**4. Report of the Portfolio Committee on Public Enterprises on Budget Vote 9: Public Enterprises, and the Annual Performance Plan for 2019/20 of the Department of Public Enterprises, Dated 10 July 2019**

The Portfolio Committee on Public Enterprises, having received a briefing from the Department of Public Enterprises on the Annual Performance Plan and on the budget vote on 03 July 2019, reports as follows:

**1. Introduction**

Guided by the Rules of Parliament, promulgated in terms of the Constitution, the Portfolio Committee on Public Enterprises plays an oversight role on the Ministry, Department of Public Enterprises and state-owned companies. The Committee has to scrutinise the Strategic Plan and Annual Performance Plan of the Department and its entities in order to see if the funds requested are aligned to the objectives as stated in the respective Strategic Plan and Annual Performance Plan documents**.**

**1.1 Background**

The State has a developmental role to play and uses state-owned companies (SOCs) as the primary tools for fulfilling this role. The developmental role should support a number of economic and development goals, including delivery of strategic infrastructure that will unlock growth potential in the country; support of the wider economy and marginal business sectors and support of economic recovery where needed. The State requires strategic, organizational and operational capacity to play its developmental role. State-owned companies fulfil the state’s operational role in this requirement, acting as the implementing agents for national development strategy.

**2. Annual Performance Plan of the Department of Public Enterprises**

The Department of Public Enterprises presented an Annual Performance Plan for 2019/20 financial year the Committee. The Department described the overarching policy and strategic direction and priorities of Government, as articulated by the 2019 State of the Nation Address by the President, the National Development Plan (NDP), and the Presidential Review Committee (PRC) on state-owned enterprises (SOEs).

**2.1 Mandate of the Department of Public Enterprises**

The Department of Public Enterprises is the shareholder representative for government at the state-owned companies in its portfolio. The Department’s mandate is to fulfil oversight responsibilities at these state-owned companies to ensure that they contribute to the realisation of government’s strategic objectives, as articulated in the National Development Plan (NDP), the Medium-Term Strategic Framework (MTSF), the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP). State-owned companies are crucial to driving the State’s strategic objectives of creating jobs, and enhancing equity and transformation. The Department does not directly execute programmes but seeks to use State ownership in the economy to support the achievement these objectives.

**2.2 Strategic Objectives of the Department**

The President in his State of the Nation Address 2019 to the sixth Parliament introduced priorities of government. The President reemphasised the need to achieve targets of the National Development Plan, Vision 2030. There are seven priorities for government in this new administration. The priorities relevant to the Department and State Owned Companies are the following:

* Economic transformation and job creation
* Education, skills and health
* Building a capable, ethical and developmental State
* A better Africa and world.

The year 2019 marks the end of the 5-year planning cycle, and the Medium Term Strategic Framework for the term (2020-2025) will be concluded in the year. Therefore, it will inform the new Strategic Plan for the Department that will be tabled in 2020 with priorities for a 5-year period. The strategy will take into account the State’s commitment to effectively enable economic and social development through strengthening of state-owned enterprises. The strategy should also consider alignment of the work of the Department and state-owned companies with the newly established Presidential SOE Council.

The Department in its Annual Performance Plan outlined three programmes; Administration, Business Enhancement and Governance and Assurance. In order to achieve on its mandate, the Department outlined the following strategic objectives:

* Promote the development of a strong shareholder.
* Access development of skills to support the needs to economy.
* Promote commercial viability of SOCs’ operation.
* Access transformation of the South African economy.

The Department has prioritised the development of the Shareholder Management Bill as a key focus toward the development of a strong shareholder. This bill is envisaged to be completed in the financial year 2020/21. The performance of state-owned company boards is also important in the achievement of this strategic objective. A mechanism to bring all boards into account and to ensure performance in SOCs has been developed through Board Performance Evaluation Framework. In responding to policy aspirations of government for economic transformation and job creation, the Department has set targets to monitor development of scarce skills in SOCs. SOCs have challenges in the development local industries. The Department has development Localisation Strategic Framework which will see SOCs developing local industries and contributing to the local economy.

The sustainability of SOCs has been prioritised in the Business Enhancement and Industrialisation programme. In order to provide oversight and accountability to the achievement of the strategic objective on the promotion of commercial viability of SOCs operations. The Department will present scrutinise turnaround plans, shareholder compacts, reports on progress of implementation of programmes, specific industry research and different Memorandum of Agreements (MOA) entered into by different SOCs.

