public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

BUDGET VOTE SPEECH

2023

Minister Pravin Gordhan, MP

23 May 2023

INTRODUCTION

CHAIRPERSON,
HONOURABLE MEMBERS,
CHAIRPERSONS and CEOs OF SOE BOARDS,
LADIES AND GENTLEMEN

Sanibonani
Avhuxeni
Molweni
Thobela
Goeie dag

I have the honour to present the Budget Vote for the Department of Public Enterprises for the 2023/24 financial year.

Around this time next year, South Africans will once again show the world our intent as a nation to unite and to choose a path that will set this country on yet another course to realize its true potential.

Next year's general elections mark a critical milestone in our ongoing quest to create a just and an equitable society, where no one is left behind.

eAs Government, our fundamental responsibility is to create an enabling environment where the dreams of our people are not held hostage by selfish interests driven by greed, cynicism and saboteurs, involving treasonous acts on our infrastructure and pillaging of state resources.

Our socio-economic transformation agenda is predicated on the urgent need to deliver on our commitment to social justice and affirm the ideals enshrined in our Constitution.

State-Owned Enterprises play a vital role in creating and enhancing the economic and social wellbeing of all South Africans. This reality underpins our work to revitalize our SOEs and reclaim them from criminals and the beneficiaries of State Capture, whose treasonous acts mean that Eskom cannot deliver safe and reliable electricity supply.

The network industries -- energy (electricity) and the logistics sector -- are key to South Africa's ability for faster and a more inclusive way to generate economic growth. Our people need a reliable supply of electricity to run their small businesses, light up their streets, and for their children to learn.

Our people need reliable trains to get to work. Our miners and farmers need efficient ports that enable them to export their produce and remain competitive. There is an urgent need to overhaul of our rail, ports and logistics infrastructure in order to cut the cost of doing business, create more jobs, and boost business confidence.

This is a national imperative. This task should unify all of us to work together as South Africans to shoulder the responsibility of creating a bright future for our country. The solutions of yesterday will not take us farther.

Our world faces serious tectonic shifts that require decisive leadership, visionary execution, and a capable state to tackle our daunting triple-challenge of unemployment, poverty and inequality.

The war in Europe has underlined the fragility of our world, not only in economic terms, but also in the way that global governance structures are being tested. Having just emerged from the debilitating COVID-19 pandemic, we are now confronted with supply chain disruptions, soaring food and energy prices, and the specter of more geopolitical shocks.

Of course, many of these factors are out of our control, hence the importance of seizing this opportunity to fix, repurpose, realign our SOEs to deliver on our developmental agenda.

The Reform Imperative

Reform of our SOEs and indeed of our broader society and economy is an absolute imperative.

The National Development Plan (NDP 2030) suggests that the significant SOEs need a clear public-interest mandate and straightforward governance structures, enabling them to balance and reconcile their economic and social objectives.

For the large SOEs involved in economic infrastructure provision, their mandate should include the imperative of financial viability and sustaining their asset base and balance sheet to maintain and expand services.

Secondly, State capture and corruption have played a significant role in hollowing out and preventing our SOEs from playing their developmental role. The Zondo Commission's observation and recommendations have outlined the devastating impact of state capture and corruption.

We now know that SOEs' finances (balance sheets), operations, governance, culture, and skills base have been compromised, and require reform.

Furthermore, SOEs aim to deliver economic and social development: leading to social justice. South Africa is a middle-income country. It finds itself in a middle-income trap where it cannot transit to higher levels of economic development unless we do things differently.

The SOEs must play a crucial role in helping South Africa to move to a higher level of development. We need SOEs to drive skills development and introduce the adoption of new technologies to optimize and streamline business processes as part of the 4^{th} Industrial Revolution.

SA's STRATEGY OF SOE REFORM

So what is the strategy for SOE reform? SOEs are central to advancing national objectives through providing economic and social infrastructure.

The SOE reform process is not unique in the world. Many countries are undertaking similar processes, for example, in Malaysia, reforms to make SOEs more efficient, fit-for-purpose, and to develop new systems of accountability. In order to grow their economies as part of their objective, they established their outfit called Khazana, some 10 to 12 years, starting with five SOEs. Today over 100 SOEs fall under the banner of Khazana.

