

Public Enterprises

Aim

The aim of the Department of Public Enterprises is to manage the restructuring of state-owned enterprises to maximise economic impact.

Policy developments

The Office of Public Enterprises was upgraded to be a schedule 1 Department on August 1999. It will focus on the following activities:

- Developing and directing a coherent approach to restructuring and transforming state-owned enterprises it will publish a restructuring programme outlining the timetable, sequencing and focus of transactions over the next 36 months
- Coordinating the interdepartmental efforts between the line policy departments and the public enterprises
- Providing a systematic method of monitoring the performance of state-owned enterprises, and ensuring the alignment of their activities with government policy
- Promoting the business process re-engineering of state-owned enterprises for internal (to transform the work environment) and/or external restructuring (to integrate and/or align similar enterprises); to this end it is identifying synergies in the procurement practices of parastatals to maximise its mandate shareholder value
- Developing a comprehensive approach to public-private partnerships and the use of alternative service delivery as a means of restructuring state-owned enterprises.

The Department has focused primarily on the designated state-owned enterprises, including Eksom, Transnet, Safcol, Aventura and Alexkor, currently estimated to be worth R120 billion. In future it aims to play a larger role in the restructuring of other state-owned enterprises, as it is well positioned to identify opportunities for alignment and integration.

Government has made some progress in restructuring state-owned enterprises between 1994 and 1999. A recent process review indicated that the Office for Public Enterprises had been severely under-resourced and heavily dependent on outside advisors, making it difficult to develop an integrated and coherent approach to restructuring. Government has committed itself to accelerating the restructuring programme in the next five years. This requires a review of its capability to effectively direct the restructuring process.

The activities of the new Department of Public Enterprises will be organised into four programmes:

- *Management and administration* is responsible for the overall management of the Department and the Ministry.
- *Restructuring of state-owned enterprises* is responsible for implementing the Government's restructuring programme. It will be responsible for the day-to-day management of the restructuring process, as well as for interfacing with public enterprises and various governmental and non-governmental stakeholders.

- *Performance monitoring of state-owned enterprises* monitors the financial performance, corporate governance and socio-economic indicators of state-owned enterprises. It is also responsible for developing a range of transformational strategies, including the integration of service delivery of the various designated state-owned enterprises to ensure maximum development impact.
- *Alternative service delivery* is responsible for the development of best-practice guidelines and the promotion of alternative service delivery strategies.

This will necessitate an increase in the Department's staffing complement from 41 to 116, with personnel spending rising to R17,1 million from 2001/02.

Government will benefit from the new Department's mandate in a number of ways, including:

- Better return on investment in state assets, including an improvement in actual financial returns, social returns and the development impact achieved through a broader process of restructuring and transformation
- Economic integration of public enterprises across sectors, rationalising their business processes and realising their market potential to benefit the public
- Alignment of public enterprises with Government's social, economic and political objectives.
- An expanded range of opportunities for empowerment, including investment, capacity development, operational joint ventures and community collaborative partnerships.
- Contributing to the reduction of national debt
- Promotion of South Africa as a prime investment location through the restructuring and transformation of state assets and the advocacy of public-private partnerships.

Expenditure estimates

Table 31.1 Expenditure by programme

R million	Expenditure outcome			Revised estimate	Medium-term expenditure estimate		
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Administration	16,2	25,7	6,9	11,3	23,2	25,8	24,3
Restructuring of state-owned enterprises	3,6	17,9	19,1	25,6	10,5	11,7	11,0
Performance monitoring of state-owned enterprises	0,5	0,6	0,8	0,9	9,2	10,2	9,6
Alternative service delivery	–	–	–	–	2,1	2,3	2,2
Total	20,3	44,2	26,7	37,8	45,0	50,0	47,1
Change to 1999 Budget estimate	–	–	–	6,7	30,8	35,6	–

Table 32.2 Economic classification of expenditure

R million	Expenditure outcome			Revised estimate 1999/00	Medium-term expenditure estimate		
	1996/97	1997/98	1998/99		2000/01	2001/02	2002/03
Current							
Personnel	4,5	4,7	4,7	8,1	17,1	23,0	27,4
Transfer payments	–	–	–	–	0,1	–	–
Other	8,3	22,1	21,9	29,6	27,4	27,0	19,7
Capital							
Transfer payments	7,5	17,4	0,1	–	–	–	–
Acquisition of Capital assets	–	–	–	–	0,5	–	–
Total	20,3	44,2	26,7	37,8	45,0	50,0	47,1

As noted, the personnel increase reflects the policy shift towards capacity building within Government to manage the restructuring process. The Office of Public Enterprises used a general adviser on restructuring transactions. These consultant fees are reflected in the high level of other current expenditure relative to personnel spending prior to 2000/01. From 2000/01 onwards, restructuring expertise will be housed in the Department, resulting in a decline in other current expenditure from R29,6 million in 1999/00 to R19,7 million in 2002/03. Special advisers will continue to be contracted for specific restructuring transactions, and hence other current expenditure remains a major item in the budget.

