

# **Budgetary Review and Recommendation Report of the Portfolio Committee on Public Enterprises, dated 19 October 2022**

The Portfolio Committee on Public Enterprises (hereinafter referred to as the Committee), having considered the performance of the Department of Public Enterprises for the 2021/22 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 11 October 2022 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 incorporates inputs from the Internal Audit unit of the Department of Public Enterprises.

### **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 International Monetary Fund (IMF) world economic outlook 2022 report states that, the global economy is experiencing a number of turbulent challenges. Inflation higher than seen in several decades, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Normalization of monetary and fiscal policies that delivered unprecedented support during the pandemic is cooling demand as policymakers aim to lower inflation back to target. But a growing share of economies are in a growth slowdown or outright contraction. The global economy's future health rests critically on the successful calibration of monetary policy, the course of the war in Ukraine, and the possibility of further pandemic-related supply-side disruptions, for example, in China.

Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies: a US GDP contraction in the first half of 2022, a euro area contraction in the second half of 2022, and prolonged COVID-19 outbreaks and lockdowns in China with a growing property sector crisis. About a third of the world economy faces two consecutive

quarters of negative growth. Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Upside inflation surprises have been most widespread among advanced economies, with greater variability in emerging market and developing economies.

Risks to the outlook remain unusually large and to the downside. Monetary policy could miscalculate the right stance to reduce inflation. Policy paths in the largest economies could continue to diverge, leading to further US dollar appreciation and cross-border tensions. More energy and food price shocks might cause inflation to persist for longer. Global tightening in financing conditions could trigger widespread emerging market debt distress. Halting gas supplies by Russia could depress output in Europe. A resurgence of COVID-19 or new global health scares might further stunt growth. A worsening of China's property sector crisis could spill over to the domestic banking sector and weigh heavily on the country's growth, with negative cross-border effects. And geopolitical fragmentation could impede trade and capital flows, further hindering climate policy cooperation. The balance of risks is tilted firmly to the downside, with about a 25 percent chance of one-year-ahead global growth falling below 2.0 percent—in the 10th percentile of global growth outturns since 1970.

The International Monetary Fund (IMF) has halved its global growth expectations to 3.2 percent in 2022 from 6 percent in 2021 amid climbing inflation and monetary policy tightening. Consequently, South Africa's growth rate has also been revised downwards. The country is expected to grow by 2.1 percent in 2022 from 4.9 percent in 2021, with 2023 expected to drop further to 1.1 percent. In contrast, Sub-Saharan Africa is expected to grow by 3.7 percent in 2023. This means the costs and interests rates are going to be high, this imposes an emerging risk for SOCs that are highly indebted. The Department has a role in monitoring the economic environment in order to mitigate this risk.

The National Treasury, Budget Review 2022 states the following, the economy began to bounce back from the pandemic lockdowns in 2021, but the recovery weakened in the second half of the year. GDP growth is expected to average 1.8 per cent over the next three years. Significant risks to the outlook include the emergence of new COVID-19 variants in the context of low vaccination levels, rising global inflation, and continued disruptions to power supply.

Longstanding structural constraints entrench South Africa's high levels of poverty and unemployment. Government continues to advance a multifaceted strategy to achieve higher and sustained economic growth rates. These reforms are intended to build private-sector confidence and investment. The combined impact of structural reforms, support for small business and new infrastructure investment will enable higher rates of growth and job creation over the long term. Over the next three years, government will introduce additional measures to improve the delivery of public infrastructure and attract private capital.

Over the medium term, government will devote considerable attention to strengthening the fight against corruption flowing from the reports of the State Capture Commission, cutting red tape for small businesses and strengthening the green transition. In line with government's international and domestic commitments to climate change adaptation and mitigation, the National Treasury plans to pilot a climate budget tagging methodology, which can inform future spending priorities and budget reforms.

In his State of the Nation Address held on the 10 February 2022, the President outlined the overriding priorities for 2022 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.

Load shedding continues to have a huge impact on the lives of all South Africans, disrupting business activities, and placing additional strains on families and communities. Due to South Africa's aging power stations, poor maintenance, policy missteps and the ruinous effects of state capture, our country has a shortfall of around 4,000 MW of electricity.

During the past year, government has taken firm steps to bring additional generation capacity online as quickly as possible to close the shortfall.

As a result, several new energy generation projects will be coming online over the next few years. This includes:

- Over 500 MW from the remaining projects in Bid Window 4 of the renewable energy programme, which are at advanced stages of construction;
- 2,600 MW from Bid Window 5 of the renewable energy programme, for which the preferred bidders were announced last year;
- up to 800 MW from those risk mitigation power projects that are ready to proceed;
- 2,600 MW from Bid Window 6 of the renewable energy programme, which will soon be opened;
- 3,000 MW of gas power and 500 MW of battery storage, for which requests for proposals will be released later this year;
- an estimated 4,000 MW from embedded generation projects in the mining sector;
- approximately 1,400 MW currently in the process of being secured by various municipalities.

In addition to closing the energy supply shortfall, government is implementing fundamental changes to the structure of the electricity sector. Eskom has established a separate transmission subsidiary, and is on track to complete its unbundling by December 2022. The utility has continued with its intensive maintenance programme, to reverse many years of neglected maintenance and underperformance of existing plants. To regulate all of these reforms, Cabinet approved amendments to the Electricity Regulation Act for public comment. These far-reaching amendments will enable a competitive market for electricity generation and the establishment of an independent state-owned transmission company. South African economy cannot grow without efficient ports and railways. Over several years, the functioning of South Africa's ports has declined relative to ports in other parts of the world and on the African continent. This constrains economic activity.

The agricultural sector, for example, relies heavily on efficient, well-run ports to export their produce to overseas markets. Fresh produce cannot wait for days and even weeks stuck in a terminal. This hurts businesses and compromises our country's reputation as an exporter of quality fresh produce. Transnet is addressing these challenges and is currently focused on improving operational efficiencies at the ports through procuring additional equipment and implementing new systems to reduce congestion. Transnet will ask for proposals from private partners for the Durban and Ngqura Container Terminals within the next few months, which will enable partnerships to be in place at both terminals by October 2022. Transnet will start the process of providing third-party access to its freight rail network from April 2022 by making slots available on the container corridor between Durban and City Deep in Gauteng. Transnet has developed partnerships with the private sector to address cable theft and vandalism on the freight rail network through advanced technologies and additional security personnel. This collaborative effort is already showing results in reduced disruptions to rail operations.

The Minister of Finance in his Budget speech made the following observations, Government will also reduce the continual demands on South Africa's limited public resources from state-owned companies. For this reason, SOCs need to develop and implement sustainable turnaround plans. The future of our state-owned companies is under consideration by the Presidential State-Owned Enterprises Council. Their future will be informed by the value they create and whether they can be run as sustainable entities without bailouts from the fiscus. Some state-owned companies will be retained, while others will be rationalized or consolidated. To reduce their continuing demands on South Africa's public resources, the National Treasury will outline the criteria for government funding of state-owned companies, during the upcoming financial year.

Government is aware that Eskom's debt situation remains a concern for its creditors and its investors alike. Government continues to support Eskom to remain financially sustainable during its transition. To date, Eskom has

been provided with R136 billion to pay off its debt with a further R88 billion until 2025/26. Government acknowledges, however, that Eskom is faced with a large amount of debt that remains a challenge to service without assistance. The National Treasury is working on a sustainable solution to deal with Eskom's debt in a manner that is equitable and fair to all stakeholders. Any solution will be contingent on continued progress to reform South Africa's electricity sector and Eskom's own progress on its turnaround plan and its restructuring. Government expect Eskom to take further steps towards cost containment, conclude the sale of assets and implement operational improvements to enhance the reliability of electricity supply. The outcome of this work, which is legally and technically complex, will be announced within the next financial year.

In a recent briefing to the Committee, the Financial and Fiscal Commission (FFC) made these observations, State-owned enterprises (SOEs) play an important role in the South African economy.

- Since 1994 SOEs have been a significant vehicle for achieving economic growth and poverty reduction.
- Strengthening their role and performance is a key component of the Developmental State agenda.
- Improving governance frameworks and practices will be key to achieving better SOE performance and to realizing the broader goals of infrastructure development and economic growth.
- Governance and other reforms are critical to improving SOE performance and competitiveness, increasing financial sustainability through access to new sources of capital, and achieving higher levels of transparency and accountability. Reforms can include the following key issues
  - Improving the legal and regulatory framework for SOE governance;
  - Strengthening the State's role as owner/shareholder;
  - Professionalizing SOE boards and management;
  - Promoting the financial sustainability of SOEs; and
  - Enhancing the transparency and accountability of SOEs.

