

## **Budgetary Review and Recommendation Report of the Portfolio Committee on Public Enterprises, dated 24 November 2021**

The Portfolio Committee on Public Enterprises (hereinafter referred to as the Committee), having considered the performance of the Department of Public Enterprises for the 2020/21 financial year, reports as follows:

### **1 INTRODUCTION**

#### **1.1 Purpose of the BRRR**

In terms of Section 5 of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009, the National Assembly, through its Committees, must annually compile the Budgetary Review and Recommendation Reports (BRRRs) that assess the service delivery performance of departments given available resources. Committees are also expected to provide an assessment of the effectiveness and efficiency of the Department's use of available resources, and may include recommendations on the forward use of resources.

#### **1.2 The Role and Mandate of Committee**

The mandate of the Committee is to consider legislation referred to it; exercise oversight over the Department and the seven State-Owned Companies (SOCs) that report to it; consider international agreements referred to it; consider the budget vote of the Department of Public Enterprises and its entities; facilitate public participation in its processes; and to consider all other matters referred to it in terms of legislation and the rules of the National Assembly.

#### **1.3 Description of Core Functions of the Department**

The Department of Public Enterprises is the shareholder representative for government on 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 of these objectives. It is within this context that the BRRR concerning the Department of Public Enterprises by the Portfolio Committee on Public Enterprises is presented.

#### **1.4 Method**

This report is a culmination of the Committee's engagement and interactions with the Department and the State-Owned Companies that report to it. This entailed a very intense and thorough analysis of the strategy and operations of the Department and its entities through briefings, oversight visits and interaction with relevant stakeholders.

These included a briefing from the Department of Public Enterprises on its annual report and a briefing from the Office of the Auditor-General of South Africa (AGSA) on the audit outcomes of the Department and its entities on 10 and 17 November 2021, and deliberations on the analysis done by Parliament support staff on the financial and non-financial performance of the Department and its entities. The report only covers the Department of Public Enterprises, Eskom, Transnet and Safcol. This was because Denel, South African Airways, South African Express Airways and Alexkor had not yet tabled their annual report and financial statements.

#### **1.5 Outline of the Contents of the Report**

The Budgetary Review and Recommendation Report (BRRR) of the Committee contains the following:

- Overview of the key relevant policy focus areas;

- Summary of previous key financial performance recommendations of the Committee;
- Overview and assessment of financial performance;
- Overview and assessment of service delivery performance;
- Committee recommendations.

## 2 OVERVIEW OF THE POLICY ENVIRONMENT

According to the IMF forecasts, Sub-Saharan Africa is set to grow by 3.7 percent in 2021 and 3.8 percent in 2022. This rebound is most welcome and largely results from a sharp improvement in global trade and commodity prices. Favourable harvests have also helped lift agricultural production. But the recovery is expected to be slower than in advanced economies, leading to a widening rift in incomes. This divergence is expected to persist through the medium term—partly reflecting different access to vaccines, but also stark differences in the availability of policy support. The outlook remains extremely uncertain, and risks are tilted to the downside. In particular, the recovery depends on the path of the global pandemic and the regional vaccination effort, and is also vulnerable to disruptions in global activity and financial markets.

The economic reconstruction and recovery plan states the following. The challenges in the South African economy have overtime been worsened by sustained low levels of investment and growth. The economy has also experienced a series of downgrades, including state-owned enterprises (SOEs). This has impacted adversely on the cost of borrowing. In addition, low levels of growth and challenges related to revenue leakages have also impacted negatively on resource mobilisation. These challenges, coupled with an increasing budget deficit and a rising stock of debt has constrained the fiscal space. To break the stranglehold of these challenges and other economic constraints, requires a plan that will help us take advantage of the opportunities presented by the global economy that is also on the mend.

The outbreak of the Covid-19 pandemic in March 2020 found a vulnerable South African economy. In fact, at the time pandemic reached our shores, the South African economy had experienced two consecutive quarters of a recession. As a result, the Covid-19 pandemic deepened the economic crisis. Many people lost their jobs, many have gone without income for extended periods, and many are going hungry every day. Inequality is expected to widen and poverty to deepen. Given the extent of the devastation, the economic response required should match or even surpass the scale of the disruption caused.

The stagnation of the economy for a long period coupled with the Covid-19 crisis has also led to low levels of capacity utilization in the various sectors of the South African economy. This trend is projected to continue; painting a dire picture for gross fixed capital formation. A significant reduction in the gross fixed capital formation variable is a troubling development; given that this variable is critical in sustaining and growing the productive base of the economy. This trend is anticipated to be reversed through the economic reconstruction and recovery plan via infrastructure development.

In his State of the Nation Address held on the 11 February 2021, the President outlined the overriding priorities for 2021 as follows: defeat the coronavirus pandemic, accelerate economic recovery, implement economic reforms to create sustainable jobs and drive inclusive growth and fight corruption and strengthen the State. Since the launch of the economic reconstruction and recovery plan, government has focused on four priority interventions:

- a massive rollout of infrastructure throughout the country,
- a massive increase in local production,
- an employment stimulus to create jobs and support livelihoods, and
- the rapid expansion of our energy generation capacity.

Government announced that it would be embarking on a massive rollout of infrastructure throughout the country. Government knew in order to achieve this objective it would need to steadily rebuild technical skills within government to prepare and manage large infrastructure projects. Government now developed an infrastructure investment project pipeline worth R340 billion in network industries such as energy, water, transport and telecommunications. The fourth priority intervention of the Economic Reconstruction and Recovery Plan is to rapidly expand energy generation capacity. Restoring Eskom to operational and financial health and

accelerating its restructuring process is central to this objective. Eskom has been restructured into three separate entities for generation, transmission and distribution. This will lay the foundations for an efficient, modern and competitive energy system. Eskom is making substantial progress with its intensive maintenance and operational excellence programmes to improve the reliability of its coal fleet. Government working closely with Eskom on proposals to improve its financial position, manage its debt and reduce its dependence on the fiscus. This requires a review of the tariff path to ensure that it reflects all reasonable costs and measures to resolve the problem of municipal debt. In December 2020, government and its social partners signed the historic Eskom Social Compact, which outlines the necessary actions that must be taken, collectively and as individual constituencies, to meet the country's energy needs now and into the future.