**2.3 Policy Priorities for 2019/20**

The Department of Public Enterprises oversees seven state-owned companies, namely Alexkor, Denel, the South African Forestry Company (SAFCOL), Eskom, South African Airways (SAA), South African Express Airways (SAX) and Transnet. The President made the following pronouncements in his State of the Nation address in June 2019:

* One reason for the lacklustre economic performance has been the load shedding early this year, together with the continued uncertainty in the supply of electricity and the state of Eskom.
* The lesson is clear: for growth, we need a reliable and sustainable supply of electricity.
* Eskom is facing serious financial, operational and structural problems.
* Since the load shedding earlier this year, Eskom has made much progress in implementing its Nine-Point Plan, ensuring better maintenance of its generation fleet, reducing costs and ensuring adequate reserves of coal.
* In line with the recommendations of both the Eskom Sustainability Task Team and the Technical Review Team, Eskom is deploying its most skilled and experienced personnel to where they are needed most.
* The utility’s financial position remains a matter of grave concern.
* With the current committed funding from government, outlined in the 2019 Budget, Eskom has sufficient cash to meet its obligations until the end of October 2019.
* For Eskom to default on its loans will cause a cross-default on its remaining debt and would have a huge impact on the already constrained fiscus.
* To address this matter by tabling a Special Appropriation Bill on an urgent basis to allocate a significant portion of the R230 billion fiscal support that Eskom will require over the next 10 years in the early years.
* Further details will be provided by the Minister of Finance in due course.
* A new Chief Executive Officer will be announced following the resignation of Mr Phakamani Hadebe.
* The appointment of a Chief Restructuring Officer, who will be expected to reposition Eskom financially with careful attention to the mix between revenue, debt and cost structure of the company.
* Eskom is also working with government and other stakeholders to address its broad structural plan and its overall debt as well as the debt owed by municipalities and individual users.
* Asserting the principle that those who use electricity must pay for it.
* To give priority attention to the economic sectors that have the greatest potential for growth.
* Implement master plans developed with business and labour in industries like gas, and renewable sectors.
* Through the Presidential SOE Council, government intends to create alignment between all state-owned companies and to better define their respective mandates.
* Through the council, Government will work with the leadership of SOEs to develop a legal and regulatory environment that promotes innovation and agility and enhances their competitiveness.

The Minister of Public Enterprises in his response to the State of the Nation Address 2019 outlined the following:

* Over the past sixteen months our work with respect to restoring good governance, stabilizing operations, appointing new boards and directly confronting corruption, proceeded with efficiency, speed and purpose.
* New Boards: appointed for Denel, Eskom, Transnet, SA Express, Safcol, Alexkor
* Management: Work in progress; huge responsibilities.
* Operations: Improving but not optimal.
* Finances: Only partly resolved.
* Fiscal burden: Not solved; many still too dependent on the fiscus or borrowing.

The SOE Council will take on the formidable, but important task of repositioning and reforming our SOE sector.

* Align SOEs to the national priorities and goals.
* Decide which SOEs are strategic and what new SOEs to establish, for example, the 4th Industrial Revolution.
* Reform procurement by SOE’s to reduce the likelihood of corruption.
* Appoint competent individual of unquestionable integrity through a transparent and robust process to Boards and senior management.
* Review the business models, capital structure and sources of financing for SOE’s.
* Identify opportunities for private sector participation to better advance the national developmental agenda of the country (not privatisation).
* Closely monitor the financial and operational performance of SOE’s.

The Minister outlined goals for SOE’ specifically as strive to:

* Promote greater transparency and accountability to overcome poor governance.
* Restore financial sustainability and prudence.
* Create an environment in which “skilled and professional public servants of the highest moral standards dedicated to the public good” can thrive and contribute to a “best in world” culture.
* Remove all vestiges of State Capture and ensure there are harsh consequences for malfeasance.

