

DPE and SOC Mid-Year Performance Report



PORTFOLIO COMMITTEE

23 November 2022



public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

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Purpose

To report to the Portfolio Committee on the Mid-Year performance of:

- The Department as outlined in the Departmental 2022/23 Annual Performance Plan (APP) and to highlight the strategic focus areas for the current financial year; and
- SOCs within the DPE Portfolio.

DPE Mandate

Perform shareholder oversight on behalf of government over State Owned Companies (SOCs) that play a key role in enabling economic growth, creating jobs, promoting industrialisation and transformation of the economy.

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Overview

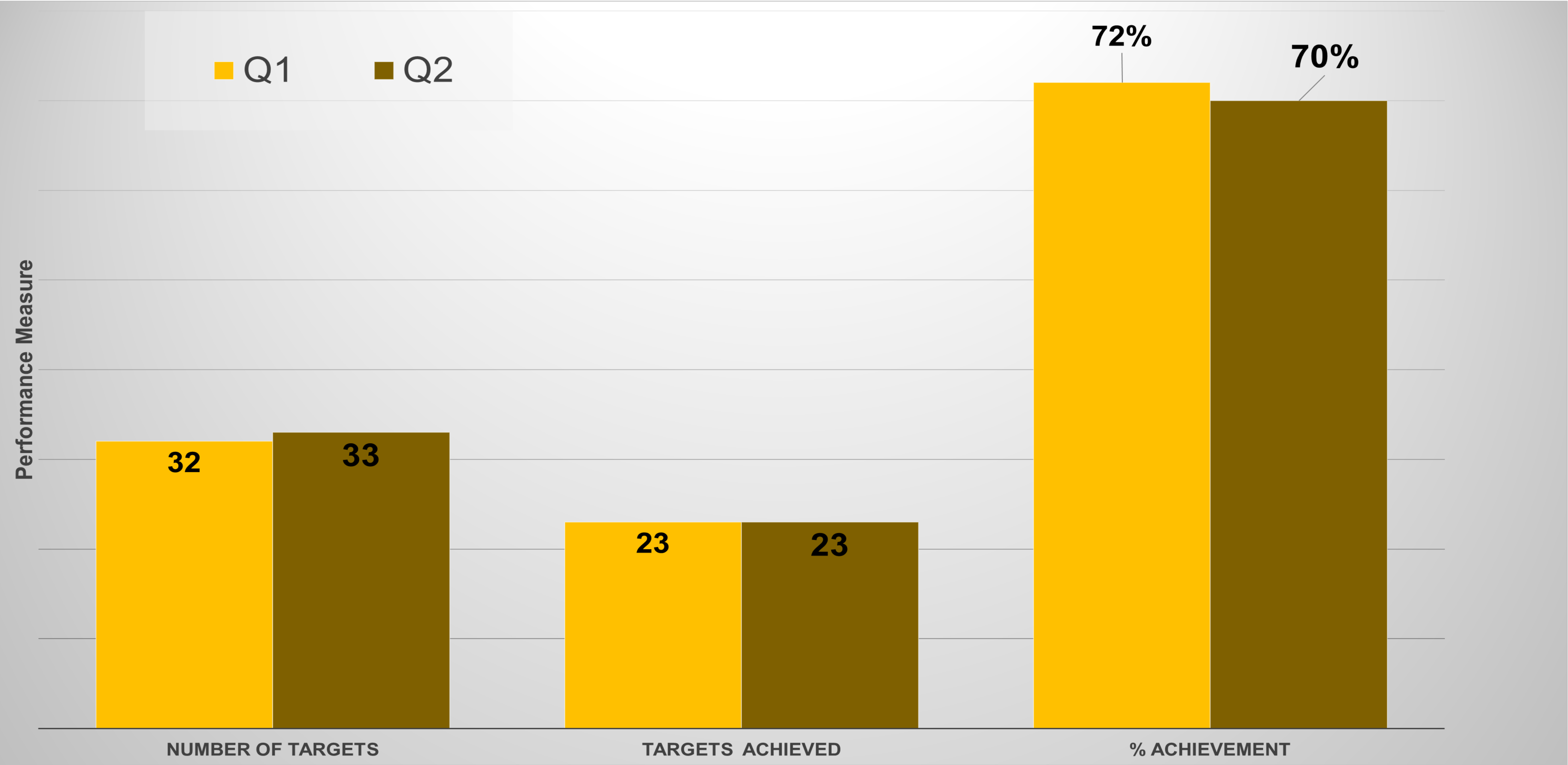
- The departmental APP Mid-Year performance was at 70%.
- The Department reported on 33 targets and of the 33 target, 23 targets were achieved.
- The Mid-Year performance shows that there has been progress made towards achieving key priorities as outlined in the MTSF and ERRP as articulated in the 2022/23 APP.
- Response plans were developed and are being implemented to ensure achievement
 - The Department continue to provide strategic support and direction to address the operational and financial challenges faced by SOC's.
 - Governance and accountability remains prioritised to enhance performance.
 - Effective discharge of resources (financial and human) to ensure delivery of key priorities within the department and SOC's.

