

Briefing by the Department of Public Enterprises on :

1. Issues emanating from the State of the Nation Address
2. Progress in addressing audit findings of the Auditor-General on the department and state-owned companies for the 2018/18 year
3. Report back on recommendations of the BRRR Report and Budget Vote Report 2018



Date : 13 February 2019

Venue : Committee Room 3



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SONA 2018 and 2019



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2018 SONA Commitments

COMMITMENTS	PROGRESS
<ul style="list-style-type: none"> • Building growth, development and transformation depend on a strong and capable state. • It is critical that the structure and size of the state is optimally suited to meet the needs of the people and ensure the most efficient allocation of public resources. • We will therefore initiate a process to review the configuration, number and size of national government departments 	<ul style="list-style-type: none"> • The renewal of a capable developmental state has commenced. Work on the reconfiguration of the state is at an advanced stage. • The President indicated during the new structure and form of Government will be revealed after 2019 National and Provincial Elections. • The DPE and NT are spearheading the work of optimizing SOC to ensure an effective agents of development. This involves identifying of assets suitable for disposal, involvement of private capital, formation of new entities.
<ul style="list-style-type: none"> • Many of our state-owned enterprises (SOEs) are experiencing severe financial, operation and governance challenges, which has impacted on the performance of the economy and placed pressure on the fiscus. • We will intervene decisively to stabilize and revitalize SOEs. 	<ul style="list-style-type: none"> • We have sought credible plans from boards to put in place the right skills and expertise to manage these companies so that we can shift the focus from immediate stability to long-term sustainability. • We also seek to build a pragmatic and cooperative relationship between government, organised labour and private sector stakeholders, where we can jointly determine a strategic path for SOEs to create jobs, enable inclusive growth and become operationally and financially sustainable. • The DPE is developing, in consultation with Policy Departments and NT, appropriate SOC restructuring options.



2018 SONA Commitments

COMMITMENTS	PROGRESS
<ul style="list-style-type: none"> Recent action we have taken at Eskom to strengthen governance, root out corruption and restore its financial position is just the beginning of the processes we are going to embark on. 	<ul style="list-style-type: none"> The new business model needs to take into account the root causes of its current crisis and the profound international and local changes in the relative costs, and market penetration of energy resources, especially clean technologies. It needs to take into account the role that Eskom should play in clean generation technologies. We will embark on a process of establishing three separate entities – Generation, Transmission and Distribution – under Eskom Holdings.
<ul style="list-style-type: none"> The Government will take further measures to ensure that all state-owned companies fulfil their economic and developmental mandates. We will need to confront the reality that the challenges at some of our SOEs are structural – that they do not have sufficient revenue stream to fund their operational costs. 	<ul style="list-style-type: none"> We want our SOEs to be fully self-sufficient and be able to fulfil their development and economic role. Where SOEs are not able to raise sufficient financing from banks, from capital markets, from development finance institutions or from the fiscus, we will need to explore other mechanisms, such as strategic equity partnerships or selling off non-strategic assets. As we do all this, we will not support any measures that, in any form, dispose of assets of the state that are strategic to the wellbeing of the economy and the people.



2018 SONA Commitments

COMMITMENTS	PROGRESS
<ul style="list-style-type: none"> • These SOEs cannot borrow their way out of their financial difficulties, and we will therefore undertake a process of consultation with all stakeholders to review the funding model of SOEs and other measures. 	<ul style="list-style-type: none"> • We have established the Presidential SOE Council, which will provide political oversight and strategic management in order to reform, reposition and revitalize state owned enterprises, so they play their role as catalysts of economic growth and development.
<ul style="list-style-type: none"> • We will change the way that boards are appointed so that only people with expertise, experience and integrity serve in these vital positions. • We will remove board members from any role in procurement and work with the Auditor-General to strengthen external audit processes. • As we address challenges in specific companies, work will continue on the broad architecture of the SOEs sector to achieve better coordination, oversight and sustainability 	<ul style="list-style-type: none"> • We are making important progress in restoring the integrity and capacity of our strategic state owned enterprises. • To restore proper corporate governance, new boards with credible, appropriately experienced and ethical directors, have been appointed at Eskom, Denel, Transnet, SAFCOL, PRASA and SA Express.



