Budgetary Review and Recommendations Report of the Portfolio Committee on Public Enterprises, dated 25 October 2023

The Portfolio Committee on Public Enterprises (hereinafter referred to as the Committee), having considered the performance of the Department of Public Enterprises and its state-owned companies for the 2022/23 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.

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 World Bank, electricity supply shortages have constrained South Africa's growth for several years. Rolling scheduled power cuts (load-shedding) started in 2007 and have intensified exponentially, reaching close to 9 hours daily in 2022. This severe electricity shortfall has disrupted economic activity and increased operating costs for businesses, many of which rely on costly diesel generators. It has also affected other infrastructure such as water, IT, and service delivery (health and education). Although new reforms and investments are being considered, load-shedding is expected to continue for at least two more years.

Weak structural growth and the COVID-19 pandemic have exacerbated socio-economic challenges. South Africa has recovered its pre-pandemic GDP but not its employment level. At the end of the second quarter of 2023, there were still about 74,000 fewer jobs than at the end of 2019, with women and youth persistently more impacted. Inequality remains among the highest in the world, and poverty was an estimated 62.6% in 2022 based on the upper-middle-income country poverty line, only slightly below its pandemic peak. These trends have prompted growing social demands for government support, which could put the sustainability of public finances at risk if they are to be met.

The global environment remained supportive but increasingly severe domestic constraints led to GDP growth slowing to 1.9% in 2022 from 4.7% in 2021. Mining production fell while manufacturing production stagnated, as load-shedding and transport bottlenecks intensified. The services sectors (financial, transport, and personal) and domestic trade were key drivers of growth. The labour market has remained weak. The employment ratio only increased slightly to 39.4% at the end of 2022 and 40.1% in the second quarter of 2023 from a pandemic low of 35.9% in September 2021. In this context, the COVID-19 Social Relief of Distress Grant, introduced in May 2020, was extended for another year until March 2024. Socio-economic challenges were further exacerbated by rising fuel and food (bread and cereals) prices, which disproportionately affected the poor. Inflation averaged 6.9% in 2022 but was 8.2% for those at the bottom 20% of the income distribution.

2.1 Key Development Challenges

South Africa has taken considerable strides to improve the well-being of its citizens since its transition to democracy in the mid-1990s, but progress has stagnated in the last decade. The percentage of the population living below the upper-middle-income country poverty line fell from 68% to 56% between 2005 and 2010 but has since trended slightly upwards, to 57% in 2015, and is projected to have reached 60% in 2020.

Structural challenges and weak growth have undermined progress in reducing poverty, heightened by the COVID-19 pandemic. The achievement of progress in household welfare is severely constrained by rising unemployment, which reached an unprecedented 35.3% in the fourth quarter of 2021. By the second quarter of 2023, the unemployment rate had declined marginally to 32.6%, still above the already high pre-pandemic levels. The unemployment rate is highest among youths aged between 15 and 24, at around 61%.

Other structural challenges have also increased, transport and logistics, which have deteriorated due to weak management of the state-owned enterprise Transnet, theft, and sabotage, constraining South Africa's export capacity. South Africa remains a dual economy with one of the highest and most persistent inequality rates in the world, with a consumption expenditure Gini coefficient of 0.67 in 2018. High inequality is perpetuated by a legacy of exclusion and the nature of economic growth, which is not pro-poor and does not generate sufficient jobs. Inequality in wealth is even higher, and intergenerational mobility is low, meaning inequalities are passed down from generation to generation with little change over time.

The President made the following pronouncements in his State of the Nation Address in February 2023. Government priorities for 2023 are the following:

- Load-shedding.
- Unemployment.
- Poverty and the rising cost of living.
- Crime and Corruption.

In July last year, President Ramaphosa announced a clear action plan to address the energy crisis. This was to address the electricity shortfall of 4000 to 6000 megawatts (MW).

The plan outlined five key interventions to:

- fix Eskom's coal-fired power station and improve the availability of existing supply.
- enable and accelerate private investment in generation capacity.
- accelerate procurement of new capacity from renewables, gas and battery storage.
- unleash businesses and households to invest in rooftop solar; and
- fundamentally transform the electricity sector to achieve long-term energy security.

Government made important progress in implementing the plan.

The Minister of Public Enterprises, Mr. Pravin Gordhan, outlines the following policy priorities in the annual performance plan for the 2023/24 financial year:

- Implementation of the recommendations of the Presidential State-Owned Enterprises Council (PSEC), and the development of the SOE Bill, including the establishment of the holding company for strategic SOCs.

- The completion of the establishment of the National Transmission Company in line with the Eskom Roadmap.
- The conclusion of the Strategic Equity Partnership for SAA.
- The finalisation and implementation of the Transnet Roadmap.

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

KEY PRIORITIES	RECOMMENDATIONS	PROGRESS AND PLANS
Shareholder management and governance.	3.1.1 Ensure that shareholder compacts are concluded by the 3rd quarter of the year preceding the year covered by the compact.	The department planned to sign 6 Shareholder Compacts but to date, no Shareholder Compact has been signed, due to engagements delays with SOCs like Eskom and Transnet. With regards to Alexkor a new board has been given time to review the draft, regarding Safcol, the department is awaiting the SOC to sign and submit back. In terms of SAA and Denel shareholder compacts will not be signed due to business recue and financial challenges.
Improve internal control systems (unqualified audit).	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.	The Department continues to receive an unqualified audit outcome systems and controls are improved.
Annual financial statement submission.	3.1.3 Ensure that the annual financial statements are submitted on time.	The Department will continue to submit the annual financial statements on time, the matter of emphasis which in the main related to misstatements in submitted financial statements and not complying fully with procurement prescripts are noted and will be addressed going forward.
Address AGSA findings.	3.1.4 Ensure that findings on the Department and in SOCs by the Auditor General of South Africa (AGSA) are addressed.	The department on bi-annual basis monitors implementation of AGSA findings. Transnet received an unqualified audit opinion in FY2021/22 for the first time in 5 years. SAFCOL received its third consecutive unqualified audit opinion in FY2021/22. Eskom and Alexkor are likely to have their audits completed later this year, the outcome is likely to be a qualified audit. SAA and Denel cannot afford to appoint external auditors for previous financials years due to financial challenges. SAA is expected to finalise the outstanding audits by 31 March 2023. Majority of adverse findings being reported are due to financial challenges and poor internal controls.

KEY PRIORITIES	RECOMMENDATIONS	PROGRESS AND PLANS
Improve capacitation of board audit and risk committee.	3.1.5 Improve the capacitation of board audit and risk committee, the internal audit function in the Department and SOC to respond better to audit outcomes in the line with the provisions of the PFMA.	In line with the Companies Act, MOI and PFMA, each SOC must have an Audit and Risk Committee in place that reports audit performance and outcomes to the Shareholder Minister. The Eskom Board was appointed and has an Audit and Risk Committee (ARC) in place. Safcol Board was re-appointed and has an ARC in place. Alexkor Interim Board has been reappointment but needs a CA(SA) to be appointed to properly constitute its ARC. Denel Interim Board has an ARC in place, SAA Interim Board requires additional capacity to properly constitute its ARC. Transnet Board has ARC in place. Both internal and external audit functions are the responsibility of the SOC's Board and Management. All Audit Reports are tabled annually at the SOC's AGM.
Institute consequence management for executive and management.	3.1.6 Institute consequence management for executive and management who deliberately or negligently ignore their duties and contravene legislation.	The department has identified 73 cases of director delinquency proceedings. The cases are currently being consulted with SOEs, namely Alexkor, Denel, SAA, Transnet, and Eskom. Complaints to launch director delinquency proceedings against the former board members are planned to be registered with the CIPC by 31 March 2023. The department and SOEs are cooperating with law enforcement agencies to pursue civil and criminal proceedings that are led by law enforcement agencies. The plan was published by the Presidency and tabled in parliament in October 2022.