The Minister of Finance in his Medium Term Budget Policy Statement made several pronouncements with a direct impact on the operational environments of SOCs. State-Owned Companies are intended to be important enablers of economic development. Many SOCs, however, have been badly managed and have failed to deliver. In many instances they have also been devastated by state capture, making them increasingly reliant on government support. Since 2013, government directed more than R290 billion to bailout state-owned companies, at the expense of important social expenditure. Going forward, the restructuring of state-owned companies, informed by an assessment of their strategic relevance, is a priority. In this MTBPS, no additional funding is provided for state-owned companies. The exception to this is where guarantees have been called by creditors and conditions have been met by the SOC in question, within the context of their strategic importance. Government must be prepared to consolidate some of our state-owned entities and let go of those that are no longer considered strategically relevant.

## **2.1 Key Policy Focus for the Department of Public Enterprises**

The Department of Public Enterprises is government's shareholder representative for the state-owned companies in its portfolio. The department's mandate is to fulfil oversight responsibilities at these companies to ensure that they contribute to the realisation of government's strategic objectives, as articulated in the National Development Plan, government's 2019-2024 medium-term strategic framework and the reimagined industrial strategy. 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 of these objectives.

## **3 SUMMARY OF PREVIOUS YEAR'S BRRR RECOMMENDATIONS MADE BY THE COMMITTEE**

### **3.1 The Committee recommended that the Minister of Public Enterprises should:**

- 3.1.1 Ensure that shareholder compacts are concluded by the third quarter of the year preceding the year covered by the compact.
- 3.1.2 Ensure that the Accounting Officer improves controls and systems to ensure the department achieves an unqualified audit outcome and matters of emphasis from each year must be addressed in the subsequent year.
- 3.1.3 Ensure that SOCs protect jobs in particular highly advanced technical skills to advance the manufacturing capability of the state. SOCs should invest in labour intensive infrastructure programmes to create employment.
- 3.1.4 Ensure that the follows through on cases opened with South African Police Services on corruption allegations at Alexkor and that the recommendations of Gobodo Forensic report are implemented.
- 3.1.5 Ensure that the R10.5 billion allocated to SAA is used for the intended purpose, particularly the payment of severance packages and legal obligations.
- 3.1.6 Ensure that the restructuring of Eskom is completed within the set timeframes and maintenance of power stations is done on time.
- 3.1.7 Outline the impact of the Section 34 Ministerial Determination on Eskom to the Committee on the current generation ability of Eskom.
- 3.1.8 Introduce specific targets for costs containment and revenue "output" generation in the Shareholder Compacts.

- 3.1.9 Review SOC Business Model to enhance sustainability of the companies, which is revenue enhancement and cost containment.
- 3.1.10 Ensure that SOCs invest in Research & Development to improve on innovation and creativity.
- 3.1.11 Align remuneration, performance and consequence management with remuneration guidelines.
- 3.1.12 Ensure the Department of Public Enterprises adhere to the Logical Planning Framework.
- 3.1.13 Enhance and streamline the DPE's internal processes to ensure rapid response and timeous decision making in the department.
- 3.1.14 Focus on capacitating core technical functions, develop and enhance technical skills and ensure implementation of sound operational and systems engineering business processes to ensure effective technical oversight.
- 3.1.15 Ensure the implementation of a methodology and manner in which Boards are appointed to ensure independence and enable effective performance review with due consequence management.
- 3.1.16 The financial management and control structures and processes are such that accurate, timeous and reliable recording and reporting of all financial transactions takes place.
  - That the appropriate financial management systems and controls are in place to ensure the effective management of the financial affairs.
  - That the financial affairs and performance reported is acceptable in terms of the corporate plans and shareholder compacts.
  - Significantly enhance reporting and accountability arrangements that facilitate an appropriate oversight by the Department; and
  - Urgently develop technical capacity within the Department to oversee its SOCs.
- 3.1.17 Provide the Committee with quarterly progress reports regarding the implementation of these recommendations, and
- 3.1.18 Provide the Committee with timeous updates in writing on developments and events that could potentially adversely affect SOCs or the public. This information should be submitted to the Committee shortly after receiving the information or date of incident.

#### 4 OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

The Department of Public Enterprises spent 99.9 per cent of its budget in the 2020/21 financial year and received an unqualified audit opinion with an emphasis of matter on its irregular expenditure.

##### 4.1. Table 1. Overview of Vote allocation and spending (2016/17 to 2020/21) R'million

**Table 1: Comparative Budget Allocation**

Department of Public Enterprises (R'm)	Expenditure Performance For the Five Year Period Reviewed				
	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Allocation</b>	268.0	266.7	6 522.9	56 883.0	77 606.9
<b>Actual Expenditure</b>	253.8	250.4	6 474.8	56 846.4	77 503.4
<b>Percentage Spent</b>	94.7	93.9	99.3	99.9	99.9
<b>Percentage Unspent</b>	5.3	6.1	0.7	0.1	0.1

**Source:** Department of Public Enterprises (2021)

As shown in the table 1 above, for the 2016/17 and 2017/18 financial years, the DPE underspent by more than 5 per cent. The reason given for the underspending in this financial year was mainly due to delays in filling vacant posts and delays in projects that had not commenced and other projects that still needed to be completed. However, in the 2018/19 and 2019/20 financial years, the Department spent the majority of the allocation on Payments for financial assets in support of the state-owned companies. This also occurred in the 2020/21 financial year.

The Department had an original appropriated total budget of R37.8 billion in February 2020 for the 2020/21 financial year. However, in the adjusted estimates of national expenditure tabled

in October 2020, the Department received a further R39.7 billion, with the total appropriation of R77.6 billion. This amount was mainly for Payments for financial assets as transfers to the state-owned companies (SOCs) amounted to R77.5 billion. The balance of R258 million was used by the Department for its operations. The transfers to entities included the following:

- R56 billion for Eskom for settlement of government guaranteed debts.
- R20.7 billion for SAA for settlement of government guaranteed debts and implementation of the business rescue plan.
- R567 million for Denel in aid of recapitalisation.
- R164 million for South African Express Airways to eliminate government's contingent liability exposure.

