Vote 9

Public Enterprises

R thousand	2006/07 To be appropriated	2007/08	2008/09
MTEF allocations	**683 457**	**117 966**	**127 703**
of which:			
Current payments	101 905	116 857	126 540
Transfers and subsidies	581 086	620	650
Payments for capital assets	466	489	513
Statutory amounts	–	–	–
Executive authority	Minister of Public Enterprises		
Accounting officer	Director-General of Public Enterprises		

Aim

The aim of the Department of Public Enterprises is to provide an effective state-owned enterprises shareholder management system, and to support and promote economic efficiency and competitiveness for a better life for all South Africans.

Programme purposes

Programme 1: Administration

Provide simple and effective management systems and practices for the department.

Programme 2: Analysis and Risk Management

Provide in-depth analysis of the financial, operational and socio-economic performance of state-owned enterprises (SOEs) and systematically identify risks arising from the business of SOEs.

Programme 3: Legal, Governance and Secretariat

Provide clear SOE mandates and ensure governance systems comply with government policy. Provide advisory and secretariat services to the department and the economic and employment cluster.

Programme 4: Corporate Strategy and Structure

Develop strategies that leverage the core and non-core assets and capabilities of SOEs to optimise their economic impact.

Programme 5: Corporate Finance and Transactions

Oversee, manage and execute transactions such as initial public offerings (IPO), joint ventures and disposals of non-core operations of SOEs.

Strategic overview and key policy developments: 2002/03 – 2008/09

Introduction

The Department of Public Enterprises has shareholder-related oversight responsibilities for state-owned enterprises. In addition, the department must develop and help implement strategies that optimise the positive impact of SOEs on the economy in general, and in particular on accelerating economic growth. To this end, the department is working at reducing the costs of generalised inputs and improving the quality of SOE services. Apart from this role of shareholder oversight, the department is also involved in managing the SOEs at the enterprise, industry and broader sectoral and regional development level.

Competitive SOE pricing

The department is partly responsible for ensuring that SOE pricing is consistent with the objectives of efficient service delivery that will enable accelerated economic growth in South Africa. The department will promote a pricing policy that supports economic growth and development.

Enterprise level shareholder management

Shareholder management at the enterprise level focuses on ensuring that the enterprise is sustainable and that it contributes to national competitiveness. Specific tasks for meeting this objective include: a review of business plans, corporate plans and investment plans; international benchmarking of similar industries in areas such as operational efficiency, cost structures and governance processes; financial analysis and benchmarking to ensure the sustainability and competitiveness of the SOE; productivity and efficiency reviews and developing pricing models to ensure pricing is sustainable and competitive; and an operational review against critical performance indicators to ensure that the organisation is efficiently managed and customers receive a competitive service.

Industry level shareholder management

The department also wants to ensure that SOEs contribute to the structural efficiency of the industries within which they operate. There are two levels at which this efficiency will be measured and acted on by the department: optimal industry structure and public-private sector delivery. The department needs to make sure that the optimal industry structure is achieved for key SOEs, in particular in input industries such as energy and transport. This means that for each industry a strategic role is defined for the SOE, and the contribution other players can make is identified and facilitated. The department plays a role in deciding how the private sector participates in SOE dominated industries. In consultation with stakeholders, the department looks at issues like accessing investments, intellectual capital, technology and new markets. In addition, private sector participation can help to provide a benchmark for the efficiency and competitiveness of the SOEs.

Sectoral and regional economic development

One of the department's objectives is to use SOEs as a catalyst for economic development in South Africa and the rest of Africa. The economic development goal is at both a generalised and a targeted level. The department has identified areas for alignment between internal mechanisms to influence and enable accelerated growth in selected strategic sectors. It will be working with the economic and employment cluster and the Department of Trade and Industry to ensure that these mechanisms are incorporated into sector development strategies and that optimal co-ordination across government is achieved.

Targeted regions within South Africa

Government is committed to a more equitable geographic spread of economic activity and opportunities, aiming to identify and catalyse the latent economic potential in different regions of South Africa. Ideally, SOE investments in these regions should enable economic activity in the second economy and encourage private sector investment and more competition. To this end, the department must facilitate the provision of infrastructure. It will work with other government departments to improve the role of SOEs in regions that are of strategic importance to the long-term competitiveness of the South African economy.

The rest of Africa

To ensure that the expertise and capacity within SOEs are used for the benefit of accelerated development in the Southern African Development Community (SADC) region as well as the rest of Africa, the department provides a strategic framework for SOEs to identify, champion and participate in appropriate opportunities. South Africa can contribute considerably to African development and has already participated in successful infrastructure projects.

Future developments

The department needs to report on the financial performance of SOEs and reduce government's risks from the activities of SOEs.

A sector strategy will be finalised for the local defence-related industry to ensure its consolidation and the development of an optimal industry structure. The department will prioritise overseeing Denel's turnaround strategy over the medium term.

The joint project facility has been established to provide finance for developing projects that improve the value of an industry or that can leverage off the assets and capabilities of an SOE to the benefit of the SOE and the economy as a whole. Five areas have been identified for projects that the facility will develop: ICT, property, pipeline and energy, Africa, and human resources development. The facility will facilitate the rapid development of projects to the point where an investment case has been proven and accepted by relevant stakeholders and financial investors. Highly skilled project managers, who will report to the department, will develop the projects.

Expenditure estimates

Table 9.1 Public Enterprises

Programme		Audited outcome		Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06		2006/07	2007/08	2008/09
1. Administration	30 533	37 114	36 358	43 441	45 641	44 329	49 510	53 700
2. Analysis and Risk Management	4 371	6 008	13 943	13 772	13 272	16 723	18 966	21 096
3. Legal , Governance and Secretariat	5 700	5 543	6 096	9 091	8 091	15 204	17 827	20 045
4. Corporate Strategy and Structure	6 067	6 120	606 578	589 292	588 592	600 764	23 943	24 762
5. Corporate Finance and Transactions	163 860	29 181	15 711	2 020 312	2 020 312	6 437	7 722	8 100
Total	**210 531**	**83 966**	**678 686**	**2 675 908**	**2 675 908**	**683 457**	**117 966**	**127 703**
Change to 2005 Budget estimate				2 583 925	2 583 925	603 701	29 105	34 488

Table 9.1 Public Enterprises (continued)

	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06		2006/07	2007/08	2008/09
Economic classification								
Current payments	**207 434**	**74 613**	**67 219**	**78 841**	**77 991**	**101 905**	**116 857**	**126 540**
Compensation of employees	25 525	30 088	34 970	48 083	46 583	57 888	61 395	66 908
Goods and services	181 909	44 482	32 249	30 758	31 408	44 017	55 462	59 631
of which:								
Communication	*301*	*2 780*	*2 200*	*1 636*	*1 386*	*2 799*	*3 313*	*3 475*
Computer Services	*–*	*641*	*1 315*	*497*	*497*	*8 209*	*8 971*	*9 435*
Consultants, contractors and special services	*166 109*	*25 432*	*6 966*	*5 187*	*5 187*	*7 520*	*11 435*	*11 890*
Inventory	*1 350*	*1 526*	*2 354*	*754*	*754*	*3 127*	*3 607*	*3 784*
Operating leases	*8*	*774*	*3 360*	*3 890*	*3 890*	*3 873*	*4 300*	*4 686*
Travel and subsistence	*1 624*	*7 124*	*5 498*	*4 753*	*4 303*	*10 040*	*12 355*	*12 960*
Interest and rent on land	–	1	–	–	–	–	–	–
Financial transactions in assets and liabilities	–	42	–	–	–	–	–	–
Transfers and subsidies	**1 573**	**8 571**	**609 032**	**2 596 540**	**2 596 540**	**581 086**	**620**	**650**
Provinces and municipalities	73	93	110	133	133	49	–	–
Departmental agencies and accounts	1 500	8 342	6 922	3 626	3 626	437	–	–
Public corporations and private enterprises	–	–	602 000	2 592 781	2 592 781	580 000	–	–
Households	–	136	–	–	–	600	620	650
Payments for capital assets	**1 524**	**782**	**2 435**	**527**	**1 377**	**466**	**489**	**513**
Machinery and equipment	1 524	782	2 338	527	527	466	489	513
Software and other intangible assets	–	–	97	–	850	–	–	–
Total	**210 531**	**83 966**	**678 686**	**2 675 908**	**2 675 908**	**683 457**	**117 966**	**127 703**

Expenditure trends

The high expenditure for 2002/03 of R210,5 million is due to costs related to the listing of Telkom in March 2003. Some of the costs for the IPO, reflected in the *Corporate Finance and Transactions* programme, included the appointment of transaction advisors, lawyers and accountants, as well as actual transactional costs.

