20 YEARS OF FREEDOM

BUDGET 2014
ESTIMATES OF NATIONAL EXPENDITURE

VOTE 11 PUBLIC ENTERPRISES

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Estimates of National Expenditure

2014

National Treasury

Republic of South Africa

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The Estimates of National Expenditure 2014 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, which includes all national government budget votes, in respect of individual votes these e-publications contain more comprehensive coverage of goods and services, transfers and subsidies, and public entities. Additional tables are also 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.

"We know it well that none of us acting alone can achieve success. We must therefore act together as a united people, for national reconciliation, for nation building, for the birth of a new world. Let there be justice for all. Let there be peace for all. Let there be work, bread, water and salt for all. Let each know that for each the body, the mind and the soul have been freed to fulfil themselves."

UNION BUILDINGS, PRETORIA, 10 MAY 1994

national treasury

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National Treasury
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Foreword

The national development plan, Vision 2030 of the government of South Africa, states that 'Alongside hard work and effort, capabilities and the opportunities that flow from development enable individuals to live the lives to which they aspire.' The 2014 Budget has been prepared in the spirit of this statement.

While the medium term expenditure framework (MTEF) contained in the 2014 Budget ushers in the new administration after the May elections, the country faces a markedly different situation from that of 2009. In 2006/07 and 2007/08, South Africa achieved budget surpluses. In 2008, however, the worldwide economic crisis meant budget deficit forecasts were inevitable. It is now clear that the recovery in real economic growth has been less robust than initially anticipated. Despite this, the economy is growing and government revenue collection is broadly on target. The 2009 Budget announced a 'haircut' and reprioritisation within budget baselines. At that stage, the reassignment of R19 billion comprised 12 per cent of the total monetary value of amendments to budgets made, of R160.6 billion. By contrast, the reassignment of the R19.6 billion in the 2014 Budget comprises 51 per cent of the total of R38.8 billion in amendments to budgets. The quantum of amendments to the total budget that can be made has clearly decreased substantially over time.

Despite the fiscal environment becoming increasingly constrained, National Treasury has been able to sustain the intensity of the pursuit for budget efficiencies, with most of the fiscal space for improvements to service delivery being made through reprioritisation. This will be reinforced by procurement reform and expenditure review initiatives. While the current fiscal position no longer automatically creates room by making additional funding available, progress towards our country objectives of inclusive economic growth and employment creation must be made in the face of a tough fiscal environment. Therefore the main budget non-interest aggregate expenditure ceiling established in the 2013 Budget remains intact. New priorities and the expansion of existing programmes must be achieved through reprioritisation within the existing resource envelope.

The current fiscal context is necessitating hard trade-offs: difficult choices will need to be made in choosing between spending priorities and in deciding on the sequencing of programme implementation. Given the constraints brought to bear by the expenditure ceiling, all government institutions need to manage any cost pressures that may be related to changes in the inflation rate, exchange rate or any other factors affecting input prices with great efficiency. This means that not everything that we believe must be done, can be done at once. In the reprioritisation of existing funds, certain outputs will have to be delayed, or discontinued.

The issue is what goods and services tax-payers' monies 'buy'. In keeping with the ongoing endeavour to improve transparency and reinforce accountability, the focus of the sections on budget programme expenditure trends within each vote in the 2014 Estimates of National Expenditure (ENE) publications has shifted, to an explanation of the interrelationship between the significant changes in spending, performance outputs and outcomes, and in personnel.

National Treasury teams have worked closely with policy and budget teams of national and provincial departments, as well as with public entities and local government, ensuring the alignment of policy developments with the national development plan and scrutinising spending trends and cost drivers, ever mindful of service delivery. Without this cooperation and commitment across government, it would not be possible to submit the credible and comprehensive institutional budgets contained in this publication. The political guidance of the Minister of Finance, his Deputy and the members of the ministers' committee on the budget, has been indispensable to the medium term expenditure committee of accounting officers of departments at the centre of government, in its task of providing the strategic direction in formulating the budget. I thank you all for your assistance.

Lungisa Fuzile
Director-General: National Treasury

Introduction

The Estimates of National Expenditure publications

The Estimates of National Expenditure (ENE) publications are important accountability documents, which set out the details of planned expenditure and planned performance at the time the Budget is tabled. The 2014 ENE publications largely retain the same layout of information as presented in previous years' publications. This allows information to be easily compared across publications and financial years. As in the past, information is presented for a seven-year period and contains details of all national departmental programmes and subprogrammes. Information is presented in a similar way for the national public entities related to each department. For the first time in the ENE publications, in 2014, information on changes in finances, personnel and performance is brought together with the focus on the significant interrelationships between these changes. This discussion, in the expenditure trends sections of the budget programmes in each chapter, allows the reader to assess the effectiveness of past, as well as of planned, spending.

