National Development Plan (NDP) as well as optimizing the SOC skills training facilities through National Skills Funding amongst others. The unit's mandate includes overseeing the alignment and implementation of SOC transformation agenda in support of national policies and the New Growth Path Framework with focus on: Job creation; Youth development and development of targeted groups (i.e. women, people with disabilities, co-operatives, etc); Broad-Based Black Economic Empowerment (B-BBEE), Employment Equity (EE) and disposal of non-core property.

Strategic Objective Annual Targets for 2016/17

Strategic Objectives	5 year Strategic Plan Targets	Audited/Actual performance		Estimated performance	Medium-term targets			
		2013/14	2014/15		2015/16	2016/17	2017/18	2018/19
Accelerate the transformation of the South African economy	Support industrialisation of the South African economy	None	None	Black Industrialis Policy Approved by Cabinet	DPE Black Industrialists Programme developed	6 business cases approved for the development of black industrialist to leverage on SOC procurement and industrial capabilities.	6 Black Industrialists created in key SOC value chains in line with relevant Policy objectives e.g. IPAP, benefiting all vulnerable groups	6 Black Industrialists created in SOC value chain in line with IPAP , all vulnerable groups
Accelerate the transformation of the South African economy		None	None	None	5 high impact CSI projects launched in rural areas.	7 high impact CSI projects launched in rural areas	10 high impact CSI projects launched in rural areas	None
Accelerate the transformation of the South African economy		Support enterprise development	None	None	None	5 high impact CSI projects launched in rural areas.	7 high impact CSI projects launched in rural areas	10 high impact CSI projects launched in rural areas
	Support implementation of	Skills develo	Agreeme nt	Implemen tation of	Skills Plan developed	training and support	Monitor implementation of	Monitor implementation of

	the skills accord as part of the New Growth Path	pment accord as part of the New Growth Path	between DPE and DHET on the expansion of skills development programmes for SOCs	the SOCs Skills Development Program me monitored on a quarterly basis	to address Skills gap in strategic projects	programmes implemented	programmes	programmes
		Agreement between DPE and DHET on the expansion of skills development programmes for SOCs	Implementation of the SOCs Skills Development Programme monitored on a quarterly basis	Skills Plan developed to address Skills gap in strategic projects	training and support programmes implemented	Monitor implementation of programmes	Monitor implementation of programmes	

Accelerate the transformation of the South African economy	Optimisation of the SOCs' Academies/Schools	None	Funding to optimise Denel and Transnet academies secured	Implementation of funded projects	Develop a business case on optimisation of Aviation, Welding or Maritime schools	Approval of the feasible business case/s	Implementation of approved business case/s	-
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#### 4.7.3 Programme Performance Indicators & Annual Targets for Economic Impact & Policy Alignment for 2016/17

Performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Strategic objective: Accelerate the transformation of the South African economy</b>							
Black Industrialists and Enterprise Development Programme Implemented	None	None	Black Industrialist Policy Approved by Cabinet	Black Industrialist Policy Approved by Cabinet	6 Black Industrialists created in key SOC value chains in line with relevant Policy objectives e.g. IPAP, benefiting	6 Black Industrialists created in SOC value chain in line with IPAP, all vulnerable groups	6 business cases approved for the development of black industrialist to leverage on SOC procurement and industrial capabilities.

Performance indicator		Audited/Actual performance		Estimated performance	Medium-term targets			
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
						all vulnerable groups		
	High impact CSI Projects in rural communities developed	None	None	None	9 high impact CSI projects launched in rural areas.	9 high impact CSI projects launched in rural areas	9 high impact CSI projects launched in rural areas	None
	Technical skills and Support programmes to sustain the prioritised industries and projects	Skills development accord as part of the New Growth Path	Agreement between DPE and DHET on the expansion of skills development programmes for SOCs	Implementation of the SOCs Skills Development Programme monitored on a quarterly basis	Skills Plan developed to address Skills gap in strategic projects	training and support programmes implemented	Monitor implementation of programmes	Monitor implementation of programmes
	SOC Academies/Schools optimised to deliver on critical , core and scarce skills	None	Funding to optimise Denel and Transnet academies secured	Implementation of funded projects	Develop a Draft concept paper for the optimisation of SOCs' facilities	Approval of the feasible business case/s	Implementation of approved business case/s	None

