



# PRESENTATION TO THE SELECT COMMITTEE

23<sup>rd</sup> March 2011



## STRATEGIC PLAN 2011-2014

# dpe



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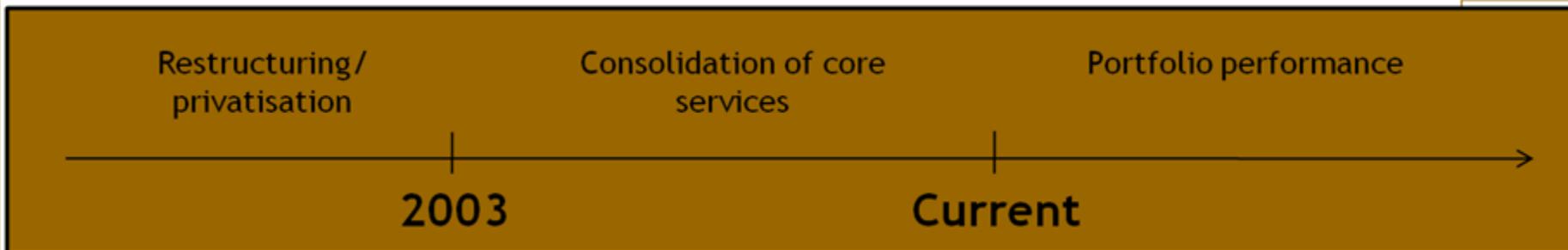
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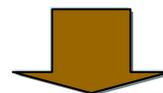
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# Evolution of DPE's strategic mandate



- **1994 – 1998:** Established as the office of privatisation focused on disposal of SOE.
- **1998 – 2003:** Emphasise shifts to restructuring of SOE with focus on equity partnerships, initial public offerings and concessioning of specific assets to optimise shareholder value and economic efficiency.
- **Post 2003:** Develop the SOE as focused sustainable state owned business entities delivering on a specific strategic economic mandate. Direct SOE to align strategy with the needs and policy direction of the domestic economy, namely:
  - Positioning or entry of SOE in pursuit of industry or sectoral policies
  - The development & promotion of policies by DPE that enhance operation of SOE.



Post 2003, the DPE has managed the portfolio of SOE towards the achievement of the following long term objectives:



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# The DPE's mission is to ensure that the SOE are both financially sustainable and deliver on government's developmental objectives

To optimize the alignment between the role of the SOE in the national economic strategy and the performance of the DPE's portfolio of enterprises through delivering best practice shareholder management services and engaging with stakeholders to create an enabling environment for such alignment.

The DPE has a duty to maintain an appropriate balance between the SOE interest and the National interest.

Enterprise Interest

National Interest



DPE



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# The Shareholder has distinct responsibilities...

## Shareholder Responsibility

- The shareholder exercises specific powers:
  - Shareholder Minister to appoint all directors after Cabinet approval - executive directors appointed upon recommendation from Board.
  - Approval of significant & material transactions.
  - Issuing of a strategic intent statement.
  - Conclusion of binding shareholder compact.
  - Access information to monitor and evaluate performance.
  - Enforce accountability and take remedial action.
  - Production of good practice notes.



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# ...as distinct from the Board and Management....

## Board and Management Responsibility

- Responsible for ensuring the financial sustainability of the company through coherent utilisation of company's assets
- Responsibility for development and implementation of the strategy:
  - Development of strategic and business plans and subsidiary plans. (Financial, risk management, operational, marketing, etc).
  - Appointment of management and staff.
  - Management of all aspect of operations.
  - Development of detailed company policies (e.g. remuneration, procurement, etc) within guidelines defined by practice notes and implementation of company practice in adherence to the policy.



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# ...as distinct from policy and regulatory responsibilities

Once the below perspectives are accepted...

- 1 Funding must ultimately derive from a commercial tariff
  - The scale of the infrastructure challenge is too large for it to be funded out of the fiscus alone
- 2 Government needs an enterprise in the sector to ensure continuity of strategic intent

The resulting institution needs to be separated from policy departments (particularly when there are regulatory responsibilities)

Shareholder needs to be independent of policy departments to avoid conflicts of interest:

**Between consumers and SOE interests**

- Prime function of policy is to advance the interest of the consumer

**Between SOE and private sector**

- Where sector policy promotes competition
- Where regulator needs to be seen to independently set a fair price.

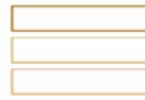


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# SOEs provide the South African State with a vehicle to drive investment in key areas



## Relevant advantages of SOE vehicle

- State ownership (of SOE) enables consistency of strategic intent
- Charges a commercial tariff thereby ensuring that the sector pays for its development – particularly important when the sector is of a scale which makes it impossible for fiscus to fund its development
- Can leverage broader capital markets
- Ability to partner the private sector because of a common underlying logic (both commercial and both companies)
- Motivation and ability as a commercial enterprise to drive dynamism, skills and technology development across the entire supply chain
- Can leverage commercial tools to incentivise and ensure management discipline



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# A core role of the SOE is to provide strategic network infrastructure to ensure security of supply

**Network infrastructure (logistics, energy, telecommunications) is fundamental to supporting general economic activity**

- Government is the only social agent with an intrinsic interest in ensuring adequate investment in infrastructure
  - Clear strategic signal: security of supply
  - Particularly important in the context of immature regulatory capability and volatile global supplier markets.
- Government investment does not preclude operational partnerships with, or direct investment from, the private sector.
- However, while such investment is a pre-requisite to sustaining the economy, it will not enable a transformation of the economic trajectory.

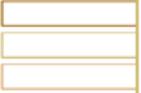


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# However, South Africa is facing a range of economic challenges



## Key Challenges

- Accelerating the growth rate to create wealth that enhances the standard of living for all South Africans.
- Dramatically increasing employment creation in the formal economy.
- Developing industrial capabilities to decrease the countries dependence on commodity exports and enhance the current account deficit.
- Transforming the ownership and management profile of the economy to reflect that of the broader South African population.



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# A range of policies reflect the commitment of the South African Government to overcome these challenges

**Performance  
Evaluation  
Framework**

**The New  
Growth  
Path**

**Industrial  
Policy Action  
Plan**

- Increasing the rate of investment in fixed assets (particularly infrastructure capacity), technologies and skills to support the growth process.
- Enhancing the competitiveness of the economy through better infrastructure services, managing the value of the currency and skills upgrading.
- Encouraging labour intensive and green activities.
- Leveraging public procurement to develop manufacturing.
- Promoting social compacts around development objectives.

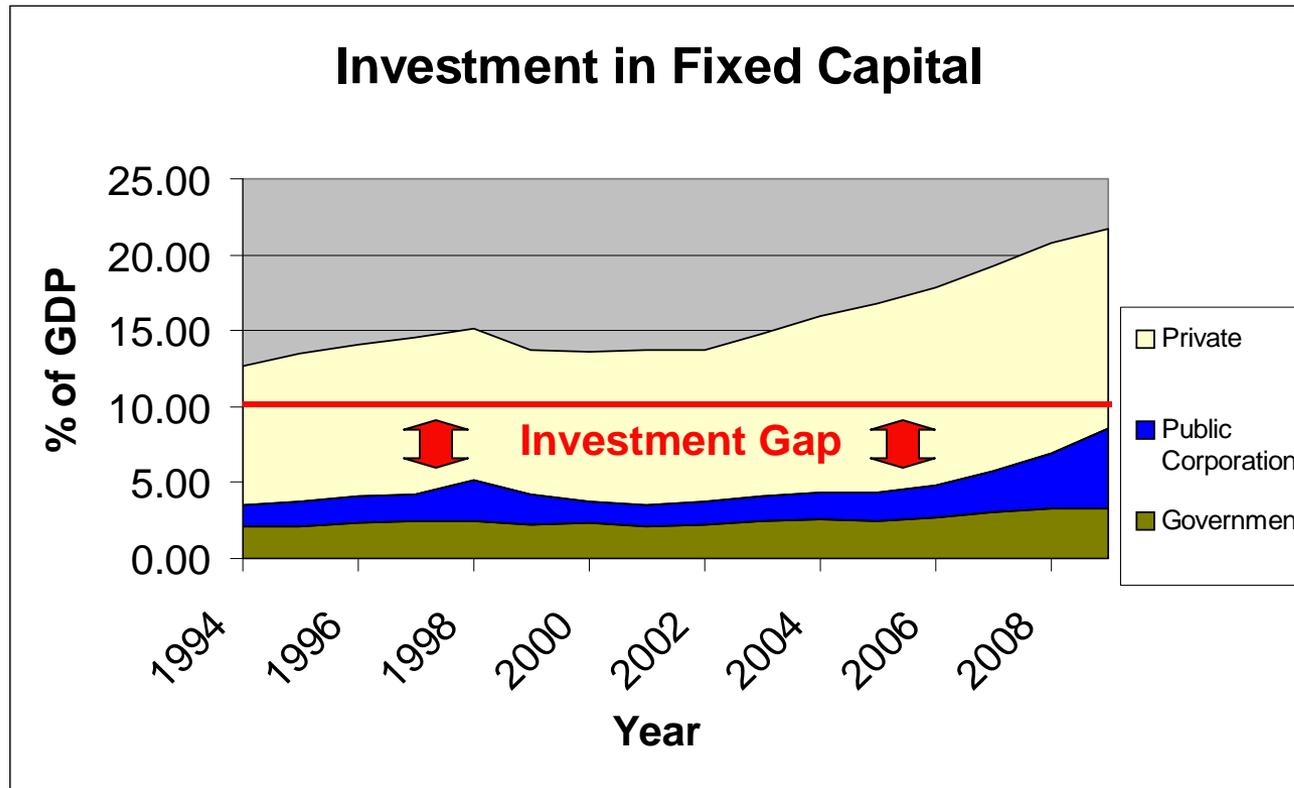


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# A particular challenge is the infrastructure investment backlog resulting from investment at around 5% of GDP between 1994-2004



➔ **Public investment shortfall from 1994-2009 benchmarked based on 10% GDP investment in infrastructure of approximately R1,5 trillion in 2010 rands.**