The Minister provided a synopsis into SOCs’ sectors:

a) Energy Sector: the balance between renewables and fossil nuclear) is constantly evolving, and rapidly so fuels.

b) Logistics: new challenges and opportunities are emerging for increased regional trade from the Africa Continental Free Trade Area Agreement.

c) Aviation: what is the future design for the State’s aviation assets; new types of fuel efficient aircraft; consolidation of airlines, long haul routes by low cost airlines.

d) Environment: how do we reduce our dependence on non-renewable sources of energy; reduce carbon emissions; introduce new carbon capture and battery technology.

c) Aviation: what is the future design for the State’s aviation assets; new types of fuel efficient aircraft; consolidation of airlines, long haul routes by low cost airlines.

d) Environment: how do we reduce our dependence on non-renewable sources of energy; reduce carbon emissions; introduce new carbon capture and battery technology?

**2.3.1 Denel**

* The latest lender has come into assistance and full salaries will be paid.
* The company is improving the way that it contracts as well as renegotiating existing contracts to improve the margins it earns on such business.
* A new, permanent CEO was recommendation of the Board appointed in December last year.
* Governance improved and steps are being implemented to improve the reliability of the company’s financial accounting and reporting.
* Denel is reviewing its supply chain and procurement processes to reduce costs and streamline processes.
* The company has reduced employee costs through voluntary severance packages.
* Importantly, the company has a pipeline of potential contracts in excess of R30 billion.

**2.3.2 South African Airways**

The airline must undertake the following urgent actions:

* An accelerated LTTS is being developed for approval by 8 July 2019.
* We are in the process of strengthening the company executive and the Board to ensure stability in the organization.
* A Joint Implementation Committee has been established between Management, the Board and my Department to accelerate implementation, accountability and enable quick decision making.

**2.3.3 Transnet**

The Board and management of Transnet has committed to the following targets for 2019/2020:

* Grow rail market share in general freight from 29% to 32%.
* Rail general freight tariffs to average 5%.
* Limit Port Terminals container tariffs to 6%.
* Reduce the Ports Authority tariff by 6%.
* Generate cross-border revenue of R3.6 billion.
* Increase the total number of artisan, engineering, technician and sector-specific trainees by 11%.
* Achieve a local procurement spend greater that 75%.

**2.3.4 Eskom**

The Eskom Board will address the following challenges in the months ahead:

* Eskom has Installed capacity: 45 000 MW vs ±32 000 MW readily available
* Has an Electricity Availability Factor (EAF) of between 65% →71% - needs to get to 80% - On the Generation side: outages at power stations remain erratic/unpredictable.
* Needs better operational discipline - Focus on power stations must:
	+ Employ operations and engineering staff
	+ Reduce outages – planned and unplanned – and maintain below 9 500 MW.
	+ Ensure timeous maintenance and quality of work.
	+ Ensure appropriate, good quality coal and adequate supply

**2.3.5 Restructuring of Eskom**

Eskom has begun to develop a road map to implement the proposals in the February 2019 SONA: to separate its Generation, Transmission and Distribution functions into three separate business entities, wholly-owned by the State.

Some of the details being looked into, are:

1. Power transfer policies and contracts;
2. Internal structural reorganization (governance, organizational structure, policies and procedures);
3. Financial reporting and auditing processes per business division;
4. Create of detailed cost allocations and Service Level Agreements within the holding company;
5. Implement auditable financial statements (including governance and support services); and
6. Transfer assets to subsidiaries whilst considering the tax and regulatory implications.

**2.4** **Challenges facing state-owned companies**

There are external and internal factors that affect the performance of state-owned companies. These include the following:

**2.4.1 External Factors**

The external challenges that affect state-owned companies are comprised of external governance, policy regulation, and financial challenges. They are discussed in this detail below.

**(a) External Governance**

* Strategic role to be played by the SOCs as a sector and individually not clearly defined.
* Conflicting and misaligned mandates given to SOCs by different stakeholders.
* Limited clarity on the roles of various stakeholders and lines of accountability.
* Lack of uniformity in the oversight model and weak oversight by shareholder departments.

**(b) Policy and Regulation**

* Policy gaps and misalignments.
* Uncertainty and poor quality economic regulation of SOCs.

**(c) Financial**

* Limited fiscal resources to invest in SOCs and negligible appetite for private ownership.
* Lack of clarity on where the government should own SOCs, disperses resources widely.
* Funding model to cover the cost of non-commercial development mandates not clear.
	+ 1. **Internal Challenges**

The internal challenges affecting State Owned Companies are comprised of internal governance, strategy, operational and financial challenges. These discussed in detail are outlined below.