2018 SONA Commitments

COMMITMENTS	PROGRESS
<ul style="list-style-type: none"> This is the year in which we will turn the tide of corruption in our public institutions. 	<ul style="list-style-type: none"> Major interventions through the Boards appointed in 2018 has been at Denel, Eskom and Transnet with executives being held to account for malfeasance. <p>The following instances of corruption have come to light as a result:</p> <ul style="list-style-type: none"> Transnet overpaid by ZAR 509 million in the purchase of 100 locomotives from China CRRC and Japan Mitsui, of which CRRC returned ZAR 618 million to Transnet; Transnet in the purchase of 1064 locomotives overpaid by ZAR 17.4 billion; Eskom without a valid contract paid ZAR 1.6 billion to McKinsey and Trillian, of which R902 million was recovered from McKinsey; Denel wiped out ZAR 3 billion of revenues through corruption conceived Denel Asia against the advice of everyone including their owned due diligence report, which advise against doing business with VR Laser in its various incarnations;



Context of SONA 2019

The Eskom challenges



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What's the crisis? (1/2)

PROBLEM STATEMENT

ESKOM IS FACING LIQUIDITY CHALLENGES

- High levels of debt currently at R420bn – 15% of the sovereign debt.
- Cash generated does not cover operating and debt servicing costs.
- Escalation of municipality and Soweto debt (R28 billion) growing at R1bn a month.
- The number of employees increased from 32,000 in 2007 to 48,000 in 2018 with associated cost growing from R9,5bn to R29,5bn.

ESKOM IS STRUGGLING TO MAINTAIN OPERATIONAL SUSTAINABILITY

- Ageing generation fleet - about 37 years on average.
- Essential mid-life refurbishments not implemented.
- Poor quality of maintenance due to poor workmanship – 40% of plant breakdowns are due to human error.
- Ongoing coal shortages due to poor management and lack of investments in cost plus mines.
- Significant loss of critical skills and low staff morale.



What's the crisis? (2/2)

PROBLEM STATEMENT

COST OVERRUNS AND POOR PERFORMANCE FROM THE BUILD PROGRAM

- Medupi and Kusile have suffered massive delays and cost overruns due to poor planning, poor engineering designs, poor procurement practices / poor contracting and corruption.
- The costs for the plants have escalated significantly to over R300bn (Medupi from R24.9 billion to R145 billion and Kusile from R80.7 billion to R161.4 billion).
- Poor post commissioning , reliability at ~ 40%.

GOVERNANCE

- Systemic corruption, malfeasance, fraud and the state capture project has compromised the credibility of the organization and eroded investor confidence.
- The resultant effect of these corrupt transaction is the pass through to consumer and the shareholder.
- The ongoing revelations continue to threaten the credibility of the institution.



How Did Eskom Get Here?

	2007	2018
Total Installed Capacity (MW)	42 618	45 561
Electricity Sales (GWh)	218 120	212 190
Revenue (R'bn)	39,4	177,4
Average selling price (c/kWh)	18	85,06
Coal Purchases (Mt)	117,4	115,49
Coal Costs (R'bn)	10	53,8
Employee Costs (R'bn)	9,5	29,5
Employee Numbers	32 674	48 628
Debt Securities and Borrowings (R'bn)	40,5	388,7

Insights:

- Capacity grew slightly over the period
- Coal Purchases – volumes flat over the 10 year period
- Employee costs increased significantly driven by employee benefits



