

# **PUBLIC ENTERPRISES**

**PRESENTATION TO THE PORTFOLIO AND  
SELECT COMMITTEES**

**11 OCTOBER 2006**

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- Performance over the past year
- Major changes to the structure
- DPE Statistics
- Performance review (all programmes)
- Annual Financial Statement
- Planned projects (All SOE)

# Performance over the past year

- Internal structural adjustments to
  - Build a highly skilled and competent department
  - Establish efficient internal processes, procedures and documentation systems  
**registry, risk framework, crisis communication strategy**
  - Ensure effective and efficient governance
    - CEO, Chairs, CFO and Risk Managers Forums
    - EXCO – **expanded to include HR**
    - Projects Meeting
- DPE provided mandate clarity for the SOE
  - Focus on core operations:
    - Transnet – rail and freight transport, separation of SAA
    - Eskom – generation transmission and non-metro distribution
    - Denel – change strategy focusing on core capability & capitalisation
    - Alexkor – negotiated settlement
    - Safcol – Review of sale of Komatiland and the role of Safcol in the Industry
    - Arivia.kom – Review status and facilitate its integration into Eskom
  - Translating sector policy into clear and unambiguous strategic direction
- Monitor build programme

# Major changes to the structure

The Joint Project Facility was created to leverage cross cutting regional and sectoral economic development opportunities in each of the following areas:

- Continental Investments
- Energy & Pipelines
- Human Resources & Capacity Building
- ICTs
- Property
- Investment Optimisation

The Legal, Governance and Secretariat Unit was merged with the Corporate Finance and Transactions Unit to form the Legal, Governance and Transactions Unit

A Specialist position was created to deal with special projects

# DPE Statistics

2005/2006

Total establishment as at 01 April 2005	176	
Total new appointments (01/04/05- 31/03/06)	9 2 4	13- 16 Level 9- 12 Level 1- 8 Level
Total exits (01/04/05-31/03/06)	14 5 2	13-16 Level 9 -12 Level 1 -8 Level
<b>Should specify terminations and contracts</b>		
Total establishment as at 31 March 2006	157	
Turnover Rate	15.2	
<p><i>Representation: African 76.7% (Male 32,25%, Female 44.35%) Coloured 6.45% (Male 1.61%, Female 4.84%) Indian 3.23% (Males 0 Female 3.23%) White 13.71% (Male 4.03, Female 9.68%). Gender compilation on SMS level is 56% male and 44% female. No people with disabilities.</i></p> <p><b>Hearing impaired woman employed</b></p>		

# **REVIEW OF PROGRAMME PERFORMANCE**

# ADMINISTRATION

## Targeted output 2005/06

- Reporting on the DPE's activities, annually and quarterly, timeously and accurately.
- Attract and retain staff and provide career/succession planning
- Develop Records Management and Knowledge Management system.(through the Hummingbird system)
- Develop Procurement Procedure/policy manual and conduct training for all staff
- Compliance with the Institute of Internal Auditors' (IIA) Professional Practice standards.

## Achievements 2005/06

- Reporting procedures tightened and all monthly, quarterly and annual reports submitted to the Audit Committee, National Treasury, Portfolio Committee, Exco and MANCO.
- Strategic recruitment processes were refined to target scarce skills and talents. **Training of secretaries to allow for salary upgrade**
- Manual file plan updated and approved by National Archives
- Procurement Procedure/Policy finalised. Staff training on procurement and petty cash processes have been completed
- Departmental compliance with National Treasury regulations and IIA Professional practice standards reviewed and recommendations implemented

# ARM

## Targeted output 2005/06

- Report on financial performance of SOEs against agreed targets
- Develop generic and specific key socio-economic indicators for SOE
- Determine the effectiveness and appropriateness of risk management in SOE
- Develop Government-wide guidelines on risk management in SOE

## Achievements 2005/06

- Developed and compiled a 5-year analysis report on the historical performance of SOE
- Identified SKPIs for Eskom and Transnet
- Conducted a high level risk management survey that resulted in the publication of a booklet on the status of risk management in SOEs
- Finalised a draft position paper on the risk management framework that also include risk guidelines – **will be integrated into the shareholder management framework**
- Established the SOE Risk Forum
- **R2b given to Denel-monthly monitoring compliance**



