



**public enterprises**

Department:  
Public Enterprises  
REPUBLIC OF SOUTH AFRICA

**National Council of Provinces**

**BUDGET VOTE SPEECH**

**2023**

**Minister Pravin Gordhan, MP**

24 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.

As 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.

### **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.

Notably, State capture and corruption have played a significant role in hollowing out and preventing our SOEs from playing their developmental role.

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 and leverage opportunities inherent in the 4<sup>th</sup> 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 among other factors 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.
- 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.

**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.
- We have demanded continuous review of the current business models and development of financial stability plans to make SOEs financially self-reliant.

## **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.
- Much has been done to restore core operations, and bring many corrupt companies and individuals to book, however, the deleterious effects of patronage, middlemen and thieves is devastating.
- A monumental effort is required to reverse this damage in SOEs.
- Similarly, post-Zondo Commission, we have engaged with many original equipment manufacturers, and particularly those implicated in Transnet procurement processes.

## **GREENSHOTS OF OPERATIONAL ADVANCES AND EXAMPLES OF PROVINCIAL IMPACT**

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, where they are.



## **ESKOM**

### ***Key Operational and related changes***

- Generation recovery; raise Energy Availability Factor to 70% by 31 March 2025; Debt Relief of R254 billion with the help of National Treasury.
- Operationalization of the National Transmission Company of SA by November 2023; Appointment of the NTCSA board end June 2023; Distribution subsidiary corporatization end December 2023; Finalization of appointment of GCEO.
- Implementing the “JUST” component of the Just Energy Transition to address the impact of shutdown of Komati Power Station aimed enhancing opportunities for affected workers and communities developed.

### ***Strategic initiatives and reforms in line with Roadmap***

#### ***Eskom collaborations supporting Municipalities and contribution towards sustainability of the Electricity Distribution Industry.***

- Over the past years the Municipal debt to Eskom has grown to an astronomical amount (R58.5 billion) at end FY 2022/23
- Eskom has worked closely with National Treasury and other Government bodies to find solutions to the growth in the Municipal debt.
- The culture of non-payment has to be changed as a matter of urgency.

- The National Treasury support package dealing with historical debt, is a critical enabler to the Municipalities that have been struggling with their debt, to make changes in their Financial Management Systems to become sustainable.

**Eskom’s key initiatives supporting municipalities and electricity users includes and not limited to:**

- Eskom continues to offer Municipalities technical and administrative support via the Active Partnering programme to provide better electricity and related services to customers and South Africans at large whilst protecting Municipal revenues.
- Eskom has offered incentives to Municipalities to curb further growth in debt.
- Worked with National Treasury and Government in developing a Municipal support package to support Municipalities to deal with the historical debt and focus on the current account.
- Working with various stakeholders including Neccom to develop a Wheeling framework to enable the flow of new capacity to customers in Eskom and Municipal areas of supply.
- Community collaboration to support communities to play their part to be active responsible users and payers for services.
- Collaborating with Municipalities and SALGA via the Neccom workstream on a sustainable model for the future Electricity Distribution industry.
- With the introduction of new energy supplies through Power Purchase Agreements, the development of a wheeling framework enables successful introduction of much needed additional energy onto the grid, to help curb load shedding.
- IPP/ Renewables located per province.

**WESTERN CAPE**

- Koeberg life extension and steam generator replacements before 31 March 2024 (unit 1 and unit 2).

**MPUMALANGA**

- Kusile recovery of units 1, 2 &3 before 31 December 2023.
- Auction of sites near or at power stations for constructing renewables.
- Sites auctioned/level of construction. (24 portions auctioned – 16 farm portions at Majuba and 8 farm portions at Tutuka).
- 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.

**Current Renewables Projects Per Province (as at 24 May 2023)**

**BW1 - 4 OPERATIONAL PROJECTS**

Status	Free State	Northern Cape	Limpopo	Western Cape	Eastern Cape	North West	KwaZulu-Natal	Gauteng	Mpumalanga	TOTAL
Number of Projects	5	47	3	11	17	5	0	1	1	90
MWs	204	3 463	118	592	1 496	275	0	8	25	6 180

- A practical demonstration of Eskom’s climate change commitments. Successful decommissioning Komati coal-fired plant end of October 2022.
- Repowering/repurposing of Komati to produce renewable energy (150MW solar, 70MW wind and 150MW battery storage).
- Develop **transition strategy** for the shutdown of Komati power:
  - ◆ Enhance opportunities for affected workers and communities; stabilize the local economy.

### **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.

## **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 post 2023***

- Reinvention and Growth strategy, with investment programme of ~R150bn.
- Of which ~R51bn will be delivered over the next 5 years.
- Transnet's direct contribution ~66% / Balance through partnerships and private players.
- Investments: port terminals – bulk, automotive, container and cruise
- Expansion of capacity for bulk commodities on rail and ports, as well as properties.