The President announced on the basis of this evidence, the creation of the Presidential State-Owned Enterprises Council (PSEC) in June 2020, in the midst of the COVID-19 pandemic, to provide independent guidance, noting that:

- The dependence of SOEs on the fiscus was no longer sustainable.
- The SOEs are key implementing agents of the developmental state and thus must be marshalled accordingly.
- International best practices on the governance of SOE/Cs showed the importance of separating the policy function from operational and regulatory functions.
- Leveraging the collective balance sheet of the SOEs
- The global experience shows that the “maturation” of the new entity takes many years. In China it took 20 years to be at the point where they have SASEC today. Temasek in Singapore is a product of 30 years of work by that nation to safeguard their wealth but also to lay the basis for future generations.
- Of course, strengthening the framework governing SOEs is a critical objective to protect them from criminality, selfish interests and sabotage.
- Finding innovative ways to manage the risk of future corruption, political and business capture is equally important.
- **Accordingly, the following measures were proposed by the PSEC:**
    - An appropriate centralized Shareholder Ownership Model.

  - Introduction of an overarching Act or legislation governing SOEs.

  - Improve governance, financial control, risk management and the infusion of the requisite skills in the boards. This is a work in progress.

  - Having undertaken a financial analysis of over 30 other SOEs, it has made proposals which need further business analysis through experts, which to merge and which to consider closing down.

  - A deep financial analysis of Eskom was also undertaken.

WHAT HAS BEEN IMPLEMENTED?

- A POLICY STATEMENT

  - So what we have is a Policy Statement that clearly sets out the rationale and foundation for the adoption of a centralised shareholder model.

- BUSINESS CASE FOR A STATE-OWNED HOLDING COMPANY

  - Ensure a clear separation of ownership and management of SOCs, ensure professionalised Board appointments, inculcate market discipline into SOCs.

- A SHAREHOLDER BILL
    - The model finds expression in the Shareholder Bill, currently under consultations within Government. This Bill will be submitted to parliament, after the necessary public consultations.
- Boards will be expected to pursue a strategic direction consistent with Statements of Strategic Intent, Shareholder Compacts, Memoranda of Incorporation, and the SOE Performance Appraisal System.
- To ensure a seamless transition to a State-owned Holding Company, we have sought in the last four years to inculcate a sense of urgency into the boards.
- We have demanded continuous review of the current business models and development of financial stability plans to make SOEs financially self-reliant.
- Boards will be expected to pursue a strategic direction consistent with Statements of Strategic Intent, Shareholder Compacts, Memoranda of Incorporation, and the SOE Performance Appraisal System.

THE LEGACY OF STATE CAPTURE

Of course, in the process, we have to overcome the legacy of state capture and to improve operational effectiveness.

- Although it is now common knowledge, it is important to remind ourselves of the damage caused by state capture and the tough challenge in overcoming the damage inflicted on systems, plant, processes, governance and people.

- While much has been done to restore core operations, and bring many corrupt companies and individuals to book, the deleterious effects of patronage, middlemen and thieves highlights the depraved nature of some of those that have been entrusted with safeguarding the public interest and have abused it.

- Similarly, post-Zondo Commission, we have engaged with many original equipment manufacturers, and particularly those implicated in Transnet.

ENGAGEMENT WITH OEMS & VISIT TO CHINA

Approach to OEMS: own up to unlawful payments made; OEMs are cooperating to address the wrongs of the past; T & OEMS addressing alleged irregularities – regularization of business – court orders. No immunity from prosecution is guaranteed, where applicable. However, equipment is essential to restore full and proper operations in SOEs.

Three weeks ago, I led a delegation comprised of Eskom and Transnet executives to explore ways to unlock some of the solutions needed by these two critical SOEs. This is still work in progress, and given the complexity of what is being dealt with, it will take a bit of time to conclude the negotiations that have commenced or re-commenced. But certainly, we will reach, I believe, an optimistic end.

GREENSHOOTS OF OPERATIONAL ADVANCES AND EXAMPLES OF STRUCTURAL REFORMS

I highlight three entities: Eskom, Transnet, SAA. The Deputy Minister will deal with the others.

As government's shareholder representative with oversight on our SOEs, the Department of Public Enterprises is entrusted with setting in motion plans and strategic interventions to make our SOEs more responsive to the needs of our economy and our people.