# LGS

## Targeted output

2005/06

- Management & reduction of litigation against department and in-house legal advice
- Effective Shareholder Management Model to improve government's oversight and shareholding role over SOE

## Achievements

2005/06

- Two litigation matters settled (Ramafolo & Conference Call)
- DPE contract database established
- Panel of Legal Experts
- Review of Procurement Policy
- Issued summons & warrant of execution against debtors
- Internal Stakeholder Workshops on the SMM
- Conceptual Framework
- Remuneration Guidelines
- Eskom Compact
- Corporate Plan & Quarterly Reporting Compliance

# LGS

## Targeted output 2005/06

- Board Management
- Policy Compliance

## Achievements 2005/06

- SOE AGM preparation
- Board appointments at Safcol, Eskom & Denel
- Skills profiling of SOE Boards
- Legislative Compliance Register
- Policy compliance monitoring (eg. BBEE) through Corporate Plan, Quarterly Reporting & Section 54(2) reporting

# LGS

## Targeted output 2005/06

- Co-ordination of responses to the Government's Programme of Action and the Cluster's AsgiSA projects
- Management of SOE Fora

## Achievements 2005/06

- Cluster Progress reports presented to Cabinet
- Economic Cluster reports tabled before July and January Makgotla
- CEO Forum (monthly); Chairpersons Forum (six-week cycle); CFO Forum and Risk Forum Meetings (quarterly)

# CFT

## Targeted output 2005/06

- Facilitate development of optimal financing strategies by SOE, aligned to corporate structures and strategies.
- Generic guidelines and service level agreements for SOE transactions of material nature, to promote conformity and standard processes during transactions

## Achievements 2005/06

- Financing strategy supported by research and benchmarked data
- Developed and implemented generic guidelines and service level agreements between department and SOEs

# CFT

## Targeted output 2005/06

- Processing of PFMA Section 54(2) applications & monitoring
- Transaction support & execution

## Achievements 2005/06

- 15 Applications processed – for this year more than doubled the number of Sect 54 transactions processed; also provided a framework to SOE on the type of information required
- Also identified issues that are significant and material that require sign off from the Dept
- Revision of transaction methodology
  - Eskom Finance Corporation securitization (with Eskom Holdings) concluded /06
  - Metrorail sale of business to SARCC (support to Transnet) effective 31 March 2006
  - SAA purchase of shareholding from Transnet (effective 31 March 2006)

# CSS TRANSPORT

## Targeted output

2005/06

- Clearly defined strategy for ports, and framework for private sector participation
- Revised pricing policy for ports, specifically in relation to strategic industrial projects (e.g. Coega)
- Separation of SAA from Transnet
- Transfer of Metrorail to SARCC
- Model for private sector participation in rail, including principles for private sector access to railway network

## Achievements

2005/06

- Finalised the architectural framework for introducing PSP at Coega – will pilot it as a green fields port so as not to adversely affect the operations of current ports – Minister currently negotiating with the Transnet Board – retain ownership but improve operational efficiency thru PSP
- The project objective, to reduce high prices in ports, is captured as part of KPIs for Transnet.
- SAA sold to Government effective from 31st March 2006 - aim to consolidate aviation within the continent and increase the manufacturing capacity within Aviation
- Metrorail Operational Transfer completed
- Various models has been assessed, and can be implemented on a case by case basis
- Approved section 54 for the disposal of non-core assets (including the Blue Train)

# CSS ESKOM

## Targeted output

2005/06

- Revise Eskom's long term Electricity Infrastructure Investment Programme
- New Gen Independent Power Producers (IPPs)
- Reserve Margin Position Paper
- Pebble Bed Modular Reactor (PBMR).

## Achievements

2005/06

- Eskom's Infrastructure Investment Programme was revised.
  - Camden and Komati were returned to service
  - The construction of the Open Cycle Gas Turbines in Atlantis and Mossel Bay is underway
- The Purchasing Power Agreement was signed
- The Request for Proposal was issued
- The Reserve Margin Position Paper is being finalised
- Completion of the listing
- Approved Shareholders Compact – move from research to real manufacturing; and introduction of new, experienced shareholders

# CSS DENEL

## Targeted output

2005/06

- Defined growth and development strategy for Denel that will aid the broader defence industry
- Assessment of potential strategic partners by Denel.
- Assist with the alignment of defence acquisition policy
- A400M acquisition and off-set opportunities
- Assist with the rationalisation of key national defence functions