#### 4.2 Financial performance 2020/21

During the 2020/21 financial year, the Department spent its 2020/21 budget in the following manner:

**Table 2. Quarterly Expenditure for the 2020/21 financial year**

Programme (R'm)	2020/21				Appropriated Budget	Adjusted Appropriation
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
Programme 1: Administration and Corporate Management	29.5	59.1	87.6	118.4	164.3	142.5
Programme 2: SOCs Governance Assurance and Performance	6.9	16.3	25.1	37.2	54.6	45.5
Programme 3: Business Enhancement, Transformation and Industrialisation	1 089.9	16 696.4	27 479.5	77 347.8	37 630.4	77 419.0
<b>Total</b>	<b>1 126.3</b>	<b>16 771.8</b>	<b>27 592.2</b>	<b>77 503.4</b>	<b>37 849.4</b>	<b>77 606.9</b>
<i>Percentage of Budget Spent</i>	<b>3.0%</b>	<b>44.4%</b>	<b>35.6%</b>	<b>99.9%</b>		

**Source:** National Treasury (2020-2021) SCOA Reports

As seen in table 2 above, in the first quarter, April to June 2020, the Department spent R1.126 billion or 3.0 per cent of the R37.849 billion budget originally Appropriated for the 2020/21 financial year. The Department spent 85.3 per cent less than the R7.6 billion it projected to spend. The slower than projected spending was planned disbursements to Eskom and Denel that did not materialise. Eskom had enough cash to fund its obligations during the period, while Denel did not have debt payments due during the period for funds to be realised, as specified as a condition of the allocation that the money should be used to pay government guaranteed debt.<sup>1</sup>

The majority of the Department's operational budget was spent on Compensation of employees and Goods and services. Of the R197.1 million budgeted for compensation of employees, R36.2 million or 18.4 per cent was spent. An amount of R108.7 million was allocated for Goods and services, where R17.3 million or 15.9 per cent was spent in the first quarter.<sup>2</sup>

By the end of the second quarter, April to September 2020, the Department spent R16.8 billion or 44.4 per cent of the Appropriated Budget of R37.8 billion. An amount of R59.1 million or 44.3 per cent of its budget was spent under Administration programme, while Programme 2: SOCs Governance Assurance and Performance spent R16.3 million mainly on Compensation of employees and Goods and services. Programme 3: Business Enhancement, Transformation and Industrialisation programme spent R16.7 billion. Spending in programme 3

<sup>1</sup> National Treasury (2020b)

<sup>2</sup> Ibid

was higher than expected due to an additional R6.6 billion expenditure on South African Airways towards settlement of guaranteed debt in September 2020. An initial amount of R3.6 billion was paid in July 2020 from funds already appropriated. For expenditure incurred in September, the Minister of Finance invoked section 6 of the Appropriation Act (07 of 2020) as amended by section 8 of the Adjustments Appropriation Act (11 of 2020) to allocate and authorise spending of R6.5 billion to settle debt that was due on 31 August 2020. However, slow spending occurred on sub-programme Energy Resources as disbursement to Eskom did occur as planned.

As stated above, the Department received an additional allocation of R39.7 billion, with the total Appropriation of R77.6 billion. The additional allocation was mainly for Payments for financial assets as transfers to the state-owned companies (SOCs) for settlement of government guaranteed debt and recapitalisation.

With an available budget of R77.6 billion, the Department spent R27.6 billion or 35.6 per cent by the end of the third quarter of 2020/21. The bulk of this amount was spent on Payments for Financial Assets. The Administration programme spent 61.5 per cent of its budget by the third quarter of the 2020/21 financial year amounting to R87.6 million, mostly on Compensation of employees and Goods and services. Actual expenditure to the end of December 2020 for Programme 2: SOC Governance Assurance and Performance amounted to R25.1 million of the available budget of R45.5 million or 55.2 per cent of the budget has been spent. The Business Enhancement, Transformation and Industrialisation programme had an adjusted budget of R77.4 billion and had spent R27.5 million or 35.5 per cent by the end of December 2020.

By the end of the third quarter, actual expenditure was slower than projected on Compensation of Employees and Goods and services due to vacant posts and delays in the commencement of planned projects. The Department spent R106.8 million or 57.7 per cent of the R185.2 million Compensation of employees budget, while R54.3 million or 70.8 per cent of the R76.7 million Goods and services budget was spent by the end of December 2020.

During the Adjustment Budget the Department effected shifts amounting to R4.3 million and virements amounting to R17.6 billion. The virement of R17.6 billion was for a reallocation of funds incorrectly allocated in the 2019 estimates of national expenditure.

The Department spent R77.5 billion or 99.9 per cent of the R77.6 billion appropriated budget by the end of the fourth quarter of the 2020/21 financial year. Administration spent R118.4 million or 83.1 per cent of the R142.5 million budget, while Programme 2 spent R37.2 million or 81.9 per cent of the R45.5 million budget by the end of the financial year. Programme 3 spent R74.7 billion or 96.4 per cent of the R77.4 billion budget for the programme. The R2.7 billion for SAA subsidiaries was reported in the annual financial statements as a payable and was earmarked to be disbursed during the 2021/22 financial year. The under expenditure of R103.5 million primarily relates to compensation of employees due to vacant posts and payments for financial assets which was as a result of unspent funds for SAX and SAA.

The Department spent R141.2 million or 76.6 per cent of the Compensation of employees budget while R71.8 million or 95.8 per cent of the Goods and services budget was spent by the end the financial year. As stated above, the slow spending on Compensation of employees and Goods and Services was due to vacant posts and projects that could not commence during the year. The Department had an official headcount of 214 posts but only 170 posts were filled by 31 March 2021, with a vacancy rate of 20.6 per cent. For the period ending 31 March 2021, the Department spent R410 000 on purchase of personal protective equipment for staff.

The Office of the Auditor-General of South Africa (AGSA) further stated that the differing views would result in a significant impact on the annual financial statements (AFS) and would result in significant restatement of prior years' AFS should the AGSA be correct in their interpretation, as well as significant reputational damage on many parties, but especially Transnet due to debt listing requirements by various stock exchanges. The matter was still under discussion

between the parties, thus delaying the tabling of the entity's AFS.<sup>3</sup> The matter was subsequently resolved and the entity was able to table its Annual Report and AFS on 03 November 2021 to Parliament.