ESKOM

Operational and related changes

- Emphasized that generation recovery must be complemented by introduction of new capacity to end load shedding.
- Generation recovery plan to increase Energy Availability Factor to 70% by 31 March 2025.
- Debt Relief R254 billion with the help of National Treasury.
- Operationalization of the National Transmission Company of SA by November 2003.
- Appointment of the NTCSA board. Expected end June 2023.
- Distribution subsidiary to be corporatized by end December 2023.
- Finalization of the appointment of the GCEO.

- Mitigation Strategies for shutdown of Komati Power Station aimed enhancing opportunities for affected workers and communities developed.

- National Treasury finalizing municipal arrear debt solution.

Strategic initiatives and reforms in line with Roadmap

- Expansion and strengthening of the grid as per the Transmission Development Plan to allow new generation capacity (IPPs, gas, batteries, other renewables).
- Koeberg life extension and steam generator replacements before 31 March 2024 (unit 1 and unit 2).
- Kusile recovery of units 1, 2 &3 before 31 December 2023.
- Medupi recovery of unit 4 from generator explosion repairs by July 2024.
- Completion of new build programme – Commissioning of Kusile unit 6 by May 2024.
- Eskom restructuring/unbundling.

a) Lenders consent engagements have been completed and response from lenders to be completed before trading.
b) NERSA to issue a trading, importing and exporting license by July 2023.
c) The due diligence for the establishment of a Generation Company and New Holdings will be completed by 31 March 2023.
d) The Electricity Regulation Act for the establishment of a competitive market is before parliament for approval.

TRANSNET

Operational and related changes

- Getting more locomotives into service.
- Repairing infrastructure and removing speed restrictions.
- Tackling cable theft and vandalism.
- Digitisation of operations to improve business processes, boost efficiencies.

Strategic initiatives and reforms

- Finalization of the roadmap implement end state for Transnet.
- Preparation for rail reform – establish infrastructure manager within TFR by October 2023; relaunching of slot sales by 1 April 2023.
- Optimization of implementation of private partnership – Rail and Ports
- Overhaul of freight rail infrastructure to recapture freight volumes.

SAA

SAA should be dead. Its assets should have been sold, and it should have been in liquidation, but through the determined effort of government SAA has been saved. It has been restructured. Hundreds of people have retained their jobs.

Operational and related changes

- Routes as at March 2023: 12 destinations (10 regional / 2 domestic).
- No. of aircraft – currently 5 (A320); 1 (A340). Future 5 (A320) and 1 (A330). Total will be 12 planes.
- Operational stabilization.
- Profit maximization.
- Competition benefitting consumers.

Strategic initiatives and reforms

- Finalize the SEP transaction.
- Competition Tribunal ruling awaited. This process will commence shortly.
- Routes March 2024: 20 destinations (1 intercontinental, 16 regional, 3 regional).
- Additional routes for revenue generation (Planned – Lubumbashi, Gaborone, Maputo, Accra-Abidjan, Lagos-Abuja, Nairobi, Sao Paulo to connect the South American continent with us).

DENEL

- Robust order book of R18.37 billion for 2023/24, while planned total sales are projected to be R2.08 billion, compared with R1.08 billion in the 2022/23 financial year.

Alexkor and Safcol: Significant improvement in their financials.

SPENDING AND INVESTMENT PLANS

DPE SOEs - We are forecasting that over the next five years, DPE's SOEs will spend more than R200 billion on expanding and improving infrastructure.

Eskom – Projected spend R290 billion over next five years; R152 billion for optimizing generation and R74 billion to strengthen transmission.

Transnet plans to spend R122 Billion over the next five years. The investment is targeted mainly at rail with R84.9bn, but the Port Authority will also see a significant R13.4bn.

Capital will be directed primarily towards restoring the rail and port asset base and utilisation to deliver on revenue commitments in the key commodities.

At least R99.5bn (81%) of this capital investment is geared towards the maintenance and sustaining initiatives to improve operating efficiencies.