Programme 1: Administration

Table 31.3 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	9,1	11,3	11,3	9,2	9,3	–
2000 Budget	–	–	–	23,2	25,8	24,3
Change to 1999 Budget estimate	–	2,3	2,3	14,0	16,5	–

The *Administration* programme comprises policy formulation by the Minister, Director-General and other members of the Department's management. It also includes activities related to organising the Department, rendering centralised administrative, legal and office support services, managing departmental personnel and financial administration, determining working methods and procedures, and exercising managerial control.

Medium-term estimates are increased by R14,1 million in 2000/01 and R16,5 million in 2001/02, mainly reflecting increased personnel spending in line with the Department's new mandate. Spending on the programme declines to R24,3 million in 2002/03 as initial restructuring should then be completed.

Policy developments

The Department is developing a more comprehensive framework to address market uncertainties and to ensure consistency in Government policy on restructuring public enterprises. The main thrusts of the proposed policy framework include:

- Restructuring initiatives over the next five years should prioritise the larger state-owned enterprises, although current transactions of smaller entities will be completed.

- Restructuring should ensure that the overall objectives of Government are realised, including the need to promote investment and competition, broaden ownership, reduce the public sector borrowing requirement and enhance the efficiency and competitiveness of state-owned enterprises to support the overall industrial strategy and improve service delivery.
- The policy framework will explore issues of competition and regulation, corporate governance, governments' social plan, empowerment and procurement, to create an appropriate enabling environment for the accelerated restructuring programme.

The Department intends to deliver a final draft of the policy framework to the Minister in March 2000.

The expansion of the Department's personnel requires considerable attention. The recruitment process is under way and the Department will have appointed most of its senior management and professional expertise by March 2000. The process of defining the organisational structure, developing an appropriate corporate culture and creating a productive work environment will continue as the new staff come on board. All senior staff are on 5-year performance contracts and a performance management system is being introduced. Since the functions of the Department will change significantly once the current phase of restructuring is complete, the staff and organisational requirements of the Department will be re-examined at the end of the current 5-year phase.

Programme 2: Restructuring of state-owned enterprises

Table 31.4 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	21,1	25,6	25,6	5,0	5,1	–
Management	4,3					
Sectoral transaction management	16,8					
Specialist services	–					
2000 Budget	–	–	–	10,5	11,7	11,0
Management	–	–	–	6,8		–
Sectoral transaction management	–	–	–	1,8		–
Specialist services	–	–	–	1,9		–
Change to 1999 Budget estimate	–	4,5	4,5	5,5	6,5	–

The *Restructuring* programme focuses on the coordination of specific restructuring initiatives and on interfacing between various governmental and non-governmental stakeholders. Management is responsible for policy formulation and coordination and the overall management of restructuring and transformation. Sectoral transaction management refers to expenditure on auxiliary advisers to the state in respect of specific programmes of commercialisation, restructuring or service transformation. Specialist services provided by the Department include economic analysis, transaction marketing, legal services, financial modelling and risk analysis.

Expenditure on external consultants is significantly reduced from 2000/01 onwards. Expertise will be housed in the Department; this is reflected in increased expenditure on management and specialist services. Consequently, programme expenditure rises to R10,5 million in 2000/01 and R11,7 million in 2001/02.

Outputs and service delivery trends

Table 31.5 Restructuring of state-owned enterprises: Key activities and outputs

Key activities	Outputs
Directing state-owned enterprise restructuring	Effective process management in terms of restructuring plans, timeous completion and effective monitoring
Facilitating stakeholder participation in state-owned enterprise restructuring	Effective process management in terms of consultation and coordination
Promotion of business opportunities, both locally and internationally, relating to state-owned enterprises	Increased number of tender bids received to perform service activities, from a broader range of business entities

The Department will publish a comprehensive plan outlining priorities, timetables and the steps to implementation. The core focus areas on the restructuring agenda are Telkom, Transnet, Eskom and Denel. The restructuring of these four entities will have a considerable impact on the economy. Collectively, they account for 91 per cent of estimated total assets, provide 86 per cent of turnover, 94 per cent of net income and employ 74 per cent of all employees in the top 30 state-owned enterprises. The Department has established four clusters, respectively on telecommunications, transport, energy and defence, to give effect to this programme.

It will also establish clear procedures and policy guidelines on the appropriate consultation of stakeholders in the restructuring programme, especially regarding social impact issues such as employment, empowerment and pricing policies.

