Vote 30

Public Enterprises

Budget summary

	2009/10				2010/11	2011/12
R million	Total to be appropriated	Current payments	Transfers and subsidies	Payments for capital assets	Total	Total
MTEF allocation						
Administration	78.8	76.9	0.7	1.3	82.3	87.9
Energy and Broadband Enterprises	1 957.6	11.4	1 946.3	–	148.7	12.7
Legal, Governance, Risk and Transactions	152.8	23.7	129.1	–	24.3	25.7
Manufacturing Enterprises	8.5	8.5	–	–	9.1	9.6
Transport Enterprises	1 566.0	16.9	1 549.1	–	16.2	14.7
Joint Project Facility	33.7	33.7	–	–	31.3	33.0
Total expenditure estimates	**3 797.3**	**171.0**	**3 625.1**	**1.3**	**311.9**	**183.6**
Executive authority	Minister of Public Enterprises					
Accounting officer	Director-General of Public Enterprises					
Website address	www.dpe.gov.za					

Aim

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

Programme purposes

Programme 1: Administration

Purpose: Achieve the department's strategic objectives through providing overarching management and key supporting functions and processes.

Programme 2: Energy and Broadband Enterprises

Purpose: Align and timeously monitor the corporate strategies and performance of Eskom, Pebble Bed Modular Reactor and Broadband Infraco against government's strategic intent and associated performance targets.

Programme 3: Legal, Governance, Risk and Transactions

Purpose: Align corporate governance, risk management practices and significant and material transactions of state owned enterprises with government objectives and requirements and applicable legislation, litigation and transactions management.

Programme 4: Manufacturing Enterprises

Purpose: Align and timeously monitor the corporate strategies and performance of Denel and the South African Forestry Company Limited against government's strategic intent and performance targets.

Programme 5: Transport Enterprises

Purpose: Align and timeously monitor the corporate strategies and performance of Transnet, South African Airways and South African Express Airways against government's strategic intent and performance targets.

Programme 6: Joint Project Facility

Purpose: Leverage the assets, activities and/or capabilities of the state owned enterprises to the benefit of state owned enterprises and the economy as a whole.

Strategic overview: 2005/06 – 2011/12

The Department of Public Enterprises provides shareholder management of nine state owned enterprises: Alexkor, Broadband Infraco, Denel, Eskom, Pebble Bed Modular Reactor, the South African Forestry Company, South African Airways, South African Express Airways and Transnet.

One of the department's key activities is to monitor the performance and financial and operational stability of the state owned enterprises to promote efficiency and investment in strategically important sectors of the economy. To this end, the enterprises are required to submit standardised corporate plans, quarterly reports and annual reports for assessment. The corporate plans are evaluated to determine whether the strategies and financial plans are consistent, coherent and aligned with government objectives. The department assesses the forecasts to determine whether enterprises require government financial support in the form of funding for recapitalisation, or borrowing guarantees. Quarterly and annual reports are analysed to determine whether strategic objectives have been met, and to highlight any emerging risks. The department also monitors the enterprises' compliance with the Public Finance Management Act (1999) and National Treasury Regulations.

A chief investment and portfolio manager post was created to focus on portfolio management and shareholder investment. A new electronic dashboard system was implemented, which enables timely reporting by state owned enterprises and rapid access to information in key areas, such as finance, operations, capital investment, intragovernmental policy, socioeconomic impacts and risks. In addition, the department has established various forums to allow for discussion and the implementation of strategies.

Investments in key infrastructure, procurement processes and capacity building

Eskom and Transnet are responsible for large investments in key economic infrastructure in the electricity and transport logistics sectors. More than R300 billion has been budgeted for Eskom to invest in upgrading electricity infrastructure over the next five years. This includes constructing new coal fired power stations and refurbishing those that have been mothballed. Transnet's capital expenditure budget amounts to approximately R80.3 billion over the next five years.

Targeting the key electricity and transport logistics sectors for industrial development, the department has implemented a large scale procurement and capacity building programme for Transnet and Eskom. The competitive supplier development programme, launched in 2007, aims to ensure that the large infrastructure investment programmes have an optimal impact on industrial development. The programme's objectives are to improve the competitiveness, capability and capacity of the local supply base, which will in turn lead to savings in procurement costs, better security of supply, improved performance by state owned enterprises, job creation and growth in the local industry.

Following consultations with industry and relevant government departments, Transnet, Pebble Bed Modular Reactor and Eskom have developed supplier development plans. Key performance indicators and targets have been written into shareholder compacts between the department and the state owned enterprises, and regular progress reporting takes place. In addition, the South African power project, a joint initiative with various stakeholders, including the departments of trade and industry and science and technology, is developing and implementing a medium term strategy aimed at optimising the industrial and technological impact of the electricity build programme.

Critical to the success of these initiatives is the development of human capital in both state owned enterprises and supplier networks. In April 2008, the department established the Employment and Skills Development

Agency to establish partnerships with sector education and training authorities, further education training colleges, state owned enterprises and their supplier networks to facilitate work placements for artisan trainees. The agency aims to address the scarce and critical skills shortages relating to the investment programme to support achieving the objectives of the Accelerated and Shared Growth Initiative for South Africa and the Joint Initiative for Priority Skills Acquisition.

Key policy developments

In 2008, the department proposed the Government Shareholder Management Bill to codify the role and functions of government as a shareholder in state owned enterprises, with a view to optimise the contribution of state owned enterprises to growth and development. The bill includes a framework for a harmonised and consistent approach to state owned enterprises shareholder management and corporate governance across government, as well as measures and initiatives for improving the return on the state's investment in state owned enterprises. The bill also aims to align shareholder management practices with the policy and planning functions of government. Cabinet mandated a ministerial oversight committee to review the draft bill.

Litigation

The department will continue to monitor the implementation of the deed of settlement in the Richtersveld community's land claim. Litigation is ongoing in the R2.2 billion claim instituted against government and Transnet by the Umthunzi consortium.

A transaction aimed at transferring majority ownership of Komatiland Forests to the private sector was terminated in March 2006 due to concerns raised by the Competition Commission, which will need to be addressed in the current Komatiland Forests privatisation process. Land claims have been registered for about 60 per cent of the state forest land used by Komatiland Forests, and any privatisation transaction should recognise and address the expectations of land claimants. The Londoloza consortium's application for leave to appeal to the Supreme Court's judgement relating to the previous Komatiland Forests privatisation process has been denied. Londoloza has now filed an application for the matter to be heard by the Constitutional Court.

Selected performance and operations indicators

Table 30.1 Public Enterprises

Indicator	Programme	Past			Current	Projections		
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Number of new shareholder compacts signed	Energy and Broadband Enterprises; Legal, Governance, Risk and Transactions; Manufacturing Enterprises; Transport Enterprises	3	4	5	3	8	8	8
Number of new corporate plans reviewed	Energy and Broadband Enterprises; Legal, Governance, Risk and Transactions; Manufacturing Enterprises; Transport Enterprises	6	7	8	5	8	8	8
Number of quarterly financial reviews	Energy and Broadband Enterprises; Legal, Governance, Risk and Transactions; Manufacturing Enterprises; Transport Enterprises	24	28	32	15	32	32	32
Number of projects each year	Joint Project Facility	4	7	13	11	8	8	8