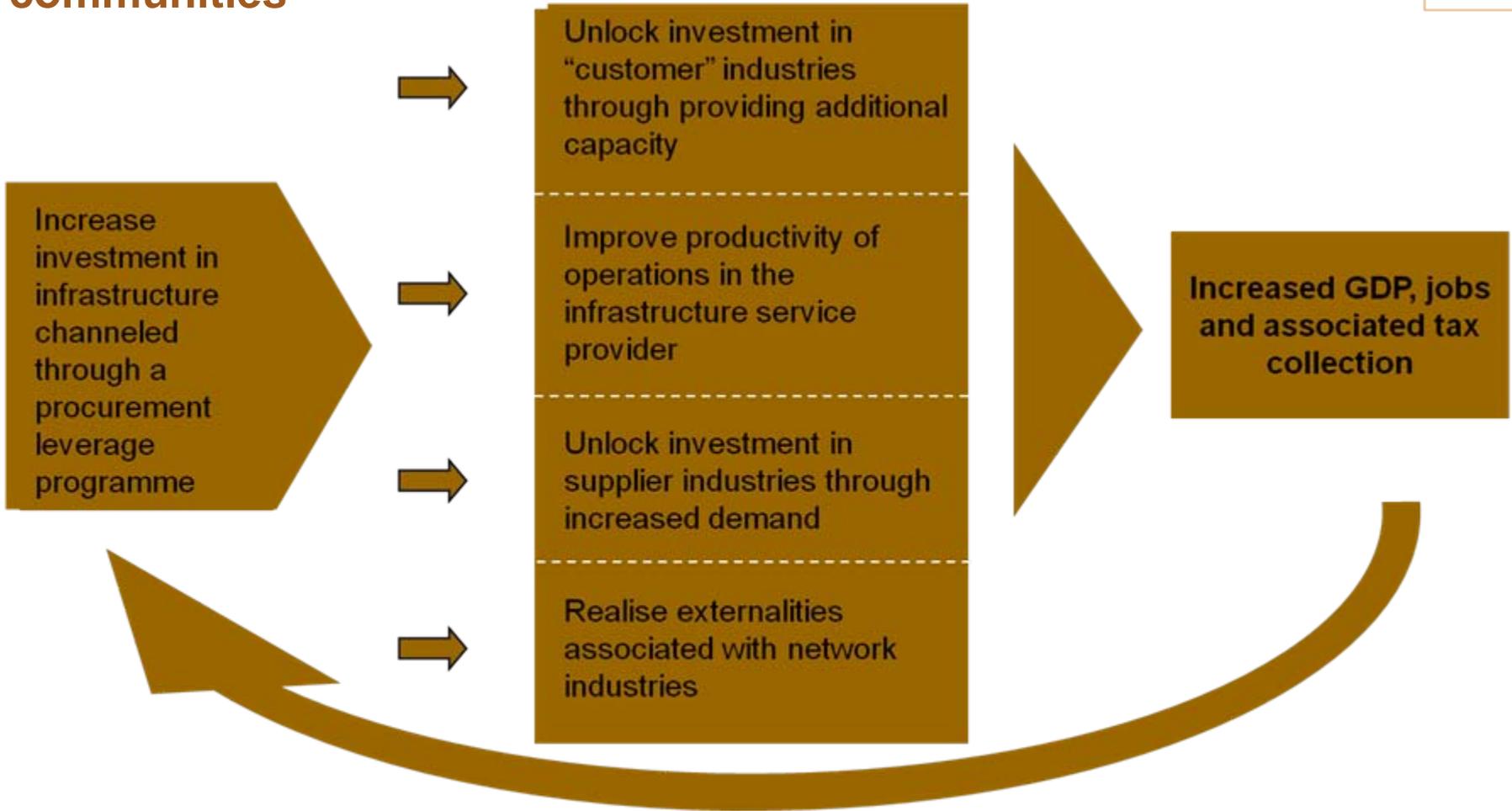


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# Infrastructure SOE are in a unique position to unlock growth through impact of their investment on their customer and supplier communities



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**Sustained Growth Requires  
Continuous Investment!!!**



The DPE's vision is to provide effective shareholder management of state owned enterprises that report to the department, and support and promote economic efficiency and competitiveness for a better life for all South Africans. This vision is reflected in the strategic plan activities for the period ahead.

However, the role of DPE in the context of national economic strategy and the New Growth Path must be to drive investment, efficiencies and transformation in its portfolio of SOE, their customers and their suppliers to unlock growth, create jobs and develop skills.

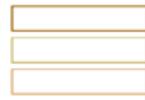
**Consequently, the Department's vision must be enhanced to reflect the SOEs unique ability to unlock growth in its customers and suppliers. The DPE's Plan of Action in the period ahead will therefore be directed towards this.**



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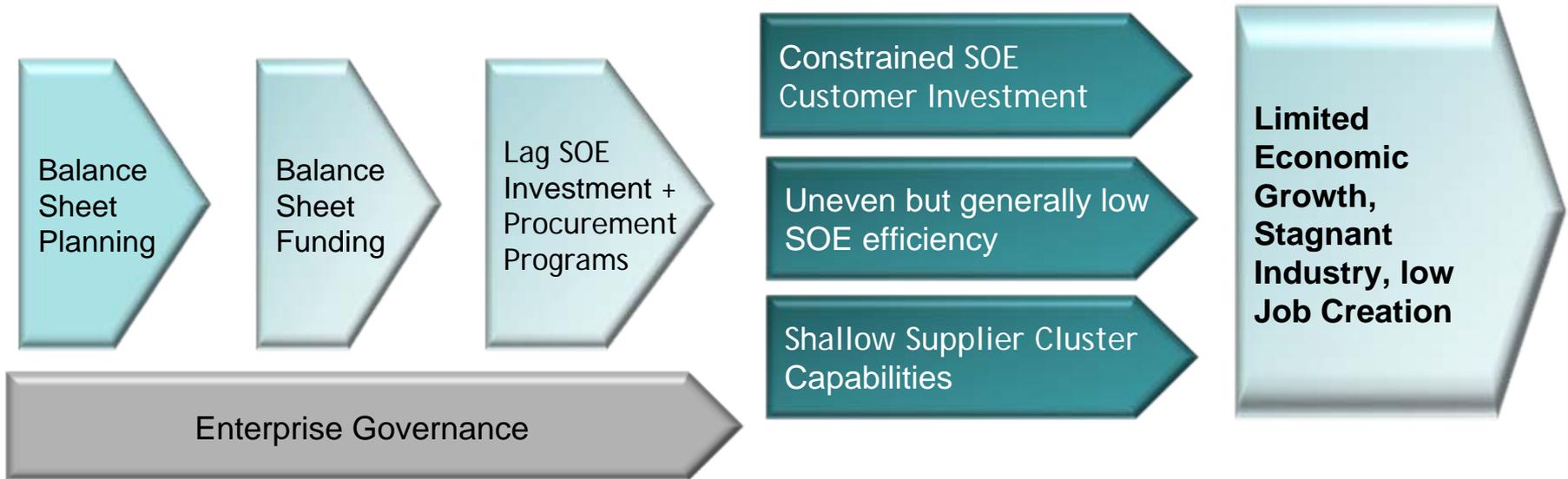
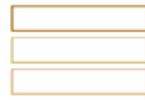




# WHAT IS THE DPE'S PLAN OF ACTION IN RESPONDING TO NATIONAL ECONOMIC STRATEGY AND THE NEW GROWTH PATH



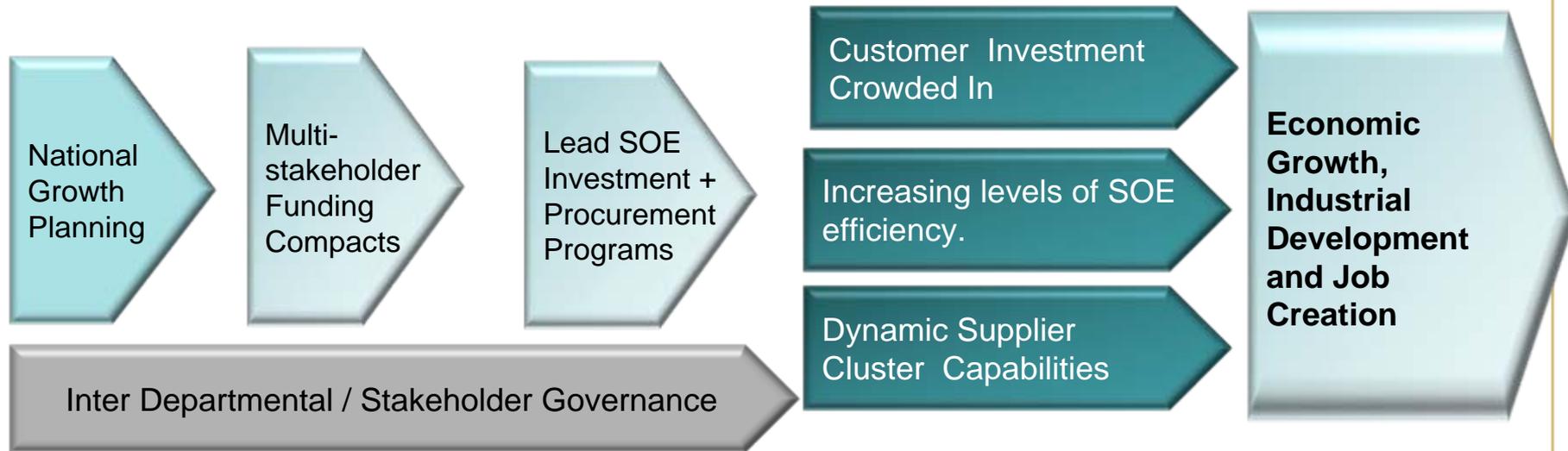
# The present constrained growth situation is linked to an SOE balance sheet based planning, funding and procurement process



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# For the SOE to play a role as a growth catalyst, a paradigm shift is required in the design and implementation of SOE investment programmes



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## To enable the paradigm shift, the DPE needs to engage with seven key initiatives.

- 1 **Planning** in a manner that unlocks customer growth potential and gets to a steady state of demand so as to enable the sustainability of both the enterprise's capability to procure and of their supplier communities.
- 2 Develop innovative **funding** mechanisms, involving customers and financial institutions to drive lead investment in infrastructure capacity.
- 3 **Procuring** in a manner that leverages investment and capability building in the associated supply chain.
- 4 Driving **productivity** improvements in selected areas through active shareholder over-sight.
- 5 Leverage the SOE position amongst customers and suppliers to drive **transformation**, particularly **skills** development.
- 6 Create an **enabling policy and regulatory environment** for the vision.
- 7 Entering into **Compacts** with customers, suppliers and other relevant stakeholders around investment, efficiency and transformation.



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## In the short to medium term, the DPE's strategic focus will be on...

- Rethinking the organisational design of the Department to better respond to the challenges of the New Growth Path.
- Implementing initiatives to drive investment in infrastructure that unlocks higher growth rates.
- Providing decisive leadership and ensuring that the government shareholder management model is implemented.
- Optimising capital investment and operational efficiencies in State Owned Enterprises.
- Refining the policy and regulatory environment.
- Integrating key programmes into the broader industrial policy and economic cluster programme.
- Knowledge management.
- Achieving the outputs and sub-outputs linked to Outcome 6 and those contained in the Minister's Service Delivery Agreement.



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## Key Challenges facing the Department

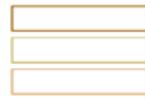
- Improved policy and regulatory environment.
- It should be recognised that DPE's role as Shareholder is distinctly different from the role of policy departments (who are also shareholders).
- This Shareholder role requires specific capacity and capability to enhance the Department's technical ability to manage SOE investments – which in itself requires adequate mechanisms to attract and retain specialised technical skills.
- The Department requires a culture that rigorously understands, and is responsive to, the often fast-changing and challenging commercial environment within which SOE operate.
- The Department's inability to source/recruit the required technical skills affects its role in being a value-adding interface between the SOE, policy departments, SOE customers and other stakeholders.
- In some instances, interdepartmental coordination and alignment on mandates of SOE proves to be challenging.
- Impact of the recession on SOE.
- DPE's role and future institutional form in light of the SOE Review process.



