public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

BUDGET VOTE SPEECH 2022

Speech by Deputy Minister Phumulo Masualle, MP

20 May 2022

Honorable Chairperson
Honorable Ministers and Deputy Ministers

Chairperson of the Portfolio Committee

Honorable Members

The Acting Director-General of the Department

Chairpersons and Board Members of State-Owned Companies

Chief Executive officers and Senior Managers of State-Owned Companies

Ladies and gentlemen

Good Morning

Honourable Chairperson, I'm greatly humbled at the opportunity I have been afforded to participate in this debate on the budget vote of our department. Addressing the fourth session of this democratic parliament, President Mandela had this to say, " A new year is upon us, once more affording us the opportunity to account in a comprehensive manner to the citizens on the awesome responsibilities they have mandated us to fulfill.

All of us, in the executive and legislatures, the majority party and Members in the opposition benches, are called upon to outline practical programmes to improve the nation's quality of life"

It is common cause that as a country we are emerging from more than two years of a state of disaster occasioned by the global pandemic of Corona Virus with resultant negative economic impacts. As though this wasn't enough we are also emerging from the debilitating effects of the phenomenon of state capture as reported extensively by the Commission headed by then Deputy Chief Justice Raymond Zondo.

It is precisely against this backdrop that our President charged us with a mandate to stabilize and restructure these SOEs so that they can play a critical role in the implementation of the country's Economic Reconstruction and Recovery Plan.

Chairperson in the recent history of our country never before has the role of state-owned enterprises enjoyed as much attention and created such strident debate and rightly so. As custodians of these State Owned Entities it is in ours and the country's best interest that we ensure that they are financially sustainable and deliver on their mandates efficiently and become pillars of our economic recovery.

It is exactly in the midst of this debate that we present our budget vote to this august house today. The tabling of budget vote also presents an opportunity for us to come and account to members of Parliament and reflect on our achievements and also indicate where it is that we are headed.

The Budget delivered before this House today is modest, but it provides the tools with which government as a shareholder ensures that the State Owned Enterprises deliver to their public mandate. However, in this context, I wish to provide some highlights as follows:

Denel

DENEL is a strategic national security asset and Government is committed to finding a viable solution that recognizes this imperative and the need for self-sustainability. The recent seismic shifts and consolidation of geopolitical dynamics and regional threats of terrorisms underscore the strategic importance of Denel.

Denel's business model

Denel continues to experience significant liquidity challenges. Long overdue payments to creditors and suppliers meant the supply chain was no longer fully available to support the operations.

Denel's business model as a system integrator, depends significantly on local manufacturers to supply critical components and subsystems. The disruption of this delicate relationship with suppliers has become one of the binding constraints regarding Denel's operations.

Furthermore, the non-payment of salaries has also had an adverse impact on morale and a significant number of critical skills left the company. This has further affected operational performance and delivery of contractual milestones which affected potential cash flow required to support operations.

As we speak, a business case has been developed and it is now awaiting the perusal of both Ministers of Finance and Defence en route to Cabinet for final decision.

Financial Performance

In addition, the Department has taken several steps to assist the SOC.

1.The National Treasury has approved an allocation to settle the R3.4 billion guaranteed debt which was costing Denel more than R200 million in interest payment per annum.

2.The Department has engaged the Department of Defence and ARMSCOR on funding critical capabilities that Denel is managing on behalf of the Department of Defence.

3.The Department gave its full support for Denel to discontinue the Denel Medical Benefit Trust which estimated that it would generate no less than R750 million as a portion to flow to Denel. The funds are expected to flow within the first half of this financial year.

4.The Department is assisting Denel in firming up its business case which will form the basis for asking further financial support. The process involves identifying immediate work opportunities which can be targeted to generate the required cash flow to support operations.

5.The Department is also assisting Denel to finalize its restructuring plans which will form the basis of repositioning the SOC.

The Department is concerned about the human costs that the non-payment of salaries is having on the employees and their dependents and together with Denel, we are doing everything humanly possible to correct this state of affairs.

Government is determined to stabilize the entity and to restore it as trusted supplier, partner and employer.

ALEXKOR

Chairperson

The state diamond miner, Alexkor has gone through its own challenges over the years.

After changing the Board and putting in new management, we are beginning to see the positive results within the entity.

Alexkor's successes
The focus for the year was to:

Undertake cost cutting initiatives in pursuit of preserving the remaining cash reserves against the bleak future.

Consolidate the head office and Alexander Bay operations to remove some of the duplicate functions.

The result is that:

While the cost cutting initiatives included a significant loss of jobs, the process assisted in preservation of otherwise restricted cash reserves.