Expenditure estimates

Table 30.2 Public Enterprises

Programme				Adjusted	Revised			
	Audited outcome			appropriation	estimate	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09		2009/10	2010/11	2011/12
1. Administration	46.3	50.7	66.3	73.1	73.1	78.8	82.3	87.9
2. Energy and Broadband Enterprises	585.3	1 841.4	2 514.3	2 138.0	2 138.0	1 957.6	148.7	12.7
3. Legal, Governance, Risk and Transactions	30.7	105.4	95.8	152.4	152.4	152.8	24.3	25.7
4. Manufacturing Enterprises	2 007.9	577.5	1 159.9	269.4	267.6	8.5	9.1	9.6
5. Transport Enterprises	1.3	3.5	752.1	604.4	604.4	1 566.0	16.2	14.7
6. Joint Project Facility	–	11.4	15.5	32.1	32.1	33.7	31.3	33.0
Total	**2 671.5**	**2 589.8**	**4 604.0**	**3 269.4**	**3 267.5**	**3 797.3**	**311.9**	**183.6**
Change to 2008 Budget estimate				261.5	259.6	1 531.7	(4.1)	(2.9)
Economic classification								
Current payments	**76.5**	**100.4**	**126.6**	**166.3**	**166.3**	**171.0**	**172.0**	**182.2**
Compensation of employees	42.4	47.2	56.0	68.0	68.0	79.5	85.3	90.4
Goods and services	34.1	53.0	70.5	98.3	98.3	91.5	86.7	91.9
of which:								
Administrative fees	*0.2*	*0.5*	*0.7*	*4.3*	*4.3*	*5.2*	*5.7*	*6.0*
Advertising	*0.1*	*0.4*	*1.5*	*1.1*	*1.1*	*1.3*	*1.4*	*1.5*
Assets less than R5 000	*2.3*	*0.5*	*0.6*	*0.3*	*0.3*	*0.4*	*0.3*	*0.3*
Audit costs: External	*1.2*	*1.4*	*1.0*	*1.0*	*1.0*	*1.1*	*1.2*	*1.3*
Bursaries (employees)	*0.2*	*0.2*	*0.4*	*0.4*	*0.4*	*0.7*	*0.7*	*0.8*
Catering: Departmental activities	*0.4*	*0.4*	*1.0*	*1.5*	*1.5*	*1.9*	*2.0*	*2.1*
Communication	*2.9*	*2.3*	*2.5*	*3.1*	*3.1*	*2.1*	*2.2*	*2.4*
Computer services	*1.6*	*1.2*	*2.4*	*2.1*	*2.1*	*1.8*	*1.9*	*2.0*
Consultants and professional services: Business and advisory service	*4.4*	*19.7*	*21.0*	*52.7*	*52.7*	*42.2*	*35.9*	*37.5*
Consultants and professional services: Legal costs	*0.3*	*3.1*	*4.5*	*4.9*	*4.9*	*6.0*	*5.8*	*6.2*
Contractors	*1.6*	*0.8*	*4.4*	*1.4*	*1.4*	*3.5*	*3.4*	*3.6*
Agency and support / outsourced services	*1.3*	*3.0*	*5.2*	*4.3*	*4.3*	*4.2*	*4.1*	*4.3*
Inventory: Stationery and printing	*1.3*	*1.1*	*2.3*	*2.3*	*2.3*	*2.0*	*2.1*	*2.7*
Lease payments	*4.0*	*5.4*	*6.3*	*1.0*	*1.0*	*1.9*	*2.0*	*2.1*
Owned and leasehold property expenditure	*4.7*	*1.8*	*0.5*	*0.6*	*0.6*	*–*	*–*	*–*
Travel and subsistence	*5.5*	*9.3*	*10.4*	*11.9*	*11.9*	*12.8*	*13.4*	*14.2*
Training and development	*0.6*	*0.8*	*1.6*	*1.8*	*1.8*	*2.0*	*2.1*	*2.2*
Operating expenditure	*1.1*	*0.7*	*2.0*	*1.3*	*1.3*	*1.1*	*1.1*	*1.2*
Venues and facilities	*0.5*	*0.4*	*1.9*	*2.0*	*2.0*	*1.1*	*1.1*	*1.2*
Financial transactions in assets and liabilities	–	0.1	0.0	–	–	–	–	–
Transfers and subsidies	**2 594.0**	**2 486.7**	**4 473.9**	**3 102.2**	**3 100.3**	**3 625.1**	**139.3**	**0.8**
Provinces and municipalities	0.1	0.0	–	–	–	–	–	–
Departmental agencies and accounts	0.4	3.6	–	–	–	–	–	–
Public corporations and private enterprises	2 593.4	2 482.5	4 473.3	3 101.5	3 099.6	3 624.5	138.6	–
Households	0.1	0.6	0.6	0.7	0.7	0.7	0.7	0.8
Payments for capital assets	**0.9**	**2.7**	**3.5**	**0.9**	**0.9**	**1.3**	**0.6**	**0.6**
Machinery and equipment	0.9	2.5	2.4	0.9	0.9	1.3	0.6	0.6
Software and other intangible assets	0.0	0.2	1.1	–	–	–	–	–
Total	**2 671.5**	**2 589.8**	**4 604.0**	**3 269.4**	**3 267.5**	**3 797.3**	**311.9**	**183.6**

Expenditure trends

Expenditure increased from R2.7 billion in 2005/06 to R3.3 billion in 2008/09 at an average annual rate of 7 per cent due to transfer payments to state owned enterprises. These were for both capital and current expenditure. Combined, transfer payments to state owned enterprises grew at an average annual rate of 6.1 per cent, from R2.6 billion in 2005/06 to R3.1 billion in 2008/09.

The following transfer payments were made from 2005/06 to 2008/09:

- Denel: R4 billion (including R480 million indemnity claims)
- Alexkor: R298.2 million
- Pebble Bed Modular Reactor: R6 billion (including VAT)
- South African Airways: R744.4 million
- Broadband Infraco: R1 billion for establishment and operational costs
- Transnet: R140 million for the purchase and transfer to government of South African Express Airways
- South African Express Airways: R445 million for recapitalisation, of which R40 million was for working capital and R405 million to make certain payments for existing aircraft.

The joint project facility was also funded from the budget for the first time in 2006/07, receiving R59 million between 2006/07 and 2008/09.

Over the MTEF period, expenditure is expected to decrease at an average annual rate of 61.7 per cent, from R3.3 billion in 2008/09 to R183.6 million in 2011/12. Transfers to state owned enterprises over the medium term amount to R6.9 billion, of which R3.5 billion is allocated to Pebble Bed Modular Reactor, R1.5 billion to South African Airways, R724.1 million to Broadband Infraco and R259.1 million to Alexkor. The significant decline in 2010/11 indicates the end of transfer payments to state owned enterprises, with the only remaining transfer payment of R138.6 million being allocated to Broadband Infraco.

Savings and reprioritisation

Over the medium term, savings of R30.4 million, R6 million and R4.8 million have been identified in goods and services, and transfer payments to state owned enterprises.

Departmental receipts

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

In 2005/06, dividends of R1.6 billion were received from Eskom. Eskom has not paid dividends since then, as these funds have been reinvested into the planned infrastructure expansion projects for creating more generation capacity. In 2005/06, dividends of R30 million were received from the South African Forestry Company. No further dividends have been received from this entity.

In 2008/09, R435.5 million was received from the Diabo Share Trust, which constituted funds that had not been disbursed to potential beneficiaries. The department will appoint a service provider to accelerate the tracing of beneficiaries.

Table 30.3 Departmental receipts

	Audited outcome			Adjusted estimate	Revised estimate	Medium-term receipts estimate		
R thousand	2005/06	2006/07	2007/08	2008/09		2009/10	2010/11	2011/12
Departmental receipts	**1 011 305**	**109**	**69**	**70**	**552**	**70**	**74**	**78**
Sales of goods and services produced by department	25	33	34	34	34	30	32	34
Sales of scrap, waste, arms and other used current goods	2	–	–	–	1	2	2	2
Interest, dividends and rent on land	1 010 992	19	4	14	495	15	16	17
Sales of capital assets	–	18	–	–	–	–	–	–
Financial transactions in assets and liabilities	286	39	31	22	22	23	24	25
Extraordinary receipts	**662 000**	**–**	**–**	**–**	**435 462**	**–**	**–**	**–**
Eskom	662 000	–	–	–	–	–	–	–
Diabo Trust	–	–	–	–	435 462	–	–	–
Total	**1 673 305**	**109**	**69**	**70**	**436 014**	**70**	**74**	**78**

Programme 1: Administration

Expenditure estimates

Table 30.4 Administration

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Minister [1]	0.9	0.9	1.0	1.6	1.7	1.8	1.9
Management	12.8	11.3	12.4	18.3	21.3	22.4	23.7
Corporate Services	29.3	34.8	48.5	48.3	50.9	52.6	56.5
Property Management	3.3	3.7	4.4	4.8	4.9	5.4	5.8
Total	**46.3**	**50.7**	**66.3**	**73.1**	**78.8**	**82.3**	**87.9**
Change to 2008 Budget estimate				7.1	9.3	8.3	1.9

1. From 2008/09, the current payments relating to the total remuneration package of political office bearers are shown, before this only salary and car allowances are included.
Administrative and other subprogramme expenditure may in addition include payments for capital as well as transfers and subsidies.