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DPE 2022/23 MID-TERM RESULTS

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Synopsis of Mid-Year Performance against APP targets



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Measures to improve non-achieved targets

Targets	Action plan
90% of ICT structure filled	The ICT programme structure has made satisfactory progress. 70% of posts are filled and the ICT capacity was further augmented through internal appointments and outsourcing of external expertise. It is expected that there will be further improvements before the end of the financial year.
50% corporation agreement milestone (to deal with SOE infrastructure vandalism and theft)	Significant work was done during the period under review where various stakeholders were engaged to develop interventions to deal with SOE infrastructure vandalism and theft, including the provision of regular reports.
30% improvement on DPE public perception	Development of key intervention plans informed by the baseline information took longer than anticipated. The media analysis report on communications was initiated and initiatives to improve media pulse were concluded.
Draft proposal on the establishment of a restructuring unit	The development of the business case to support the PSEC work in restructuring of the SOEs with the aim of stabilising ailing SOEs is still at its inception stage. The finalisation of the Business Case will be deferred to the next financial year due to consultation processes that is currently underway.

Measures to improve non-achieved targets

Targets	Action plan
Development and testing of a local content verification framework with SABS	The development and testing of the local content verification framework and the evaluation of the framework is already underway and will be finalised
2023/24 Shareholder Compacts	Negotiations on the 2023/24 Shareholder Compacts are well underway with internal consultations concluded. Agreement with the SOCs is due to be finalised in the next quarter.
Monitor implementation of Eskom's interventions to increase energy availability to above 70% by 2022/23	<p>Generation plants' performance continued to decline due to high Energy Utilisation Factor (EUF) of coal fleet.</p> <p>The availability and reliability of the commissioned units did not perform accordingly due to design defects and operational inefficiencies.</p> <p>The department is closely monitoring the implementation of Design Defects Correction Plan for Medupi and Kusile. Eskom continue to implement generation recovery plan to improve plant performance.</p>
15% reserve margin achieved	
Private Sector Participation (PSP) in ports and freight rail on 13 transactions	The department identified Transaction initiatives that Transnet will complete in 2022/23 financial year and continue to monitor various segments to secure private sector capabilities to complement rail and terminal operations.

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PERFORMANCE PER PROGRAMME

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Programme 1: Administration

Performance Indicators	Actual Performance	Action Plans
% on performance management achieved as per individual performance agreements linked to APP and AOP targets	Achieved	None
% on implementation of signed corporation agreement to reduce SOC's infrastructure vandalism through signing corporation with stakeholders	Not achieved	Catch up plans are in place to improve performance.
% on media public perception survey achieved	Not achieved	Catch up plans are in place to improve performance.
% on improvement of ICT infrastructure services and 90% of systems availability maintained	Achieved	None
% on population of ICT Structure with new capabilities	Not achieved	The filling of the vacancy positions (lower level) underway. A number of external services are on board.