## **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'S 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 the annual financial statements are submitted on time.
- 3.1.4 Ensure that findings on the Department and in SOC's by the Auditor General of South Africa (AGSA) are addressed.
- 3.1.5 Improve the capacitation of 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.
- 3.1.6 Institute consequence management for executive and management who deliberately or negligently ignore their duties and contravene legislation.
- 3.1.7 Ensure the implementation of proactive lifestyle audits and reviews of conflicts of interest based on risk analysis in all SOC's.
- 3.1.8 Update the Committee on a quarterly basis on the development of SOE Bill.
- 3.1.9 Present the Committee with the conclusion of strategic equity partnerships and oversight plans for SAA.
- 3.1.10 Present to the Committee on the liquidation of SA Express.
- 3.1.11 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.
- 3.1.12 Present a model for SOC's oversight per programme, with clear targets on monitoring, evaluations and reporting within this financial year.

- 3.1.13 Improve communication in SOCs in order to educate the public on the role of SOCs, their capabilities and their developmental role in the economy.
- 3.1.14 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.
- 3.1.15 Ensure that the future role of SAFCOL is clarified and that the commercial and public and public mandates are diversified and expanded, community land claims issues are resolved.
- 3.1.16 Ensure that the future of Denel is clarified 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.
- 3.1.17 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.
- 3.1.18 Ensure that the restructuring of Eskom is completed within the set timeframes and maintenance of power stations is done on time.
- 3.1.19 Ensure the Eskom updates the Committee on its maintenance programme and plans to curtail load shedding on timeous basis.
- 3.1.20 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.
- 3.1.21 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.
- 3.1.22 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. These should adhere the following principles:
- 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.
- 3.1.23 Provide the Committee with quarterly progress reports regarding the implementation of these recommendations, and
- 3.1.24 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 99.4 per cent of its budget in the 2021/22 financial year and received an unqualified audit opinion with findings.

##### 4.1. Table 1. Overview of Vote allocation and spending (2017/18 to 2021/22) R'million

**Table 1: Comparative Budget Allocation**

Department of Public Enterprises (R'm)	Expenditure Performance For the Five Year Period Reviewed				
	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Allocation</b>	266.7	6 522.9	56 883.0	77 606.9	39 310.3
<b>Actual Expenditure</b>	250.4	6 474.8	56 846.4	77 503.4	39 058.1
<b>Percentage Spent</b>	93.9	99.3	99.9	99.9	99.4
<b>Percentage Unspent</b>	6.1	0.7	0.1	0.1	0.6

**Source:** Department of Public Enterprises (2022)

As shown in the table 1 above, for the 2017/18 financial year, 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, from 2018/19 onwards, 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 2021/22 financial year.<sup>1</sup>

The Department had an original appropriated total budget of R36.3 billion in February 2021 for the 2021/22 financial year. However, in the adjusted estimates of national expenditure tabled in November 2021, the Department received a further R2.9 billion, with the total appropriation of R39.2 billion. This amount was mainly for Payments for financial assets as transfers to the state-owned companies (SOCs) amounted to R36.0 billion.<sup>2</sup> During the adjusted budget the Department received an additional R2.9 billion as a Direct charge against the National Revenue Fund in order to settle guaranteed debt and interest payments for Denel. An amount of R17 million was also surrendered to the National Revenue Fund from Compensation of Employees due to vacant posts within all the programmes. The balance of R272.9 million was used by the Department for its operations. The transfers to entities included the following:<sup>3</sup>

- R31.7 billion for Eskom for settlement of government guaranteed debts;
- R4.3 billion for SAA for settlement of government guaranteed debts and implementation of the business rescue plan;
- R2.9 billion for Denel for settlement of government guaranteed debts;

#### 4.1. Financial performance 2021/22

During the 2021/22 financial year, the Department spent its budget in the following manner:

**Table 2. Quarterly Expenditure for the 2021/22 financial year**

Programme (R'm)	2021/22				Appropriated Budget	Adjusted Appropriation
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
Programme 1: Administration and Corporate Management	26.7	57.2	84.9	121.1	159.8	150.8
Programme 2: SOCs Governance Assurance and Performance	12.3	20.7	29.6	47.4	61.7	59.7
Programme 3: Business Enhancement, Transformation and Industrialisation	20 055.9	38 518.6	38 722.6	36 858.7	36 070.3	36 064.3
<b>Total</b>	<b>20 094.8</b>	<b>38 596.6</b>	<b>38 837.1</b>	<b>36 027.2</b>	<b>36 291.8</b>	<b>36 291.8</b>
<b>Direct Charges</b>	-	-	<b>0.0</b>	<b>3 030.9</b>		<b>2 923.0</b>
<i>Percentage of Budget Spent</i>	<b>55.4%</b>	<b>106.4%</b>	<b>99.1%</b>	<b>99.6%</b>		

**Source:** National Treasury (2021-2022) SCOA Reports

As seen in table 2 above, in the first quarter, April to June 2021, the Department spent R20.1 billion or 55.4 per cent of the R36.3 billion budget originally Appropriated for the 2021/22 financial year. The Department spent 0.1 per cent or R27.9 million more than it projected to spend. The higher than projected spending was due to 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 was unable to settle interest that was due in June 2021 and therefore requested government to settle the debt to avoid a default and call on the guarantee.<sup>4</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

<sup>1</sup> Department of Public Enterprises (2022)

<sup>2</sup> National Treasury (2021a)

<sup>3</sup> Ibid

<sup>4</sup> National Treasury (2021b)

was spent. An amount of R110.2 million was allocated for Goods and services, where R15.1 million or 13.1 per cent was spent in the first quarter.<sup>5</sup>

By the end of the second quarter, April to September 2021, the Department spent R38.6 billion or 106.4 per cent of the Appropriated Budget of R36.3 billion. The higher than expected expenditure was due to a payment of R2.7 billion to settle guaranteed debt and interest payments on behalf of Denel under the Domestic Medium Term Note programme. The entity is in financial distress and was not able to settle its debt and interest hence it has requested government to settle the guaranteed debt and interest.<sup>6</sup>

An amount of R57.2 million or 35.8 per cent of its budget was spent under Administration, while Programme 2: SOCs Governance Assurance and Performance spent R20.7 million or 33.6 per cent of its budget mainly on Compensation of employees and Goods and services. Programme 3: Business Enhancement, Transformation and Industrialisation programme spent R38.5 billion. Spending in programme 3 was higher than expected due to an additional R2.7 billion expenditure on Denel towards settlement of guaranteed debt as stated above.<sup>7</sup>

As stated above, the Department received an additional allocation of R2.9 billion, with the total Appropriation of R39.2 billion. The additional allocation is a Direct Charge against the National Revenue fund in order to settle guaranteed debt and interest payments for Denel.

With an available budget of R39.2 billion, the Department spent R38.8 billion or 99.1 per cent by the end of the third quarter of 2021/22. The bulk of this amount was spent on Payments for Financial Assets. Programme 1: Administration spent 56.3 per cent of its budget by the third quarter of the 2021/22 financial year amounting to R84.9 million, mostly on Compensation of employees and Goods and services. Actual expenditure to the end of December 2021 for Programme 2: SOC Governance Assurance and Performance amounted to R29.6 million of the available budget of R59.7 million or 49.6 per cent of the budget has been spent. The Business Enhancement, Transformation and Industrialisation programme had an adjusted budget of R36.1 billion and had spent R38.7 million or 107.4 per cent by the end of December 2021.<sup>8</sup> As in the first quarter, the higher actual expenditure in the third quarter is due to the expenditure authorised to settle guaranteed debt and interest payments on behalf of Denel.<sup>9</sup>

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 such as the development of the Shareholder Management Bill, state-owned companies local content verification, and delays in receiving invoices of operating leases and municipal services. The Department spent R104.7 million or 65.9 per cent of the R159.0 million of the Compensation of employees budget, while R43.8 million or 39.9 per cent of the R109.6 million Goods and services budget was spent by the end of December 2021.<sup>10</sup> During the Adjustment Budget period, the Department effected shifts amounting to R289 000 and virements amounting to R278 000.<sup>11</sup>

The Department spent R39.1 billion or 99.4 per cent of the R39.3 billion appropriated budget by the end of the fourth quarter of the 2021/22 financial year. Administration spent R121.1 million or 87.2 per cent of the R138.7 million budget, while Programme 2 spent R47.4 million or 86.4 per cent of the R54.9 million budget by the end of the financial year. Programme 3 spent R35.9 billion or 99.4 per cent of the R36.1 billion budget for the programme. Expenditure on direct charges was higher than the adjusted appropriation due to additional expenditure that was authorised by the Minister of Finance in January 2022 to settle guaranteed debt for Denel over and above the amount approved during the 2021 adjustments budget.<sup>12</sup> An amount of R3 billion was spent as a Direct charge against the National Revenue Fund in order to settle government guaranteed debt of Denel. An amount of R2.9 billion was originally appropriated during the Adjustments Budget in November 2021.<sup>13</sup>

---

<sup>5</sup> Ibid

<sup>6</sup> National Treasury (2021c)

<sup>7</sup> Ibid

<sup>8</sup> National Treasury (2021a)

<sup>9</sup> National Treasury (2022a)

<sup>10</sup> Ibid.