The programme will collate and process research on particular transactions. It will also market restructuring initiatives with investors locally and abroad to attract private sector finance.

Policy developments

The Department intends formulating a central policy on regulatory reform. The monopoly characteristics of many infrastructure activities, including electricity, transport and telecommunications, require that Government play a prominent role in regulation of entry, prices and quality of services. The output of entities such as electricity and transport is both widely consumed and often considered essential. The policy agenda will include research on the role of stakeholders and regulating authorities in shaping delivery of these services.

Programme 3: Performance monitoring of state-owned enterprises

Table 31.6 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	0,9		0,9	–	–	–
Management	0,9	0,9	0,9	–	–	–
Performance monitoring	–			–	–	–
Business enterprise re-engineering	–			–	–	–
2000 Budget	–	–	–	9,2	10,2	9,6
Management	–	–	–	6,6		
Performance monitoring	–	–	–	1,4		
Business enterprise re-engineering	–	–	–	1,2		
Change to 1999 Budget estimate	–	–	–	9,2	10,2	–

The Management subprogramme is responsible for policy formulation, coordination and overall management of the systematic monitoring of the performance of state-owned enterprises. The Performance monitoring subprogramme evaluates the financial performance, corporate governance, social responsibility and empowerment efforts of state-owned enterprises. Business enterprise re-engineering coordinates the integration of service delivery to maximise the development impact. It entails enterprise analysis, business restructuring, sectoral and macro-analysis, and guides the consistent application of empowerment strategies.

Performance monitoring and business re-engineering are new areas of responsibility for the Department. Spending on the programme increases from R9,2 million in 2000/01 to R10,2 million in 2001/02, before declining in 2002/03 to R9,6 million as monitoring procedures are established and initial re-engineering completed.

Outputs and service delivery trends

Table 31.7 Key activities and outputs

Key activities	Outputs
Performance monitoring of state-owned enterprises	
Monitoring and evaluating financial performance of state-owned enterprises	Improved financial performance within state-owned enterprises Reduction in public sector liabilities
Monitoring and evaluating corporate governance of state-owned enterprises	Adherence to corporate governance protocol
Monitoring and evaluating empowerment requirements	Consistent application of empowerment strategies within state-owned enterprises
Business and enterprise re-engineering	
Identification of restructuring strategies through enterprise, sectoral and macroeconomic analysis	Appropriate restructuring strategies that are aligned with the efficient and effective operation of the enterprises, sectoral markets and overall macroeconomic performance
Integration of service delivery by state-owned enterprises	Enhanced participation in service delivery, across state-owned enterprises, to maximise development impact

The Department is improving its monitoring of the financial performance of state-owned enterprises. New information systems will enable Government to access financial information more rapidly. In part, the Department will be interacting more closely with the financial managers

of the various enterprises to address specific concerns. A recent example is the task team, comprising representatives from Government and Transnet, that is developing a way forward on Transnet's debt situation.

The draft protocol on corporate governance will serve as the basis for an appropriate framework for the governance of state-owned enterprises. Within this framework, and in conjunction with the major state-owned enterprises, the Department will develop shareholder compacts that clearly spell out the rights and responsibilities of all parties.

Government remains committed to ensuring that its empowerment objectives are achieved through the restructuring process. The alternative service delivery approach discussed below will enable it to expand the range of empowerment options.

In its preliminary review of the portfolio of state-owned enterprises, the Department identified areas of overlap in operations and service delivery. It will encourage the rationalisation of service delivery through merging and integrating operations, especially in the information technology and telecommunications fields.

The longer term agenda will be informed by an in-depth analysis of the restructuring options for different enterprises. This will seek to complement the restructuring initiatives of individual enterprises by conducting business process studies and sectoral and market analysis, situating these studies in a macroeconomic context.

Policy developments

Since performance monitoring and business re-engineering focus on the applied business of the Department, policies will primarily address operational concerns. The Department's performance monitoring activities are to be supported by an information management system. Policy development in this area will focus on identifying the appropriate data models and formats for such a system.

Business and enterprise re-engineering is a new activity in the Department and initial policy work will focus on appropriate methodology for conducting the enterprise, sectoral and macroeconomic analysis required to guide the restructuring process. Policy development in this area will not be academic, but will instead synthesise from the range of approaches currently used in the business environment.

Programme 4: Alternative service delivery

Table 31.8 Programme expenditure

R million	Budget estimate	Adjusted appropriation 1999/00	Revised estimate	Medium-term expenditure estimate		
				2000/01	2001/02	2002/03
1999 Budget	–	–	–	–	–	–
2000 Budget	–	–	–	2,1	2,3	2,2
Change to 1999 Budget estimate	–	–	–	2,1	2,3	–

Alternative service delivery will focus on the development of best-practice guidelines and advocate alternative service delivery strategies for state-owned enterprises. *Alternative service delivery* is a new function of the Department. Expenditure will decline in 2002/03 following the establishment of a service delivery framework.