#### 4.7.4 Quarterly targets for Economic Impact and Policy Alignment for 2016/17

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Strategic objective: Accelerate the transformation of the South African economy</b>						
Black Industrialists and Enterprise Development Programme Implemented	Quarterly	DPE Black Industrialist Programme developed	Engagement of SOC on their economic opportunities	Stakeholders engagement on SOC economic opportunities	Development of business cases	Approval of black industrialist programme with business cases
High impact CSI Projects in rural communities developed	Quarterly	9 high impact CSI projects launched in rural areas	9 High impact project identified and stakeholder engagements initiated	9 high CSI projects approved	Quarterly reports on the progress on the implementation of identified projects	Quarterly reports on the progress on the implementation of identified projects
Technical skills and Support programmes to sustain the prioritised industries and projects - OPP	Quarterly	Skills Plan developed to address Skills gap in strategic	Data on demand for skills and supplier needs	Agreement on interventions to address the gap in partnership with	Development of the skills plan	Skills Plan completed

		projects	obtained.	DHET and dti.		
SOC Academies/Schools optimised to deliver on critical , core and scarce skills – OPP	Quarterly	Draft concept paper for the optimisation of SOCs Academies/Schools	DPE SOCs Engagement on the optimisation of facilities	Engagement with other Schedule 2 SOCs on the optimisation of facilities	Engagement with Sector Institutes and other on the optimisation of facilities	Engagement with other stakeholders e.g. policy departments on the optimisation of SOCs facilities
						Draft concept paper for the optimisation of the SOCs facilities



## **4.8 STRATEGIC PARTNERSHIPS**

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

### **4.7.1 Programme Objectives**

- Oversight of catalytic project implementation from pre-feasibility to completion, including the design of relevant compacts.
- Implementation of innovative funding structures and design of associated compacts with relevant partners.
- Oversight of Eskom's and Transnet's implementation of the Competitive Supplier Development Programme; oversight of Transnet's locomotive fleet procurement design and implementation, and development and implementation of Executive Leadership Programme.
- Coordinating a South Africa Incorporated (SA Inc.) approach to assist the SOCs reporting to DPE with their market entry strategies into Africa.

### **The sub-programme comprises of the following components**

- *Management* comprises the office of the Deputy Director-General which provides strategic leadership and management of the programme personnel.
- *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.

#### 4.8.1 Strategic Objective Annual Targets for 2016/17

Strategic Objectives	5 year Strategic Plan Targets	Audited/Actual performance		Estimated performance	Medium-term targets			
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Oversee improvement in the funding of SOCs	Support enhancement of financial sustainability of the SOCs	-	-	-	Capital structure Optimisation Strategy for the SOCs	Implementation of the strategy	Implementation of the strategy	Implementation of the strategy
Support regional development	Implementation of the SOCs' Africa Strategy	SOCs' Africa Strategy approved	Projects pipeline developed	Execution of the identified opportunities by SOCs	Quarterly assessment of the implementation of the Africa Strategy	Quarterly assessment of the implementation of the Africa Strategy	Quarterly assessment of the implementation of the Africa Strategy	-

Implementation of Strategic Integrated Projects (SIPs) 9 and 10	Development of institutional structures to support implementation of SIPs 9 and 10	-	Approved Infrastructure Plan by the PICC	Approval of the Business Plans and commencement of implementation	Establishment of the Executive Forum for SIPs 9 and 10	-	-	-
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#### 4.7.2 Programme Performance Indicators and Annual Targets for Strategic Partnerships for 2016/17

Programme performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Strategic objective: Ensure SOC financial sustainability</b>							
SO Capital structure Optimisation Strategy for the SOCs	-	-	-	Capital structure Optimisation Strategy for the SOCs	Implementation of the strategy	Implementation of the strategy	Implementation of the strategy

Programme performance indicator	Audited/Actual performance		Estimated performance	Medium-term targets			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Implementation of the SOCs' Africa Strategy	-	SOCs' Africa Strategy approved	Projects pipeline developed	Execution of the identified opportunities by SOCs	Quarterly assessment of the implementation of the Africa Strategy	Quarterly assessment of the implementation of the Africa Strategy	Quarterly assessment of the implementation of the Africa Strategy
<b>Strategic Objective: Fast track the delivery of the build programme</b>							
Development of institutional structures to support implementation of SIPs 9 and 10	-	Approved Infrastructure Plan by the PICC	Approval of the Business Plans and commencement of implementation	Establishment of the Executive Forum for SIPs 9 and 10	-	-	-

