

# SUSTAINABILITY OF THE NECSA GROUP

## PORTFOLIO COMMITTEE

**David Nicholls**

**NECSA Group Board Chairperson**

**24 August 2021**



# CHAIRPERSON'S REMARKS AND PURPOSE OF THE PRESENTATION

To present sustainability of Necsa as requested by the Portfolio Committee

# SUSTAINABILITY OF THE NECSA GROUP

## PORTFOLIO COMMITTEE

Loyiso Tyabashe

NECSA Group Chief Executive

August 2021



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Key Legislation	
Legislation	Description
Nuclear Energy Act 46 of 1999	<b>Framework within which prospecting, mining, milling and the use of nuclear materials in South Africa takes place.</b>
National Nuclear Regulator Act 47 of 1999	Framework to provide protection of persons, property and the environment against nuclear damage.
Environmental Conservation Act 73 of 1989	Provides for the effective protection and controlled utilisation of the environment.
Non-Proliferation Act 87 of 1993	To provide guidance for control over weapons of mass destruction.
National Radioactive Waste Disposal Institute Act 53 of 2008	The Act provides guidance to manage radioactive waste disposal on a national basis.
Public Finance Management Act 29 of 1999	To regulate financial management in the national government and provincial governments

• **Necsa Corporate's Legislative mandate is derived from Section 13 and 14 of the Nuclear Energy Act, No. 46 of 1999**

Section 13 – Main Functions of Corporation:

- a) Undertake and promote **Research and Development** in the field of nuclear energy and radiation sciences and technology and, subject to the Safeguards Agreement, to make these generally available;
- b) **Process source material**, special nuclear material and restricted material, and to reprocess and enrich source material as well as nuclear material; and
- c) **Co-operate with any person or institution** in matters falling within these functions, subject to the approval of the Minister

Section 14 – Ancillary powers and functions of Corporation:

- 1) *In connection with its main functions, the Corporation may;*
  - Establish/invest in **subsidiaries**
  - Build/purchase **property, plant and equipment** to conduct functions
  - Promote the prospection for and **mining of source material** and restricted material
  - **Acquire, enrich and reprocess** source material and special nuclear material
  - Manufacture, acquire or possess **nuclear fuel** and dispose thereof
  - Undertake the **transportation** of materials and products
  - Co-operate with any **educational, scientific or other institution** or body for training purposes and provide financial or other assistance if considered necessary
- 2) *In order to create and utilise viable business opportunities in commerce and industry, the Corporation may;*
  - Produce/acquire **intellectual property**
  - Manufacture and sell **instruments, equipment and similar products**
  - Process and sell **minerals**
  - Produce, process and sell **metals, chemicals and related products**
  - **Render any service** falling within the ambit of the Corporation's functions

Necsa's existence and mandate are clearly outlined from the Nuclear Energy Act 46 of 1999

Key activities need to be aligned to the mandate for good corporate governance

Operations and resources need to be geared towards fulfilling the mandate

Necsa, as a Schedule 2 company in the PFMA, needs to drive towards financial stability

This presentation provides steps geared towards taking Necsa into a profitable and sustainable domain

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# RATIONALISATION OF NECSA

## CORPORATE PLAN 2021/22-2023/24: 10 Year Financial View



### NECSA GROUP BUDGET 2022 INCOME STATEMENT

	Total GROUP	Total GROUP	Total GROUP	Total GROUP	Total GROUP
	Forecast 2021 R'000	Budget 2022 R'000	Plan 2023 R'000	Plan 2024 R'000	Plan 2025 R'000
Revenue					
Total Income	1 791 066	2 403 223	2 679 061	2 916 493	3 157 083
Total expenditure	2 005 042	2 564 001	2 794 019 #	2 969 079 #	3 165 387
Profit before taxation	(213 976)	(160 779)	(114 958)	(52 586)	(8 304)
Taxation	(8 554)	(33 246)	(33 714)	(48 275)	(59 398)
Nett operating Surplus / (Deficit)	(222 530)	(194 025)	(148 672)	(100 861)	(67 702)