Outputs and service delivery trends

Table 31.9 Alternative service delivery: Key activities and outputs

Key activities	Outputs
Promoting and advocating alternative service delivery mechanisms within state-owned enterprises	Policy framework for alternative service delivery strategies
Developing best-practice guidelines for alternative service delivery	Guidelines for consistent application of alternative service delivery strategies within state-owned enterprises
Providing a technical resource to state-owned enterprises on alternative service delivery	Increased empowerment via alternative service delivery strategies

Internationally, alternative service delivery is a relatively new concept aimed at expanding the range of public and private sector partnerships in the restructuring of public sector activities. The Department will be developing a framework to use alternative service delivery in the restructuring of state-owned enterprises in conjunction with the alternative service delivery team at the Department of Public Service and Administration and the Public-Private Partnership Unit of the Department of Finance.

As part of this programme, the Department will be developing best-practice guidelines on a range of service delivery options to ensure an appropriate response in individual restructuring exercises. This focus on best practice will also support the Department's intention of broadening its approach to empowerment.

Public entities reporting to the Minister responsible for Public Enterprises

The Department has oversight over six public entities. These entities include Eskom, Transnet, Denel, Safcol, Aventura and Alexkor.

Eskom is the country's primary supplier of electricity, directly or indirectly supplying nearly 98 per cent of South Africa's electricity market. Eskom produced a turnover of R21 billion in 1998, with a net profit of R5,9 billion. Its total assets were valued in 1998 at R70 billion with R42 billion in total debt. Eskom's restructuring was initiated with the passing of the Eskom Amendment Act in 1998 that vested ownership in the state and removed its exemption from taxes. Its current restructuring plans include completing the corporatisation process that has already started. This will see the separation of its distribution, transmission and generation businesses in the regulated part of Eskom's activities and the establishment of ESKOM Enterprises as a separate unit to house its unregulated business interests. Further restructuring plans will be announced in the next few months.

Transnet is a multi-modal transport company that runs a railway, airline, ports and pipeline amongst its primary business activities. Its total assets were valued at R49,5 billion in 1999. In the past year, Transnet has experienced increasing financial difficulties mainly arising from its rail subsidiaries. While its turnover increased 10% to R23.9 billion in 1999, the enterprise registered a loss of R426 million in 1999, as opposed to a profit of R278 million the previous year. A key difficulty facing Transnet is a significant debt burden valued at R35 billion in 1999. Transnet's restructuring plans include augmenting the management of its General Freight Business and Mainline Passenger Services, and seeking strategic equity partners for its bulk ore and coal lines. It will also be expediting the restructuring of Portnet, separating the port operations and the port authority, and developing a restructuring programme for Petronet, its pipeline subsidiary. Government is working with Transnet to develop a strategy to resolve its debt problems, and these proposals should be made public shortly.

Denel's main business is military aerospace and ordnance, with a total asset base valued at R4,4 billion in 1999 and total debt of R1,9 billion. Denel's financial position has worsened over the past couple of years due to an overall decline defence procurement. Its turnover increased only 2% between 1998 and 1999 to R3.3 billion. It also recorded a loss of R541 million in 1999 as compared to a loss of R378 million in 1998. Denel's restructuring plans include the completion of the corporatisation process, whereby it will be restructured into a number of business entities including an aerospace, ordnance and other non-core functions. Restructuring will see the introduction of strategic equity partners in a number of these business entities which should provide access to new technologies and international markets. A key challenge for Denel in the coming financial year will be to conclude some major weapons procurement, including sales of the Rooivalk helicopter and the G6 weapons system.

SAFCOL is a business focused on forestry with total assets valued at R693 million and total debts of R268 million in 1998. It reported a turnover of R569 million in 1998, and a profit of R9 million. Safcol is currently undergoing a restructuring process that should see the sale of its forestry assets. Government is in the process of evaluating bids for four of the key strategic forestry packages that were offered as part of the SAFCOL restructuring initiative. Government will thereafter seek purchasers for another three packages.

Aventura is a leisure and tourism company operating holiday resorts. In 1998, its total assets were valued at R121 million and total debt at R43 million. Its 1998 turnover was R146 million reflecting a loss of R8.5 million. It is currently under a two-year management contract prior further restructuring.

Alexkor is a diamond prospecting and mining company with total assets valued at R200 million and total debt of R49 million in 1998. It had a turnover of R175 million in 1998 and generated a loss of R23 million. It is currently under a two-year management contract prior to further restructuring.