For the 2020/21 financial year, the entity received a qualified audit opinion as the auditors were unable to obtain sufficient audit evidence that irregular expenditure was complete and accurate. This is the fourth consecutive year that the entity received this audit opinion. Irregular expenditure was stated at R104 billion, down on the R131 billion reported in the previous financial year. Transnet also received findings relating to compliance with laws and regulations, internal control deficiencies as well as material irregularities.<sup>4</sup>

Transnet businesses were hard hit by the impact of the COVID-19 pandemic lockdown restrictions on rail, port and pipeline volumes. Volume output was also adversely impacted by regulations that prohibited mines from operating at full capacity in the interest of protecting the safety of employees. Revenue decreased by 10.5 per cent to R67.3 billion while net operating expenses increased by 16.2 per cent to R47.8 billion mainly due to third party claims and environmental provisions. The entity's net loss for the period increased to R8.4 billion from the net loss of R2.9 billion in the previous financial year. The entity focused on resolving irregular expenditure, strengthening governance systems, improving and simplifying procurement policies and maintenance. The entity is also dealing with aging infrastructure and theft of cables of its railway system.<sup>5</sup>

#### **4.3 South African Express Airways**

The Minister of Public Enterprises submitted a letter to Parliament on 7 October 2021, stating that the entity would not be able to finalise and submit the annual report within the prescribed timelines. The Minister stated that, "SA Express was placed under provisional liquidation and the liquidator is in the process of finding a buyer for the airline. The airline will therefore not prepare the 2020/21 Annual Report and Annual Financial Statements as the contracts of employees who would have prepared the reports were suspended prior to the year-end audit."<sup>6</sup>

South African Express (SAX) airways was placed under Business Rescue in February 2020 due to financial pressures that resulted from poor management and state capture. The business rescue practitioners applied to the High Court for the provisional liquidation of the airline as it had run out of funds. The High Court placed SA Express under provisional liquidation on 28 April 2020. The court granted an extension for the provisional liquidation process on 28 July 2021. The potential buyer submitted a revised offer, currently awaiting a bank guarantee to formalise the purchase process.<sup>7</sup>

The National Union of Metal Workers of South Africa (NUMSA) and the South African Cabin Crew Association (SACCA) have gone to the Constitutional Court to challenge the liquidation of SA Express without the involvement of Parliament in the process. The Department is responding the application.<sup>8</sup>

#### **4.4 South African Airways**

The Minister of Public Enterprises submitted a letter to Parliament on the 07 October 2021, stating that the entity would not be able to finalise and submit the annual report within the prescribed timelines. In the letter the Minister stated the following, "the company was placed in a business rescue included the transfer of the concurrent liabilities, lessor liabilities and lender liabilities to a Receiver vehicle. SAA achieved solvency and liquidity status that is critical to a

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<sup>3</sup> Gordhan (2021a)

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Gordhan (2021b)

<sup>7</sup> Department of Public Enterprises (2021a)

<sup>8</sup> Ibid.

business to exit business rescue based on the Receivership. Various accounting entries that relate to business rescue had to be considered and processed after the business rescue practitioners had exited the business. The audit will be finalised once the airline fully recommences operations and the annual report and annual financial statements will thereafter be tabled.”<sup>9</sup>

On 11 June 2021, the Minister announced that the Takatso Consortium, comprising Harith General Partners, a leading investor in African infrastructure and airports, and airline management firm, Global Airways, was selected as the preferred Strategic Equity Partner (SEP) for South African Airways. The airline resumed flights on 23 September 2021 after it suspended its flights in March 2020 when South Africa instituted a lockdown in response to the COVID-19 pandemic. The airline renewed the Air Operator Certificate, while the cabin crew and pilots were retrained. The airline has an interim board and management leading the organisation, while the due diligence with regards to the sale of the airline is being concluded.

#### **4.5 Department of Public Enterprises’ financial performance for 2021/22**

The Department had an appropriated total budget of R36.3 billion of which R20.1 billion or 55.4 per cent was spent for the period April to June 2021.<sup>10</sup> This is higher than the projected expenditure by 0.1 per cent or R27.9 million for the first quarter. This was mainly due a payment of R45 million to settle interest that was due for Denel under the Domestic Medium Term Note which is government guaranteed. The entity is in financial distress and was not able to settle the interest that was due in June 2021 and hence requested government to settle the debt to avoid a default.<sup>11</sup>

The majority of the Department’s operational budget was spent on Compensation of employees and Goods and services. Of the R176.0 million budgeted for Compensation of employees, R34.5 million or 19.6 per cent has been spent. An amount of R110.2 million has been allocated for Goods and services, where R15.1 million or 13.7 per cent was spent in the first quarter. Expenditure was slow on compensation of employees and good and services due to vacant posts and invoices received from the Department of Public Works and Infrastructure for office accommodation and State Information Technology Agency (SITA) charges.<sup>12</sup>

The programme 1: Administration has an appropriated budget of R159.8 million of which R26.7 million or 16.7 per cent has been spent by the first quarter. The low spending was due to vacant posts and outstanding invoices for office accommodation and SITA charges.<sup>13</sup>

Programme 2: State-Owned Companies Governance Assurance and Performance has a budget of R61.7 million of which R12.3 million or 19.9 per cent of the budget was spent. The main cost driver within the programme were Compensation of employees, goods and services as well as transfers and subsidies due to payment of leave gratuities.<sup>14</sup>

Programme 3: Business Enhancement, Transformation and Industrialisation has a budget of R36.1 billion of which R20.1 billion or 55.6 per cent of the budget was spent by the end of June 2021. The main cost drivers in the programme are Payment for Financial Assets for transfers to state-owned companies.<sup>15</sup>

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<sup>9</sup> Gordhan (2021b)

<sup>10</sup> National Treasury (2020)

<sup>11</sup> National Treasury (2021c)

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> National Treasury (2021c)



As at 30 June 2021, the Department had a headcount of 172, which translates to a vacancy rate of 17.7 per cent. Spending on compensation of employees was R10.1 million or 22.6 per cent less than projected. The underspending is due to unfilled posts.<sup>16</sup>

#### 4.6 MTEF financial allocations for 2022/23

This section looks at the medium term expenditure framework (MTEF) for the 2022/23 financial year.

**Table 3. Current Estimates for the 2022/23 R'million**

Programme Allocation (R'm)	2021/22	2022/23	Variance	Variance %
Programme 1: Administration	159.8	158.7	-1.1	-0.7%
Programme 2: State-Owned Companies Governance Assurance and Performance	61.7	67.7	6.0	9.7%
Programme 3: Business Enhancement, Transformation and Industrialisation	36 070.3	1 845.2	-34 225.1	-94.9%
<b>Total</b>	<b>36 291.8</b>	<b>2 071.6</b>	<b>34 220.2</b>	<b>-94.3%</b>

**Source:** National Treasury (2021)

Table 3 illustrates the projected allocation for the 2022/23 financial year amounts to R2.1 billion, a R34.2 billion or 94.3 per cent decrease. Programme 1: Administration decreased by R1.1 million to R158.7 million in the 2022/23 financial year. Programme 2: State-Owned Companies Governance Assurance and Performance will increase by 9.7 per cent from R61.7 million in 2021/22 to R67.7 million in 2022/23. Programme 3: Business Enhancement, Transformation and Industrialisation sees the largest decrease of R34.2 billion to R2.1 billion in the 2022/23 financial year, mostly to decreases in Payments for financial assets as the disbursements to the state-owned companies comes to an end. An amount of R1.8 billion has been allocated to South African Airways to settle government guaranteed debt and interest.<sup>17</sup>

This allocation is subject to confirmation and approval by the Minister of Finance during the National Budget in February 2022.