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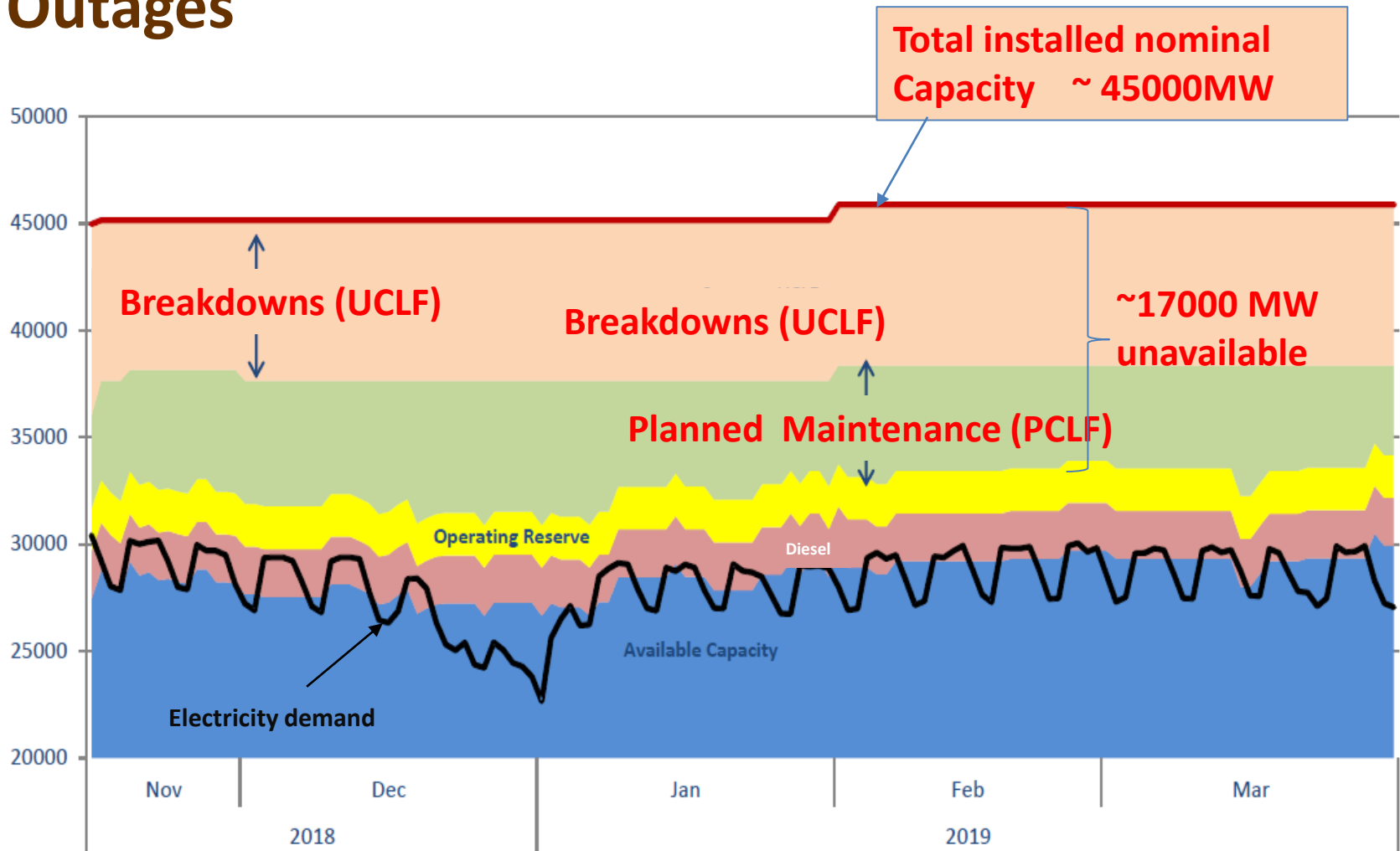
How Does Eskom Spend Money?

R'bn	2007	2018
Revenue generated	40,6	177
Minus Primary energy cost	13,0	85,2
Minus Employee cost	9,5	29,5
Minus other expenses - Maintenance	6,5	18,8
Equals EBITDA	11,6	45,4
Minus interest payment	1,8	31,9
Minus Investment requirement	14,1	55,5
Surplus (Shortfall)	(4,3)	(42)

- Since 2007, revenue grew more than 4 times mainly **driven by massive tariff increases**
- However, **expenses** (primary energy and employees cost) increased **faster than** revenue growth
- EBITDA (proxy for free cash cash-flow) **insufficient** to cover interest costs and capex (investment)
- Resulting in a **shortfall which is covered through borrowing**



Capacity Outlook Based on Planned and Unplanned Outages



To accommodate the anticipated planned maintenance, OCGT's will likely be required for most months up until March 2019.



9 point plan for Generation turnaround

INITIATIVE	OBJECTIVE
1. Fixing new plant (Medupi, Kusile and Ingula)	Addressing known design errors through an expert team to guide the recovery and application of contractual remedies
2. Fixing Full load losses and trips	Improve planning, execution and effectiveness of maintenance (including training) and optimise procurement processes to enable swifter purchases when required
3. Fixing units on long-term forced outages	Fixing units on long-term forced outages to reduce impact of major incidents on UCLF (Unplanned Capability Loss Factor)
4. Partial Losses and boiler tube leaks	Reduce partial load losses by addressing major contributors per plant and system and re-energise the tube leak reduction programme
5. Fixing outage duration and slips	PCLF (Planned Capability Loss Factor) improvement through improved outage planning and execution
6. Fixing human capital	Make appointments in critical positions, train key staff and relink centralised support functions to the stations
7. Prepare for increased OCGT (Open Cycle Gas Turbine) usage	To ensure that OCGT plant is able to run when required. Contracts to be put in place with suppliers for diesel, and logistical challenges to be addressed
8. Prepare for Rain	Implement measures to reduce the impact of the rainy season by driving compliance with the various power stations Wet Coal Handling Procedures
9. Fixing coal stock piles	Recover coal stockpiles to appropriate levels