### NECSA GROUP BUDGET 2022 INCOME STATEMENT

	Total GROUP	Total GROUP	Total GROUP	Total GROUP	Total GROUP
	Plan 2026 R'000	Plan 2027 R'000	Plan 2028 R'000	Plan 2029 R'000	Plan 2030 R'000
Revenue					
Total Income	3 624 332	4 160 733	4 776 521	5 483 446	6 294 997
Total expenditure	3 497 089	3 801 574	4 139 196	4 514 219	4 931 511
Profit before taxation	127 243	359 158	637 326	969 227	1 363 485
Taxation	(74 841)	(94 300)	(118 818)	(149 711)	(188 635)
Nett operating Surplus / (Deficit)	52 402	264 858	518 508	819 517	1 174 850

- 2021 FY Audit is currently ongoing with updated AFS indicating (R292m)
- Further historical performance review indicates that Necsa has been profitable in the past
- This financial **picture is unsustainable** and has triggered a need to perform a fundamental review of the organisation and its business model (termed Rationalisation). Rationalisation is aimed at ensuring **urgent recovery** from the above picture.

# RATIONALISATION OF NECSA

## CORPORATE PLAN 2021/22-2023/24: 10 YEAR FINANCIAL VIEW



The prolonged **loss situation is not acceptable and not sustainable**



**Cost containment measures** are a key priority to reduce the losses and there should a focus on managing **cashflow challenges** and **balance sheet rehabilitation**



Whilst cost containment & cashflow management is crucial, these will saturate. **More revenue streams are needed** henceforth



Audits need to migrate to **Clean Audit** space for the organisation to be investment grade