Programme 2: Governance, Legal Assurance and Risk Profiling

Performance Indicators	Actual Achievement	Action Plans
Government Shareholder Management Bill adopted into law by 2023	Achieved	None
Centre of Excellence on Governance established	Achieved	None

Sub-Programme 3: Financial Assessment and Investment Support

Performance Indicators	Actual Achievement	Action Plans
Report on preferred option to resolve Eskom debt	Achieved	None
Guidelines in SOCs seeking SEP and evaluating shareholding i.e. majority and minority shareholding approved	Achieved	None
Number of SOCs’ business plan developed and restructuring unit established	Not achieved	The development of the business case to support the PSEC work in restructuring of the SOEs with the aim of stabilising the ailing SOEs is still at its inception stage. The output of this work will be deferred to the next financial year due to consultation process that is currently in progress.
Number of progress reports SOCs audit findings	Achieved	None
% on SOCs Compliance reporting (i.e. Corporate Plans, Quarterly reports, PFMA section 66 applications)	Achieved	None
Number of DPE and SOC CFO’s forum held quarterly	Achieved	None

Sub-Programme 3: Business Enhancement Services

Performance Indicators	Actual Achievement	Action Plans
Number of gender responsive plans approved and implemented	Achieved	None
% on SOC public procurement spent on Women Owned Business	Achieved	None
SOCs Local Content Verification Framework developed and tested	Not achieved	The measures in place are adequate to recover in the next quarter

Sub-Programme 3: Energy and Resources

Performance Indicators	Actual Achievement	Action Plans
Signed Shareholder Compact per year (Eskom and SAFCOL)	Not achieved	Consultation on the 2023/24 draft SHC are still underway.
Signed Shareholder Compact per year (Alexkor)	Achieved	None
Increased Energy Availability Factor (EAF)	Not achieved	<p>The department is closely monitoring the implementation of Design Defects Correction Plan for Medupi and Kusile. Eskom continues to implement generation recovery plan to improve plant performance.</p> <p>The Department is closely monitoring Eskom's mitigation plans to identify risks on the Energy Availability Factor.</p>
Eskom planned capacity adherence (Infrastructure/Build Programme)	None	None
Increased electricity reserve margin by 15% by 2024	Not achieved	<p>The department is closely monitoring the implementation of Design Defects Correction Plan for Medupi and Kusile. Eskom continues to implement generation recovery plan to improve plant performance.</p> <p>The Department is closely monitoring Eskom's mitigation plans to identify risks on the Energy Availability Factor.</p>
Eskom's roadmap for reformed electricity supply industry implemented (unbundling process: Transmission, Generation and distribution)	Achieved	None
Number of reports on the maintenance of the energy levels	Achieved	None
Number of progress reports on additional 1000 MW commissioned by 2024 produced	Achieved	None

Sub-Programme 3: Transport and Defence

Performance Indicators	Actual Achievement	Action Plans
Provision of inputs on the Q1 SHC performance for 2022/2023 FY and commencement of internal consultations for 2023/24 Shareholder Compact	Achieved	None
Assessment and approval of the PFMA of section 54 (2) (a) of the Ports Act (establishment of an entity)	Achieved	None
10% improvement of rail friendly commodities moved from road to rail by Transnet	Achieved	
Progress analysis on achieved milestones on three PSP identified for conclusion by Transnet within specific strategic segments	Not achieved	The department identified transaction initiatives that Transnet will complete in 2022/23 financial year and continue to monitor various segments to secure private sector capabilities to complement rail and terminal operations.
Report on Mapping and action plan to preserve/restore the core industrial capabilities of Pretoria Metal Pressing	Achieved	None
Quarterly status update report on the implementation of the Defence and Aerospace Masterplan	Achieved	None

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Sub-Programme 3: Research and Economic Modelling

Performance Indicators	Actual Achievement	Action Plans
Monitoring Report on the implementation of "Just" Energy Transition Framework.	Achieved	None
One Industry-specific research working papers conducted.	Achieved	None

2022/23 MID-YEAR FINANCIAL PERFORMANCE

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Overview of the Financial Performance