#### 4.7 Concluding comments on financial performance

The Department is financially sound as exhibited by achieving unqualified audit opinions over the years, although findings were found on its irregular expenditure. The Department's budget has been dominated by transfers to the SOCs, which has skewed the Department's budget. The Department has spent 99.9 per cent of its budget. However, the underspending on its operational budget was due to vacant posts and delays in the commencement of planned projects. The Department should try to correct this trend by looking at its planning mechanisms. The vacancy rate of 21 per cent is a cause for concern as it is way above the treasury benchmark of 10 per cent.

Performance against expenditure is addressed in Section 6 of the report, however, the Department will have to strengthen its oversight of all its entities and engage on the best way for the entities to achieve financial sustainability. Eskom's finances should be closely monitored to ensure that the money it is receiving from government is used to ensure the future sustainability of the company.

<sup>16</sup> National Treasury (2021c)

<sup>17</sup> National Treasury (2021)

The Department will have to maintain close oversight over Transnet's investment in its aging infrastructure and to reduce the effect that theft has on its railway networks. The future role of Alexkor and SAFCOL will have to be confirmed with the continued stabilisation of their long-term planning. Government has to take a decision on the fate of Denel, which requires funding to support its restructuring process. The Department needs to conclude the due diligence on the Strategic Equity Partner for SAA and finalise the Sale and Purchase agreement. Similarly, the Department needs to oversee the successful sale of SAX. The Department is faced with entities that are facing financial instability and governance challenges. The Department will have to strengthen its oversight and monitoring of these entities and engage National Treasury on ways to overcome the financial instability of these entities.

The Department must provide the appropriate support to the SOCs to overcome the audit findings of 2020/21 in preparation for the 2021/22 financial audit. Corrective measures and plans need to be put in place to address the audit findings. The Department also needs to ensure that processes and procedures are put in place to address entities' weaknesses timeously, effectively and efficiently before these issues escalate and become problems.

## 5 OVERVIEW AND ASSESSMENT OF SERVICE DELIVERY PERFORMANCE

### 5.1 Service Delivery Performance for 2020/21

The Department of Public Enterprises provides a distinct mandate of SOCs' shareholder oversight on behalf of the State. 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 in driving the State's strategic objectives of creating jobs, enhancing equity and transformation. The department's contribution towards government priorities and outcomes is achieved through three programmes identified in the organisational structure namely: administration, state-owned companies' governance assurance and performance and business enhancement, transformation and industrialisation. The section below discusses programme performance.

### 5.2 Performance Information by Programme

#### 5.2.1 Performance analysis<sup>18</sup>

The Department is primarily contributing to creating an efficient, competitive and responsive economic infrastructure network (Outcome 6) of the Medium Term Strategic Framework (MTSF). Furthermore, the Department, through the activities of its SOCs, contributes to other outcomes such as decent employment through inclusive growth (Outcome 4), a skilled and capable workforce to support an inclusive growth path (Outcome 5) and a vibrant, equitable and sustainable rural communities with food security for all (Outcome 7).

The Department, over the medium term will continue to oversee its seven SOCs. Furthermore, over the medium term, the department will continue to focus on enhancing reforms to stabilise SOCs' and strengthening its oversight capacity to ensure that the SOCs in its portfolio are sustainable and contribute to investment in key infrastructure.<sup>19</sup>

#### 5.3 Programme and sub-programme performance<sup>20</sup>

The Department has three programmes. The performance against targets are given below.

##### 5.3.1 Programme 1: Administration and Corporate Management

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

The programme includes the Office of the Director-General/Management. The programme is currently made up of the following sub-programmes: Management; Security and Facilities Management; Information Management and Technology; Office of the Chief Financial Officer; Human Resources; Communications; Strategic Management; and Internal Audit.

**Table 4: Programme 1 Performance Achievement**

Outcome	Output Indicator	Annual Target	Actual Achievement
Promote alignment and efficiency across Institutional Model	Number of training interventions provided (WSP)	15	Achieved
Improved ICT and business alignment and enhanced oversight	Development of the DPE Enterprise Business Architecture (EA)	Development of the Architecture Masterplan	Achieved

**Source:** DPE Annual Report 2020/2021

<sup>18</sup> Department of Public Enterprises (2020a) This section comes from this report.

<sup>19</sup> National Treasury (2020)

<sup>20</sup> Department of Public Enterprises (2020a) This section comes from this plan.

The Department did not revise the above indicators. Both indicators for the programme were achieved.

The Department's core functions require significant administrative support, which programme 1: Administration does. The programme spent R118.4 million or 83.1 per cent against a budget of R142.5 million for the 2020/21 financial year. The programme under spent by R24 million which was mainly due to vacant posts within the programme. The primary cost drivers under goods and services include operating lease, property payments, computer services and audit fees.

### 5.3.2 Programme 2: State-Owned Companies Governance Assurance and Performance

The purpose of this programme is to provide and enforce SOCs' governance, legal assurance, financial and non-financial performance monitoring, evaluation and reporting systems, in support of the Shareholder, and to ensure alignment with Government's priorities.

**Table 5: Programme 2 Performance Achievement**

Outcome	Output Indicator	Annual Target	Actual Achievement
<b>Sub-programme: Governance, Legal Assurance, Risk Profiling and Mitigation</b>			
Strengthen the governance system of SOCs and promote institutional alignment in the execution of the oversight function	Annual assessment of independent Board Performance	Annual Board Evaluation Report	Not Achieved
Strengthen shareholder oversight through the Memorandum of Incorporation (MOI)	SOC MOIs standardised	Revised MOI approved	Not achieved
<b>Sub-programme: Financial Assessment and Investment Support</b>			
Improved independent financial sustainability of SOCs	Number of SOC quarterly financial reviews and reports produced	20	20
	Number of corporate plans reviewed	5	4 Alexkor corporate plans was not reviewed
	Number of consolidated progress report on SOCs' audit findings	2	2
	Standardised methodology and frequency of payment of dividend	SOCs Dividend Policy Framework developed	Achieved

Source: DPE Annual Report 2020/2021

Two additional performance targets were added in the revised APP for the 2020/21 financial year.