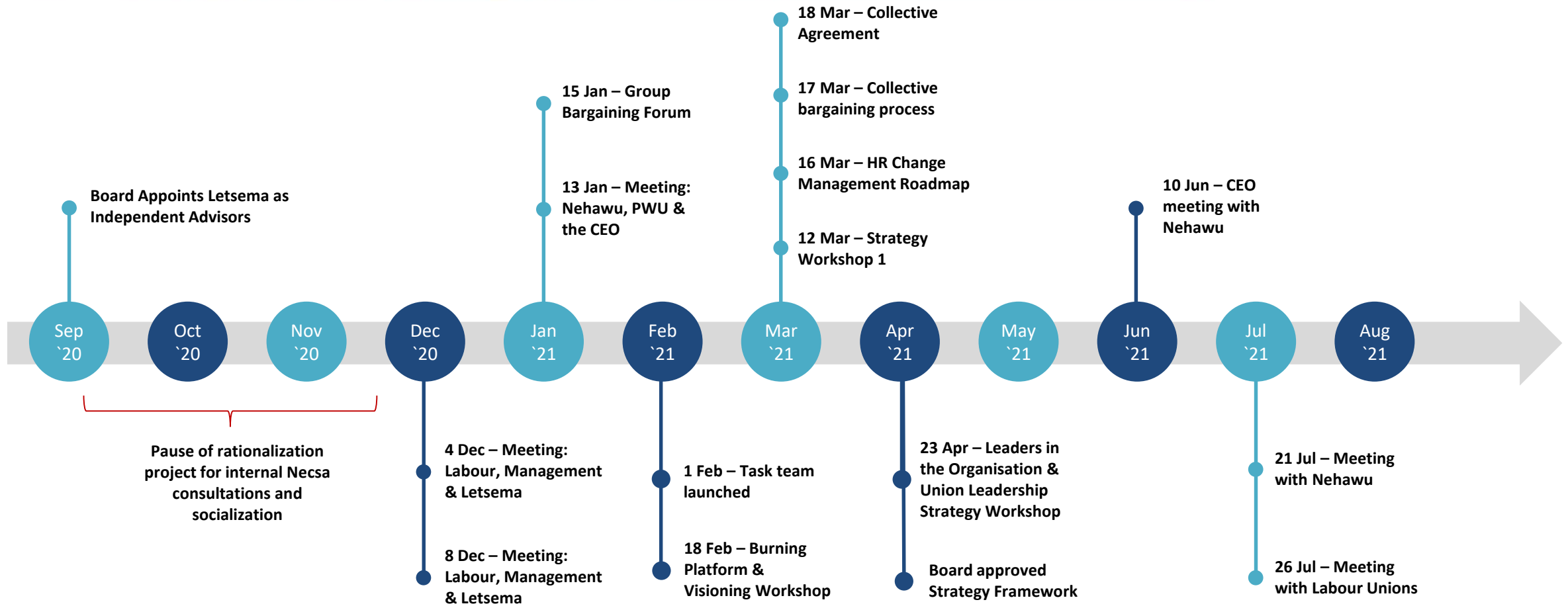


Organisational culture is not geared towards high performance

The Necsa financial situation and business operations need urgent interventions to allow the organisation to thrive

# RATIONALISATION OF NECSA (CONT.)

## STAKEHOLDER ENGAGEMENTS



- The rationalisation journey has been thorough and highly inclusive to ensure the design of quality and practical solutions to the key challenges at Necsa
- A consultative process was followed in rationalization where key stakeholders were consulted
- The Necsa EXCO was involved in the review and design input at different stages of the process
- The development of the new Group Strategy was done to ensure that there is a strategy that addresses the key challenges faced by Necsa

# RATIONALISATION OF NECSA (CONT.)

## NECSA BUSINESS MODEL



### KEY INPUTS



#### Manufactured Capital

- Safari – 1 Nuclear Reactor
- Pelindaba site with key plants and machinery



#### Human Capital

- Competent and highly experienced resources



#### Intellectual Capital

- Brand and reputation
- Intellectual property



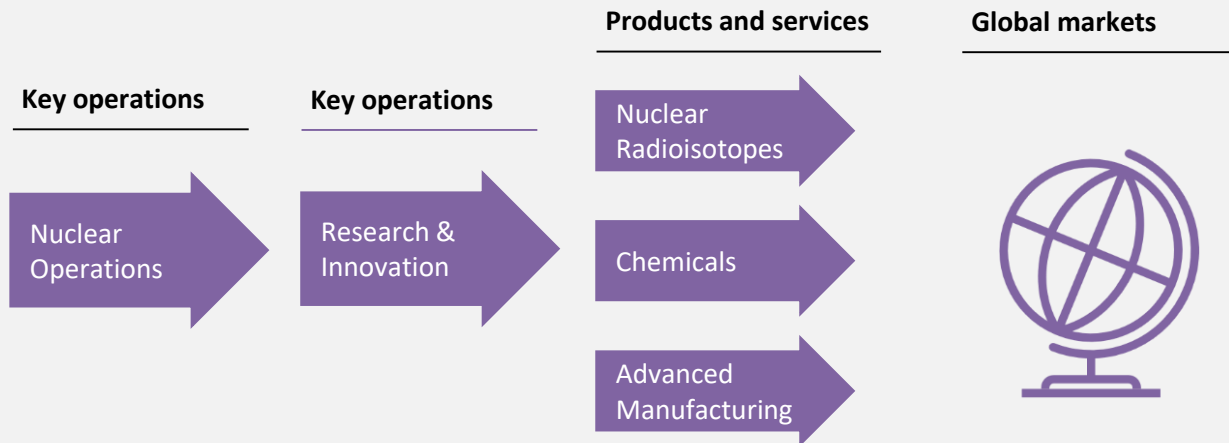
#### Key Partnerships & Relationships

- Customer relationships
- Business partnerships
- Supplier relationships



### VALUE CREATION

#### NECSA VALUE CHAIN



#### OUR PROFIT FORMULA



#### Revenues

- Nuclear Radioisotopes
- Fluorochemicals
- Advanced manufacturing
- Research & Innovation
- Grants



#### Costs

- Human resources
- Capital expenditure and maintenance
- Regulatory and compliance
- Operations
- Cost of financial capital



### OUR IMPACT

#### VALUE PROPOSITION

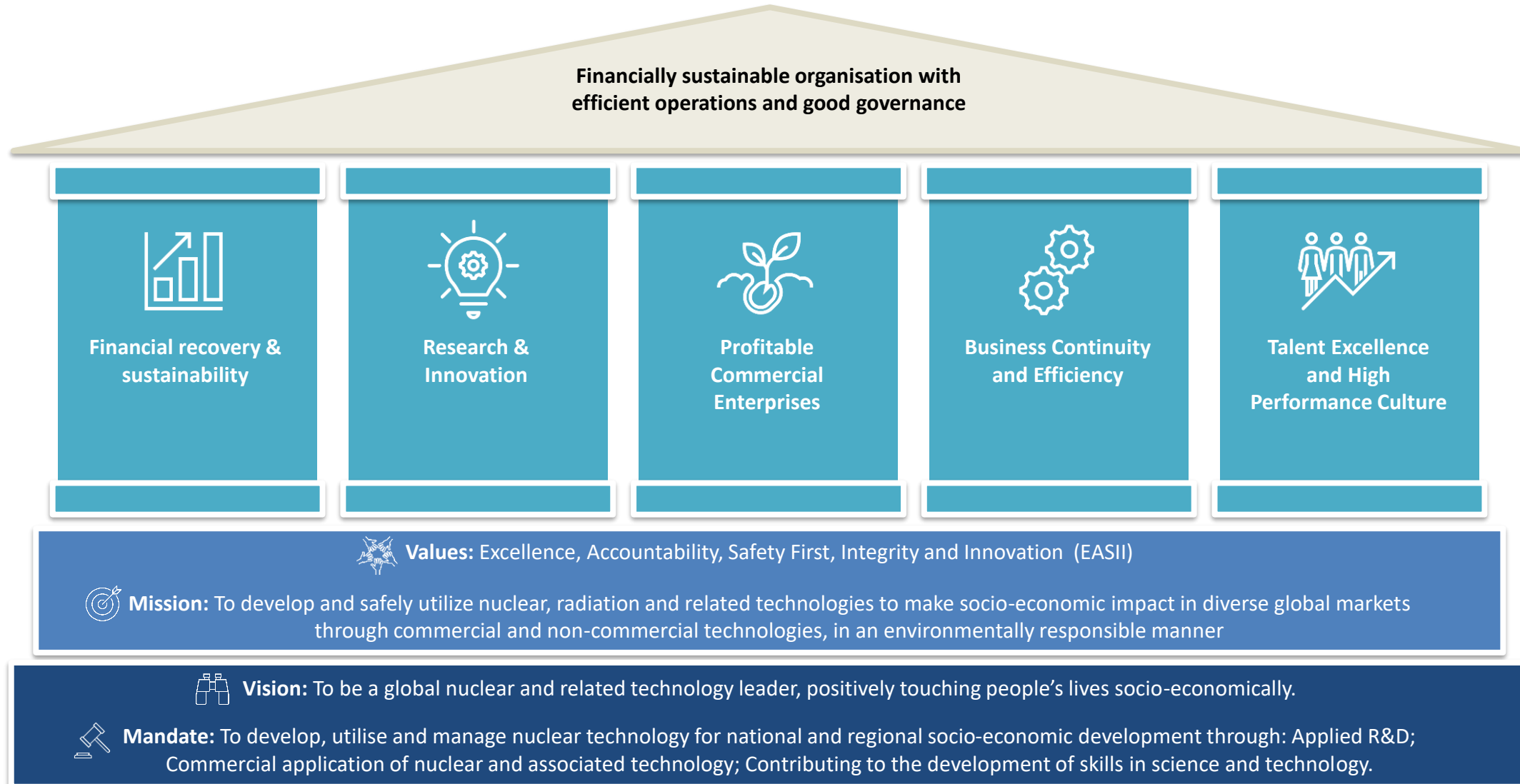
- Quality products and services
- Reliability
- Relevant licencing and accreditation