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

<sup>12</sup> National Treasury (2021b)

<sup>13</sup> Department of Public Enterprises (2022)

The Department spent R140.1 million or 88.1 per cent of the Compensation of employees' budget while R76.8 million or 88.7 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 were not commenced during the year.<sup>14</sup>

The Department had an official headcount of 214 posts but only 166 posts were filled by 31 March 2022, with a vacancy rate of 22 per cent. For the period ending 31 March 2022, the Department spent R220 000 in relation to the COVID-19 pandemic.<sup>15</sup>

#### 4.3 Auditor General Report

The Department received an unqualified audit with an emphasis of matter on the following:<sup>16</sup>

- Restatement of corresponding figures – figures for 31 March 2021 were restated as a result of an error in the financial statements of the department.
- Contingent liabilities – were as follows:
  - The department is a defendant in claims of R29.8 million by ex-employees for constructive dismissal, discrimination and unfair treatment. The final outcome is yet to be determined and no provision has been made.
  - The Department signed a share purchase agreement in February 2022, which is intended to dispose of 51 per cent of the government's shares in South African Airways. The deal requires that certain preconditions be met before the sale of shares can be concluded, which, among other things, presents a financial exposure for the government of about R3.079 billion. Funds to cover this liability have not been appropriated in the budget.

The auditors identified the following issues with regard to **compliance with legislation**:<sup>17</sup>

- Annual financial statements, performance and annual report – the financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework. Material misstatements of disclosure items that were identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified opinion.
- Procurement and contract management – a contract was awarded to a bidder based on evaluation criteria that differed from those stipulated in the original invitation for bidding as required by Treasury Regulation 16A6.3(a) and (b).

The following matters were raised by the auditor regarding **internal control deficiencies**:<sup>18</sup>

- Leadership did not adequately exercise its oversight responsibility over financial performance reporting and compliance with applicable laws and regulations.
- Senior management did not prepare regular, accurate and complete financial and performance information, which resulted to the material adjustments on the financial statements and performance report.
- Senior management did not adequately review and monitor compliance with applicable legislation, this resulted in the department incurring unauthorised and irregular expenditure.

#### 4.4 Entities

The Department's overall objectives are to provide an effective shareholder management system and to support and promote economic efficiency within each of the state-owned companies (SOCs). The performance of SOCs has deteriorated in the period under review, with Denel unable to satisfy the going concern criteria, thus preventing the entities from submitting their annual report to Parliament by 30 September 2022. The majority of entities have submitted their audited financial statements late to the Auditor-General due to late appointment of external auditors.

---

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Department of Public Enterprises (2022)

<sup>18</sup> Ibid.



The financial performance is evidenced by the service delivery done by the entities that is enumerated in Section 5. Section 5 highlights the performance of the entities in relation to the financial performance.

#### **4.4.1 Alexkor**

The Minister of Public Enterprises, Mr. Pravin Gordhan, submitted a letter to Parliament on 07 October 2021, that Alexkor would be unable to submit their 2020/21 Annual Report by the due date owing to delays in their audit processes. Thus, the Minister was requesting a concession for the late submission of the entity's financial statements.<sup>19</sup> The entity's 2020/21 audit was finalised in March 2022, and submitted to Parliament on 02 June 2022.

The entity received a qualified audit opinion for the 2020/21 financial year, and achieved 3 of the 9 key performance targets for the year, while the Joint Venture achieved 7 of the 18 key performance targets for the 2020/21 financial year. The qualified audit was an improvement on the disclaimer received in the 2019/20 financial year. Alexkor's profitability improved significantly due to improvement in the cost efficiency achieved by the PSJV. Alexkor made a profit of R115.8 million, as well as R11.7 million from its 51 per cent share in the PSJV operations, thus bringing its total profitability for 2021 to R127.5 million.

The Minister of Public Enterprises, Mr. Pravin Gordhan, submitted a letter to Parliament on 26 September 2022, that Alexkor would be unable to submit their 2021/22 Annual Report by the due date owing to delays in their audit processes. Thus, the Minister was requesting a concession for the late submission of the entity's financial statements. According to the letter, the AGSA was requested to opt in for the 2022/23 external audit of Alexkor. Alexkor is awaiting the concurrence of the AGSA for the appointment of Ngubane & Co. as the external auditors for the 2021/22 financial year. Due to the delay in appointing the external auditors, the audit for 2021/22 is still pending.<sup>20</sup>

#### **4.4.2 Denel**

The Minister of Public Enterprises submitted a letter to Parliament on 07 October 2021, stating that Denel was experiencing serious liquidity challenges and was in the process of exploring various options in respect of the future of the company. Consequently, the entity was not able to prepare and submit the 2020/21 Annual Report and annual financial statements.<sup>21</sup> To-date the entity has not submitted their 2020/21 Annual Report to Parliament.

Similarly, the Minister of Public Enterprises submitted a letter to Parliament on 26 September 2022, stating that the Department has made an application for funding, the outcome of which is yet to be deliberated at Cabinet with a definitive outcome. The final audited annual financial statements and annual reports for both the 2020/21 and 2021/22 financial years will be submitted on completion of the respective audits by the external auditors.<sup>22</sup>

Denel was unable to table its 2019/20 Annual Report and financial statements by the due date of September 2020 to Parliament, as happened with the 2017/18 Annual Report and financial statements, due to uncertainty regarding its going concern status. Despite receiving R1.8 billion from National Treasury in August 2019, the entity still reported a comprehensive loss of R1.962 billion compared to a loss of R1.469 billion in the previous year.

The entity again received a disclaimed audit opinion for the 2019/20 financial year, for a third consecutive year, citing insufficient audit evidence to verify the figures in the financial statements. Given the disclaimer audit opinion, the company's financial statements were questionable.<sup>23</sup>

Given Denel's liquidity constraints, a turnaround strategy was approved by the Board in February 2019, where the company embarked on a process to exit unprofitable, non-core businesses. This created an opportunity to acquire strategic equity partners, which enabled Denel to secure market access and generate cash, thereby restoring its financial sustainability. Denel was also engaging with interested parties for equity injections.

---

<sup>19</sup> Gordhan (2021a)

<sup>20</sup> Gordhan (2022a)

<sup>21</sup> Ibid.

<sup>22</sup> Gordhan (2022a)

<sup>23</sup> Denel (2019)

In November 2020, R271 million of the R576 million recapitalisation received from National Treasury was released on condition that, “Denel should deploy these proceeds in priority activities that will allow the business to restart operations with immediate cash generation”. R167 million was allocated to projects that can deliver a return in the short term - R753 million planned to be generated to deal with creditors’ backlog.<sup>24</sup> The entity received a further R3 billion in the 2021/22 financial year to settle government guaranteed debt and interest payments. Denel’s guarantee facilities declined to R3.4 billion from R6.9 billion after R2.5 billion lapsed following the cancellation of the Egyptian missile contract and the maturity of R1.0 billion of its debt.

However, given that the entity could not submit its annual financial statements due to its liquidity constraints, the turnaround strategy and the capital injection does not seem to have made a huge impact on the success of the business. Government needs to address the long-term strategy of the company and the support required by the Department of Defence and ARMSCOR.

#### **4.4.3 SAFCOL**

The entity submitted its 2021/22 annual financial statements and annual report to Parliament.

The entity received an unqualified audit opinion with no emphasis of matters, an improvement on the emphasis of matter it received in the previous financial year, relating to the future implications of the COVID-19 pandemic on the entity’s future prospects, performance and cash flows. In the previous financial year, the auditors also raised further findings regarding expenditure management and the annual financial statements, performance reports and annual reports not being submitted using the appropriate format. In the 2021/22 reporting period the auditor only raised one matter relating to consequence management and adequate monitoring processes not implemented.<sup>25</sup>

The entity achieved 86 percent of its planned targets for the year, while revenue increased by 33 per cent. Return on equity also improved from -1.4 percent to 2.7 percent. The entity is showing improvement in its operations. The profit after tax for the year amounted to R83.6 million.<sup>26</sup>

For the 2021/22 financial year, 86 per cent of the entity’s revenue is derived from log sales. The reliance on a single source puts the entity at risk due to the high risk of damage fire poses to the business. Thus the business is aiming to diversify their product portfolio whereby half of their revenue is derived from beneficiated products, and half from raw materials.<sup>27</sup>

SAFCOL has approximately 57 per cent of their land subject to land claims. The company has put in place effective processes to govern the way in which they address the issues affecting the land claimants of the land under SAFCOL control.<sup>28</sup>

#### **4.4.4 Eskom**

The Minister of Public Enterprises submitted a letter to Parliament on 26 September 2022, stating that Eskom was unable to submit its audited financial statements by the due date of 30 September 2022. The letter stated that the completion of litigation confirmations, PFMA compliance and generation outstanding matters have contributed to the delay of the external audit. The Eskom auditors have further identified significant key matters that will take some time to close out. Eskom had to appoint new auditors, but due to the later completion of the previous financial year audit, the finalisation of the appointment of the new auditors was delayed. Eskom reports that, as a result, the audit for the 2021/22 financial year started late. The indications from the auditors are that they will be able to sign off the audited financial statements towards the end of October or the beginning of November 2022.<sup>29</sup>

The 2020/21 financial year was a challenging one for Eskom, given the declining global and local economic conditions that was exacerbated by the economic lockdown commencing at the end of March 2021 due to the COVID-19 pandemic. This was evident in the reduced sales volumes which effected revenue generation.