Lifestyle audits and reviews of conflicts of interest.	3.1.7 Ensure the implementation of proactive lifestyle audits and reviews of conflicts of interest based on risk analysis in all SOCs.	The department monitors compliance with the Risk and Integrity Management Framework. The framework prohibits SOE employees from doing business with their respective companies; and from accepting gifts from companies doing business with the SOE. All SOEs have been instructed to develop plans to ensure 100% compliance with financial interest disclosure requirements to prevent, detect and correct instances of conflict of interest; and ensure appropriate consequence management measures are imposed when employees are found to abuse the positions of authority. 5299 employees were subjected to risk-based lifestyle audits. 63 cases of conflict of interest relating to the awarding of procurement contract to SOE employees are under investigation. The department continues to track progress on implementation of SOE plans and investigations. Consultations are underway with the DPSA with the view to extend DPSA's financial interest disclosure capability to SOEs under the DPE; and to ensure that all SOE's employees are subjected to lifestyle audits when the DPSA's framework and strategy that is planned for implementation during 2023/24 financial year commences.

SOE Bill development	3.1.8 Update the Committee on a quarterly basis on the development of SOE Bill.	The Department of Public Enterprises has drafted a National State Enterprises Bill. The objective of the Bill is to provide a mechanism for the State to: • Enhance the operational efficiency of State enterprises, in order to achieve the State's developmental objectives. • Ensure the uniform governance of State enterprises; and • Promote the commercial sustainability of State enterprises. To this end, the Bill addresses the following issues, amongst others: • Role, functions and duties of Board; • Composition of the Board; • Board committees; • Standards of director conduct; • Audit of holding company; • National Strategy for state enterprises; • Shareholder powers and duties. The SOE Bill will be taken through a process of consultation with relevant stakeholders. The necessary consultations has commenced.
Strategic equity partnerships and oversight plans for SAA.	3.1.9 Present the Committee with the conclusion of strategic equity partnerships and oversight plans for SAA.	Guidelines will be developed in the current financial year consultation with other stakeholders like PIC, Telkom etc for benchmarking will be conducted before the end of the financial year.
Liquidation of SA Express.	3.1.10 Present to the Committee on the liquidation of SA Express.	Court finalised liquidation on the 14 September, actual liquidation is ongoing Master of Court must call meeting of creditors and appoint final liquidator.
Unbundling of Eskom into three entities,	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.	The Transmission Company was incorporated as subsidiary of Eskom Holdings in December 2021. The operationalisation of the Transmission Company is dependent on the approval of the license by NERSA and the lenders consent The PFMA 2 approval for Distribution subsidiary is being reviewed by DPE The due diligence for the establishment of the New Holding Company will be submitted to DPE following Board approval in February 2023
Model for SOCs oversight	3.1.12 Present a model for SOCs oversight per programme, with clear targets on monitoring, evaluations and reporting within this financial year.	The department has a oversight model that is implemented in line with Shareholder Compacts on quarterly basis, SOCs performance is monitored and evaluated on quarterly basis. PSEC work includes developing a broader government oversight model.
Communication in SOCs in order to educate the public on the role of	3.1.13 Improve communication in SOCs in order to educate the public on the role of SOCs, their capabilities and their	The department appointed expertise to give support on communication responsibilities. The department has reviewed communication strategy in line with public perception survey and amended in line with the national

SOCs.	developmental role in the economy.	strategic communication framework.
Ensure Alexkor achieves its public and commercial mandate.	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.	The Joint Board of Alexkor and Richtersveld Mining Company (PSJV Board) is working towards stabilising the joint venture operations following the significant decline in operational and financial performance observed over the past five years. Interventions include expansion of current operation through partnership with external parties with sufficient capital to undertake the operations. This exercise is currently underway, and the outcome is expected by second quarter of the year. Alexkor will be looking into various project including mariculture, renewable energy, and farming in an attempt to create jobs for the community. The Boegoebaai Port and Green Hydrogen energy project is expected to improve the socio-economic outlook of the Richtersveld community. Alexkor and the Richtersveld community play an integral role in the success of the project which is coordinated and led by the Presidency
Future role of SAFCOL	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.	SAFCOL role has been clarified. The Strategic Intent Statement communicated to Board by the Executive Authority is clear on expectation. The SOC is expected to invest in the capital project to grow revenue. In this case the SOC developed a 50:50 strategy. Land claim settlement process is still unresolved. The responsible party is DALRRD. In the interim SAFCOL is supporting claimant communities through the CSI & ESD business model.
Denel restructuring process and address the issue of payment of staff.	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.	Denel has developed a restructuring plan which has been approved by the Executive Authority. The restructuring plan formed the basis for approaching the National Treasury for shareholder capitalisation of which R3.4 billion was allocated in the 2022/23 special appropriation. All outstanding salary payments were settled in August 2022.
Protect jobs in particular highly advanced technical skills	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.	**Leadership and management development** To improve management and leadership skills in Generation, the following programmes were revived and are currently being offered for leaders at all levels: • Generation Technical Leadership Programme • Management Development Programme (Snr & Middle Managers and Supervisors) • Top Talent Programme • Top Programme for Millennials **Technical Training** The business has also identified key focus areas on technical training, which include amongst others: • Training resources and capacitation survey conducted to establish gaps and improvement areas

		• Prioritisation of reauthorization of both Artisans and Operators to ensure plant is management effectively as per operating and engineering standards • Partnered with Eskom Academy of Learning to revive the Artisan Training
Restructuring of Eskom is completed	3.1.18 Ensure that the restructuring of Eskom is completed within the set timeframes and maintenance of power stations is done on time.	The resolving of critical dependencies is critical to ensure that the process is completed with the stipulated timelines
Eskom updates the Committee on its maintenance programme and plans	3.1.19 Ensure the Eskom updates the Committee on its maintenance programme and plans to curtail load shedding on timeous basis.	The Generation Recovery plan was approved by the Board following a broader consultation. The progress update will be provided on maintenance and curtailing loadshedding

Capacitating core technical functions	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.	Eskom has embarked on an elaborate plan to improve skills capacity in the Generation space. Below find progress on a number of initiatives in support of building technical skills capacity:
		
		Skills Audit:
		• A Skills Audit exercise was concluded in 2022 to establish the skills baseline and improvement areas.
		• The audit findings were shared with the business and the organization is currently finalizing action plans to close the identified competence gaps
		
		Recruitment of Critical Skills
		• A Focused Recruitment Drive and Crowd sourcing platform was established to source critical skills required to turn around Generation performance. Generation has filled 1355 critical positions through recruitment projects of which:
		  ○ 603 skills were sourced externally.
		  ○ 752 recruited from within Generation and other Divisions
		  ○ Crowdsourcing has attracted 16 resources from July 2022 to date.
		
		Learner Pipeline
		• Generation is currently training 484 Learners in the system as a pipeline for technical skills.
		• Recruiting for additional 233 new learners will start on 1 February 2023.

Methodology and manner in which Boards are appointed	3.1.21 Ensure the implementation of a methodology and manner in which Boards are appointed to ensure independence and enable effective board performance	The department in 2019/2020 developed and implemented Board evaluation framework. Board performance is reviewed and evaluated annually.

	review with due consequence management.	
Financial management and control structures and processes.	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.	• This is carried out through ensuring that finding raised by ASGA in relating to financial management is addressed • The performance is monitored through the quarterly reports submitted by the SOC board • The Departments ensures that the quarterly reports provide the required information in order to carry out the oversight function and where improvements are required, this is raised with the SOC Board. • The Department is building capacity to ensure that it effectively carries out the oversight function

4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE

4.1. Financial performance 2022/23

Table 1 below provides a high-level comparison of 2021/22 versus 2022/23 expenditure incurred by the Department against appropriated funds.