2019 SONA Commitments

COMMITMENT	INTERVENTIONS/PLANS
<ul style="list-style-type: none"> Where SOEs are not able to raise sufficient financing from banks, from capital markets, from development finance institutions or from the fiscus, we will need to explore other mechanisms, such as strategic equity partnerships (SEP) or selling off non-strategic assets. 	<ul style="list-style-type: none"> The SOCs are having to put together plans to liquidate some of their non-core assets or non-strategic assets to raise capital to sustain core assets. Opportunities for business units suitable for SEP are being explored by the SOC Boards
<ul style="list-style-type: none"> We also seek to build a pragmatic and cooperative relationship between government, organized labour and private sector stakeholders, where we can jointly determine a strategic path for SOEs to create jobs, enable inclusive growth and become operationally and financially sustainable 	<ul style="list-style-type: none"> The Minister has had numerous engagements with business and organised labour to address crises as they emerged but also to seek consensus on appropriate interventions require ensure sustainability of the SOCs in the portfolio The Presidential Coordinating Council on State Owned Enterprises has had its terms of reference (TOR) approved by Cabinet. The composition of the Council is being finalised to enable its operation.
<ul style="list-style-type: none"> As we address the challenges that face Eskom we will ensure that there is meaningful consultation and dialogue with all key stakeholders. we will lead a process with labour, Eskom and other stakeholders to work out the details of a just transition, and proper, credible and sustainable plans that will address the needs of all those who may be affected. 	<ul style="list-style-type: none"> The consultations with key stakeholders are being undertaken and will unfold with greater intent in the aftermath after the SONA 2019 announcements
<ul style="list-style-type: none"> Eskom has come up with a nine-point turnaround plan which we support and want to see implemented. In line with this plan, Eskom will need to take urgent steps to significantly reduce its costs. 	<ul style="list-style-type: none"> The Department is monitoring the implementation of the nine-point plan and appropriate interventions where there is regression are being undertaken through the Minister of PE



2019 SONA Commitments

COMMITMENT	INTERVENTIONS/PLANS
<ul style="list-style-type: none"> Eskom will need more revenue through an affordable tariff increase. 	<ul style="list-style-type: none"> Eskom has submitted a Multi-Year Pricing Determination (MYPD4) application to the Energy Regulator NERSA which is currently undergoing consultation. It is envisaged that the process and final determination will be concluded and announced 01 March 2019.
<ul style="list-style-type: none"> To ensure the credibility of the turnaround plan and avoid a similar financial crisis in a few years' time, Eskom will need to develop a new business model. 	<ul style="list-style-type: none"> Eskom has developed a Turnaround Plan that will address and outlines the new business model
<ul style="list-style-type: none"> This business model needs to take into account the root causes of its current crisis and the profound international and local changes in the relative costs, and market penetration of energy resources, especially clean technologies. 	<ul style="list-style-type: none"> Eskom has developed a Turnaround Plan that will address and respond with a new and viable business model
<ul style="list-style-type: none"> It needs to take into account the role that Eskom itself should play in clean generation technologies. 	<ul style="list-style-type: none"> There are legislative and regulatory hurdles that should be overcome to enable Eskom participation in the clean generation technology sector. The DPE and DOE will be spearheading this effort.



DPE and SOC Audit Findings Report



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Progress in addressing audit findings of the Auditor-General on the department and state-owned companies for the 2018/18 year

- Progress on addressing audit Findings for the Department
- Summary of audit outcomes and progress to date:
 - Eskom
 - Transnet
 - Denel
 - SA Express
 - SAA
 - SAFCOL
 - Alexkor



Summary of Audit Outcomes for DPE and the Portfolio of Entities

ENTITY	AUDIT OPINION	PRE-DETERMINED OUTCOMES	COMPLIANCE TO LEGISLATION	INTERNAL CONTROL DEFICIENCIES
DPE	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED	UNQUALIFIED
ALEXKOR	UNQUALIFIED	Material findings in respect of the usefulness and reliability financial sustainability, strategic initiatives, sustainable development key performance areas	Material findings on procurement and contract management, preferential procurement, consequence management and revenue management and irregular expenditure.	Leadership, financial and performance management
DENEL	DISCLAIMER	Material findings on the usefulness and reliability of the following strategic pillars: Operational Excellence, Sustainable Development and Financial Sustainability.	Material findings on the following: Annual financial statements, expenditure management, assets management, procurement and contract management and consequence management.	Leadership, financial and performance management and governance.