**(a) Internal Governance**

* Weak, inexperienced and compromised boards and management.
* Negligible sanctions for poor performance and corruption.
* Limited direction, oversight and leadership from the boards.

**(b) Strategy**

* Strategies that do not keep up with rapidly changing competitive environment.
* Poor alignment of strategy to national objectives.
* Limited SOC collaboration leading to overlaps and duplication.

**(c) Operational**

* Failure to keep pace with technological improvements in certain industries.
* Delays and cost overruns in the delivery of capital expenditure programmes.
* Weak or corrupt procurement.
* Operational inefficiencies.

**(d) Financial**

* Weak balance sheets, with unsustainable debt levels.
* Unviable business models.
* Financial burden of unfunded non-commercial activities.

**3. Programmes of the Department**

**3.1 Programme 1: Administration**

The purpose of this programme is to provide strategic leadership, management, and support services to the Department.

The Department’s core functions require significant administrative support, and a substantial portion of the budget is in the Administration programme, which has cross-cutting sub-programmes providing for intergovernmental and international relations, strategic planning, monitoring and evaluation, and communications.

Over the medium term, the majority of the allocation is within compensation of employees, which will provide technical and administrative support to the Department. The overall budget for the programme increases by 7.0 per cent from R152.0 million in 2018/19 to R186.0 million in 2021/22. Expenditure on compensation of employees constitutes 55.9 per cent over the medium term. Over the medium term, expenditure on compensation of employees grows by 8.3 per cent from R82.3 million in 2018/19 to R104.5 million in 2021/22. The number of personnel is expected to increase from 133 employees to 136 employees over the medium term.

Spending on consultants is expected to increase by 11.9 per cent over the medium term and remains 7.6 per cent of the budget over the medium term. Goods and services constitute 42.2 per cent of the budget over the medium term. Travel and subsistence constitute 6.4 per cent of the budget, and increases by 6.0 per cent over the medium term, which is required by the programme to carry out its oversight function of the state-owned companies, situated throughout South Africa.

**3.2 Programme 2: SOC Governance Assurance and Performance**

The purpose of this programme is to provide state-owned companies’ governance, legal assurance, financial and non-financial performance monitoring, evaluation and reporting systems, in support of the shareholder to ensure alignment with government priorities.

The objectives of the programme are to ensure effective shareholder oversight of state-owned companies on an ongoing basis by:

* Providing governance and legal systems
* Developing and maintaining shareholder risk profiles and mitigating strategies for government’s state-owned companies
* Monitoring, evaluating and reporting on financial and non-financial performance of state-owned companies, and proposing intervention measures when required.

The programme has four sub-programmes, namely:

* **Management**, which comprises the office of the deputy director-general that provides strategic leadership and management for the programme’s personnel.
* **Legal**, which provides external legal services and support, including transaction and contract management support, to sector teams and the commercial activities of the state-owned companies within their portfolio.
* **Governance**, which develops, monitors and advises on legislative, corporate governance and shareholder management systems for the department and its portfolio of state-owned companies. The sub-programme develops and implements risk and compliance management guidelines and systems for shareholder risk.
* **Financial Assessment and Investment Support**, which analyses state-owned companies’ capital planning, operational performance, execution of capital programmes and proposed restructuring proposals, and advises on appropriate action.

The sub-programme Management constitutes the smallest unit of the programme at 7.2 per cent of the budget over the medium term. The largest unit is Financial Assessment and Investment Support at 37.6 per cent of the budget followed by the sub-programme Legal at 28.0 per cent and Governance at 27.2 per cent of the budget. The overall budget for the programme increases by 8.7 per cent from R39.1 million in 2018/19 to R50.3 million in 2021/22.

Over the medium term, 55.5 per cent of the programme 2 budget is allocated for spending on compensation of employees over the medium term, with the number of personnel expected to increase from 33 employees in 2018/19 to 36 employees over the medium term. Compensation of employees increases by 9.0 per cent over the medium term, from
R30.1 million in 2018/19 to R39.0 million in 2021/22. Expenditure on consultants is expected to increase by 10.8 per cent over the medium term from R3.9 million in 2018/19 to R5.3 million in 2021/22. Legal services increase by 5.5 per cent over the medium term, while travel and subsistence increased by 8.3 per cent from R1.8 million in 2018/19 to R2.2 million over the medium term.