**Table 6. Programme 2 Revised Performance Achievement**

Revised APP	Outcome	Output Indicator	Annual Target	Actual Achievement
<b>Sub-programme: Governance, Legal Assurance, Risk Profiling and Mitigation</b>				
Added	Improved governance and accountability	Number of identified "High Risk" SOE governance systems reviewed	Implementation of the Risk Integrity Management Framework (RIMF)	Achieved

		and recommendations implemented		
Added		Presidential State-Owned Enterprise Council (PSEC) established	Establishment of PSEC through Presidency	Achieved

**Source:** DPE (Revised) Annual Performance Plan 2020/2021

Of the eight performance indicators, three were not achieved.

The programme has the smallest budget of the three programmes of the Department, expenditure amounting to R37.3 million for the 2020/21 financial year. This amounted to 81.9 per cent of the R45.5 million budget appropriated for the year. The programme under spent by R8.2 million. The majority of the budget goes to compensation of employees, with the balance going to goods and services. Spending on goods and services was mainly on payments for legal services and the development of the framework on SOC Risk and Integrity.

### 5.3.3 Programme 3: Business Enhancement 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.<sup>21</sup>

Through this programme, the Department contributes to the enhancement of the performance of SOCs on an ongoing basis by:<sup>22</sup>

- 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; and
- 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.

**Table 7: Programme 3 Performance Achievement**

Outcome	Output Indicators	Annual Target	Actual Achievement
<b>Sub programme: Business Enhancement Services</b>			
Increase the contribution of SOCs to support the transformation of South African economy	Increase % spend on SOC's local content	Four assessment reports on SOC's 75% spend on local content	Achieved
	Increase % spend on SOC's Preferential Procurement	Four assessment report on SOCs 75% spend on Preferential Procurement and Broad-Based Back Economic Empowerment (BBBEE) level 6 compliance	Achieved
	% increase in SOC CSI programme allocation	Four assessment reports on 0.2% spend on SOC's CSI programme	Achieved
Support the development of small, medium and micro enterprises	Annual value of enterprise development contributions	Four assessment reports on SOCs' 1% Total Measured	Achieved

<sup>21</sup> Department of Public Enterprises (2020a)

<sup>22</sup> Ibid

(SMMEs)		Procurement Spend (TMPS) contribution	
Accelerate the development of skills to support the needs of the economy	Number of new learners enrolled into SOCs' skills development programmes	4 Assessment reports measuring SOCs' 3% spend of leviable amount	Achieved
Increase the contribution of SOCs to support the transformation of South African economy	SOCs' implementation in line with the DPE Africa Strategy	Report on alignment of two SOC Africa market entry plans to DPE's Africa Strategy	Achieved
<b>Sub programme: Energy and Resources</b>			
Improved governance and accountability	Number of Shareholder compacts signed per year (Eskom, Alexkor and SAFCOL)	3 Shareholder compacts (2020/21) signed (Eskom, Alexkor and SAFCOL)	Not achieved. Alexkor and Eskom Shareholder Compacts not signed
% of SOCs' Operational efficiency (Promote the operational excellence of SOCs)	SAFCOL's increased revenue	Four progress report on SAFCOL's implementation of the Timbadola re-investment project	Achieved
	Restructuring for Alexkor	Proposed shareholding structure for Alexkor mining rights	Achieved
	Eskom planned Capacity Adherence (infrastructure/build programme)	Four progress reports on Eskom's delivery of infrastructure programme	Achieved
Improve the Energy Availability Factor (EAF) to ensure constant supply for electricity	Maintenance of security supply and prudent fleet management	Four assessment reports of Eskom's performance generation fleet	Achieved
Separate and unbundle Eskom to eliminate cross-subsidisation and improve efficiency	Implementation of the Eskom Special Paper	Two progress reports on the status of the unbundling process	Achieved
<b>Sub programme: Transport and Defence</b>			
Improved governance and accountability	Number of Shareholder Compacts signed annually (Transnet, SA Express, SAA and Denel)	Two 2021/22 Shareholder Compacts signed (Transnet, Denel)	Not achieved. No Shareholder Compacts signed
Promote operations efficiency	Monitor Denel's contract execution to increase cashflow	4 assessment reports on Denel's contract execution to support cashflow targets	Not achieved, as at 30 June 2020. Indicator revised
Increase access to affordable and reliable transport system	Alignment of Transnet Freight Rail (TFR) strategy with capacity plan	Inputs into the long-term rail strategy	Not achieved as at 30 June 2020. Indicator revised.
Corporatise Transnet National Ports Authority (NPA)	TNPA corporatisation	Final report on the corporatized NPA	Not achieved, as at 30 June 2020. Indicator revised
Improvement in General Freight Business (GFB) volumes moved annually. (3 GFB corridors) i.e. Natal corridor, Cape Corridor, South Corridor.	Efficient performance in GFB corridor volumes	4 assessment reports on the % increase in rail volumes and Rand/TKM	Not achieved, as at 30 June 2020. Indicator removed.
Improved on rolling stock	Assessment reports on	4 Assessment reports	Not achieved, as at 30

(locomotives, wagons) reliability and infrastructure maintenance	kilometre track maintained and rolling stock reliability	on kilometre track maintained and rolling stock reliability	June 2020 Indicator revised
% Increase in Port Terminal Equipment reliability	Assessment of port terminal equipment	Report on the port equipment reliability.	Not achieved as at 20 June 2020. Indicator revised
Reliable, safe, effective, fully integrated and economically competitive land and marine (road, rail and port) system	Assessment of interface on road, rail and port systems	Four assessment reports on the improvement of land and marine interfaces	Not achieved, as at 30 June 2020. Indicator removed.
<b>Sub programme: Research and Economic Modelling</b>			
Increase the contribution of SOCs to support the transformation of South African economy	Socio-economic Impact Assessment reports of SOC's selected capital projects	One socio-economic impact assessment report of SAFCOL's selected capital projects completed	Achieved
	Number of industry specific research conducted	Five industry specific research conducted	Achieved

