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## **DEPARTMENT OF PUBLIC ENTERPRISES: CHALLENGES FACING STATE-OWNED COMPANIES (SOCs)**

### **1. INTRODUCTION**

This paper aims to give a brief overview of the challenges facing State Owned Companies (SOCs) as well as the Department of Public Enterprises. The purpose of this brief is to provide Members of the Portfolio Committee on Public Enterprises with information on the issues emanating from each SOC as well as the Department itself, this is preparation for the meeting with the Minister of Public Enterprises scheduled for the 8<sup>th</sup> March 2017.

Some of the issues highlighted relate to the Department of Public Enterprises concerning the Government Shareholder Management Bill, and the shareholder compacts; Eskom regarding the appointment of the Chief Financial Officer, municipal debts, and the Denton report; Denel regarding Denel Asia; the outstanding annual report of South African Express Airways; and community conflict with regards to Alexkor and the finalisation of the land claims settlement. These are discussed below.

### **2. DEPARTMENT OF PUBLIC ENTERPRISES**

The most pertinent issue outstanding by the Department of Public Enterprises (the Department or DPE) is the Government Shareholder Management (GSM) Bill. The Shareholder Management Bill has been stated as an objective in its Annual Performance Plans for the last 5 years or more.

In the last meeting the Minister attended the Committee meeting, on 06 April 2016, she stated that the top schedule 2 and schedule 3 entities would be included in the GSM Bill. She also stated that discussion was continuing and buy-in was required around the GSM Bill. The Deputy Director of DPE then stated on the 12 October 2016 that the Bill was with the Inter-Ministerial Committee (IMC) and that they had been given more guidance on how to proceed with the Bill.

No further information regarding the GSM Bill has since been forthcoming regarding this process.

Secondly, the matter regarding the disclosure of SOC shareholder compacts has still not been resolved. The Minister on the 06 April 2016 stated that this was due to the commercially sensitive information in the compacts. But she stated that they could take out the commercially sensitive information. This issue was to be discussed with DPE. It was stated that the SOCs objectives were largely situated in the DPE's objectives. The DG of DPE also stated that they would try to extract the information from the shareholder contracts



in order to allow Members of Parliament to see the contracts. This is an important component of the oversight role exercised by Parliament.

To-date no shareholder compacts have been forwarded to the Committee.

In 2014, the President appointed an Inter-Ministerial Committee (IMC) chaired by the Deputy President to oversee the implementation of the recommendations of the 2013 *Report of the Presidential Review Committee on State Owned Entities*.<sup>1</sup> The press has reported that the Minister of Public Enterprises is a member of the IMC. What has the IMC achieved to date and when will the process be formally reported upon?

### **3. ESKOM**

The following issues need to be addressed regarding Eskom: appointment of Chief Executive Officer (CEO), municipal debt, the Denton report actions.

#### **3.1. Appointment of CEO**

Eskom's former CEO Brian Molefe resigned as Eskom's CEO on 11 November 2016, effective on 01 January 2017, after allegations against him surfaced in the Public Protectors Report<sup>2</sup>. Mr Matshela Koko, the executive for generation, was appointed as acting-CEO on 30 November 2017. To-date the CEO position has not yet been filled.

#### **3.2. Municipal debt**

In January 2017, Eskom started implementing interruptions in power supply for some defaulting municipalities owing to the non-payment of municipal accounts. This was in light of the fact that the arrears in question would increase from the then R10.2 billion to more than R12 billion by March.

Currently the municipalities of eMalahleni and Msukaligwa have defaulted on their payment agreements and are therefore being subjected to daily scheduled interruptions. Eskom is of the view that the move from post payment to prepaid meters will solve the problem of payment arrears by municipalities.<sup>3</sup>

In a presentation made to the Portfolio Committee on Cooperative Governance and Traditional Affairs on 21 February 2016, Eskom stated that they have agreed to resolve the Top 5 issues raised by the municipalities. These issues are as follows:<sup>4</sup>

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<sup>1</sup> Simkins (2016).

<sup>2</sup> Public Protector South Africa (2016) "*State of Capture*" A Report of the Public Protector. Report No. 6 of 2016.14 October.

<sup>3</sup> Odendaal, (2017)

<sup>4</sup> Koko (2017)



- i. Eskom is proposing the Rationalisation of Municipal Tariffs to reduce tariff options from 11 to 3;
- ii. Eskom will decrease the Interest Rate charged on overdue balances from Prime plus 5 per cent to Prime plus 2.5 per cent;
- iii. Eskom will change the payment period on Municipal Bulk accounts from 15 days to 30 days;
- iv. Eskom will change its payment allocation policy to allocate payments to capital first and then interest;
- v. Allow municipalities to pay connection charges over a 20-year period at the relevant interest rate instead of Cash Up Front for the entire amount.

However, it should be noted that the above proposals are subject to Eskom board approval and are forward looking.

Total municipal debt overdue at the end of January 2017 equalled R9.527 billion, with the top 10 municipalities owing R6.071 billion. The top 20 defaulting municipalities have a combined overdue debt of R7.393 billion. Soweto remains the Eskom supplied area with the largest outstanding debt, at R12.081 billion. (Soweto is not a municipality – Eskom itself supplies and bills consumers in the area).

### **3.3. Denton report**

In the Eskom 2014/15 Annual Report the auditors highlighted that the board of directors of Eskom commissioned an independent enquiry on the status of its business and the challenges it faced. To ensure that the process was transparent and uninhibited, the board of directors suspended four executives on 12 March 2015 for a period of three months for the envisaged duration of the enquiry. Three executives subsequently resigned.

A report was subsequently submitted by law firm Dentons. The inquiry was initiated to establish the causes of the near-operational meltdown the utility suffered in 2008, when it could not adequately supply the economy with electricity.

It is alleged that the finalised report has been kept by Eskom's Chairperson Dr. Ben Ngubane. Dr Ngubane stated that "The investigation is complete and has been handed to the minister of public enterprises. Eskom is using it to fix what was needed to be fixed." However, the Minister Lynne Browne, contradicted him.

The report submitted to Eskom by Dentons is incomplete as it was stopped in the early stages at Eskom's insistence. However, the Dentons report states that senior managers and directors of the electricity supplier set themselves up to do business with the utility in their personal capacities.



The Alexkor Chief Financial Officer (CFO) resigned late 2016, the Minister should advise on the process of filling this position and what is being done to stabilise the company.

## **8. SAFCOL**

The CEO and CFO of SAFCOL both resigned in 2016, The board stated that would fill the positions by December 2016. Have the vacant executive positions been filled?

When the Committee met with SAFCOL on 19 October 2016, they discussed restructuring the business into 4 regions. The Minister should update the Committee on this process as well as the feasibility of building a new sawmill plant.

## **9. CONCLUSION**

The following issues have been outlined for the attention of the Committee in this report:

- The Department of Public Enterprises - concerning the Government Shareholder Management Bill, and the shareholder compacts;
- Eskom - regarding the appointment of the Chief Financial Officer, municipal debts, and the Denton report;
- Denel - regarding Denel Asia;
- the outstanding annual report of South African Express Airways; and
- community conflict with regards to Alexkor and the finalisation of the land claims settlement.

This is in preparation for the meeting with the Minister of Public Enterprises to follow up on these outstanding matters.



## 10. REFERENCES

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