The transfer payment to the Pebble Bed Modular Reactor (PBMR) company was transferred from the Department of Trade and Industry. The historical numbers were also shifted and this is the reason for the high expenditure numbers for 2004/05.

The increase in expenditure in 2005/06 is due to the recapitalisation of Denel (R2 billion), a refund of R12,7 million to Alexkor for costs during the cancelled strategic equity partnership process and the funds shifted for the PBMR (R580 million) payment. The changes to the department's programme structure resulted in significant changes in expenditure items in 2005/06. Over the 2006 medium-term expenditure framework (MTEF) period, compensation of employees increased significantly. This is because a number of vacancies will be filled. Goods and services increased to cover revamping the Cape Town and Pretoria offices and installing a security system.

The joint project facility for SOEs is effective from 2005/06. In the 2006 Budget, R10 million a year has been added to fund the facility's operational activities. The baseline increased by R10 million, R15 million and R20 million over the 2006 MTEF to strengthen capacity, while R580 million was added in 2006/07 for the PBMR payment. Between 2006/07 and 2008/09, the department's budget decreased from R683,5 million in 2006/07 to R127,7 million in 2008/09.

Departmental receipts

Departmental receipts are accumulated from dividends, proceeds from the sale of SOEs, and minor items such as commissions on insurance premiums.

The income for 2002/03 was mainly from dividends from Transnet (R1,6 billion) and Eskom (R549 million). The income for 2003/04 was from dividends from Safcol (R68 million) and Aventura (R13,6 million), and proceeds from the sale of Sun Air (R6 million). In 2004/05, dividends of R569 million were received from Eskom and R30 million from Safcol. In 2005/06, dividends of R1,6 billion were received from Eskom.

Table 9.2 Departmental receipts

	Audited outcome			Adjusted appropriation	Medium-term receipts estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Departmental receipts	**2 169 386**	**87 718**	**599 179**	**1 643 250**	**64**	**67**	**70**
Sales of goods and services produced by department	16	–	23	17	26	28	29
Sales of scrap, waste and other used current goods	2	–	2	1	5	5	5
Interest, dividends and rent on land	2 169 343	87 359	599 036	1 643 006	12	13	14
Financial transactions in assets and liabilities	25	359	118	226	21	21	22
Total	**2 169 386**	**87 718**	**599 179**	**1 643 250**	**64**	**67**	**70**

Programme 1: Administration

The *Administration* programme conducts the overall management of the department and provides centralised support services.

Expenditure estimates

Table 9.3 Administration

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Minister [1]	816	876	791	837	887	934	981
Management	3 322	4 660	6 090	16 200	13 341	14 009	14 695
Corporate Services	26 164	31 334	26 463	23 149	25 905	29 917	32 964
Property Management	231	244	3 014	3 255	4 196	4 650	5 060
Total	**30 533**	**37 114**	**36 358**	**43 441**	**44 329**	**49 510**	**53 700**
Change to 2005 Budget estimate				7 962	6 721	8 795	10 991

1 Payable as from 1 April 2005. Salary: R 669 462. Car allowance: R 167 365.

Table 9.3 Administration (continued)

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Economic classification							
Current payments	**29 451**	**36 463**	**34 466**	**43 093**	**43 571**	**48 744**	**52 897**
Compensation of employees	13 785	16 923	15 120	24 961	30 313	31 819	34 817
Goods and services	15 666	19 497	19 346	18 132	13 258	16 925	18 080
of which:							
Communication	*301*	*1 810*	*940*	*1 011*	*1 181*	*1 299*	*1 363*
Computer Services	*–*	*385*	*1 000*	*350*	*2 601*	*2 911*	*3 078*
Consultants, contractors and special services	*5 314*	*10 548*	*3 546*	*1 632*	*600*	*740*	*776*
Inventory	*540*	*610*	*1 899*	*597*	*1 505*	*956*	*1 003*
Operating leases	*8*	*774*	*3 360*	*3 741*	*3 873*	*4 300*	*4 686*
Travel and subsistence	*1 211*	*3 804*	*3 706*	*3 183*	*1 650*	*1 850*	*1 941*
Interest and rent on land	–	1	–	–	–	–	–
Financial transactions in assets and liabilities	–	42	–	–	–	–	–
Transfers and subsidies	**39**	**188**	**19**	**73**	**619**	**620**	**650**
Provinces and municipalities	39	52	19	73	19	–	–
Households	–	136	–	–	600	620	650
Payments for capital assets	**1 043**	**463**	**1 873**	**275**	**139**	**146**	**153**
Machinery and equipment	1 043	463	1 776	275	139	146	153
Software and other intangible assets	–	–	97	–	–	–	–
Total	**30 533**	**37 114**	**36 358**	**43 441**	**44 329**	**49 510**	**53 700**

Expenditure trends

Expenditure increased between 2002/03 and 2005/06, from R30,5 million to R43,4 million, at an average annual rate of 12,5 per cent, and will continue to grow at an average rate of 7,3 per cent over the 2006 MTEF to reach R53,7 million. This is due to internal capacity building.

The increased budget over the 2006 MTEF will be used for provincial roadshows and improved public relations to align different SOE restructuring initiatives. Other projects include branded stationery with the department’s new corporate identity, upgrading central IT hardware and software, upgrading the security system, the devolution of accommodation-related budgets to national departments, and introducing rental charges for state-owned accommodation. Most of the increased budget has been added to the *Management* subprogramme.

From 1 April 2006, costs for leases and accommodation charges will be devolved from the Department of Public Works to individual departments. The Department of Public Enterprises received the following amounts: R3,7 million in 2006/07, R4,1 million in 2007/08 and R4,5 million in 2008/09. Expenditure has been adjusted for 2002/03 to 2005/06.

Programme 2: Analysis and Risk Management

The main aim of the *Analysis and Risk Management* programme is to analyse the financial operations and socioeconomic performance of SOEs to ensure that this is in line with performance compacts and manage key risks flowing from SOE activities.

The programme is responsible for comparative benchmarking and SOE-related risk management, and reporting at the macro level.

Apart from the *Management* component, there are two subprogrammes:

- *Analysis* continuously analyses the performance of SOEs, focusing on their operations and financials, and the role they play in socioeconomic development.
- *Risk Management* is responsible for risk analysis; advises on section 54 of PFMA applications from SOEs and materiality frameworks; reports on risks, vulnerabilities and potential shocks in and across SOEs; and advises on risk mitigation plans.