HONESTY DEMANDS – TRANSPARENCY ABOUT SHORTCOMINGS

- ELECTRICITY INSECURITY
- TFR FAILINGS / OPERATIONAL ISSUES
- RED TAPE – MORE TO DO

- IMPLEMENTATION: TAKES TOO LONG

- DAMAGE TO ECONOMY

ESKOM

- A story of challenge and progress

- Current fleet performance

- **Stabilise Governance -** The appointment of a full Eskom Board during last year is contributing to leadership stability at Eskom.

- **Stabilise Operations -** Eskom's generation continues to underperform, with the year to date (YTD) Energy Availability Factor (EAF) of 56.03% which is below the year-end (YE) target of 65%. Eskom's plant performance remains highly unpredictable with multiple failures experienced continuously.

- **Stabilise Finances -** During the 2023 Budget Speech, the Minister of Finance announced that Government will take over R254 billion of Eskom's debt.

- Of the total, R168 billion is earmarked for settling capital repayments and the remaining R86 billion is for the payment of interest. The debt relief package will be implemented over a three-year period as follows:

• 2023/24 – R78 billion

• 2024/25 – R66 billion

• 2025/26 – R40 billion

In addition, Government will directly take up to R70 billion of Eskom's loan portfolio in the 2025/26 financial year.

- Interventions such as demand side management and incentives for solar photovoltaics have been initiated to reduce levels of loadshedding and release pressure on power stations.

- The increasing municipal debt is a systemic challenge to the electricity industry. As a result, National Treasury has approved a write-off of a third of all municipal arrears owed to Eskom as of 31 March 2023. However, this will be subject to stringent conditions that have been set by National Treasury.

- **Restructure –**

  The Energy Regulation Act (ERA) Bill has been submitted to Parliament for consideration and approval. The approval of the ERA will be critical to the restructuring of Eskom and the creation of a competitive market.

Just Energy Transition –

- The Eskom Just Energy Transition programme, acknowledged internationally as a good guideline for developing nations, is progressing well. A practical demonstration of Eskom's climate change commitments is the successfully decommissioning of the Komati coal-fired plant at the end of October 2022.

- The repowering efforts at Komati include a second life for the power station to produce renewable energy (150MW solar, 70MW wind and 150MW battery storage). Repurposing activities include agrivoltaics, a microgrid assembly facility and a Training Facility.

- Develop transition strategy for the shutdown of Komati power; enhance opportunities for affected workers and communities; stabilize the local economy.

- Develop reskilling and upskilling among power station employees and the local community workforce, as an example.

- Develop stakeholder engagement across the community.

Eskom must be fixed and is being fixed. Our national security depends on this.

1) Eskom needs decisive leadership to function in a wholly successful manner for it to deliver on its mandate.

2) Looking into the future, Eskom seeks to address integration of technology to improve business processes and other functions.

TRANSNET

With regards to some of the operational difficulties on the rail sector, there's more work to be done as far as red tape is concerned.

ROADMAP FOR FUTURE OF TRANSNET

- In his SONA this year, the President announced that Government is developing a Transnet Roadmap that includes the restructuring of Transnet Freight Rail to create a separate infrastructure manager for the rail network by October 2023.

- Work on the roadmap is underway through a cross functional team led by Operation Vulindlela including DPE, DOT, National Treasury and Transnet. The Roadmap will articulate the end state for Transnet, along with the enabling regulatory environment to improve the competitive environment within ports and rail.

- The logistics market continues to evolve rapidly, especially with respect to partnership-based business models. Transnet's focus on bringing in partners to inject capital, skills, technology and know-how in order to improve capacity and competitiveness is creating the basis for a more sustainable and competitive freight system going forward.

- MAKING STRUCTURAL CHANGES
    - INFRASTRUCTURE UNIT
    - LEASING COMPANY
    - PARTNERSHIPS IN INVESTMENT

Partnerships:

A number of the partnership opportunities are longer term initiatives, with benefits expected in the next 3 to 5 years.

Plan to introduce partners into the Durban Container Terminal, Pier 2 and Ngqura Container Terminals, has registered good progress.

Acquisition of a Strategic Equity Partner for the Durban Container Terminal is imminent and will play an important role in repositioning Port of Durban as a global and regional container hub.

The AfCFTA represents a significant opportunity for South Africa as well as its neighbours to industrialise and diversify their economies through increased regional trade.

The introduction of the partner is anticipated to provide significant benefits in terms of boosting Durban's maritime connectivity.