---

<sup>24</sup> Department of Public Enterprises (2021a)

<sup>25</sup> SAFCOL (SOC) Ltd. (2022)

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Gordhan (2022a)

Sales volumes decreased by 6.7 per cent due to the economic lockdown in the first part of the financial year. Eskom is also facing liquidity and solvency risks which is threatening its ability to achieve financial and operational sustainability and to continue as a going concern. The lack of cost-reflective tariffs granted by the National Energy Regulator of South Africa (NERSA) as well as escalating municipal arrear debt contribute to the entity's liquidity constraints. Eskom's poor financial and operational performance contributes to South Africa's challenges and remains a major risk to the South African economy.<sup>30</sup>

Eskom received a qualified audit opinion for the 2020/21 financial year, due to not fully and accurately recording irregular expenditure. This is the fourth consecutive year that the entity has received a qualified audit. The entity achieved 47 per cent of its performance targets for the year, or 18 of its 38 performance targets. Eskom posted a net loss after tax amounting to R18.9 billion, a slight improvement on the R20.8 billion loss posted in the previous financial year.<sup>31</sup>

Irregular expenditure increased from R36.3 billion in 2019/20 to R37.2 billion, this will remain high as Eskom continues with its governance clean-up. Continued findings on their procurement and contract management, and consequence management will occur as the clean-up continues.<sup>32</sup>

Eskom remains dependent on government support and continues to use debt to pay operational costs as it does not generate sufficient funds to meet its commitments. Government provided R56 billion to Eskom for the 2020/21 financial year and has allocated R31.7 billion for the 2021/22 financial year. This allocation is meant to stabilise the utility while government restructures it into three entities (generation, transmission and distribution) under Eskom Holdings SOC Ltd.<sup>33</sup> During the 2021/22 financial year, Eskom received R31.7 billion for the settlement of government guaranteed debts.<sup>34</sup>

Eskom's guarantee exposure increased by R29.6 billion to R327.9 billion due to additional drawdowns. Eskom has a government guarantee exposure amounting to R350 billion<sup>35</sup>.

#### **4.4.5 Transnet**

The entity submitted its audited financial statements and annual report for the 2021/22 financial year to Parliament in August 2022.

Transnet's business was negatively impacted by the COVID-19 pandemic induced economic lockdowns, which saw the South African economy contract by 7.0 per cent for the 2020 year. This resulted in the entity's revenue decreasing by 10.5 per cent to R67.3 billion in 2020/21, while net operating expenses increased by 16.2 per cent. This resulted in the net loss for the 2021 year amounting to R8.4 billion, up from the R2.9 billion profit achieved in the 2019/20 financial year.<sup>36</sup> However, the entity saw an improvement in revenue for the 2021/22 financial year, with revenue increasing by 1.8 per cent to R68.5 billion, mainly driven by improved container and petroleum volumes. Net operating expenses decreased by 5.9 per cent to R45 billion from R47.8 billion in the previous year due to saving initiatives. The entity was able to generate a net profit of R5 billion due to the increase in revenue and cost containment.<sup>37</sup>

The entity received an unqualified audit for the period under review as the entity received an exemption from disclosing irregular expenditure as required by the PFMA for a period of three years, starting from 2021/22 to 2023/24 financial years. The extent of the exemption has resulted in the disclosure of the confirmed and under assessment of irregular and fruitless and wasteful expenditure (IFWE) in the integrate report of the current and one comparative year.<sup>38</sup>

---

<sup>30</sup> Eskom (SOC) Ltd (2021)

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Eskom (SOC) Ltd. (2021)

<sup>34</sup> National Treasury (2021b)

<sup>35</sup> Ibid.

<sup>36</sup> Transnet (SOC) Ltd (2021)

<sup>37</sup> Transnet (SOC) Ltd. (2022)

<sup>38</sup> Ibid.

Total irregular expenditure amounted to R1.1 billion in 2022 compared to R3.9 billion in the previous financial year while fruitless and wasteful expenditure amounted to R186 million in 2022 compared to R120 million in the previous financial year.<sup>39</sup>

Transnet has government guarantee's amounting to R3.5 billion with an exposure of R3.8 billion.<sup>40</sup>

#### **4.4.6 South African Express 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. 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>41</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.<sup>42</sup> On 14 September 2022, the final liquidation order was granted by the Gauteng High Court on South African Express Airways after liquidators could not find a suitable buyer for the regional airline. The DPE states that due to the current fiscal constraint, Government was not able to provide the post commencement finance to implement a successful rescue process. Despite three different attempts by the provisional liquidators to attract credible buyers including a crowd funding initiative by employees to buy the airline, none had the requisite financial resources to sustain the business post the sale.<sup>43</sup>

#### **4.4.7 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 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>44</sup>

The Minister of Public Enterprises submitted a letter to Parliament on 30 September 2022, stating that the entity would not be able to submit its audited financial statements within the prescribed timeline of 30 September 2022, due to the late start of the audit process. The current audit will cover four financial years which are 2018/19, 2019/20, 2020/21 and 2021/22, and as such extra resources had to be arranged by the Office of the Auditor-General (AGSA).<sup>45</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 finalised. The Sale and Purchase Agreement (SPA) draft is being produced and negotiated.<sup>46</sup>

---

<sup>39</sup> Ibid

<sup>40</sup> National Treasury (2021b)

<sup>41</sup> Gordhan (2021b)

<sup>42</sup> Department of Public Enterprises (2021a)

<sup>43</sup> Department of Public Enterprises (2022a)

<sup>44</sup> Gordhan (2021b)

<sup>45</sup> Gordhan (2022b)

<sup>46</sup> Department of Public Enterprises (2021a)

#### 4.4.7 Recommendations by the Auditor-General of South Africa

The Auditor-General of South Africa recommended that the Portfolio Committee on Public Enterprises do oversight on the following:

- There is an urgent need to finalise and implement the SOE reforms that have been announced by government –including the shareholder management Bill and SOE funding criteria. This will ensure policy certainty and empower SOEs to delivery on their developmental mandates.
- The DPE's annual performance plan must be aligned to the MTSF targets of strengthen governance systems, and ensure board stability. Key indicators and targets for the department must include outcome/output based indicators which will see improvement of SOC's from year to year.
- Failure to submit financial statements is a contravention of the PFMA and the Companies Act. This further obstruct accountability and oversight processes. Decisive actions be taken against the SOC's that failed to submit Financial statement.

#### 4.5 Department of Public Enterprises' financial performance for 2022/23

The Department had an appropriated total budget of R23.9 billion of which R4.1 billion or 16.9 per cent was spent for the period April to June 2022. This is much lower than the projected expenditure of R21.9 billion for the first quarter. The lower than projected spending occurred in Programme 3: Business Enhancement, Transformation and Industrialisation due to lower than planned disbursement of funds to Eskom, as funds are disbursed in terms of the liquidity needs of the entity. The entity was able to settle debt from own generated funds.<sup>47</sup>

The majority of the Department's operational budget was spent on Compensation of employees and Goods and services. Of the R177.5 million budgeted for Compensation of employees, R34.8 million or 19.6 per cent has been spent. An amount of R113.1 million has been allocated for Goods and services, where R10.1 million or 8.9 per cent was spent in the first quarter. Expenditure was slow on compensation of employees and Goods and services due to vacant posts and invoices not yet received.<sup>48</sup>

Programme 1: Administration has an appropriated budget of R166.3 million of which R30.8 million or 18.5 per cent has been spent by the first quarter. The slow spending was due to vacant posts and outstanding invoices.<sup>49</sup>

Programme 2: State-Owned Companies Governance Assurance and Performance has a budget of R60.7 million of which R6.6 million or 10.8 per cent of the budget was spent. The main cost drivers within the programme are Compensation of employees, and Goods and services.<sup>50</sup>

Programme 3: Business Enhancement, Transformation and Industrialisation has a budget of R23.7 billion of which R4.0 billion or 16.9 per cent of the budget was spent by the end of June 2022. The main cost drivers in the programme are Payment for Financial Assets for transfers to state-owned companies. As stated earlier, the disbursement to Eskom did not take place as the entity was able to settle debt from own generated revenue. An amount of R21.8 billion was due to be disbursed to Eskom in the first quarter.<sup>51</sup>

As at 30 June 2022, the Department had a headcount of 167, which translated to a vacancy rate of 22.7 per cent. Spending on compensation of employees was R9.4 million or 21.3 per cent less than projected. The underspending is due to unfilled posts.<sup>52</sup>

#### 4.6 MTEF financial allocations for 2023/24

This section looks at the medium term expenditure framework (MTEF) for the 2023/24 financial year.