Expenditure estimates

Table 9.4 Analysis and Risk Management

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Management	1 295	2 265	2 941	2 278	5 913	5 639	6 517
Analysis	320	1 602	5 242	8 402	6 578	9 047	9 819
Risk Management	2 756	2 141	5 760	3 092	4 232	4 280	4 759
Total	**4 371**	**6 008**	**13 943**	**13 772**	**16 723**	**18 966**	**21 096**
Change to 2005 Budget estimate				(91)	2 428	2 913	4 257
Economic classification							
Current payments	**4 264**	**5 876**	**13 808**	**13 654**	**16 713**	**18 966**	**21 096**
Compensation of employees	1 572	2 219	7 389	10 381	6 941	7 278	8 701
Goods and services	2 692	3 657	6 419	3 273	9 772	11 688	12 396
of which:							
Computer Services	–	*128*	*198*	*77*	*2 804*	*3 382*	*3 548*
Consultants, contractors and special services	*1 060*	*780*	*1 655*	*450*	*2 500*	*3 695*	*3 876*
Travel and subsistence	*75*	*1 450*	*362*	*402*	*1 250*	*1 140*	*1 196*
Transfers and subsidies	**7**	**12**	**26**	**18**	**10**	**–**	**–**
Provinces and municipalities	7	12	26	18	10	–	–
Payments for capital assets	**100**	**120**	**109**	**100**	**–**	**–**	**–**
Machinery and equipment	100	120	109	100	–	–	–
Total	**4 371**	**6 008**	**13 943**	**13 772**	**16 723**	**18 966**	**21 096**

Expenditure trends

Expenditure increased rapidly between 2002/03 and 2004/05, due to capacity building, the appointment of consultants on various projects, and the development of an integrated SOE database. Because there is a new structure with historical numbers shifted accordingly, expenditure decreased during 2005/06.

Over the 2006 MTEF, expenditure is expected to rise from R13,8 million in 2005/06 to R21,1 million in 2008/09 at an average annual rate of 15,3 per cent. This increase is mainly driven by a need to fill vacancies to focus on financial analysis. In addition, risk management and benchmarking systems will be put in place to improve the risk reporting by the SOEs and improve the unit's analytical capabilities in relation to exercising oversight on SOEs.

Service delivery objectives and indicators

Recent outputs

Risk assessment in SOEs

The programme did a high level assessment on the status of risk management in SOEs, which was then used as a guide to develop the SOE risk management framework, scheduled to be implemented in April 2006. The programme also established the SOE risk forum, where the department and its SOEs meet to discuss issues related to risk and compliance with the Public Finance Management Act (1999).

Operations and financial analysis

Denel's technical insolvency was resolved and a CFOs forum was established. Research was conducted on Eskom's operations and current benchmarking practice. The strategic key performance indicators for both Eskom's and Transnet's shareholder compacts were identified.

Selected medium-term output targets

Analysis and Risk Management

Measurable objective: Exercise strong oversight of SOEs and their impact on the economy (locally and internationally), and monitor the vulnerabilities of SOEs through risk management frameworks, resulting in protected shareholder value.

Subprogramme	Output	Measure/Indicator	Target
Analysis	Report on financial performance of SOEs against agreed targets	Frequency of early warning reporting on the financial performance of SOEs	Quarterly
Risk Management	Management and reduction of risks to government through the activities of SOEs	Frequency of risk management reviews	Quarterly
	Implementation and monitoring of SOEs' compliance with the risk management framework	Frequency of risk management reviews	June 2006 and quarterly thereafter

Programme 3: Legal, Governance and Secretariat

The *Legal, Governance and Secretariat* programme provides clear mandates for SOEs and ensures SOEs' governance systems comply with government policy. The programme also provides advisory and secretariat services to the department and the economic and employment cluster. The programme has a distinctly legal focus, as it interprets, develops and records factual frameworks in relation to powers, functions and duties, and formal decisions, and so all legal activities were centralised in one programme this year.

There are three subprogrammes:

- *Legal and Litigation* provides internal legal services and oversight support to SOEs.
- *Governance and Secretariat* has a distinct role in the interface with SOEs, National Treasury and other government departments. A substantial portion of the secretariat's workload relates to the economic and employment cluster.
- *Legal Transactions* provides shareholder oversight of legal aspects of strategically important transactions.

Expenditure estimates

Table 9.5 Legal, Governance and Secretariat

Subprogramme	Audited outcome			Adjusted appropration	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Management	3 080	2 809	1 175	1 893	3 006	4 157	4 361
Legal and Litigation	576	658	2 441	1 577	3 877	6 049	6 488
Governance and Secretariat	2 044	2 076	2 480	5 621	4 268	4 482	4 702
Legal Transactions	–	–	–	–	4 053	3 139	4 495
Total	**5 700**	**5 543**	**6 096**	**9 091**	**15 204**	**17 827**	**20 045**
Change to 2005 Budget estimate				111	6 032	6 865	8 546
Economic classification							
Current payments	**5 596**	**5 517**	**5 900**	**8 986**	**14 964**	**17 585**	**19 791**
Compensation of employees	1 947	2 198	3 000	3 451	9 318	9 869	10 353
Goods and services	3 649	3 319	2 900	5 535	5 646	7 716	9 439
of which:							
Communication	–	–	*280*	*120*	*296*	*350*	*367*
Computer Services	–	*128*	*117*	*55*	*1 402*	*382*	*401*
Consultants, contractors and special services	*1 493*	*1 254*	*475*	*2 415*	*1 770*	*2 000*	*2 098*
Inventory	*270*	*305*	*455*	*40*	*196*	*396*	*415*
Maintenance repair and running cost	–	*181*	*192*	–	–	–	–
Operating leases	–	–	–	*54*	–	–	–
Travel and subsistence	*178*	*870*	*548*	*417*	*920*	*2 305*	*2 418*
Printing and Publications	–	–	–	–	*250*	*150*	*157*
Other	*1 708*	*581*	*834*	*2 434*	*812*	*2 133*	*3 582*
Transfers and subsidies	**7**	**6**	**23**	**11**	**9**	**–**	**–**
Provinces and municipalities	7	6	23	11	9	–	–
Payments for capital assets	**97**	**20**	**173**	**94**	**231**	**242**	**254**
Machinery and equipment	97	20	173	94	231	242	254
Total	**5 700**	**5 543**	**6 096**	**9 091**	**15 204**	**17 827**	**20 045**

Expenditure trends

Expenditure increased between 2002/03 and 2005/06, from R5,7 million to R9,1 million, at an average annual rate of 16,8 per cent, due to the restructuring of the department and capacity building.

Growth over the 2006 MTEF is faster, at an average annual rate of 30,2 per cent. This increase is expected to be disbursed for greater capacity, filling of new posts and contracting in specialist services to support the implementation of the shareholder management model. The model involves maintenance of an up-to-date SOE board database of suitable candidates, regular board inductions, shareholder compact negotiations and monitoring of all SOEs.

Service delivery objectives and indicators

Recent outputs

Most outputs as set out in the 2005 ENE were met. A shareholder management plan was developed and will be submitted to Cabinet. The protocol on corporate governance was finalised and a policy framework on restructuring SOEs developed.

Selected medium-term output targets

Legal, Governance and Secretariat

Measurable objective: Develop effective governance and policy frameworks that ensure that all SOE activities are performed with integrity and honesty and in compliance with appropriate legislation.