Summary of Audit Outcomes for DPE and the Portfolio of Entities

ENTITY	AUDIT OPINION	PRE-DETERMINED OUTCOMES	COMPLIANCE TO LEGISLATION	INTERNAL CONTROL DEFICIENCIES
ESKOM	QUALIFIED	No material findings	Material findings on expenditure management, Consequence management, Revenue management, Procurement and contract management	Leadership, Financial and performance management
SAA	DELAYED	Awaiting Audit Report	Awaiting Audit Report	Awaiting Audit Report
SA EXPRESS	DELAYED	Material findings on operational stability	Material findings on Annual financial statements, performance report and annual report, expenditure management, assets management, liability management	Leadership, Financial and performance management



Summary of Audit Outcomes for DPE and the Portfolio of Entities

ENTITY	AUDIT OPINION	PRE-DETERMINED OUTCOMES	COMPLIANCE TO LEGISLATION	INTERNAL CONTROL DEFICIENCIES
SAFCOL	QUALIFIED	Material findings on the usefulness and reliability of financial sustainability, operational excellence and socio-economic key performance areas	Material findings on compliance with key legislation on expenditure management, asset management, annual financial statements and annual report, procurement and contract management, consequence management and SOC oversight and governance.	Leadership, financial and performance management
TRANSNET	QUALIFIED	Material findings on the usefulness and reliability of operational, socio-economic and industrialisation key performance areas.	Material findings on compliance with key legislation on Annual financial statements, performance and annual report and procurement and contract management.	Leadership, financial and performance management and governance



Department (DPE): Progress on Addressing Audit Outcomes

NAME OF ENTITY	FINANCIAL STATEMENT OPINION	FINDINGS ON THE PERFORMANCE REPORT	FINDINGS ON COMPLIANCE
DPE	Unqualified	Unqualified	Unqualified

Please note:

- The department obtained an unqualified audit opinion with no findings in the 2017/18 financial year, similar to the previous year's audit opinion.



Eskom's Audit Outcome for 2017/18 FY

NAME OF ENTITY	FINANCIAL STATEMENT OPINION	FINDINGS ON THE PERFORMANCE REPORT	FINDINGS ON COMPLIANCE
Eskom	Qualified	Unqualified	Qualified

Please note:

- Eskom annual financial statements were qualified on the basis of completeness of the information required by the PFMA on irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct in the 2018 financial statements.
- As a state-owned entity the PFMA note forms part of the annual financial statements that are normally prepared in terms of International Financial Reporting Standards (IFRS). There were no issues identified by independent auditors in terms of IFRS.

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- Irregular expenditure increased to R19.6 billion from R3 billion when is compared with the previous financial year due to non-compliance with PFMA and other regulations.
- Majority of irregular expenditure incurred arises on the items of the previous financial year due to clean-up processes that the board is executing.



Transnet: Progress on Addressing Audit Outcomes

NAME OF ENTITY	FINANCIAL STATEMENT OPINION	FINDINGS ON THE PERFORMANCE REPORT	FINDINGS ON COMPLIANCE
Transnet	Qualified	Unqualified	Qualified

Please note:

- Transnet annual financial statements were qualified on the basis of completeness of the information required by the PFMA on irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct in the 2018 financial statements.
- As a state-owned entity the PFMA note forms part of the annual financial statements that are normally prepared in terms of International Financial Reporting Standards (IFRS). There were no issue identified by independent auditors in terms of IFRS.

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- Irregular expenditure increased to R8 122,9 million from R692,7 million when is compared with the previous financial year due to non-compliance with PFMA and other regulations.
- Majority of irregular expenditure incurred arises on the items of the previous financial year due to clean-up processes that the board is executing.



Denel: Progress on Addressing Audit Outcomes

NAME OF ENTITY	FINANCIAL STATEMENT OPINION	FINDINGS ON THE PERFORMANCE REPORT	FINDINGS ON COMPLIANCE
Denel	Disclaimer	Unqualified	Qualified

Please note:

- Denel annual financial statements were qualified on the basis of completeness of the information required by the PFMA on irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct in the 2018 financial statements.
- As a state-owned entity the PFMA note forms part of the annual financial statements that are normally prepared in terms of International Financial Reporting Standards (IFRS). There were no issue identified by independent auditors in terms of IFRS.
- Liquidity Challenges on a month to month basis. DPE is working closely with the Board and Management, NT, lenders and stakeholders to resolve issues.

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- Irregular expenditure for the 2016/17 was R116 million. The newly acquired division Denel Vehicle System was responsible for R83 million.
- Disciplinary hearings were held for 144 cases.
- No instances of criminal proceedings were instituted.