Economic classification	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Current payments	**45.3**	**47.6**	**62.3**	**71.5**	**76.9**	**80.9**	**86.5**
Compensation of employees	24.3	23.4	27.2	34.7	38.4	41.1	43.7
Goods and services	21.0	24.1	35.1	36.8	38.4	39.8	42.8
of which:							
Administrative fees	*0.1*	*0.1*	*0.2*	*4.3*	*5.1*	*5.6*	*5.9*
Advertising	*0.1*	*0.2*	*1.3*	*1.1*	*1.3*	*1.4*	*1.5*
Assets less than R5 000	*1.2*	*0.5*	*0.6*	*0.3*	*0.4*	*0.3*	*0.3*
Audit costs: External	*1.2*	*1.4*	*1.0*	*1.0*	*1.1*	*1.2*	*1.3*
Bursaries (employees)	*0.1*	*0.1*	*0.1*	*0.4*	*0.7*	*0.7*	*0.8*
Catering: Departmental activities	*0.3*	*0.3*	*0.8*	*1.3*	*1.8*	*1.9*	*2.0*
Communication	*1.8*	*1.3*	*2.0*	*2.5*	*1.4*	*1.5*	*1.6*
Computer services	*0.6*	*0.9*	*2.4*	*2.1*	*1.8*	*1.9*	*2.0*
Consultants and professional services: Business and advisory services	*2.4*	*3.6*	*1.6*	*5.7*	*2.9*	*3.1*	*3.2*
Contractors	*1.5*	*0.7*	*4.4*	*1.4*	*3.5*	*3.4*	*3.6*
Agency and support / outsourced services	*0.6*	*1.2*	*2.2*	*3.5*	*4.2*	*4.1*	*4.3*
Inventory: Stationery and printing	*0.9*	*1.0*	*2.1*	*2.3*	*2.0*	*2.1*	*2.7*
Lease payments	*3.9*	*5.0*	*6.2*	*1.0*	*1.9*	*2.0*	*2.1*
Owned and leasehold property expenditure	*1.4*	*1.8*	*0.5*	*0.6*	*–*	*–*	*–*
Travel and subsistence	*3.9*	*4.7*	*5.1*	*5.9*	*6.6*	*6.9*	*7.3*
Training and development	*0.4*	*0.7*	*1.4*	*1.4*	*2.0*	*2.1*	*2.2*
Operating expenditure	*0.1*	*0.4*	*1.7*	*1.1*	*0.8*	*0.8*	*0.9*
Venues and facilities	*0.3*	*0.1*	*1.3*	*0.7*	*0.6*	*0.7*	*0.7*
Financial transactions in assets and liabilities	–	0.1	0.0	–	–	–	–
Transfers and subsidies	**0.2**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.8**
Provinces and municipalities	0.1	0.0	–	–	–	–	–
Households	0.1	0.6	0.6	0.7	0.7	0.7	0.8
Payments for capital assets	**0.8**	**2.5**	**3.4**	**0.9**	**1.3**	**0.6**	**0.6**
Machinery and equipment	0.8	2.3	2.3	0.9	1.3	0.6	0.6
Software and other intangible assets	0.0	0.2	1.1	–	–	–	–
Total	**46.3**	**50.7**	**66.3**	**73.1**	**78.8**	**82.3**	**87.9**

Expenditure trends

Expenditure increased from R46.3 million in 2005/06 to R73.1 million in 2008/09 at an average annual average rate of 16.4 per cent. The growth in expenditure was driven by the *Corporate Services* and *Management* subprogrammes, as the department centralised operational expenditure such as IT licences and services, photocopying equipment, training and communication. The establishment of posts for a chief investment portfolio manager and staff in this unit resulted in compensation of employees increasing at an average annual rate of 12.7 per cent, from R24.3 million in 2005/06 to R34.7 million in 2008/09, and goods and services at an average annual rate of 20.5 per cent, from R21 million in 2005/06 to R36.8 million in 2008/09.

Expenditure grows moderately over the MTEF period, at an average annual rate of 6.3 per cent, from R73.1 million in 2008/09 to R87.9 million in 2011/12. This is generally in line with inflation, but also reflects savings resulting from the centralisation of services, such as training, bursaries, IT and leases on equipment.

Programme 2: Energy and Broadband Enterprises

- *Management.*
- *ICT Broadband Sector* provides oversight of Broadband Infraco. Funding is disbursed on the basis of an annual business plan and service level agreement between the department and the entity.
- *Energy Sector* provides shareholder oversight of Eskom, with an emphasis on security of supply and optimising current operations. Funding is disbursed on the basis of an annual business plan and service level agreement between the department and the entity.
- *Nuclear Sector* provides oversight of Pebble Bed Modular Reactor. Funding is disbursed on the basis of an annual business plan and service level agreement between the department and the entity.
- *Initial Public Offering* includes transfers to the Diabo Share Trust and the Khulisa Trust (where Telkom shares were housed). Funding is disbursed on the basis of annual business plans and service level agreements between the department and these entities.

Objectives and measures

- Ensure that the corporate strategies of state owned enterprises are aligned with government's strategic intent by reviewing these strategies when necessary, and evaluating business plans annually.
- Ensure that corporate strategies and shareholder compacts are implemented as intended by benchmarking and monitoring the financial, operational and infrastructure targets on a quarterly basis and assessing shareholder and enterprise risks.
- Expand South Africa's ICT infrastructure to improve capacity and lower costs by:
  - expanding Broadband Infraco's national full service network to incorporate the State Information and Technology Agency and other strategic state projects that require broadband, by mid-2008
  - completing the construction of the South Africa-Europe submarine cable by the end of the first quarter of 2010.
- Monitor Eskom's generation adequacy by examining its maintenance and operational practices, distribution efficiency, and capacity expansion programme to ensure delivery of new energy generation capacity.
- Secure long term environmentally sustainable electricity supply through nuclear power generation by:
  - monitoring funding requirements and securing funding for capital projects undertaken by Pebble Bed Modular Reactor
  - monitoring regulatory compliance by Pebble Bed Modular Reactor, including environmental impact assessment recommendations
  - monitoring construction and testing outcomes against Pebble Bed Modular Reactor's business and strategic plans and feasibility studies.

Service delivery and spending focus

Eskom is responsible for generating, transmitting and distributing electricity. In 2008, the Department of Public Enterprises played a formative role in the national electricity response team, which deals with the electricity supply crisis. The department requested funding assistance to support Eskom's Cabinet approved accelerated new build programme. R60 billion was allocated as a subordinated loan to Eskom over a 3-year period to support this investment in electricity generation capacity. The department co-authored the Cabinet approved national emergency electricity response plan. The department is also participating in restructuring the electricity distribution industry by supporting a proposed amendment to the Constitution to allow the electricity function to be performed at the national level. All electricity utilities will have to participate in forming the regional electricity distributors.

The department has monitored and facilitated the capital funding requirements for the expansion of South Africa's ICT infrastructure. The Broadband Infraco Act (2007) came into effect in early 2008 and Broadband Infraco was listed as a schedule 2 public entity in terms of the Public Finance Management Act (1999). The department's oversight functions of Broadband Infraco include agreements between parties, assessing the business plan, monitoring the commissioning of the full service network and providing overarching shareholder management.

The department's oversight of Pebble Bed Modular Reactor includes monitoring progress on research into an alternative nuclear electricity generation and process heat technology, as well as the establishment of a demonstration power plant and pilot fuel plant. Pebble Bed Modular Reactor's first annual report was tabled in Parliament in November 2007. The strategic framework for developing the North American market for the entity's intermediate temperature reactor for process heat applications has been approved. This programme is currently focusing on research and testing of safe and efficient nuclear fuel. The National Nuclear Regulator granted the commissioning licence for the advanced coater facility at Pelindaba.

Expenditure estimates

Table 30.5 Energy and Broadband Enterprises

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Management	2.4	3.6	2.1	1.1	1.7	1.8	1.9
ICT Sector Broadband	–	627.0	1.4	378.6	210.6	140.5	2.0
Energy Sector	2.5	2.1	7.8	7.1	6.5	4.7	7.0
Nuclear Sector	580.0	1 205.0	2 503.1	1 751.2	1 738.9	1.6	1.7
Initial Public Offering	0.4	3.6	–	–	–	–	–
Total	**585.3**	**1 841.4**	**2 514.3**	**2 138.0**	**1 957.6**	**148.7**	**12.7**
Change to 2008 Budget estimate				0.4	(15.6)	(4.6)	(1.0)
Economic classification							
Current payments	**4.8**	**6.3**	**12.1**	**11.0**	**11.4**	**10.1**	**12.7**
Compensation of employees	4.3	3.5	5.9	5.7	6.4	7.0	7.4
Goods and services	0.6	2.8	6.2	5.3	5.0	3.1	5.3
of which:							
Consultants and professional services: Business and advisory service	*0.1*	*0.7*	*4.6*	*3.4*	*4.0*	*2.0*	*4.2*
Travel and subsistence	*0.2*	*0.9*	*0.9*	*1.4*	*0.7*	*0.7*	*0.8*
Transfers and subsidies	**580.4**	**1 835.0**	**2 502.3**	**2 127.0**	**1 946.3**	**138.6**	**–**
Provinces and municipalities	0.0	0.0	–	–	–	–	–
Departmental agencies and accounts	0.4	3.6	–	–	–	–	–
Public corporations and private enterprises	580.0	1 831.4	2 502.3	2 127.0	1 946.3	138.6	–
Payments for capital assets	**0.0**	**0.1**	**–**	**–**	**–**	**–**	**–**
Machinery and equipment	0.0	0.1	–	–	–	–	–
Total	**585.3**	**1 841.4**	**2 514.3**	**2 138.0**	**1 957.6**	**148.7**	**12.7**