Subprogramme	Output	Measure/Indicator	Target
Legal and Litigation	Provision of internal legal advisory services	Reduction and swift resolution of litigation cases, where possible	By March 2007
	Management of legislative process in the department	Promulgated legislation	By March 2007
Governance and Secretariat	Implementation and monitoring of the shareholder management model project	Project implemented	By March 2007
	Communicator of key decisions to stakeholders	Clear lines of communication with SOEs	By March 2007
		Frequency of SOE audit compliance report	Quarterly
Legal Transactions	Legal oversight support to SOEs	Duly processed transactions	By March 2007
	Transactions of strategic importance including consideration of PFMA section 54(2) applications	Reduction of legal risks in SOE transactions	By March 2007

Programme 4: Corporate Strategy and Structure

The objective of the *Corporate Strategy and Structure* programme is to optimise the contribution of SOEs to economic growth through delivery of core SOE mandates, projects aimed at ensuring industrial efficiency, and leveraging SOEs to catalyse broader development.

Apart from the management component, the programme is divided into five subprogrammes:

- *Transport Unit* manages government's investments in the transport industry, particularly Transnet and South African Airways.
- *Energy* develops strategy and structure for Eskom and the industry in which it operates and implements government's energy policies to ensure delivery on government's economic growth objectives.
- *Strategy* defines and implements industry structures and SOE strategies that will optimise industry efficiency in the defence, forestry, diamond mining and IT sectors.
- *Economic Research Unit* facilitates research aimed at ensuring that SOEs' capital expenditure, investment plans and corporate strategies are in line with government's overarching economic objectives, with a particular emphasis on fiscal risk exposure.
- *Joint Project Facility* develops projects that improve industrial efficiency and effectiveness through leveraging the assets and capabilities of SOEs to benefit the whole economy.

Expenditure estimates

Table 9.6 Corporate Strategy and Structure

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Management	4 204	4 233	2 417	2 525	2 631	3 413	3 580
Transport Unit	654	698	1 054	3 205	3 311	4 282	4 492
Energy	1 209	1 189	603 107	583 562	581 616	1 728	2 076
Strategy	–	–	–	–	2 157	3 352	3 516
Economic Research Unit	–	–	–	–	1 049	1 168	1 097
Joint Project Facility	–	–	–	–	10 000	10 000	10 000
Total	**6 067**	**6 120**	**606 578**	**589 292**	**600 764**	**23 943**	**24 762**
Change to 2005 Budget estimate				578 228	589 036	10 921	11 102

Table 9.6 Corporate Strategy and Structure (continued)

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Economic classification							
Current payments	**5 966**	**6 095**	**6 382**	**9 220**	**20 661**	**23 842**	**24 656**
Compensation of employees	3 977	1 789	3 972	6 918	7 115	7 471	7 837
Goods and services	1 989	4 306	2 410	2 302	13 546	16 371	16 819
of which:							
Consultants, contractors and special services	*1 312*	*1 461*	*1 141*	*409*	*2 650*	*5 000*	*5 140*
Inventory	*270*	*305*	*–*	*42*	*1 050*	*1 710*	*1 794*
Travel and subsistence	*60*	*872*	*647*	*432*	*5 389*	*6 158*	*6 460*
Transfers and subsidies	**4**	**5**	**600 023**	**580 020**	**580 007**	**–**	**–**
Provinces and municipalities	4	5	23	20	7	–	–
Public corporations and private enterprises	–	–	600 000	580 000	580 000	–	–
Payments for capital assets	**97**	**20**	**173**	**52**	**96**	**101**	**106**
Machinery and equipment	97	20	173	52	96	101	106
Total	**6 067**	**6 120**	**606 578**	**589 292**	**600 764**	**23 943**	**24 762**

Details of transfers and subsidies:

Public corporations							
Other transfers							
Current	**–**	**–**	**600 000**	**580 000**	**580 000**	**–**	**–**
Pebble Bed Modular Reactor	–	–	600 000	580 000	580 000	–	–

Expenditure trends

Excluding the PBMR allocation, expenditure is expected to increase significantly over the 2006 MTEF, rising from R9,3 million in 2005/06 to R24,8 million in 2008, an average annual rate of 38,6 per cent. In the energy subprogramme, the increase will be used to support electricity generation strategies including the introduction of Independent Power Producers (IPPs), pricing mechanisms to support the long-term electricity investment plans and the Electricity Distribution Industry Restructuring project. In transport, the increase will be used for co-funding of intergovernmental projects including Department of Environmental Affairs and Tourism (DEAT) Airlift strategy, the DTI and Dot National Corridor Performance management (NCPM) project. Additional funding will be used to support the revitalisation of the automotive and iron-ore industrial lines. In the strategy subprogramme, the increase will be used to support the establishment of the Defence Evaluation and Research Institute. With regards to the Pebble Bed Modular Reactor (PBMR) the increase will support the production of a stable shareholder's Agreement and monitor progress on the construction of the Demonstration and Fuel Plants.

Service delivery objectives and indicators

Recent outputs

Transport

Current and planned work focuses on using Transnet's operational strengths in transporting freight to increase the export and competitiveness of South African manufactured goods. To deliver on the economic growth objective, the department approved the Transnet strategy, which aims to refocus the holding company's business operations.

Energy

Over the past few years, South Africa's surplus generation capacity has been steadily reduced due to substantial and sustained growth in the demand for electricity. To provide both Eskom and the end-user with greater electricity pricing certainty and help Eskom fund new projects, a new multi-year pricing methodology has been introduced by the National Electricity Regulator in consultation with the department.

Defence-related industries

Denel, the state arms company, experienced significant challenges in 2004/05 and suffered financial losses amounting to R1,6 billion. Denel's turnaround strategy has been completed and its recapitalisation estimates have also been finalised. The department is working closely with National Treasury on Denel's turnaround strategy towards profitability.

Forestry

The department is currently working with the Department of Water Affairs and Forestry to define the future role of Safcol in forestry development.

Selected medium–term output targets

Corporate Strategy and Structure

Measurable objective: Ensure that SOEs' corporate strategies and structures are aligned with government's broad economic and developmental objectives, thereby establishing an environment in which SOEs are globally competitive while maintaining low, sustainable costs.

Subprogramme	Output	Measure/Indicator	Target
Transport Unit	A strategy for the Ngqurha container terminal and the introduction of private operators or partners in container handling operations	Strategy framework produced	By December 2006
	A strategy and subsequent implementation of divestment of the Blue Train	Strategy framework produced	By November 2006
	Separation of South African Airways from Transnet	Transaction completed and SAA operating as a new SOE	By March 2007
Energy	1 000 Megawatts open cycle gas turbine (Eskom)	Operational plant established	By June 2007
	Establishment of regional energy distributors	Number of operational REDS established	6 metro REDs and 1 national RED by June 2007
Strategy	Defence:		
	Work with the Department of Defence and Armscor to increase local market access for Denel and the local defence-related industry by aligning the defence acquisition policy, and the publication of a 10 year defence capex plan	A 10 year national defence capex plan and increased local defence spend	By March 2007
	Work with the Department of Defence and the Council for Scientific and Industrial Research to establish the Defence Evaluation and Research Institute (DERI) to ensure the rationalisation of national testing facilities and increased access to product development and scientific advice for the South African National Defence Force and the local defence-related industry	DERI established and Denel's Overberg test range transferred to DERI	By March 2007
	Forestry:		
	Forestry development programmes identified in partnership with Department of Water Affairs and Forestry and the Department of Trade and Industry	Programmes identified and implemented	By April 2007
Economic Research Unit	Impact analysis of joint Transnet and Eskom capex programme	Analysis reports finalised	By April 2007
Joint Project Facility	Specialised telecoms infrastructure	Broadband infrastructure available at internationally competitive rates	By May 2007
	Specialised property development initiatives: development impact of use of some non-core land for housing and urban development; maximise shareholder value through disposal of commercially valuable non-core properties	Disposal of SOE non-core properties	March 2007

Programme 5: Corporate Finance and Transactions

The *Corporate Finance and Transactions* programme is responsible for carrying out all SOE-related transactions in the department through a specialist transactions execution and management unit.