The two entities have provisionally consolidated the function of the CEO, with the Alexkor CEO taking over the role of joint venture CEO.

Alexkor Priorities
The focus for the current year:
Revitalising the joint venture diamond operations – This will include consideration of various funding models for the expansion of the diamond mining operations. Despite the diamond sector facing depletion of high value deposits, the diamonds from the joint venture remain globally sought after due to their gem quality properties.

Strengthening executive management team – Both head office operations and joint venture operations faced challenges of high turnover of top executive management over the past two years. The focus is to capacitate both entities with appropriately skilled and competent executive management team to effectively lead the operations.

Government will soon make an announcement in determining the future role of Alexkor in the context of Repurposing of SOEs.

Chairperson

The South African forestry company (SAFCOL) is one of the SOEs that have given us least challenges. The Board and management in place are implementing a new innovation and growth strategy that is bearing fruits.

SAFCOL's Innovation & growth strategy

SAFCOL's strategy aligns with the objectives of the Forestry Masterplan; which includes encouraging sector growth, investment, job creation, and competitiveness.

SAFCOL continues to engage the banking sector on the topic of Green Bonds and Green Loans for energy efficient projects. The Combined Heat and Power (CHP) strategic project has garnered interest.

SAFCOL's strategy seeks to realize a 50:50 revenue split between logs sales and processed products. The Timbadola Sawmill is key to achieving this objective. An approach to upgrade the facility with a sound business case was approved by EXCO. Funding institutions are being engaged for this project. Implementation of additional processing capacity via mobile sawmills is underway.

Diversification of SAFCOL's product portfolio will be achieved by strategic partnerships with the private sector to implement projects such as the Combined Heat and Power, Eco-Tourism, and Pole Treatment. These projects are being discussed with National Treasury via their GTAC unit.

- SAFCOL aims to contribute to climate change sustainability goals by partnering with entities that own plantations to grow more trees, thereby counteracting the effects of global warming. Increasing the size of SAFCOL's biological asset through horizontal integration and expanding SAFCOL's service offerings in the downstream through internal processing underpins SAFCOL's growth and sustainability strategy.

- The focus is only on the smaller DFFE plantations in Mpumalanga due to the risks associated with these plantations not being properly managed. To this end, the socioeconomic benefits of recommissioning the DFFE plantations in the Mpumalanga Province is being explored.

Financial Stabilisation

- The company continues to maintain costs and grow revenue at a sustainable level.
- A healthy cash balance that exceeds targets is being maintained.
- Revenue growth for the period is projected to be over 30%.
- The company's strong financial position was recognized recently when the group securing two offerings for asset-backed financing (ABF) for the mechanization project valued at R116m.
- The offer approved by the Board was at an attractive rate of prime + 0.5% which is lower than any other existing ABF on the balance sheet.

We want to be modest with the good financial and operational position of the SAFCOL, as one of the SOEs that have really turned the corner and encourage the Board and Management to continue implementing their strategy for the benefit of the forestry sector.

Chairperson

South African Express

South African Express Airways ("SA Express") was placed under provisional liquidation since 28 April 2020 by virtue of an order of the South Gauteng High Court. To date, the liquidators, have managed to dispose of the tangible assets raising an amount of R24 748 700.

Following the latter process, the selling of intangible assets is currently under way. On or about March 2022, the liquidators had initiated the third round for the sale of these assets, with the first two rounds having failed to secure buyers who could provide the necessary proof of funding or making sustainable offers that were reflective of the fair value of the intangible assets. With the appreciation of complexities associated with this process, the Department has raised and continue to raise its concerns with liquidators. However, we remain cognizant of the need to secure the best deal for the affected parties, including without limitation, the SA Express employees and the State in this provisional liquidation.

The Department will continue to work with the provisional liquidators and provide its guidance and support in the sale process of the business. The provisional liquidation is due to return to court for final hearing on 04 July 2022 and the liquidators have intimated that they will not seek an extension in this regard.

- On the issue of the employees, they enjoy a special preference in terms of the Insolvency Act, 24 of 1936 as well as the Companies Act, 61 of 1973 (partly repealed Act), but will only be paid after the secured creditor's claims have been proven and settled. We remain hopeful that the process of sale will yield a positive result and that there will be sufficient funds to allow for paying of a dividend to the employees.

Despite the devastating effects of state capture and corruption on our SOEs, the Department is turning the corner in restructuring and repurposing these SOEs to ensure they deliver on their developmental mandate.

I urge all of you to support the DPE Budget

I thank you