PRESENTATION TO STANDING COMMITTEE ON APPROPRIATIONS

Update on State Owned Companies

PRESENTED BY:

UNATHI NGWENYA
RAVESH RAJLAL

Asset and Liability Division

Date: 17 November 2021

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

LAND BANK

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

LAND BANK

- Finalisation of liability solution under way. Land Bank secured the services of an external service provider to audit the loan book of the Land Bank as required by the funders of the Land Bank. Aim is to finalise commitment agreements with the funders by 30 November 2021.

- Audit of annual financial statements currently underway. Audit is anticipated to be finalised by December 2021 after which such will be tabled in Parliament.

- The government as the shareholder has committed a total of R10 billion to an entity that is in default, thus supporting the lenders to minimize any possible losses in recovering on loans made to the Land Bank. To assist the Land Bank's liquidity position and allow it to restart paying interest, the Land Bank was allocated R3 billion during the June 2020 Special Adjustments Budget. Further to this, guarantees worth R74 million were called and honored by the National Revenue Fund over July and August 2020. In addition to the above-mentioned fiscal support, the Land Bank was provided with an additional R7 billion during the 2021 National Budget. This funding aims to cure the Bank of its default status and re-establish its development and transformation (D&T) mandate.

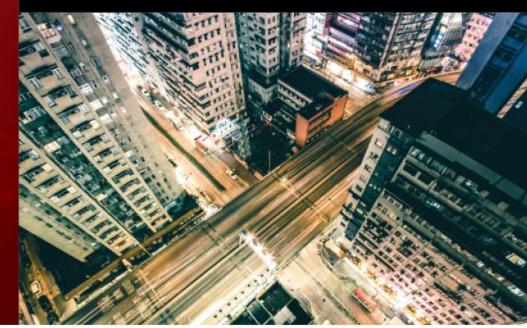
- Despite still being in the default, the Land Bank has managed to maintain interest payments to all its lenders and has repaid about 28% of capital outstanding over the last 18 months. As at October 2021, the amount owed to the lenders reduced to R29,2 billion.

- The gross loan book decreased from R36.9 billion to R33.2 billion in the first quarter, a decrease of 11%. The decrease in the loan book can be attributed to the winding down of the book as well as the 50% disbursement rule that the Land Bank has adopted, were only 50% of all collection are disbursed.

- The Land Bank Group recorded a net profit of R293.5 million against the budgeted loss of R170.1 million in the first quarter. The profit generated is due to the decrease in the non-interest expense from R68 million to R26 million as well as the Net impairment release of R283 million.

- The Land Bank has a pipeline of potential third party funding which requires the Bank to match the funding provided by these third parties. The Bank's ability to match these funds depends largely on the finalisation of the liability solution.

ESKOM



national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

OPERATIONAL AND FINANCIAL CHALLENGES

- Eskom remains the single biggest risk to the fiscus as well as a risk the Government's economic recovery plan.
- Eskom faces strategic, operational, financial and structural challenges.
- These challenges have resulted in an increase in funding requirements which have led to extraordinary fiscal commitment being provided to Eskom over and above the increase in debt from external funders.
- Eskom has three funding sources that it relies upon to operate its business i.e. internal generated revenue from the tariffs, Shareholder Equity, and Borrowings.
- Eskom has been dependent on borrowings and shareholder support to remain a going concern and the missing link has been the tariffs that cover the efficiently incurred costs and allows for a fair return on assets.
- To date, Government has provided Eskom with equity support of R136.7 billion from the R230 billion which is made up of R49 billion in 2019/20; R56 billion in 2020/21 and R31.7 billion in 2021/22. The entire equity support of R31.7 billion has been provided to Eskom in 2021/22, with the last tranche of R11.7 billion disbursed on 1 July.
- Eskom is unable to service its debt as it does not generate sufficient operational cash flows to cover its debt servicing costs which places more pressure on its liquidity.
- To enable Eskom to execute its borrowing plan, the Minister of Finance approved a special dispensation to allow Eskom to access additional guaranteed debt of R42 billion in 2021/22 and R25 billion in 2022/23, which falls within its existing guarantee facility.
- Eskom had used R292.7 billion in guarantees. Of the R350 billion government guarantee facility granted to Eskom, R303 billion (91%) has been committed, leaving R47 billion unallocated for future funding.

