PRESENTATION TO STANDING COMMITTEE ON APPROPRIATIONS

Update on State Owned Companies

PRESENTED BY:

UNATHI NGWENYA
RAVESH RAJLAL

Asset and Liability Division

Date: 15 February 2022

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

- In December 2021, the Minister of Finance appointed the new Land Bank Board, which will oversee the restructuring of the Land Bank.
- Finalisation of Liability Solution is still under way. The Liability Solution includes several initiatives aimed at strengthening the ability of Land Bank to deliver on its development mandate and enhancing the long-term sustainability of the institution, while seeking to prevent any financial losses to lenders. It involves negotiations between the Land Bank and its lenders with the support from National Treasury.
- The Land Bank has requested the Minister to provide it with more time to conclude the Liability Solution since agreement with the lenders is taking longer than initially planned.
- The R7 billion recapitalization transfer to the Land Bank has not happened until the Land Bank and the lenders agree to the Liability Solution.
- The Land Bank’s Annual Financial Statements were signed off by the Auditor General on 22 December 2021. The Land Bank will conclude the Annual Report soon and it will be shared with Parliament before the end of March 2022.
- 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 from approximately R40 billion.

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.
- 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 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.
- 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.
- At 31 December 2021, R310 billion had been committed from the R350 billion government guarantee facility granted to Eskom, leaving R40 billion unallocated for future funding.
- Work is also underway to review Eskom's Just Energy Transition (JET) with the conclusion of the feasibility study for the Komati Power station as the flagship project.

REVENUE CHALLENGES AND UNBUNDLING PROCESS

- The High court ruled that NERSA acted unlawfully in rejecting Eskom's revenue application which was submitted on the 2 June 2021.
- NERSA was directed to evaluate the application for the 2022/23 financial year in accordance with the MYPD methodology and announce its decision by 25 February 2022. Eskom is still pursuing part B of the case which deals with setting aside the entire NERSA decision with regards to the remaining 2 years of the revenue application.
- NERSA has concluded its public hearings following the court decision and is now undertaking its internal governance approval processes before announcing its decision on 25 February 2022 as per the Court order.
- NERSA’s decision on the set date is critical in order to enable the Minister of Public Enterprises to table the revised tariffs on 15 March 2022 in Parliament.
- Failure to meet this timeline will result in the tariffs not being implemented in the 2022/23 financial year and this will have a significant negative impact on Eskom’s financial position.
- Eskom made progress in its unbundling plan by establishing a transmission company that is now registered with the Companies and Intellectual Property Commission. Eskom has also applied for the Transmission licence which is being considered by NERSA.
- DPE is also embarking in the process of developing the founding legislation for this Transmission Company.
- The deadline of 31 December 2021 to complete the legal separation of this unit was missed as lenders have not yet approved the proposed restructuring. The generation and distribution entities legal separation are expected by 31 December 2022.

ESKOM COMPLIANCE WITH EQUITY CONDITIONS

- For 20221/22, 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 31 January 2022, 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

- Denel continues to under recover on expenses as a result of significant reductions in sales and low operational activity due to ongoing liquidity challenges.
- Government has allocated R3.035 billion to Denel in 2021/22 to settle guaranteed obligations that fell due in the year.
- As at 31 December 2021, Denel's total revenue amounted to R970 million, which is 57% below the budget of R2.3 billion.
- Cash available to Denel amounts to R498m with R333m ring-fenced in Escrow accounts and project finance structures.
- As at 31 December 2021, net loss position amounted to R871 million, against the budgeted net loss position of R348 million.
- Denel is currently technically insolvent. Denel's net equity is reported at a negative R1 billion, as at 31 December 2021.
- Broader alignment is required between the Department of Defence, Department of Public Enterprises, National Treasury and other relevant stakeholders to agree on the future state of Denel.
- This will enable Denel to pursue a strategy to revise its operating model with the intention of consolidating operations, disposing of non-core assets and executing identified strategic equity partnerships to alleviate its financial pressure.