## Achievements

2005/06

- Denel's corporate strategy for the turn around of the SOE was finalised.
- Due diligence on potential partners carried out .
- Alignment of acquisition processes underway
- A400M and off-set opportunities finalised, benefiting Denel and another work package supplier in the industry.
- Functions that will be transferred out of Armscor identified and implementation plan finalised
- Functions that will be moved into DERI identified and implementation plan finalised



# CSS FORESTRY

## Targeted output

2005/06

- Sale of the Mountain to Ocean (MTO) forestry package
- Sale of Komatiland Forests (Pty) Ltd, a subsidiary of SAFCOL
- Review and determine the future role for SAFCOL in forestry development.

## Achievements

2005/06

- Sale of MTO finalised
- Following the investigation by the Competition Commission, the sale of KLF to the Bonheur Consortium was terminated early in 2006.
- International expert and Director for Forestry appointed.
- Initial research on international best practice in forestry development and local studies on the sector complete. Research on national sawlog demand and supply complete.
- The work on “industrialising” certain indigenous tree species will be undertaken in the SAFCOL role review during 2006/07.

# CSS ALEXKOR

## Targeted output 2005/06

- Monitoring of Alexkor's viability

## Achievements 2005/06

- Review complete. Implementation of Alexkor's turn around strategy in 2006/07.

# CSS JPF

## Targeted output

2005/06

- The focus of the JPF in 2005/6 was to establish the unit, recruit highly skilled project managers and appoint DPE staff to work on these projects.
  - Continental Investments
  - Energy & Pipelines
  - Human Resources and Capacity Building
  - Information Communication Technologies
  - Properties
- Terms of Reference for each project needed to be developed, and accepted by the CEO Forum before proceeding to implementation.

## Achievements

2005/06

- All the project teams were established by the close of the financial year, and all the Terms of Reference were signed off by the CEO Forum
- A Continental Investments Task Team, comprising key SOE managers involved in Africa, was established.
- Broadband infrastructure – the team advised Ministry on SNO and the SOE sale of the Full Services Network (FSN).
- SOE non-core property portfolios were identified
- Key pieces of SOE land have been identified for integrated development

# CHALLENGES

- Recruitment and appointment of persons with disabilities
- The absence of a communication strategy
- The department restructured during the year, which resulted in budget reallocations between programmes to accommodate these changes.
- An action was instituted against Government and Aventura by one of the bidders, Century One Holdings (Pty) Ltd, over the disposal of the Aventura Resorts.
- The Richtersveld Community lodged a land claim against Alexkor and Government in the Land Claims Court for the return of their land and compensation.
- Dedicated capacity by each Cluster Department in respect of responding to Cluster priorities
- Pressing capacity issues and constraints on the pipelines in the country
- Securing a client for the call centre pilot project