**Table 3. Current Estimates for the 2023/24 R'million**

---

<sup>47</sup> National Treasury (2022c)

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

<sup>51</sup> National Treasury (2022c)

<sup>52</sup> National Treasury (2022c)

Programme Allocation (R'000)	2022/23	2023/24	Variance	Variance %
Programme 1: Administration	166.3	168.7	2.4	1.4%
Programme 2: State-Owned Companies Governance Assurance and Performance	60.7	65.6	4.9	8.1%
Programme 3: Business Enhancement, Transformation and Industrialisation	23 701.9	63.3	-23 638.6	-99.7%
<b>Total</b>	<b>23 928.9</b>	<b>297.6</b>	<b>-23 631.3</b>	<b>-98.8%</b>

**Source:** National Treasury (2022)

Table 3 illustrates the projected allocation for the 2023/24 financial year, amounting to R297.6 million, a R23.6 billion or 98.8 per cent decrease. Programme 1: Administration increases by R2.4 million to R168.7 million in the 2023/24 financial year. Programme 2: State-Owned Companies Governance Assurance and Performance will increase by 8.1 per cent from R60.7 million in 2022/23 to R65.6 million in 2023/24. Programme 3: Business Enhancement, Transformation and Industrialisation is expected to see the largest decrease of R23.6 billion to R63.3 million in the 2023/24 financial year, mostly to decreases in Payments for financial assets as the disbursements to the state-owned companies comes to an end.<sup>53</sup>

This allocation is subject to confirmation and approval by the Minister of Finance during the National Budget in February 2023.

#### 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 with regards to restatement of figures, and contingent liabilities. Matters pertaining to compliance with legislation and internal control deficiencies were also raised. This can be seen as a regression on the previous year's findings. The Department's budget has been dominated by transfers to the SOCs, which has skewed the Department's budget. The Department has spent 99.4 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 22 percent is a cause for concern as it is higher than 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.

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 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 finalise the Sale and Purchase agreement of the sale of the 51 per cent of the shares in SAA. 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 ensure the finalisation of the outstanding audited financial statements of the SOCs. 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

<sup>53</sup> National Treasury (2022)

## 5.1 Service Delivery Performance for 2021/22

The Department has a responsibility of ensuring that there are efforts in rebuilding and reinventing State-owned Entities (SOEs) to support Government's triple priorities i.e., reduce unemployment, poverty, and inequality. In addition, the Department has a Mandate to oversee the process of enhancing Governance and integrity of our SOEs, and implement the structural reforms required within the network industries.

Given the challenging environment in which State-owned Companies (SOCs) operate, resolute measures are required to address the SOCs financial and operational difficulties. While these setbacks persist, the Department has remained committed to address them using effective Governance instruments to ensure proper Governance, and Management of SOCs' oversight. As the Shareholder, the Department continues to place particular focus on strengthening SOC Boards to ensure they comprise credible, and capable individuals with unimpeachable ethics and integrity.

Denel is a critical supplier of sovereign and strategic capabilities ensuring security of supply to the DoD. Shifts in geopolitical dynamics in Europe, Asia and other parts of the world further justify the significance for the country to preserve and grow its current industrial defence capabilities to meet its own requirements and to grow exports. Denel has been confronted with grave liquidity challenges which have adversely affected its operations. As a result, Denel lost a significant number of critical skills which affected several strategic defence industrial capability areas. Denel's challenges are having an adverse effect on the sustainability of the local defence industry ecosystem.

Due to these financial challenges, Denel has lost a significant number of critical skills. Several strategic defence-industrial capabilities have been affected by this. As a systems integrator that is supported by an extensive local supplier base, Denel's challenges are having an adverse effect on the sustainability of the local defence industry.

The impetus to return Denel to a sound footing is underway. The SOC appointed a Chief Restructuring Officer (CRO) to accelerate the vital measures required to return the entity to sustainability. To this effect, Denel has developed a comprehensive restructuring plan with a plausible roadmap and strategic actions. The proposed future structure for Denel's core capabilities, is to have a direct link to the dimensions of defence with land, air and more complex Integrated Systems grouping to exploit new opportunities and emerging technologies.

Critical success factors include Shareholder injection, strategic partnerships, disposal of non-core assets, optimisation of internal business processes and footprints. Denel was able to unlock over R900 million from its medical trust. This injection has allowed the SOC to address some legacy obligations such as outstanding salary payments to employees and some creditors including statutory obligations as well as support operations.

The need to restructure Eskom is driven by an evolving South African energy market and policy landscape. The restructuring will augment Eskom's business model, and place Eskom in a path to long-term sustainability, addressing the "fit for purpose" question. The implementation of the Eskom Roadmap resulted in the formation of new independent Transmission, Generation and Distribution subsidiaries wholly owned by Eskom. The functional separation of three divisions (generation, transmission, and distribution) was completed according to the roadmap deliverables. In December 2021, Eskom's Transmission Company was corporatised as a wholly owned subsidiary of Eskom.

The restructuring of Eskom was further supported by the proposed amendments to the Electricity Regulation Act (ERA) and the Electricity Pricing Policy (EPP) which is estimated to be finalised by the end of the 2022/23 financial year.

In the 2021/22 financial year, a decision to corporatise Transnet National Ports Authority (TNPA) a subsidiary of Transnet, was endorsed by the Department of Public Enterprises (DPE) and Department of Transport (DoT). The process of ensuring that TNPA is established as a wholly subsidiary of Transnet is underway.

South African Airways SOC Limited (SAA) successfully exited the Business Rescue process in April 2021, and relaunched operations both domestically and regionally. The airline commenced its operations in September 2021. The subsidiaries of SAA namely, Air Chefs, Mango Airlines and SAA Technical, undertook restructuring processes aimed at improving efficiencies and financial performance of the entities. Mango Airlines commenced Business Rescue proceedings in August 2021, as part of a process of ensuring the successful restructuring of the airline.

South African Forestry Company Ltd (SAFCOL) continue to support economic transformation to achieve a more inclusive, effective and efficient economy within communities in which the SOCs operate. The people of Graskop and surrounding areas, received a state-of-the-art clinic valued at more than R3 million. The number of patients visiting the clinic increased from 700 to almost 1 500 per month. The Company has empowered more than 84 Black-Owned companies by offering technical training and non-financial support. SAFCOL has supported unemployed youth to establish their own co-operative and as a result, this has created 12 permanent jobs and income for Limpuma Furniture manufacturing co-operative. The Company has concluded a partnership framework with nine land claimant communities in the Vhembe District to ensure economic inclusion and participation in SAFCOL's value chain.

## 5.2 Performance Information by Programme

### 5.2.1 Performance analysis

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>54</sup>

The Department tabled its Annual Performance Plan (APP) 2021/22 submitted to the Committee. It has achieved most of its planned activities according to the report.

### 5.2.2 Institutional Strategic Outcomes

**Table 4: Institutional Strategic Outcomes**

OUTCOMES	PERFORMANCE OUTCOME
Strengthen the Governance system of SOCs and promote institutional alignment in the execution of the oversight function.	<p>The Presidential State-owned Enterprise Council (PSEC) was established in 2020/21 financial year and has made progress in line with the approved objectives. In order to give effect to its Mandate, the PSEC is, at present, organised into three workstreams, namely: i) Governance; ii) Consolidation and Crisis Management, and iii) Finance tasks to provide oversight and strategic support towards the repositioning and revitalisation of the SOEs. To date, the work-streams have considered the work previously done on SOCs reforms to build on the existing work, placing emphasis on the Presidential Review Commission (PRC) recommendations, and the National Planning Commission (NPC) position papers and case study.</p> <p>PSEC recommended that Government adopt a centralised Shareholder Management model by establishing a Holding Company.</p> <p>A Shareholder Management Bill which will be finalised and submitted to Cabinet in 2022/23 financial year is being developed.</p>
Improved Governance and accountability.	<p>Good Governance codes continue to be embedded within the SOEs. In this regard, an integrity and consequence management framework has been developed to establish clear guidelines and expectation of the Shareholder. This framework, which will manage conflict of interest in the SOCs were solidified. The quest to recover stolen money has yielded progress, where some of the responsible officials are being prosecuted.</p>
Increase the contribution of SOCs to support transformation of the South African economy.	<p>The DPE's Transformation Framework and Guidelines (TFG) continue to serve as a guide for SOCs within the DPE portfolio, to align their socio-economic related interventions to support achievement of the National transformation agenda.</p> <p>SOCs in the portfolio adequately comply with the reporting requirements for Employment Equity (EE), in terms of all Legislative provisions associated with the EE Act, including making submissions of the EE Plans and Reports to the Department of Employment and Labour (DoEL). The Department has developed a reporting tool as a mechanism to strengthen monitoring EE implementation, and ensure standardisation of reporting, and enable in-depth analysis of SOCs' contribution.</p> <p>The Department is also supporting interventions initiated by the Department of Women (DoW), Youth, and Persons with Disabilities (PwDs), to address gender disparities and advance the empowerment of gender, youth and persons with disabilities (GEYODI) through various initiatives in the Department and SOCs.</p> <p>Thus, the Department will continue to leverage SOC preferential procurement towards empowerment of designated groups, albeit still experiencing challenges especially regarding empowerment through companies owned by youth and PwDs, which was further aggravated by both financial and economic constraints, as well as the impact of Covid-19 during the period under review. The</p>

