

**DEPARTMENT: PUBLIC ENTERPRISES**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NO: 2343**

**QUESTION:**

**2343. Ms O M C Maotwe (EFF) to ask the Minister of Public Enterprises:**

With regard to Transnet’s recent financial statements which show that the company has suffered revenue losses of over R8 billion, and that irregular expenditure was more than
R100 billion, with over 3 000 employees forced to take severance packages, what (a) were the causes of the mismanagement lapses at Transnet and (b) plans has he put in place to turn the entity around?

**REPLY:**

**According to the information received from Transnet**

Financial performance

For the 31 March 2021 financial year, Transnet experienced challenges due to the nationwide lockdown resulting in subdued volume demand as well as operational challenges.

* Transnet’s revenue decreased by 10,5% to R67,3 billion (2020: R75,2 billion), due to a:
* 13,7% decline in rail freight volumes,
* 26,4% decline in pipeline volumes, and
* 11,5% decline in port container throughput mainly as a result of the nationwide lockdown.

Transnet performance was at a backdrop of South Africa’s real GDP that had contracted by 7% in 2020 after GDP growth of only 0,2% was recorded in 2019. In a historic context, it was the worst SA GDP performance since the great depression years of the 1930’s.

In addition, net operating expenses increased by 16,2% to R47,8 billion (2020: R41,2) mainly due to:

* fixed costs that have not decreased in line with the reduced activity - personnel costs, maintenance, and security costs,
* unbudgeted third party claim provision and increased environmental provisions relating to pipeline spills arising from product theft incidents, which also resulted in increased security costs (R5,6 billion),
* unbudgeted Covid-19 related expenses of R232 million, and
* lower operating income due to the lower sale of scrap, lease recoveries and PRASA recoveries.

The 2022 YTD results indicate that recovery is further evident in the steady improvement of revenue achieved (96,2% of the plan).

Management has also implemented cash preservation measures to safeguard financial performance and cash flows over and above the plan. Key focus areas include amongst others:

* Collections from overdue customers;
* Revenue initiatives;
* Sale of non-core properties;
* Sale of scrap;
* Procurement optimisation;
* Moratorium on discretionary and other costs;
* Review of contract spend; and
* Capital investment optimisation.

It is important to note that no employee has been forced to take severance packages, however, employees voluntarily selected to leave the company.

Irregular expenditure

The Company has embarked on a PFMA improvement programme which has both a long-term ( STATE CAPTURE LINKED IRREGULAR EXPENDITURE) and short-term emphasis, which collectively focusses on addressing the audit qualifications and improving internal controls, to ensure a sustainable process is in place where all information required by the PFMA are identified, actioned and reported timeously.

The PFMA improvement programme was implemented through an enhanced 2021 financial year remedial plan to deal with the root cause and the recommended remedial action that is required to create sustainable solutions around people, processes and systems in the procurement environment and to reduce the occurrence of irregular expenditure.

Planned outcomes of the PFMA remedial plan include:

• improved procurement processes;

• reduction in PFMA transgressions; and

• improved completeness and accuracy of PFMA reporting through implementing sustainable solutions embedded within the business.

Transnet remains committed to continuing to enhance consequence management efforts and investigating PFMA related transgressions. As a result, the forensic investigations process has been centralised. The centralisation was to enhance the coordination and efficiencies of the investigation process, to ensure consistent application of corrective action throughout the organisation that resulted in areas of improvement.

Challenges exist due to the history in managing and reporting PFMA transgressions which make it impractical for Transnet to disclose all irregular expenditure reliably. The National Treasury accepted the impracticability judgement for the historic periods up to and including 31 March 2021, given the legacy of state capture that this process will take time to complete. However, Transnet will still need provide evidence to demonstrate the impracticability assertion and for the Auditor General of South Africa to assess its applicability.

Transnet will continue engaging the National Treasury to find a way to ring-fence the legacy issues of irregular expenditure as these do not impact on the fair presentation of the annual financial statements.