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# PERFORMANCE AGAINST 2010/11 STRATEGIC PLAN



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## In the current financial year (2010/11), the Department and SOE identified the following key measurable outputs (1)

OUTPUT	PROGRESS REPORT
Delivery of new Electricity Generation capacity by Eskom according to its approved build plan and as directed by the Integrated Resource Plan (IRP)	5032MW commissioned and delivered to the system by 2017.
Facilitation of the introduction of Independent Power Producers as determined by the IRP	Ring-fenced procurement function has been established with Eskom as an interim arrangement to facilitate IPP procurement.
Restructuring the Pebble Bed Modular Reactor Company	The downsizing of the company to 9 permanent staff has been completed. The packaging of the IP and the company's operation in preparation for the Care and Maintenance phase is largely complete.
The restructuring of Denel	<ul style="list-style-type: none"> <li>• Review of Denel's business model to achieve commercial sustainability.</li> <li>• Framework for resolution of DSA</li> <li>• Board skills review completed to identify the requisite skills in line with proposed strategic direction.</li> </ul>
The creation of a Remuneration Panel that will promote appropriate remuneration policies and practices for Chief Executives and the Boards of Directors of SOE	The Panel has completed its Report and recommendations. The DPE is currently in the process of consulting with key stakeholders before a final decision is submitted to Cabinet for endorsement.

## In the current financial year (2010/11), the Department and SOE identified the following key measurable outputs (2)

OUTPUT	PROGRESS REPORT
The appointment of CEOs and Board Members to SOE and ensuring that vacancies are filled with minimum delays	The DPE has developed CEO appointment guidelines to enable an efficient and timely process of appointment. Board vacancies are addressed with priority given to skill & expertise.
Agreement on a way forward with the Richtersveld Community to ensure that the lives of the community are improved	<ul style="list-style-type: none"> <li>• All Alexkor, State and Northern Cape Provincial land, except for township erven. Subdivision and zoning of the Township conducted and general plan approved. Upgrade of Township civil and electrical engineering services to municipal standards has commenced and is expected to be completed by July 2011.</li> <li>• Alexkor's agricultural and maricultural assets have been transferred to the Community.</li> <li>• Transfer of land mining rights to the Community and commencement of Pooling &amp; Sharing JV expected before end March.</li> </ul>
Rail reform policy process and implications for Transnet Freight Rail	Completed Phase 1 of the rail reform study, with recommendations on rail restructuring models for TFR. Phase 2 to be completed in 2011/12 FY.
Efficiency improvements on the main freight corridors	Completed implemented of targets and indicators of the National Corridor Performance Measurement (NCPM) to measure operational performance of the iron ore and coal export corridors.

## In the current financial year (2010/11), the Department and SOE identified the following key measurable outputs (3)

OUTPUT	PROGRESS REPORT
Create scope for multi-operator involvement in under-utilised branchlines	Jointly developed the branch lines strategy with Transnet and DOT, presented at DGs Infrastructure Cluster in July 2010. Tested appetite from the market.
Assessment of strategic options for a future SAA and alignment to African Aviation Strategy	SAA to present options on SAAT by end of March 2011. Approved SAA fleet renewal plans to replace 2 old aircraft (B737) with modern equipment (A340) on 2 African routes(Jhb to Luanda and Jhb to Lagos) to improve service.
Continuing to leverage SOE as instruments of industrial policy to achieve the State's social and economic development objectives	Maintained counter cyclical investment programmes. Major internal skills development and supplier skills initiative and consolidation of procurement leverage programmes.
The creation of a clear path of sustainability for the SOE, thus reducing their dependence on the fiscus	Capital structure framework developed comprising a process and methodology to assess and indicate the amount of capital required given the investment time horizon and projected capital investment requirements, allocating the required capital between equity and debt.
Leveraging private sector investment to retain momentum in the infrastructure build programme and to promote competition in targeted areas.	Eskom has entered into an agreement with Power Purchasers as part of its medium term power purchase programme and will have concluded 400MW by year end.

## DPE Budget Appropriation for 2010/11 : Expenditure Overview

Programme	2010/11	2010/11
		Expenditure up to and including 28 February 2011
	R000	R000
1. Administration	106 835	83 763
2. Energy and Broadband Enterprises	174 476	149 575
3. Legal and Governance	50 023	48 227
4. Manufacturing Enterprises	192 782	188 487
5. Transport Enterprises	21 257	15 093
6. Joint Project Facility	10 176	6 231
<b>TOTAL</b>	<b>555 549</b>	<b>491 376</b>

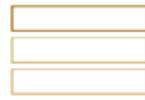
DPE has spent 88.45 % of its annual appropriation up to and including 28 February 2011 amounting to R491.4 million. The remainder of the budget will be managed as follows:

Amounts due for disbursement during March are as follows:

- R20 million - Transfer payment to PBMR
- R6.3 million - Commitments (orders placed)
- R7.5 million Salaries

In addition, other sundry payments are being followed up with the State Attorney, Telkom, Auditor General and other projects which have not yet been completed. There are some projects which were budgeted for in the current year, but which will overrun into 2011/12, accordingly the department will be requesting National Treasury approval to roll funds over for the completion of these projects.

These are preliminary projections which will be finalised at year end.



# STRATEGIC PLAN OF THE DEPARTMENT 2011/14

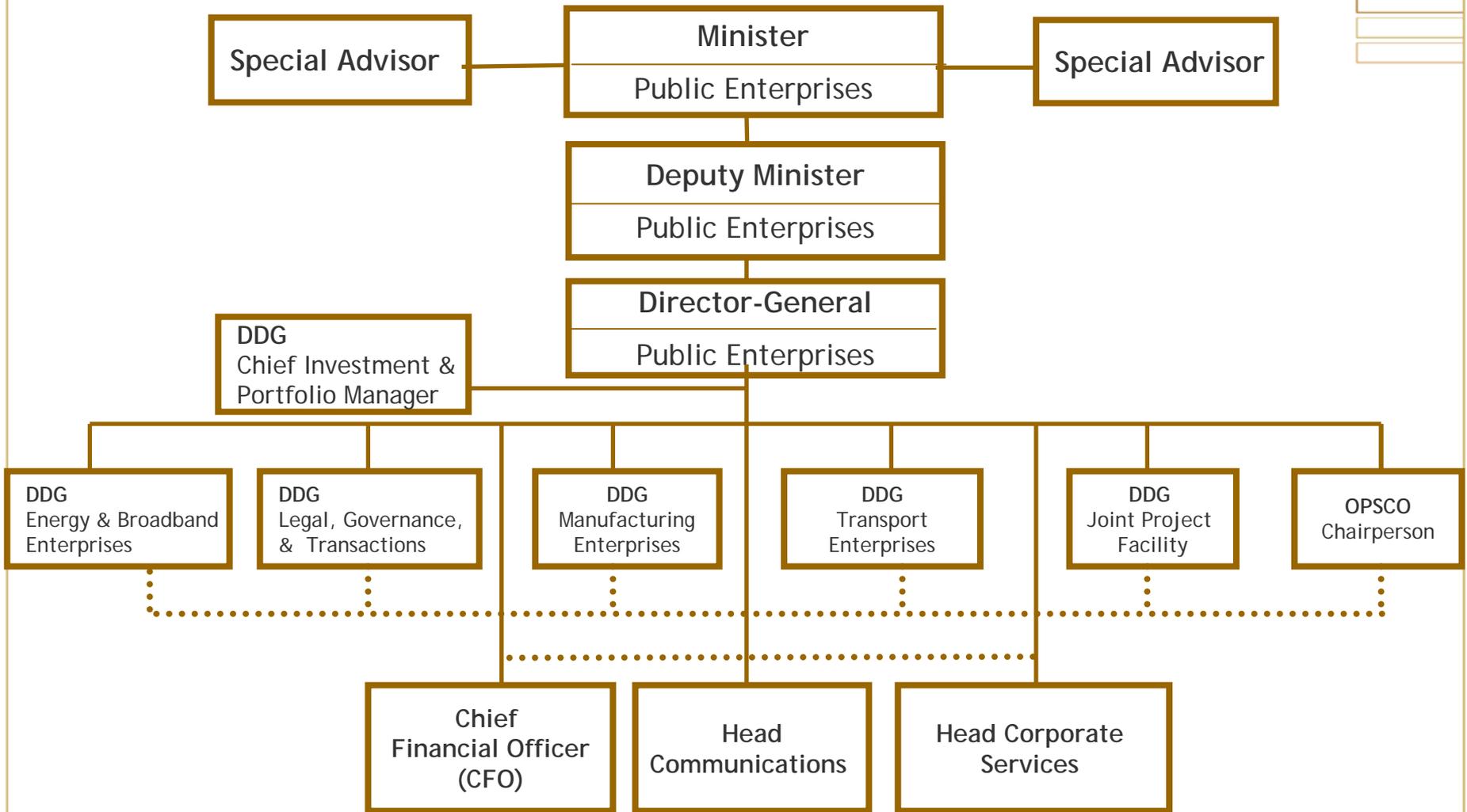
## ORGANISATIONAL STRUCTURE, DPE BUDGET AND SOE TRANSFERS AND GUARANTEES



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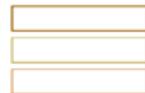
# Organisational Structure as at 1 March 2011



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# DPE statistics as at 1 March 2011



Total establishment as at 1 April 2010	<b>168</b>	
Filled posts as at 01 April 2010	<b>140</b>	
Interns appointed	<b>22</b>	
Graduates Development programme recruits	<b>4</b>	
Total establishment as at March 2011	<b>185</b>	
Filled posts as at 31 March 2011	162	
Vacancies as at 31 March 2011	23	
Interviews in progress	3	Offer Made: <b>2</b> Advertised : <b>2</b>
Total new appointments (01/04/10-31/03/11)	<b>35</b>	
	15	Level 13 - 16
	7	Level 9 - 12
	13	Level 1 - 8
Total exits (01/04/10-31/03/11)	<b>15</b>	
	7	Level 13-16 (6 Resignations, 1 Transfer)
	3	Level 9 -12 (2 Resignation, 1 Transfers)
	5	Level 1 -8 (4 Transfers,1 Retirement)
Vacancy Rate as at 31 March 2011	<b>12.43%</b>	Public Sector Vacancy Rate as at 31 March 2011: <b>22% (overall status)</b>
Turnover Rate as at 31 March 2011 as per Oversight Report calculation (Total exits divided by Filled posts as at 1 April 2010)	<b>10.71%</b>	Public Sector Turnover Rate as at 31 March 2011: <b>18 % (overall status)</b>

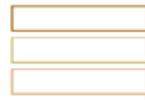


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# Employment Equity Targets - as at 1 March



Statistics SA (mid-year population estimates)	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%	DPSA Target 2%
Achieved % Actual	42.59% 69	37.03% 60	2.46% 4	1.23% 2	4.32% 7	2.46% 4	7.40% 12	2.46% 4	3.70% 6



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## DPE Budget – Appropriation per Programme

	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R'000	R'000	R'000	R'000
1. Administration	106 835	106 734	112 968	118 820
2. Energy and Broadband Enterprises	174 476	58 652	20 246	21 669
3. Legal and Governance	50 023	12 163	13 455	14 321
4. Manufacturing Enterprises	192 782	13 072	13 408	14 275
5. Transport Enterprises	21 257	26 610	25 701	25 465
6. Joint Project Facility	10 176	13 000	13 873	15 862
<b>TOTAL</b>	<b>555 549</b>	<b>230 231</b>	<b>199 651</b>	<b>210 412</b>

Over the MTEF period expenditure decreases from R555.5 million in 2010/11 to R210.4 million in 2013/14 which is as a result of reduced transfer payments to the SOE. This decrease is marginally offset by an increase of R30.1 million in current payments over the same period. The increase is mainly due to increased spending on compensation of employees due to annual increments and an increase in the establishment from 175 in September 2010/11 to 181 in 2011/12 and going forward to the outer years. Accordingly, expenditure on Goods and Services increases to provide support to the larger personnel establishment.