Table 1. Programme Expenditure

Programme Name and Direct Charges	2022/23			2021/22		
	Final Appropriation	Actual Expenditure	(Over)/Under Expenditure	Final Appropriation	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Administration.	168 010	129 505	38 505	138 777	121 078	17 699
SOCs Governance Assurance and Performance.	60 591	42 048	18 543	54 900	47 434	7 466
Business Enhancement, Transformation, and Industrialisation.	33 916 797	33 716 904	199 893	36 081 142	35 858 678	222 464
Sub-total	34 145 398	33 888 457	256 941	36 274 819	36 027 190	247 629
Direct charges.	204 700	204 700	-	3 035 500	3 030 886	4 614
Total	34 350 098	34 093 157	256 941	39 310 319	39 058 076	252 243

Source: Department of Public Enterprises

The Department spent 99.3% (R34 billion of R34.4 billion) of the final appropriation, of which R218 million was for Departmental operations. The final appropriation was mainly composed of allocations to state-owned companies, namely Eskom - R21.9 billion, Transnet: R5.8 billion, Denel – R3.4 billion, and the SAA – R2.8 billion. Eskom's and SAA's allocations were earmarked for repayment of debt while Transnet allocation of R2.9 billion was for repair of infrastructure damaged by the floods and R2.94 billion to accelerate repair and maintenance of long standing out of service locomotives. Denel's allocation was for implementing the turnaround plan. The under expenditure of R257 million primarily related to payments for financial assets, savings that were realised because of early settlement of guaranteed debt for South African Airways SOC Limited, projects that were executed internally, compensation to employees due to vacant posts and underspending on goods and services caused by delays in implementing some projects.
The programme has an appropriated budget of R168 010 million, of which R129 505 million or 77 per cent has been spent. In this programme the Department underspent by R38.505 million. The programme administration which has `underspent by high amounts were human resources, office accommodation and ministry.

4.2 Budget and Expenditure Summary

Table 2 below provides a summary of the budget and expenditure for the first quarter of 2022/23.

R million	Main Appropriation	Available Budge	Q1 Actual expenditure	Expenditure as % of Available Budget	Q1 Projected Expenditure	Variance from projected expenditure	% Variance from projected expenditure	Disaster Spending
Programme								
1. Administration	165.4	165.4	34.8	21.0%	42.0	7.2	17.2%	0.0
2. State-owned Companies Governance Assurance and Performance	65.6	65.6	13.9	21.2%	15.6	1.6	10.5%	0.0
3. Business Enhancement, Transformation, and Industrialisation	71.9	71.9	11.0	15.2%	15.5	4.5	29.2%	0.0
Total	302.9	302.9	59.7	19.7%	73.1	13.4	18.3%	0.0

Source: National Treasury

4.2.1 Expenditure per programme

The Department of Public Enterprises has an appropriated budget of R302.9 million for the 2023/24 financial year. Actual expenditure at the end of the first quarter was 19.7 per cent or R59.7 million of the appropriated budget. This translates to 18.3 per cent or R13.4 million lower than projections. Lower than projected spending occurred on all programmes, with Programme 1: Administration having the highest variance followed by Programme 2: State-owned Companies Governance Assurance and Performance. At economic classification, expenditure was lower than projections on compensation of employees by R7.9 million and goods and services by R5.76 million, this was due to vacant posts and invoices not yet received during the period, however, they were paid in July 2023.

Programme 1: Administration: Expenditure was R34.8 million against projected spending of R42 million, resulting in a lower than projected spending of R7.2 million. Lower than projected spending occurred on all subprogrammes except for the Chief Financial Officer and Office Accommodation subprogrammes which recorded overspending. At economic classification, the lower than projected spending was on compensation of employees and goods and services. This was due to vacant posts and the delayed receipt of invoices which were paid in July 2023. The overspending on the Chief Financial Officer and Office Accommodation subprogrammes is attributed to increase in the number of auditors allocated to the department and annual increase in property lease.

Programme 2: State-owned Companies Governance Assurance and Performance: Spending under the programme was R13.9 million against a projected budget of R15.6 million, this translates to underspending of R1.6 million lower than projections. Although, there was overall lower than projected spending for the programme, there was significantly higher than projected spending on the Legal subprogramme. This is due to is due to payment of invoices relating to 2022/23 financial year.

Programme 3: Business Enhancement, Transformation, and Industrialisation: Spending amounted to R11 million against projected spending of R15.5 million, resulting in a lower than projected spending of R4.5 million. Underspending occurred on all subprogrammes and was mainly driven by compensation of employees because of vacant posts.

Expenditure on compensation of employees was R7.9 million lower than planned expenditure. This was due to vacant posts in the department. There is persistent underspending on compensation of employees which has been on-going for many years and the National Treasury has raised its concerns with the department regarding this issue. The department indicated that there are various strategies being implemented to manage the vacancy rate.

4.3 Auditor General Report

The Department received an unqualified audit with an emphasis of matter on the following:

- Investments – the department has impairments of investments of R76, 592 billion (R70,5 billion), these are a reflection of changes in net assets positions of State-Owned Companies (SOCs).
- Contingent liabilities – were as follows:
    - The department has contingent liabilities of R371,24 billion (2022: R326,2 billion). This includes funds guaranteed by government, which would be a direct charge against the National Revenue Fund as well as Governments' commitments to settle state owned companies' liabilities because of their continued financial constraints.

The auditors identified the following issues with regard to compliance with legislation:

- Procurement and supply chain management – IT related goods and services, classified as mandatory, were not procured through SITA as required by Treasury Regulation 16A6.3(e) and section 7(3) of the SITA Act.
- Strategic planning– Specific information systems were not implemented to enable the monitoring of progress made towards achieving targets, core objectives and service delivery as required by public service regulation 25(1) (e)(i) and (iii).

The following matters were raised by the auditor regarding internal control deficiencies:

- Management did not implement effective controls over the procurement of IT goods, as these were not procured through SITA.
- Management has not effectively prepared and monitored the preparation and reporting of performance indicators, which has led to material findings on this report.

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. On 29 September 2023 the Minister of Public Enterprises wrote to the Speaker of Parliament with regards to late tabling of Eskom, South African Airways, Denel and Alexkor annual financial reports and audited annual financial statements (AFS) for the 2022/23 financial year. The Minister outlined that Eskom, SAA, Denel have not been able to finalise and submit their respective annual reports to him within the prescribed timelines. Eskom's external auditors have identified matters that still need further investigation and/or attention. Eskom anticipates that the AFS will be finalised during October 2023.

SAA has indicated that the audit has begun later than expected and may only be finalised after the outstanding audits for the previous financial years are completed. Denel has indicated that the audit will be finalised in November 2023. Alexkor will be holding its 2022 AGM to table its annual report and financial statements on Friday, 29 September 2023. It has indicated that its 2023 external audit will be finalised in October and will endeavour to hold its AGM as soon as possible.
The only entities that submitted their annual reports and annual financial statements are SAFCOL and Transnet. Below are expenditure estimates of all State-Owned Companies (SOCs).

4.4.1 Alexkor

Alexkor was established in terms of the Alexkor Limited Act (1992) to mine marine and land diamonds in Alexander Bay, Northern Cape. The outcome of the land and restitution award to the Richtersveld Community resulted in the formation of the Alexkor Richtersveld Mining Company Pooling and Sharing Joint Venture, wherein Alexkor holds a 51 per cent share interest on behalf of government, and the Richtersveld Community holds 49 per cent. Alexkor does not have any other mining operations outside the joint venture.