Establishing the National Ports Authority as a subsidiary of Transnet, will create an enabling environment for 3rd party rail operators.

- RFPs in market

IMPROVING OPERATING EFFICIENCIES

For now the core focus remains on improving operating efficiencies to unlock capacity. Various detailed interventions are underway within Transnet to address current operating challenges and some of these are detailed below:

For Coal, Focus is on increasing the Richards Bay Coal channel's volume throughput from 49mtpa to 63mtpa for the 2023/24FY through initiatives, including:

- Improve locomotive availability and reliability.
- Add additional wagons on the empty leg to Ermelo.

For Chrome and Magnetite the focus is on increasing volume throughput from 9.6mtpa to 15.6mtpa for the 2023/24FY by doing the following:

- Run longer Chrome trains (150 Wagons).
- Run longer Magnetite trains (160 Wagons).
- Installation of generator sets across the North-East corridor to mitigate against load shedding.

For Iron Ore the focus is on increasing volume throughput from 51mtpa to 60mtpa for 2023/24FY by doing some of the following:

- Increase Iron Ore wagon to a total of 16 sets.
- Migrate emerging miners to higher axle loading sites.
- Increase rail line inspections to reduce risk of derailments.

For Manganese the focus is on increasing volume throughput from 14.6mtpa to 15.6mtpa for 2023/24FY by doing the following:

- Launch 4 additional new manganese export trains through Port of East London at 0.5mtpa.
- Protect existing 10.7mtpa volumes to PE
- Finalise completion of Mamathwane passing loop by July to increase manganese throughput by an additional 1.5mtpa.
- Security initiatives with the private sector on CapeCor will yield 0.5mtpa via Port of Cape Town.
- By successfully executing the CapeCor shutdown, including actions to reduce in-section train delays.

Transnet has to balance a very complex environment. Shortage of locomotives, deteriorating condition of rail infrastructure and historically high levels of theft and vandalism has combined to create significant operational challenges and loss of capacity for the rail businesses, TFR and TE.

At the same time changes in rail policy are set to fundamentally change the railway operating model in South Africa. Through a number of interventions including separating rail infrastructure and operations, and enabling 3rd party access to the rail network, the industry will transform from a monopolistic sector to a more competitive and responsive multi-company model going forward. I will speak more on this later.

SAA

South African Airways emergence from Business Rescue exactly two years ago shows stands as the best representation of what can be achieved as we pursue the restructuring of SOE's.

Rather than opt for what some thought was an inevitable fate for SAA, we decided on the path of seeking a strategic economic partner (SEP) would be the most prudent process that would ensure South Africans are served well into the future, with a national carrier that can act as a critical economic lever and a catalyst for connectivity with the rest of the world, we chose.

Through this transaction, SAA will be capacitated financially, strategically and operationally, to reclaim its position among the world's leading Airlines, but also in Africa, where economic opportunity abounds.

Uncover and Deal with Corruption and Recapture - The SAA board and management are fully cooperating and supporting law enforcement agencies, including the execution of the SIU proclamation initiated by the department to uncover and deal with corruption concerning the affairs of the company. While investigations continue to uncover, trace and recover resources illegally diverted from the company, progress registered to date on civil recoveries is as follows:

- A civil claim initiated to recover R1.1bn concerning the Swissport Ground Handling contract (R66m overpayments have already identified, and a criminal case has been opened with the SAPS/ Hawks); and
- A R1.3bn civil claim concerning an irregular contract with JM Aviation (a criminal case has been opened with the SAPS/ Hawks).

Stabilise Governance - Once the SAA Strategic Equity Partner (SEP) is on board, the composition of both the Board and Management will be strengthened.

Stabilise Operations - In September 2021, SAA recommenced its flight operations. The resumption of domestic and regional flights has significantly increased air connectivity in our country, fostering a robust aviation sector that supports trade, tourism, and regional integration.

As of March 2023, SAA has expanded its network to 11 key destinations, including Cape Town, Durban, Accra, Harare, Kinshasa -- demonstrating the resilience and determination of SAA to reclaim its position as a leading carrier in Africa.

Stabilise Finances - Through the business rescue process, the Airline cost structure has been successfully restructured allowing SAA to be solvent and liquid again. I am delighted to announce that, for the first time since 2011, SAA Group will report a profit for the year.