Apart from the *Management* subprogramme, there are three subprogrammes:

- *Corporate Finance* develops optimal financing structures for SOEs, taking into account the nature and extent of their finance requirements, their ability to access capital markets, their financial position, and the objective of the transaction (namely promoting broad-based black economic empowerment (BEE)). The unit also acts as mediator and liaison between the provider of finance (the corporate bank) and the SOE.
- *Transaction Specialist Services* manages, executes and reports on approved SOE transactions, in accordance with the strategy, legal requirements and appropriate transaction model.
- *Initial Public Offering* prepares identified SOEs for their listing on the domestic and international equity exchange markets.

Expenditure estimates

Table 9.7 Corporate Finance and Transactions

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Management	–	–	–	2 014 766	3 007	2 844	2 983
Corporate Finance	608	646	4 668	1 075	1 626	3 347	3 511
Transaction Specialist Services	–	–	4 121	845	1 367	1 531	1 606
Initial Public Offering	163 252	28 535	6 922	3 626	437	–	–
Total	**163 860**	**29 181**	**15 711**	**2 020 312**	**6 437**	**7 722**	**8 100**
Change to 2005 Budget estimate				1 997 715	(516)	(389)	(408)
Economic classification							
Current payments	**162 157**	**20 662**	**6 663**	**3 888**	**5 996**	**7 722**	**8 101**
Compensation of employees	4 244	6 959	5 489	2 372	4 201	4 958	5 201
Goods and services	157 913	13 703	1 174	1 516	1 795	2 764	2 900
of which:							
Consultants, contractors and special services	*156 929*	*11 389*	*150*	*281*	–	–	–
Travel and subsistence	*100*	*129*	*235*	*319*	*831*	*902*	*946*
Transfers and subsidies	**1 516**	**8 360**	**8 941**	**2 016 418**	**441**	**–**	**–**
Provinces and municipalities	16	18	19	11	4	–	–
Departmental agencies and accounts	1 500	8 342	6 922	3 626	437	–	–
Public corporations and private enterprises	–	–	2 000	2 012 781	–	–	–
Payments for capital assets	**187**	**159**	**107**	**6**	**–**	**–**	**–**
Machinery and equipment	187	159	107	6	–	–	–
Total	**163 860**	**29 181**	**15 711**	**2 020 312**	**6 437**	**7 722**	**8 101**

Table 9.7 Corporate Finance and Transactions (continued)

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Details of transfers and subsidies:							
Public entities							
Current	**1 500**	**8 342**	**6 922**	**3 626**	**437**	**–**	**–**
Diabo Trust	1 500	4 505	3 119	3 152	437	–	–
Khulisa Trust	–	3 837	3 803	474	–	–	–
Public corporations							
Other transfers							
Current	**–**	**–**	**2 000**	**12 781**	**–**	**–**	**–**
Alexkor	–	–	2 000	12 781	–	–	–
Capital	**–**	**–**	**–**	**2 000 000**	**–**	**–**	**–**
DENEL	–	–	–	2 000 000	–	–	–
Total	**1 516**	**8 360**	**8 941**	**2 016 418**	**441**	**–**	**–**

Expenditure trends

Expenditure fluctuates significantly, due to the listing of the Telkom IPO in March 2003, which takes the total expenditure to R163,9 million in 2002/03, the recapitalisation of Denel in 2005/06, and the termination of contributions to the Diabo and Khulisa trusts in 2005/06 and 2006/07, respectively. Expenditure is expected to stabilise over the 2006 MTEF, reaching R8,1 million by 2008/09, due to the restructuring of the department and the reprioritisation of projects.

Service delivery objectives and indicators

Recent outputs

There has been little progress on the Alexkor land claim by the Richtersveld community.

There has been little progress with the various land claims on the land where the Aventura resorts are located.

Transnet's disposal of its 5 per cent stake in MTN has been abandoned. Despite Transnet's wish to dispose of its non-core assets, it became clear that the proposed disposal would not be beneficial.

Denel is implementing its turnaround strategy. It is also disposing of its non-core entities, focusing the company and injecting some cash into the business.

The A400M aeroplanes programme has been signed with the relevant stakeholder. The programme is now being implemented with various South African companies.

Summary of proceeds from restructuring of SOEs: 2002/03 to 2005/06

SOE	Date	Percentage stake sold	Proceeds (Rm)	Transferred to National Revenue Fund (Rm)
Turbomeca/Aerospace	April 2002	51	30	N/A
MTN	August 2002	N/A	1 100	1 100
Apron Services	November 2002	51	117	N/A
Aventura Kareekloof	January 2003	100	1,75	N/A
Aventura Eiland	January 2003	100	5,6	N/A
Aventura Heidelbergkloof	January 2003	100	6,5	N/A

Summary of proceeds from restructuring of SOEs: 2002/03 to 2005/06

SOE	Date	Percentage stake sold	Proceeds (Rm)	Transferred to National Revenue Fund (Rm)
Aventura Roodeplaat	June 2003	100	16,2	N/A
CEF	March 2003	N/A	1 500	1 500
ESKOM	March 2003	N/A	549	549
Telkom	March 2003	25	4 100	4 100
Aventura	July 2003	100	101	13
Safcol	December 2003	N/A	68	68
Safcol	December 2004	N/A	30	30
Safcol	December 2005	N/A	30	30
Total proceeds			**7 655**	**7 390**

Selected medium–term output targets

Corporate Finance and Transactions

Measurable objective: Successful government-led transactions through efficient and effective financial and project management within the recommended timeframes.

Subprogramme	Output	Measure/Indicator	Target
Corporate Finance	Optimal financing strategies aligned with corporate structure and strategy of the SOEs	Financing strategy supported by research and benchmarked data	Annually
	Reports on the optimal capital structure and adequacy of SOEs	Published report	Annually
	Asset and liability management strategies for each SOE	Strategies approved	Annually
Transaction Specialist Services	Framework on the disposal of non-core businesses in each SOE	Published framework	Annually
	Report on the viability of public private partnerships, joint ventures and concessions	Published report	Annually
	Strategy on listing SOEs on equity markets	Published strategy	March 2006

Public entities reporting to the Minister

Transnet

Transnet Limited is a public company with the South African government as its sole shareholder.

As the holding company behind some of South Africa's largest national transport businesses, Transnet is responsible for making sure that the country's transport industries operate efficiently, and that they form an integral part of the overall economy. Transnet comprises nine divisions - Spoornet, the National Ports Authority, South African Port Operations, Petronet, freightdynamics, Propnet, Metrorail, Transtel and Transwerk - as well as a number of subsidiaries, most notably South African Airways (SAA), and support businesses.

It is apparent that the four-point turnaround strategy, announced in August 2004, affected the results for Transnet for 2004/05 positively. Two of the major value destroyers, the SAA hedge book and US dollar-based iron ore contract, have been resolved during the year under review. The hedge book has been closed and the iron ore contract was renegotiated to address the embedded derivatives. Moreover, there has been significant progress in restructuring the group’s balance sheet. There has also been progress on closing and disposing of loss-making and non-core businesses, notwithstanding resistance from the unions.

Financial results for the six months ending in September 2005 were released in December 2005. Group revenue for the period has increased by R1,8 billion to R24,2 billion, an increase of 7,4 per cent compared to the previous period. Operating expenses increased by 9 per cent to R21 billion because of the significantly increased energy costs for SAA and Spoornet. Profit from operations, before fair value adjustments and finance costs of R3,1 billion, is 4,7 per cent below the prior period. While all the core business units grew operating profit compared to the prior period, SAA recorded a loss of R240 million. SAA's performance was negatively impacted by the strike, higher fuel prices and lower passenger yields. Accordingly, group operating margins declined from 14 per cent to 13 per cent.