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# DPE Budget – Appropriation per Economic Classification

	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R'000	R'000	R'000	R'000
<b>Current payments</b>				
Compensation of employees	90 315	96 539	101 017	106 169
Goods and services	87 925	91 539	96 643	102 136
<b>Transfers and subsidies</b>				
Public corporations and private enterprises	237 296	40 000	-	-
Gifts and donations	610	753	791	835
<b>Payments for capital assets</b>				
Machinery and equipment	703	1 400	1 200	1 272
<b>Payment for Financial Assets</b>	138 600	-	-	-
<b>Total</b>	<b>555 549</b>	<b>230 231</b>	<b>199 651</b>	<b>210 412</b>



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## DPE Budget – Summary of Transfer payments and payment for financial assets to SOE

	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R000	R000	R000	R000
Alexkor	36 000	-	-	-
Denel	181 296	-	-	-
Broadband Infraco (* Financial Assets)	138 600			
Pebble Bed Modular Reactor	20 000	40 000	-	-
<b>Total</b>	<b>375 896</b>	<b>40 000</b>	-	-

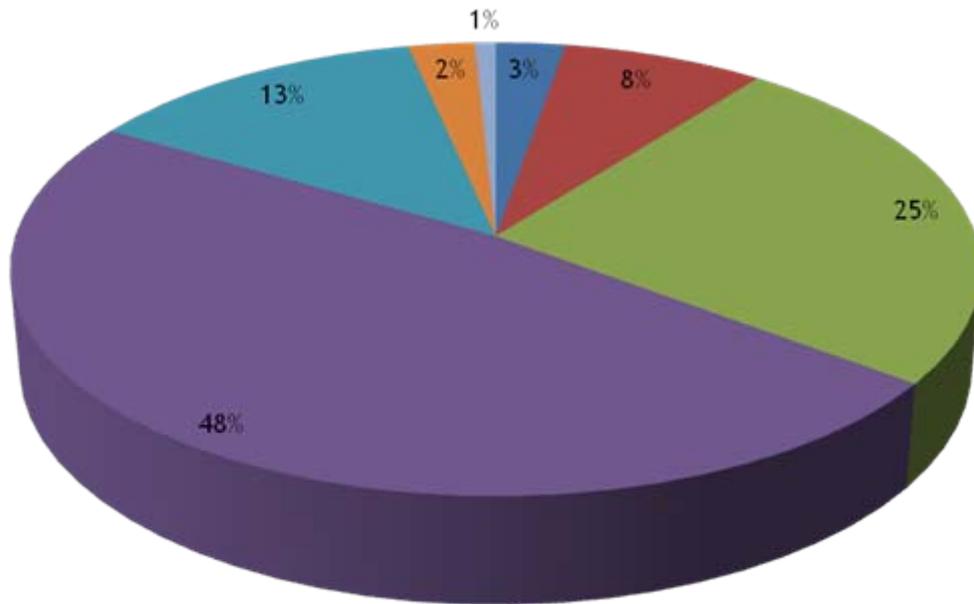
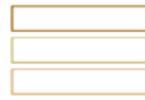
\*The transfer payment amounting to R138.6 million to Broadband Infraco for establishment and operational costs is classified as Payments for financial assets in the Economic Classification on the Standard Chart of Accounts.

R36 million was allocated and paid to Alexkor in 2010/11 for township development costs. R181.3 million was allocated and paid to Denel in respect of an indemnity claim granted to Denel/Saab Aerostructures.

R60 million has been allocated over the 2010/11 and 2011/12 years' to the PBMR for the statutory requirement for decommissioning and dismantling the fuel development laboratory.



# Transfers per SOE as proportion of total transfers from 2004/05 – 2010/11



- Alexkor
- Broadband Infraco
- Denel
- Pebble Bed Modular Reactor
- South African Airways
- South African Express
- Transnet (SAX)

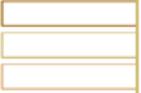
Government Guarantees were also issued to Transnet, SAA, Denel and Eskom.



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# PROGRAMMES



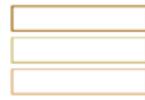
## PRIORITY AREAS AND EXPECTED OUTCOMES



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# PROGRAMME 1 : ADMINISTRATION



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# Programme 1: Administration

## Purpose:

Achieve the Department's strategic objectives through providing overarching management and key supporting functions and processes.

## Priorities (Operations):

- Monitoring in-year cost-saving initiatives
- Attraction and retention of relevant specialist sector skills
- Internal Risk Management
- Effective and efficient knowledge management
- Enhancing departmental performance management reporting
- Continued compliance with relevant legislation e.g. PFMA and Treasury Regulations including tender and procurement processes
- Secure and stable IT environment



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# Programme 1 : Chief Investment & Portfolio Management

## Purpose

- A portfolio approach applied to the management & shareholder investment process of all SOE falling under the purview of the DPE to ensure SOE commercial sustainability & attainment of desired strategic outcomes & objectives by the SOE
- Building on frameworks developed, focus on effective investment processes for shareholder value optimisation and SOE commercial sustainability

## Priorities

- synchronising logical planning, monitoring and evaluation processes
- performing performance monitoring and shareholder risk management to investments in state owned enterprises
- developing the department's capital structure framework for state owned enterprises
- managing the equity interest and contingent liability exposure of the department's investment portfolio
- developing investment policy and identifying sources for capital funding
- ensuring economic and regulatory cohesion for network infrastructure
- providing specialist transaction input and advice
- re-directing Alexkor's commercial focus and sustainability
- implementing the Richtersveld Deed of Settlement.

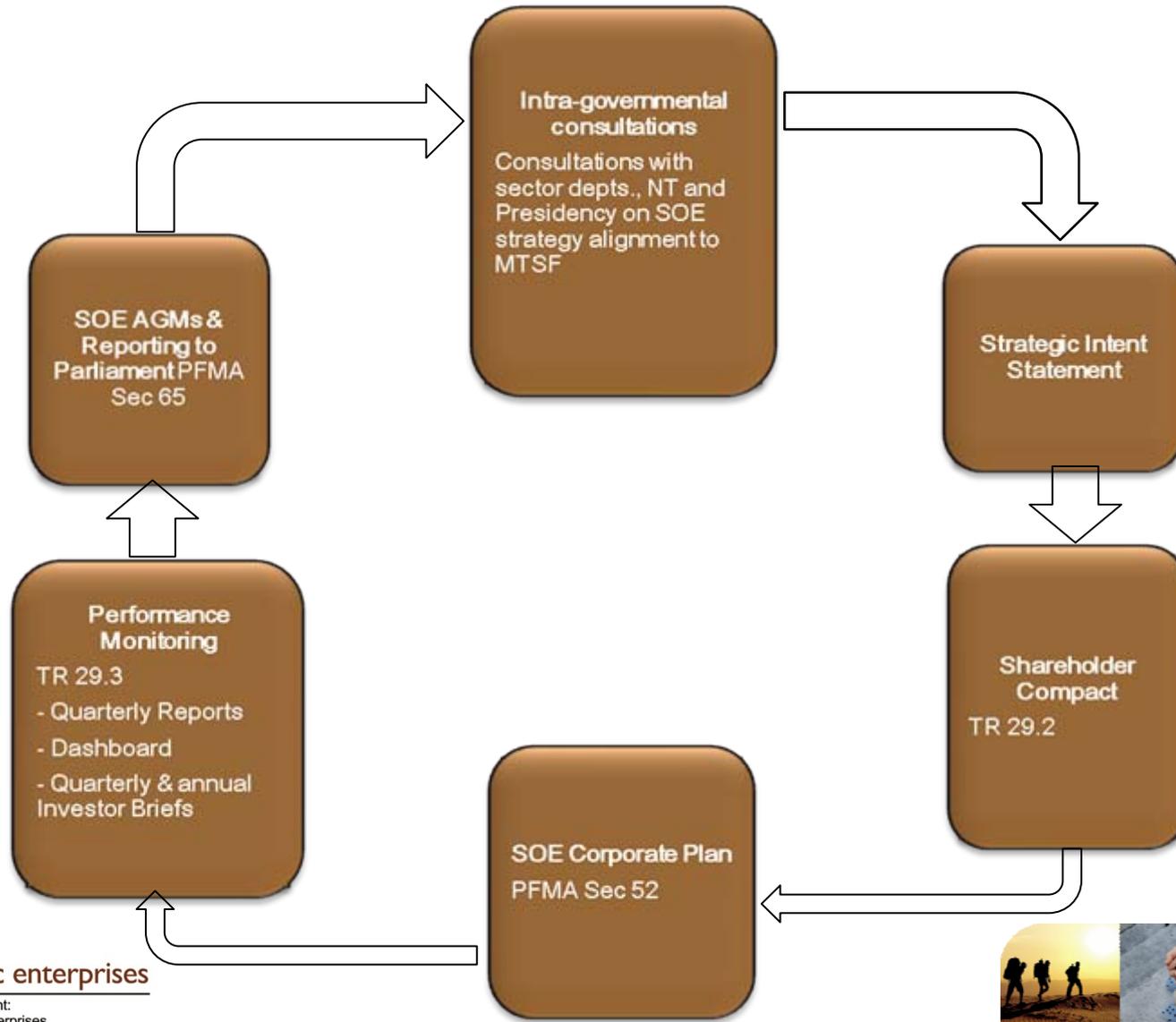


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# Logical Planning, Monitoring & Evaluation Cycle



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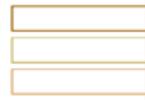


## Programme 1 – Administration

PROGRAMME 1 - ADMINISTRATION				
	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R000	R000	R000	R000
<b>Current payments</b>				
Compensation of employees	48 925	52 079	54 963	57 188
Goods and services	56 497	52 502	56 014	59 525
<b>Transfers and subsidies</b>				
Public corporations and private enterprises	-	-	-	-
Gifts and donations	710	753	791	835
<b>Payments for capital assets</b>				
Machinery and equipment	703	1 400	1 200	1 272
<b>Payment for Financial Assets</b>	-	-	-	-
<b>Total</b>	<b>106 835</b>	<b>106 734</b>	<b>112 968</b>	<b>118 820</b>

Expenditure is expected to grow over the medium term from R106.8 million in 2010/11 to R118.8 million in 2013/14 at an average annual rate of 3.6 per cent. The growth is mainly due to inflation related adjustments to the baseline as adjusted to reflect savings from the centralisation of support services such as in-house printing and reproduction services, training, bursaries, stationery, information technology services, software licences, computer equipment, vehicle leases, office accommodation, communications, audit fees and telephones.