Table 30.5 Energy and Broadband Enterprises (continued)

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Details of selected transfers and subsidies							
Departmental agencies and accounts							
Departmental agencies (non-business entities)							
Current	**–**	**3.6**	**–**	**–**	**–**	**–**	**–**
Diabo Trust	–	3.6	–	–	–	–	–
Public corporations and private enterprises							
Public corporations							
Other transfers							
Current	**580.0**	**1 831.4**	**2 502.3**	**2 127.0**	**1 946.3**	**138.6**	**–**
Pebble Bed Modular Reactor	580.0	1 204.4	2 502.3	1 750.0	1 737.8	–	–
Broadband InfraCo	–	627.0	–	377.0	208.5	138.6	–

Expenditure trends

Spending in this programme is dominated by transfer payments to Pebble Bed Modular Reactor and Broadband Infraco. Expenditure increased from R585.3 million in 2005/06 to R2.1 billion in 2008/09 at an average annual rate of 54 per cent. Large increases in spending were due to transfer payments of: R627 million for the establishment of Broadband Infraco in 2006/07, including the purchase of the full service network from Eskom and Transtel; and R1.2 billion in 2006/07 and R2.5 billion in 2007/08 to Pebble Bed Modular Reactor to fund essential contracts for the demonstration plant and the fuel plant.

Expenditure is expected to remain high at R2.1 billion in 2008/09 and just under R2 billion in 2009/10, as Broadband Infraco and Pebble Bed Modular Reactor continue to receive substantial transfer payments. Expenditure is expected to decrease from R2 billion in 2009/10 to R12.7 million in 2011/12, at an average annual rate of 81.9 percent, when transfers to entities are ceased.

Programme 3: Legal, Governance, Risk and Transactions

- *Management.*
- *Legal and Litigation* provides legal services for all commercial transactions involving the department, including, but not limited to, unbundling, shareholder support and establishing state owned enterprises.
- *Governance* develops corporate governance and shareholder management frameworks to improve adherence to good governance principles in all state owned enterprises.
- *Risk Management* identifies, manages and monitors significant risks at the state owned enterprise level and across the state owned enterprises, and establishes and maintains state owned enterprises and shareholder risk management systems.
- *Transactions* deals with significant and material transactions relating to state owned enterprises through a multidisciplinary team drawn from legal, governance, risk and relevant sector programmes.

Funding in all these subprogrammes is mainly used for compensation of employees, and related expenditure in goods and services.

Objectives and measures

- Complete the transfer of Telkom shares (previously held in Diabo Trust) to intended beneficiaries by appointing a service provider to trace the outstanding beneficiaries.
- Finalise government's exit from Aventura and the South African Forestry Company by disposing of assets such as Komatiland Forests.

- Enhance state owned enterprises' governance practices by:
  - establishing legislative provisions for the governance of strategic state owned enterprises over the MTEF period
  - implementing shareholder guidelines on remuneration, founding documents and shareholder agreements, as well as board member inductions through regular interactions with the governing bodies of state owned enterprises
  - benchmarking risk management practices against industry norms through a quarterly review of performance
  - conducting quarterly assessments of enterprise and shareholder risks
  - measuring improvement in governance by conducting annual governance audits in state owned enterprises.

Service delivery and spending focus

Aventura was sold in June 2003, but the transaction is still being finalised due to delays in the transfer of properties. The disposal of forestry assets is subject to a resolution of the land claims relating to Komatiland Forests. Once these claims are resolved, government's commercial interest in the South African Forestry Company can be concluded.

A deed of settlement in the land claim lodged by the Richtersveld community against the state and Alexcor was concluded, and confirmed by an order of court. The settlement requires a transfer of assets to the Richtersveld community and the establishment of a joint venture between Alexkor and the community. Progress will be monitored by the department.

The department has consulted widely on proposed interventions to ensure effective oversight and monitoring of state owned enterprises. The Government Shareholder Management Bill was submitted to Cabinet for consideration.

In 2008/09, the department reviewed 5 corporate plans and 15 quarterly reports, and completed the annual risk report for state owned enterprises.

Expenditure estimates

Table 30.6 Legal, Governance, Risk and Transactions

Subprogramme		Audited outcome		Adjusted appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Management	5.6	2.1	2.2	2.2	2.1	2.2	2.4
Legal and Litigation	0.5	7.7	9.2	10.9	12.9	13.2	14.1
Governance	6.7	5.1	7.5	3.2	2.3	2.5	2.6
Risk Management	2.0	1.6	2.1	4.1	4.4	4.2	4.5
Transactions	15.9	89.0	74.7	132.0	131.0	2.1	2.2
Total	**30.7**	**105.4**	**95.8**	**152.4**	**152.8**	**24.3**	**25.7**
Change to 2008 Budget estimate				(5.7)	(4.6)	(4.8)	(1.5)
Economic classification							
Current payments	**17.2**	**21.1**	**23.0**	**22.4**	**23.7**	**24.3**	**25.7**
Compensation of employees	7.3	12.1	12.4	10.8	11.6	12.6	13.2
Goods and services	9.9	9.0	10.6	11.6	12.1	11.7	12.5
of which:							
Assets less than R5 000	*1.0*	*0.0*	*0.0*	–	–	–	–
Communication	*0.8*	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Computer services	*0.9*	*0.1*	–	–	–	–	–
Consultants and professional services: Business and advisory services	*1.5*	*2.1*	*1.7*	*4.0*	*4.3*	*4.1*	*4.3*
Consultants and professional services: Legal costs	*0.2*	*3.1*	*4.5*	*4.9*	*6.0*	*5.8*	*6.2*
Agency and support / outsourced services	*0.3*	*1.7*	*2.5*	*0.0*	–	–	–
Owned and leasehold property expenditure	*3.3*	–	–	–	–	–	–
Travel and subsistence	*0.4*	*1.0*	*0.9*	*1.9*	*1.2*	*1.3*	*1.4*
Operating expenditure	*0.7*	*0.0*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*

Table 30.6 Legal, Governance, Risk and Transactions (continued)

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Transfers and subsidies	**13.4**	**84.1**	**72.7**	**130.0**	**129.1**	**–**	**–**
Provinces and municipalities	0.0	0.0	–	–	–	–	–
Public corporations and private enterprises	13.4	84.1	72.7	130.0	129.1	–	–
Payments for capital assets	**0.1**	**0.2**	**0.0**	**–**	**–**	**–**	**–**
Machinery and equipment	0.1	0.2	0.0	–	–	–	–
Total	**30.7**	**105.4**	**95.8**	**152.4**	**152.8**	**24.3**	**25.7**

Details of selected transfers and subsidies							
Public corporations and private enterprises							
Public corporations							
Other transfers							
Current	**13.4**	**82.1**	**72.7**	**130.0**	**129.1**	**–**	**–**
Alexkor	13.4	82.1	72.7	130.0	129.1	–	–

Expenditure trends

Expenditure increased from R30.7 million in 2005/06 to R152.4 million in 2008/09 at an average annual rate of 70.6 per cent. The increase in spending was dominated by transfer payments to Alexkor for an exploration programme, operating costs, restructuring and the payment of value added tax on previous government transfers, as well as funding for the Richtersveld land claim settlement agreement.

Expenditure is expected to decrease over the MTEF period at an average annual rate of 44.7 per cent due to the finalisation of the settlement of the Richtersveld community's land claim against the state and Alexkor. Over the medium term, expenditure in the *Legal and Litigation* programme is expected to increase from R10.9 million in 2008/09 to R14.1 million in 2011/12, at an average annual rate of 8.7 per cent, to cover the anticipated legal costs of a number of transactions, including the disposal of the Komatiland Forests by the South African Forestry Company.

Programme 4: Manufacturing Enterprises

- *Management.*
- *Defence Sector* oversees Denel's financial and strategy implementation. Funding is mainly used for compensation of employees and defence sector analysts, besides the recapitalisation of Denel in previous years.
- *Forestry Sector* monitors the activities of the South African Forestry Company, including forestry management, timber harvesting and processing, both domestically and internationally. Funding is mainly used for compensation of employees, and related expenditure in goods and services.

Objectives and measures

- Ensure that the corporate strategies of the state owned enterprises are aligned with government's strategic intent by reviewing these strategies when necessary, and evaluating business plans on an annual basis.
- Ensure that corporate strategies and shareholder compacts are implemented as intended by benchmarking and monitoring the financial, operational and infrastructure trends and targets on a quarterly basis, and assessing shareholder and enterprise risks.
- Assist in returning Denel to profitability by 2011/12 by:
  - monitoring the implementation of the turnaround strategy
  - monitoring performance against the 2006 turnaround strategy
  - facilitating the sourcing of 60 per cent of Denel's turnover from the domestic defence market
  - restructuring the Denel subsidiaries to ensure commercial viability.