On the whole, Transnet ended 2004/05 on a high note, with material improvements in profitability, cash flow, capital structure and segment contribution margins, albeit with the contribution of soft accounting transactions, such as one-off income statement credits during 2004/05 and the non-recurrence of 2003/04 impairments of investments included in operating expenditure. It is unclear whether this level of financial performance is sustainable over the medium term.

Looking forward, Transnet faces significant challenges, including increased competition, old infrastructure, inefficiencies in certain core operations and high gearing. Profitability will remain under pressure, but is expected to materially exceed that of the prior year, particularly given the current upswing in the economy and the buoyant trade flows that rely upon the Transnet transport network.

Eskom

The South African government is the sole shareholder of Eskom Holdings Limited, a vertically integrated operation that generates, transmits and distributes electricity. Eskom generates approximately 95 per cent of the electricity used in South Africa. It is regulated in terms of licences granted by the National Electricity Regulator in terms of the Electricity Act (1987) and the National Nuclear Regulator in terms of the National Nuclear Regulatory Act (1999).

Through its subsidiary, Eskom Enterprises (Pty) Limited, Eskom also undertakes other non-regulated activities related to the energy and electricity supply industry, including providing electricity and related services to African countries connected to the South African grid and the rest of Africa. Eskom Enterprises was transformed into Enterprises Division and given a new revised mandate: to project manage and build the new capacity. This has freed and enabled line divisions to concentrate on the day-to-day business of managing the generation, transporting, trading and retailing of electricity.

Eskom's financial year-end changed to 31 March 2005, resulting in a 15-month reporting period for 2004/05, which creates a comparability challenge for the income statement items. The Eskom group recorded a net profit of R5,2 billion for the 15 months ended 31 March 2005, while Eskom Holdings (regulated business) had a net profit before tax of R6,4 billion, which is higher than budget by R2,1 billion. The favourable variance is mainly due to the additional 2,968 GWh energy sold (R720 million), and a favourable variance of R727 million on interest and finance charges. The financial performance of Eskom Enterprises showed improvement as it recorded a net profit of R35 million (compared to the 2003 R719 million loss). Eskom's investment in Eskom Enterprises has however been impaired as a result of the impairment of two investments in the accounting records of Eskom Enterprises.

In terms of Eskom's revised business model, its core markets are, in order of priority, South Africa, the SADC region, and the rest of Africa. The new strategy aims at higher levels of investment, better overall system efficiency for the economy, improved technological capacity, improved management of public assets, enhanced human resources capacity, sustainable non-recourse financing options and better customer service. Eskom's revised business model was developed to ensure that the organisation would remain robust and ready to meet challenges. Another important feature of the revised business model is that Eskom retains its competitive edge and is well positioned to capitalise on unfolding opportunities in South Africa and Africa.

Denel

Denel (Pty) Ltd was incorporated as a private company in April 1992 when it separated from the Armaments Corporation of South Africa (Armscor). At the time, the industrial and manufacturing activities of Armscor were integrated into Denel. The main aim of the company is to create economic value by transforming its technological capabilities into superior defence and commercial projects and related services for global markets.

Denel posted a net loss of R1,6 billion for the financial year ending 31 March 2005, materially exceeding the budgeted net loss of R383 million. The net loss is mainly attributable to sales targets not being met (R469 million less sales than target), losses on contracts (Rooivalk provision amounting to R670 million) and impairments not budgeted for (R148 million). The net loss effectively depleted the capital and reserves leaving Denel technically insolvent at year-end, with total liabilities exceeding total assets by R770 million. This position is worsened by the fact that Denel has been using externally sourced cash to fund all of its operational and investing activities. In fact, Denel has not been able to produce positive cash flows from operating activities for several years.

Before year-end, several steps were taken by government to address Denel's technical insolvency over the short term, including issuing government guarantees to the value of R1,5 billion in favour of Nedbank and arranging with Nedbank to subordinate their loans of R1,5 billion to Denel in favour of all Denel creditors. As Denel does not have the financial means to settle the loans with Nedbank it could soon find itself in contravention of the Nedbank loan covenants calling on government's guarantees. Government will have to consider various options for a long-term solution, among which would be the possible recapitalisation of Denel and other public entities that face insolvency. An amount of R2 billion has been made available to Denel towards the end of 2005/06 as a short-term rescue package.

Looking ahead, Denel still faces considerable challenges and opportunities, but is beginning to benefit from strategies started in previous years. The group has mature products from which it is able to leverage the investment previously made in research and development. Denel will continue to invest in research and development to maintain its technological capabilities, which requires sustainable profitability. To this end, management has embarked on several initiatives to cut costs and regain financial control.

Table 9.8 Financial summary for the Denel Group

	Outcome				Medium-term estimate		
	Audited	Audited	Audited	Estimated outcome			
R Thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
INCOME STATEMENT SUMMARY							
Revenue							
Non-tax revenue	4 433 000	4 511 000	3 830 800	3 206 111	3 062 797	3 477 412	3 913 412
Total revenue	4 431 000	4 513 000	3 826 300	3 206 111	3 062 797	3 477 412	3 913 412
Expenses							
Current expense	4 475 000	4 871 000	5 404 300	5 049 657	3 373 806	3 674 988	4 058 903
Compensation of employees	1 713 000	1 902 000	2 002 600	1 801 471	1 937 551	1 934 613	2 039 833
Goods and services	2 560 000	2 683 000	3 152 400	2 947 012	1 303 568	1 452 139	1 645 709
Depreciation	107 000	121 000	129 100	114 398	81 677	81 332	85 703
Interest, dividends and rent on land	95 000	165 000	120 200	186 776	51 010	206 904	287 658
Transfers and subsidies	29 000	20 000	26 400	9 842	113	113	146
Total expenses	4 504 000	4 891 000	5 430 700	5 059 499	3 373 919	3 675 101	4 059 049
Surplus / (Deficit)	(73 000)	(378 000)	(1 604 400)	(1 853 388)	(311 122)	(197 689)	(145 637)
Tax payment	29 000	27 000	21 700	11 699	113	113	146
Outside shareholders Interest	–	(7 000)	4 700	125	–	–	–

Table 9.8 Financial summary for the Denel Group (continued)

	Outcome				Medium-term estimate		
	Audited	Audited	Audited	Estimated outcome			
R Thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
BALANCE SHEET SUMMARY							
Carrying value of assets	1 077 200	1 054 100	912 900	481 301	1 099 712	1 235 085	1 346 251
Investments	294 900	247 500	229 400	741 507	795 640	844 658	909 262
Inventory	1 285 700	1 322 100	1 258 600	1 336 391	1 066 261	1 168 958	1 261 670
Receivables and prepayments	1 153 600	1 173 500	1 027 300	758 826	748 063	861 522	884 041
Cash and cash equivalents	442 600	294 700	305 500	502 957	47 882	48 198	48 597
Total assets	**4 254 000**	**4 091 900**	**3 733 700**	**3 820 982**	**3 757 558**	**4 158 421**	**4 449 821**
Capital and reserves	1 388 300	843 700	(759 600)	(532 705)	(848 945)	(1 046 634)	(1 192 271)
Borrowings	849 600	907 800	1 353 300	821 352	1 613 369	2 679 018	3 683 668
Trade and other payables	1 558 000	1 881 800	1 829 800	1 430 871	1 310 678	1 554 204	1 444 860
Provisions	458 100	458 600	1 310 200	2 101 464	1 682 456	971 833	513 564
Total equity and liabilities	**4 254 000**	**4 091 900**	**3 733 700**	**3 820 982**	**3 757 558**	**4 158 421**	**4 449 821**

Data provided by the Denel Group

Alexkor

Alexkor Limited’s core business is mining diamonds on land, along rivers, on beaches, and in the sea along the north-west coast of South Africa. Alexkor is a juristic entity established in terms of the Alexkor Limited Act (1992) and is wholly owned by government. It was set up to be a self-sufficient operation and has two divisions: Alexander Bay Mining (identified as non-core activities) and Alexander Bay Trading.

