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Analysis of the Department of Public Enterprises' Annual Report 2008/09

1. Introduction

The Department of Public Enterprise (DPE) has oversight responsibilities over the affairs and performance of nine State-owned enterprises (SOE). These SOEs include Transnet, South African Airways (SAA), Electricity Supply Commission (Eskom), Denel, the Pebble Bed Modular Reactor (PBMR), Alexander Korporation (Alexkor), South African Forestry Company Ltd (Safcol), Infrastructure Company (Infracore) and South African Express (SAX).¹ In this role the Department acts as the shareholder-representative of government, ensuring that state-owned enterprises are commercially viable and contribute to the growth of the country's economy.

The Minister of the Department has tabled the Annual Report for 2008/2009 financial year in accordance with the Public Finance Management Act (No.1 of 1999)². The annual report is the key reporting instrument for a department to report against performance targets and budget outlined in the strategic plan, read together with the Estimates of National Expenditure. It is meant to be a backward looking document, focusing on performance in the previous financial year. It reports on how the budget for that financial year was implemented.³ This paper reviews the Annual Report for 2008/2009 against the Strategic Plan for 2008-2011. Therefore this paper has to be read together with these two documents. It assesses both service delivery and financial performance.

2. Vision of the Department

The vision of DPE is to have SOEs that;⁴

- are efficiently managed, meeting domestic and international industry operational benchmarks.
- Play a role in their industry that ensures an optimal allocation of responsibilities between the public and private sector
- Undertake investment programmes that provide the necessary capacity to accommodate faster economic growth.
- Implement their investment programmes in such a manner that the national economy is strengthened in a sustainable way.

In order to attain this vision it is critical that the department develops a world-class shareholder management model that will enable strong coordination between the shareholder and the boards of SOEs.

3. Mission of the Department

¹ Department of Public Enterprises (2008a).

² National Treasury (1999).

³ National Treasury (2005).

⁴ Department of Public Enterprises (2008b).



The mission of the Department is to provide to SOEs clear mandates, simple and implementable governance systems, and effective performance management.⁵

4. Mandate of the Department

The mandate of the Department is to ensure alignment between SOEs' business strategies with sector department policies and regulatory authorities whilst ensuring that SOE are sustainable businesses that provide economic benefit to the country.⁶

There are three elements to the DPE mandate, which are⁷:

- The ongoing management of SOEs against the achievement of their strategic purpose
- The disposal of non-core assets that no longer serve a strategic purpose, and
- The establishment of new SOEs to achieve a strategic purpose, particularly in the event of market failure.

5. The Department's Key strategic objectives.

The strategic objectives of the Department were outlined in the Strategic Plan 2008-2011 as follows⁸:

- Energy
 - Implementation of the National Response Plan
 - Expediting Eskom's Build Programme
 - Advancing developments in the Pebble Bed Modular Reactor (PBMR)
- Infrastructure
 - Rollout of the International Submarine Cable
 - Restructuring and turnaround of Denel
- Transport
 - Supporting the roll-out of Transnet Build Programme
 - Approving and implementing the ports and rail masterplan
 - Monitoring SAA's turnaround

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.



6. Expenditure per programme

Table 1

Programme	Main Appropriation R'000 2008/09	Adjusted Appropriation R'000 2008/09	Actual Amount Spent R'000 2008/09	Actual Amount Spent R'000 2007/08	Over/Under Expenditure R'000 2008/09
Administration	65 986	78 294	77 939	66 281	355
Energy and Broadband Enterprises	2 137 580	2 137 317	2 136 811	2 514 327	506
Legal, Governance, Risk and Transactions	158 163	148 868	147 889	95 788	979
Manufacturing Enterprises	11 641	269 281	267 027	1 159 944	2 254
Transport Enterprises	605 669	605 015	604 930	752 128	85
Joint Project Facility	28 823	30 603	30 553	15 516	50
TOTAL	3 007 862	3 269 378	3 267 149	4 603 984	4 229

From Annual Report 2008/09 of Department of Public Enterprise

The expenditure estimate for 2008/09 was R3.007 billion and the adjusted appropriation was R3.269 billion. The actual expenditure was R3 267 leading to under spending of R4.2 million being recorded. The programme that under spent the most was Programme 4: Manufacturing Enterprises. The estimated expenditure for the programme was R11 6 million but the adjusted appropriation (actual budget allocated to for the programme) was R269 2 million. This programme under spent by R2.2 million.

The substantial decrease in programme budget for Manufacturing Enterprises was due to the reduction of the transfer to Denel. An amount of R259.5 million was earmarked for the payment of an indemnity granted to Denel/Saab Aerostructure. However, the final audited amount of the claim was R1.9 million less than the funds originally allocated for this purpose, which reflect as underspending in this programme.

Programme 3 (Legal, Governance, Risk and Transactions) recorded a substantial increase in actual spending from R95.8 million in 2007/08 to R147.9 million in 2008/9. The increase was mainly due to the transfer payment to Alexkor for the finalisation of the settlement agreement. Operational expenditure decreased as a result of a number of vacancies in the unit as well as a reduction in legal costs over the period.