<sup>54</sup> National Treasury (2020)



	<p>Department and SOC's, are however expected to increase procurement spend towards a 40% women empowerment threshold, as current oversight is in alignment to Broad-Based Black Economic Empowerment (B-BBEE) Act requirements.</p>
<p><b>Economic transformation and job creation.</b></p>	<p>The SOC's skills and training development towards achieving priorities, as outlined in various policy frameworks and strategies such National Development Plan (NDP), National Skills Development Plan (NSDP), MTSF, and Economic Reconstruction and Recovery Plan (ERRP), remain one of the critical levers in addressing the triple challenges of unemployment, poverty and inequality. In the past two years, the training environment was also not spared, like any other economic sectors, from the constraints imposed by the Covid-19 pandemic. Due to limited training investments, SOC's' capacity to accept an increased number of learners into the system was reduced.</p> <p>The Department continue to establish, and strengthen, partnerships with public and private sector role players as an innovative strategy for sustaining SOC's training operations, and optimisation of training facilities with excess capacity.</p> <p>The Department has concluded Memorandum of Understandings(MoUs) with the Eastern Cape Department of Public Works and Infrastructure (ECDPWI), and the North West Department of Public Works Roads and Transport (NWDPWRT) towards mitigating risks associated with SOC's financial constraints, as part of optimising training facilities of Eskom and Transnet. However, training through collaborations with both ECDPWI and NWDPWRT will only commence once Service Level Agreements (SLAs) are concluded with the two SOC's.</p>
<p><b>OUTCOMES</b></p>	<p>PERFORMANCE OUTCOME</p>
<p><b>Position SOC's to support the industrialisation of the SA economy.</b></p>	<p>The development of industrial capabilities to support SOC's' core Mandate, is critical to reversing the de-industrialisation curve. Over the years, these has been many factors that contributed to the de-industrialisation and this include electricity constraints and a rapid increase in administered prices. To date, Government has shown support through various initiatives, such as the introduction of the amendment of the B-BBEE Act 46 of 2013 and amended Codes of Good Practice. For these policies to have a desired impact, SOC's has been playing a major role to increase local content. On the one hand, SOC's continue to face challenges in ensuring various procurement leverage programmes are utilised for localisation of critical industrial capabilities.</p> <p>Leveraging Government and private sector procurement is a powerful instrument to promote economic growth, job creation, and industrial capability development. Furthermore, it drives local content levels, enhances the competitiveness of the National industry, which will ultimately increase exports. Over the medium-term, the Department has established a uniform approach towards localisations, which the SOC's have adopted and contributes on efforts of re-industrialisation of the South African Economy.</p>
<p><b>Support the development of Small, Medium and Micro Enterprises (SMMEs).</b></p>	<p>SOC procurement is below the expected 40% women empowerment threshold, as current oversight is aligned to B-BBEE requirements. Empowerment of companies owned by youth, and PWDs, also have not increased to the level of expectations, mainly due to funding constraints impacting on acceleration of SOC's provisioning of scarce, and critical skills and delivery of Corporate Social Investment (CSI) programmes. CSI programmes support community development, including infrastructure development, schools to improve quality of Science, Technology, Engineering and Maths subjects (STEM).</p>

Supply of energy secured.	Generation performance declined from 64.19% in the 2020/21 financial year, to 62.02% in the 2021/22 financial year, which resulted in Eskom implementing loadshedding to protect the system. The deterioration in the Energy Availability Factor (EAF) was mainly due to a high unplanned capability loss factor (UCLF) of 25.36%. Eskom has been implementing a Generation Recovery Plan, that focuses on improving generation performance and plant reliability. To improve the EAF, Eskom has identified seven strategic initiatives, including people development, competency development, technical excellence, station rhythm, SCM, and focusing on the future.
Increase access to an affordable and reliable transport system.	Transnet Freight Rail (TFR) volume performance deteriorated over the years due to historical underinvestment, operational related challenges exacerbated by economic and socio-economic environments, and the impact of Covid-19 which further deteriorated performance. In the 2021/22 financial year, TFR railed a total of 184.2 mt (against the budget: 208 mt) compared to the volume railed in the 2020/21 financial year of 212.37 mt (budget: 230 mt). Transnet implemented a Turnaround Strategy that focuses on the top eight commodities (categorised on six key segments) where it will leverage its position in the core operations (businesses), i.e., corridors and terminals, to resolve infrastructure challenges that have emerged in the key nodes, and within the freight system to build density. The strategy implementation will be backed by on-going policy deliverables such as branch lines revitalisation for infrastructure investment, PSP for funding, operations and investment, and third-party access for operations. There has been progress on the revitalisation of branch lines. Transnet identified several branch lines to be put up for concessions aimed at increasing capacity in operations across the network. Through the private sector participation and concessioning process, this led to the re-opening of the Paarl Franschhoek, Umtata- Amabhele and Ceres branch lines (Freight & Tourist services).

### 5.3 Programme and sub-programme performance<sup>55</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 is currently made up of the following sub-programmes: Ministry, Office of the Director-General/Management; Security and Facilities Management; Information Management and Technology; Office of the Chief Financial Officer; Human Resources; Communications; Strategic Management; and Internal Audit.

**Table 5. Programme 1 Performance**

Outcome	Output Indicator	Annual Target	Actual Achievement
Strengthen the Governance system of SOCs and promote institutional alignment in the execution of the oversight function.	Number of training interventions provided (WSP)	20	Achieved
	Develop Human Resource Plan and submit to Department of Public Service and Administration (DPSA).	Review 2021/22 HR Plan and submit to DPSA by 30 June 2021.	Achieved

<sup>55</sup> Department of Public Enterprises (2020a) This section comes from this plan.

	Development of the DPE Enterprise Business Architecture (EA)	Development of the Architecture Masterplan	Achieved
	Stakeholder Engagements framework developed.	3-year Stakeholder Engagement Framework developed.	Achieved

**Source:** DPE Annual Report 2021/2022

The Department achieved all the outcomes in this programme.

### 5.3.2 Programme 2: State-Owned Companies Governance Assurance, Legal Assurance, Risk Profiling and Mitigation

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 6. Programme 2 Performance**

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	Achieved
Development and implementation of SOCs Risk Integrity Management Framework (RIMF)	Reduction in the number of cases concerning Board members and employees	Reduction in the number of cases concerning Board members and employees doing	Achieved
	conducting business with the SOC.	business with the SOC	
	Government Shareholder Management Bill (GSMB) adopted into law by 2023.	Draft Bill submitted to Cabinet	Not Achieved
	Review previously undertaken forensic audits, and ensure recommendations are implemented (including State Capture Commission)	4 Quarterly reviews of previously undertaken forensic audits and ensure recommendations are implemented.	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	24	24
	Number of corporate plans reviewed	5	6
	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

The Department achieved most of its indicators in this programme with the exception of Government Shareholder Management Bill (GSMB).

### 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>56</sup>

Through this programme, the Department contributes to the enhancement of the performance of SOCs on an ongoing basis by:<sup>57</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**

Outcome	Output	Output Indicators	Annual Target	Actual Achievement
<b>Sub programme: Business Enhancement Services</b>				
Increase the contribution of SOCs to support transformation of the South African economy	Improved SOCs spend on locally manufactured goods and services	Assessment Report on % increase spend on SOCs local content	Four Assessment Reports on SOCs 75% spend on local content	Achieved
	Improved SOCs contribution transformation agenda	Assessment Report on % increase spend on SOCs Preferential Procurement and B-BBEE Level 6 compliance.	Four assessment Reports on SOCs 75% spend on Preferential Procurement and B-BBEE Level 6	Achieved

<sup>56</sup> Department of Public Enterprises (2020a)