Alexkor’s financial performance for the period ending 31 March 2005 (9 months) has been poor, with revenue falling by 42 per cent to R152 million during 2004/05 (compared to 2003/04’s R265 million for 12 months) The main reason is a 34 per cent decrease in mining production, which arose from a lack of sea-days to perform shallow marine mining, as well as no deeper marine mining activities. As a result, net losses amount to R5 million. Other loss-making factors include the R10 million provision for post-retirement medical aid benefits and the R5,5 million loss by Alexander Bay Trading.

Alexkor did not perform an actuarial valuation on the post-retirement defined benefit pension fund as the company’s policy requires every three years. The financial status of this pension fund and its impact on the financial performance and position of Alexkor is thus unknown, and represents a potential risk.

Alexkor’s quarterly report for the six months ending 30 September 2005 already indicates a loss of R24,5 million, deteriorating the net financial position from R35,5 million capital and reserves to a mere R12 million. Alexkor will be technically insolvent before 31 March 2006 if this loss-making trend continues. The department therefore requires monthly management reports (over and above the quarterly reports) as well as Alexkor’s forecast for the remainder of the financial year.

Arivia.kom

Arivia.kom (Pty) Ltd is an ICT solutions and services provider with three main shareholders: Denel (Pty) Ltd (22,98 per cent), Transnet Limited (31,96 per cent), and Eskom Enterprises (Pty) Ltd (45,06 per cent). It aims to become the dominant ICT solutions provider in Africa. The group has offices in Nigeria, Ghana and Botswana. Arivia.kom is structured into four operating divisions and four wholly-owned subsidiaries.

A preliminary review of the 2005 financial statements found that the group's audit report was unqualified. Revenue fell by 7 per cent to R1,6 billion (R1 billion in 2004). Earnings before interest, taxation, depreciation and amortisation fell by 6 per cent to R200 million (compared to R215 million in 2004), but a decrease in depreciation and income from investments allowed earnings before tax to remain largely unchanged at R90 million. Net profit for the year increased by 14,7 per cent to R64,1 million (compared to R56 million in 2004), which is partly due to the utilisation of tax savings. Compared to the previous period, net cash flow from operating activities fell by 65 per cent. Nonetheless, cash holdings amounted to R206 million at year end.

The group has established an ICT consulting division to ensure their participation in the growing African ICT market. In 2004, the business improvement strategy office was established to drive the implementation of Arivia.kom's strategy with three focused initiatives: driving economies of scale across the organisation; supporting the group's programme to diversify its revenue streams; and ensuring an end-to-end offering to deliver value-adding solutions to clients.

Safcol

The main aim of the South African Forestry Company Limited (Safcol) is to develop the South African forestry industry by optimising its assets according to accepted commercial management practices and conservation principles. Safcol acquired the commercial forestry and related activities of the forestry branch of the Department of Water Affairs and Forestry in April 1993. The company owns 332 000ha of commercial tree plantations and other assets, including MTO Forestry (Pty) Ltd, Amatola Forestry Company (Pty) Ltd and Komatiland Forests (Pty) Ltd.

Safcol reported a net profit after tax of R252 million for 2004/05, which is much higher than the net profit of R43 million reported for 2003/04. Despite the decline in revenue, operating profit increased by 413,6 per cent to R333 million during 2004/05, attributable to the increase in the fair value of plantations, which has added R329 million (R75 million in 2004) to pre-tax profits. Safcol retains large amounts of cash reserves, which increased from R89 million at 30 June 2004 to R181 million at 30 June 2005.

Safcol did not comply with certain of its statutory obligations, which is related to a lack of predetermined and disclosed performance targets and performance measurement. The department and Safcol have already met to address such compliance through the conclusion of a shareholder compact. The department has also identified additional conditions (related to the Komatiland Forests share sale agreement) that need to be addressed by Safcol.

As government will no longer involve itself in the direct management of commercial plantations, the Department of Water Affairs and Forestry, together with the Department of Public Enterprises, is involved in restructuring the state's commercial forests. Land will be leased to private operators, with agreed conditions relating to environmental, social and commercial responsibilities. The restructuring of Safcol, which began in 1999, will eventually see the transfer of state forest land to the private sector.

Table 9.10 Financial summary for the SA Forestry Company Limited (SAFCOL)

	Outcome				Medium-term estimate		
	Audited	Audited	Audited	Estimated outcome			
R Thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
INCOME STATEMENT SUMMARY							
Revenue							
Non-tax revenue	**729 429**	**682 434**	**687 549**	**361 414**	**520 191**	**544 955**	**550 435**
Sale of goods and services other than capital assets *of which:*	677 257	667 239	639 432	349 838	483 243	505 955	529 735
Sales by market establishments	*677 257*	*667 239*	*639 432*	*349 838*	*483 243*	*505 955*	*529 735*
Other non-tax revenue	*52 172*	*15 195*	*48 117*	*11 576*	*36 948*	*39 000*	*20 700*
Transfers received	**28 868**	**14 719**	**1 264**	**–**	**–**	**–**	**–**
Total revenue	**758 297**	**697 153**	**688 813**	**361 414**	**520 191**	**544 955**	**550 435**
Expenses							
Current expense	**619 632**	**653 893**	**325 999**	**334 222**	**441 898**	**462 410**	**481 088**
Compensation of employees	201 237	206 108	189 583	107 748	148 836	155 831	163 155
Goods and services	372 315	367 607	77 849	179 430	243 212	255 225	267 234
Depreciation	25 954	28 327	26 622	16 279	18 171	18 828	19 607
Interest, dividends and rent on land	20 126	51 851	31 945	30 765	31 679	32 526	31 092
Transfers and subsidies	**16 486**	**21 348**	**19 730**	**10 620**	**14 913**	**15 640**	**16 350**
Total expenses	**636 118**	**675 241**	**345 729**	**344 842**	**456 811**	**478 051**	**497 438**
Surplus / (Deficit)	**122 179**	**21 912**	**343 084**	**16 572**	**63 380**	**66 905**	**52 997**
Tax payment	**36 239**	**34 858**	**121 402**	**–**	**–**	**–**	**–**
BALANCE SHEET SUMMARY							
Carrying value of assets	397 501	802 757	986 471	985 544	988 124	989 045	990 332
Investments	87 564	51 870	116 630	140 767	165 767	185 767	193 267
Inventory	39 496	36 864	13 676	16 360	16 360	14 500	14 500
Receivables and prepayments	126 207	128 850	97 294	58 365	68 000	68 914	70 743
Cash and cash equivalents	107 507	88 737	180 823	160 692	193 021	233 436	264 948
Total assets	**758 275**	**1 109 078**	**1 394 894**	**1 361 728**	**1 431 272**	**1 491 662**	**1 533 790**
Capital and reserves	574 147	787 638	1 036 008	1 052 580	1 115 960	1 182 865	1 235 862
Borrowings	14 457	13 770	10 746	8 810	10 302	11 348	11 718
Post retirement benefits	16 214	17 203	9 291	10 457	10 661	11 000	11 660
Trade and other payables	77 956	76 431	84 004	36 863	46 332	46 432	36 532
Provisions	75 501	214 036	254 845	253 018	248 017	240 017	238 018
Total equity and liabilities	**758 275**	**1 109 078**	**1 394 894**	**1 361 728**	**1 431 272**	**1 491 662**	**1 533 790**

Data provided by the SA Forestry Company Limited

Aventura

Aventura (Pty) Ltd operates eight self-catering resorts around the country. This business was sold in July 2003 to Forever Resorts, and Aventura is no longer on government's books. All that remains is the transfer of land to Forever Resorts following the resolution of the land claims.