**4.7.3 Quarterly targets for strategic partnerships for 2016/17**

Performance indicator	Reporting Period	Annual targets	Quarterly targets			
		2016/17	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Strategic objective: Ensure SOC financial sustainability</b>						
Capital structure Optimisation Strategy for the SOCs	Quarterly	Capital Structure optimisation strategy developed for the Department's portfolio	Review of the existing SOCs' capital structure completed	Consultation completed on the review outcomes	Draft proposals on appropriate capital structure for each SOCs	Optimisation strategy developed
Enhance DPE Africa Strategy	Quarterly	Updated the DPE Africa Strategy	Review of the current DPE Africa Strategy	Proposal on the improvements of the DPE Africa Strategy approved	Implementation report on the Strategy	Implementation report on the Strategy
<b>Strategic Objective: Fast track the delivery of the build programme</b>						
Implementation of Strategic Integrated Projects (SIPs) 9 and 10	Quarterly	Establishment of the Executive Forum for SIPs coordinated by the Minister	Decision memo containing proposals on the establishment of the Executive Forum	Report on implementation of SIPs 9 and 10	Report on implementation of SIPs 9 and 10	Report on implementation of SIPs 9 and 10

## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Subprogrammes								
Energy Enterprises		11,189	12,919	14,103	14,103	17,376	17,007	17,982
Manufacturing Enterprises	54,050	1,178,268	68,096	80,392	80,392	16,215	18,145	18,958
Transport Enterprises	123,423	20,030	14,985	23,051	23,051	23,417	23,464	25,951
Economic Impact and Policy Alignment	18,752	9,990	9,687	11,570	11,570	12,946	13,903	14,887

## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Rand thousand	11,744							
Strategic Partnerships	7,555	5,973	7,256	9,252	9,252	15,111	20,075	20,401
Total	215,524	1,225,450	112,943	138,368	138,368	85,065	92,594	98,179
Economic classification	-	-	-					

## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

		2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand		Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Current payments		59,269	57,066	55,662	75,176	75,176	85,065	92,594	98,179
Compensation of employees		29,374	31,905	43,031	54,859	54,859	58,990	66,387	68,458
Salaries and wages		29,374	31,905	43,031	54,859	54,859	58,990	66,387	68,458
Social contributions		-	-	-	-	-	-	-	-
Goods and services		29,895	25,161	12,631	20,317	20,317	26,075	26,207	29,721
Administrative fees		-	-	343	-	-	-	-	-



## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

		2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand		Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Advertising		7	38	140	-	-	-	-	-
Assets less than the capitalisation threshold		-	-	3	-	-	-	-	-
Catering: Departmental activities		108	120	267	90	90	178	101	106
Communication (G&S)		298	253	355	652	652	650	630	646
Computer services		-	-	-	-	-	-	-	-
Consultants and professional services:				2,565	12,456		18,293	18,641	22,314

## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

		2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand		Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Business and advisory services		23,156	16,348			12,456			
Contractors		1	36	2	-	-	-	-	-
Agency and support / outsourced services		-	-	67	-	-	-	-	-
Entertainment		2	-	-	46	46	50	55	55
Fleet services (including government motor transport)		-	-	41	-	-	-	-	-
Inventory: Materials and				4	-		-	-	-

## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

	2012/13		2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
	Audited outcome		Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Rand thousand									
supplies	-	1				-			
Inventory: Medical supplies	-	3	1		-	-	-	-	-
Inventory: Medicine	-	2	-		-	-	-	-	-
Consumable supplies	-	-	196		-	-	-	-	-
Consumable: Stationery, printing and office supplies	5	3	127		-	-	-	-	-
Operating leases	-	-	992		-	-	-	-	-



## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Transfers and subsidies	156,255	118,384	57,281	63,192	63,192	-	-	-
Public corporations and private enterprises	156,255	118,313	57,250	63,141	63,141	-	-	-
Public corporations	156,255	118,313	57,250	63,141	63,141	-	-	-
Subsidies on products and production (pc)	-	-	-	-	-	-	-	-
Other transfers to public corporations	156,255	118,313	57,250	63,141	63,141	-	-	-
Households			31	51		-	-	-

## Budget and MTEF

Table 4: Portfolio Management and Strategic Partnerships

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
	-	71			51			
Social benefits	-	71	31	51	51	-	-	-
Other transfers to households	-	-	-	-	-	-	-	-
Payments for capital assets	-	-	-	-	-	-	-	-
Payments for financial assets	-	1,050,000	-	-	-	-	-	-