# PROGRAMME 2 : ENERGY & BROADBAND ENTERPRISES



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## Programme 2: Energy & Broadband Enterprises (1)

### Purpose:

- **Energy Sector** provides shareholder oversight of Eskom. This entails: generating, transmitting and distributing electricity with a particular emphasis on security of supply and optimising current operations; and carrying out oversight of the Pebble Bed Modular Reactor, which includes monitoring the progress of the implementation of the care and maintenance programme to preserve intellectual property and assets as approved by Cabinet.
- **ICT Broadband Sector** provides shareholder oversight of Broadband Infraco. This includes overseeing agreements between parties, assessing the business plan, monitoring the national and international long distance networks, and providing overarching shareholder management.
- **Legal and Risk (Energy and Broadband Enterprises)** deals with all legal, governance and risk work specifically related to the above-mentioned state owned enterprises.

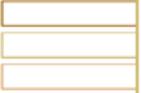


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## Programme 2: Energy & Broadband Enterprises (2)



### Priorities:

- Delivery and Funding of the Eskom Capital Expansion Programme
- Electricity Security of Supply (System Operations & Maintenance)
- Procurement of Renewable Energy Capacity from the Private Sector as directed by the NERSA MYPD2 determination
- Development of a sustainable business model to unlock broadband access and affordability in underserviced areas
- Implementation of PBMR Care and Maintenance



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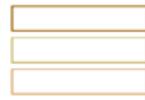
## Programme 2 – Energy & Broadband Enterprises (3)

PROGRAMME 2 – ENERGY AND BROADBAND ENTERPRISES				
	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R000	R000	R000	R000
<b>Current payments</b>				
Compensation of employees	11 737	11 863	12 481	13 364
Goods and services	4 139	6 789	7 765	8 305
<b>Transfers and subsidies</b>				
Public corporations and private enterprises	20 000	40 000	-	-
Gifts and donations	-	-	-	-
<b>Payments for capital assets</b>				
Machinery and equipment	-	-	-	-
<b>Payment for Financial Assets</b>	138 600	-	-	-
<b>Total</b>	<b>174 476</b>	<b>58 652</b>	<b>20 246</b>	<b>21 669</b>

Spending in this programme over the medium term will focus on making transfer payments to: the Pebble Bed Modular Reactor Company for the decommissioning and dismantling costs in 2010/11 and 2011/12, and Broadband Infracore for the final capitalisation transfer in 2010/11.

Expenditure decreases over the medium term from R174.5 million in 2010/11 to R21.7 million in 2013/14, at an average annual rate of 50.1 per cent. The decrease is due to a reduction of transfer payments to state owned enterprises, particularly the Pebble Bed Modular Reactor project, as it has been placed into care and maintenance, and Broadband Infracore, as the entity will not be receiving further funding from the fiscus.





# PROGRAMME 3 : LEGAL AND GOVERNANCE



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## Programme 3: Legal and Governance (1)

### Purpose:

Legal and Governance provides systems that align state owned enterprises with legal and corporate governance best practice and with Government's strategic intent.

- **Legal** provides effective and sound legal advice to the department to ensure that potential legal risks to the department are highlighted and accounted for. The sub-programme has a staff complement of 4 and 55.3 per cent of the budget is used on goods and services, including expert legal advice and normal operational expenditure.
- **Governance** develops frameworks to promote transparency and good corporate governance within state owned enterprises. The sub-programme has a staff complement of 2 and 69.6 per cent of the budget is used on goods and services, including expert legal advice and normal operational expenditure.



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## Programme 3: Legal and Governance (2)

### Priorities:

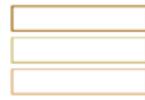
- To ensure alignment between SOE business plans and the new Companies Act, 2008 by providing SOE with guidelines on the Memorandum of Incorporation.
- To improve the relationship between the Department and the various SOE in its portfolio through the following:
  - Conduct legislative audit in respect of the PFMA, Competition Act, PAIA PAJA, Electronic Communications and Transactions Act, State Information Technology Agency Amendment Act , National Archives Act, amongst others
  - Ensure successful conclusion of all outstanding litigation against the Department and SOE
  - Improve of the shareholder relations and communication through:
    - Transparent information sharing and constant engagements with SOE Chief Executives and Chairpersons.
    - Addressing all vacant Board positions to achieve appropriate Board composition comparative to the SOE skill mix and achievement of Government's economic objectives .
    - Continuous and vigorous assessment of Board performance to ensure Board commitment to the delivery of Government's economic priorities, as captured in the Strategic Intent and the achievement of Shareholder Compact targets.

## Programme 3 – Legal and Governance (3)

PROGRAMME 3 – LEGAL AND GOVERNANCE				
	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R000	R000	R000	R000
<b>Current payments</b>				
Compensation of employees	5 424	5 630	5 965	6 308
Goods and services	8 599	6 533	7 490	8 013
<b>Transfers and subsidies</b>				
Public corporations and private enterprises	36 000	-	-	-
Gifts and donations	-	-	-	-
<b>Payments for capital assets</b>				
Machinery and equipment	-	-	-	-
<b>Payment for Financial Assets</b>				
	-	-	-	-
<b>Total</b>	<b>50 023</b>	<b>12 163</b>	<b>13 455</b>	<b>14 321</b>

Expenditure decreases over the medium term from R50.0 million in 2010/11, to R14.3 million, at an average annual rate of 34.1 per cent. The decrease is driven by the final transfer payment to Alexkor in 2010/11 for the final establishment of the township.





# PROGRAMME 4 : MANUFACTURING ENTERPRISES



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## Programme 4: Manufacturing Enterprises (1)

### Purpose:

Align the corporate strategies and performance of Denel and the South African Forestry Company Limited with Government's strategic intent and performance targets. Develop proposals in terms of the state owned enterprises' role in developing an advanced manufacturing cluster.

- **Defence Sector** oversees Denel's financial and strategy implementation.
- **Forestry Sector** monitors the activities of the South African Forestry Company.
- **Legal and Risk (Manufacturing)** deals with all legal, governance and risk work specifically related to the above mentioned state owned enterprises.



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## Programme 4: Manufacturing Enterprises (2)

### Priorities: DEFENCE SECTOR

- To facilitate the financial and operation sustainability of Denel
- Review of the Denel Board to bring it to a full complement of members with the requisite skills, experience and expertise needed to address the company's prevailing strategic and solvency challenges and ensure it achieves financial recovery and commercial sustainability.
- Review of Denel strategic direction and development of turnaround plan that clearly indicates how Denel will achieve commercial sustainability and reduce its dependence on the fiscus.;
- Monitor Denel's turnaround by:
  - measuring ongoing performance against the turnaround plan
  - setting working capital management targets and conducting monthly performance reviews
  - providing support to ensure effective restructuring of Denel Saab Aerostructures and Denel Dynamics to return to commercial viability
  - ensuring optimal alignment between Denel's restructuring plan and the strategic requirements of the Department of Defence
- Facilitate the process of defining Denel's future role in the economy with various stakeholders to ensure strengthening of advanced manufacturing technologies in support of Government's industrial policy objectives.



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## Programme 4: Manufacturing Enterprises (3)

### Priorities: FORESTRY SECTOR

- Facilitate financial sustainability to ensure commercial viability by assessing and monitoring the implementation of the South African Forestry Company Limited turnaround plan, measured by improved financial performance on an ongoing basis.
- Provide clarity on the future role of the South African Forestry Company Limited by:
  - developing an internal position paper for broader consultation between the South African Forestry Company Limited, the departments of Agriculture, Forestry and Fisheries and Rural Development and Land Reform
  - ensuring that the mandate of South African Forestry Company is aligned with government's strategic objectives both domestically and internationally by means of assessment of quarterly reports.
  - facilitate the disposal of minority shares by engaging with the Department of Rural Development and Land Reform on its position on the optimal institutional vehicle to ensure the transfer of shares and developmental benefits to community beneficiaries.
- Facilitate progress on resolving land claims by Rural Development and Land Reform since 61 percent of the South African Forestry Company Limited land under operation is subject to land claims.



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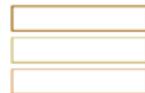
## Programme 4 – Manufacturing Enterprises (4)

PROGRAMME 4 – MANUFACTURING ENTERPRISES				
	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R000	R000	R000	R000
<b>Current payments</b>				
Compensation of employees	7 166	8 908	8 954	9 508
Goods and services	4 320	4 164	4 454	4 767
<b>Transfers and subsidies</b>				
Public corporations and private enterprises	181 296	-	-	-
Gifts and donations	-	-	-	-
<b>Payments for capital assets</b>				
Machinery and equipment	-	-	-	-
<b>Payment for Financial Assets</b>				
	-	-	-	-
<b>Total</b>	<b>192 782</b>	<b>13 072</b>	<b>13 408</b>	<b>14 275</b>

The spending focus of the programme will be primarily on administrative costs as no transfers will be made to state owned enterprises over the MTEF period.

Expenditure decreases from R192.8 million in 2010/11 to R14.3 million in 2013/14, at an average annual rate of 58 per cent. This is primarily due to the decrease in transfers to Denel, the final payment being R181.3 million in 2010/11 for an indemnity claim.





# PROGRAMME 5 : TRANSPORT ENTERPRISES



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## Programme 5: Transport Enterprises (1)

### Purpose:

Align the corporate strategies and performance of Transnet, South African Airways and South African Express Airways with Government's strategic intent and performance targets.

- **Transport Sector** provides shareholder oversight of Transnet.
- **Aviation Sector** provides shareholder oversight of South African Airways and South African Express Airways.
- Legal and Risk (Transport) deals with all legal, governance and risk work specifically related to Transnet, South African Airways and South African Express.



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## Programme 5: Transport Enterprises (2)

### Priorities:

### Transnet:

- A rail freight improvement programme to increase market share
- Creating scope for multi-operator involvement in under-utilized branch lines
- Introduction of private sector participation in Ngqura container terminal
- Leveraging Transnet capex in the development of local railway supplier industry

### Aviation:

- Develop a strategic scenario planning model for SAA
- Assess options for establishing South African Airways Technical as a multi-airline focused African maintenance hub



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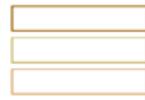
## Programme 5 – Transport Enterprises (3)

PROGRAMME 5 – TRANSPORT ENTERPRISES				
	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R000	R000	R000	R000
<b>Current payments</b>				
Compensation of employees	13 296	14 329	14 700	15 617
Goods and services	7 961	12 281	11 001	9 848
<b>Transfers and subsidies</b>				
Public corporations and private enterprises	-	-	-	-
Gifts and donations	-	-	-	-
<b>Payments for capital assets</b>				
Machinery and equipment	-	-	-	-
<b>Payment for Financial Assets</b>				
	-	-	-	-
<b>Total</b>	<b>21 257</b>	<b>26 610</b>	<b>25 701</b>	<b>25 465</b>

The spending focus of the programme will be primarily on administrative costs as no transfers will be made to state owned enterprises over the MTEF period.