Restructure - DPE initiated a competitive bidding process to identify a suitable strategic equity partner for SAA. Takatso Consortium selected as preferred partner.

DPE is currently working diligently towards finalizing the SEP deal. Conditional approval was received from the Competition Commission earlier this month.

This partnership is vital to secure the airline's financial stability and long-term viability while enhancing the efficiency and competitiveness of our state-owned assets.

The successful implementation of this partnership will send a powerful message to the market, demonstrating our commitment to the sustainable management and revitalization of our state-owned assets.

We are working with the relevant authorities to expedite this process.

Moreover, securing government funding of R1.5 billion for SAA's business rescue obligations such as payment of creditor's claims is an integral part of the process. SAA has received R1 billion towards the end of the 2022/23 financial year out of the required R2.5 billion for business rescue obligations.

ACTING AGAINST CORRUPTION

DPE has taken proactive measures to implement the recommendations of the Report of the Zondo Commission in respect of the Department and the SOEs:

Referrals made to Professional Bodies - The Department has referred 6 cases relating to former board members of SOEs, accounting and law firms implicated in state capture to their respective professional bodies to ensure they are disciplined with the aim of preventing individuals or consultancy firms from practicing as professionals in future.

The breakdown is as follows: Denel – 1 case, Eskom – 1 case, SAA – 4 cases, Transnet – 1 case.

A complaint laid with South African Institute of Charted Accountants (SAICA) resulted in former Chair of SAA's Board Audit and Risk Committee (Ms Yakhe Kwinana) being fined R6.1 million and barred from practicing as a chartered accountant by SAICA.

Another complaint laid with Independent Regulatory Board of Auditors (IRBA) resulted in Mr Aaron Buyiswa Mthimunye being fined R5.1 million and barred from practicing as auditor for incorrect audit opinion in respect of Eskom's 2016 audit.

Delinquent Director Referrals - The Department is finalising the process to launch director delinquency proceedings against 73 former board members and senior executives who were implicated.

The breakdown is as follows: Denel – 10 cases, Eskom – 13 cases, SAA – 25 cases, Transnet - 25 cases.

The proceedings are led in partnership with law enforcement agencies to ensure alignment between criminal and civil proceedings instituted against perpetrators of state capture.

Criminal and Civil Proceedings

Eskom

- Contracts amounting to R14.7 billion were subject to state capture.
- To date, approximately R4.8 billion is being claimed against former contractors and former directors of Eskom.
- The SIU and Eskom successfully recovered R2 billion.
- Eleven (11) criminal cases have been opened by law enforcement agencies.
- Contracts worth R11.1 billion cancelled, R3.7 billion worth of contracts were declared invalid by the courts.

Transnet

- Law enforcement agencies investigating 12 criminal cases of contracts worth R56.73 billion.
- Civil recoveries worth R521 million have been launched against former contractors and former officials of Transnet.

SAA

- civil claims amounting to R3.84 billion concerning contracts linked to state capture corruption instituted.
- To date, R130 million savings.

PROGRAMME/BUDGET OVERVIEW

Expenditure for the Department is expected to increase at an average annual rate of 2.9 percent, from R303 million in 2023/24 to R330 million in 2025/26. This is due to the normal general increase.

The Department's main cost driver is compensation of employees, spending on which will increase at an average annual rate of 3 percent, from R185 million in 2023/24 to R202 million in 2025/26.

To ensure the Department remains within the expenditure ceiling for compensation of employees over the MTEF period, only critical vacant posts will be filled.

CONCLUSION:

I would like to thank all our partners in Government, the Boards of the SOCs, the staff and the officials of the DPE, and everyone that has made contribution to our SOCs in every possible way.

WIN PUBLIC TRUST, CONFIDENCE,

BE A NATION OF HOPE AND OPTIMISM.

MADIBA : THE ULTIMATE EMBODIMENT OF HOPE said:

"I am fundamentally an optimist. Whether that comes from nature or nurture, I cannot say. Part of being optimistic is keeping one's head pointed toward the sun, one's feet moving forward. There were many dark moments when my faith in humanity was sorely tested, but I would not and could not give myself up to despair. That way lays defeat and death."

END