# **ANNUAL FINANCIAL STATEMENTS**

# APPROPRIATION STATEMENT

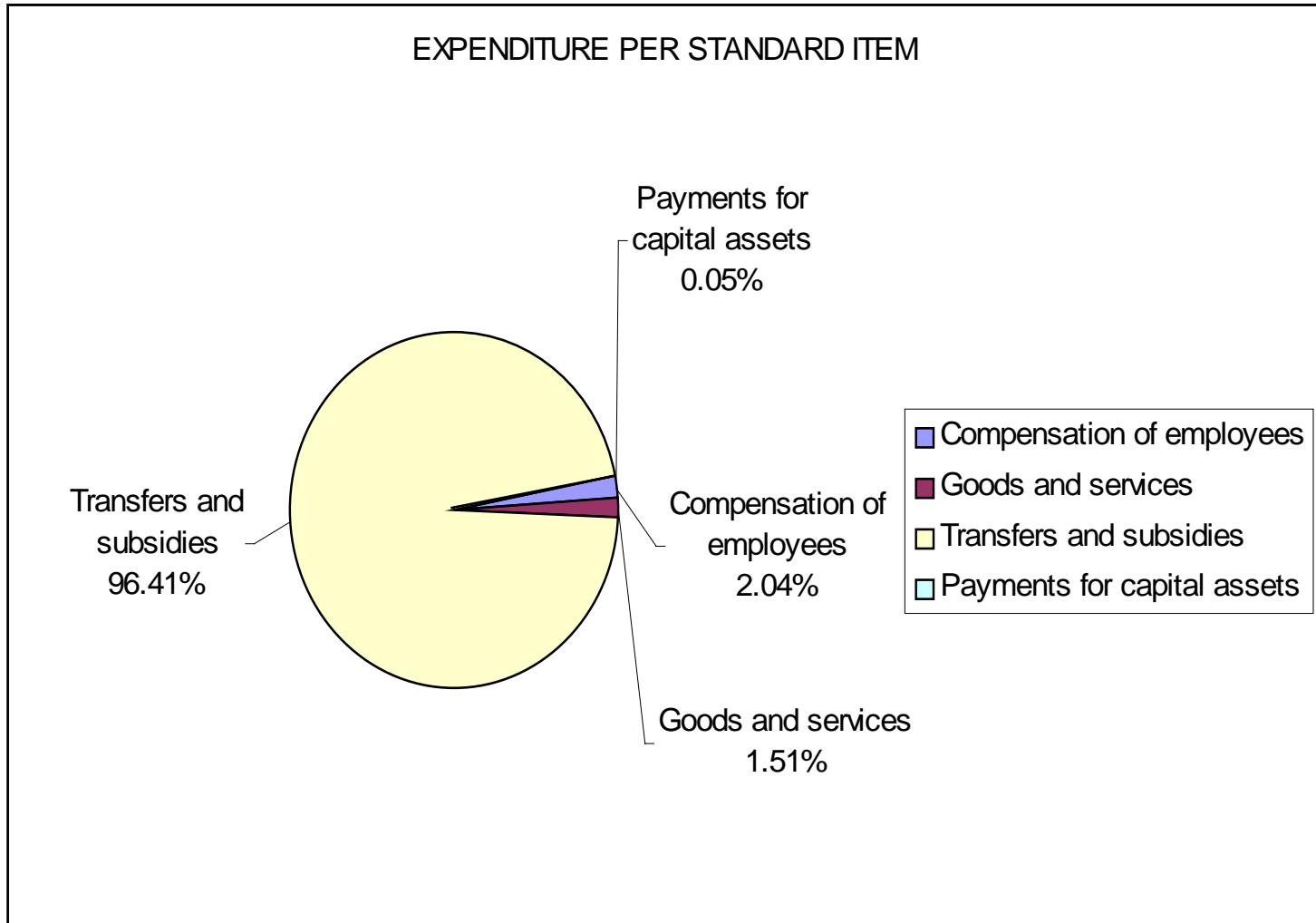
## for the year ended 31 March 2006

Appropriation per programme						
	2005/06				2004/05	
	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	%	R'000	R'000
<b>1. Administration</b>	<b>43 241</b>	<b>43 056</b>	<b>185</b>		<b>37 230</b>	<b>37 163</b>
Current payment	42 248	42 063	185	99.60%	35 276	35 199
Transfers and subsidies	171	171	-	100.00%	62	58
Payment for capital assets	822	822	-	100.00%	1 892	1 906
<b>2. Analysis and Risk Management</b>	<b>7 402</b>	<b>7 093</b>	<b>309</b>		<b>10 376</b>	<b>9 088</b>
Current payment	7 354	7 067	287	96.10%	10 150	8 906
Transfers and subsidies	18	17	1	94.40%	28	16
Payment for capital assets	30	9	21	30.00%	198	166
<b>3. Governance and Policy</b>	<b>12 407</b>	<b>12 263</b>	<b>144</b>		<b>9 388</b>	<b>9 085</b>
Current payment	12 225	12 173	52	99.60%	7 222	6 913
Transfers and subsidies	18	17	1	94.40%	2 010	2 008
Payment for capital assets	164	73	91	44.50%	156	164
<b>4. Corporate Strategy and Structure</b>	<b>8 587</b>	<b>8 268</b>	<b>319</b>		<b>7 146</b>	<b>7 158</b>
Current payment	8 518	8 214	304	96.40%	6 922	6 946
Transfers and subsidies	17	15	2	88.20%	22	13
Payment for capital assets	52	39	13	75.00%	202	199
<b>5. Corporate Finance and Transactions</b>	<b>2 021 016</b>	<b>2 017 548</b>	<b>3 468</b>		<b>13 237</b>	<b>13 178</b>
Current payment	3 793	3 765	28	99.30%	6 294	6 241
Transfers and subsidies	2 017 217	2 013 777	3 440	99.80%	6 943	6 937
Payment for capital assets	6	6	-	100.00%	-	-
<b>TOTAL</b>	<b>2 092 653</b>	<b>2 088 228</b>	<b>4 425</b>	<b>99.80%</b>	<b>77 377</b>	<b>75 672</b>