SASRIA

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

SASRIA

- Claims relating to the July 2021 unrest are estimated to amount to R32 billion.
- Sasria has settled a portion of the claims amounting to R14.9 billion (as of 31 December 2021) through its capital and reinsurance reserves.
- The claims amount surpasses the capital available to the entity, resulting in a R22 billion shortfall.
- To date government transferred R14.9 billion in 2021/22, to assist Sasria.
- As at 31 December 2021, Sasria reported its total assets at R5.9 billion compared to its total liabilities of R26.3 billion. The decline in assets was mainly due to the liquidation of certain assets to aid in settling claims from the July 2021 civil unrest.
- In line with the substantial increase in claims which contributed to declining profits, Sasria forecast a net loss of R28.6 billion compared to budgeted profit of R240 million (as at 31 December 2021)

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 has historically struggled with defining its strategic role as a commercial enterprise, operating within a rapidly changing ICT environment, whilst balancing its distinct developmental mandate. A number of reforms were implemented and SAPO's mandate was strengthened through an amendment of the Postal Services Act. Although the reforms provide the basis for the turnaround of SAPO, the entity continues to struggle with its commercial revenues.

- 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.
- The shareholder department needs to urgently restructure and repurpose the entity.
- 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 are in place for SAPO.

Financial Update as at 31 December 2021

- Launched its VSP programme in December 2021 and 482 employees have applied to leave the entity at the end of January 2022.
- Revenues of R825 million with revenue performance against budget being R361 million (30%) below budget, reflecting a decreased from prior year by R114 million (12%).
- Actual expenditure was R1 427 million, which is below the expenditure budget (R1 731 million) by R304 million (18%), and has decreased from prior year by R299 million (17%).
- Net loss position of R473 million against the projected net loss of R403 million, a negative variance of R69 million (17%). This net loss position has improved against prior year by R 160 million (25%).
- SAPO creditors including accruals amount to R4.1 billion and includes a salary debt of R150 million for the period April 2020 to February 2021. SAPO continues to face serious liquidity challenges and does not seem to have a plan in place to address the serious liquidity constraints which pose a serious risk to SAPO.
- Total request of additional funding of R23 billion over the 2022 MTEF.

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 requested to provide quarterly updates to Parliament on the utilisation 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 exited business rescue on 30 April 2021. However, the airline remained under care and maintenance until the 23rd of September 2021 when it resumed operations.
- SAA has been making losses since resuming operations. As at December 2021, the SAA Group had incurred a year-to-date (YTD) loss of R2.7 billion against a budgeted loss of R2.3 billion. At the end of December 2021, SAA had operated a total of 1 023 flights in the domestic and regional market since resuming 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 initially published on 29 October 2021 and was subsequently amended and published on 25 November 2021.
- Of the R819 million which was allocated to Mango as part of the R2.7 billion Special Appropriation Bill, the DPE disbursed R420 million for salaries, developing a business rescue plan and Voluntary Severance Packages (VSPs).
- The remaining balance of R399 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.
- Since entering Business Rescue, Mango has not operated any flights which has contributed towards the recorded loss of R931 million as at 31 December 2021 against a budgeted loss of R856 million. This is mainly due to Mango continuing to incur staff costs and aircraft lease expenditure while in Business Rescue.

South African Airways (SAA)

South African Airways Technical (SAAT)

- SAAT incurred a loss of R848 million as at 31 December 2021. The company had anticipated generating positive cash flows from December 2021 as its major customers Comair and SAA resumed operations. However, SAAT's revenues remain low despite the return of the major customers. SAAT has indicated that it is currently in a position to source components needed to perform maintenance checks on a regular basis in order to meet operational demand.
- The full R1.663 billion allocated to SAAT has been transferred to the entity and utilised 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.

Air Chefs

- Air Chefs has incurred a loss of R195 million as at 31 December 2021. An improvement in profitability is expected in periods to come as Air Chefs largest expense, staff costs, is expected to significantly reduce due to the finalisation of the voluntary severance package programme in October 2021.
- The full R218 million has been transferred to Air Chefs and has been utilised 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.