**3.3 Programme 3: Business Enhancement, Transformation and Industrialisation**

The purpose of the programme is to provide sector oversight to ensure that state-owned companies contribute to the advancement of industrialisation, transformation, intergovernmental relations and international collaboration services. The programme will also support the shareholder in strategically positioning and enhancing the operations of state-owned companies.

Over the medium term, the programme’s budget decreases by 75.3 per cent from R6.3 billion in 2018/19 to R95.7 million in 2021/22. The decrease is due to the Department receiving R6.2 billion as allocations for SAA and SAX during the 2018/19 financial year. Through this programme, the department will contribute to the enhancement of the performance of SOCs on an ongoing basis by:

* Conducting reviews, research and modelling of pipeline and new business enhancement opportunities within SOCs
* Assessing operations of SOCs and developing mitigation instruments in conjunction with policy departments, regulatory bodies and industry
* Conducting research, modelling job creation and transforming instruments for SOCs to inform compact alignment imperatives, promote SOCs’ contribution to inclusive economic growth, unlock bottlenecks affecting SOCs and inform evidence-based policy formulation.

The sub-programme **Energy Resources** exercises shareholder oversight over Eskom, Alexkor and the South African Forestry Company (SAFCOL). The budget for Energy Resources is expected to increase by 7.3 per cent over the medium term, from R13.7 million in 2018/19 to R16.9 million in 2021/22. Over the next three financial years until 2021/22, the programme constitutes 17.6 per cent of the total programme expenditure.

The sub-programme **Research and Economic Modelling** conducts cost-benefit analysis reviews on business enhancement and transformation initiatives, and develops economic sustainability models for proposed work packages and projects. The budget increases from R13.5 million in 2018/19 to R15.9 million in 2021/22, an increase of 5.7 per cent in nominal terms. Over the medium term, the sub-programme constitutes 16.6 per cent of the programme’s budget.

The sub-programme **Transport and Defence** exercises shareholder oversight over Transnet, South African Express Airways and Denel. The budget for the sub-programme constitutes 25.7 per cent of the programme budget over the medium term. The sub-programme budget decreased in nominal terms by 84.2 per cent from R6.3 billion in 2018/19 to R24.6 million in 2021/22.

The sub-programme **Business Enhancement Services** develops and coordinates the implementation of SOCs’ strategies to leverage localisation programmes; provides intergovernmental coordination and support to programmes and SOCs in relation to economic development programmes, as agreed with provincial and local governments; and maintains a register of commitments made by SOCs and lobbies for the implementation of special programmes focusing on skills development, transformation and the youth. The sub-programme’s budget constitutes 40.1 per cent of the programme’s budget over the medium term. The sub-programme’s budget increases in nominal terms by 2.5 per cent from R35.7 million in 2018/19 to R38.4 million in 2021/22.

Compensation of employees constitutes 70.4 per cent of the programme’s budget over the medium term, with goods and services accounting for 29.5 per cent. Compensation of employees increases by 4.7 per cent from R59.0 million in 2018/19 to R67.7 million in 2021/22. Personnel in the programme is projected to decrease from 64 employees in 2018/19 to 59 employees over the medium term. Goods and services is projected to increase by 5.6 per cent from R23.8 million in 2018/19 to R28 million in 2021/22. Consultants increase by 8.6 per cent over the medium term from R14.2 million in 2018/19 to R18.2 million in 2021/22. Consultants accounts for 65.5 per cent of the goods and services budget over the medium term.

**3.4 Budget**

Over the medium term the Department will focus on strengthening its oversight capacity and ensuring that SOCs under its authority are contributing to investment in key infrastructure.

A re-aligned organisational structure for the Department was approved in December 2017, however, implementation was envisaged for the 1st of April 2018. It was placed on hold due to the preparation for the new administration and only implemented in January 2019.