<sup>57</sup> Ibid

			compliance	
	Socio-economic development programme of SOCs.	Assessment Reports on % increase in SOC CSI programme allocation.	Four Assessment Reports on 0.2% spend on SOCs CSI programme.	Achieved
Support the development of SMMEs.	Improved SOCs spend on Enterprise Development.	Annual value of Enterprise Development contributions.	Four Assessment Reports on SOCs 1% TMPS) spend.	Achieved
Economic transformation and job creation.	A minimum % of leviable amount (excluding the statutory skills development levy) on essential skills development.	Assessment Reports on SOCs 3% spent of leviable amount (spent in the supply of scarce and critical skills in occupations in demand).	Four Assessment Reports measuring SOCs 3% spend of leviable amount.	Achieved
Position SOCs to support the re-industrialisation of the SA economy	Adaptation to climate change impact.	DPE Environmental Implementation Plan (EIP) published in the Government Gazette	DPE EIP published in the Government Gazette	Achieved
	Monitor implementation of SOC Climate Change Response Plans to reduce emissions and increase resilience to climate change impact	Consolidated Report on SOC climate change response initiatives compiled.	Consolidated Report on SOC climate change response initiatives.	Achieved
<b>Sub programme: Energy and Resources</b>				
Improved Governance and accountability	Shareholder Compact signed.	Number of Shareholder Compacts signed (Eskom, Alexkor and SAFCOL).	3 Shareholder Compacts signed (Eskom, Alexkor and SAFCOL).	Not Achieved (Two Shareholder Compacts signed Eskom and SAFCOL)
Increase contribution by SOCs in support of the transformation of the South African economy	SAFCOL's reinvestment on the Timbadola project	SAFCOL's increase in revenue	Four Progress Reports on SAFCOL's implementation of the Timbadola re-investment project.	Achieved
	Optimal operating structure for Alexkor	Restructured Alexkor	Four Reports on the implementation of Alexkor's proposed Shareholding optimal structure.	Achieved
Supply of energy secured	Increase Energy Available Factor to above 80% by 2024	Eskom planned Capacity Adherence	Four Assessment Reports on the delivery of Eskom's build programme (Medupi, Kusile and Power Delivery Projects).	Achieved
	Increase Energy Available Factor to above 80% by 2024	Increased electricity reserve margin	Four Assessment Reports of Eskom's performance generation fleet.	Achieved

	Explore Small-scale Embedded Generation (SSEG) options to augment Eskom generation capacity by 1000 MW by 2024. Implementation of the Eskom commitment Roadmap by 2024 (unbundling)	Explore Small-scale Embedded Generation (SSEG) options to augment Eskom generation capacity by 1000 MW by 2024. Implementation of the Eskom commitment Roadmap by 2024 (unbundling)	Two Progress Reports on the implementation of Eskom's Roadmap	Achieved
<b>Sub programme: Transport and Defence</b>				
Improved Governance and accountability	SOC implementation of agreed key performance indicators.	Number of Shareholder Compacts signed (Transnet, SAA and Denel)	Three 2022/23 Shareholder Compacts signed (Transnet, SAA and Denel).	Not Achieved Three 2022/23 Shareholder Compacts were not signed (Transnet, SAA and Denel).
Improved independent financial sustainability of SOCs	Monitor performance of Denel against client- agreed milestones on significant contracts (AV8 Malaysia, Hoefyster, A Darter production, Aviation MRO on Rooivalk and Oryx helicopters).	Progress Report on performance of Denel against client-agreed milestones on significant contracts (AV8 Malaysia, Hoefyster, A Darter production, Aviation MRO on Rooivalk and Oryx helicopters).	Four quarterly Progress Reports on significant contracts (AV8 Malaysia, Hoefyster, A Darter production, Aviation MRO on Rooivalk and Oryx helicopters).	Achieved
Increased access to an affordable and reliable transport system	Improved investment in rolling stock and rail infrastructure	Improved service reliability, predictability of service, and cost-effectiveness of the transport system with a higher customer satisfaction rate	Four Quarterly Reports on progress on the Investment programme in rolling stock and rail infrastructure.	Achieved
	Corporatised National Ports Authority(NPA) as required by Section 3(2), 4 and 27 of National Ports Act No 12 of 2005.	Progress Reports on the implementation of the decision on the future structure and functions of the TNPA.	Four quarterly Progress Reports on corporatisation of the TNPA.	
	Improved port terminal equipment reliability.	Improved turnaround times across the strategic container terminals.	Improved turnaround times across the strategic container terminals.	Achieved
	Transnet Key Sector Strategy development linked to corridors	Assessment Reports providing Status Report on the implementation of the corridor strategy	Four Quarterly Assessment Reports providing Status Report on the implementation of the corridor strategy.	Achieved
<b>Sub-programme: Research and Economic Modelling</b>				
Increase contribution of SOCs to support of the transformation of the South African economy	Development of a "Just" Energy Transition framework	Progress Report on development of JET Framework produced	Progress Report on development of JET Framework produced	Achieved

	Global, Regional and local economic review	Review Global, Regional and local Economic Report.	Four Quarterly reports on Global, Regional, and local economic reviews produced.	Achieved
	Industry-specific research.	Number of industry- specific research conducted.	2 Industry-specific research conducted.	Achieved

Source: DPE Annual Report 2021/22

The performance of this programme, in particular, sub-programme on business enhancement services and research and economic modelling was satisfactory as all the outcomes in both sub-programmes were achieved.

The performance in the sub-programme on energy and resources, all outcomes were achieved with the exception of improving governance and accountability which included an output indicator of three shareholder compact signed (Eskom, SAFCOL and Alexkor). Only two shareholder compacts (Eskom and SAFCOL) were signed resulting in the target not being achieved. The Department outlined that Alexkor's shareholder compacts has not been signed because it is still being reviewed by the Board that was appointed in January 2022.

The performance in the sub-programme in defence and transport, all outcomes were achieved with the exception of improving governance and accountability which included an output indicator three shareholder compacts signed (Transnet, SAA and Denel). All three of the shareholder compacts (Transnet, SAA and Denel) were not signed. The Department outlined that negotiations on Transnet shareholder compact took longer than expected. Denel shareholder compact not concluded due liquidity constraints. SAA shareholder compact not finalised.

#### 5.4 Concluding Comments on Service Delivery Performance

The Department is crucial in the development of the overarching policy on SOCs. In its reporting to the Committee, the Department stated that the work of the Government Shareholder Management Bill is outstanding due to the processes initiated at the Presidential State-Owned Enterprises Council (PSEC). The Council's mandate includes strengthening the framework governing SOEs including the introduction of an overarching Act governing SOEs and the determination of an appropriate Shareholder Ownership Model. The timelines for the Shareholder Management Bill has been deferred to 2023.

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, Transnet, 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 SOCs' performance. The Shareholder's Compact represents the agreement between the Executive Authority and the Accounting Authority. It is a reflection of the expectations of each party, expressed in terms of outcomes and outputs that need to be achieved. The Shareholder's Compact needs to be reviewed and adjusted on an annual basis, in line with the performance of the Public Entity over the previous financial year.

The corporate plan and shareholder compacts govern the environment of governance and accountability. The new public financial management framework introduces accountability for all government departments and public entity management and staff who spend public money and deploy public resources in delivering services to the citizens of South Africa. To this end, the reforms introduced by the PFMA and the associated Treasury Regulations, as well as recently published best practice guidelines, multi-year budget frameworks ("the MTEF") and other guidelines, set a framework for accountability which is arguably the best in the world today. The reforms introduced by PFMA clearly marks government's efforts to:

- Establish a uniform planning framework within which government departments, business enterprises and other public entities provide the relevant treasury with sufficient information that will ultimately result in a better understanding of the utilisation and deployment of scarce public sector resources;
- Provide a uniform service to all citizens within a framework of affordability in service delivery;

- Ensure that money was spent to the benefit of the communities it was targeting;
- Evaluate the spending of all entities to ensure optimum utilisation of tax revenues for the greater benefit of the majority of South Africans; and
- Enhance efficiency, effectiveness and economical utilisation of financial and other resources.

The preparation of the shareholder's compact forms the basis of performance delivery. In delivering service in the public sector, all entities forming part of the *machinery of public service delivery* should work together in an orderly and focussed manner. A well thought out agreement, prepared in consultation with the executive authority, will assist the public entity to focus its activities on the delivery of strategic or high quality services as an agent of the state for the benefit of the citizens of the country. Agreement on the outcomes to be achieved, with relevant performance measurements attached to these, will empower the executive authority to meet the required commitments to the legislature and the people of the country.

## 5.5 Value-added work / Emerging risks

The Auditor General of South Africa highlighted an emerging risk which the Department must monitor. The DPE embarked on a process to sell 51% of its shares in SAA to a strategic equity partner (SEP). While the transaction is not yet finalised pending regulatory approvals, the AGSA reviewed the process followed and the agreement signed with the SEP to determine the impact on the DPE's financial statements. The Auditor General of South Africa identify risks facing government with the transaction.

AGSA observes the following:

- The purchase and sale agreement requires more than R3 billion to be paid by DPE to complete implementation of the BR plan. Funds to cover this liability have not been appropriated in the budget potential non-compliance with section 38(2) of the PFMA. The related contingent liability was disclosed in the financial statements of DPE and we highlighted it in the audit report of the DPE as an emphasis of matter.
- The department did not follow a formal process for the invitation, evaluation and adjudication of proposals from interested parties to identify the successful/preferred strategic equity partner.
- No public invite for bids or expressions of interest
- No evidence that proposals were fairly evaluated based on predetermined criteria.
- iii. The valuation report that was used to determine the transaction value was not timeously provided for audit purposes. This was only made during the last few days of the audit and we could not be able to perform all the required audit procedures thereon.