7. Programme Performance

7.1 Programme 1: Administration

Some of the achievements against the measurable objectives listed by the Department were:

- Creation of an enabling internal policy environment, including a secure environment for employees. and
- Launch of numerous human resource management initiatives intended to attract and retain critical skills and a performance management regime that informs targeted training initiatives.

Question

- A concern has been raised on numerous occasions where top managers of poor performing public institutions receive substantial bonuses. What is the Department doing to address lack of alignment between performance evaluation of managers and that of institutions they manage?

7.2. Programme 2: Energy and Broadband Enterprises

7.2.1. ICT Broadband

The targets for 2008/09 included:

- Conclusion of a shareholder compact with Infraco, which was targeted for April. However, this target was not reached and the shareholder compact was envisaged to be concluded in June 2009.
- Expansion of South Africa's ICT infrastructure to enhance the ICT capacity and lower ICT costs. The target was to for the expansion to incorporate SITA in mid 2008.
- Completing construction of the SA-Europe submarine cable. The target for this project was a signed Memorandum of Understanding (MOU) for private participation during the year under review.

Questions

- Was the shareholder compact concluded in June as envisaged?
- Did the expansion incorporate SITA by mid 2008 as targeted?
- Was the MOU for private participation signed in 2008/09?

7.2.2. Energy

The following targets were achieved for the year under review:



- Government guarantees of R176 billion were secured for Eskom's capacity expansion programme.
- Monitoring and assessment of reserve margin and available capacity and demand to ensure security of supply.
- Frequency of load shedding was significantly reduced.

7.2.3. Nuclear

Customer requirements for a Process Heat business plan were to be developed by March 2008.

Questions

- Was this target achieved?
- Why is the performance on the two last Key Projects⁹ under Nuclear not reported in the Annual Report?

7.3. Programme 3: Legal, Governance, Risk and Transactions

One of the outputs under Transactions was winding down of the SAFCOL holding company. It was reported that the finalisation was put on hold, pending finalisation of KLF land claim.

Question

- What is the progress regarding the KLF land claim?

7.4. Programme 4: Manufacturing Enterprises

The following targets were set for Defence sub programme:

- Facilitating the achievement of a target of 60 – 70 percent in local procurement.
- Establishment of a defence export council by end of September 2008.

Questions

- What is the current percentage in local procurement for Department of Defence and Military Veterans?
- Why was the Defence Export Council not established by end of September 2008?

⁹ (a). Complete construction of fuel plant improvements and start support for cold commission
(b). Establish a competent fuel manufacturing organization and complete license application to NNR.



7.5. Programme 5: Transport Enterprise

The following key projects appear on the Strategic Plan but are not reflected on the Annual Report:

- Private sector participation in rail through ensuring access to branchlines by private operators.
- Develop national corridor performance measurement tools and indicators.
- Conduct a study into customer experience in freight logistics sector.

Questions

What was the performance of the Department with regard to the above-mentioned key projects?

7.6. Programme 6: Joint Project Facility

All the projects identified in the Strategic Plan were covered in the Annual Report.

8. Transfer payments for the year under review.

8.1. Alexkor (R130 million)

- R30 million for the development of the township.
- R100 million for the establishment and capitalisation of the Pooling and Sharing Joint venture (PSJV). The transfers follow the out of court land claim settlement between the Richtersveld community and the Department of Public Enterprises.

8.2. Denel (R259.5 million)

- R257.6 million was transferred to Denel, the balance in the sum of R1.9 million which arose from the final audited amount of the claim being less than the funds allocated for this purpose. The payment was for an indemnity granted to Denel-Saab Aerostructures.

8.3. Broadband Infracore (R377 million)

- An amount of R377 million was allocated and transferred to Infracore for the expansion of South Africa's ICT infrastructure.

8.4. Pebble Bed Modular Reactor (R1.75 billion)

- An amount of R1.75 billion was allocated and transferred to the PBMR for designing, building and prototyping the PBMR technology.

8.5. South African Express Airways (R445 million)



- An amount of R445 million was allocated and transferred to South African express Airways as a recapitalisation allocation.

8.6. Transnet (R140 million)

- An amount of R140 million was allocated and transferred to Transnet for the purchase of South African Express Airways.

9. Human Resources Management Report

The Report indicates that the Department had 164 posts at the end of 31 March 2009. Of these posts, 140 were filled. This is 85.4 percent occupancy rate. The Administration programme has 58.5 percent of the establishment posts. Of the filled posts, 63.6 percent are in Administration programme.¹⁰

The greater number of establishment posts are in salary levels 13-16, which is Director to Director General level. There are 63 posts on this level in the establishment, which is 38.4 percent of all posts in the establishment. However only 42 of these posts are filled, which is 30 percent of all filled posts. This level also has a highest vacancy rate at 36.2 percent.¹¹

Question

- Table 1.3 reflects 54 Senior Managers' posts of which 33 are filled. On the other hand, Table 1.2 reflects 58 posts on salary levels 13-16 (Permanent Contract) of which 37 are filled.¹² Why do these figures not tally?
- Clarity is required on Table 2.5 (Job Evaluation). The number of posts on this table does not correspond with numbers provided in other tables.¹³

The turnover rate is high for senior managers at 34.1 percent.¹⁴ This is a slight decrease from the 34.5 percent of the previous year.¹⁵ The average turnover rate for the Department decreased from 17.4 percent in the previous year to 14.9 percent in the year under review.

Employment Equity Targets as at 31 March 2009 (From Presentation to combined committees)

	African		Indian		Coloured		White		Disability
	F	M	F	M	F	M	F	M	
Target	40.3%	39.2%	1.3%	1.2%	4.5%	4.4%	4.7%	4.5%	2%
Achieved	41.3%	29.71%	5.07%	0.72%	5.07%	3.62%	10.87%	3.62%	4%
Actual	57	41	7	1	7	5	15	5	6

¹⁰ Annual Report 2008/09, Table 1.1, p120.

¹¹ Ibid, Table 1.2.

¹² Annual Report 2008/09, pp 12-121.

¹³ Annual Report 2008/09, p123.

¹⁴ Ibid, Table 3.2, p125.

¹⁵ Annual Report 2007/08.



10. Annual Financial Statements

10.1. Auditor-General's Report

The Auditor-General gave the Department of Public Enterprises an unqualified financial report. In its report the Auditor-General maintained that the financial statements of the department present fairly, in all material respects, the financial position of the Department of Public Enterprises as at 31 March 2009 and its financial performance and cash flows for the year under review, in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the PFMA.¹⁶

10.2. Income Statement of the Department of Public Enterprise (DPE) as at 31 March 2009

The main purpose of income statement is to reflect the financial performance of the organisation or department at the end of the specific financial year. This assists the organisation to be able identify whether monies have been spent according to plans.

The DPE appropriated a total amount of R3.2 billion which excludes the adjustments, departmental revenues and other sources of income. The Department has utilised its budget according to the three economic classifications of the national budget which include current payments (compensation of employees and goods and services), departmental transfers and subsidies which are transferred to other entities, and capital expenditure. It is very clear that the Departmental budget is dominated by transfers and subsidies since this category occupies about R3.1 billion of the current budget.¹⁷ This means that DPE spends a significant portion of its budget on transfers and subsidies and spend the rest on current payments and capital expenditure. The Department has spent R164.7 million in current payments, which is an increase compared to R128.6 million in 2007/08.¹⁸ Compensation of employees has increase from R55.9 million in 2007/08 to R70.4 million in the current budget. Total expenditure for capital assets decreased from R3 5 million to R878 000 in 2008/09.¹⁹

The Department recorded an under expenditure of R439.7 million. Under expenditure might indicate that certain services were not delivered due to some constraints or the Department had identified saving alternative in delivering certain service in order to promote the culture of economic, effective and efficient spending in government.

Of note is that since the majority of the Departmental budget is spent on transfers and subsidies. There is therefore a need for proper accountability mechanism in order to establish whether the utilisation of funds by entities does yield the value for money.

¹⁶ Public Enterprises' (2006/07) Annual Report.

¹⁷ Annual Report 2008/09, p83.

¹⁸ Ibid.

¹⁹ Ibid.



It has been noticed that the budget of the Department has been reduced when compared to the previous financial year. In the 2007/08 the DPE was allocated a total amount of R4.6 billion while in 2008/09 was allocated only R3.7 billion.²⁰

10.3. The Balance Sheet of the Department of Public Enterprise as at 31 March 2009

The main intention of the balance sheet is to reflect the financial position of the organisation or department at the end of a specific financial year. This will also assist the organisation to evaluate the position of its current assets and current liabilities and check if these two aspects are still within the required level.

The balance sheet under Departmental Current Assets has reflected an amount of R618 thousand which is regarded as unauthorised expenditure which will require an approval by Parliament as per section 34 (1)(a) of the Public Finance Management Act 1 of 1999.²¹

The current assets amounts to R4 987 million and when the R21 618 billion of non current assets is taken into account the total assets increase to R21 623 billion.²² The assets are mainly dominated by investments which are regarded as non-current assets. Current liability amounts to R4 987 million which is exactly equivalent to the amount reported under current assets.²³ The net assets amounted to R21 618 billion in the 2008/09 financial year, which was obtained through subtracting current liabilities from the total assets.²⁴ This shows that the department is in a good financial position since the current liabilities are far less than the total assets.

11. Conclusion

In conclusion, the DPE has reflected a surplus on its financial statement of the 2008/09 financial year. This might occur as results of under spending in certain programmes or certain economic measures of saving have been applied by the Department. The state of the current assets is still positive since the total assets are greater than the current liabilities. Lastly, it has been noted that the majority of the Departmental budget is spent on transfers and subsidies, this calls for more effective measures of oversight to be in place in order to evaluate the utilisation of funds by receiving entities.

²⁰ Ibid.

²¹ Annual Report 2008/09, p84.

²² Ibid.

²³ Ibid.

²⁴ Ibid.



References

Department of Public Enterprises (2008) *Annual Report 2008/2009*.

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National Treasury (2008) *Estimates of National Expenditure*.

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