Over the medium term, expenditure increases from R21.2 million to R25.5 million, at an average annual rate of 6.2 per cent, mainly to provide adequate support to the entities managed in this programme.





# PROGRAMME 6 : TRANSPORT ENTERPRISES



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## Programme 6: Joint Project Facility (1)

### Purpose:

Align the department and its portfolio of state owned enterprises to national economic strategies, such as the New Growth Path and associated objectives, through focused policy research and the development of catalytic projects.

**Joint Project Facility** provides programme management support for a number of catalytic projects that align the department and its portfolio of state owned enterprises to national economic strategies.



## Programme 6: Joint Project Facility (2)

### Priorities:

- Contribution to the New Growth Path
  - Skills development
  - Transformation
  - Youth Development
  - Procurement Leverage
- Driving the African Agenda
- Local and Provincial economic development



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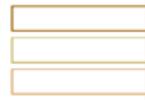
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## Programme 6 – Joint Project Facility (3)

PROGRAMME 6 – JOINT PROJECT FACILITY				
	2010/11	2011/12	2012/13	2013/14
	Final Appropriation	Medium term estimates MTEF Baseline		
	R000	R000	R000	R000
<b>Current payments</b>				
Compensation of employees	3 767	3 730	3 954	4 184
Goods and services	6 409	9 270	9 919	11 678
<b>Transfers and subsidies</b>				
Public corporations and private enterprises	-	-	-	-
Gifts and donations	-	-	-	-
<b>Payments for capital assets</b>				
Machinery and equipment	-	-	-	-
<b>Payment for Financial Assets</b>				
	-	-	-	-
<b>Total</b>	<b>10 176</b>	<b>13 000</b>	<b>13 873</b>	<b>15 862</b>

Over the MTEF period, expenditure is expected to increase from R10.2 million to R15.9 million, at an average annual rate of 15.9 per cent. This increase is primarily due to the launch of the South African Renewables Initiative project in 2010/11 as well the Policy and Strategic programme projects which will commence in 2011/12.



# STATE OWNED ENTERPRISES

## CONTRIBUTIONS AND IMPACT



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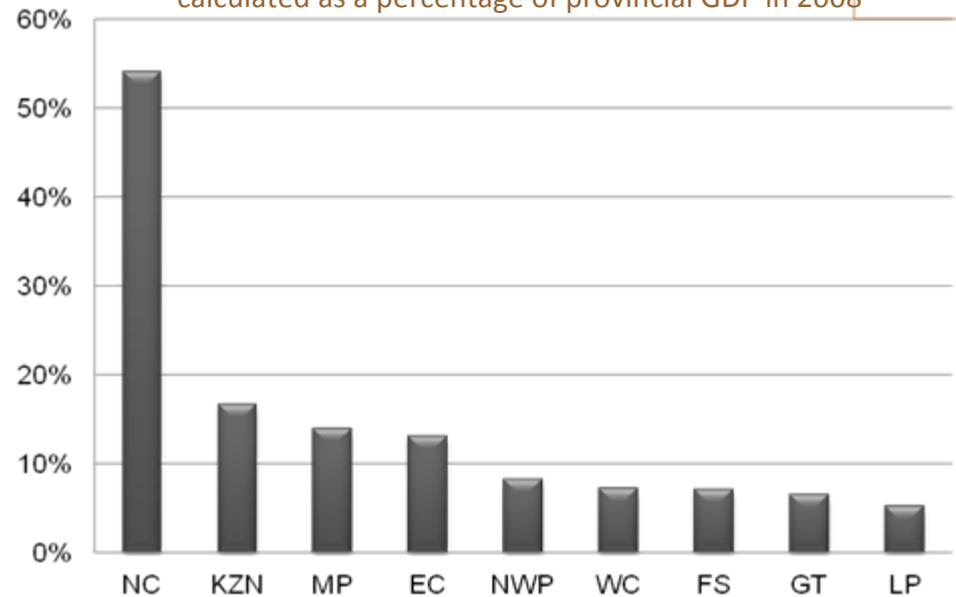
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# Transnet's investment programme will have significant provincial impacts

- Significant benefits accrue to: Northern Cape (through which the Iron Ore Line runs),
- Kwazulu Natal (which has the busiest port),
- Mpumalanga (in which many coalmines are found, and through which a major portion of the Coal Line runs) and
- the Eastern Cape.

Transnet Investment Impact realised in 2018  
calculated as a percentage of provincial GDP in 2008



Province	GDP(Rmn)	Employment creation
Eastern Cape	R11 503	62 435
Free State	R3 932	19 780
Gauteng	R25 566	145 242
KwaZulu-Natal	R30 820	143 704
Limpopo	R3 742	21 003
Mpumalanga	R10 069	46 016
Northern Cape	R12 320	57 463
North-West	R5 635	27 891
Western Cape	R12 095	64 898

# Transnet's investment programme will have a positive macroeconomic impact



(2018 difference with and without investment programme)	Direct impact	Indirect impact	Induced impact	Total impact
<b>Impact on GDP (Rm)</b>	R 38 436	R 31 712	R 42 399	<b>R 112548</b>
<b>Impact on Capital Formation (Rm)</b>	R 116 797	R 67 079	R 86 043	<b>R 269 920</b>
<b>Impact on Employment [numbers]</b>	119 108	193 154	263 594	<b>575 856</b>
<i>Skilled</i>	27 105	43 589	62 742	133 436
<i>Semi-skilled</i>	57 475	79 869	105 435	242 778
<i>Unskilled</i>	34 529	69 696	95 417	199 642



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# Eskom's investment programme will have significant provincial impacts

- Eskom facilitates support programmes in communities where its capacity expansion projects are implemented, focusing primarily on capacity building, skills development and job creation; thereby enhancing the socioeconomic fabric of communities in which Eskom operates. Eskom also supports developmental programmes in rural communities.
- In addition, Eskom continues to ensure local content, skills development and the participation of small, black enterprises and black-women-owned organizations in communities around Eskom capacity expansion programme sites.
- Eskom achieves the above through the following initiatives:
  - The Corporate Social Investment (CSI) strategy, which is aligned to the objectives of AsigSA.
  - The Eskom Development Foundation (or Foundation), which is responsible for the coordination and integration of Eskom's corporate social investment strategy with a view to enhance quality of life, whilst maximising the strategic impact for Eskom. The Foundation provides support to programmes in the economic and social sector through grants, particularly in areas of Eskom's capacity expansion programme.
  - The Rural Development Programme which aims to address developmental needs in the rural areas.



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## Eskom's investment programme will have significant provincial impacts (continued)

- In terms of the 3 biggest electricity generation projects, the following is projected in terms of provincial economic impact:
  - Lephalale (Medupi) - 95% increase
  - Delmas (Kusile) – 25% increase
  - Ladysmith (Ingula) – 1% increase
- There are other significant projects that Eskom is undertaking which include transmission and distribution infrastructure, however these have not been quantified in terms of the economic impact provincially.
- The following businesses and infrastructure will also benefit.:
  - Catering
  - Laundry
  - Building companies
  - House maintenance
  - Entertainment, etc



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# Eskom's investment programme will have a positive macroeconomic impact

- The Eskom build programme is expected to stimulate the economy to the tune of more than R350 billion and create more than 40 000 direct and indirect jobs in the process
- With an increase in the electricity generation capacity, the economic growth is also expected to increase because of the correlation between the two. Below are expected increases in the growth of the economy in relation to Medupi, Kusile and Ingula:

Project	GDP impact
Medupi	0.34% per annum
Kusile	0.34% per annum
Ingula	0.04% per annum
Total	0.72% per annum



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## Denel has had a number of broader economic impacts

- Denel is an earner of foreign exchange. Approximately 40% of Denel's revenue is derived from exports.
- The product and services to the Department of Defence are Rand based which allows the country to save on foreign exchange.
- The defence sector has high economic multipliers (such as employment, export multipliers) when compared to the general manufacturing sector.
- Over the years, most of Denel's manufacturing activities require high-end skills. This has resulted in the diffusion of new technologies and processes down the value chain.
- Denel as a second tier supplier to some global OEMs has allowed many SA companies to be part of the global supply chain.
- The skills programme at DCLD is producing skills that are needed in the general economy.



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## SAA has had a number of broader economic impacts

- **Infrastructural role** of network of air services is essential for a modern economy and the tourism industries.
- **International connectivity** : SAA establish links to all continents from South Africa through 10 direct routes as well as 19 code-share agreements and the STAR Alliance global network generating about 38% of all foreign arrivals in South Africa (No South African private sector investment to operate in competition to large European network airlines).
- **African connectivity** to over 20 destinations across the continent providing safe, reliable connections with a unmatched network including intercontinental connectivity.
- SAA has the **most extensive domestic network** enhanced by its partners, South African Express (SAX) and SA Airlink and moves 60% of domestic air cargo.
- The only international network airline that has a **strong hub in OR Tambo International Airport** and provide connectivity through South Africa, Africa and the world.
- **SAA Technical** is highly regarded for its maintenance.
- SAA contributed to making the 2010 World Cup event a success by providing adequate uplift.



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## SAX has had a number of broader economic impacts

- SAX provides regional air services on thinner routes and to secondary airports, where services with larger equipment would be unsustainable or air services would otherwise be irregular.
- SAX's air services contributes to the overall SAA network feeding and distributing passengers to and from OR Tambo International Airport and Cape Town, which are essential to the economy.
- SAX's African Hub Strategy will contribute to developing safe and reliable air services in other African States.
- SAX technical provides maintenance for regional aircraft.
- SAA contributed to making the 2010 World Cup event a success by providing adequate uplift for teams of participants and to secondary airports.



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## SAFCOL has a limited impact on the economy but plays a developmental role in the areas in which it operates

- SAFCOL and KLF account for about 2.5% of the total economic impact of the sector and 3.5% of employment impact.
- The major economic impact is the control of 30% of the national sawlog production which plays a role in the residential construction sector.
- SAFCOL employs approximately 2000 workers (internal) and a similar number of contract workers in Mpumalanga, Limpopo and Kwazulu Natal.
- SAFCOL's preferential procurement spend for 2009/10: R535,3 million.
- Social compacts determine socio-economic investment and enterprise development projects in support of community development.



## Infraco has had a number of broader impacts on the economy

- As the second national long distance network in South Africa, Broadband Infraco will positively influence availability, access and market pricing for long distance services thereby contributing to lowering the costs of doing business in SA.
- By providing other licensed operators with an alternative network, the added competition in the long distance market will provide operators with lower cost structures and enable them to provide lower pricing as well as higher levels of broadband quality to end users of broadband and other ICT services. Lower cost structures, increased capacity and availability, together with increasing competition will result in better affordability and availability of broadband in South Africa in the future.
- By indirectly improving the affordability and availability of broadband to more South Africans, while also improving the capacity available to end users, SA will benefit economically from having a more competitive ICT industry, as well as benefit from other initiatives such as e-government, e-health and e-education, all of which will be better enabled through wider availability and use of broadband.