Source: DPE Annual Report 2020/2021

**Table 8. Revised Programme 3 Performance**

Revised APP	Outcome	Output Indicators	Annual Target	Actual Achievement
<b>Sub programme: Business Enhancement Services</b>				
Removed	Reduce vulnerability to risks associated with climate change	Adaptation to Climate Change Impact	Climate Change Risk Report	None
Removed	Transition to low carbon economy by reducing emission	SOCs' implementation of the Paris Climate Agreement	Compile a consolidated report on SOCs' implementation of Climate Change Mitigation Plans	None
<b>Sub programme: Energy and Resources</b>				
Added	Supply of energy secure	Explore embedded generation (SSEG) options to augment generation capacity by 1000MW by 2024	Two progress reports on the additional embedded generation capacity added	Achieved
Added		Implement Eskom Roadmap for reformed electricity supply industry	Two progress reports on the implementation of the Eskom roadmap	Achieved
<b>Sub programme: Transport and Defence</b>				
Revised	Improved governance and accountability	Progress report on implementation of the strategic initiatives to turnaround Denel	Four quarterly progress reports on the implementation of the strategic initiatives to turnaround Denel	Achieved
Revised	Increase access to affordable and reliable transport system	Progress reports on rolling stock expansion and	Four progress reports on rolling stock expansion	Not achieved

		update	and upgrade	
Revised		Final report on the corporatisation of TNPA	Four quarterly progress reports on the corporatisation of TNPA	Not achieved
Revised	Increase access to affordable and reliable transport system	Assessment reports on port equipment reliability	Four assessment reports on port equipment reliability	Not achieved

**Source:** DPE (Revised) Annual Performance Plan 2020/2021

Of the revised performance targets, the Department achieved 16 of the 21 performance indicators. Most of the targets not achieved is within sub-programme Transport and Defence relating to the revised performance indicators with respect to Transnet and Denel. The shareholder compacts for Eskom, Alexkor, Denel and Transnet were not signed during the 2020/21 financial year.

The programme has an adjusted budget of R77.4 billion of which the Department spent R77.3 billion or 99.9 per cent, under spending by R71.2 million. The majority of this was for Payments for financial assets as transfers to the entities:

- Eskom received R56 billion for payment of government guaranteed debt;
- SAA received R18 billion in support of the Business Rescue Plan and settlement of government guaranteed debt;
- SA Express received R143.4 million for settlement of government guaranteed debt;
- Denel received R576 million for settlement of debt and recapitalisation.

At the end of the financial year, an amount R2.7 billion for SAA subsidiaries although not physically paid, it is reported in the annual financial statements as a payable and was disbursed during the 2021/22 financial year.

#### **5.4 Concluding Comments on Service Delivery Performance**

The Department achieved targets on most of its programmes but failed to achieve targets on sub-programmes energy and transport and defence. Concluding shareholder compacts remain a challenge for the Department. The shareholder compacts for Alexkor, Eskom, Transnet, SA Express, SAA and Denel were not concluded. This makes it difficult for the Department to provide oversight to these entities as there are no agreeable terms set in order to monitor performance. Most of the targets on Transnet were not achieved, this included; alignment of the Transnet Freight Rail (TFR) strategy with the capacity plan, TNPA corporatisation, improvement of General Freight Business (GFB) volumes moved and improved rolling stock (locomotives, wagons) reliability and infrastructure maintenance, assessment of port terminal equipment and assessment of interface on road, rail and port systems.

The Department revised its APP in June 2021. This was done without providing the Committee with reasons for the revision. The current MTSF is for the period 2019 to 2024. The Department's Strategic Plan covers the period 2020/21 to 2024/25. The reasons for the revisions to the SP and APP are not highlighted in the documents, nor are the revisions highlighted, as required by the Revised Framework for SP's and APP's to be presented in an Annexure. This is in contravention of the guidelines given by the DPME.

## **6 SERVICE DELIVERY AND FINANCIAL ASSESSMENT**

The Department has spent 99.9% (R77.9 billion of R78 billion) of the final appropriation, of which R219.3 million is for departmental operations and R77.3 billion is the capital injection for SOCs. Of the R77.3 billion that was allocated as payments for financial assets to the SOCs in respect of Government guaranteed debt and implementation of the business rescue plan, R74.5 billion has been disbursed to Eskom (R56 billion), SAA (R18.008 billion), SAX (R20



million) and DENEL (R576 million). The R2.7 billion for SAA Subsidiaries is reported in the annual financial statements as a payable and will be disbursed during 2021/22 financial year. The under expenditure of R103,5 million primarily relates to compensation to employees due to vacant posts and payments for financial assets which is as a result of unspent funds for SAX and SAA.

The spending under direct charges against the National Revenue Fund is 100% (R410.3 million of R143.4 million) of the final appropriation. The actual expenditure of R410.3 million (R266.9 million and R143.4 million) is for settlement of the SAA and SAX Government-guaranteed debt obligations respectively. The variance of R266 million is a result of Nedbank issuing a call on 7 January 2021 on the secured guarantee there were no funds allocated. The payment was made from direct charges against the National Revenue Fund.

An amount of R2 million was shifted as virement within the vote from goods and services in Programme 1 to the same economic classification in Programme 3. Subsequent to the budget reduction during the Special Budget Adjustment in 2020/21 financial year, Programme 3 experienced a shortfall of R2 million. This emanated from a payment that was in respect of the restructuring of SAA. There was an increase in foreign exchange rates, which resulted in an increase in the amount paid.

The Department did not incur any unauthorised expenditure. The irregular expenditure of R32.5 million was incurred in the previous financial years and relates to material deficiencies in the appointment of a Service Provider. The Department is in the process of implementing corrective measures, which includes legal and disciplinary actions. The fruitless and wasteful expenditure of R1.7 million incurred in the previous financial years forms part of the irregular expenditure of R32.5 million as the two relate to the same matter. Consequence management has been implemented against those implicated as a result of the conduct contributory to the financial loss. The Department continues to implement control measures. As well as monitor, detect and address irregular expenditure to ensure compliance with the Public Finance Management Act (PFMA, Act 1 of 1999 as amended).

The Department is in the process of reorganising its operations including enhancing the tools and data it uses to perform the oversight function. Further, the portfolio of SOCs has been reduced with the provisional liquidation of SA Express and the pending conclusion of a SAA strategic equity partnership. The SOE Bill, which must be concluded by the end of the 2021/22 financial year, will provide further clarity on the Government shareholder model, the institutional form, and the depth and breadth of oversight capabilities that the department should assemble.