Over the medium term, the company will focus on implementing the turnaround strategy for its diamond mining operations, which have significantly declined in the past 3 years. Symptomatic of this was production averaging below 30 000 carats over the period and the company not being able to reach the benchmark of more than 45 000 carats that had been achieved previously. Some challenges to underproduction include a lack of funds to undertake exploration activities and maintenance of old infrastructure. An immediate intervention is to seek mining contractors with the financial and technical capabilities to undertake large-scale mining operations.
In the long term, Alexkor's role should be determined in accordance with the challenges it faces. To achieve this, the Department of Public Enterprises is conducting a study, which is expected to be completed in 2023/24, to determine the optimal shareholding structure for Alexkor. This study will consider the current market characteristics of the diamond mining industry in relation to government's developmental agenda. The company was not able to submit detailed performance, expenditure, revenue and personnel data at the time of publication.

4.4.2 Denel

Denel was incorporated as a private company in 1992 in terms of the Companies Act (1973), with the South African government as its sole shareholder. It operates in the military aerospace and landward defence environment and provides strategic defence equipment. The company's broad focus over the medium term will be on implementing its turnaround plan, which entails rolling out its new operating model, restructuring and optimising its cost structure. The new operating model reduces Denel's structure from 6 core business units to 3 – engineering, manufacturing, and maintenance and
overhaul. This change will not only result in decreased expenditure, but in the improved allocation of critical resources. It will also require that the company accelerate its disposal of non-core assets and businesses, improve supply chain policies and align its IT infrastructure with its new organisational structure.

The company's revenue decreased from R2.8 billion in 2020/21 to R1.5 billion in 2021/22 due to persistent liquidity challenges. This was exacerbated by fixed costs and under-recoveries across the group, resulting in the company continuing to be loss making, thereby eroding its solvency. This, among other things, is related to the company having lost experienced personnel with critical skills over the years, which threatens its sustainability. To fund the turnaround plan's response to these challenges, the company expects to access funds through proceeds from the sale of non-core disposals and shareholder recapitalisation. To improve the company's 2021/22 and 2022/23 balance sheets, government allocated R3.2 billion over that period to settle guaranteed debt. To augment this, government allocated an additional R3.4 billion in 2022/23 through the Special Appropriation Act (2022). The cash injection will be used to implement the turnaround plan, settle legacy obligations and address the company's liquidity requirements to support operations and execute its order pipeline.
The company was not able to submit detailed performance, expenditure, revenue and personnel data at the time of publication.

4.4.3 SAFCOL

The South African Forestry Company was established in 1992 in terms of the Management of State Forests Act (1992). It is mandated to ensure the sustainable management of plantation forests, increase downstream timber processing, and play a catalytic role in rural economic development and transformation. The company contributes to approximately 1 772 direct jobs and more than 1 000 employment positions in small to medium companies through community projects and other services.
Over the medium term, the company plans to improve its performance by implementing its 50:50 revenue strategy, which entails plantation, processing and other businesses contributing equally. The company will also focus on increasing its processing capacity through upgrading the Timbadola processing plant in Limpopo. This will reduce operating costs at the plant, particularly for repairs and maintenance.

Expenditure is expected to increase at an average annual rate of 8.4 per cent, from R1.4 billion in 2022/23 to R1.8 billion in 2025/26. The operations of Komatiland Forests, the company's main revenue-generating division, constitutes 80.7 per cent of total expenditure over the MTEF period. Overall, spending on goods and services constitutes 72.6 per cent (R3.7 billion) of the company's budget, while compensation of employees' accounts for 22.8 per cent (R1.3 billion) over the next 3 years. The company derives most of its revenue from the sale of sawlogs and lumber. Revenue is expected to increase at an average annual rate of 10.1 per cent, from R1.5 billion in 2022/23 to R2 billion in 2025/26, due to an anticipated higher demand for the company's products over the medium term.
In 2021/22, the company reported R1.2 billion in revenue, a 33 per cent increase from the R920.8 million realised in 2020/21. The increase was due to a favourable log and lumber market. Following years of losses, the company reported a profit of R83.6 million and declared a R1 million dividend at its 2022 annual general meeting. The company's fixed costs remain high, something it plans to monitor over the period ahead to remain profitable. Liquidity and solvency positions remain strong, and the company is not highly indebted. As such, it is in a position to raise funds on the strength of its balance sheet without government support.

4.4.4 Eskom

Eskom is mandated to generate, transmit and distribute electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Significant progress has been made on the company's legal separation into 3 subsidiaries: transmission, generation and distribution. In this regard, the National Transmission Company of South Africa was corporatised in December 2021, and will be operationalised once the National Energy Regulator of South Africa issues its licence. The National Electricity Distribution Company of South Africa is expected to be corporatised during 2023/24.

The company's new board was appointed in October 2022 and has been tasked with ensuring a performance turnaround for operations. This is expected to result in improving energy availability from 58 per cent as at 30 September 2022 to 66.5 per cent by 2025/26. The current low availability of energy is due to high unplanned breakdowns and unit trips, which account for 30.8 per cent of the company's non-availability of generation capacity.

To improve operational performance, the board is working with the national energy crisis committee, which was established by the president in July 2022. The committee's purpose is to oversee the implementation of an action plan to end load shedding and achieve energy security in the country. As part of the company's build programme, the Kusile power station is expected to be completed in May 2024. Interventions and modifications to repair construction defects at the Medupi and Kusile power stations are expected to be completed by the end of 2023. This includes the recent failure of the flue-gas ducting that has impacted units 1 to 3 of the Kusile power station. To support the transition from coal to renewable energy, in line with government's energy policy, Komati power station was shut down on 31 October 2022 and is being repurposed with renewable energy technologies that will supply clean electricity to the economy and the public.

Based on the company's 2022/2023 to 2026/27 financial plan, expenditure is projected to increase at an average annual rate of 5.4 per cent, from R299.6 billion in 2022/23 to R351.1 billion in 2025/26. Generation is Eskom's main cost driver, constituting 59.7 per cent (R570.6 billion) of its total budget over the medium term. Spending on goods and services across divisions constitutes 61.5 per cent (R604.1 billion) of the company's budget.

Revenue is expected to increase at an annual average rate of 8.9 per cent, from R279.5 billion in 2022/23 to R361.3 billion in 2025/26. Revenue is mainly derived from the sale of electricity, which increased by 2.1 per

cent, from R204.5 billion in 2020/21 to R247 billion in 2021/22, due to a regulatory tariff increase of 15.1 per cent imposed on customers supplied directly by Eskom. Revenue in 2022/23 is projected to increase to R279.5 billion, driven by a 9.61 per cent tariff increase. The company's net loss is projected to increase to R20 billion in 2022/23, worsening from the R12.3 billion reported in 2021/22. Net debt decreased by R11.7 billion to R389.1 billion in 2021/22, while municipal arrears amounted to R44.89 billion in 2021/22 and are expected to increase to R57.7 billion in 2022/23. As such, Eskom's financial position remains weak and the company is not able to generate enough cash from operations to cover debt obligations. Given this weak financial position, government has committed an additional R21.9 billion in 2022/23 to assist with the company's debt-service obligations.

4.4.5 Transnet

Transnet provides and operates freight transportation services and infrastructure. The company's key strategic objectives include improving logistics competitiveness, promoting a modal shift from road to rail, increasing logistics connectivity, attracting private investment, developing skills and promoting reindustrialisation.

To sustain and expand its capacity, over the 5-year period ending in 2026/27, Transnet planned to invest R99 billion, 44.5 per cent (R44 billion) of which was earmarked to be invested in the rail sector, another 44.5 per cent (R44 billion) at ports and 6 per cent (R6 billion) on pipeline infrastructure. However, these investments were hindered due to the company having to reduce capital expenditure in 2022/23 by 9.2 per cent, from R18 billion to R16.4 billion, because of liquidity constraints associated with limited profitability.