- Increase the impact of the defence industry by:
  - ensuring strategic alignment between the Department of Defence and Denel
  - facilitating defence related exports through research, incentives and international cooperation, such as establishing a Defence Export Council in 2009.

Service delivery and spending focus

The Department of Public Enterprises oversees, in particular, Denel's role in supplying South Africa's armed forces with strategic defence capabilities and stimulating the transfer of advanced manufacturing capabilities to the broader manufacturing sector. In October 2008, the department established work groups representing the Department of Defence, Denel and the Armaments Corporation of South Africa to ensure that 60 to 70 per cent of Denel's revenue is derived from South Africa's Department of Defence.

Progress has been made in identifying the defence capabilities that must be retained within South Africa. Moreover, joint task teams comprising representatives from the same bodies will ensure alignment of strategies in future. The committee overseeing the implementation of Denel end state recommendations will introduce a mechanism for placing multiyear orders, and a framework to achieve this has been agreed.

Following the suspension of the Komatiland Forests privatisation process, the primary focus has been on finalising a new 5-year corporate plan and a process to resolve key land claims in areas in which Komatiland Forests operates. The plan outlines key strategic goals and programmes that the South African Forestry Company will implement over the next 5 years, following the prolonged period of planning for privatisation. It will be used to define key performance indicators and the shareholder compact for the company. Approximately 60 per cent of the land on which Komatiland Forests operates is subject to land claims. The Department of Public Enterprises, the Department of Land Affairs and the Department of Water Affairs and Forestry formed an interdepartmental task team to finalise the land claims settlement process.

Expenditure estimates

Table 30.7 Manufacturing Enterprises

Subprogramme				Adjusted			
	Audited outcome			appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Management	2.4	2.4	1.5	1.3	1.5	1.6	1.7
Forestry Sector	2.8	6.7	0.9	1.5	1.9	2.1	2.2
Defence Sector	2 002.7	568.3	1 157.6	266.5	5.1	5.4	5.8
Total	**2 007.9**	**577.5**	**1 159.9**	**269.4**	**8.5**	**9.1**	**9.6**
Change to 2008 Budget estimate				257.8	(3.4)	(3.5)	(0.5)
Economic classification							
Current payments	**7.9**	**10.5**	**6.0**	**9.9**	**8.5**	**9.1**	**9.6**
Compensation of employees	5.8	3.7	3.9	5.1	6.5	7.0	7.3
Goods and services	2.1	6.8	2.0	4.8	2.0	2.1	2.3
of which:							
Consultants and professional services: Business and advisory services	*0.4*	*3.5*	*0.7*	*3.5*	*1.5*	*1.6*	*1.7*
Agency and support / outsourced services	*0.0*	*0.1*	*0.4*	*0.8*	–	–	–
Travel and subsistence	*0.8*	*2.4*	*0.6*	*0.2*	*0.3*	*0.4*	*0.4*
Training and development	*0.1*	*(0.4)*	*0.0*	*0.1*	–	–	–
Transfers and subsidies	**2 000.0**	**567.0**	**1 154.0**	**259.5**	**–**	**–**	**–**
Provinces and municipalities	0.0	0.0	–	–	–	–	–
Public corporations and private enterprises	2 000.0	567.0	1 154.0	259.5	–	–	–
Payments for capital assets	**0.0**	**–**	**0.0**	**–**	**–**	**–**	**–**
Machinery and equipment	0.0	–	0.0	–	–	–	–
Total	**2 007.9**	**577.5**	**1 159.9**	**269.4**	**8.5**	**9.1**	**9.6**

Table 30.7 Manufacturing Enterprises (continued)

R million	Audited outcome 2005/06	2006/07	2007/08	Adjusted appropriation 2008/09	Medium-term expenditure estimate 2009/10	2010/11	2011/12
Details of selected transfers and subsidies							
Public corporations and private enterprises							
Public corporations							
Other transfers							
Current	**–**	**–**	**221.0**	**259.5**	**–**	**–**	**–**
Denel	–	–	221.0	259.5	–	–	–
Capital	**2 000.0**	**567.0**	**933.0**	**–**	**–**	**–**	**–**
Denel	2 000.0	567.0	933.0	–	–	–	–

Expenditure trends

Expenditure decreased substantially from R2 billion in 2005/06 to R269.4 million in 2008/09 at an average annual rate of 48.8 per cent. This was primarily due to the decrease in transfer payments to Denel. Denel received R2 billion for capitalisation in 2005/06 and R567 million in 2006/07 to further support the entity's turnaround strategy. It received an additional R1.2 billion in 2007/08, comprising R221 million for the payment of a claim for an indemnity granted to Denel/Saab Aerostructures and R933 million as a final capital investment. R259.5 million was allocated to Denel in 2008/09 in respect of a further Denel/Saab Aerostructures indemnity payment.

Programme expenditure is expected to decrease from R269.4 million in 2008/09 to R8.5 million in 2009/10, as no further transfers are provided for, and then stabilise over the two outer years of the MTEF period to reach R9.6 million in 2011/12.

Public entities

Denel

Strategic overview: 2005/06 – 2011/12

Denel was incorporated as a private company in April 1992, when it separated from the Armaments Corporation of South Africa. At the time, the industrial and manufacturing activities of the latter were integrated into Denel.

Denel's mandate is to supply South Africa's armed forces with strategic and sovereign defence capabilities. In addition, Denel and the local defence industry play a major role in contributing towards advanced manufacturing. Denel's turnaround strategy was initiated in 2005, providing for a shift from major systems development towards the manufacture of subsystems and components for local and global markets. An end state process has been initiated to ensure that Denel becomes a commercially viable manufacturer of subsystems and components. The process involves collaboration between the Department of Public Enterprises, the Department of Defence, the Armaments Corporation of South Africa and Denel.

The formation of partnerships with global defence companies will remain a key part of Denel's strategy to enter export markets. In the aerostructures business, Denel finalised an equity partnership with the Swedish company, Saab, in 2006. Carl Zeiss, a German company, acquired 70 per cent of Denel Optronics in 2007, and Rheinmetall, also a German company, acquired 51 per cent of Denel Munitions in 2008.

Selected performance and operations indicators

Table 30.8 Denel

Indicator	Past			Current	Projections		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	20011/12
Gross profit margin	-5.9%	-4.7%	15.9%				
Operating cost as percentage of revenue	41.1%	38%	29.5%				
Acid ratio	0.9	0.5	0.8				
Net loss margin	-50.4%	-16.6%	-8.8%				
Current ratio	1.4	0.9	1.2				

Service delivery and spending focus

In 2008/09, Denel quantified the minimum local Department of Defence orders needed to ensure the viability of its various business units. Work groups comprising representatives from the Department of Defence, Denel and the Armaments Corporation of South Africa are working together to reduce the gap between Department of Defence confirmed orders and the required minimum orders from Denel.

Significant progress has been made in identifying the defence capabilities that must be retained within South Africa.

Moreover, joint task teams comprising representatives from the Department of Public Enterprises, the Department of Defence, Denel, and the Armaments Corporation of South Africa have been established to ensure alignment among key stakeholders.

Expenditure estimates

Table 30.9 Denel: Activity information

	Audited outcome			Revised estimate	Medium-term estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Mechem	139.0	147.0	158.0				
Denel Land System	311.0	320.0	379.0				
Denel Dynamics	595.0	907.0	645.0				
Denel Aviation	748.0	787.0	701.0				
Munitions	1 039.0	1 079.0	1 361.0				
Other activities	1 492.0	709.0	1 224.0				
Total expense	**4 324.0**	**3 949.0**	**4 468.0**				

Table 30.10 Denel: Financial information

R million	Audited outcome			Revised estimate	Medium-term estimate		
Statement of financial performance	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Revenue							
Non-tax revenue	**2 961.0**	**3 400.0**	**4 121.0**				
Sale of goods and services other than capital assets *of which:*	2 774.0	3 269.0	3 818.0				
Sales by market establishments	2 774.0	3 269.0	3 818.0				
Other non-tax revenue	187.0	131.0	303.0				
Total revenue	**2 961.0**	**3 400.0**	**4 121.0**				
Expenses							
Current expense	**4 305.0**	**3 901.0**	**4 437.0**				
Compensation of employees	2 047.0	1 889.0	2 021.0				
Goods and services	1 910.0	1 692.0	2 167.0				
Depreciation	160.0	138.0	112.0				
Interest, dividends and rent on land	188.0	182.0	137.0				
Total expenses	**4 324.0**	**3 949.0**	**4 468.0**				
Surplus / (Deficit)	**(1 363.0)**	**(549.0)**	**(347.0)**				

Table 30.10 Denel: Financial information (continued)

R million	Audited outcome			Revised estimate	Medium-term estimate		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Statement of financial position							
Carrying value of assets	1 361.0	949.0	1 116.0				
of which: Acquisition of assets	123.0	115.0	270.0				
Investments	239.0	399.0	360.0				
Inventory	984.0	1 067.0	1 072.0				
Receivables and prepayments	1 363.0	1 751.0	1 629.0				
Cash and cash equivalents	730.0	338.0	964.0				
Total assets	**4 677.0**	**4 504.0**	**5 141.0**				
Accumulated surplus/deficit	615.0	633.0	1 328.0				
Borrowings	846.0	834.0	235.0				
Trade and other payables	1 213.0	1 235.0	1 655.0				
Provisions	1 625.0	1 350.0	1 474.0				
Managed funds	378.0	452.0	449.0				
Total equity and liabilities	**4 677.0**	**4 504.0**	**5 141.0**				

Expenditure trends

Denel's losses decreased from R1.4 billion in 2005/06 to R729 million in 2008/09, at an average annual rate of 18.8 per cent. Revenue increased from R3 billion in 2005/06 to R3.7 billion in 2008/09 at an average annual rate of 7.2 per cent and is expected to increase to R4.5 billion in 2011/12.

Denel only supplied detailed expenditure information based on audited outcomes.

Programme 5: Transport Enterprises

- *Management.*
- *Transport Sector* oversees Transnet.
- *Aviation Sector* oversees South African Airways and South African Express Airways.

Funding in these subprogrammes is disbursed on the basis of annual business plans and service level agreements between the department and the state owned enterprises.

Objectives and measures

- Ensure that the corporate strategies of the state owned enterprises are aligned with government's strategic intent by reviewing these strategies when necessary, and evaluating business plans annually.
- Ensure that corporate strategies and shareholder compacts are implemented as intended by benchmarking and monitoring the financial, operational and infrastructure trends and targets at least quarterly, and by assessing shareholder and enterprise risks.
- Strengthen private sector participation in ports and rail over the medium term through:
  - introducing a private operator for the Ngqura container terminal
  - ensuring access to rail branch lines by private operators.
- Develop a long term strategy for improving the efficiency and performance of investments by state owned enterprises in the transport enterprises by:
  - monitoring progress of the South African Airways restructuring and turnaround strategy by assessing profit margins against targets
  - applying the national corridor performance measurement tools and indicators.

Service delivery and spending focus

The Department of Public Enterprises oversees Transnet's capital expansion programme and its transformation into a focused freight transport company and the effective operation of its business units: Freight Rail, Rail

Engineering, Pipelines, Port Terminals and the National Ports Authority. In 2008/09, the department approved Transnet's branch line strategy, which includes establishing an entity that will own and manage branch lines. There is agreement on the process for private sector participation in the secondary network and the operating framework for the branch line entity.

Transnet's capital expenditure programme is monitored through the new dashboard for the expansion of capacity and monitoring of operational efficiencies. The national corridor performance measurement requires that an IT system, agreed indicators, and population and monitoring of system data and business intelligence outputs are in place to monitor the performance of national freight corridors.

The department is also monitoring the transformation of South African Airways into a commercially successful national carrier that will contribute to the development of trade and tourism domestically and in the rest of Africa. As part of the process, the department is overseeing the commercialisation of identified business units in South African Airways in preparation of their disposal, or the introduction of equity partners. Monthly monitoring meetings are held between South African Airways, the Department of Public Enterprises and National Treasury on the restructuring and turnaround strategy to compare achievements against planned targets.

It further oversees the establishment of South African Express Airways as a regional carrier with a focus on the African market.

The department drafted and formulated the African aviation strategy to define the role of South African Airways and South African Express Airways in the domestic and regional markets.

Expenditure estimates

Table 30.11 Transport Enterprises

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Management	–	–	0.8	1.1	1.7	1.8	1.9
Transport Sector	1.3	2.3	4.5	11.4	11.1	10.2	8.3
Aviation Sector	–	1.2	746.9	591.9	1 553.3	4.3	4.5
Total	**1.3**	**3.5**	**752.1**	**604.4**	**1 566.0**	**16.2**	**14.7**
Change to 2008 Budget estimate				(1.3)	1 546.8	(3.8)	(1.0)
Economic classification							
Current payments	**1.3**	**3.5**	**7.7**	**19.4**	**16.9**	**16.2**	**14.7**
Compensation of employees	0.7	2.2	3.1	5.2	7.7	8.1	8.5
Goods and services	0.6	1.3	4.6	14.2	9.3	8.2	6.2
of which:							
Consultants and professional services: Business and advisory services	–	*0.8*	*3.6*	*13.2*	*7.4*	*6.3*	*4.2*
Travel and subsistence	*0.2*	*0.3*	*0.4*	*0.5*	*1.5*	*1.6*	*1.7*
Transfers and subsidies	**–**	**0.0**	**744.4**	**585.0**	**1 549.1**	**–**	**–**
Provinces and municipalities	–	0.0	–	–	–	–	–
Public corporations and private enterprises	–	–	744.4	585.0	1 549.1	–	–
Payments for capital assets	**–**	**–**	**0.0**	**–**	**–**	**–**	**–**
Machinery and equipment	–	–	0.0	–	–	–	–
Total	**1.3**	**3.5**	**752.1**	**604.4**	**1 566.0**	**16.2**	**14.7**
Details of selected transfers and subsidies							
Public corporations and private enterprises							
Public corporations							
Other transfers							
Current	**–**	**–**	**744.4**	**140.0**	**1 549.1**	**–**	**–**
South African Airways	–	–	744.4	–	1 549.1	–	–
South African Express	–	–	–	140.0	–	–	–
Capital	**–**	**–**	**–**	**445.0**	**–**	**–**	**–**
South African Express	–	–	–	445.0	–	–	–

Expenditure trends

Expenditure in this programme increased substantially in 2007/08, as R744.4 million was allocated to South African Airways for its restructuring and turnaround programme. The budget decreases in 2008/09, but remains fairly high at R604.4 million mainly due to the transfer payments of R140 million to Transnet to purchase South African Express Airways, and R445 million to South African Express Airways as a recapitalisation allocation.

In 2009/10 expenditure increases significantly due the allocation of R1.5 billion for the conversion of a guaranteed loan into equity to reduce South African Airways' debt. Thereafter, expenditure decreases to R14.7 million in 2011/12 at an average annual rate of 90.3 per cent, as a result of no further transfers being made to entities.

Public entity

South African Airways

Strategic overview: 2005/06 - 2011/12

South African Airways is government's full service network airline, operating international, regional and domestic scheduled services from the OR Tambo International Airport. Its main business units include passenger and mail air services, cargo, maintenance, Voyager, Air Chefs and Galileo.

In 2007, an independent review established that, due to sustained losses over a number of years, South African Airways would need to achieve approximately R2.7 billion in annual, recurring improvements to its operating performance to achieve a profit margin of at least 7.5 per cent, comparable with its global peers. In May 2007, South African Airways began a restructuring exercise to counter its deteriorating financial position. It was envisaged that the restructuring exercise would be completed within 18 months. The turnaround plan has been successful in reducing costs, and at the end of 2007/08 operational performance improvements resulted in a profit of R123 million before restructuring costs. By mid-2008/09, the target had been exceeded by 36 per cent. However, South African Airways did not achieve its profit margin target due to the world wide economic downturn in the first quarter of 2008, which affected traffic volumes, fuel pricing and hedging, and exchange rates.

In 2008/09, a guarantee was issued for South African Airways to raise subordinated loans amounting to R1.5 billion. This guarantee was provided to fund the costs of B747-800 aircraft groundings, but proved insufficient to resolve the financial implications of the airbus contract and the increased liabilities relating to the international financial reporting interpretation committee's 13 customer loyalty programmes. South African Airways' financial position was thus not sufficiently strengthened to be in line with industry norms.

Over the MTEF period, South African Airways will continue its restructuring initiatives to ensure sustainable cost reductions and operational performance improvements. It also aims to complete the process of commercialising certain business units, disposing of non-core businesses, and introducing equity partners in divisions that require capital injections.

Selected performance and operations indicators

Table 30.12 South African Airways

Indicator	Past			Current	Projections[1]		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Earnings before interest and tax margin	18%	(3.1%)	(4.3%)	–	–	–	–
Net profit margin	0.7%	(4.3%	(4.8%)	–	–	–	–
Return on equity	5.5%	56.2%	(43.5%)	–	–	–	–
Daily bock hours per aircraft	–	–	10.6	–	–	–	–
Passenger load factor	69.5%	75.4%	75.3%	–	–	–	–
Cargo revenue to passenger revenue on international routes	16.3%	15.8%	14.0%	–	–	–	–
Average passenger fare	R1 746	R1 859	R2 062	–	–	–	–

1. Projected forecasts under review

Service delivery and spending focus

South African Airways has met cost reduction targets and made operational improvements. It also identified initiatives that were not outlined in the initial restructuring plan, resulting in a 36 per cent above target performance by the middle of 2008/09. The recent reduction in fuel prices is beneficial to South African Airways, but the global economic slowdown and increase in foreign exchange rates will have a negative impact going forward. The lower and more sustainable cost level will, however, enable South African Airways to take advantage of improvements in the economy when these arise. The profit target is being reviewed in relation to other network airlines in the industry, and will be included in the February 2009 corporate plan.

In September 2008, South African Airways completed the valuation of South African Airways Technical and will proceed with the process of conducting a due diligence exercise before an equity partner is identified. The sale of Air Chefs is about to be concluded. Different scenarios are being considered for disposing of the cargo unit and the process of commercialising Voyager has started. All these interventions are linked to the restructuring process.

Expenditure trends

South African Airways' restructuring plan has proved to be successful and resulted in exceeding the profit target by 36 per cent by the middle of 2008/09. However, high fuel prices during the first part of 2008/09, the recent global economic slowdown and foreign currency exchange fluctuations indicate that the overall profit target will not be achieved. As a result of the volatile economic situation experienced during 2008/09, the budgeted figures reflected in the corporate plans are no longer relevant. The forecasts for the coming period are under review.

Programme 6: Joint Project Facility

- *Management*.
- *Joint Project Facility* provides project management support for a number of projects that aim to identify and unlock synergies among the state owned enterprises, and coordinates cross-cutting projects that leverage the assets, activities and capabilities of state owned enterprises to the benefit of the enterprise and the economy as a whole. Funding is largely used for compensation of employees, and related expenditure in goods and services.

Current joint project facility projects include:

The **competitive supplier development programme** leverages the state owned enterprises' build programmes to attract local manufacturing and supplier industries to support state owned enterprises' infrastructure build and maintenance plans, aimed at increasing localisation, investment, job creation and export competitiveness. Transnet and Eskom's supplier development plans have been approved. An independent service provider has been contracted to do supplier benchmarking, and training of state owned enterprises procurement officers is taking place.

- The **human resources and capacity building programme** focuses on ensuring that there are sufficient skills in South Africa to meet the requirements of the state owned enterprises' infrastructure build programmes by identifying long term skills requirements and exploring ways to maximise training infrastructure within state owned enterprises to develop the necessary skilled artisans and technicians. The department has established the Employment Skills Development Agency which will be responsible for coordinating state owned enterprises' artisan placements.
- The **advanced learning programme** focuses on developing a learning modular for state owned enterprises and the public sector. A higher learning institution has been identified to take responsibility for this programme. The modules and copyright agreement will be finalised in 2009

The **solar water heater skills development project** will develop electrician and plumber skills in support of solar water heater maintenance and installation to offset the need for coal fired power station construction.

The **Africa project** has two components. The first aims to contribute to the development of key economic infrastructure (electricity and rail) projects across Africa, especially in SADC. The second focuses on joint supplier development initiatives in targeted African countries to facilitate participation in state owned enterprises' build and maintenance programmes and leverage access to the global value chains of multinational original equipment manufacturers.

The **SA power project** aims to leverage Eskom's build programme to enhance South Africa's manufacturing, technology and skills base by developing a detailed industrial strategy. The strategy and implementation plan was submitted to Cabinet for approval.

The **aerostructures project** explores options to develop an aerospace industry to grow South Africa's technological and skills base in this sector.

The **property project** focuses on optimising property asset value for state owned enterprises and enhancing the developmental impacts of non-core properties. The project updated a property disposal policy framework and a set of BEE guidelines to inform the disposals. Key transactions in support of housing, education and other public services have been concluded. Certain property holdings earmarked for development have been confirmed with state owned enterprises and discussions with cities and key stakeholders are ongoing.

The **environmental issues project** develops proposals to ensure that government policy balances environmental conservation requirements with the need to build infrastructure to grow the economy and become globally competitive. The project has entrenched strategically important developments into the environmental impact assessment process, with a view to streamline processes. The department is developing a policy position paper on climate change in consultation with state owned enterprises to inform the conference on climate change to be hosted by the Department of Environmental Affairs and Tourism in 2008/09.

The **ICT project** initiated the establishment of Broadband Infraco and has provided strategic support to negotiations on the marine cable. The Department of Public Enterprises' call centre project has been ceased in favour of a single call centre development strategy being pursued by the Department of Trade and Industry.

Technology and innovation in state owned enterprises aims to provide a framework for technology management in state owned enterprises. To this end, a pilot study in the aerostructure industry has been initiated.

The **nuclear communication strategy** is a new project aimed at developing a nuclear communication strategy. A draft communication strategy has been prepared for discussion with key stakeholders.

The **autumn school** is an annual event to provide the parliamentary portfolio committee on public enterprises with an opportunity to enter into dialogue with the department and industry experts around key issues facing government and state owned enterprises. A successful autumn school was held in May 2008. An integrated curriculum was presented, comprising modules that reflect the strategic priorities identified by both the department and the portfolio committee.

Expenditure estimates

Table 30.13 Joint Project Facility

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Management	–	–	2.5	0.7	0.9	0.9	1.0
Joint Project Facility	–	11.4	13.0	31.4	32.8	30.4	32.0
Total	**–**	**11.4**	**15.5**	**32.1**	**33.7**	**31.3**	**33.0**
Change to 2008 Budget estimate				3.3	(0.8)	4.3	(0.8)
Economic classification							
Current payments	**–**	**11.4**	**15.5**	**32.1**	**33.7**	**31.3**	**33.0**
Compensation of employees	–	2.4	3.5	6.4	8.9	9.6	10.2
Goods and services	–	9.0	12.1	25.7	24.7	21.7	22.8
of which:							
Consultants and professional services: Business and advisory services	*–*	*9.0*	*8.9*	*22.9*	*22.0*	*18.9*	*19.8*
Travel and subsistence	*–*	*–*	*2.5*	*2.0*	*2.4*	*2.6*	*2.7*
Venues and facilities	*–*	*–*	*0.1*	*0.5*	*0.1*	*0.1*	*0.1*
Transfers and subsidies	**–**	**0.0**	**–**	**–**	**–**	**–**	**–**
Provinces and municipalities	–	0.0	–	–	–	–	–
Total	**–**	**11.4**	**15.5**	**32.1**	**33.7**	**31.3**	**33.0**

Expenditure trends

Expenditure reflects contributions for projects managed by the joint project facility, which was established in 2005/06 and funded by the state owned enterprises in that year (not included in expenditure table). In 2006/07, the unit was included as a subprogramme under the *Manufacturing Enterprises* programme, but through the realignment of the functions within the department, a new programme was created in 2007/08 and historical expenditure was adjusted accordingly.

Expenditure increases from R32.1 million in 2008/09 and is projected to reach R33 million in 2011/12, at an average annual increase of .9 percent over the MTEF period. This is mainly due to capacity and outsourcing of technical and specialist expertise stabilising over the medium term.

Public entity

The South African Forestry Company

Strategic overview: 2005/06 – 2011/12

The South African Forestry Company manages and develops state commercial forests. The company's activities include forestry management and timber harvesting and processing, both domestically and in neighbouring countries. The company's main subsidiary is Komatiland Forests, operating in Mpumalanga, Limpopo and KwaZulu-Natal. Softwood saw timber is sold in South Africa, and soft and hardwood saw timber and pulp wood in Mozambique. Komatiland Forests has an 80 per cent shareholding in the Mozambican forestry company, Ifloma, while the remaining 20 per cent is held by the Mozambican government.

Cabinet's decision on the role of the South African Forestry Company and the privatisation of Komatiland Forests was finalised in March 2007. Transaction guidelines were prepared to assist the board with the decision on winding down the activities of Komatiland Forests by March 2009. The decision was revisited after the department realised that approximately 60 per cent of the land on which Komatiland Forests operates is subject to land claims, and that the land claims settlement process will have a bearing on the disposal of the asset by the target date of March 2009.

Due to the land claim status, the Minister of Public Enterprises extended the disposal of the South African Forestry Company by five years to 2011/12, to allow for the resolution of the land claims. The company was subsequently mandated to develop a five-year business and corporate plan in order to maintain, and where possible, enhance the value of the business. The remaining shares held by the South African Forestry Company in other companies, such as Singisi, Siyaqhubeka, Amathole and MTO, are also under review. A process has been initiated with the Department of Land Affairs and the Department of Water Affairs and Forestry to resolve the land claims.

Selected performance and operations indicators

Table 30.14 The South African Forestry Company

Indicator	Past			Current	Projections		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	20011/12
Plantation area managed (hectares)	154 228	141 178	141 047				
Net profit /(loss) margin %	66.9	161.1	210.0				
Return on equity (ROE) %	19.3	53.9	17.0				
Logs sold ('000 m³)	1 135	1 615	1 648				
Current ratio (times)	2.6	4.2	4.0				

Service delivery and spending focus

The transformation committee was established in 2007/08, and was tasked with tracking the alignment of the South African Forestry Company's policies and procedures with government's objectives for social and economic transformation. The committee will drive the company's transformation agenda, maximise community participation and ensure greater empowerment in the forestry sector. One of the milestones reached was the signing of a memorandum of understanding with the Development Bank of Southern Africa to jointly promote the development of sustainable forest communities and industries. A memorandum of understanding was also signed with Agri SA to develop a honey industry in one of Komatiland Forests' plantations.

A structure within the operations of the South African Forestry Company is being considered and will be adapted to the requirements of the transformation agenda, as driven by the board. The finance and investment committee and the remuneration committee have also made major strides in aligning the company with the overall objectives of change. Signalling a new ethos in the group, the South African Forestry Company aims to reposition itself as a public entity that will endeavour to contribute to job creation in rural communities adjacent to its plantations, employment equity in the workplace and expanding its procurement spend to black business, among others.

Expenditure estimates

Table 30.15 The South African Forestry Company Limited: Financial information

R million	Audited outcome			Revised estimate	Medium-term estimate		
Statement of financial performance	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**
Revenue							
Non-tax revenue	**580.5**	**1 643.1**	**1 451.9**				
Sale of goods and services other than capital assets *of which:*	359.9	685.1	845.0				
Sales by market establishments	359.9	685.1	845.0				
Other non-tax revenue	220.6	958.0	606.9				
Total revenue	**580.5**	**1 643.1**	**1 451.9**				
Expenses							
Current expense	**339.7**	**539.2**	**583.1**				
Compensation of employees	109.8	160.4	137.0				
Goods and services	209.8	352.1	413.1				
Depreciation	17.8	24.7	30.6				
Interest, dividends and rent on land	2.4	2.0	2.4				
Total expenses	**411.8**	**842.5**	**813.3**				
Surplus / (Deficit)	**168.7**	**800.6**	**638.5**				
Statement of financial position							
Carrying value of assets	1 224.6	2 093.1	2 671.2				
of which: Acquisition of assets	11.3	44.5	78.1				
Investments	170.3	182.3	183.4				
Inventory	16.8	24.5	126.6				
Loans	–	–	11.9				
Receivables and prepayments	85.9	131.4	151.2				
Cash and cash equivalents	175.1	333.6	433.0				
Assets not classified elsewhere	2.5	4.5	1.8				
Total assets	**1 675.3**	**2 769.4**	**3 579.1**				
Accumulated surplus/deficit	1 249.6	2 047.4	2 695.0				
Borrowings	11.7	25.8	17.1				
Trade and other payables	53.1	89.3	158.8				
Provisions	53.8	31.9	19.0				
Liabilities not classified elsewhere	307.1	575.1	689.2				
Total equity and liabilities	**1 675.3**	**2 769.4**	**3 579.1**				

Expenditure trends

The South African Forestry Company posted a net profit of R639 million during 2007/08, a decline from the 2006/07 net profit of R801 million. This was due to the lower plantation valuation adjustment as a result of the fires during that year. The company's profitability is largely due to plantation valuation adjustment done annually. The South African Forestry Company has a strong solvency position and is highly liquid, with capital and reserves of R2.7 billion and a cash balance of R433 million in 2007/08.

The South African Forestry Company only supplied detailed expenditure information based on audited outcomes.

Medium term forecasts are to be adjusted, as they do not take into account the September 2008 or capital expenditure and developmental projects. These still need to be assessed by the department.

Additional tables

Table 30.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 million	2007/08		2007/08	2008/09			2008/09
1. Administration	59.3	62.7	66.3	66.0	7.1	73.1	73.1
2. Energy and Broadband Enterprises	11.7	82.8	2 514.3	2 137.6	0.4	2 138.0	2 138.0
3. Legal, Governance, Risk and Transactions	24.7	22.0	95.8	158.2	(5.7)	152.4	152.4
4. Manufacturing Enterprises	943.5	3 669.2	1 159.9	11.6	257.8	269.4	267.6
5. Transport Enterprises	10.1	754.0	752.1	605.7	(1.3)	604.4	604.4
6. Joint Project Facility	14.7	14.4	15.5	28.8	3.3	32.1	32.1
Total	**1 064.0**	**4 605.1**	**4 604.0**	**3 007.9**	**261.5**	**3 269.4**	**3 267.5**
Economic classification							
Current payments	**129.4**	**128.6**	**126.6**	**164.8**	**1.5**	**166.3**	**166.3**
Compensation of employees	62.0	61.7	56.0	71.5	(3.5)	68.0	68.0
Goods and services	67.4	66.9	70.5	93.3	5.0	98.3	98.3
Financial transactions in assets and liabilities	–	–	0.0	–	–	–	–
Transfers and subsidies	**933.6**	**4 475.0**	**4 473.9**	**2 842.7**	**259.5**	**3 102.2**	**3 100.3**
Public corporations and private enterprises	933.0	4 474.4	4 473.3	2 842.0	259.5	3 101.5	3 099.6
Households	0.6	0.6	0.6	0.7	–	0.7	0.7
Payments for capital assets	**0.9**	**1.5**	**3.5**	**0.4**	**0.5**	**0.9**	**0.9**
Machinery and equipment	0.9	1.5	2.4	0.4	0.5	0.9	0.9
Software and intangible assets	–	–	1.1	–	–	–	–
Total	**1 064.0**	**4 605.1**	**4 604.0**	**3 007.9**	**261.5**	**3 269.4**	**3 267.5**

Table 30.B Summary of personnel numbers and compensation of employees

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Permanent and full time contract employees							
Compensation (R million)	42.1	46.6	55.3	67.0	78.4	85.3	90.4
Unit cost (R million)	0.3	0.3	0.3	0.4	0.5	0.5	0.6
Personnel numbers (head count)	153	161	161	164	164	164	164
Interns							
Compensation of interns (R million)	0.3	0.6	0.7	0.9	1.1	–	–
Unit cost (R million)	0.0	0.0	0.0	0.0	0.0	–	–
Number of interns	41	18	20	22	22	–	–
Total for department							
Compensation (R million)	42.4	47.2	56.0	68.0	79.5	85.3	90.4
Unit cost (R million)	0.2	0.3	0.3	0.4	0.4	0.5	0.6
Personnel numbers (head count)	194	179	181	186	186	164	164

Table 30.C Summary of expenditure on training

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Compensation of employees (R million)	42.4	47.2	56.0	68.0	79.5	85.3	90.4
Training expenditure (R million)	0.6	0.8	1.6	1.6	2.0	2.1	2.2
Training as percentage of compensation	1.4%	1.6%	2.9%	2.4%	2.5%	2.5%	2.5%
Total number trained in department (head count)	125	139	165	173			
of which:							
Employees receiving bursaries (head count)	*59*	*34*	*34*	*36*			
Internships trained (head count)	*41*	*18*	*20*	*22*			
Households receiving bursaries (head count)	–	–	–	4			

Table 30.D Summary of donor funding

Donor	Project	Departmental programme name	Amount committed	Main economic classification	Spending focus	Audited outcome			Estimate	Medium-term expenditure estimate		
R thousand						2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Foreign **In kind**												
United Kingdom – Department for International Development	Support to Department of Public Enterprises, capacity building and technical skills transfer	Energy and broadband enterprises	–	Goods and services	Increased levels of technical skills and ability to perform oversight function	8 172	14 328	12 945	–	–	–	–
	Support on electricity, capacity building and technical skills transfer to energy sector	Energy and broadband enterprises	–	Goods and services	Increased levels of technical skills and ability to perform oversight function	–	–	1 775	–	–	–	–
	Support on non-core business (including forestry), capacity building and technical skills transfer to forestry sector	Manufacturing enterprises	–	Goods and services	Increased levels of technical skills and ability to perform oversight function	–	–	1 577	–	–	–	–
	Support on ports, capacity building and technical skills transfer to transport sector	Transport enterprises	–	Goods and services	Increased levels of technical skills and ability to perform oversight function	–	–	655	–	–	–	–
Total			**–**			**8 172**	**14 328**	**16 952**	**–**	**–**	**–**	**–**