South African Airways: Progress on Addressing Audit Outcomes

NAME OF ENTITY	FINANCIAL STATEMENT OPINION	FINDINGS ON THE PERFORMANCE REPORT	FINDINGS ON COMPLIANCE
SAA	In progress	In progress	In progress

Please note:

- SAA audit for 2017/18 is yet to be finalised on a going concern basis.
- Funding options have been explored and an announcement is expected soon.
- Further feedback on the completion of the Annual Report and Annual Financial Statements.

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- Will be updated as soon as audit is complete.



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SA Express: Progress on Addressing Audit Outcomes

NAME OF ENTITY	FINANCIAL STATEMENT OPINION	FINDINGS ON THE PERFORMANCE REPORT	FINDINGS ON COMPLIANCE
SA Express	In progress	In progress	In Progress

Please note:

- SA Express received a disclaimer of opinion on the 2017/18 Annual Financial Statements.
- There was limitation in scope on providing evidence to report on performance.
- There were incidences of no compliance with legislation in some instances while evidence to enable reporting on compliance in other cases could not be provided by the entity.
- The entity has not compiled the annual report yet.
- Expected to table Annual Report and Annual Financial Statements before the end of April 2019.

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- Will be updated as soon as annual report is completed.



Safcol: Progress on Addressing Audit Outcomes

NAME OF ENTITY	FINANCIAL STATEMENT OPINION	FINDINGS ON THE PERFORMANCE REPORT	FINDINGS ON COMPLIANCE
Safcol	Qualified	Unqualified	Qualified

Please note:

- Safcol annual financial statements were qualified on the basis of completeness of the information required by the PFMA on irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct in the 2018 financial statements.
- As a state-owned entity the PFMA note forms part of the annual financial statements that are normally prepared in terms of International Financial Reporting Standards (IFRS). There were no issue identified by independent auditors in terms of IFRS
- The new Board submitted the Annual Report as is at the 2018 AGM and Minister requested the Board to review the contents as the directors report was not correlating with the Audit Report. The Board is expected to revert to Minister before the end of February.

IRREGULAR EXPENDITURE

- Irregular expenditure increased to R369 from R315 million (2016: R44.9 million) when compared with the previous financial year due to non-compliance with PFMA and other regulations. Majority of irregular expenditure incurred arises on the items of the previous financial year due to clean-up processes that the board is executing.



Alexkor: Progress on Addressing Audit Outcomes

Name of entity	Financial statement opinion	Findings on the performance report	Findings on compliance
Alexkor	Unqualified	Unqualified	Qualified

Please note:

- Alexkor annual financial statements were qualified on the basis of completeness of the information required by the PFMA on irregular expenditure, fruitless and wasteful expenditure and losses due to criminal conduct in the 2018 financial statements.
- As a state-owned entity the PFMA note forms part of the annual financial statements that are normally prepared in terms of International Financial Reporting Standards (IFRS). There were no issue identified by independent auditors in terms of IFRS.

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- Irregular expenditure incurred for 2018 amounted to R5 481 million. The previous year amount of R3 465 721 was written off.
- Procurement of CaseWare of R300 000 based on sole source, which should have been single source and required National Treasury approval.
- Increase in scope of work using the incorrect guidelines in the National Instruction Note 3 (using 20% threshold which is for construction contracts vs 15% for other goods and services.
- The fruitless and wasteful expense relates to interest incurred as a result of late payment to suppliers. Steps were taken to recover the money from the staff, however the staff has since resigned and per the labour relations act, the amount cannot be deducted without the employees consent from the salary.

Summary: Audit Outcomes

- To achieve clean audit outcomes, we acknowledge that emphasis has been placed on improving audit outcomes across the portfolio by tracking each of the findings on a regular basis.
- Interventions include appointing new Boards and Management, improving financial sustainability and cleaning governance.
- However, systemic and historic factors such as lack of funding, poor financial management, optimal structure of the entities need to be addressed effectively in order to move forward.
- Accountability, consequence management, transparency, putting the right people in the right position, continuous training interventions, review of policy and procedures, change management, improvement in organisation culture and behaviour, begins at the top.