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## Infraco's impact on the economy (continued)

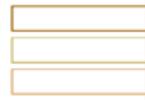
- Global estimates indicate that GDP is positively influenced by 1% for every 10% broadband penetration achieved. South Africa currently has a broadband penetration of 10% (Source: ITWEB).
- South Africa will be able to improve its current IDI (ICT Development Index) score, as measured by the International Telecommunications Union, which compares countries globally by taking into account factors such as fixed line and mobile phone penetration, broadband penetration, the cost of telephony, as well as factors such as the average amount of bandwidth available to individual broadband users.
- For example, national long distance wholesale pricing has already been reduced by approximately 73% since August 2009. International pricing has also been reduced significantly since the landing of Seacom (2009) and EASSy (2010).



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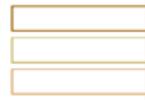
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# ANNEXURES

## 2011/12 : Outputs, Measures and Targets



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# Programme 2 : Energy & Broadband Enterprises (1)

## Eskom

Output	Measure/indicator	2011/2012 Target Milestone
Eskom Monitoring and Oversight	Annual Reports, Corporate Plan, Strategic Intent Statement and Shareholder Compact with Eskom	<ul style="list-style-type: none"> <li>• Analysis and Assessment of the Annual Report and Corporate Plan.</li> <li>• Negotiation and approval of shareholder compact.</li> <li>• Shareholder Strategic Intent Communiqué in preparation for the Eskom AGM</li> <li>• Assessment of SOE Board.</li> </ul>
	Quarterly Reports	<ul style="list-style-type: none"> <li>• Assessment of quarterly reports</li> <li>• Preparation of quarterly investor briefs</li> </ul>
	Achievement of MTEF targets by Eskom	<ul style="list-style-type: none"> <li>• Assessment of PFMA Applications</li> <li>• Explore and facilitate access to debt and alternative funding structures</li> </ul>
Monitoring Eskom's capacity expansion programme	Timeous delivery of new generation capacity and transmission networks	<ul style="list-style-type: none"> <li>• Capacity delivery as per plan (Shareholder compact and IRP )</li> </ul>
Mitigation strategy for the declining network performance	Quarterly reports	<ul style="list-style-type: none"> <li>• Monitoring and analysis of network performance reports</li> </ul>



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# Programme 2 : Energy & Broadband Enterprises (2)

## Eskom



Output	Measure/indicator	2011/2012 Target Milestone
Implementation of the Coal Haulage Road to Rail Migration Plan	Quarterly reports of road to rail migration progress (tons) and road improvements (kms)	<ul style="list-style-type: none"> <li>Rehabilitation of coal haulage roads</li> <li>Migrate Eskom coal from road to rail</li> </ul>
Monitoring of Eskom's implementation of the Medium Term Risk Mitigation Plan	Progress reports on Eskom's role in MTRMP (DSMEE, ECS implementation, REFIT, etc)	<ul style="list-style-type: none"> <li>Report on the implementation of Eskom's responsibilities with respect to the MTRMP</li> <li>Report on the System Adequacy</li> </ul>
Ring-fenced purchasing function to procure the IPP REFIT allocation as per IRP1	Ring-fenced purchasing function with approved governance arrangements	<ul style="list-style-type: none"> <li>Ring-fencing directive through Eskom shareholder compact</li> </ul>
MYPD3 application and the migration to tariff cost reflectivity	Approval/support for the Eskom application such that Eskom is sustainable and the economy is not compromised	<ul style="list-style-type: none"> <li>Assessment and decision on the Eskom application for MYPD3</li> </ul>
Re-negotiation of Special Pricing Agreements (Aluminium South Africa)	Support/approve minimizing of impact of ASA agreements to Eskom/economy	<ul style="list-style-type: none"> <li>Elimination of risks associated with Special Pricing Agreements</li> </ul>



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## Programme 2 : Energy & Broadband Enterprises (3)

### Broadband Infraco

Output	Measure/indicator	2011/2012 Target Milestone
Infraco monitoring and Oversight	Strategic Intent Statement and Shareholder Compact with Infraco	<ul style="list-style-type: none"> <li>• Analysis and Assessment of the Annual Report and Corporate Plan.</li> <li>• Negotiation and approval of shareholder compact.</li> <li>• Shareholder Strategic Intent Communiqué in preparation for the AGM</li> <li>• Assessment of SOE Board.</li> </ul>
	Quarterly and Annual Reports, Corporate Plan	<ul style="list-style-type: none"> <li>• Assessment of quarterly reports</li> <li>• Preparation of quarterly investor briefs</li> </ul>
	Achievement of MTEF targets by Infraco	<ul style="list-style-type: none"> <li>• Assessment of PFMA Applications</li> <li>• Explore and facilitate access to debt and alternative funding structures</li> </ul>
A drop in wholesale prices to the levels that are affordable and sustainable	Wholesale price reduction	Benchmarking and Monitoring of Infraco's pricing in relation to the local and international market prices.
Increased national broadband penetration	Percentage increase in broadband penetration per annum	Monitoring the rollout of the national and international network according to the National Broadband targets.
Business sustainability for Infraco	Diversification of Revenue Stream	Monitoring the contracts on a quarterly basis
	Sentech JV to enable retail service provision access	Formulate a collaboration/ synergy between Infraco and Sentech in order to assist Government to achieve its ICT objectives.
Network reliability and performance	Quarterly reports indicating progress with reliability and performance improvement	Monitor of implementation plans that are in place to improve reliability and performance.
International connectivity	Commissioning of the West African Cable System (WACS) Project	Support Infraco during the roll-out phase (ends in 2011).

# Programme 2 : Energy & Broadband Enterprises (4)

## PBMR

Output	Measure/indicator	2011/2012 Target Milestone
Care and Maintenance Strategy implemented	<ul style="list-style-type: none"><li>• Monitor and facilitate the implementation of the care and maintenance strategy</li><li>• Quarterly progress report</li></ul>	<ul style="list-style-type: none"><li>• Regular (monthly and quarterly ) progress reports</li></ul>



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# Programme 3: Legal and Governance (1)

## Legal

Output	Measure/indicator	2011/2012 Target Milestone
Legal Advice	The Department's Legislative Compliance	Monitoring Department's Legislative Compliance
Presidential Public Liaison Unit	Respond to queries from the Presidential Public Liaison Unit.	Respond to queries from the Presidential Public Liaison Unit.
Drafting of legal documents	Drafting SLAs and Legal opinions;	Drafting SLAs and Legal opinions timeously
Winding down of Aventura	Implementing and monitoring of the winding up process	<ul style="list-style-type: none"> <li>Approval and transfer of the remaining resorts</li> <li>Lodge of relevant documentation with the registrar of companies</li> <li>Closure of the matter</li> </ul>
Winding down of Diabo Trust	Trace and payout to beneficiaries	<ul style="list-style-type: none"> <li>Monitor the winding up process and distribution to beneficiaries</li> <li>Closure of the matter</li> </ul>
Finalisation and closure of the litigation : Londoloza/Paharpur	<ul style="list-style-type: none"> <li>Pre – trial proceedings</li> <li>Conclusion of Litigation</li> </ul>	Successful resolution of Government's case and Court order in favour of the Department
Nabera: Finalisation and closure of the litigation	Conclude litigation	Review alternative measures to conclude the litigation



# Programme 3: Legal and Governance (2)

## Governance

Output	Measure/indicator	2011/2012 Target Milestone
Develop the Government Shareholder Management Model	DPE Legislative Mandate	<ul style="list-style-type: none"> <li>• Approval from the shareholder</li> <li>• Cabinet approval</li> <li>• Development of the Green/ White paper</li> </ul>
Shareholder Management Practices	Effective shareholder management through legislative compliance and corporate governance tools	<ul style="list-style-type: none"> <li>• Implementing Companies Act corporate governance tools (e.g. standard Memorandum of incorporation) for all SOE</li> <li>• Provide support to the Inter Ministerial Oversight Committee</li> <li>• Advise on specific company law and corporate governance questions</li> <li>• Develop SOE legislative and regulatory frameworks to provide for the legislative environment within which the SOE operate.</li> </ul>
Enhance relationship between Strategic state Shareholdings, capital markets and the private sector		
Governance Toolbox and Audit	Monitor SOE adherence to corporate governance principles	<ul style="list-style-type: none"> <li>• Develop an Owner's expectation manual</li> <li>• Finalise manual with SOEs and obtain Minister's and Cabinet</li> </ul>
SOE Board and Executive remuneration	Monitor compliance to SOE Remuneration guidelines	<ul style="list-style-type: none"> <li>• Roll out to the SOEs</li> <li>• Implementation by SOEs</li> <li>• Monitor compliance to SOE Remuneration guidelines</li> </ul>



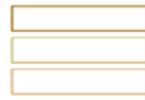
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# Programme 3: Legal and Governance (3)

## Governance



Output	Measure/indicator	2011/2012 Target Milestone
SOE Subsidiary Lists	Monitor acquisition and disposal of subsidiaries by SOE through the dashboard	Monitor acquisition and disposal of subsidiaries by SOE through the dashboard
Developing a Board Database	Database for potential SOE Board members	<ul style="list-style-type: none"> <li>Recruit and select potential candidates for the SOE Boards</li> <li>Develop a Board database</li> <li>Roll out to the SOE sector teams</li> </ul>
Develop a Board appointment Framework	Uniform application by SOE sector teams to enhance efficiency in board appointment process.	<ul style="list-style-type: none"> <li>Approval by DPE Leadership</li> <li>Roll out to SOE sector teams.</li> </ul>
Develop a Board Performance Framework	An effectively utilized Board performance assessment tool that is linked to the Compact and the strategic objectives of the State	<ul style="list-style-type: none"> <li>Possible tender process</li> <li>Internal consultation and approvals process</li> <li>Consultation with company secretaries</li> </ul>
Stakeholder Engagements <ul style="list-style-type: none"> <li>•Presidential Review Committee on SOEs</li> <li>•Governance Forum</li> <li>•Structured engagement with Labour</li> </ul>	Promote effective stakeholder relations	Formalise and implement forums



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# Programme 4: Manufacturing Enterprises (1)

## Denel

Output	Measure/indicator	2011/2012 Target Milestone
Denel Board Review	Appointment of Nine (9) new Board members (incl. Chairman) to bring the Board to its full complement	Nine new Board members appointed
Enabling Denel's Strategic Role in provision of Defence Capabilities	Alignment between Denel strategy and SANDF requirements (Retention of strategic and sovereign capabilities in areas agreed to with DoD)	Optimal alignment between Denel's business model and the strategic requirements of the Department of Defence and Military Veterans' defence strategy
Denel Turnaround Plan	New business/growth strategy for Denel	Development of turnaround plan that pursues financial recovery and stability through improvements in its operational and financial performance to secure its long term viability and reduces dependence on the fiscus.
Resolution of Government's position on the future of Denel Saab Aerostructures	Managed exit from DSA Airbus A400M contract	Renegotiation and exit of DSA Airbus A400M contract



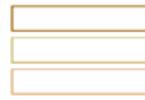
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# Programme 4: Manufacturing Enterprises (2)

## Denel



Output	Measure/indicator	2011/2012 Target Milestone
Review of Denel's company and group structure	New group structure with optimal governance structure that creates value, achieves greater business efficiency, stronger functionality whilst minimizing cost and duplication	Denel's future role in the economy defined by regular interaction and discussions with various stakeholders
Developmental Contribution	Training and skills development and succession planning	Agreement with Denel on increased usage of Denel's training facilities
	Improved performance in terms of BBBEE targets	Quarterly Report on skills development strategy and succession planning
		Agreement with Denel on BBBEE targets included in the 2011/12 shareholder compact for attainment of Level 4 BEE contribution by March 2012



# Programme 4: Manufacturing Enterprises (3)

## SAFCOL

Output	Measure/indicator	2011/2012 Target Milestone
Provide Shareholder oversight	Strategic Intent Statement, Shareholder Compact, Corporate Plan and Annual Report	<ul style="list-style-type: none"> <li>• Assess the Corporate Plan.</li> <li>• Negotiate Shareholder Compact and its approval.</li> <li>• Update Strategic Intent Statement and Communiqué in preparation for the AGM.</li> <li>• Board assessment.</li> <li>• Assess Turnaround Plan.</li> <li>• Assess Section 54(2) PFMA applications as required.</li> </ul>
	Quarterly Reports	Assess quarterly reports and provide investor briefs
	Position paper on SAFCOL's future role	<ul style="list-style-type: none"> <li>• Inter-governmental consultation and consensus on SAFCOL's future role.</li> <li>• Cabinet memorandum.</li> </ul>
	Facilitate share transfer to minority shareholders pending inter-departmental resolution on optimal model	Implementation
	Facilitate land claims process	Ensure SAFCOL's participation in land claims process



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# Programme 5: Transport Enterprises (1)

## Transnet

Output	Measure/indicator	2011/2012 Target Milestone
Shareholder Oversight	Annual reports, Corporate Plan, Shareholder Compact	<ul style="list-style-type: none"> <li>• Assessment of the Annual Report and Corporate Plan</li> <li>• Negotiation and approval of Shareholder Compact</li> <li>• Preparation of the Quarterly Investor Brief</li> <li>• Shareholder Strategic Intent Communique in preparation for the Transnet AGM.</li> </ul>
	Achievement of MTEF targets	<ul style="list-style-type: none"> <li>• Quarterly and annual monitoring</li> <li>• Assessment of PFMA Applications</li> </ul>
	Annual General Meetings – Advice to Minister on exercise of shareholder rights	<ul style="list-style-type: none"> <li>• AGM agenda and shareholder response</li> <li>• Appropriately skilled and representative board</li> </ul>
	SOE five year performance review	<ul style="list-style-type: none"> <li>• Analysis of 5 year performance</li> <li>• Input to DPE SOE five year review publication</li> </ul>
Develop and implement a rail freight improvement programme to increase market share	Increased rail market share to total freight	<ul style="list-style-type: none"> <li>• Diagnostic workshop with Transnet and report on key initiatives to address modal shift</li> <li>• Facilitate increase and improvements to Transnet rolling stock fleet</li> <li>• Lead the development of an integrated government response to growing market share (by identifying relevant legislation to be amended and approved by Cabinet to support modal shift to rail)</li> <li>• Monitor and ensure incremental targets for rail market share in shareholder compact</li> </ul>



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## Programme 5: Transport Enterprises (2)

### Transnet

Output	Measure/indicator	2011/2012 Target Milestone
Create scope for multi-operator involvement in under-utilized branch lines	Multiple private operators on the branch lines network	<ul style="list-style-type: none"> <li>• Concession and rollout of first wave of concessions</li> <li>• Facilitate at least 3 branch lines concessions</li> </ul>
Introduction of private sector investment in rail	Public Private Partnerships (PPPs) in rail infrastructure	<ul style="list-style-type: none"> <li>• Facilitate approval of the Transnet private sector participation framework by Cabinet</li> <li>• Oversee market testing of private sector appetite to invest</li> </ul>
Oversee private sector participation in Ngqura container terminal	Licensed operator for Ngqura container terminal	<ul style="list-style-type: none"> <li>• Framework for private sector involvement in Ngqura container terminal developed and approved</li> <li>• Oversee appointment of transaction advisor by Transnet</li> </ul>
Develop National Corridor Performance Measurement (NCPM) tools and indicators	<ul style="list-style-type: none"> <li>• IT system in place</li> <li>• Agreed indicators</li> <li>• Population and monitoring of system data</li> <li>• Business intelligence outputs</li> </ul>	<ul style="list-style-type: none"> <li>• Gauteng – Durban (Natcor)</li> <li>• Gauteng – Cape Town (Capecor)</li> <li>• Gauteng – Port Elizabeth</li> <li>• Gauteng – Maputo</li> <li>• IT system operational</li> </ul>
Monitor roll out of Transnet's capex programme	<ul style="list-style-type: none"> <li>• Monitor compliance to budget</li> <li>• Assess impact of changes in plan</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly and Annual assessment</li> <li>• Monitor delivery of the Transnet NMPP main trunk line</li> </ul>
Complete a long term National Freight Network Plan (Rail and ports)	<ul style="list-style-type: none"> <li>• National Freight Network Design</li> <li>• Inputs to Transnet NIP</li> </ul>	<ul style="list-style-type: none"> <li>• Initiate study on National Freight Network Design (rail and ports)</li> <li>• Input to DOT's NATMAP process.</li> </ul>
Implementation of Competitive Supplier Development Programme	Leverage of Transnet capex in the development of local supplier industries	<ul style="list-style-type: none"> <li>• Oversee development of Transnet supplier development plan</li> <li>• Monitor delivery of new jobs in supplier industries</li> </ul>
Consideration of Transnet corporate structure options	Defined role for in a developmental economy	Develop corporate structure options for Transnet

## Programme 5: Transport Enterprises (3)

### SAA and SAX

Output	Measure/indicator	2011/2012 Target Milestone
Oversight SAA and SAX	Annual reports, Corporate Plan, Shareholder Compact	<ul style="list-style-type: none"> <li>• Assessment of the Annual Report and Corporate Plan</li> <li>• Negotiation and approval of Shareholder Compact</li> <li>• Preparation of the Quarterly Investor Brief</li> <li>• Shareholder Strategic Intent Communique in preparation for the SAA and SAX AGM</li> <li>• Assessment of SOE Board</li> </ul>
	Achievement of MTEF targets	<ul style="list-style-type: none"> <li>• Quarterly and annual monitoring</li> <li>• Assessment of PFMA Applications</li> </ul>
	Annual General Meetings – Advice to Minister on exercise of shareholder rights	AGM agenda and shareholder response
	SOE five year performance review	<ul style="list-style-type: none"> <li>• Analysis of 5 year performance</li> <li>• Input to DPE SOE 5 year review publication</li> </ul>
Develop a strategic scenario planning model for SAA	Assessment of strategic options	<ul style="list-style-type: none"> <li>• Financial model developed and scenarios assessed</li> <li>• Scenario planning and forecasting</li> </ul>
Ring-fencing of selected SAA business units and strategic equity investments (Voyager, Air Chefs, Galileo and Cargo)	Development of an independent business focus and new strategic alignment	Review business plans
Assess options for establishing South African Airways Technical as a multi-airline focused African maintenance hub	Feasibility study	Proposal to Cabinet

## Programme 6: Joint Project Facility (1)

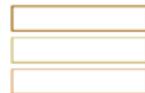
Sub-Programme	Output	Measure/indicator	2011/2012 Target Milestone
<b>HR, Capacity Building and Transformation Programme:</b> SOE and Supplier Skills Development	Provision of scarce and critical skills in SOE	<ul style="list-style-type: none"> <li>Establish partnerships between SOE, FET and industry in support of artisan development</li> <li>Monitor skills dashboard.</li> <li>Skills development KPIs to be included in Compacts</li> </ul>	Implementation and Monitoring
SOE Transformation Oversight	Implementation of SOE transformation agenda	Monitor B-BBEE, employment equity and management transformation (including succession planning).	Dashboard to include transformation indicators
Specialised Skills Development Programmes	Management Learning Programme at UCT GSB to facilitate improved SOE performance and management	MLP review	Annual Review of Programme
	Parliamentary Learning Programme (PLP)	Hosting of annual PLP for Portfolio Committee on Public Enterprises and National Council of Provinces Select Committee for Labour and Public Enterprises	Annual PLP



## Programme 6: Joint Project Facility (2)

Sub-Programme	Output	Measure/indicator	2011/2012 Target Milestone
<b>Procurement Leverage Programme</b>	Leverage SOE capital and operational procurements to promote investments in plant, technologies and skills in SOE supplier communities	<ul style="list-style-type: none"> <li>• Ensure SOE demand planning and procurement implementation process to enable supplier development</li> <li>• Institutionalise governance and accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Establish governance and accounting mechanism</li> </ul>
	Transactional based leverage to ensure procurements have optimal development impact	<ul style="list-style-type: none"> <li>• Ensure SOE design and implement next generation supplier development plans.</li> <li>• Integration of supplier development with SOE procurement policy.</li> </ul>	<ul style="list-style-type: none"> <li>• DPE procurement policy for supplier development</li> </ul>
	Programmatic/fleet based leverage	<ul style="list-style-type: none"> <li>• Design and facilitate the implementation of long term procurements.</li> <li>• Locomotive fleet procurement for Transnet.</li> <li>• Facilitate renewable procurements for the South African Renewables Initiative (SARi).</li> <li>• Nuclear fleet procurement based on IRP2 allocations.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor industrial capabilities</li> <li>• Establish formal oversight committee and task team</li> <li>• Leverage international climate financing commitments and align with DOE.</li> <li>• Align roles and responsibilities with DOE.</li> </ul>
	Establish SOE Centre of Excellence for Complex Capital Projects	<ul style="list-style-type: none"> <li>• Institutional design</li> <li>• Develop Buyer requirement database.</li> <li>• SOE procurement capability certification project</li> <li>• Complex procurement skills development.</li> </ul>	Implementation
<b>Policy Programmes</b>	Role of SOE and Shareholder in the developmental state	Further development of shareholder management model.	Implementation
	Role of SOE in the New Growth Path.	Analysis of New Growth Path and SOE contribution	Implementation and monitoring
	Develop a DPE position on Macro-Economic Policy.	Analysis of macro-economic policy and its impact on SOE viability.	Research alternative policies.

## Programme 6: Joint Project Facility (3)



Sub-Programme	Output	Measure/indicator	2011/2012 Target Milestone
Strategic Programmes	Innovative Infrastructure Investment Dialogue	Develop funding strategies.	Develop relevant policies.
	Framework for Africa.	Develop policy and focus areas in Africa for SOE involvement.	Develop implementation policy.
Property Project	SOE non-core property portfolios contribute to state priorities, property sector transformation, urban renewal and socio-economic development.	Property disposals and facilitation of Key Integrated Developments.	Facilitation and monitoring
Environmental Issues	Government policy balances environmental conservation with the need to develop SOE infrastructure rapidly	Monitor Environmental Impact Assessments for Strategically Important Developments	Analysis and Monitoring
		Implement DPE-DEA-Eskom MOU.	Implementation



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