The observations under (2) and (3) above were only included in the management report as the transaction is yet legally finalised.

The sale is part of the department's strategic goal to resuscitate the SAA. Should the sale transaction not be properly processed, it may result into further losses to the state or delays in making the entity fully operational. It is important to ensure that the transaction is advantageous to the state. There are no clear legislative provisions for the disposal of SOEs, SOE non-core assets or SEP transactions –to ensure that the process & terms are beneficial to the state. The DPE does not have a policy that regulates the disposal of shares in SOEs.

## 6. SERVICE DELIVERY AND FINANCIAL ASSESSMENT

The Department spent 99.4% (R39.1 billion of R39.3 billion) of the final appropriation, of which R250 million was for Departmental operations and R38.9 billion was for Equity injection for SOCs. The R38.9 billion was used by SOCs to settle Government guaranteed debt, of which R31.7 billion was for Eskom, R4.1 billion for South African Airways (SAA) and R3.1 billion for Denel. The under expenditure of R252.2 million primarily related to compensation to employees due to vacant posts, and to goods and services caused by reduced travelling because of the Covid-19 restrictions.

The spending under direct charges against the National Revenue Fund (NRF) was 99.8% (R3.0361 billion of R3.036 billion) of the final appropriation. An additional amount of R112.5 million approved by National Treasury (NT) for settling of the guaranteed debt and interest payment, has not yet been allocated to the Department. An amount of R16.84 million was shifted as virement within the vote from goods and services in Programme 1 and Programme 2, to payments for financial assets in Programme 3.



An amount of R15.162 million is reported as unauthorised expenditure which was paid prior to obtaining approval. The Irregular Expenditure of R972 000.00 was incurred in the previous financial years, and R2.065 million in the current financial year. As a result of deficiencies in the appointment of a Service Provider, the Department is in the process of implementing corrective measures. The fruitless and wasteful expenditure of R5 000.00 incurred in the previous financial years, is in the process of being investigated. The Department continues to implement control measures and monitors, detects, and addresses Irregular Expenditure to ensure compliance with the Public Finance Management Act, Act 1 of 1999 as amended (PFMA).

The Department has a responsibility to implement the ERRP and MTSF priorities in an effort to rebuild, recover, and reinvent SOEs. The Department's plans include:

- to enhance the Governance and integrity in SOEs, and not only at Board level, but in all other levels,
- to introduce a new ownership model with the guidance of the Presidential SOE Council,
- to relentlessly focus on SOC operational improvements and efficiency,
- to contribute actively to economic transformation and the creation of new opportunities, and
- to encourage public-private partnerships that mobilise the necessary resources and skills to advance the SOE programs. Building constructive partnerships will play a crucial role to recover and rebuild SOEs.

The Department of Public Enterprises says that it is making progress with its plans to establish a centralised shareholding company to help it control existing state-owned enterprises (SOEs) in the country.

Intentions to establish this company, given the moniker 'Holdco' during these initial stages, were detailed by President in March 2022.

According to the president, the centralised shareholder management model used for the Holdco is likely to entail the following:

- A holding company that is 100 percent owned by the state.
- An active shareholder approach to continuously set, monitor and evaluate SOE performance in relation to commercial and development objectives.
- A group that will ensure the commercial sustainability of SOEs with minimum or no reliance on the fiscus.
- The development of an appropriate capital structure for the holding company to ensure profitability and sustainability of each SOE.

## **7. 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.

## **8. RECOMMENDATIONS**

### **8.1 The Committee recommends that the Minister of Public Enterprises should:**

- 8.1.1 Articulate to the Committee the costs of developmental goals or public sector obligations (PSO) explicitly in the departmental budget transfer to SOCs and in the financial statements of SOCs.
- 8.1.2 Ensure that there is a balance between developmental goals and commercial mandates which seeks to achieve profit maximisation and return on the market value of equity.
- 8.1.3 Develop a comprehensive modern governance framework as a critical step in improving SOC governance and performance.
- 8.1.4 Strengthen the State's role as owner/shareholder through the necessary political support and backing for the Department to execute its mandate, recruitment of professional staff with necessary financial, legal and technical capabilities, dedicated financial resources and proper monitoring and accountability for all the entities.
- 8.1.5 Professionalise SOCs Boards and Management through effective and transparent board nominations policy. In line with good practice, the board nominations policy would contain:
  - properly defined selection criteria, such as a minimum requirement of a degree in economics, finance, or law; business and sector specific experience; proven integrity and probity; and additional proficiency and suitability requirements for large and complex businesses;
  - requirements for the number of independent directors;
  - provisions for the use of open advertising and hiring of professional selection firms to short-list candidates;
  - delegation of the process to the centralized ownership entity or to a specialized independent body; and the development of a directors' pool of pre-qualified board members. Increasingly boards are also creating nominations committees as they become more involved in developing board skills profile and identifying prospective candidates for board positions.

- 8.1.6 Develop a clear regulatory framework for disposal of shares in SOCs as government has plans to engage in more of these transactions.
- 8.1.7 Finalise and implement the SOCs reforms that have been announced by government, including the Government Shareholder Management Bill and SOCs funding criteria.
- 8.1.8 Ensure that the DPE's annual performance plan be aligned to the MTSF targets of strengthening governance systems and ensuring board stability.
- 8.1.9 Appreciate that failure to submit financial statements is a contravention of the PFMA and the Companies Act. This further obstructs accountability and oversight processes. Decisive actions should be taken against the SOCs that failed to submit financial statements.
- 8.1.10 Strengthen governance and accountability by ensuring that shareholder compacts are concluded by the third quarter of the preceding financial year.
- 8.1.11 Provide the Committee with characteristics of the proposed Holding Company and implementation stages, provide detailed benchmarks to successful countries and a detailed SWOT analysis and a detailed business plan within the next quarter.
- 8.1.12 Provide the Committee with a detailed strategy and outlook on the outcome indicator increase energy available factor to above 80 percent by 2024 in the next quarter. The Committee notes that, Government will focus on:
  - First, improving the performance of Eskom's existing power stations; and
  - Second, adding as much new generation capacity to the grid as possible, as quickly as possible.
- 8.1.13 Provide the Committee with a detailed assessment of the "Just" Energy Transition. This includes its impact on developmental mandates and how are the Department and Eskom going to repurpose its power plants and skills to accommodate the transition. How will the Just Energy Transition initiatives going to be funded?
- 8.1.14 Present to the Committee a plan on mitigating the value-added work/emerging risk which the AGSA identified regarding the Department. The Committee notes that, the DPE embarked on a process to sell 51 percent of its shares in SAA to a strategic equity partner (SEP).
- 8.1.14 Present to the Committee SAFCOL's sustainability matters specifically relating to land claims and reinvestment on the Timbadola project within the next quarter.
- 8.1.15 Present to the Committee the future role and the optimal operating structure of Alexkor before the end of the next quarter.
- 8.1.16 Present to the Committee government's strategies to combat economic sabotage, vandalism and theft of economic infrastructure at Eskom and Transnet.
- 8.1.17 Present to the Committee the future role of Denel, it's restructuring and sustainability before the end of the next quarter.
- 8.1.18 Ensure that shareholder compacts are concluded by the third quarter of the year preceding the year covered by the compact.
- 8.1.19 Present to the Committee government's approach towards filling the gap in the aviation market left by the liquidation of SAX and the business rescue of Mango airlines. This should include the funding criteria of SOCs in the next quarter.
- 8.1.20 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.
- 8.1.21 Provide the Committee with quarterly progress reports regarding the implementation of these recommendations, and
- 8.1.22 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.

The Committee further recommends that the Minister of Finance should consider:

- 8.2.1 recapitalising Denel in order to safeguard the strategic and sovereign defence capabilities of the state, and repurpose the advanced manufacturing capabilities of Denel to enhance the capacity of the state in responding to the escalating challenges of safety and security, health and broader industrialisation initiatives.
- 8.2.2 creating an enabling environment to encourage public-public partnerships, where government departments and state-owned companies can collaborate to leverage on the capacity of the state. Secondly, government departments should be encouraged to use the services of state agencies and state owned companies. It is our view that, Denel would be self-sustainable if its industrial and advanced manufacturing capabilities were used to produce vehicles and advanced technologies to enhance the work of the police and other departments.

## 9. CONCLUDING REMARKS

The Committee notes that, Government will also reduce the continual demands on South Africa's limited public resources from state-owned companies. For this reason, SOCs need to develop and implement sustainable turnaround plans. The future of our state-owned companies is under consideration by the Presidential State-Owned Enterprises Council. Their future will be informed by the value they create and whether they can be run as sustainable entities without bailouts from the fiscus. Some state-owned companies will be retained, while others will be rationalized or consolidated. The Committee would like to express its gratitude to the Auditor-General, leadership and 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.**