**Budget and MTEF**

Table 4: Portfolio Management and Strategic Partnerships

	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19
Rand thousand	Audited outcome	Audited outcome	Audited outcome	Adjusted Appropriation	Revised Estimate	Revised Baseline	Revised Baseline	Revised Baseline
Total	215,524	1,225,450	112,943	138,368	138,368	85,065	92,594	98,179

## **Performance and expenditure trends**

The spending focus over the medium term will be on enhancing the capacity to boosting the department's capacity to oversee strategic infrastructure projects. This includes training staff and developing new project management tools to improve oversight of the current build programme. Because of the need to provide effective oversight to the state owned companies spending on compensation of employees increased over the medium term. The increase in the number of personnel from 68 in 2013/14 to 77 in 2017/18 is attributed to additional approved and funded posts to strengthen the strategic oversight function of the department on infrastructure projects. The department makes use of consultants for specialised services in transport, manufacturing, energy and broadband sectors, which, notwithstanding the increased capacity in the department is still a necessity. Expenditure on consultants is expected to increase over the medium term in line with the focus of strengthening the oversight function.

In the *Energy Enterprises* and *Manufacturing Enterprises* sub programmes, expenditure decreased significantly between 2011/12 and 2014/15 due to the once-off recapitalising payments to state owned companies. The transfer of the shareholder oversight function to Department of Telecommunications and Postal Services is the reason for the significant decrease in Manufacturing Enterprises sub programme. The Denel Indemnity claim has decreased during between 2011/12 and 2014/15.

## **5. LINKS TO OTHER PLANS**

### LINKS TO THE LONG-TERM INFRASTRUCTURE AND OTHER CAPITAL PLANS

The infrastructure plan is one of the measures to counter the negative impact of the global economic downturn and to lay the foundation for long-term growth and economic and social development, as depicted in Government Policies such as the New Growth Path and the Industrial Policy Action Plan.

Transnet and Eskom have a major role to play in the roll out of the infrastructure programme through their role as appointed coordinators of SIP2 and 1, 9 and 10 respectively. The above is achieved by actively participating in the various work streams of the SIPs namely; planning, funding and communication work streams.



Transnet is responsible for coordinating the SIP2 programme, the Durban-Free State-Gauteng Logistics and Industrial Corridor which is fundamentally about improving logistics and creating better access to markets for firms located along the corridor. Efficient logistics is critical if South Africa is to grow and transform the economy.

South Africa is a very transport intensive economy and its main centers of economic activity are located very far apart and for international trade, South Africa is far from its main trading partners. This necessitates that the structure of the country's logistics system to be more efficient than the international norm in order to overcome the inherent disadvantages South Africa faces as a result of the long transport corridors. The Gauteng-Durban corridor is vital to the future of the national economy and it should be a model for how to strengthen and optimise freight corridors. The corridor handles most of the country's high-value freight and it is the most strategic corridor to achieve a shift of freight from road to rail by overcoming rail's main drawback. The corridor is critical in integrating the Free State Industrial Strategy activities into the corridor.

Eskom is responsible for coordinating the SIP1 programme which focuses on unlocking the Northern Mineral belt with the Waterberg development as the catalyst.

The investment programme focuses on investment in rail, water pipelines, energy generation and transmission infrastructure which will catalyse the unlocking of rich mineral resources in Limpopo resulting in thousands of direct jobs across the areas covered. Mining investments includes coal, platinum and other minerals for local use and export, therefore the rail capacity is being extended to Mpumalanga power stations and for export principally via Richards Bay and in future Maputo (via Swaziland link).

Eskom is responsible for coordinating SIP 9, which focuses on SA electricity generation capacity to its economic and social requirements. The Strategic Partnerships Unit has to oversee the coordination and implementation of this SIP and ensure acceleration of new electricity generation capacity in accordance with the integrated Resource Plan ("IRP") 2010. Eskom has to coordinate SIP 10 which focuses on increasing the transmission network by 50% and distribute electricity to all South Africans, while at the same time supporting economic development of the country.

The implementation of these projects is intended to transform the economic landscape of SA, create jobs, strengthen the delivery of infrastructure projects and support the integration of African Economies. The infrastructure programme is intended to result in re industrialization through manufacturing of inputs, components and machinery, develop skills aimed at critical categories.

**6. CONDITIONAL GRANTS**

Not Applicable