Programme	Main Appropriation	Projected Expenditure	Actual Expenditure	Variance from Projection	% Exp to Projection Exp
	R'000	R'000	R'000	R'000	
Administration	165 118	87 611	64 742	22 869	73,9%
State-Owned Companies Governance and Performance	59 648	25 205	17 179	8 026	68,2%
Business Enhancement, Transformation and Industrialisation	26 637 357	21 812 875	5 602 061	16 210 814	25,7%
Direct Charges against National Revenue Fund	204 700	-	200 659	-200 659	-
TOTAL	27 066 823	21 925 691	5 884 641	16 041 050	26,8%
Economic Classification					
Compensation of Employees (COE)	173 461	89 042	68 427	20 615	76,8%
Goods & Services	113 084	56 611	29 993	26 618	53,0%
Transfers and Subsidies	211	12	327	-315	2 728,5%
Payments for Capital Assets	3 876	2 871	2 707	1 164	94,3%
Departmental Sub Total	290 632	148 536	101 454	48 082	68,3%
Payments for Financial Assets (Transfers to SOCs)	26 571 486	21 777 155	5 582 528	16 194 627	
Direct Charges against National Revenue Fund	204 700	-	200 659	-200 659	-
TOTAL	27 066 818	21 925 691	5 884 641	16 042 050	26,8%

Overview of the Financial Performance

- Actual spending as at end of September 2022 amounted to R 5.9 billion against the projected spending of R21.9 billion. Spending was lower than projected by R16 billion or 73.2%. This is due to vacancy within the department, payment for financial assets (Transfers to SOCs) and goods and services.
- The lower than planned spending was driven by Programme 3: payments for financial assets as the department did not transfer funds to Eskom as projected. Eskom was able to utilise its own generated revenue to settle guaranteed debt for the period under review.
- Of the R26.7 billion allocated to the SOCs in respect of the government guaranteed debt, only R 4 billion has been disbursed to Eskom, R 1.6 billion to SAA and R 201 million to DENEL.
- The total spending excluding Payments for financial assets or transfers made to the SOCs which is 68.3% (R101 million of R149 million).
- The spending on transfers and subsidies is more than the projection. 2 728% (R327 000 of R12 000) which is for leave gratuities. The spending under this item is unpredictable as it occurs when employee resign.

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Payment for Financial Assets (SOC Transfers)

State Owned Companies	Main Appropriation	Actual Expenditure	Variance from Budget	% Exp to Budget
	R'000	R'000	R'000	
ESKOM	21 857 331	4 000 000	17 857 331	18,3%
SAA	1 761 995	1 582 528	179 467	89,0%
TRANSNET	2 937 000	-	2 937 000	-
DENEL	15 160	-	15 160	-
DENEL (Direct charges)	204 700	200 659	4 041	98,0%
TOTAL	26 776 186	5 783 187	20 992 999	21,6%

- The spending under Payments for Financial Assets of Eskom is dependent on the SOC's liquidity position.
- The saving realised for SAA was as a result of paying the guaranteed debt in July 2022, while the allocation was based on guaranteed debt being settled in August 2022.
- An amount of R200.6 million was transferred to Denel as a direct charge against the National Revenue Fund (NRF).

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2022/23 Adjustment Estimate of National Expenditure (AENE)

ITEMS	Main Appropriation
	R'000
Virements of funds	
Total from National Department	2 933 200,00
Virements of funds from (COE)	3 800,00
Total Adjusted Estimate (Transnet - Flood damages in KwaZulu – Natal)	2 937 000,00
Other Adjustment: Direct Charge Against National Revenue Fund : DENEL	204 700,00
Total Adjusted Estimate	3 137 900,00

During the AENE process the Department's budget was increased by R3.1 billion which consists of R2.9 billion for the repair and replacement Transnet's assets that were damaged in the KZN floods and R204.7 million for DENEL to settle guarantee.