## **7 CONCLUDING REMARKS**

The department continues to execute its mandate under a constrained environment. The impact of COVID-19 is still felt in many sectors of the economy. Though there is recovery in some areas there are still risks imposed by the uncertainty of this global pandemic. State Owned Companies are also facing numerous challenges resulting from a downturn in the economy. Downgrades in SOCs have impacted adversely on the cost of borrowing and their financial sustainability. Some of the recommendations made by the ratings includes implementing structural reforms which this government has prioritised for the year under review. It is critical the department is at the forefront of the implementation of the economic reconstruction and the recovery plan which is focused on four priority interventions. The department should attract critical skills to monitor the implementation of the plan in SOCs. Government acknowledges that restoring Eskom to operation and financial health and accelerating its restructuring process is a central objective of the plan. Eskom has been restructured into three separate entities for generation, transmission and distribution. The restructuring of SOCs is a central theme in this year's Medium Term Budget Statement. The Committee will continue to monitor this environment. Without Government support SOCs have to find ways of collecting revenue and being profitable. There has been progress in debt trajectory in some of the SOCs whereby SOCs have lowered their debt levels.

The departmental portfolio is being reduced with the restructuring of SAA and liquidation of SAX. The announcement on the corporatisation of the TNPA is also another milestone by government to implement economic reforms.

During the period under review annual reports of State Owned Companies were not submitted on time. Alexkor, Denel, SAA and SAX could not submit their annual finance statements. State-Owned Companies (SOC) experienced serious financial challenges in the period under review, they continue to be central to the South African economic landscape and their performance is critical in growing the competitiveness and positive trajectory of the economy. Eskom, Transnet and Denel are custodians of the national electricity, national logistics, defence and aerospace manufacturing capabilities. The poor SOC financial, commercial, and operational performance had a direct impact on the socio-economic deliverables of Government.

## **8 SUMMARY OF REPORTING REQUESTS**

The Auditor-General reported that the Department's achieved an unqualified audit with findings. Therefore, there are no reporting requests relating to the Department.

## **9 RECOMMENDATIONS**

The Committee recommends that the Minister of Public Enterprises should:

- 9.1.1 Ensure that shareholder compacts are concluded by the third quarter of the year preceding the year covered by the compact. These compacts are important indicators for performance of the entities and can only be concluded upon the stabilisation of the entities.
- 9.1.2 Ensure that the Accounting Officer improves controls and systems to ensure the department achieves an unqualified audit outcome and matters of emphasis from each year must be addressed in the subsequent year.
- 9.1.3 Ensure that the annual financial statements of state-owned companies are submitted on time.
- 9.1.4 Ensure that findings on the Department and in SOCs by the Auditor-General of South Africa are addressed. Ensure that Eskom is audited by AGSA for this financial year.
- 9.1.5 Appoint qualified and competent board audit and risk committee, the internal audit function in the Department and State Owned Companies to respond better to audit outcomes in the line with the provisions of the Public Finance Management Act.
- 9.1.6 Institute consequence management for executive and management who deliberately or negligently ignore their duties and contravene legislation.
- 9.1.7 Ensure the implementation of proactive lifestyle audits and reviews of conflicts of interest based on risk analysis in all SOCs.
- 9.1.8 Update the Committee on a quarterly basis on the development of Shareholder Management Bill.
- 9.1.9 Present the Committee with the conclusion of strategic equity partnerships and oversight plans for SAA.
- 9.1.10 Present the Committee with a progress report on the SOC restructuring process and progress updates on the unbundling of Eskom into three entities, namely Generation, Transmission and Distribution.
- 9.1.11 Present a model for SOC oversight per programme, with clear targets on monitoring, evaluations and reporting within this financial year.
- 9.1.12 Improve communication in SOCs in order to educate the public on the role of SOCs, their capabilities and their developmental role in the economy.
- 9.1.13 Provide the Committee with progress update on efforts to ensure Alexkor achieves its public and commercial mandate, especially addressing socio-economic outcomes of the Richtersveld and Alexandra Bay communities.
- 9.1.14 Ensure that the diversification strategy of Safcol is implemented and the company expand its commercial and public mandate, and ensure that community land claims issues are resolved.
- 9.1.15 Ensure that the challenges facing Denel are addressed immediately, including its restructuring process and address the issue of payment of staff in these subsidiaries Denel Dynamics, Denel Land Systems, Denel Pretoria Metal Pressing, Denel Aeronautics and Denel Vehicle Systems.
- 9.1.16 Ensure that SOCs protect jobs in particular highly advanced technical skills to advance the manufacturing capability of the state. SOCs should invest in labour intensive infrastructure programmes to create employment.
- 9.1.17 Ensure that the restructuring of Eskom is completed within the set timeframes and maintenance of power stations is done on time.
- 9.1.18 Ensure the Eskom updates the Committee on its maintenance programme and ensure uninterrupted and sustainable security of electricity supply.

- 9.1.19 Focus on capacitating core technical functions, develop and enhance technical skills and ensure implementation of sound operational and systems engineering business processes to ensure effective technical oversight.
- 9.1.20 Consider filling vacant posts within the Department to ensure capacity and capability to further execute important projects and programmes which were not realisable in this financial year due to lack human resources. The department should keep the Committee informed on the progress in filling these important vacancies.
- 9.1.21 Ensure the implementation of a methodology and manner in which Boards are appointed to ensure independence and enable effective board performance review with due consequence management.
- 9.1.22 Ensure that the financial management and control structures and processes are such that accurate, timeous and reliable recording and reporting of all financial transactions takes place. Furthermore:
- That the appropriate financial management systems and controls are in place to ensure the effective management of the financial affairs.
  - That the financial affairs and performance reported is acceptable in terms of the corporate plans and shareholder compacts.
  - Significantly enhance reporting and accountability arrangements that facilitate an appropriate oversight by the Department; and
  - Urgently develop technical capacity within the Department to oversee its SOCs.
- 9.1.23 Provide the Committee with quarterly progress reports regarding the implementation of these recommendations, and
- 9.1.24 Provide the Committee with updates in writing in five days on developments and events that could potentially adversely affect SOCs or the public. This information should be submitted to the Committee shortly after receiving the information or date of incident.

## **10. CONCLUDING REMARKS**

The Committee notes the position of government to implement reforms in state-owned companies and the announcement of the Minister that state-owned companies would not be receiving capital injection from the fiscus. Furthermore, the Medium Term Budget Policy Statement also announced that there is a need to discuss which state-owned companies are still strategic to the state. The Committee would like to express its gratitude to the Auditor-General, management of the Department of Public Enterprises, state-owned companies and the parliamentary officials supporting the Committee for their hard work and co-operation during this process.

**Report to be considered.**