Significant turnaround in operations, and as such the company's financial position, in the short term have been impacted by events such as severe damages at the port of Durban and along the KwaZulu-Natal rail corridor due to flooding in the province in April 2022. To assist the company with repairs, government allocated R2.9 billion in 2022/23 through the Special Appropriation Act (2022).

To assist with clearing the backlog in its infrastructure build, maintenance and modernisation programme, Transnet is actively seeking private sector participation in its operations. Investment from the private sector is also expected to contribute to the migration from road to rail, with the aim of reducing the total national cost of logistics. The Department of Public Enterprises is working with Transnet to develop a turnaround plan that will address various operational and infrastructure funding challenges.

Expenditure is expected to increase at an average annual rate of 2.5 per cent, from R81.3 billion in 2022/23 to R87.6 billion in 2025/26. Over the period ahead, Transnet Freight Rail operations constitute 59 per cent (R152.7 billion) of total expenditure. Overall, spending on compensation of employees constitutes 34.4 per cent (R86.5 billion), while goods and services constitutes 29.3 per cent (R75.9 billion) and provision for depreciation accounts for 18.5 per cent (R46.7 billion). Transnet derives most of its revenue from freight, port and pipeline operations, amounting to 97.6 per cent (R261.7 billion) of total revenue. Revenue is expected to increase at an annual average rate of 4.2 per cent, from R83.9 billion in 2022/23 to R95.1 billion in 2025/26. The relatively low revenue growth was offset by cost savings and significant fair value adjustments. The latter was linked to the reversal of previous downward valuations during the COVID-19 pandemic. As a result, the entity reported a net profit of R5 billion in 2021/22 compared to a loss of R8.4 billion in 2020/21.

4.4.6 South African Airways

South African Airways operates a full-service network in the international, regional and domestic markets. The airline is responsible for promoting air links with South Africa's key business, trading and tourism markets across the world, and contributing to key domestic air linkages.
The company was placed under business rescue in December 2019 and exited the process in April 2021. It resumed operations in September 2021, operating domestically and regionally, and has since been operating 6 aircraft. Over the MTEF period, the airline plans to increase its operations and improve its service offering, for example, by expanding its route network.

Government is in the process of concluding the sale of its majority shareholding in the company to a strategic equity partner. This is expected to attract the funding and skills required to strengthen the airline's balance sheet and improve its operations. The partnership was expected to be finalised by the end of 2022/23, but due to outstanding matters such as regulatory approvals from the Competition Commission and the Air Services Licensing Councils, it is expected to be concluded in 2023/24.

Expenditure is expected to increase at an average annual rate of 50.8 per cent, from R4.6 billion in 2022/23 to R15.9 billion in 2025/26. This significant increase is attributed to an increase in operations with the lifting of COVID-19 restrictions. Spending on goods and services constitutes 87.2 per cent (R32 billion) of total expenditure, mainly driven by fuel, leases and maintenance costs. Revenue is expected to increase at an annual average rate of 62.8 per cent, from R3.9 billion in 2022/23 to R16.6 billion in 2025/26. It is mainly derived from the sale of air tickets, which constitutes 99.7 per cent of total revenue. This significant increase is attributed to the airline's anticipated increase in operations.

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

The Department spent 99.3% (R34 billion of R34.4 billion) of the final appropriation, of which R218 million was for Departmental operations. The final appropriation was mainly composed of allocations to state-owned companies, namely Eskom - R21.9 billion, Transnet: R5.8 billion, Denel – R3.4 billion, and the SAA – R2.8 billion. Eskom's and SAA's allocations were earmarked for repayment of debt while Transnet allocation of R2.9 billion was for repair of infrastructure damaged by the floods and R2.94 billion to accelerate repair and maintenance of long standing out of service locomotives. Denel's allocation was for implementing the turnaround plan. The under expenditure of R257 million primarily related to payments for financial assets, savings that were realised because of early settlement of guaranteed debt for South African Airways SOC Limited, projects that were executed internally, compensation to employees due to vacant posts and underspending on goods and services caused by delays in implementing some projects.

The cases of irregular expenditure have increased from R 35.6 million in 2021/22, to R 38.7 million as at the end of March 2023. These irregular expenditures cases were due the to contravention of Supply Chain Management (SCM) processes.

Programme 1: The programme has an appropriated budget of R168 010 million, of which R129 505 million or 77 per cent has been spent. In this programme the Department underspent by R38.505 million. The programme administration which has underspent by high amounts were human resources, office accommodation and ministry.

Programme 2: The programme has an appropriation budget of R60 591 million of which R42 048 million or 69% per cent of the budget was spent.

Programme 3: The programme has an appropriated budget of R34.1 billion of which R33.9 billion or 99.4 per cent of the budget was spent by the end of the financial year. The main cost driver in the programme is payments for financial assets for the recapitalisation and settlement of debt of the state-owned companies.

In the current financial year, allocations to SOCs comprised of: Eskom - R21.9 billion, Transnet- R5.8 billion, Denel – R3.4 billion, and SAA –R2.6 billion. Eskom's and SAA's allocations were earmarked for repayment of debt while Transnet allocation of R2.9 billion was for repairs of infrastructure damaged by floods and R2.94 billion to accelerate repair and maintenance of long standing out of service locomotives. Denel's allocation was for implementing the Turnaround Plan.

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 investment and contingent liabilities. Matters pertaining to compliance with legislation and internal control deficiencies were also raised. This can be seen as a regression of 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 99.3 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 future role of Alexkor will have to be confirmed with the continued stabilisation of their long-term planning. Denel was historically unable to meet some of its financial commitments i.e., creditor and salary payments, tax duties and debt obligations (resulting in Government stepping-in for guaranteed debt totalling R3.241billion to date) despite recapitalisations and government guarantees provided. Denel's new turnaround plan comprises of disposing non-core assets, consolidating core capabilities, and achieving growth through collaboration, amongst others. The turnaround plan has a funding requirement of R5.203 billion, of which Denel committed to raise circa R1.8billion through the disposal of identified non-core assets. Therefore, it was announced during the 2022/23 Medium-Term Budget Policy

Statement (MTBPS) that Denel will be allocated R3.378 billion, subject to meeting certain pre-and post-disbursement conditions, and a Special Appropriation Act 2022 (18 of 2022) was finalised. To date, Denel has been unable to finalise any other asset-disposal apart from unlocking the surplus funds from the Denel Medical Benefit Trust (DMBT). However, this is also a result of stakeholder misalignment in the defence industry, given that the anticipated Memorandum of Co-operation (MoC) to outline alignment on the identified sovereign and strategic capabilities, including the funding thereof, has been delayed and still not finalised to date.

Eskom's profitability remains hampered by poor long-term financial sustainability arising from an inadequate tariff path, poor generating plant performance, escalating arrear municipal debt as well as high debt servicing costs. Transnet Freight Rail operations have been negatively impacted by ongoing security incidents, locomotive unavailability and the poor state of the rail infrastructure. The decline in freight rail is because of a confluence of factors which amongst others include operational inefficiencies; theft and vandalism; and under investment in the network. With regards to SAA, the Minister of Finance allocated R1 billion in the February 2023 budget for the settlement of outstanding business rescue obligations. The allocation to SAA was subject to several conditions which the airline has made progress regarding compliance:

i. Funds are specifically and exclusively appropriated to settle outstanding business rescue plan obligations.
ii. All government guarantees to SAA will be cancelled upon disbursement of funds.
iii. Takatso Consortium, to provide proof of funds for the Strategic Equity Partnership (SEP) transaction prior to its conclusion.
iv. National Treasury will conduct a review of the SEP agreement to ensure it does not give rise to future fiscal obligations.
v. SAA will continue to identify and dispose of non-core assets including implementing sustainable cost cutting initiatives which must be included in the monthly reports to the National Treasury.
vi. No incentive bonus pay-outs to executives during the period prior to the conclusion of the SEP transaction.
vii. The Shareholder Compact must be finalised in consultation with the Minister of Finance, before it is approved; and
viii. Within 30 days after the end of each month, SAA should provide monthly updates which must include, inter alia, forecast cash flows, revenue generation, profit and loss statement, statement of financial position.