BRRR Report



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Progress Report on PC SOCs Recommendations

RECOMMENDATIONS	KEY INTERVENTIONS	PROGRESS
Capacitate SOCs internal audit functions	<ul style="list-style-type: none"> • Undertake a comprehensive governance and risk gap analysis. • Organisational review to assess the capacity and skills gaps undertaken during 2017/18 financial year. 	<ul style="list-style-type: none"> • Gap analysis report completed.
Increase and strengthen oversight over SOCs through robust and regular interaction with CEOs, Board Members, Audit Committees, regular visits to construction sites of major infrastructure projects	<ul style="list-style-type: none"> • Quarterly site visits on SOCs major infrastructure programmes. • Executive Forum for SIP 09 and 10 established to review status, challenges and impact of various projects/components forming part of SIP 09 and 10. • Establishment of DPE/SOC Audit Committee Forum to assess SOCs major audits, risks and mitigating plans. 	<ul style="list-style-type: none"> • Minister, DG and Senior Officials have made site visits to the major power plant projects. • Minister is having regular session with Chair of Board and Chairs of Committees (Safcol Board: October 2018, Denel Board: monthly, Transnet: All Board Chairs: 4 January 2019). • CFO Forum held quarterly.



Progress Report on PC SOCs Recommendations

RECOMMENDATIONS	KEY INTERVENTIONS	PROGRESS
<p>Increase and strengthen oversight over SOCs through robust and regular interaction with CEOs, Board Members, Audit Committees, regular visits to construction sites of major infrastructure projects</p>	<ul style="list-style-type: none"> Review 5 existing boards and appointment of new boards Filling in of SOC vacant executive positions 	<ul style="list-style-type: none"> During 2018 new Boards were appointed at Transnet, Denel, SA Express and SAFCOL. 4 NEDs were re-appointed to Alexkor Board pending the review on the future state of Alexkor. Executive Director positions being filled including Interim Appointments New CEO and CFO appointed at Eskom, New CEO appointed at Denel, Interim CEO appointed at SA Express, Interim CFO appointed at SAA, Interim CEO and CFO appointed at Transnet, finalisation of recruitment processes underway at SA Express (CEO and CFO), Safcol (CFO), Denel (CFO),



Progress Report on PC SOCs Recommendations

RECOMMENDATIONS	KEY INTERVENTIONS	PROGRESS
<p>Fast-track the introduction of the Shareholder Management Bill to empower the department to carry out its oversight responsibilities</p>	<ul style="list-style-type: none"> Procure services of a service provider to assist the Department to develop the Green Paper the Bill 	<ul style="list-style-type: none"> TORs for service provider to assist the Department have been developed. Consultations with Government Departments held in December 2018 to look at the various models for shareholding. In December 2018, Cabinet approved the TORs of the Presidential SOE Council (PSEC) which will oversee SOE reforms. Governance structures are being put in place, such as the DGs Technical Task Team to support the PSEC.
<p>Develop SOC guiding frameworks and ensure their implementations to provide stable working environment for SOCs</p>	<ul style="list-style-type: none"> Development and implementation of the Remuneration Guidelines and Executive Board Appointment Guidelines(DPSA) 	<ul style="list-style-type: none"> The Remuneration Guidelines have been developed. Implementation within the portfolio is underway with all SOCs having to review and submit new Remuneration Policies. Government interaction and awareness will be conducted as part of the work of the PSEC.
<p>Ensure that there are punitive measures in place for under-performance against targets for board members, executives and contractors of SOCs</p>	<ul style="list-style-type: none"> Identified gatekeepers through the Shareholder Compacts. Remuneration guidelines aligned to government policy objectives Audit outcomes linked to SOC Executives 	<ul style="list-style-type: none"> The Remuneration Guidelines have non-negotiable targets to align performance to the payment of incentives. These include the mandate to clean up governance challenges and improve audit outcomes and internal control environment. Compact for 19/20 have been aligned accordingly.



Progress Report on PC SOCs Recommendations

RECOMMENDATIONS	KEY INTERVENTIONS	PROGRESS
<p>Ensure finalisation of the future strategic roles for Alexkor and SAFCOL</p>	<ul style="list-style-type: none"> Part of SOC Reform process 	<p>Alexkor Task Team established to assess:</p> <ul style="list-style-type: none"> Undertake extensive exercise on how best the State should re-organise its current mining assets; and Provisional position of Alexkor has been determined, this requires further approval from Minister, subsequently Cabinet. <p>Safcol</p> <ul style="list-style-type: none"> The role of SAFCOL in assisting DAFF to manage State Owned Forestry Assets (Category B+C) being explored by DPE, DAFF and SAFCOL
<p>Finalisation of the Whole of State policy to bring alignment and synergy amongst state aviation assets i.e SAA, SAX and Mango</p>	<ul style="list-style-type: none"> Consultation with relevant stakeholders on the development of the Optimal Corporate Structure for the realignment of the state owned airlines. Develop action plan to guide the finalisation of the Optimal Corporate Structure. 	<ul style="list-style-type: none"> A concept note for a study to inform the development of a Whole of State policy has been developed and consultation has taken place with DOT, DEA, DWS, DTI and DMR. A Cabinet Memo was submitted proposing the implementation of an optimal corporate structure for the airlines, which is still being considered by Cabinet.