#### IMPACT

- Sustainable value creation
- Sustainable customer relations
- High social impact through job creation & societal contribution
- Advancing nuclear research contributing to various sectors

# RATIONALISATION OF NECSA (CONT.)

## NECSA GROUP REVISED STRATEGY FRAMEWORK



# RATIONALISATION OF NECSA (CONT.)

## NECSA GROUP REVISED STRATEGY FRAMEWORK



### Necsa Strategic Pillars

- **Financial recovery & sustainability**
  - Increase market share and expand to global market in medium to long term (for current local products/services)
  - Less dependent on government grant
- **Profitable Commercial Enterprises**
  - Produce nuclear related research, Nuclear medicine for diagnostic and therapeutic use locally and globally.
  - Nuclear Power Plant Components (relate design, manufacture and supply).
- **Business Continuity and Efficiency**
  - Execute D&D of Safari-1 and become a long-term supplier of nuclear fuel
- **Research & Innovation Impact**
  - Unique areas of research with commercialisation of appropriate skills and expertise
- **Talent Excellence and High Performance Culture**
  - Capacitate personnel with good skills and create an atmosphere of delivery



### Structural Gaps

- **Group functions not structured efficiently**
  - Certain support functions have not been structured efficiently, which leads to higher costs being incurred than what has been budgeted for, including budgeting for losses
- **Duplication of activities**
  - Certain activities are performed at both Necsa Corporate level as well as subsidiary level, this is due to the lack of collaboration amongst similar functions within the entity, cost saving opportunities are not being adequately explored
- **Human resource allocation does not match tasks**
  - Special skills within the organisation exist but are not being optimised as people are not placed where they can add maximum value
  - Multiple vacant positions indicate that certain critical activities are not being done, the existing staff is over-stretched or that those activities are not as important to the daily functioning of the group and should be cut out altogether

# RATIONALISATION OF NECSA (CONT.)

## NECSA GROUP REVISED STRATEGY FRAMEWORK



### ALIGNMENT TO MANDATE & STRATEGY

The organisation structure should be tailored to enable and support key strategic objectives of the organisation



### ONE INTEGRATED NECSA

A centrally controlled entity with single point of governance and clear reporting lines across entities through well defined business units and subsidiary reporting structures



### COST EFFICIENCY

Designing a structure that results in a reduction in costs to support the sustainability of the Necsa group



### SPECIALISATION & COLLABORATION

Design that encourages the development of specialist skills and expertise in a collaborative manner to support the development of quality products and services reliably



### INNOVATION AND ADAPTATION

A sufficiently flexible organisation structure that adapts to the ever-changing world and encourages innovation



### KNOWLEDGE, COMPETENCY & CULTURE

Allocation of responsibilities to the person or team best fit to do them and design of structure that supports the right mindsets and behaviours

# RATIONALISATION OF NECSA (CONT.)

PROPOSED KEY CHANGES TO TAKE NECSA TO PROFITABILITY



Strategy

Business model

Sustainable  
Necsa

Structural changes

Capacitation and  
implementation



# RATIONALISATION OF NECSA (CONT.)

## PROPOSED KEY CHANGES TO TAKE NECSA TO PROFITABILITY



### Strategy framework

- Strategy is geared towards a profitable organization
- Strategic Focus Areas (SFAs) are developed for each of the pillars
- A corporate plan will be delivered timely and will alter the current trajectory of losses, and will spur NecsA into profitability

### Business model

- Support (cost centres) and core (profit centres) functions clearly defined
- Bucienss model for cost and profit centres clarified
- Cost centre models to be streamlined so that profit centres pay for fair value on the “overheads”
- As a fundamental business principle, subsidiaries which are not profitable must be closed down if they cannot be revived to profitability