5. OVERVIEW AND ASSESSMENT OF SERVICE DELIVERY PERFORMANCE

5.1 Service Delivery Environment for 2022/23

The Department is the interface between Government and State-Owned Companies (SOCs) within its portfolio, and it continues to support and provides its contributions into the legislation and policy formulation to the Policy Departments and other spheres of Government.

In executing its responsibilities, the Department seeks to direct and support improvements in the financial, commercial and operational performance of these Entities and their contribution to the wealth of the South African economy. The efforts to drive SOCs into a divergent future after the damage caused by state capture and corruption, both which had a significant impact on the SOC's Governance, operations and finances, were given precedence to change the status quo.

The work of the Presidential State-Owned Enterprise Council (PSEC) has gained momentum with one of the key recommendations being introduced towards a new State ownership model for key commercial State-Owned Enterprises (SOEs). This is to address the fragmentation in the current hybrid Government Shareholder oversight model. The PSECs work included in-depth analysis and determination of SOEs that should be consolidated and those that should be disposed of, repurposing those consolidated SOEs, development of criteria for SOEs that should be part of crisis management and stabilisation of the SOEs that are under crisis management.

The Department's services have no direct influence on citizens, however, the services provided by the SOCs under the DPE portfolio have a direct impact on South African citizens.

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.

The Department tabled its Annual Performance Plan (APP) 2022/23 submitted to the Committee. It has achieved on most of its planned activities according to the report.

5.3 Programme and sub-programme performance

The Department has three programmes. The performance against targets is 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 3 Administration and Corporate Management

Outcome	Output Indicator	Planned Annual Target 2022/23	Actual Achievement 2022/23	Reason for Deviation
Promote alignment and efficiency across institutional model.	Percentage of vacancy rate reduced	8% Vacancy rate reduced.	Not achieved. Vacancy rate was reduced by 0.5%.	Due to high staff turnover, the vacancy rate was not reduced by 8%.
	Percentage on Performance Management achieved as per individual Performance Agreements linked to the APP and AOP targets.	80% Achievement as per individual Performance Agreements linked to the APP and AOP targets.	Achieved. 80% Of individual Performance Agreements linked to the APP and AOP targets was achieved.	None
	Percentage on implementation of signed Corporation agreement to reduce SOCs infrastructure vandalism through signing Corporation with Stakeholders.	50% of the Corporation agreement milestone achieved.	Not achieved. 0% Corporation agreement milestone achieved.	Transnet MoU was not signed.
	Percentage on media public perception survey achieved.	30% Improvement against the baseline achieved.	Not achieved. 0% Improvement against the baseline achieved.	The improvement of public media perception was undertaken by the Government

				Communication and Information System (GCIS). DPE does not have the capacity of managing public perception.
Improved ICT and business alignment and enhanced oversight function.	Percentage on improvement of ICT infrastructure services and 90% of systems availability maintained.	90% Systems availability maintained	Achieved. An average of 99.80% systems availability was maintained.	The achievement was based on comprehensive ICT services. No baseline was available for the previous year, hence the actual performance vs the planned may seem over stated.
	Percentage on population of ICT Structure with new capabilities.	90% of ICT structure populated.	Not achieved. 88% of ICT structure populated with new capabilities (8 Funded posts exist on the structure of which 7 are filled).	Priority was given to the Director: IM post to address an audit finding.

Source: Department of Public Enterprises Annual Report 2022/23

The programme has two outcomes as follows; promote alignment and efficiency across institutional mode and improved ICT and business alignment and enhanced oversight function. The first outcome has four indicators, out of the four outcome indicators three were not achieved. There was non-achievement in the following outcome indicators: percentage of vacancy rate reduced, percentage on implementation of signed corporation agreement to reduce SOCs infrastructure vandalism through signing corporation with stake holders and percentage on media public perception survey achieved. The department continues to experience high staff turnover. There is high vacancy rate in senior management which is at 35.6%. The second outcome with the output indicator on percentage population of ICT structure with new capabilities was not achieved.

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 4 Sub-programme: Governance, Legal Assurance, Risk Profiling and Mitigation

Outcome	Output Indicators	Planned Annual Targets 2022/23	Actual Achievement 2022/23	Reasons for Deviation
Improved Governance And Accountability.	Government Shareholder Management Bill (GSMB) adopted into law by 2023.	SOE Bill submitted to Cabinet and Parliament.	Not achieved. SOE Bill was not submitted to Cabinet and Parliament.	Further consultation on the Bill required.

	Report on activities and recommendations of PSEC.	Annual PSEC Report on activities and recommendations.	Achieved. Annual PSEC Report on activities and recommendations was finalised.	None.
	Number of Governance Tools (MoI) revised and approved.	Denel and Alexkor MoIs revised and approved.	Not achieved. Denel and Alexkor MOIs revised and not approved.	The approval process was delayed due to further consultation required on the certain MoI clauses.
	Centre of Excellence on Governance established.	Governance Centre of Excellence on Governance Established	Achieved. Governance Centre of Excellence on Governance	None.

Source: Department of Public Enterprises Annual Report 2022/23

The department achieved two out of four output indicators in this sub-programme. There is a need for the department to improve on the achievement of targets by the department. This reflects on the planning and capacity of the department to execute on planned targets.

Table 5 Sub-programme: Financial Assessment and Investment Support

Outcome	**Outcome Indicators**	**Planned Annual Targets 2022/23 FY**	**Actual Achievement 2022/23**	**Reasons for Deviation**
Improved independent financial sustainability of SOCs	Report on preferred option to resolve Eskom debt.	Report on preferred option to resolve Eskom debt.	Achieved. Report on preferred option to resolve Eskom debt was finalised.	None
	Guidelines in SOCs seeking SEP and evaluating Shareholding i.e., majority and minority Shareholding approved.	Guidelines for seeking SOC SEP (either majority or minority) Shareholding approved.	Achieved. Guidelines for seeking SOC SEP (either majority or minority) Shareholding was approved.	None.
	Number of SOCs' Business Plans developed and restructuring unit established.	SOCs' Business Plan developed and restructuring unit established.	Not achieved. SOCs Business Plan was not developed, and the restructuring unit was not established	Framework was developed as a guide for the restructuring process.
	Number of Progress Reports on SOCs audit findings.	Two Progress Reports on SOCs audit findings.	Achieved. Two Progress Reports on SOCs audit findings were completed.	None.
	% On SOCs	100%	Achieved.	None.

	compliance reporting (i.e., CP, Quarterly Reports, PFMA section 66 applications).	Assessment Compliance Reports received.	100% Assessment of all reports received.	
	Number of DPE and SOC CFO's forums held quarterly.	Four DPE and SOC CFOs' forums to be held quarterly	Achieved. Four DPE and SOC CFOs' forums were held quarterly.	None.

Source: Department of Public Enterprises Annual Report 2022/23

The department states that the restructuring framework will provide guidance on the process to reposition of SOEs as effective instrument of economic development as part of the work undertaken by PSEC. The department achieved five out six output indicators in this sub-programme.

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.