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Unauthorised Expenditure

ITEM	Amount	Comments
Unauthorised Expenditure relating to prior year	R 15 160 000.00	Payment made prior to obtaining approval. The Department is conducting investigations to determine whether it is irregular or unauthorised.
Transferred to receivables for recovery (Recovered)	(R 15 160 000.00)	The beneficiary paid back, and funds has been surrendered to National Revenue Funds (NT)
Closing Balance	R 0.00	

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Irregular Expenditure

ITEM	Amount	Comments
Irregular Expenditure - relating to prior year	R 32 586 696.00	Due to material deficiency in the appointment of a service provider. The department brought a self-review application to court to have the appointment of the service provider reviewed and set aside.
Irregular Expenditure - relating to prior year	R 972 208.00	Relates to an Extension of contract without approval. Investigations have been completed. Awaiting approval for corrective measures to be taken and for condonation to be submitted to National Treasury.
Irregular expenditure – relating to prior and current year	R 3 613 880.00	Material non-compliance as a result of not adhering with legislation and other SCM prescripts. The matter is under investigation.
Total	R 37 172 784.00	

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Fruitless and Wasteful Expenditure

ITEM	Amount	Comment
Fruitless & Wasteful Expenditure – relating to prior year	R 4 860.00	Penalty charged for booking a venue and not cancelling in time. The matter is currently under investigation.
Total	R 4 860.00	

SOC 2022/23 MID-TERM RESULTS

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DENEL

- Denel continues to face liquidity challenges, which has resulted in the 2020/21 and 2021/22 Financial Statements not being audited. However, there are plans to conclude these audits over the 2022/23 and 2023/24 financial years.
- Proceeds from the unwinding of the Denel Medical Benefit Trust assisted in relieving liquidity pressures with settlement of some of the legacy obligations including employee salaries.
- Majority of the guaranteed debt was settled during the 2021/22 FY and a further R204 million to be settled during the course of 2022/23. This is one of key initiatives to restructuring Denel but improving its solvency and relieve the SOC of interest costs.
- Denel has been allocated R3.4 billion in the Medium-Term Budget Policy Statement to implement its turnaround and continue with the disposal of non-core assets to supplement this allocation.
- Implementation of the turnaround plan has commenced, with reduction of the fixed costs underway.
- Recapacitating the executive management and the board will be key in ensuring the plan is efficiently implemented.

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ALEXKOR

- The audit of the 2021/22 financial year is still outstanding.
- Alexkor is solvent and does not have interest-bearing debt.
- Revenue has been stagnant over the past 3 years due to low diamond production.
- Large capital investment is required to bring the operations to sustainable levels and to prevent further deterioration of the mining assets.
- The Department is awaiting National Treasury's outcome of the R88 million funding application. Part of this funding allocation, will finance the capital investment requirement.
- Identification and implementation of viable projects remains critical for the SOC to stabilise.
- There has been delays with handover of the township to the community and local government.

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ESKOM

- The audit of the 2021/22 financial year is still outstanding.
- Revenue increases over the past years have been driven by tariff increases as approved by NERSA.
- Eskom has not been profitable since 2019 recording losses driven by increases in operating costs.
- Eskom has been reliant on government equity support to meet debt obligations. The following has been disbursed:
 - 2019/20 - R49 billion,
 - 2020/21 - R56 billion,
 - 2021/22 - R32 billion, and
 - 2022/23 – R21.9 billion (R4 billion disbursed at the end of June 2022).
- Debt levels are unsustainable, cash from operations insufficient to meet debt obligations.
- Minister of Finance during the MTBPS announced that the portion of Eskom debt will be transferred into the Sovereign balance sheet. The details of the quantum of the debt relief and the mechanism will be announced in the February 2023 budget.
- Eskom experiencing the following challenges:
 - Aging and unreliable power stations impacting negatively on the security of electricity supply.
 - Poor maintenance, operation performance and latent defects.
 - Inability to collect outstanding municipal debt.