### Structural changes

- Support services organized in a centralized and centre-led approach to leverage on synergies and derive efficiencies
- Skills related to Core functions retain at the core
- Span of control for the to be drastically reduced, and in alignment with the strategic pillars

### Capacitation and implementation

- Board approved the strategy framework in May 2021
- Board meeting of the 25<sup>th</sup> Aug 2021 to approve strategy and proposed structure
- Implementation to commence and key capacitation elements (e.g. appointment of Group EXCO) to commence immediately after Board approval

# RATIONALISATION OF NECSA (CONT.)

## STRATEGY NEXT STEPS

### Corporate plan approval – Jan 2022

Green marketing is a practice whereby companies seek to go above beyond.

### Strategy Appraisal – Sept/Oct 2021

DMRE appraised of the revised strategy.

### Strategy Approval – Sept 2021

Detailed Strategy document finalised and approved by the Board



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Necsa's mandate is very clear and is derived from the Nuclear Energy Act 46 of 1999.



The approved strategy framework creates a platform of a strategy that will take Necsa into a sustainable trajectory, in alignment with the mandate.



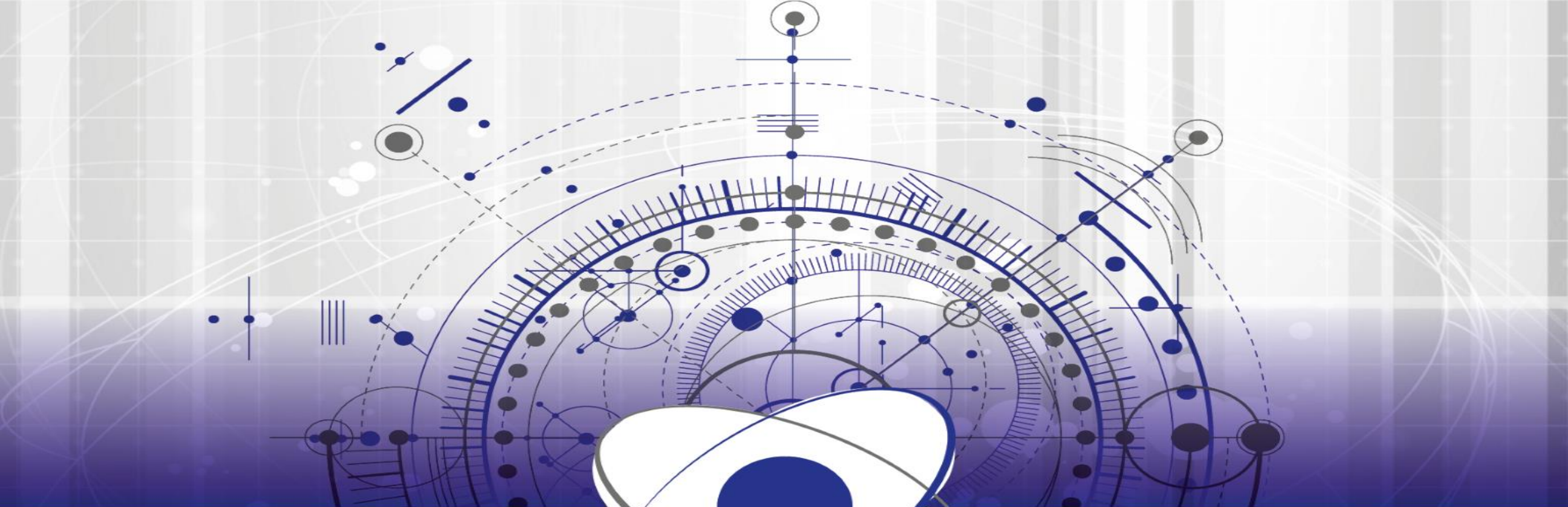
A balancing effect of cost containment measures and renewed revenue streams are essential for a rapid turn around.



The proposed strategy also aims at strengthening governance through streamlining of the governance structures and leaner organisational structures.



Human capital excellence and a high performance culture need to be the bedrock of performance henceforth.



Thank you