Through this programme, the Department contributes to the enhancement of the performance of SOCs on an ongoing basis by:

- 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 6 Programme: Business Enhancement Services

Outcome	Output Indicators	Planned Annual Targets 2022/23 FY	Actual Achievement 2022/23 FY	Reasons for deviations
Increase the contribution of SOCs to support transformation of the South African economy.	Number of Gender Responsive Plans approved and implemented.	Gender responsive plan developed and approved.	Achieved. Gender responsive plan was developed and approved.	None.
	% On SOC Public procurement spent on WO businesses.	12% On Public procurement spent on WO businesses.	Achieved. 16.35% On Public procurement spent on WO businesses was met.	Department facilitated the elevation of SOC procurement support of WO businesses.
	SOCs Local Content verification framework developed and tested.	Local content verification framework developed and testing with two capital	Achieved. Local content verification framework developed and testing with	None.

		programmes in partnership with SABS.	two capital programmes in partnership with SABS was finalised.	

Source: Department of Public Enterprises Annual Report 2022/23

The department achieved all its indicators in this sub-programme.

Table 7 Sub-programme: Energy and Resources

Outcome	Output Indicators	Planned Annual Targets 2022/23 FY	Actual Achievement 2022/23 FY	Reasons for deviations
Improved Governance and accountability.	Shareholder Compact (SHC) signed.	One 2023/24 SHC signed (Eskom).	Not achieved. 2023/24 SHC was not signed (Eskom).	Finalisation of the SHC was delayed due to prolonged engagements to ensure alignment between the Department and SOC.
Supply of Energy Secured.	Increased EAF factor to above 80% by 2024.	Monitor implementation of Eskom's interventions to increase energy availability to above 70% by 2022/23.	Achieved. Implementation of Eskom's interventions to increase energy availability to above 70% by 2022/23 was monitored.	None.
	Eskom Planned Capacity Adherence (Infrastructure/ Build Programme).	Four Progress Reports on Eskom's delivery of infrastructure programme.	Achieved. Four Progress Reports on Eskom's delivery of infrastructure programme completed	None.
	Increased electricity reserve margin by 15% by 2024.	15% Reserve margin achieved.	Not achieved. 15% Reserve margin not achieved.	Reserve margin was below 15% due to low EAF factor.
	Eskom's Roadmap for reformed electricity supply industry implemented (unbundling process: Transmission, Generation and Distribution).	Corporatisation of Distribution and Generation companies finalised.	Not achieved. Corporatisation of Distribution and Generation companies not finalised.	The process of corporatising Distribution and Generation is still underway.
	Number of reports on the	Four reports on KNPP life	Achieved. Four reports	None.

	maintenance of the energy levels.	extended.	on KNPP life extended were completed.	
	Number of Progress Reports on additional 1000 MW commissioned by 2024 produced.	Four Progress Reports on additional embedded generation capacity added.	Achieved. Four Progress Reports on additional embedded generation capacity added were completed.	None.
Improved Governance and accountability.	Signed SHC per year (SAFCOL).	SHC signed (SAFCOL).	Achieved. SHCs was signed (SAFCOL).	None.
	Signed SHC per year (Alexkor).	SHC signed (Alexkor).	Not Achieved. SHC was not signed (Alexkor).	Finalisation of the SHC was delayed due prolonged engagements to ensure alignment between the Department and SOC.

Source: Department of Public Enterprises Annual Report 2022/23

The Department of Public Enterprises out of the nine output indicators in this sub-programme failed to achieve on four output indicators. The shareholder's compact of Eskom and Alexkor were not signed. Output to increase electricity reserve margin by 15% by 2024 could not be achieved due to low electricity availability factor. Eskom's Roadmap for reformed electricity supply industry implemented (unbundling process: Transmission, Generation and Distribution) was not achieved.

Table 8 Sub-programme: Transport and Defence

Outcome	Output Indicators	Planned Targets 2022/23 FY	Actual Achievement 2022/23 FY	Reason for deviation
Improved Governance and accountability.	Signed SHCs per year (Transnet).	One 2023/24 SHC signed (Transnet).	Not achieved. 2023/24 SHC was not signed by (Transnet).	SHC was not finalised due to further engagement with Transnet, NT and the DoT to ensure alignment of Key performance Areas (KPAs)/Key performance Indicators (KPIs).
	Implementation of the agreed decision of Government on the structure and functions	NPA establishment as a subsidiary of Transnet.	Not achieved. NPA was not established as a subsidiary of Transnet.	PFMA section 51 (1)(g) application not yet submitted.

	of TNPA.			
	% Increase of rail friendly commodities moved from road to rail by TFR (6.2 million. tons by 2023/24).	10% Improvement of rail friendly commodities moved from road to TFR, not less than 2,12mt.	Not achieved 10% Improvement of rail friendly commodities moved from road to TFR was not met.	Improvement of rail commodities from road to rail was negatively impacted by, amongst others, theft and vandalism of infrastructure, rolling stock and shortage of locomotives
	Number of PSP transactions in ports and rail identified.	PSP in ports and freight rail on 13 transactions identified.	Not achieved. PSP in ports and freight rail on five transactions were identified.	Transaction milestones were not met due to business cases still being considered
Improved Governance and accountability.	Framework for the Shareholder Oversight Model for SOCs with a minority Government Shareholding developed	Framework for the Shareholder Oversight Model for SOCs with a minority Government Shareholding developed.	Not achieved. Proposal framework for the Shareholder Oversight Model for SOCs with a minority Government Shareholding was not developed.	Engagements took longer than anticipated
Improved independent financial sustainability of SOCs.	Number of reports on mapping of industrial defence capabilities and options for Denel divisions.	Four Mapping Reports with options to restore or preserve the core industrial Defence capabilities for four Denel divisions, namely Pretoria Metal Pressings, Denel land Systems, Denel Dynamics Missiles, Denel Aeronautics Maintenance, Repair and Overhaul.	Achieved. Four Mapping Reports with options to restore or preserve the core industrial Defence capabilities for four Denel divisions, namely Pretoria Metal Pressings, Denel land Systems, Denel Dynamics Missiles, Denel Aeronautics Maintenance, Repair and Overhaul were completed.	None.
	Number of Diagnostic	Diagnostic Report on the	Achieved. Diagnostic	None.

	Reports on the root causes to the challenges of the Denel Badge/ Hoefyster contract and lessons produced.	root causes to the challenges of the Denel Badger/ Hoefyster contract and lessons produced.	Report on the root causes to the challenges of the Denel Badger/Hoefyster contract and lessons produced was finalised.	
	Number of quarterly reports update on the implementation of the Defence and Aerospace Masterplan.	Four quarterly reports on the implementation of the Defence and Aerospace Masterplan (Progress made and interventions required).	Achieved. Four quarterly reports on the implementation of the Defence and Aerospace Masterplan were completed.	None.

Source: Department of Public Enterprises Annual Report 2022/23

The department in this sub-programme outlined eight output indicators. Out of the eight it failed to achieve on the five output indicators. The non-achievement was mostly in transport in particular the output indicators linked to Transnet. The department did not sign Transnet shareholder's compact. Shareholder's compact was not finalised due to further engagement with Transnet, NT and the DoT to ensure alignment of Key Performance Areas (KPAs)/Key Performance Indicators (KPIs). TNPA was not established as a subsidiary of Transnet. 10% improvement of rail friendly commodities moved from road to TFR was not met. Five transactions out thirteen PSP in ports and freight rail were identified.

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 mandates 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 have been deferred to 2023. However, SOE bill requires further consultation. The department still experience high vacancy rates due to high staff turnover, the vacancy rate was reduced by 8%. Concluding shareholder compacts remain a challenge for the Department. The shareholder compacts for Eskom, 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 to monitor SOCs' performance. The Shareholder's Compact represents the agreement between the Executive Authority and the Accounting Authority. It reflects 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.