### **Northern Cape**

- Boegoebaai Port development – new port and rail development.
- Project opening up Northern Cape mining area.
- To drives significant investment in the province.
- Transnet Properties - In case of derelict buildings, TP actively

working to find local partners to co-develop, lease or dispose of such.

## **Western Cape**

- The 7-million-ton capacity expansion of the Sishen-Saldanha line
- Including enhancement of port capacity for Iron ore, positive for Western Cape and Northern Cape.
- Along with Iron Ore, Manganese in Saldanha will be expanded by 3m tons.
  
- This increases the capacity of the port to export Iron Ore and Manganese.
- At the Port of Cape Town, TNPA will be building a truck staging facility to reduce congestion.
- Belcon Terminal in Belville recently secured an investment from Maersk – there are now 96 reefer plugs at the terminal.
- In process of partnering with the private sector to develop the 1 Adderley street precinct into a mixed use PSP.

## **Eastern Cape**

- Within the next month, Transnet will be appointing the construction partner for the 16 million ton Manganese terminal.
- Critical first step to the relocation of the Manganese terminal from the Port of Port Elizabeth to Ngqura.
- There will also be a 6 million ton rail capacity expansion to evacuate manganese via rail through the Port of Ngqura.
- Soon, the Fuel Terminal section 56 will be issued at the Port Ngqura.
- To release prime property for waterfront development.
- TPT -- ensure world class automotive terminal at the Port of Port Elizabeth, able to meet the needs of Ford and VW in particular along with the other OEMs.
- Before the end of the month, tender for rail capacity expansion to enable Ford exports through the Port of Port Elizabeth via turnkey project will be issued.

- The Port of East London is primed for growth with the increase in grain exports via rail and the recent decision to export 1,5 million tons of manganese through this port. This remains the home port of Merc. TP also has a small industrial hub that will be developed over the coming months.

## **KwaZulu Natal**

- Start of the implementation of the hub port in Durban.
- Priority projects -- dredging of the port, the development of the main auto terminal and the development of Point terminal.
- Transnet will also be disposing of selected properties (e.g., Montclair Lodge and Stella Mansions) to facilitate the redevelopment of the Durban city centre.
- The Port of Richards Bay will see the development of a Liquid Natural Gas terminal which is critical for the development of a gas fired power plant in the Richards Bay IDZ.
- The RFP for the LNG terminal is already in the market and should close around July 2023. The RFI for the container terminal in Richards bay is currently being assessed. If this proves viable, then the next phase of the procurement process will begin.

## **Gauteng**

- Transnet will be disposing of the Carlton Centre which should see the redevelopment of the Joburg City Centre.
- There is also the repositioning of the intermodal hubs – starting with Kaalfontein auto supplier park.
- Revitalisation of the City Deep Container terminal as part of the operating lease for the Container Corridor.

## **North West**

- Recently, Transnet secured permission from SARS to use Tarlton fuel depot as a bonded warehouse to enable fuel exports to the region via this facility on road or rail.
- Transnet has run its first trains in years into Botswana from this facility.

- Over the next couple of years, Transnet will be upgrading its rail infrastructure on key corridors.
- Work always done in partnership with the surrounding communities and should offer some injection into these dispersed communities.

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.

### **Operational Plans**

#### **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:

#### ***MPUMALANGA***

**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.



***NORTH WEST / LIMPOPO / MPUMALANGA***

**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.

***NORTHERN CAPE***

**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.

***EASTERN CAPE / NORTHERN CAPE***

**For Manganese** the focus is on increasing volume throughput from 14.6mtpa to 15.6mtpa for 2023/24FY by doing some of 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.

## **Strategic Initiatives and Reforms**

### **ROADMAP FOR FUTURE OF TRANSNET**

- Work on the roadmap is underway
- The Roadmap will articulate the end state for Transnet, along with the enabling regulatory environment to improve the competitive environment within ports and rail.

### **BROADER CONTEXT**

It is evident that there has to be a logistics market evolution – that leverages partnership-based business models to help improve capacity and competitiveness.

- MAKING STRUCTURAL CHANGES
- The market dynamics warrant that there be fundamental changes made.
- INFRASTRUCTURE UNIT
- This is to consider and develop infrastructure plans.
- LEASING COMPANY
- This will help optimize returns from leasing equipment.
- PARTNERSHIPS IN INVESTMENT
- Partnerships create a backdrop through we can crowd in private sector funding.

## **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 domestic).
- 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.

## **SOE INVESTMENT PLANS**

**DPE SOEs** - Over next five years, DPE's SOEs forecast to 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** – Forecast 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.

## **TRANSPARENCY ABOUT SHORTCOMINGS**

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

- IMPLEMENTATION: TAKES TOO LONG; DAMAGE TO ECONOMY

## **POST-ZONDO COMMISSION PERIOD**

### **Criminal and Civil Proceedings**

#### **Eskom**

- Contracts amounting to R14.7 billion were subject to state capture; To date, nearly R4.8 billion being claimed against former contractors/former directors of Eskom.
- The SIU and Eskom successfully recovered R2 billion; Eleven (11) criminal cases 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.”***

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