REVENUE CHALLENGES AND UNBUNDLING PROCESS

- On 30 September 2021, the National Energy Regulator of South Africa (NERSA) rejected Eskom's MYPD5 revenue application, after publishing a consultation paper on the new revenue methodology. NERSA is seeking to move away from the revenue-based approach to a cost to serve approach.
- Eskom is challenging NERSA's decision in court, as believes that a new methodology will not be ready in time to meet the 15 March 2022 tabling in Parliament. Hence, Eskom wants NERSA to evaluate its MYPD 5 revenue application for the next two years when it envisages the methodology to be concluded.
- The utility has made progress in its unbundling plan by establishing a transmission company that is now registered with the Companies and Intellectual Property Commission.
- A new corporate structure has been developed and PFMA approvals granted and debt has been allocated between its proposed electricity generation, transmission and distribution entities. However, this proposed restructuring needs to be approved by its lenders.
- The utility has a deadline of 31 December 2021 to complete its legal separation of the transmission unit, with the other two units following in the next 12 months.

COMPLIANCE WITH EQUITY CONDITIONS

- For 2021/22, 18 conditions that are attached to the equity allocation have been imposed on Eskom which are clustered as follows:
  - ❑ **Financial conditions**: 14
  - ❑ **Operational conditions**: 3
  - ❑ **Restructuring conditions**: 1
- To monitor progress towards complying with these conditions, a weekly monitoring task team comprising of officials from National Treasury, DPE and Eskom was established.
- In reviewing compliance with these conditions, National Treasury considers areas where Eskom fully complied, not complied and partially complied with the required information:
  - ❑ Fully complied means that all the required information was provided.
  - ❑ Not complied means the information was not provided or dates were not met.
  - ❑ Partially complied means that the information provided did not meet National Treasury's requirements and therefore Eskom has to submit additional supporting information in order to fully comply with the conditions.
- As at 30 August 2021, Eskom complied with all these conditions and provided the required information.

DENEL

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

DENEL

- In support of the 2019 turnaround plan, Denel was allocated R1.8 billion in 2019/20 and R576 million in 2020/21, including the provision of guarantee facilities amounting to R5.9 billion.
- The implementation of the turnaround plan has been delayed due to consultations with the relevant stakeholders. As a result, the entity continues to experience liquidity and solvency challenges.
- Due to its ailing financial position, Denel is unable to settle any of the maturing or interest obligations under its R3.43 billion guarantee facility.
- Government stepped-in to settle the obligations due under the guarantee facility - R2.923 billion was made available through the 2021 Adjustment Budget.
- In resolving its continued challenges, Denel is currently in the process of engaging relevant stakeholders on a way forward.

SASRIA

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

SASRIA

- Following the July 2021 unrest, Sasria received claims that were higher than anticipated and this significantly deteriorated Sasria's financial position.
- As at 30 September 2021, Sasria received claims valued at R30 billion and the final claims amount is estimated to settle at R32 billion.
- As at 30 September 2021, Sasria's total assets amounted to R14.6 billion compared to its total liabilities of R29.3 billion and thus, insolvent.
- Sasria's shortfall in meeting all claims and 100% SCR (in line with the PA) requires R20 billion.
- An additional R2bn is projected to meet 180% SCR in line with the entity's internal policies.
- To assist Sasria, R3.9 billion will be provided by around January 2022 through the Special Appropriation Bill process.
- A further R11 billion will be provided in 2021/22 through the Contingency Reserve.
- It has been noted that further funding will be required by Sasria and will be allocated in line with the budget process.
- In addition to the Government support, Sasria will be implementing self-help initiatives which will include liquidating its assets, as well as reviewing its reinsurance and premiums, amongst others.