6. SERVICE DELIVERY AND FINANCIAL ASSESSMENT

The Department has adopted clear goals and targets over the medium-term period, driven by the National Development Plan (NDP) and Medium-Term Strategic Framework (MTSF) and Economic Recovery and Reconstruction Plan (ERRP). The Department's strategy has been designed to ensure that the SOCs under the DPE portfolio fulfil their roles in supporting the attainment of the objective outlined in Government's key priority documents as stated above. The capacity and capability within the Department therefore plays an important role in facilitating the efficient delivery of the strategic outcomes. It is important that the department improve on its planning and reporting processes in line with recommendations of the Auditor General.

The Department has identified a set of initiatives focusing on providing strategic oversight to the SOCs. These include:

- The interactions across the institutional model in terms of National Policy deliverables that requires collaboration with various Stakeholders and alignment between Policy, Regulation, and Shareholding to

improve accountability. The institutionalisation of the Inter-Governmental engagements through various oversight tools namely the Strategic Intent Statement (SIS), and Shareholder Compact (SHC) are enablers to unlock bottlenecks within the system to improve the execution of key priorities.

- The standardisation approach in terms of shareholder oversight within Government requires the development of the National Enterprise Bill (NEB) which is currently underway. The Bill is aimed at supporting the objectives of strengthening and harmonising the current institutional architecture. To date, significant progress has been made towards the development of the overarching Act governing SOEs. During the year under review, the Policy Statement that provides the base for the adoption of the centralised model was finalised. Public consultation on the Bill is ongoing and will be submitted to Parliament when the consultation process has been concluded.

- During the year under consideration, the Department has pro-actively been involved in engaging and addressing emerging issues that continue to threaten the achievement of the National development objectives. This is mainly to ensure that there is progress made by the SOCs and ensuring their commitment and contribution towards economic growth.

The Department spent 99.3% (R34 billion of R34.4 billion) of the final appropriation, of which R218 million was for Departmental operations. The final appropriation was mainly composed of allocations to state-owned companies, namely Eskom - R21.9 billion, Transnet: R5.8 billion, Denel – R3.4 billion, and the SAA – R2.8 billion. Eskom's and SAA's allocations were earmarked for repayment of debt while Transnet allocation of R2.9 billion was for repair of infrastructure damaged by the floods and R2.94 billion to accelerate repair and maintenance of long standing out of service locomotives. Denel's allocation was for implementing the turnaround plan.

7. OBSERVATIONS

The Committee made the following observations:

7.1 Acknowledged and raised concern that four entities had not submitted their annual reports and annual financial statements at the time of the processing of the Budgetary Review and Recommendations Report. These entities include Alexkor, Denel, South African Airways and Eskom.

7.2 Noted the announcement by the President of the Republic of South Africa that the Department of Public Enterprises will be disbanded at the end of the 6th administration.

7.3 Noted the dismal performance against targets for the Department of Public Enterprises and Transnet. However, acknowledged and commended Safcol for the sterling work done in terms of achieving an unqualified audit and good performance against targets.

7.4 Noted that overall, there has been a decline in Transnet's performance, as the entity did not achieve the majority of their planned performance targets for the period under review. The entity only managed to achieve 26.32% of its annual targets in the current year when compared to 38.64% achieved in the prior year. This represents a 12.32% decline in performance in the period under review relative to the prior year.

7.5 Noted that Transnet has not achieved on the planned service delivery and efficiencies relating to its mandate of assisting in lowering the cost of doing business in South Africa, enabling economic growth and security of supply through providing appropriate ports, rail and pipeline infrastructure as well as operations in a cost effective and efficient manner within acceptable benchmark standard. The non-achievement of planned targets further contributed to increased reliance on road transportation, leading to higher costs, road congestion, damage to road infrastructure and negative environmental impacts.

7.6 Noted that the main root causes for non-achievement are attributed to operational challenges due to non-availability of rolling stock, security incidents, strike action, power outages, customer cancellations and adverse weather conditions and equipment challenges as well as delays in concluding request for proposals with the private partnerships.

7.6 Noted that the Committee was not involved nor consulted when strategic decisions were taken to dispose of state-owned assets or shares, and only learned of the decision after the effect. Further noted that there is a need to strengthen the oversight efforts of the Committee to curb such adverse decisions from happening.

8. RECOMMENDATIONS

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

8.1.1 Expedite the implementation of the Zondo Commission recommendations to ensure that the offenders are dealt with and where necessary the misappropriated resources are recovered. This process must be finalised before the disbandment of the Department of Public Enterprises.

8.1.2 Ensure that there is a target set for the monitoring of the Boards of SOCs in line with the Board Performance Evaluation Framework.

8.1.3 Ensure that Alexkor is stabilised and critical vacancies are filled, which include Chief Executive Officer, Chief Financial Officer, Board Members, and operational staff. These vacancies have prevented the entity from realising its objectives and the sustainability of Alexkor is at risk.

8.1.4 Expedite the development and implementation of the regulatory framework on disposal of shares in state-owned companies.

8.1.5 Finalise the shareholder oversight model for SOCs with minority government shareholding before the end of the 2023/24 financial year.

8.1.5 Ensure that the Department set targets in the annual performance plan for participation of its SOCs in the relevant Districts & Metropolitans District Development Model Technical Committees.

8.1.6 Finalise and implement the SOCs reforms that have been announced by government, including the Government Shareholder Management Bill and SOE funding criteria.

8.1.7 Ensure that the DPE's annual performance plan be aligned to the MTSF targets of strengthening governance systems and ensuring board stability.

8.1.8 Improve the link between output indicators and planned targets in the DPE's annual performance plan so that the measured performance provides useful and reliable information and insights to users on the DPE's planning and delivery on its mandate and objectives.

8.1.9 Improve the ways in which various output indicators are defined in the DPE's annual performance plan and stipulate how the planned targets would be measured and what evidence would be needed to support the achievements.

8.1.8 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.

8.1.9 Improve procurement and supply chain management practices in the DPE so that Information Technologies related goods and services are procured through State Information Technology Agency (SITA) as required by Treasury Regulation 16A6.3(e) and section 7(3) of the SITA Act.

8.1.9 Strengthen governance and accountability by ensuring that shareholder compacts are concluded by the third quarter of the preceding financial year. Furthermore, such shareholder compacts should be presented to the Committee upon completion.

8.1.10 Ensure that all state-owned companies have regular preparation and review of financial reports. Furthermore, ensure that there is regular training of officials on the financial reporting framework and the continuous monitoring compliance with key legislation.

8.1.11 Create 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.

8.1.12 Ensure that there is a performance management system which is aligned to the developmental state principles and standard reporting guidelines for SOEs.

8.1.13 Ensure the development of an integrated reporting system, monitoring and evaluation capability for all the SOCs.

8.1.14 Ensure that Parliament is consulted when policy changes such as the sale or disposal of state-owned assets or shares are taken. Furthermore, the department must ensure that it develops a policy on the disposal of state-owned assets.

8.1.15 Ensure that the decision to dispose more than 50% of South African Airways shares is reviewed and efforts must be made to ensure the state still hold majority shares.

8.1.16 Ensure that the mandates of Denel and Safcol are broadened to allow the entities to diversify their product and service offering in order to assist government in advancing its developmental objectives.

8.1.17 Ensure that annual reports and annual financial statements of SOCs are submitted to Parliament on time and decisive action is taken against SOCs not complying with the submission.

8.1.18 Address financial challenges in SOCs which are impacting negatively on the completion of audit results and outcomes.

8.1.19 Improve the capacity of board audit risks committee, the internal audit function in the department and SOCs to better respond to audit outcomes in line with the provisions of the PFMA.

9. CONCLUDING REMARKS

The Committee notes that Government will reduce the continual demands on South Africa's limited public resources by 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 rationalised 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.