**Table 1. Estimate of Expenditure over the medium term**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | **Nominal Rand change** | **Real Rand change** | **Nominal % change** | **Real % change** |
| **R million** | **2018/19** | **2019/20** | **2020/21** | **2021/22** |  **2018/19-2019/20** |  **2018/19-2019/20** |
| **Programme 1: Administration** |  152,0 |  164,9 |  175,9 |  186,0 |  12,9 |  4,7 |  8,49% |  3,12 % |
| **Programme 2: State-Owned Companies Governance Assurance and Performance** |  39,1 |  43,9 |  47,1 |  50,3 |  4,8 |  2,6 | 12,28% |  6,73% |
| **Programme 3: Business Enhancement, Transformation and Industrialisation** |  6 331,9 |  84,2 |  89,8 |  95,7 | -6 247,7 | -6 251,9 | -98,67% | -98,74% |
| **TOTAL** | **6 523,0** | **293,0** | **293,1** | **332,0** | **6 230,0** | **-6 244,5** | **-95,51%** | **-95,73%** |

**Source:** National Treasury (2017)

Table 1 describes the department’s medium term allocation with the real and nominal increase over the current financial year. From this, the following can be concluded:

* **Programme 1**: Administration, has a nominal increase of 8.49 per cent in 2019/20, with real increase of 3.12 per cent. Programme 1 accounts for the largest allocation of the Department’s overall budget with 56.3 per cent of the budget in 2019/20.
* **Programme 2**: State-Owned Companies Governance Assurance and Performance receive the smallest allocation of 15.0 per cent in 2019/20. The programme increases by 12.28 per cent nominally in 2019/20 or in real terms by 6.73 per cent.
* **Programme 3**: Business Enhancement, Transformation and Industrialisation accounts for the second largest allocation of the budget, accounting for 28.7 per cent of the budget in 2019/20. Programme 3 allocations has decreased by 98.67 per cent due to the inflated 2018/19 budget of the R6.3 billion allocation during the adjusted budget process in October 2019 to this programme.

Overall, the Department’s budget decreases by 95.51 per cent in nominal terms from
R6.5 billion in 2018/19 to R293.0 million in 2019/20.

Compensation of employees amounts to 63.3 per cent of the total budget over the medium term, with goods and services amounting to 35.6 per cent over the medium term. Of the goods and services budget, the use of consultants constitutes 31.7 per cent while travel and subsistence accounts for 17.9 per cent of the budget over the medium term period from 2018/19 to 2021/22. Compensation of employees is set to increase at an average annual rate of 7.2 per cent, from R171.4 million in 2018/19 to R211.2 million in 2021/22, which constitutes the Department’s largest cost driver. Travel and subsistence increases from R17.9 million in 2018/19 to R20.7 million in 2020/21; while consultants increased from R28.5 million in 2018/19 to R38.1 million in 2021/22.

**4. Report of Auditor-General on the Annual Performance Plan of the Department of Public Enterprises for 2019/20 financial year**

By the time of the consideration of the annual performance plan and budget of the Department of Public Enterprises, the Auditor-General had not yet completed the auditing of the Annual Performance Plans of the Department and its state-owned companies.

**5. Performance of State-Owned Companies**

State-owned companies have a role to play in economy through offering cost efficient and effective services to the public. The dual mandate of SOCs compels them to fulfil service for public good while safeguarding their commercial mandate. It is imperative that they maintain performance in order not to constrain the public funds and meeting their obligations while remaining profitable. Performance of SOCs have declined over the past few years’ due governance, procurement, financial and operational challenges. The new administration has made commitments to address these challenges. It is imperative that the Department continue to provide oversight of the SOCs to ensure that the commitments made are realised. The Committee will continue to monitor SOCs environment and provide guidance to Government on issues to be implemented over the new term administration. The key issues which emerged during Committee oversight including recommendations made during the last term Committee inquiry, legacy report, Budget Vote Report, and Budget Review Recommendations Report should be taken into account by the Department and state-owned companies.

**6. Committee Observations**

**6.1** The Committee made the following observations:

6.1.1 The Committee applauded the Department for the decisive action taken to appoint executives and boards in state-owned companies to stabilize the companies. However, noted with grave concern the resignations of the recently appointed Group Chief Executives Officers of South African Airways and Eskom respectively.

6.1.2 State-owned companies have been weakened financially and the governance structures and systems have been destroyed by the state capture phenomenon.

6.1.3 SOCs have not done enough to create black industrialists and local industries and therefore there is a need for a more radical approach to advance localization and beneficiation.

6.1.4 SOCs are excluded from incentives that are provided to the private sector for job creation and they do not receive any assistance from development finance institutions.

6.1.5 The lack of implementation of remuneration standards for state-owned companies have rewarded and incentivised incompetent and corrupt executives and board members. However, the Committee welcomed the approval of the remuneration standards for state-owned companies

6.1.6 The timeframe for the introduction of the Shareholder Management Bill in 2020/21 was not desirable. The Committee urged the Department of Public Enterprises to prioritize and fast-track this overarching legislation in this financial year.