SAFCOL

- Received an unqualified audit opinion for the 2021/22 financial year.
- Declared a dividend of R1 million at the 2022 AGM.
- Achieved 86% of its SHC targets for the 2021/22 financial year.
- Revenue has been on an increasing trend in the last 3 years.
- The SOC is solvent and not experiencing liquidity challenges. SAFCOL is able to source funds from finance markets without Government support.
- The SOC has experienced some delays in the implementation of the Timbadola Reinvestment Project which is critical for its 50:50 Strategy. However, plans have been put in place to ensure that the project is implemented.
- 57% of the land is under land claims. Department of Agriculture, Land Reform and Rural Development (DALRRD) is responsible for settling land claims and delays are affecting SAFCOL's relationship with its neighbouring communities.

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TRANSNET

- Transnet in 2020 commenced with implementation of its Growth and Renewal turnaround strategy which is a significant transformation of the business for;
 - sustainability,
 - competitiveness,
 - new capacity development; and
 - a structured approach, towards a more supply chain or segment-oriented view of the business.
- Capital required for rail and port for infrastructure for refurbishment, maintenance, and expansion is approximately (~R136bn over 7 years) to support the key commodity segments.
- Capital Investment Plan is reliant on cash flows from operations and partnerships.
- Capital investment through its own balance sheet is (approximately R98,9 bn over the next five years)
- It seeks to attract private sector participation with Transnet's own resources and skills to ensure overall competitiveness and capacity development of priority bulk commodities and industrial sectors to enable their growth and the development.
- Transnet to date has made significant progress in the development and implementation of some of these initiatives, thereby bringing in private sector and other alternative funding sources. These include;
 - DCT 2 and NCT;
 - LNG in Richardsbay;
 - Boegoebaai port development;
 - disposal of wagons; and
 - TFR slot sales

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TRANSNET

Funding from Government

- Government allocated to Transnet in the Medium-Term Budget Policy Statement of October 2022 an amount of R2.9 billion for infrastructure damaged by rain in KZN and the other R2.9 billion for purchase of locomotives

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SOUTH AFRICAN AIRWAYS (SAA)

Special Investigating Unit ("SIU") Progress Report

- On 2022-11-03, the Special Investigating Unit ("SIU") gave SAA a confidential 'High level progress report'.
- The Special Investigating Unit ("SIU") was mandated in terms of Proclamation No. R2 of 2020, as published in the Government Gazette on 31 January 2020; and to investigate the affairs of the South African Airways (herein referred to as "the SAA").
- A total of 23 contracts or events were identified for investigation. Listed in the slide that follows.

Key Focus Areas Of Investigation

Key focus areas for the Proclamation:

- The procurement or contracting for aircraft disposals.
- Maladministration in the affairs of the SAA in relation to
 - a) travel rebate benefits for qualifying beneficiaries;
 - b) payments that the SAA made to vendors; and
 - c) the implementation of the SAA's procurement policy.
- Any irregular, improper or unlawful conduct by officials or employees of the SAA; or any other person or entity.

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SOUTH AFRICAN AIRWAYS (SAA)

Audit of SAA AFS

AGSA has commended audit of SAA 2018/19 to 2021/22 AFS
Expected to complete in Q4 of 2022/23 financial year

Progress to date

Investigations are continuing on all matters,
3 x matters are concluded and ready for either filing with the Special Tribunal or prosecution by the NPA.

20 x matters are under various stages of investigation and some are referred for further work in conjunction with the DIPC (Hawks).

SAA Operational Update to September 2022

1. Commenced scheduled flight activity on 23 September 2021.
2. Flew to 8 destinations in September 2022:
 - Cape Town, Durban, Accra, Harare, Kinshasa, Lusaka, Lagos and Mauritius.
3. Achieved a YTD income statement performance that was ahead of budget.
4. Regional and Domestic flights were 4 125 in the year.
5. Plans to expand by flying to more destinations and frequencies.

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Next Steps for Concluding SAA SEP Process

- Critical Steps to Complete Disposal of Government Shares in SAA
 - a) Securing funding to implement the business rescue plan which has been discussed previously.
 - b) Competition Commission approvals and
 - c) Aviation Regulatory approvals.
- Competition Commission: Investigations are underway and awaiting feedback on the findings.
- Aviation Regulatory: Submissions made by SAA are currently under consideration and are awaiting feedback.

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