***APPROPRIATION STATEMENT***  
***for the year ended 31 March 2006***

<b>Appropriation per economic classification</b>						
	<b>2005/06</b>				<b>2004/05</b>	
	<b>Final Appropriation</b>	<b>Actual Expenditure</b>	<b>Variance</b>	<b>Expenditure as % of final appropriation</b>	<b>Final Appropriation</b>	<b>Actual expenditure</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>%</b>	<b>R'000</b>	<b>R'000</b>
<b>Current payments</b>	74 138	73 282	856		65 864	64 205
<b>Transfers and subsidies</b>	2017 441	2013 997	3 444		9 065	9 032
<b>Payments for capital assets</b>	1 074	949	125		2 448	2 435
<b>Total</b>	<b>2092 653</b>	<b>2088 228</b>	<b>4 425</b>	<b>99.80%</b>	<b>77 377</b>	<b>75 672</b>

# Expenditure Composition





# Departmental Income

## Departmental revenue surrendered to revenue fund

	2005/06	2004/05
	R'000	R'000
Sales of goods and services other than capital assets (Administrative fees, Sales of waste paper)	27	25
Interest, dividends and rent on land	1 672 992	599 036
Financial transactions in assets and liabilities	286	118
<b>Total revenue collected</b>	<b>1 673 305</b>	<b>599 179</b>

Interest, dividends and rent on land includes dividends from 2005/06 Eskom (R 1 643 million) and Safcol (R 30 million). 2004/05 Eskom (R 569 million) and Safcol (R 30 million)

# **PLANS FOR THE NEXT THREE YEARS**

# Denel planned projects – next 3 years

- Strategic oversight over the implementation of Denel's business strategy
- 10 year R&D strategy for the defence industry
- Defence fund to enable private public partnering for guarantees and financing for major export projects
- Support Strategy for the Aerostructures industry
- Access to export incentives

# Forestry planned projects – next 3 years

- Development & adoption of new SAFCOL role and mandate
- Investigate & ensure improvement of profitability of SAFCOL
- Strengthen communication on key FFTP sector issues
- Build up capacity and plan shareholder's interventions for SAFCOL's new role.
- Interdepartmental interventions to ensure an efficient industry transition

# PBMR planned projects – next 3 years

- Strategic oversight over the implementation of PBMR's business strategy
  - New Information Memorandum
  - Renegotiate Shareholder's Agreement
  - Listing of PBMR in PFMA
- Monitoring Construction of Pilot Fuel Plant (PFP) and Demonstration Power Plant (DPP)
  - Address Funding Requirements
  - Approved Project Master Plan (PMP6)
  - Environmental Impact Assessment (EIA) process
  - NNR Licensing
  - Start-date Construction of Fuel Plant late 2007
  - Start-date Construction of Power Plant early 2008

# Transnet planned projects – next 3 years

- Review and approve the strategy for the disposal of the non-cores per transaction
- Port and rail master plans
- Pipeline industry master plan
- Introduction of private sector participation
- Provide guidance to foster a strong balance sheet
- Develop stronger shareholder view on roll out of CAPEX and operational performance
- Closer monitoring and assessment of the impact of the SOE on the economy
- Port and rail operators benchmarked

# SAA planned projects – next 3 years

- Turnaround of the business to sustainable profitability
  - Repositioning of existing SAA business
  - Revised corporate plan
  - Establishment of LCC
  - Cargo growth strategy
  - Long term fleet plan that is supportive of the revised strategy

## **SAX**

- Balance sheet restructuring / strengthening
  - Determine maintainable borrowing capacity
  - Debt write-off or conversion to equity by Transnet

# Eskom planned projects – next 3 years

- Expansion plan (ISEP)
- Reserve Margin & Security of Supply
- Build Programme Return to Service
- Open Cycle Gas Turbines (OCGT)
- New Gen Independent Power Producers (IPP's)
- Project Alpha
- Major transmission augmentation projects
- EDI restructuring NED
- EDI restructuring Metro RED