6.1.7 The corporate social investment programmes of state-owned companies have not yet adequately reached out to rural and poor communities.

6.1.8 There are concerns regarding community issues that have been exacerbated by the delay of the payment of the R45 million to the Richtersveld community. The Committee urged the Department to fast-track the processes required to be able to pay this amount to the community.

6.1.9 The Committee was concerned with the pace of implementing the PRC recommendations for the state-owned companies.

6.1.10 The Committee recommended that lifestyle audits not only be conducted on executives of the SOCs but should be undertaken by the executives of the Department as well.

6.1.11 Expressed concern regarding the adequacy of the risk assessment tools used by the Department and the entities.

6.1.12 The Committee observed that support packages and the process of restructuring needs to be transparent and accountability measures should be put in place for these processes.

**7. Recommendations**

The Committee recommended that the Minister of Public Enterprises should, within the 2019/20 financial year, ensure that the Department of Public Enterprises:

7.1 Consider fast-tracking the Shareholder Management Bill to empower the Department to execute its shareholder management responsibility and oversight over state-owned companies.

7.2 Once the SOE Council is established, provide regular feedback to the Committee on the outcomes and implementation of the recommended proposals for SOE reform.

7.3 Consider introducing a comprehensive plan to expand the corporate social investment of SOCs to rural parts of the country.

7.4 Develop a communication strategy for all state-owned companies in order to promote the companies and educate and inform the public and rural communities about the work of SOCs and opportunities that they offer.

7.5 Consider working with the Department of Trade and Industry and National Treasury in addressing localization strategies. These should include resetting of trade and investment cooperation to stimulate and support small businesses and employment initiatives, reduce barriers to trade in services (which are often labor-intensive) and investments industrial value chains.

7.6 Prioritise youth employment and co-ordinate the effort of all state-owned companies to address the challenges of unemployment.

7.7 Provide the Committee with shareholder compacts on an annual basis and quarterly reports on how the companies are performing in achieving targets.

7.8 Ensure that SOCs accelerate transformation programmes, promote industrialization and support small and medium enterprises that are owned by women, youth and people with disabilities.

7.9 Ensure that SOCs find a balance between advancing their commercial and public mandates. They should not over-concentrate on the commercial mandate while neglecting the developmental mandate of transforming the economy and improving the quality of lives of South Africans.

7.10 Ensure that lifestyle audits should be conducted on the executives of the Department of Public Enterprises as well as in the SOCs.

7.11 Ensure that issues relating to Safcol land claims are addressed expeditiously, and submit a progress report to the Committee on this matter by the end of the third quarter of the financial year.

7.12 Ensure that issues relating to the going concern of South African Airways and South African Express Airways are addressed and a progress report submitted to the Committee by the end of the third quarter of the financial year. This should include the progress on the Government aviation strategy.

7.13 Ensure that concerns raised on the achievability SAA Long Term Turnaround Strategy are addressed and progress implementation of the LTTS is monitored by the Department and presented to Committee in the third quarter.

7.14 Work with the Department of Rural Development and Land Reform to ensure that the Richtersveld Mining Company and Communal Property Association are properly constituted to facilitate the R45 million payment to beneficiaries.

7.15 Implement recommendations or relevant matter emanating from the Judicial Commission on State Capture as set-up by the President, if any concerning the Department and the state-owned companies, during the 2019/20 financial year.

7.16 Fast-track the implementation of the PRC recommendations, including the policy on remuneration standards for state-owned companies.

7.17 Address the financial and governance issues facing the state-owned companies within the Department’s portfolio and provide regular feedback to the Committee.

7.18 Work with the Department of Cooperative Governance and Traditional Affairs and other relevant parties to resolve the municipal debt owed to Eskom and provide feedback to the Committee on this process quarterly.

7.19 Ensure that all vacant positions are permanently filled within the Department of Public Enterprises by the end of the financial year.

7.20 Ensure that all funding gaps, accountability measures, government buy in, delayed decision making, rising debt levels and internal problems in SOCs are addressed.

**8. Conclusion**

Having considered the Budget Vote and the Annual Performance Plan of the Department of Public Enterprises, the Committee recommends that the House passes the budget.

Report to be considered.