Pebble Bed Modular Reactor

The Pebble Bed Modular Reactor (Pty) Ltd (PBMR) company was established in 1999 by Eskom as a vehicle for pursuing and commercialising its research into an alternative nuclear electricity generation technology. Following Cabinet's memorandum in April 2000 to launch the company, the PBMR went through a detailed feasibility phase, during which external partners were secured. Government envisages that it will own 51 per cent of total equity in the project, which will include ownership by the Industrial Development Corporation (15 per cent) and Eskom (6 per cent). Local and international investors will subscribe to the balance of 49 per cent.

A period of constant reviews and viability studies by various independent parties followed. These concluded that while the technology is feasible, the economic feasibility is questionable for a start-up venture, if no cognisance is taken of the socio- and macroeconomic benefits. During 2002 and 2003, Eskom requested the government to assist directly in the development of the technology.

Following the withdrawal of Exelon, government decided to restructure the joint venture participation and to mandate the Industrial Development Corporation to oversee the development of the pebble bed modular reactor on behalf of government. Meanwhile, the PBMR company has finalised the designs for most of the components, begun to staff up and start with skills development, and is in a position to begin ordering hardware for the construction of the demonstration reactor at Koeberg.

Revenue to date is limited to net interest received, and transfers received include receipts from government and all other funders. All expenses are capitalised against either the demonstration reactor plant or the pilot fuel plant, but are written off in the company's annual financial statements. During the initial feasibility stage (up to June 2004), R1,5 billion was spent on the development of PBMR technology and the design of the demonstration reactor plant and pilot fuel plant. The PBMR company received R600 million from government in 2004/05. Another R580 million was awarded for 2005/06 and R2006/07.

Some of the biggest challenges that now face the company are:

- obtaining a positive record of decision for the environmental impact assessment from the Department of Environment and Tourism for both the demonstration plant at Koeberg and the pilot fuel plant at Pelindaba
- securing sufficient funding to commit to long-term manufacturing contracts with suppliers
- finalising a shareholders' agreement between the present investors and introducing new investors in 2006.

Annexure

Vote 9: Public Enterprises

Table 9.A: Summary of expenditure trends and estimates per programme and economic classification

Table 9.B: Summary of personnel numbers and compensation of employees

Table 9.C: Summary of expenditure on training

Table 9.D: Summary of official development assistance expenditure

Table 9.A Summary of expenditure trends and estimates per programme and economic classification

Programme	Appropriation		Audited	Appropriation			Revised
	Main	Adjusted	outcome	Main	Additional	Adjusted	estimate
R thousand	2004/05		2004/05	2005/06			2005/06
1. Administration	36 549	38 063	36 358	35 479	7 962	43 441	45 641
2. Analysis and Risk Management	9 600	10 365	13 943	13 863	(91)	13 772	13 272
3. Legal , Governance and Secretariat	8 383	10 333	6 096	8 980	111	9 091	8 091
4. Corporate Strategy and Structure	5 823	606 578	606 578	11 064	578 228	589 292	588 592
5. Corporate Finance and Transactions	15 633	15 052	15 711	22 597	1 997 715	2 020 312	2 020 312
Total	**75 988**	**680 391**	**678 686**	**91 983**	**2 583 925**	**2 675 908**	**2 675 908**
Economic classification							
Current payments	**67 885**	**69 079**	**67 219**	**72 698**	**6 143**	**78 841**	**77 991**
Compensation of employees	42 825	37 835	34 970	52 845	(4 762)	48 083	46 583
Goods and services	25 060	31 244	32 249	19 853	10 905	30 758	31 408
Transfers and subsidies	**7 051**	**609 065**	**609 032**	**18 758**	**2 577 782**	**2 596 540**	**2 596 540**
Provinces and municipalities	129	143	110	132	1	133	133
Departmental agencies and accounts	6 922	6 922	6 922	5 626	(2 000)	3 626	3 626
Public corporations and private enterprises	–	602 000	602 000	13 000	2 579 781	2 592 781	2 592 781
Payments for capital assets	**1 052**	**2 247**	**2 435**	**527**	**–**	**527**	**1 377**
Machinery and equipment	1 052	2 247	2 338	527	–	527	527
Software and intangible assets	–	–	97	–	–	–	850
Total	**75 988**	**680 391**	**678 686**	**91 983**	**2 583 925**	**2 675 908**	**2 675 908**

Table 9.B Summary of personnel numbers and compensation of employees

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimates		
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
A. Permanent and full-time contract employees							
Compensation (R thousand)	25 525	29 944	34 694	47 763	57 294	60 675	66 116
Unit cost (R thousand)	169	212	259	312	374	397	432
Compensation as % of total	100.0%	99.5%	99.2%	99.3%	99.0%	98.8%	98.8%
Personnel numbers (head count)	151	141	134	153	153	153	153
Unit cost (R thousand)		–					
Personnel numbers (head count)	–	27	–	–	–	–	–
C. Interns							
Compensation of interns (R thousand)	–	144	276	320	594	720	792
Unit cost (R thousand)		24	12	8	33	36	38
Number of interns	–	6	23	41	18	20	21
Total for department							
Compensation (R thousand)	**25 525**	**30 088**	**34 970**	**48 083**	**57 888**	**61 395**	**66 908**
Unit cost (R thousand)	**169**	**173**	**223**	**248**	**339**	**355**	**385**
Personnel numbers (head count)	**151**	**174**	**157**	**194**	**171**	**173**	**174**

Table 9.C Summary of expenditure on training

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimates		
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Training and staff development							
Expenditure (R thousand)	1 613	910	683	481	579	614	670
Bursaries (employees)							
Expenditure (R thousand)	352	403	194	233	278	307	338
Total	**1 965**	**1 313**	**877**	**714**	**857**	**921**	**1 008**

Table 9.D Summary of official development assistance expenditure

Donor	Project	Cash/ kind	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand			2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
DFID	Restructuring activities	Kind	–	6 881	81 600	–	–	–	–
DFID	Energy sector specialist	Kind	296	2 117	–	–	–	–	–
DFID	Ports specialist	Kind	–	3 009	–	–	–	–	–
DFID	Overseas Development Institute (ODI)	Kind	–	–	–	–	–	–	–
DFID	Corporate governance	Kind	–	–	–	–	–	–	–
DFID	Performance monitoring	Kind	442	–	–	–	–	–	–
DFID	Training	Kind	407	–	–	–	–	–	–
DFID	Support to restructuring of Public Enterprises in South Africa	Kind	–	–	–	1 000	1 062	19	–
USAID	Training	Kind	–	8 311	19 036	–	–	–	–
USAID	Project management systems	Kind	–	–	–	–	–	–	–
USAID	Ports study	Kind	–	–	–	–	–	–	–
USAID	Preliminary study or ports restructuring	Kind	–	–	–	–	–	–	–
USAID	Corporate governance	Kind	–	–	–	–	–	–	–
USAID	Audit of SOE's	Kind	–	–	–	–	–	–	–
USAID	Training of SOE's dircectors	Kind	–	–	–	–	–	–	–
USAID	Database enhancements	Kind	–	–	–	–	–	–	–
Total			**1 145**	**20 318**	**100 636**	**1 000**	**1 062**	**19**	**–**