Progress Report on PC SOCs Recommendations

RECOMMENDATIONS	KEY INTERVENTIONS	PROGRESS
Address issues relating to SOCs going concern	<ul style="list-style-type: none"> Recapitalisation of SOCs to address issues of insolvency and liquidity. 	<ul style="list-style-type: none"> Recapitalisation requests submitted on behalf of SOCs. Approved allocations of R5 billion for SAA and R1.249 billion for SA Express' transferred to the companies. Engagements with potential lenders underway to secure debt financing to meet liquidity requirements.
Ensure that the Department continues to work closely with policy departments in order to influence the policy environment in which SOCs operate	<ul style="list-style-type: none"> Cluster participation and individual policy Departments' working arrangements 	<ul style="list-style-type: none"> Engagements with DOT, DOE, DOD and National Treasury with the aim of achieving policy alignment.
Department to rectify wrong audit opinion reported by Denel.	<ul style="list-style-type: none"> Intervention by the Minister, Denel and SNG to amend the audit report. 	<ul style="list-style-type: none"> Done. Denel 2017 Annual Report re-tabled in Parliament early in 2018.



Progress Report on PC SOCs Recommendations

RECOMMENDATIONS	KEY INTERVENTIONS	PROGRESS
<p>Greater emphasis on the monitoring and evaluation of SOCs' implementation of Government's policy objectives.</p>	<ul style="list-style-type: none"> Annual review or reaffirmation of the SOCs Strategic Intent Statement (SIS). The SIS and SHC strengthened to reflect Government priorities as per NTSF 2014-2019. Timely conclusion of the Shareholder Compact (SHC). 	<ul style="list-style-type: none"> Strategic intent statements reviewed and, where necessary, amendments proposed (but still to be signed off by Minister) Majority of the SHCs are at an advanced stage of negotiation.
<p>Progress on the municipal debt</p>	<ul style="list-style-type: none"> Intergovernmental engagements 	<ul style="list-style-type: none"> Municipal debt increased by R1,6bn from R17bn in September 2018 to R18,6bn in December 2018; Top 11 defaulting Municipalities constitute 77% of the total debt. Free State Municipalities are leading with 44% of the debt followed by Mpumalanga. On Revenue Management, a committee was established comprising of the different IMTT members to deal with the following: Funding and the implementation framework for revenue collection mechanism and the roll-out of prepaid meters; Establishment of an independent centralised collection mode; Management of default including triggers and consequence management; Program to deal with the “culture of non-payment”



Progress Report on PC DPE Recommendations

RECOMMENDATIONS	KEY INTERVENTIONS	PROGRESS
<p>Consider introducing relevant systems and evidential requirements during the annual strategic planning process in order to ensure that all predetermined targets are achieved.</p>	<ul style="list-style-type: none"> Review of the department planning processes Development of the Action Plan to support the implementation of the Strategic Plan and APP 	<ul style="list-style-type: none"> 2018/19 integrated Action Plan was developed factoring in these directives/guidelines
<p>Ensure that the Department's vacancies are filled, as well as the acting position in the entities with an outcome of developing strategic capacity of the Department</p> <p>Ensure that spending on compensation is fast tracked through acquiring critical skills.</p>	<ul style="list-style-type: none"> Review of the structure to ensure conducive integration of roles and responsibilities Enforce stringent turnaround time on the filling of vacant positions 	<ul style="list-style-type: none"> The new structure implementation with effect from 01 January 2019. However new capacities required in line with changed priorities Subsequent to implementation of the approved Re-aligned Structure, priority posts were identified and advertised. Accelerated recruitment process planned for Q1 of 2019/20 financial year.
<p>Complete the objective on Business Mapping Process</p>	<ul style="list-style-type: none"> Standardisation of the processes for effective coordination of information and decision making process 	<ul style="list-style-type: none"> The project will be reinitiated in 2019/20 after being abandon in 2017/18. an IT architecture unfolding in 2018/19 shall form the foundation of this work
<p>Ensure that service providers are paid within timeframes and project management capacity is enhanced in the Department</p>	<ul style="list-style-type: none"> Enforce turnaround time of 30 day payments 	<ul style="list-style-type: none"> The standard operating procedures were developed during 2018/19 financial year to improve the internal control measures which help to identify and prevent late payments and ensure full compliance with the PFMA. The department on average pays service providers within 3 days of receiving invoices.



THANK YOU



public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA