

VOTE 11 *Public Enterprises*



National Treasury

BUDGET 2012

ESTIMATES OF NATIONAL EXPENDITURE



national treasury

Department:
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REPUBLIC OF SOUTH AFRICA

Estimates of National Expenditure 2012

National Treasury

Republic of South Africa

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The Estimates of National Expenditure 2012 e-publications are compiled with the latest available information from departmental and other sources. Some of this information is unaudited or subject to revision.

The Estimates of National Expenditure e-publications for individual votes are available on www.treasury.gov.za.

Compared to the abridged version of the Estimates of National Expenditure, these publications contain more comprehensive coverage of goods and services, transfers and subsidies, and public entities. Additional tables are included containing information on the main and adjusted appropriation, with revised spending estimates for the current financial year, on skills training, conditional grants to provinces and municipalities, public private partnerships and information on donor funding. Expenditure information at the level of service delivery is also included, where appropriate.

Foreword

The current global economic context is characterised by high levels of uncertainty. Against this backdrop, South Africa's development depends largely on government improving its level and quality of service delivery in support of the inclusive and equitable economic roadmap, as contained in the new growth path. The 2012 Budget is an important tool of government for giving effect to these objectives, and this Budget allocates resources to specific interventions that will be actioned over the period of the medium term expenditure framework (MTEF). Growth in spending focuses particularly on infrastructure development, job creation, enterprise support and the enhancement of local government delivery.

South Africa's fiscal stance and public spending programmes are focused on long term structural transformation. Over the next three years of the MTEF period, government priorities will continue to be realised within a sustainable fiscal trajectory, which balances current needs with intergenerational equity. In line with this, spending baselines have undergone rigorous review, areas of inefficiency and lower priority have been identified, and funds have been redirected towards government's key priorities, both new and existing. This has been done in recognition of the relationship between the composition of spending and fiscal sustainability over the long term. Here, the balance between consumption and investment is extremely important. Even the distribution of consumption spending between wages, goods and services and transfers is significant, as is the balance between the functional categories expenditure (such as education, health and economic services). Underspensing on key priorities undermines the aims of the spending proposed within MTEF Budgets.

Since introducing the functional approach to budget decision-making in 2009, transparency and coordination in budgeting has been enhanced, largely due to the participation by the stakeholders responsible for delivery across all spheres of government. South African budget reforms, especially the intensified focus on budget trade-offs and the composition of expenditure, will lead to greater accountability and improved control.

It is not enough to demonstrate a change in the composition of budgeted expenditure; nor is it enough to pinpoint the specific actions required and proposed within the Budget. Success will only be achieved when we can demonstrate that a shift in the composition of actual expenditure has taken place, together with the achievement of improved delivery targets.

This year, the layout of this publication has been altered substantially. The focus is on linking more closely expenditure planned with targeted performance. Specific focus is on the outcomes to which institutions contribute and the output and other performance measures supporting them. The sections covering employee numbers, personnel budgets and the purpose and key activities of each subprogramme within a vote are now more prominent, giving expression to the budget and service delivery. This publication still indicates details per vote of the allocation of new monies, monies reprioritised between or within budget programmes, and Cabinet approved budget reductions over the period ahead. Compared to the abridged version of the Estimates of National Expenditure, the e-publications for each vote contain more comprehensive coverage of goods and services, transfers and subsidies, and public entities. Additional tables are included, containing information on: the main and adjusted appropriation, with revised spending estimates for the current financial year; skills training; conditional grants to provinces and municipalities; public private partnerships; and donor funding. Expenditure information at the level of service delivery is also included, where appropriate.

The expenditure estimates of departments are the outcome of a rigorous administrative and executive process. Treasury budget analysts, under the guidance of the Ministers' Committee on the Budget, follow a wide-ranging intergovernmental consultative process, working closely with the policy and budget teams of departments and entities to ensure that government priorities are appropriately funded within the available resource envelope. The Treasury is grateful for the contribution of these teams. Appreciation is also due to the people in the Treasury team, who worked with great diligence to produce a high quality document that provides a comprehensive account of government's spending and performance plans.



Lungisa Fuzile
Director General: National Treasury

Introduction

The Estimates of National Expenditure publications

The Estimates of National Expenditure publications are important accountability documents, which set out the details in relation to planned expenditure and planned performance at the time of the tabling of the Budget. Estimates of National Expenditure publications continue to make a significant contribution to the changes relating to budgeting by programme. As part of these ongoing efforts, several changes have been made to the 2012 Estimates of National Expenditure publications. Departments still provide information on the key objectives of each subprogramme within a programme, and note the activities carried out, the number of personnel responsible for undertaking these activities and the funding allocations supporting this. This year in the 2012 publications, information on expenditure and performance is more closely linked under the 'expenditure trends' section, with a brief discussion on the impact of budget allocations on the achievement of outputs over the seven-year period. In addition, an explanation of the personnel trends, per programme by salary level, over the seven years in relation to compensation of employees has also been included. Finally, information on Cabinet approved cost reduction measures and other budget reprioritisation has been included per programme.

The 2012 abridged Estimates of National Expenditure publication, and the separate Estimates of National Expenditure e-publications for each vote are the product of an extensive consultative review process of budgets and policy, and policy implementation by programme, and include the latest improvements in non-financial performance information. These publications provide the details of the spending estimates for the next three financial years (2012/13 to 2014/15), expenditure outcomes for the past three years (2008/09 to 2010/11) and revised estimates for the current financial year (2011/12). Information is provided on performance targets over the seven year period as well as changes in these, as they relate to trends in planned expenditure.

The e-publications for individual votes contain more comprehensive coverage of goods and services, transfers and subsidies, and public entities. Additional tables are included containing information on: the main and adjusted appropriation, with revised spending estimates for the current financial year; skills training; conditional grants to provinces and municipalities; public private partnerships; and donor funding. Expenditure information at the level of service delivery is also included, where appropriate.

A consolidated account, summarising the Estimates of National Expenditure publication information across votes, is provided in the form of a narrative and summary tables in the Introduction chapter, which is included in the front pages of the abridged version of the Estimates of National Expenditure. A write-up containing the explanation of the information that is contained in each section of the publications has also been included in the abridged version of the Estimates of National Expenditure. Like the separate Estimates of National Expenditure e-publications for each vote, the abridged Estimates of National Expenditure publication is also available on www.treasury.gov.za.

Public Enterprises

**National Treasury
Republic of South Africa**



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Vote 11

Public Enterprises

Budget summary

R thousand	2012/13					2013/14	2014/15
	Total to be appropriated	Current payments	Transfers and subsidies	Payments for capital assets	Payments for financial assets	Total	Total
MTEF allocation							
Administration	104 394	102 833	100	1 461	–	110 567	116 441
Legal and Governance	26 937	26 937	–	–	–	30 968	32 948
Portfolio Management and Strategic Partnerships	1 117 741	67 741	–	–	1 050 000	69 210	73 763
Total expenditure estimates	1 249 072	197 511	100	1 461	1 050 000	210 745	223 152
Executive authority	Minister of Public Enterprises						
Accounting officer	Director General of Public Enterprises						
Website address	www.dpe.gov.za						

Aim

Drive investment, productivity and transformation in the department's portfolio of state owned companies, their customers and suppliers so as to unlock growth, drive industrialisation, create jobs and develop skills.

Programme purposes

Programme 1: Administration

Purpose: Provide strategic management, direction and administrative support to the department which enables the department to meet its strategic objectives.

Programme 2: Legal and Governance

Purpose: Provide legal services and corporate governance systems, and facilitate the implementation of all legal aspects of transactions that are strategically important to the department, and the state owned companies, and ensure alignment with government's strategic intent by, among others, monitoring the state owned companies' indicators.

Programme 3: Portfolio Management and Strategic Partnerships

Purpose: Align the corporate strategies of state owned companies with government's strategic intent, and monitor and benchmark their financial and operational performance and capital investment plans. Align shareholder oversight with overarching government economic, social and environmental policies, and build focused strategic partnerships between state owned companies, strategic customers, suppliers and financial institutions.

Strategic overview: 2008/09 – 2014/15

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

Revised vision statement and strategic plan for 2011 to 2014/15

The presidential review committee on state owned companies was established by the president in May 2010 to review the role of the companies. The committee will announce its findings in 2012 and the department will take these into account in its oversight function.

The department has revised its vision statement to reflect the impact of state owned companies' investment and operational activities on economic growth and development. The new vision is to drive investment, productivity and transformation in the portfolio of state owned companies, and in their customers and suppliers, to unlock growth, drive industrialisation, create jobs and develop skills.

To implement this vision, five key changes are required to the shareholder oversight process. State owned companies need to change their investment planning framework from one that was based on what their balance sheet can afford to one that is based on ascertaining what investments are required to unlock growth in their customers and create a stable demand platform for their suppliers. State owned companies also need to identify new sources of funding for the expanded investment plans to be mobilised. New sources of funding include country's development finance institutions, pension funds and the large customers of state owned companies. State owned companies need to procure from their suppliers in a way that promotes investment in national industrial capabilities by providing medium term demand information and entering into longer term relationships with key suppliers. The department needs to provide the minister with relevant support for bi-monthly meetings with the top management of state owned companies to monitor progress in the implementation of key efficiency enhancing initiatives. Coordination between the department, the state owned companies and all levels of government needs to be improved to ensure that their capabilities are fully leveraged and that implementation is accelerated and the impact of the programmes optimised.

Expanded role for state owned companies

These changes require that the department build new capabilities, expand the responsibilities of existing units and restructure the organogram to provide for these skills. It is anticipated that among the changes envisaged by the restructured organogram, departmental teams interacting with state owned companies will be required to develop a comprehensive understanding of how the companies' investment and operational plans impact on the growth of customers and suppliers to ensure that their planning cycles incorporate government's growth objectives.

The new *Strategic Partnerships* subprogramme will identify strategic initiatives where external funds can be mobilised for projects and associated governance arrangements. The unit will also need to identify and oversee fleet procurements to enable the development of industrial capabilities in state owned companies' suppliers. The department will need to keep track of the overarching national policy objectives and ensure that state owned companies develop the appropriate capabilities to deliver on these objectives.

The joint project facility unit, which previously provided programme management support, will become the *Economic Impact and Policy Alignment* subprogramme. Its function will be to build the capacity to monitor national economic policies to determine areas in which a state owned company can make strategic contributions. The unit will also manage the reporting processes of the state owned companies to their stakeholders. The department will need to keep track of the overarching national policy objectives, and ensure that state owned enterprises develop appropriate capabilities to deliver on these objectives so that they became effective instruments of the developmental state.

Given the limited resources available to build these additional capabilities, the department will have to implement this expanded scope in a phased manner and, where possible, raise funds for ringfenced projects from specialised facilities such as the employment creation fund and other donor funds.

Recapitalisation of state owned companies

Additional funding of R1.1 billion in 2012/13 has been allocated to Denel and Alexkor. R350 million is earmarked for transfer to Alexkor to settle any outstanding unfunded obligations under the Alexkor/Richtersveld community deed of settlement, including the tax obligation of R69.9 million. R700 million has been allocated to Denel for the recapitalisation of Denel Aerostructures.

Selected performance indicators

Table 11.1 Public Enterprises

Indicator	Programme	Past			Current	Projections		
		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Number of new shareholder compacts signed per year	Portfolio Management and Strategic Partnerships	3	9	8	8	8	8	8
Number of new corporate plans reviewed per year	Portfolio Management and Strategic Partnerships	5	9	8	8	8	8	8
Number of quarterly financial reviews per year	Portfolio Management and Strategic Partnerships	15	36	32	32	32	32	32
Number of departmental projects provided with technical and financial support per year ¹	Portfolio Management and Strategic Partnerships	11	8	5	6	-	-	-

1. This process will cease to exist from 2012/13 as the department's focus has changed.

Expenditure estimates

Table 11.2 Public Enterprises

Programme	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11	2011/12		2012/13	2013/14	2014/15
R thousand								
Administration	70 728	79 191	88 192	101 487	101 487	104 394	110 567	116 441
Legal and Governance	17 265	16 582	14 653	23 675	23 675	26 937	30 968	32 948
Portfolio Management and Strategic Partnerships	3 177 156	3 887 519	437 156	228 180	228 180	1 117 741	69 210	73 763
Total	3 265 149	3 983 292	540 001	353 342	353 342	1 249 072	210 745	223 152
Change to 2011 Budget estimate				123 111	123 111	1 049 421	333	116

Economic classification

	163 683	164 995	160 148	194 134	194 134	197 511	208 765	220 471
Current payments								
Compensation of employees	70 445	75 220	83 058	100 017	100 017	105 759	111 284	118 083
Goods and services	93 238	89 775	77 090	94 117	94 117	91 752	97 481	102 388
<i>of which:</i>								
Administrative fees	199	628	79	50	50	36	38	40
Advertising	1 061	455	3 482	1 078	1 078	1 067	1 137	1 205
Assets less than the capitalisation threshold	299	325	308	792	792	1 066	1 125	745
Audit cost: External	1 089	1 979	2 580	2 718	2 718	1 550	1 635	1 733
Bursaries: Employees	611	674	917	910	910	650	696	737
Catering: Departmental activities	1 319	1 195	1 144	2 073	2 073	1 718	1 821	1 928
Communication	2 992	2 770	2 431	3 053	3 053	2 982	3 152	3 341
Computer services	2 469	2 957	3 035	2 465	2 465	3 076	3 245	3 440
Consultants and professional services: Business and advisory services	48 195	40 806	26 809	36 486	36 486	26 516	26 383	27 613
Consultants and professional services: Legal costs	2 724	5 116	5 419	6 020	6 020	4 868	7 287	7 724
Contractors	1 238	1 510	1 780	2 136	2 136	2 094	2 213	2 347
Agency and support / outsourced services	3 996	3 683	2 857	2 746	2 746	4 334	4 574	4 850
Entertainment	197	185	26	161	161	305	324	340
Fleet services (including government motor transport)	-	-	349	623	623	788	831	881
Inventory: Food and food supplies	-	-	-	216	216	204	215	228
Inventory: Learner and teacher support material	-	-	-	60	60	-	-	-
Inventory: Materials and supplies	-	3	30	30	30	15	16	17
Inventory: Medical supplies	2	18	-	-	-	-	-	-
Inventory: Medicine	-	-	-	6	6	-	-	-
Inventory: Other consumables	183	58	49	27	27	105	111	117
Inventory: Stationery and printing	2 694	1 520	1 555	2 491	2 491	2 611	2 755	2 920

Table 11.2 Public Enterprises (continued)

R thousand	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11	2011/12		2012/13	2013/14	2014/15
Economic classification								
Lease payments	2 338	2 458	2 814	1 556	1 556	1 219	1 285	1 362
Property payments	5 808	5 919	5 435	7 119	7 119	7 687	8 110	8 598
Travel and subsistence	11 296	14 227	12 185	15 685	15 685	21 904	23 147	24 421
Training and development	1 704	1 524	1 645	2 060	2 060	2 314	2 472	2 621
Operating expenditure	1 195	1 034	1 161	1 431	1 431	2 102	2 222	2 333
Venues and facilities	1 629	731	1 000	2 125	2 125	2 541	2 687	2 847
Transfers and subsidies	2 278 290	2 059 384	237 990	157 008	157 008	100	100	100
Public corporations and private enterprises	2 277 640	2 058 706	237 296	156 255	156 255	-	-	-
Households	650	678	694	753	753	100	100	100
Payments for capital assets	878	1 274	3 169	2 200	2 200	1 461	1 880	2 581
Machinery and equipment	844	1 258	3 169	2 200	2 200	1 461	1 880	2 581
Software and other intangible assets	34	16	-	-	-	-	-	-
Payments for financial assets	822 298	1 757 639	138 694	-	-	1 050 000	-	-
Total	3 265 149	3 983 292	540 001	353 342	353 342	1 249 072	210 745	223 152

Expenditure trends

Expenditure decreased significantly from R3.3 billion in 2008/09 to R353.3 million in 2011/12, at an average annual rate of 52.3 per cent, due mainly to a reduction in transfer payments to state owned companies in 2010/11. Transfer payments and payments to state owned companies of R7.4 billion between 2008/09 and 2011/12 were made as follows:

- R257.6 million in 2008/09, R191.9 million in 2009/10, R181.3 million in 2010/11 and R116.3 million in 2011/12 to Denel for claims under an indemnity agreement, which Denel paid to Airbus as production penalties
- R130 million in 2008/09, R129 million in 2009/10 and R36 million in 2010/11 to Alexkor to establish a joint venture with the community under the out-of-court settlement and R95 million to assist Alexkor with the strategy
- R1.8 billion in 2008/09 and R1.7 billion 2009/10, including value added tax, to the Pebble Bed Modular Reactor as capital for the development of the demonstration fuel plants and operating costs of the company
- R1.6 billion in 2009/10 to recapitalise South African Airways
- R377 million in 2008/09, R209 million in 2009/10, and R138.6 million in 2010/11 to establish Broadband Infracore and for capital and operational costs
- R140 million in 2008/09 to Transnet for the purchase and transfer to government of South African Express Airways
- R405 million in 2008/09 to South African Express Airways to purchase aircraft and R40 million for working capital.

Expenditure on compensation of employees increased from R70.4 million in 2008/09 to R100 million in 2011/12, at an average annual rate of 12.4 per cent, to provide for improved conditions of service, while spending on goods and services in this period increased marginally from R93.2 million to R94.1 million, at an average annual rate of 0.3 per cent, as a result of cost saving measures.

Over the medium term, expenditure is expected to decrease to R223.2 million, at an average annual rate of 14.2 per cent, as a result of a further reduction in transfer payments to state owned companies. Spending on compensation of employees is expected to increase to R118.1 million over the medium term, at an average annual rate of 5.7 per cent, due to adjustments for improved conditions of service and an increase in the department's staff complement. As a result, spending on goods and services is also expected to increase to

R102.4 million over the medium term, at an average annual rate of 2.8 per cent, to provide support to the larger personnel establishment.

Spending on consultants decreased from R50.9 million in 2008/09 to R42.5 million in 2011/12, at an average annual rate of 5.8 per cent, and is expected to decrease further to R35.3 million over the medium term, at an average annual rate of 6 per cent, due to the increased capacity within the department. Consultants were used mainly for business and legal advisory, internal audit and IT services.

In addition to the above, payments for financial assets amounting to R1.1 billion in 2012/13 are allocated to Denel (R700 million) and Alexkor (R350 million).

Personnel information

Table 11.3 Details of approved establishment and personnel numbers according to salary level¹

	Personnel post status as at 30 September 2011			Number of personnel posts filled / planned for on funded establishment						
	Number of posts on approved establishment	Number of funded posts	Number of posts additional to the establishment	Actual			Mid-year ²	Medium-term estimate		
				2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Department	186	186	–	137	139	163	164	186	186	186
Salary level 1 – 6	16	16	–	11	11	15	15	15	15	15
Salary level 7 – 10	69	69	–	63	59	67	65	69	69	69
Salary level 11 – 12	33	33	–	23	25	24	29	30	30	30
Salary level 13 – 16	68	68	–	40	44	57	55	72	72	72
Administration	106	106	–	88	88	102	98	101	101	101
Salary level 1 – 6	16	16	–	11	11	15	15	15	15	15
Salary level 7 – 10	46	46	–	44	39	47	44	43	43	43
Salary level 11 – 12	20	20	–	17	18	15	19	17	17	17
Salary level 13 – 16	24	24	–	16	20	25	20	26	26	26
Legal and Governance	15	15	–	11	7	6	8	23	23	23
Salary level 1 – 6	–	–	–	–	–	–	–	–	–	–
Salary level 7 – 10	3	3	–	3	2	2	2	6	6	6
Salary level 11 – 12	3	3	–	1	1	1	–	3	3	3
Salary level 13 – 16	9	9	–	7	4	3	6	14	14	14
Portfolio Management and Strategic Partnerships	65	65	–	38	44	55	58	62	62	62
Salary level 1 – 6	–	–	–	–	–	–	–	–	–	–
Salary level 7 – 10	20	20	–	16	18	18	19	20	20	20
Salary level 11 – 12	10	10	–	5	6	8	10	10	10	10
Salary level 13 – 16	35	35	–	17	20	29	29	32	32	32

1. Data has been provided by the department and may not necessarily reconcile with official government personnel data.

2. As at 30 September 2011.

As at 30 September 2011, the department had an establishment of 186 funded posts. Filled posts increased from 137 in 2008/09 to 164 in 2011/12 and are expected to increase to 186 over the medium term. The increases in both periods are driven mainly by the establishment of the office of the deputy minister in 2009/10 and the strengthening of capacity in priority sectors.

There were 22 vacancies within the department, mainly in salary levels 13 to 15, as at 30 September 2011 due to the skills scarcity in the market and lower public sector salaries. A number of support function posts were also vacant in the *Administration* programme. The department plans to fill the vacancies by the end of 2012/13. The ratio of support staff to line function staff is 1.18:1.

Departmental receipts

Table 11.4 Receipts

R thousand	Audited outcome			Adjusted estimate 2011/12	Revised estimate	Medium-term receipts estimate		
	2008/09	2009/10	2010/11			2012/13	2013/14	2014/15
Departmental receipts	818	1 168	266	99	99	92	96	100
Sales of goods and services produced by department	37	36	44	36	36	46	48	50
Other sales	37	36	44	36	36	46	48	50
<i>of which:</i>								
Garage rent	26	27	31	28	28	34	35	36
Commission insurance	11	9	13	8	8	12	13	14
Sales of scrap, waste, arms and other used current goods	1	-	1	2	2	2	2	2
<i>of which:</i>								
Sales of scrap paper	1	-	1	2	2	2	2	2
Interest, dividends and rent on land	595	7	77	6	6	18	19	20
Interest	595	7	77	6	6	18	19	20
Sales of capital assets	-	19	5	1	1	-	-	-
Transactions in financial assets and liabilities	185	1 106	139	54	54	26	27	28
Extraordinary receipts	435 462	-	-	-	-	-	-	-
<i>of which:</i>								
Diabo Trust	435 462	-	-	-	-	-	-	-
Total	436 280	1 168	266	99	99	92	96	100

Revenue is mainly generated from commissions on insurance premiums from insurance company stop order arrangements and staff parking fees. In 2008/09, R435.5 million was received from the Diabo Share Trust, made up of funds that had not yet been disbursed to beneficiaries. In 2009/10, the Department of Public Works refunded the department R1.1 million for an overcharge for office accommodation. Over the medium term, revenue is expected to increase from R99 000 in 2011/12 to R100 000, at an average annual rate of 0.3 per cent.

Programme 1: Administration

Expenditure estimates

Table 11.5 Administration

Subprogramme	Audited outcome			Adjusted appropriation 2011/12	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11		2012/13	2013/14	2014/15
R thousand							
Ministry	11 614	19 803	25 766	25 961	27 109	29 805	32 143
Management	5 976	6 409	5 198	9 689	8 944	9 445	9 997
Corporate Services	19 408	20 165	21 443	23 561	22 152	22 467	22 604
Chief Financial Officer	7 293	8 049	9 557	10 284	9 067	9 558	10 102
Human Resources	9 024	7 699	9 877	10 497	11 520	12 253	12 967
Communications	9 325	8 151	7 929	11 077	11 628	12 284	13 000
Strategic Planning, Monitoring and Evaluation	-	-	-	-	1 944	2 054	2 169
Inter Governmental Relations	-	-	-	-	902	955	1 012
Internal Audit	2 627	2 996	3 009	3 662	3 775	3 988	4 223
Office Accommodation	5 461	5 919	5 413	6 756	7 353	7 758	8 224
Total	70 728	79 191	88 192	101 487	104 394	110 567	116 441
Change to 2011 Budget estimate				6 575	4 010	5 073	4 619

Table 11.5 Administration (continued)

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Economic classification							
Current payments	69 200	77 221	84 235	98 534	102 833	108 587	113 760
Compensation of employees	30 951	37 469	42 657	50 310	51 275	54 099	56 583
Goods and services	38 249	39 752	41 578	48 224	51 558	54 488	57 177
<i>of which:</i>							
Administrative fees	134	628	79	50	36	38	40
Advertising	1 061	446	3 482	1 070	1 067	1 137	1 205
Assets less than the capitalisation threshold	299	322	308	792	1 066	1 125	745
Audit cost: External	1 089	1 979	2 580	2 718	1 550	1 635	1 733
Bursaries: Employees	611	674	917	910	650	696	737
Catering: Departmental activities	1 107	1 016	981	1 806	1 441	1 529	1 619
Communication	2 573	2 335	2 054	2 218	2 097	2 213	2 346
Computer services	2 441	2 957	3 035	2 465	3 076	3 245	3 440
Consultants and professional services: Business and advisory services	4 137	2 327	1 847	3 923	4 046	4 287	4 552
Consultants and professional services: Legal costs	–	100	716	2 200	–	–	–
Contractors	1 235	1 510	1 779	2 136	2 066	2 184	2 316
Agency and support / outsourced services	3 519	3 681	2 281	2 726	4 334	4 574	4 850
Entertainment	163	170	20	93	207	219	232
Fleet services (including government motor transport)	–	–	349	623	788	831	881
Inventory: Food and food supplies	–	–	–	216	204	215	228
Inventory: Learner and teacher support material	–	–	–	60	–	–	–
Inventory: Materials and supplies	–	3	30	30	15	16	17
Inventory: Medical supplies	2	18	–	–	–	–	–
Inventory: Medicine	–	–	–	6	–	–	–
Inventory: Other consumables	183	58	49	27	105	111	117
Inventory: Stationery and printing	2 671	1 516	1 553	2 487	2 554	2 696	2 856
Lease payments	2 338	2 458	2 814	1 556	1 219	1 285	1 362
Property payments	5 808	5 919	5 435	7 119	7 687	8 110	8 598
Travel and subsistence	6 047	8 912	8 621	9 087	12 689	13 391	14 079
Training and development	1 157	1 391	1 259	1 891	2 084	2 227	2 361
Operating expenditure	1 117	951	1 031	1 201	1 528	1 615	1 689
Venues and facilities	557	381	358	814	1 049	1 109	1 174
Transfers and subsidies	650	678	694	753	100	100	100
Households	650	678	694	753	100	100	100
Payments for capital assets	878	1 263	3 169	2 200	1 461	1 880	2 581
Machinery and equipment	844	1 247	3 169	2 200	1 461	1 880	2 581
Software and other intangible assets	34	16	–	–	–	–	–
Payments for financial assets	–	29	94	–	–	–	–
Total	70 728	79 191	88 192	101 487	104 394	110 567	116 441
Details of transfers and subsidies							
Households							
Other transfers to households							
Current	650	678	694	753	100	100	100
Gifts and donations	650	678	694	753	100	100	100

Expenditure trends

Expenditure increased from R70.7 million in 2008/09 to R101.5 million in 2011/12, at an average annual rate of 12.8 per cent. This growth was driven mainly by spending in the *Corporate Services* and *Management* subprogrammes as the department centralised operational expenditure, including IT licences and services, photocopying equipment, and training and communication into this programme. Establishing the deputy minister's office in 2009/10 and shifting the risk component from the *Legal and Governance* programme to this programme in the same year, also contributed to the increased spending between 2008/09 and 2011/12.

Spending on compensation of employees increased from R31 million in 2008/09 to R50.3 million in 2011/12, at an average annual rate of 17.6 per cent, and is mainly attributable to adjustments for improved conditions of service and an increase in the number of personnel in this programme. As a result, expenditure on goods and services also increased from R38.2 million in 2008/09 to R48.2 million in 2011/12, at an average annual rate of 8 per cent, to support the increased number of personnel.

Over the medium term, expenditure is expected to increase to R116.4 million, at an average annual rate of 4.7 per cent, mainly to provide for inflation related adjustments and the centralisation of services.

Programme 2: Legal and Governance

Objectives and measures

- Ensure effective shareholder oversight of all state owned companies by:
 - providing legal services, which include transaction and contract management support, to the department as and when required over the MTEF period
 - ensuring that risk management processes are embedded throughout the department as and when they are required over the MTEF period
 - addressing constraints on state owned companies' contract negotiations and management to improve commercial competence and contribute to economic growth and development on a regular basis
 - providing assistance on developing and negotiating shareholder compact frameworks annually in terms of the Public Finance Management Act (1999)
 - ensuring that state owned companies and the department comply with the relevant legislation governing their operations, and applicable laws such as the Public Finance Management Act (1999), the Public Audit Act (2004), Companies Act (2008), and environmental management, tax, labour, knowledge management, property, intellectual property, information security, procurement and other laws through establishing a structured compliance function within the unit
 - providing guidance on appropriate delegation frameworks between the boards and executive management of state owned companies on a regular basis
 - advising the minister regularly on the appointment of state owned companies' boards of directors and on the processes for their annual general meetings and preparation for these meetings, in compliance with the required statutes, reviewing on an annual basis: ownership policy, governance toolkit and guidelines, appointments, remuneration, and performance of the state owned companies' boards and executive management.

Subprogrammes

- *Management* comprises the office of the deputy director general, which provides strategic leadership and management of the programme personnel. This subprogramme had a staff complement of 2 and a total budget of R1.8 million in 2011/12, of which 82.1 per cent was used for compensation of employees.
- *Legal* provides internal legal services and support to state owned companies. The unit provides legal services, including transaction and contract management support to the department, and work specifically related to the commercial activities of the sector teams in respect of state owned companies within their oversight. This subprogramme had a staff complement of 12 and a total budget of R14.3 million in 2011/12, of which 62.5 per cent was used for compensation of employees.

- *Governance* develops and manages effective corporate governance and shareholder management systems for the department and its portfolio of state owned companies. These include: risk management, which identifies, reports on and monitors both the operational and shareholder risks; compliance, which ensures that the department establishes and implements systems and processes to ensure the department and its state owned companies comply with legislative, regulatory and supervisory requirements, in line with international best practice; and secretariat, which has the overarching responsibility of recording and tracking the department's operational and strategic activities to achieve coordination and compliance with decisions and resolutions. This subprogramme had a staff complement of 9 and a total budget of R7.6 million in 2011/12, of which 57.7 per cent was used for compensation of employees.

Expenditure estimates

Table 11.6 Legal and Governance

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
R thousand							
Management	2 062	1 725	1 581	1 763	2 315	2 308	2 597
Legal	10 798	12 201	10 340	14 305	15 893	18 953	20 080
Governance	4 405	2 656	2 732	7 607	8 729	9 707	10 271
Total	17 265	16 582	14 653	23 675	26 937	30 968	32 948
Change to 2011 Budget estimate				1 367	2 704	5 212	15 324

Economic classification

	16 967	16 571	14 653	23 675	26 937	30 968	32 948
Current payments							
Compensation of employees	9 432	8 924	6 453	14 777	15 093	15 825	16 897
Goods and services	7 535	7 647	8 200	8 898	11 844	15 143	16 051
<i>of which:</i>							
<i>Administrative fees</i>	19	–	–	–	–	–	–
<i>Advertising</i>	–	9	–	–	–	–	–
<i>Assets less than the capitalisation threshold</i>	–	3	–	–	–	–	–
<i>Catering: Departmental activities</i>	68	45	51	124	142	150	159
<i>Communication</i>	114	119	79	236	241	257	271
<i>Consultants and professional services: Business and advisory services</i>	3 118	1 581	2 404	2 615	3 458	4 124	4 372
<i>Consultants and professional services: Legal costs</i>	2 724	4 800	4 557	3 820	4 868	7 287	7 724
<i>Agency and support / outsourced services</i>	13	2	576	20	–	–	–
<i>Entertainment</i>	13	–	6	25	37	40	40
<i>Inventory: Stationery and printing</i>	2	–	–	4	11	12	14
<i>Travel and subsistence</i>	1 062	976	402	1 596	2 484	2 635	2 793
<i>Training and development</i>	270	40	34	69	80	86	91
<i>Operating expenditure</i>	26	19	48	119	237	250	267
<i>Venues and facilities</i>	106	53	43	270	286	302	320
Payments for capital assets	–	11	–	–	–	–	–
Machinery and equipment	–	11	–	–	–	–	–
Payments for financial assets	298	–	–	–	–	–	–
Total	17 265	16 582	14 653	23 675	26 937	30 968	32 948

Expenditure trends

Expenditure increased from R17.3 million in 2008/09 to R23.7 million in 2011/12, at an average annual rate of 11.1 per cent, and is expected to increase to R32.9 million over the medium term, at an average annual rate of 11.6 per cent. The increase in both periods is driven by the centralisation of legal services from the sector units, and the shifting of the risk, compliance and secretariat functions from the *Administration* programme to this programme, as part of the realignment of the department for efficiency and costs saving purposes.

In 2011/12, spending on consultants comprised 72.3 per cent of expenditure on goods and services, and was expected to increase from R6.4 million in 2011/12 to R12.1 million in 2014/15, at an average annual rate of 23.4 per cent. The department appointed two service providers in June 2010: a tracing agent and a paying agent, to distribute the benefits in the Diabo share trust to beneficiaries. The trust had approximately 9 000 beneficiaries who were entitled to benefits. The trustees have surrendered all remaining funds to the department and are in the process of finalising the financial statements to be audited. Once completed, an application will be made to the Master of the Supreme Court to wind up the trust. It is anticipated that this will take place in 2012/13.

Programme 3: Portfolio Management and Strategic Partnerships

Objectives and measures

Energy and Broadband Enterprises

- Strengthen the department's oversight role by ensuring the alignment of shareholder strategic intent in relation to the state owned companies' role in achieving government objectives in the energy and ICT sectors on an ongoing basis.
- Contribute to the enhancement of performance of the state owned companies by:
 - evaluating corporate plans and providing advice to boards of directors annually
 - monitoring and benchmarking the implementation of corporate plans and shareholder compacts quarterly
 - assessing shareholder and enterprise risks quarterly, and advising boards on areas of concern.

Eskom

- Support the security of electricity supply by:
 - examining Eskom's maintenance plans, operational practices, distribution efficiency, and the reserve margin
 - reviewing regular updates from and through interaction with Eskom and engaging with stakeholders in the energy sector.
- Monitor the capital investment programme in the public interest by developing and implementing a framework which emphasises creating value added benefits for the economy by the end of March 2013.
- Reduce Eskom's dependence on funding from the fiscus by monitoring cost escalations for the capital investment programme, and developing innovative funding arrangements on an ongoing basis.
- Leverage off Eskom's capital investment in the development of local supplier industries by monitoring the implementation of the competitive supplier development programme and evaluating quarterly reports.
- Support the effective operation of Eskom by regularly engaging with the Department of Energy and the National Energy Regulator of South Africa on new policies and regulations affecting Eskom.

Pebble Bed Modular Reactor

- Implement the pebble bed modular reactor care and maintenance programme by safeguarding state owned assets by monitoring both progress on the implementation, and use of cash through weekly status reports.

Broadband Infraco

- Ensure that the West Coast submarine cable system is ready for service in the third quarter of 2012 by monitoring Broadband Infraco's participation in the West Coast submarine cable system consortium on a quarterly basis.
- Support increased access to broadband by:
 - monitoring Broadband Infraco's price reports annually
 - increasing the number of broadband access points in major cities and under-serviced areas from 5 in 2011/12 to 18 in 2014/15 by rolling out the national long distance infrastructure.

Manufacturing Enterprises

- Ensure alignment in shareholder strategic intent in relation to state owned companies' roles in achieving objectives in the defence, mining and forestry sectors, by annually reviewing enterprise strategies and mandates in the context of political and sectoral policy shifts and alerting the boards and enterprises to material deviations.
- Support state owned companies in delivering their outcomes as set out in the shareholder compacts and corporate plans by identifying appropriate benchmarks for the state owned companies' target setting for key performance measures and analysing quarterly and annual reports.

Denel

- Define Denel's future role and strategic mandate by:
 - developing Denel and the defence industry stakeholder framework with industry enablers to support Denel's business sustainability by 2012/13
 - developing a business model to support Denel's growth by 2012/13
 - reviewing the impact of current strategic equity partnerships on Denel sustainability by 2012/13.

Alexkor

- Contribute to the socioeconomic development of the region by implementing Alexkor's strategy to ensure the company's long term viability, and address its environmental rehabilitation and other liabilities by 2012/13
- Maintain the sustainability of Alexkor by:
- developing an evaluation framework and alternative funding mechanisms for Alexkor's new mining ventures and beneficiation initiatives, to guide investment decisions by 2012/13
- reviewing Alexkor's board composition to bring it to a full complement with the requisite skills, experience and expertise by 2012/13.
- Ensure the implementation of the Richtersveld deed of settlement by:
 - monitoring the performance of the pooling and sharing joint venture between Alexkor and the Richtersveld Mining Company, including the prospecting work programme and mining plans
 - monitoring the Alexander Bay township infrastructure upgrade, and transfer of outstanding assets to the Richtersveld community.

South African Forestry Company

- Strengthen the institutional form and operations of the South African Forestry Company by:
 - defining its role and its contributions to rural development and the forestry industry
 - reviewing the South African Forestry Company board to bring it to a full complement with the requisite skills, experience and expertise
 - reviewing the state owned companies' and South African Forestry Company's group structure to ensure company structure is optimal and creates value, achieving greater business efficiency, stronger functionality and effective accountability, while minimising cost and duplication
 - developing a settlement model to address land claims against Komatiland Forests by 2012/13.

Transport Enterprises

- Promote the alignment of the corporate strategies of the state owned companies with government's objectives in relation to the transport and aviation sectors, by undertaking annual comprehensive reviews of corporate strategies, business plans, and annual and quarterly performance within two weeks of submission of the quarterly reports by Transnet, South African Airways and South African Express.
- Monitor the compliance of transport enterprises with the Public Finance Management Act (1999) and other legislative prescripts by conducting an annual review and specifying required improvements of the internal controls in Transnet, South African Airways and South African Express.
- Create an enabling environment for transport enterprises and ensure an appropriate balance between the enterprise's interest, sustainability and developmental objectives by engaging with the policy

departments and relevant regulators at least once every quarter to discuss areas of misalignment; and inform the boards of Transnet, Transnet, South African Airways and South African Express.

- Ensure Transnet achieves an efficient, competitive and responsive infrastructure by:
 - undertaking a detailed diagnostic analysis of the challenges facing Transnet Freight Rail and developing an integrated government response to growing rail market share by the end of the first quarter of 2012/13
 - developing a framework for private sector investment in rail by the end of 2012/13, to assist with the provision of necessary infrastructure where such investments are unaffordable on the Transnet balance sheet
 - overseeing the introduction of multiple private operators on the branch line network within the first quarter of 2012/13 to revitalise the network as a feeder to the core network and to realise socioeconomic benefits.
- Facilitate the introduction of competition for the management of container terminals through the licensing of an operator for the Ngqura container terminal by 2014.
- Ensure the global competitiveness of the South African freight logistics industry by implementing national corridor performance tools and indicators to quantify the operational efficiency of freight corridors in 2012/13.
- Optimise the economic impact of infrastructure investments on the economy by monitoring the rollout of Transnet's capital expenditure programme on a quarterly and annual basis to assess any significant deviations from corporate plans, potential cost overruns, and time delays on major capital projects, and taking the necessary action.
- Monitor the implementation of the competitive supplier development programme to leverage Transnet's locomotive fleet procurement for the development of local railway supplier industries, by evaluating progress towards achieving localisation targets in the quarterly and annual Transnet reports.

South African Airways and South African Express

- Support South African Airways and South African Express to achieve sustainable levels of profitability and liquidity in 2012/13 by:
 - overseeing the implementation of the initiatives relating to the R1.6 billion guarantee to South African Airways
 - assessing the required levels of capitalisation of South African Airways and South African Express Airways
 - undertaking a comprehensive review of the South African Airways business model.
- Enhance government's airlift objectives by facilitating approval of the government strategy for South African Airways in Cabinet including key success factors to achieve a stronger brand by June 2012.
- Support South African Airways to establish South African Airways Technical as a regional maintenance, repair and operations centre of excellence, by facilitating the approval of the business case in Cabinet and enabling legislation if necessary in the second quarter of 2012/13.

Economic Impact and Policy Alignment

- Oversee processes to conduct macro-economic modelling, research and impact evaluation and ensure the contribution of state owned companies to the new growth path by establishing partnerships to provide the department with access to sustained modelling capability over the MTEF period.
- Supervise processes to enhance and advance alignment between national industrial policy, macroeconomic policy, the new growth path, and the role of state owned companies, by defining the role of state owned companies and monitoring implementation in line with national policy prescripts over the MTEF period.
- Oversee alignment of state owned companies and their suppliers by providing scarce and critical skills in support of the national skills agenda and the new growth path by ensuring that skills indicators are defined in shareholder compacts and monitored on the dashboard on a quarterly basis.

- Facilitate partnerships for artisan and technician development to optimise state owned companies' training facilities by training 1 751 new artisan learners for the national pool towards achievement of commitment one of the national skills accord in 2012/13.
- Ensure that state owned companies' infrastructure development is responsive to environmental conservation and climate change imperatives by monitoring environmental impact assessments for strategically important developments and assessing progress of plans of the climate change policy framework by the state owned companies over the MTEF period.

Strategic Partnerships

- Identify and oversee major investment projects that go beyond balance sheet capacity of state owned companies by defining at least one catalytic investment annually to be driven by the department, and overseeing the project implementation from pre-feasibility to completion, including the design of relevant compacts.
- Secure funding for major investment projects that go beyond the balance sheet capacity of state owned companies by developing innovative funding structures to support the catalytic investments that will be identified over the MTEF period.
- Leverage state owned companies' procurement programmes to drive industrialisation and create jobs by developing overarching procurement leverage policies, monitoring the implementation of Eskom's and Transnet's supplier development plans quarterly; monitoring the fleet procurement design and implementation and monitoring the implementation of collaborative procurement leverage programmes between state owned companies and the private sector.

Subprogrammes

- *Energy and Broadband Enterprises* manages the portfolio of energy and broadband state owned companies including Eskom, Pebble Bed Modular Reactor and Broadband Infracore. The subprogramme provides strategic leadership and management of its energy portfolio, and will review and sign new shareholder compacts and new corporate plans each year for each company. The subprogramme conducts quarterly financial reviews of each company. It has a staff complement of 20 and a total budget of R58.5 million in 2011/12, of which 21.1 percent was used for compensation of employees, while 68.4 per cent was used for the decommissioning and dismantling costs of the Pebble Bed Modular Reactor fuel laboratory.
- *Manufacturing Enterprises* manages the portfolio of manufacturing state owned companies including Denel, Alexkor and the South African Forestry Company. The subprogramme is organised as follows: management, which provides strategic leadership and management of the subprogramme's personnel; Denel, which provides shareholder management and oversight of Denel's financial performance and strategy implementation; Alexkor, which provides shareholder management and oversight of Alexkor, and overseeing the implementation of the Richtersveld deed of settlement; and South African Forestry Company, which provides shareholder management and oversight, including forestry management, timber harvesting, timber processing and related activities domestically and internationally. This subprogramme had a staff complement of 11 in 2011/12 and a total budget of R126.4 million, of which 5 per cent is used for compensation of employees, while 92 per cent was allocated to: the transfer payment for an indemnity claim for Denel Aerostructures to Airbus under the indemnity agreement entered into with government in the equity partnership between the state, Denel and Saab; and Alexkor transfers as capital contribution to the pooling and sharing joint venture as agreed in the deed of settlement in the matter between Alexkor, the state and the Richtersveld community.
- *Transport Enterprises* manages the portfolio of transport in state owned companies, including South African Airways, South African Express and Transnet. The subprogramme is organised as follows: management, which provides strategic leadership and management of the programme personnel; Transnet, which provides shareholder management and oversight of Transnet including its capital expansion programme and the effective operation its business units; South African Airways and South African Express, which provides shareholder management and oversight of the airlines as well as monitoring South African Airways' transformation into a commercially successful national carrier, and

overseeing the establishment of South African Express as a regional carrier with a focus on the African market. This subprogramme had a staff complement of 16 and a budget of R22.8 million in 2011/12, of which 43 per cent was used for compensation of employees and the balance on goods and services. R1.6 billion was transferred in 2009/10 to recapitalise SAA, and R140 million in 2008/09 for purchase of and transfer of South African Express to government from Transnet.

- *Economic Impact and Policy Alignment* aligns state owned companies with overarching government economic, social and environmental policies, and has been realigned from functioning as a consulting facility to become a policy analysis and advisory facility. The subprogramme is organised as follows: management, which provides strategic leadership; environmental policy alignment, overseeing implementation of state owned entities' strategically important developments such as the Eskom and Transnet build programmes, and aligning the climate change policy framework for state owned companies to support national policies and the green economy; economic policy alignment, focused on appropriate macroeconomic modelling and research to enhance the links between industrial policy, macroeconomic policy and the role of state owned companies; and transformation, skills development and youth, which focuses on the provision of scarce and critical skills by state owned companies in support of the national skills agenda and the new growth path. This subprogramme had a staff complement of 10 and a budget of R13.1 million in 2011/12, of which 28.1 per cent was used for compensation of employees.
- *Strategic Partnerships* ensures that state owned companies maintain commercial sustainability and attain desired strategic outcomes and objectives. It comprises: management, which provides strategic leadership and management of the programme personnel; project oversight, which oversees work related to investment promotion and partnerships being driven by the department. This includes and oversight of projects, from prefeasibility to completion. This subprogramme had a staff complement of 5 and a total budget of R7.4 million in 2011/12, of which 55 per cent was used for compensation of employees.

Expenditure estimates

Table 11.7 Portfolio Management and Strategic Partnerships

Subprogramme	Audited outcome			Adjusted appropriation 2011/12	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11		2012/13	2013/14	2014/15
R thousand							
Energy and Broadband Enterprises	2 136 811	1 958 790	170 857	58 508	16 605	17 573	18 603
Manufacturing Enterprises	397 027	327 158	225 595	126 391	1 062 779	13 226	14 890
of which:							
Denel (Pty) Ltd	–	–	–	–	700 000	–	–
Alexkor Ltd	–	–	–	–	350 000	–	–
Transport Enterprises	604 930	1 568 656	19 077	22 776	17 928	16 765	17 393
Economic Impact and Policy Alignment	30 553	24 986	10 134	13 134	15 063	15 972	16 867
Strategic Partnerships	7 835	7 929	11 493	7 371	5 366	5 674	6 010
Total	3 177 156	3 887 519	437 156	228 180	1 117 741	69 210	73 763
Change to 2011 Budget estimate				115 169	1 042 707	(9 952)	(19 827)
Economic classification							
Current payments	77 516	71 203	61 260	71 925	67 741	69 210	73 763
Compensation of employees	30 062	28 827	33 948	34 930	39 391	41 360	44 603
Goods and services	47 454	42 376	27 312	36 995	28 350	27 850	29 160
of which:							
Administrative fees	46	–	–	–	–	–	–
Advertising	–	–	–	8	–	–	–
Catering: Departmental activities	144	134	112	143	135	142	150
Communication	305	316	298	599	644	682	724
Computer services	28	–	–	–	–	–	–
Consultants and professional services: Business and advisory services	40 940	36 898	22 558	29 948	19 012	17 972	18 689

Table 11.7 Portfolio Management and Strategic Partnerships (continued)

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Economic classification							
Current payments							
Consultants and professional services:	–	216	146	–	–	–	–
Legal costs							
Contractors	3	–	1	–	28	29	31
Agency and support / outsourced services	464	–	–	–	–	–	–
Entertainment	21	15	–	43	61	65	68
Inventory: Stationery and printing	21	4	2	–	46	47	50
Travel and subsistence	4 187	4 339	3 162	5 002	6 731	7 121	7 549
Training and development	277	93	352	100	150	159	169
Operating expenditure	52	64	82	111	337	357	377
Venues and facilities	966	297	599	1 041	1 206	1 276	1 353
Transfers and subsidies	2 277 640	2 058 706	237 296	156 255	–	–	–
Public corporations and private enterprises	2 277 640	2 058 706	237 296	156 255	–	–	–
Payments for financial assets	822 000	1 757 610	138 600	–	1 050 000	–	–
Total	3 177 156	3 887 519	437 156	228 180	1 117 741	69 210	73 763

Details of transfers and subsidies

Public corporations and private enterprises							
Public corporations							
Other transfers to public corporations							
Current	2 277 640	2 058 706	237 296	156 255	–	–	–
Pebble Bed Modular Reactor	1 750 000	1 737 750	20 000	40 000	–	–	–
South African Express	140 000	–	–	–	–	–	–
Denel	257 640	191 866	181 296	116 255	–	–	–
Alexkor	130 000	129 090	36 000	–	–	–	–

Expenditure trends

Expenditure decreased significantly from R3.2 billion in 2008/09 to R228.2 million in 2011/12, at an average annual rate of 58.4 per cent, due to the reduction in transfer payments to the Pebble Bed Modular Reactor project and Broadband Infracore in 2010/11. As a result, expenditure in the *Energy and Broadband Enterprises* subprogramme decreased from R2.1 billion in 2008/09 to R58.5 million in 2011/12, at an average annual rate of 69.9 per cent.

Over the medium term, expenditure is expected to decrease to R73.8 million, at an average annual rate of 31.4 per cent, due to a further reduction in transfer payments to state owned companies, particularly the Pebble Bed Modular Reactor Project and Denel. Expenditure in the *Economic Impact and Policy Alignment* subprogramme is expected to increase from R13.1 million in 2011/12 to R16.9 million in 2014/15, at an average annual rate of 8.7 per cent, due to the unit being expanded to accommodate the newly created subprogramme.

Spending on consultants is equivalent to 67 per cent of spending on goods and services in 2012/13, and is expected to decrease from R29.9 million to R18.7 million over the medium term, at an average annual rate of 14.5 per cent, due to re-alignment of internal capacity within this programme.

Selected achievements and output of this programme with regard to the entities in the portfolios it manages and the related policies and partnerships it pursues are as follows:

The department, together with Eskom and National Treasury, has successfully negotiated and finalised loan agreements linked to the Clean Technology Fund for Eskom's renewable support projects. These projects will be used as a catalyst for government to achieve its renewable energy targets as set out in the integrated

resource plan. Since the inception of the Eskom build programme, additional capacity of 5 381 megawatts has been added to the grid, 3 531 kilometres of transmission lines have been laid, and 17 920 megavolt amperes of transformer capacity installed. Further capacity will be obtained under the new independent power production arrangements.

All the suspensive conditions for the pooling and sharing joint venture between Alexkor and the Richtersveld Mining Company have been fulfilled, and the joint venture came into effect in April 2011. Alexkor receives R350 million in 2012/13 to address liabilities in terms of the deed of settlement and other obligations.

An agreement was reached with Airbus over the renegotiation of prices and risk sharing on the A400M work package contract to make the contract more commercially sustainable. Confirmation of orders from the Department of Defence would assist Denel revenues. Denel receives R700 million in 2012/13 to recapitalise Denel Aerostructures.

In 2011, the department finalised phase 1 of the rail reform study to inform the emerging rail policy options of the Department of Transport. Under the auspices of the competitive supplier development programme, Transnet received the first 2 of 100 diesel electric locomotives arising from the General Electric transaction.

In aviation, the major achievements included the final approval of the airbus transaction and the delivery of the first A330-200 airplane to South Africa Airways in February 2011, completion of the South African Airways Technical business plan, and the feasibility of expanding South African Airways Technical as an effective regional maintenance and repair facility.

The department developed a policy for programmatic and transactional procurement, and a strategy and business plan for a proposed centre of excellence for complex capital procurements, with support interventions defined for locomotive fleet procurement. The department facilitated a parliamentary learning programme in August 2011 for both the portfolio committee on public enterprises, and the National Council of Provinces select committee for labour and public enterprises.

The department in 2011/12 developed standardised financial and risk reporting templates and dashboard, with enhanced analytical functionality. The department also prepared and presented, for the minister's review quarterly shareholder reports on state owned companies' performance assessments, and the detection, monitoring and mitigation of cross-cutting shareholder risk. In 2011/12, the department developed guarantee and share office guidelines outlining a framework for: issuing government guarantees; adequate monitoring and reporting of government guarantees, shareholder agreements, shareholder loans and share subscriptions; and provision of administrative practices for effective management of these instruments.

Public entities and other agencies

Alexkor

Since November 1992, Alexkor has been run as a public company with the state as sole shareholder. Alexkor mines diamonds in the Alexander Bay area, including marine mining and land mining.

In 2003, the Constitutional Court ruled that the Richtersveld community had a legitimate claim to its ancestral land from which it was forcibly removed after diamonds were discovered there in the early 1920s. The court found that the community had been evicted under discriminatory apartheid laws and was entitled to have both the land and mineral rights returned. Alexkor has been subject to a number of business constraints, including the land claim. These constraints have resulted in decreasing diamond recoveries over the years.

The deed of settlement for the land claim was signed in April 2007, and the department has mandated Alexkor to explore options to reposition the company as a state owned mining and minerals company. This new strategy will allow Alexkor to respond to new mining and mineral opportunities and ensure the company's long term viability, enabling it to effectively address its environmental rehabilitation and other liabilities while contributing to the socioeconomic development of the region. While continuing with mining activities in the current constrained economic climate, Alexkor is focusing on implementing the Richtersveld land restitution order imposed on it by the land claims court. The court order obliges it to transfer land and mineral rights to the Richtersveld community, establish Alexander Bay as a formal township, undertake

environmental rehabilitation, and establish a pool and share joint venture with the Richtersveld Mining Company for future mining activities. Significant progress has been made in the implementation of the settlement signed with the Richtersveld community. All Alexkor, state and Northern Cape provincial land has been transferred, except for the township erven. The subdivision and zoning of the township has been conducted and the general plan has been approved.

Transfer of the township will be made soon. The upgrade of the township civil and electrical engineering services to municipal standards has begun and is expected to be completed in July 2012. Alexkor's agricultural and maricultural assets have been transferred to the community. Transfer of the land mining rights to the community is also imminent, and this paves the way for the development of a more viable mining venture and a redirection of Alexkor's strategy.

This will entail, among other things, seeking opportunities to procure new mining ventures, secure new revenue streams and ensure its future growth. It will also involve exploring opportunities for downstream beneficiation to contribute to the creation of new jobs, the development of the requisite skills, investment in research and development, economic growth, sustainable development and cost effective support for the broader policies of government.

Alexkor has the following outstanding obligations and liabilities: an environmental rehabilitation liability at Alexander Bay mine of R256.7 million; payment of R45 million to the Richtersveld Property Holding Company to secure Alexkor's right of occupation of the transferred residential properties for a period of 10 years; and post-retirement medical aid liability of R58.4 million. Alexkor receives R350 million in 2012/13 to address liabilities in terms of the deed of settlement and other obligations.

Alexkor's only source of revenue to fund its obligations and liabilities is from its 51 per cent interest in the profits of the joint venture operations. It is not expected that the mining operations will generate positive returns within the first 3 years, as it will first undertake exploration activities.

Alexkor's financial resources are insufficient to meet its obligations and liabilities and new revenue streams, beyond Alexander Bay, and independent of the pooling and sharing joint venture operations must be explored. This should ensure Alexkor's future growth and sustainability and enable the company to effectively address its historical obligations and liabilities. Alexkor will also explore opportunities for: downstream beneficiation to contribute to creating new jobs and develop requisite skills; investment in research and development, economic growth and sustainable development; and cost effective support for the broader policies of government. Funding is required to implement the business plan.

Performance

Alexkor reported better results in 2010/11 than the previous year. It achieved revenue of R195.9 million in 2010/11, a 19.5 per cent increase from the R163.9 million in 2009/10. It recorded a gross operating profit of R11.3 million, the first since 2005/06. Net profit for the year was R84.2 million (2009/10: R36.1 million). Alexkor returned to a positive equity position for the first time in six years, from a net negative R67.3 million equity position in 2009/10, to R16.9 million, owing to a profit of R84.2 million. This was attributable to finance income earned from unspent cash (R438 million), most of which was earmarked for projects under the Richtersveld land claim settlement agreement.

Alexkor recorded a net operating profit of R76.8 million, an improvement of 184 per cent on the R27 million profit recorded in 2009/10. This improvement was mainly due to non-cash movements in the income statement relating to the recognition of compensation received from the Department of Rural Development and Land Reform for the transfer of Alexkor's land mining rights to the Richtersveld Mining Company (R41.2 million) and adjustments to the post-retirement medical aid liability of R13.9 million (2009/10: R45.1 million). The actuarial gain experienced in 2009/10 was mainly attributable to a shift to a lower subsidy level within the medical aid scheme, which provides similar benefits at lower contribution rates.

Net financing income of R7.5 million was recorded through investment income from cash held in the rehabilitation trust. No taxation was provided for in 2010/11, as the taxable profits were offset against the accumulated tax losses. Consequently, there was a significant increase in the profit for the year, as Alexkor posted a net profit of R84.2 million (2009/10: R36.1 million profit).

Broadband Infraco

Broadband Infraco was established in 2007 in terms of the Broadband Infraco Act (2007) as a state led intervention to introduce competition in the telecommunications market and to contribute to increasing access to broadband services, including underserved areas.

South Africa lags behind its international counterparts in ICT penetration and the rate at which new technology is adopted. Broadband services in South Africa are expensive, and the penetration is much lower than international benchmarks. The company has invested in a national long distance fibre optic network based on the fibre optic assets deployed by Eskom on power transmission lines and Transnet on railway lines, which form the backbone of the second national operator. Broadband Infraco launched its services to the market in November 2010 after obtaining an electronic communications network services licence in October 2009. By July 2011, Broadband Infraco had commissioned 13 125 kilometres of the network.

In addition to national connectivity, the other major cost component for capital expenditure for the company has been the international connectivity, which includes the rollout of the West Africa cable system. The delays in obtaining environmental approvals have extended the ready-for-service date from the last quarter of 2011/12 to the second quarter of 2012/13. Once completed and fully commissioned, the system will reduce broadband costs, increase bandwidth capacity and ensure regional connectivity for South Africa and other African states.

All targets set in the previous medium term cycle, such as the marine environmental survey, the manufacturing of the marine cable, and the deployment of the optical line terminal equipment have been completed. The marine cable installation was completed in March 2011 and the cable landed in Yzerfontein, Western Cape, on 19 April 2011. The company has maintained the 11.7 per cent stake it holds in the marine cable. Broadband Infraco is considering a reduction in its shareholding in the international cable and has indicated a desire to sell off some of its capacity on the West Africa cable system.

Performance

In 2010/11, the company entered into new contracts with MTN and Liquid Telecoms and renewed its existing contract with Neotel. In addition, Broadband Infraco has continued to invest in the development and maintenance of its own network. The company continues to participate in projects of national interest such as the Karoo array telescope, MeerKAT, the South African Large Telescope, as well as in the upgrading of the Department of Science and Technology's South African National Research Network.

A key strategic indicator for the company in 2010/11 was ensuring broadband connectivity, availability and access. Broadband Infraco planned to deliver 7 points of presence but was only able to deliver 5, thus not attaining the level of broadband connectivity anticipated.

One of Infraco's main concerns was the continued development of its infrastructure, and improving its performance in terms of its service level agreements with its clients, especially turnaround times on network faults.

Operating revenue of R390.7 million in 2010/11 was R22.1 million short of target revenues of R412.8 million. Expenditure increased to R505.2 million from R407.4 in 2010, mainly as a result of the increased expenditure on network repairs and maintenance. The company posted a R206.9 million loss in 2010/11, compared to a R28 million loss in 2009/10. However the company has only been operating for 5 years and has only recently started to diversify its customer base, following the expiry of the exclusivity agreement between itself and Neotel.

Denel

Denel is incorporated as a private company with the state as its sole shareholder. The current mandate of Denel is to: provide the Department of Defence and Military Veterans with key strategic defence equipment and services in an efficient and sustainable manner; contribute towards the building of a dynamic defence-related industrial cluster; act as a catalyst for advanced manufacturing in the broader economy; and earn export revenue.

The company delivers products ranging from ammunition to missiles, and also carries out systems design and integration for land and air capabilities for the Department of Defence and Military Veterans.

Although Denel has made some progress since the company embarked on a turnaround strategy in 2005, its solvency position continues to pose serious challenges. Denel's main challenge is to grow its revenue with sufficient gross profit margins to cover its high operating costs, and improve its liquidity and solvency.

Denel's aero structures business remains a challenge to the entire Denel group as it continues to be the major contributor to Denel's losses. This is largely as a result of the A400M contract concluded with Airbus Military which is not commercially viable. A framework for the resolution of Denel Aerostructure has been developed and is underway. The framework included internal restructuring and renegotiation of the Airbus A400M work package contracts. The 2 per cent improvement in the performance of the Aerostructure business in the previous year was an encouraging sign that the company is beginning to turn around, mainly due to ongoing restructuring in the business. A more robust turnaround plan, with confirmation of orders from the Department of Defence and Military Veterans, and improvements in its operational and financial performance, needs to be developed to secure Denel's viability. Denel receives R700 million in 2012/13 to recapitalise Denel Aerostructures.

Performance

The company has posted a profit of R111 million in 2010/2011. This is a significant improvement on the prior year's result, but is as a result of a once-off R463 million for the restructuring gain of the pension fund. The reduction in revenue of 10.3 per cent, coupled with the increase in operating expenses of 6 per cent has resulted in a decline in both earnings before interest, tax, depreciation and amortisation, and earnings before net interest and tax margins. The net loss for 2010/11 is attributable mainly to Denel Saab Aerostructures, which posted a net loss of R237 million in 2010/11, and interest expense of R118 million on external loans. These losses are offset by profits of R130 million posted by other Denel entities. The gearing ratio is 75 per cent as a result of funds raised on the back of 2 government guarantees obtained in 2008 and subsequently rolled over to expire on 30 September 2012, and an additional guarantee of R550 million issued in 2009/10. This additional guarantee has also been rolled over to expire on 30 September 2012.

Eskom

Eskom generates 95 per cent of the electricity used in South Africa and 45 per cent of the electricity used in Africa. Eskom's reserve margin has been steadily declining since 1999 as a result of increasing demand, increases in maintenance backlogs, and under-investment in the new generation capacity required to meet rising demand. This was particularly acute in January 2008, when the reserve margin dropped to alarmingly low levels (3.6 percent commercially available), resulting in extensive load shedding that impacted the economy negatively, and diminished investor confidence in Eskom's ability to provide reliable electricity supply.

Eskom has introduced a recovery plan, which includes securing enough primary energy by stockpiling coal to 42 days' supply levels. This has resulted in the average reserve margin of commercially available coal increasing to over 10 per cent.

Eskom has undertaken a capacity expansion programme to ensure the secure and reliable supply of electricity. Completed projects between 2005/06 and 2011/12 include the return to service and construction of three power stations. As a result, Eskom installed and commissioned 5 381 megawatts of additional generating capacity into the system and installed and strengthened 3 531 kilometres of transmission networks. The focus for 2012/13 includes securing the balance of the required funding to complete the new build programme; monitoring the rollout of this programme; improving operational and maintenance performance to ensure security of supply; establishing the role of Eskom in the implementation of the integrated resource plan; and developing an appropriate investment plan for Eskom's future build programme and ensuring that the lights are kept on.

Between 2011/12 and 2017/18, the cost of Eskom's build programme is estimated at R453 billion. Eskom plans to deliver an additional 11 699 megawatts of capacity into the system and to install 1 169 kilometres of transmission network by 2017/18.

Performance

In 2009/10, Cabinet approved additional government guarantees of R174 billion to Eskom to allow the company to complete the committed build programme. The approval of this application brought the total

guarantees available for issue to R350 billion. As a result of the government support package, Eskom was able to issue a US\$ bond and raise R12 billion, without a government guarantee. Eskom's funding plan to 2017 has been finalised, and 70 per cent of the funding required has been secured.

Eskom recorded a net profit after tax of R8.4 billion in 2010/11, following a net profit of R3.6 billion in 2009/10. The operating profit for the year was R16.4 billion (2009/10: R4.8 billion). The 139 per cent increase in profitability can be attributed mainly to the tariff increases in 2010/11. However, the profit made is earmarked for the capital expenditure programme and will thus be ploughed back into the business. In addition, gearing is expected to increase as Eskom continues with its build programme and its borrowings increase. Coupled with the higher borrowings, Eskom will have higher finance costs that will put pressure on profitability. Although Eskom's financial position is sound, the situation may change in the future if the National Energy Regulator of South Africa approves tariffs that are lower than those Eskom requested in the multi-year price determination three, even though the company has government's backing.

Pebble Bed Modular Reactor

The Pebble Bed Modular Reactor project was initially established as a nuclear architect engineering company, focused on the design and licensing of a standardised nuclear heat supply system and pebble fuel. It was established in 1999 to develop and market small scale, high temperature reactors locally and internationally. The company was not able to attract investors or customers, and government opted to close the project. R20 million in 2010/11 and R40 million in 2011/12 have been allocated to provide for the statutory decommissioning of the fuel development laboratory.

In 2011/12, the department commissioned a review of the pebble bed modular reactor project. The focus for the period ahead is to implement the decommissioning obligation and the implementation of the care and maintenance strategy.

As part of the care and maintenance of reactor, the fuel development laboratories at Pelindaba housed at the Nuclear Energy Corporation of South Africa are to be dismantled and decommissioned. This is a statutory requirement regulated by the National Nuclear Regulator Act (1999). The nuclear energy entity, as the holder of the nuclear installation licence, is obliged to shut down and decommission the reactor project's fuel development laboratories. The existing operating contract between the parties requires that Nuclear Energy Corporation of South Africa be compensated by the company for dismantling and decommissioning expenses. The cost is likely to be R53 million excluding value added tax. The company was unable to cover this expense due to funding constraints. At the time the company only had enough funds available to finance the restructuring process and the implementation of the care and maintenance strategy. The allocation of R60 million from National Treasury was transferred to the company in 2 tranches of R20 million March 2011 and R40 million April 2011. The company and Nuclear Energy Corporation of South Africa are negotiating a contract which will stipulate the terms under which the funds are to be disbursed and what the funds are to be used for. The contract will be sent to the department of department for approval in terms of the Public Finance Management Act (1999).

South African Forestry Company

The South African Forestry Company manages and develops commercial forests. The company's activities include forestry management and timber harvesting and processing. Its main subsidiary, Komatiland Forests, operates in Mpumalanga, Limpopo, KwaZulu-Natal and Mozambique. Komatiland Forests has an 80 per cent shareholding in the Mozambican forestry company, Indústrias Florestais de Manica, while the remaining 20 per cent is held by the Mozambican government through its Instituto de Gestão das Participações do Estado.

The company plays an important role in rural development and employment. Various enterprise development projects have been initiated to contribute to poverty alleviation in the rural areas in which it operates. The company is considering the acquisition of the eMpuluzi sawmill from PG Bison and the construction of a new saw mill with an annual processing capacity of 800 000 cubic metres.

The group developed a new turnaround strategy to lead the business to sustainable profit levels from 2013 onwards. The plan seeks to achieve, among others, further vertical integration and expand the business locally and internationally. Additionally, it aims to position future products on the market to create and

maintain the demand levels for log volumes. The new corporate and business plan which includes initiatives to turn around the company was submitted to the shareholder. The National Treasury's view on the proposed vertical integration of the company is that it should not lead to an unfair competition in various sectors of the value chain.

The focus of the company over the medium term is to continue with cost containment measures and to achieve all the targets set within the corporate plan. This should return the company to a financially and commercially sustainable position. The company will revisit its funding strategy to ensure that appropriate funding is obtained for significant projects. The implementation of enterprise resource planning system will be under way and management will ensure that the financial commitments concerning software and change management are honoured.

61 per cent of the forests under Komatiland Forests' management are subject to land claims. Land claims resolution progress is very slow, and land claimants are starting to express their frustration, which may pose risks to the company's operations, and which may hamper the development of partnerships between claimants and the company in the future.

Performance

The company's performance in 2010/11 improved significantly. Revenue increased by 63 per cent from R432 million in 2010 to R706 million in 2011. Improvement in revenue is mainly attributable to the new initiatives that were introduced during the year to enhance sales performance. The net loss has improved by 492 per cent to R79 million as compared to R469 million in 2010.

The group's balance sheet remained strong during the year under review as demonstrated by the net equity of R2.8 billion. The strength of the balance sheet has enabled the company to withstand the extreme market volatility by absorbing the losses reported in the past two financial years.

In 2010/11, the company showed some signs of improvement, with net cash flow from operating activities increasing to a positive R5 million compared with cash outflow of R104 million reported in 2010. These improvements have resulted in free cash flow improving from negative R171 million in 2010 to negative R22 million in 2010. Improvement in free cash flow is further attributable to lower capital spending.

South African Airways

South African Airways is South Africa's national air carrier. It is a full service network operating international, regional and domestic scheduled services, from its head office at OR Tambo International Airport. Its main business units include passenger and mail air services, cargo, South African Airways Technical and a Voyager loyalty programme.

Following the restructuring exercise, where savings of R2.5 billion were achieved over an 18-month period to March 2009, the airline achieved a net profit of R398 million in 2008/09, R442 million in 2009/10 and R782 million in 2010/11. The profits resulted from strict cost control and lower hedging losses over the period, declining from R1.6 billion in 2008/09 to R970 million in 2009/10, and to R202 million in 2010/11. The repayment of loans of R1.6 billion in September 2009, following the recapitalisation of the airline by government, also led to savings in interest payment of about R100 million per year.

Despite the improvements in profitability there are challenges with cash generation. This follows reduced sales as a result of the slowdown in the world economy. The decline in the cash position resulted in a requirement for government support in 2009 in the form of a R1.6 billion going concern guarantee. The provision of this guarantee was based on certain commitments made by the company to ensure that the achievements made with the restructuring exercise were sustained. The department and National Treasury are jointly monitoring the implementation of the commitments. To date, the airline has not used the guarantee.

In the 2007/08, South African Airways implemented the recommendations of the Seabury turnaround strategy and was allocated R744 million to implement a labour restructuring exercise. As a result, the labour complement has reduced from 10 048 in April 2007 to the current 8 109 employees.

The focus over the medium term will be to strengthen the airline's operations in the African market, establish South African Airways Technical as an African maintenance repair overhaul centre of excellence, and ensure

the implementation of the initiatives relating to the R1.6 billion guarantee that encourages consistent generation of profits to strengthen the balance sheet.

Performance

In 2010/11, the entity met 20 targets in relation to its 34 indicators of performance. In addition, there have been significant improvements in procurement processes and compliance with the Public Finance Management Act (1999). The legacy agreement for the purchase of Airbus A320 aircraft was satisfactorily resolved in 2009/10 by rescheduling the delivery dates of the aircraft from 2010 to 2013. Delivery of the first aircraft under the contract will be in 2013. The company is developing a financing plan for the funding of the Airbus deal.

South African Express

South African Express was established in 1994 and unbundled from Transnet in 2008/09. The company operates regional and domestic flights from OR Tambo International Airport in Johannesburg, serving secondary routes in South Africa and the continent. The airline operates regional routes to Botswana, Namibia, the Democratic Republic of the Congo and Mozambique. It also provides a feeder air service that connects with the South African Airways network.

The airline's joint venture with a local partner in the Democratic Republic of Congo, Congo Express, which began in February 2010 as part of the implementation of the African hub strategy, was dissolved in September 2010. This was after efforts to address the financial and operational performance failed to improve the joint venture initiative. Lessons learnt from the failed operations in that country will be used in all future implementations of the African hub strategy.

Due to the recent economic slowdown, the airline has not been able to sustain profitability. Much of the fleet is over 15 years old, resulting in high maintenance costs and disruptions to flight schedules due to breakdowns. This has also affected the performance of the airline. The new fleet will be acquired through an operating lease and the first 6 new aircraft were delivered in the second half of 2011/12. The balance of 18 aircraft will be delivered over the course of 2012/13 and 2013/14.

An investigation into possible accounting irregularities at the company is under way.

Transnet

Transnet has been transformed into a focused freight transport company whose mission is to lower the cost of doing business by providing port, rail, and pipeline infrastructure and cost effective, efficient operations within acceptable benchmark standards. Transnet's mandate is to enable economic growth and ensure port, rail and pipeline infrastructure and services in a cost-effective and efficient manner.

Over the past five years, Transnet has focused on improving service levels and customer responsiveness. Significant investments have been made in infrastructure and equipment to improve the condition of assets in order to support the drive for greater operating efficiencies and service levels.

For the first six months ended 30 September 2011, Transnet posted positive financial results, as efficiencies, productivity improvements and the growth in volumes were driven by the increased capital expenditure programme.

In 2010/2011, export iron ore volumes increased by 3.4 per cent to 46.2 megatonnes (2009/2010: 44.7 megatonnes), mainly due to an improvement in efficiencies, despite the loss of 3.1 megatonnes due to derailments, capacity constraints at the mines, and industrial action.

Transnet Freight Rail recorded an increase of 6.3 per cent in 2010/11 in general freight volumes and reported a 25.3 per cent increase in containers transported by rail.

Management focus is now on on-time departures and arrivals for the general freight business and the export coal line. A 24-hour, seven days national command centre has been introduced to plan, resource and manage the movement of trains across the country. This initiative is already yielding positive results. At the ports, the pier 1 container terminal at the Port of Durban recorded increased productivity, with gross crane moves per hour improving to an internationally acceptable average of 28 compared to 23 achieved in the previous financial year.

The new multi-product pipeline is a strategic investment to secure the supply of petroleum products to the inland market over the long term. This line replaces the old Durban-Johannesburg pipeline, which is running at full capacity and nearing the end of its economic life. When fully operational, some of the benefits of the new multi-product pipeline will include a reduction in congestion on the roads and reduced carbon emissions from road transportation of petroleum products.

Construction of the pipeline and pump stations are complete, and the focus will be on completing the construction of the coastal and inland terminals.

Performance

Revenue increased by 6.6 per cent in 2010/11 to R38 billion (2009/2010: R35.6 billion). However, the targets set out in the 2010 corporate plan were not achieved. The reason for the underperformance can be attributed to the negative impact of industrial action, derailments and operational issues. A robust cost cutting exercise implemented at the onset of the economic crisis, and as a result of industrial action, achieved a reduction of approximately R2.1 billion of costs compared to planned expenditure. For 2010/11, Transnet reported a profit of R4.1 billion (2009/2010: R3 billion).

In 2010/11, capital expenditure on revamping rail, ports and pipelines infrastructure amounted to R21.5 billion, with R11.4 billion spent on expansion and the remainder being allocated to the maintenance of existing capacity. This was supported by a comprehensive funding programme, which raised R18.4 billion. The total capital expenditure over the past five years is R86.8 billion and the total capital expenditure projected over the next five years is R110.6 billion. The majority of this expenditure was allocated to modernising and augmenting Transnet Freight Rail's ageing fleet of locomotives and wagons. The rail freight division's infrastructure was the most affected by the previous investment neglect.

Transnet's gearing has increased to 47 per cent due to funding required for capital investment.

Additional tables

Table 11.A Summary of expenditure trends and estimates per programme and economic classification

Programme	Appropriation		Audited outcome	Appropriation			Revised estimate
	Main	Adjusted		Main	Additional	Adjusted	
R thousand	2010/11		2010/11	2011/12			2011/12
Administration	87 134	87 322	86 336	94 912	6 575	101 487	101 487
Legal and Governance	20 368	15 995	16 509	22 308	1 367	23 675	23 675
Portfolio Management and Strategic Partnerships	243 088	452 232	437 156	113 011	115 169	228 180	228 180
Total	350 590	555 549	540 001	230 231	123 111	353 342	353 342

Economic classification

Current payments	174 680	178 240	160 148	188 078	6 056	194 134	194 134
Compensation of employees	88 015	90 315	83 058	96 539	3 478	100 017	100 017
Goods and services	86 665	87 925	77 090	91 539	2 578	94 117	94 117
Transfers and subsidies	36 710	238 006	237 990	40 753	116 255	157 008	157 008
Public corporations and private enterprises	36 000	237 296	237 296	40 000	116 255	156 255	156 255
Households	710	710	694	753	–	753	753
Payments for capital assets	600	703	3 169	1 400	800	2 200	2 200
Machinery and equipment	600	703	3 169	1 400	800	2 200	2 200
Payments for financial assets	138 600	138 600	138 694	–	–	–	–
Total	350 590	555 549	540 001	230 231	123 111	353 342	353 342

Table 11.B Summary of expenditure on training

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2008/09	2009/10	2010/11		2011/12	2012/13	2013/14
Compensation of employees (R thousand)	70 445	75 220	83 058	100 017	105 759	111 284	118 083
Training expenditure (R thousand)	2 315	2 198	2 562	2 060	2 314	2 472	2 621
Training as percentage of compensation	3.3%	2.9%	3.1%	2.1%	2.2%	2.2%	2.2%
Total number trained in department (headcount)	173	252	256	128			
<i>of which:</i>							
Employees receiving bursaries (headcount)	36	36	31	33			
Internships (headcount)	22	22	18	19			
Households receiving bursaries (headcount)	4	–	3	33			

Table 11.C Summary of donor funding

Donor	Project	Departmental programme name	Period of commitment	Amount committed	Main economic classification	Spending focus	Audited outcome			Medium-term expenditure estimate			
							2008/09	2009/10	2010/11	Estimate 2011/12	2012/13	2013/14	2014/15
R thousand													
Foreign													
In cash													
Department for International Development	South African growth Strategic programme	Portfolio Management and Strategic Partnerships	1 year	2 136	Goods and services	Renewable and Industrial Policy Studies being developed	-	-	2 136	-	-	-	-
Department for International Development	South African growth Strategic programme	Portfolio Management and Strategic Partnerships	1 year	5 600	Goods and services	Procurement Development Programme being developed	-	-	5 600	-	-	-	-
In kind													
United Kingdom: International Development	Capacity building and technical skills transferred to the department	Portfolio Management and Strategic Partnerships	5 years	12 945	Goods and services	Increased levels of technical skills in the Department of Public Enterprises and ability to perform oversight function	-	-	-	-	-	-	-
United Kingdom: International Development	Support on electricity capacity building and technical skills transfer to energy sector	Portfolio Management and Strategic Partnerships	5 years	1 775	Goods and services	Increased levels of technical skills in the Department of Public Enterprises and ability to perform oversight function	-	-	-	-	-	-	-
United Kingdom: International Development	Support on non-core (including forestry), capacity building and technical skills transferred to forestry sector	Portfolio Management and Strategic Partnerships	5 years	1 577	Goods and services	Increased levels of technical skills in the Department of Public Enterprises and ability to perform oversight function	-	-	-	-	-	-	-

Table 11.C Summary of donor funding (continued)

Donor	Project	Departmental programme name	Period of commitment	Amount committed	Main economic classification	Spending focus	Audited outcome			Estimate	Medium-term expenditure estimate		
							2008/09	2009/10	2010/11		2012/13	2013/14	2014/15
R thousand United Kingdom: Department for International Development	Support on ports, capacity building and technical skills transfer to transport sector	Portfolio Management and Strategic Partnerships	5 years	655	Goods and services	Increased levels of technical skills in the Department of Public Enterprises and ability to perform oversight function	-	-	-	-	-	-	-
Total				24 688			-	-	7 736	-	-	-	-

National Treasury
BUDGET 2012
ESTIMATES OF NATIONAL EXPENDITURE

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REPUBLIC OF SOUTH AFRICA