SOUTH AFRICAN POST OFFICE

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

SOUTH AFRICAN POST OFFICE

Background

- SAPO is at a critical juncture. The shareholder department need to urgently restructure and repurpose the entity.
- Government must decide whether SAPO has a role to play as a delivery arm to government. If not, then SAPO must be drastically restructured, as the entity will not be able to continue in its current form without yearly funding from government to cover its losses.
- National Treasury has advised the DCDT to undertake a market study to determine whether and the extent to which government involvement is required in the postal sector. The outcome of this study should determine the extent to which SAPO is restructured.
- No government guarantees currently in place.

Challenges and financial update

- SAPO is overstaffed, its current VSP process is not yielding the reductions that are required. SAPO has applied for a R23 billion funding request given its current liquidity challenges. This includes funds to execute VSPs.
- The main revenue streams continuous to perform below budget.
- Year to date revenue at 30 September 2021 of R1 627 million is R766 million (32%) under budget with expenditure of R3.050 billion.
- Creditors of R4 billion of which statutory payments are R2.182 billion.
- Net loss of R1.155 billion.

SOUTH AFRCICAN AIRWAYS

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

South African Airways (SAA)

Background

- NT was requested to provide quarterly updates to Parliament on the utilization of the R2.7 billion allocation to SAA subsidiaries.
- The R2.7 billion allocation to SAA subsidiaries forms part of the R10.5 billion that was allocated to SAA during the 2020 MTBPS.
- However, the Second Adjustments Appropriation Act specifically and exclusively earmarked the entire R10.5 billion for the implementation of SAA's business rescue plan. Hence, the R2.7 billion could not be transferred to the SAA subsidiaries since the subsidiaries were not under business rescue.
- The Special Appropriation Act provided the following funding for each subsidiary:
    - South African Airways Technical SOC Ltd (SAAT) – R1 663 000
    - Mango Airlines SOC Ltd (Mango) – R819 000; and
    - Air Chefs SOC Ltd (Air Chefs) – R218 000.
- SAA has exited business rescue as at 30 April 2021 but the airline remained under care and maintenance until September 2021 when it resumed operations.

South African Airways (SAA)

Mango

- On 10 August 2021, the South Gauteng High Court granted the Board of Directors' application to place Mango under voluntary business rescue.
- The Business rescue plan was subsequently published on 29 October 2021.
- Of the R819 million allocated to Mango, R100 million has been transferred to the airline for the payment of the July, August and September 2021 salaries as well as to cover the costs of developing the Business Rescue Plan.
- The remaining R719 million will be utilised to restructure the airline after consensus has been reached between Mango's Business Rescue Practitioners and the Department of Public Enterprises.

South African Airways Technical (SAAT)

- SAAT incurred a loss of R431 million as at 30 September 2021. The company anticipates to start generating positive cash flows from December 2021 as the major customers Comair and SAA have resumed operations.
- The full R1.663 billion allocated to SAAT has been transferred to the entity and utilized as follows:
  - R704.2 million was used to pay long outstanding salaries to employees for the period September 2020 to July 2021.
  - R79 million for the purchase of spares.
  - R879 million will complete the restructuring process and provide working capital for the business.

South African Airways (SAA)

Air Chefs

- Air Chefs has incurred a loss of R117 million as at 30 September 2021. Regional customers such as Air Peace Zambia and Pro Flight Zambia resumed operations in South Africa in October 2021 which will have a positive impact on Air Chefs going forward.
- The full R218 million has been transferred to Air Chefs and has been utilized as follows:
  - R107 million for the payment of employee salaries for the period April 2020 to July 2021.
  - R111 million for the restructuring of Air Chefs.