# Alexkor planned projects – next 3 years

- Settlement of the land claim
- Separation of ABM from ABT
- Recapitalisation
- Monitoring implementation of Alexkor's business strategy
- Review role of Alexkor and optimum ownership model taking into account of demand and industry trends

# Infraco planned projects – next 3 years

- Full Service Network for National Long Distance Connectivity.
  - Upgraded to a 10 Gbit/s DWDM (Dense Wavelength Division Multiplexing) platform
- International Connectivity
  - Establishment of International Connectivity.

# Risk planned projects – next 3 years

- Risk Management Framework Implementation:
  - Risk Awareness Programme
  - Review & refinement of the Risk Framework
- Risk Information System
- SOE Risk Reporting Dashboard.

# LGS planned projects – next 3 years

## **Governance**

- SMM Legislation
- Board Appointments & Vetting
- Director Induction toolkit

## **Secretariat**

- Cluster Project Monitoring System
- Study into Second Economy living conditions

## **Legal**

- Review and analysis of applications in terms of section 54(2) of the PFMA
- Procurement and Contracting Guidelines (Infrastructure & service concessions) (SPRESA)
- Model Shareholder Agreements (SPRESA)

# Joint Project Facility – next 3 years

## HR & CB

- Ensure sufficient skills available to SOE to allow build programme to go ahead
- Enhance training capacities of SOE

## Energy & Pipelines

- Pipelines Master plan

## ICTs

- Review SOE ICT infrastructure with a view to consolidation or rationalisation of ICT assets
- Create 5 call centres in poor communities

## Optimisation of Capital Expenditure Programme

- Competitive local suppliers development programme
- Increasing procurement capacity in SOE

## SOE property project

- Facilitate disposal of non-core SOE property
- Oversee key integrated developments in strategic areas

# Joint Project Facility – next 3 years

## **Sustainable Development with Environmental Protection**

- Ensure balance between protecting the environment whilst meeting our ASGISA targets are achieved, with respect to the building of infrastructure

## **Nuclear Industry**

- Leverage the build programmes of Eskom and PBMR to build local nuclear capacity and a local nuclear industry

## **Aerostructures Industry**

- Leverage the relationships with SAAB and Airbus to build local aerostructures capacity and increase the capacity of the local aerostructures industry

# COMMITTEE COMMENTS

- Congrats on unqualified report – clarity required re pg 76, re irregular expenditure (for an urgent document that Minister required for Cabinet) awaiting ex-profactor approval – arises from 2004 – matter investigated and reported to National Treasury – Auditor felt that all necessary processes were followed
- Richtersveld progress – 5 October, an agreement on the MOU reached, but it has been reached before, and we are still awaiting confirmation through an order of the court.
- SAA way forward and turn around timeframe - unanswered
- What is the department doing HIV/AIDS – the risk framework would hopefully accommodate SOE HIV/AIDS prevalence – DPE will then offer high-level analysis and support – will come back with a more comprehensive response next year
- Persons with disabilities – can assist the department in identifying persons with disabilities – want to place people with strategic areas – Centre for people with disabilities
- Who are the debtors and what is the size of amounts owed – quantum small – debtors current or past employees of the department
- Contribution towards ASGISA and JIPSA: DPE central – the Eskom and Transnet Build programme forms 2/3rds of the entire infrastructure investment programme; work with the technical committee with JIPSA and sit on their steering committee to strengthen planning
- Pg 17 of AR – what does job evaluation mean – arises through a message that indicates that the post is graded incorrectly
- How often is the website updated – we update weekly and immediately in respect of events – want to insert technical information
- Pg 22 – explain SOE data network
- How time and effort has been spent on this idea – is it still feasible
- **Must copy all reports sent to the Portfolio Committee to the Select Committee**

Doing very fine - Next step

- Where we didn't achieve, & why/ what **precisely** were the challenges and the lessons drawn and how has it influenced future planning
- Writing is more clearly communicated and better than last year; but must unpack some cliches e.g. streamlining governance issues
- More developmental slant appreciated e.g. last sentence on page 6
- Must bring paper on the role of SOE in the developmental state after it is approved by Parliament
- Radiation reported at Koeberg – report required