When compared to the abridged version of the ENE, which includes all national government votes, the ENE e-publications provide more detailed expenditure information for individual votes on goods and services as well as transfers and subsidies. While the abridged version of the ENE contains one additional table at the end of each vote which has information on infrastructure spending, the ENE e-publications' additional tables also contain summaries of: the budgeted expenditure and revised estimate for 2013/14, and the audited outcome for 2012/13, by programme and economic classification; expenditure on training; conditional grants to provinces and municipalities; departmental public private partnerships; and donor funding. In selected cases more detailed information at the level of the site of service delivery is included. Budget information is also provided for the public entities that are simply listed in the abridged publication.

A separate ENE Overview e-publication is also available, which contains a description at the main budget non-interest level, summarising the Estimates of National Expenditure publication information across votes. The Overview contains this narrative explanation and summary tables; and also has a write-up on interpreting the information that is contained in each section of the publications.

Public Enterprises

National Treasury

Republic of South Africa

Contents

Vote 11

Public Enterprises

Budget summary

	2014/15				2015/16	2016/17
R million	Total	Current payments	Transfers and subsidies	Payments for capital assets	Total	Total
MTEF allocation						
Administration	152.1	148.0	0.1	4.1	160.5	158.3
Legal and Governance	24.0	24.0	–	–	25.5	26.9
Portfolio Management and Strategic Partnerships	83.7	83.7	–	–	93.3	100.5
Total expenditure estimates	**259.8**	**255.6**	**0.1**	**4.1**	**279.3**	**285.6**

Executive authority	Minister of Public Enterprises
Accounting officer	Director General of Public Enterprises
Website address	www.dpe.gov.za

The Estimates of National Expenditure e-publications for individual votes are available on www.treasury.gov.za. These publications provide more comprehensive coverage of vote specific information, particularly about goods and services, transfers and subsidies, public entities, donor funding, public private partnerships, conditional grants to provinces and municipalities, expenditure on skills training, a revised spending estimate for the current financial year, and expenditure information at the level of service delivery, where appropriate.

Aim

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

Mandate

The mandate of the Department of Public Enterprises is to exercise shareholder responsibility over the following state owned companies that are central to the developmental objectives set out in the new growth path, the industrial policy action plan and the national development plan: Alexkor, Broadband Infraco, Denel, Eskom, South African Forestry Company Limited, South African Airways, South African Express Airways and Transnet. Except for Denel all the state owned companies are established in terms of their own legislation. The department is the custodian of all legislation relating to the establishment of the state owned companies. The department aims to ensure the sustainability of the state owned companies and supports the government's strategic priorities of economic growth, expanding employment and developing infrastructure.

The department exercises oversight responsibility over the state owned companies to support the delivery of key outcomes outlined in the national development plan. The state owned companies in the department's portfolio are the cornerstone of the economy in supporting the achievement of outcomes. Strengthening of oversight tools is crucial to ensure that the companies are aligned with the state's developmental agenda.

Strategic goals

2014/15 is the first year of focused implementation of the national development plan. The main goal of the department is to ensure that the state owned companies support the implementation of the national development plan and contribute to the achievement of outcomes outlined in the plan.

The strategic goals of the department over the next five years are to:

- ensure the alignment of state owned companies with developmental outcomes
- promote good corporate governance
- build internal capacity to enhance the department's ability to execute its strategic plan
- stabilise and strengthen the state owned companies, focusing on their balance sheets and funding options
- drive economic infrastructure investment to enhance the capacity of the economy, with emphasis on the strategic integrated projects

- leverage off state owned companies' procurement spend to support industrialisation and transformation.

Programme purposes

Programme 1: Administration

Purpose: Provide strategic management, direction and administrative support to the department that 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 state owned companies. Ensure alignment with government's strategic intent by, among others, monitoring the performance indicators of state owned companies.

Programme 3: Portfolio Management and Strategic Partnerships

Purpose: Align the strategies of the state owned companies with government policy and strategy, 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 the state owned companies, strategic customers, suppliers and financial institutions.

Selected performance indicators

Table 11.1 Public Enterprises

Indicator	Programme	Outcome	Past			Current	Projections		
			2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Number of shareholder compacts signed per year	Portfolio Management and Strategic Partnerships	Outcome 6: An efficient, competitive and responsive economic infrastructure network	8	7	7[1]	8	8	8	8
Number of corporate plans reviewed per year	Portfolio Management and Strategic Partnerships		8	8	5[2]	8	8	8	8
Number of quarterly financial reviews per year	Portfolio Management and Strategic Partnerships		32	31	32	32	32	32	32
Number of departmental projects provided with technical and financial support per year[3]	Portfolio Management and Strategic Partnerships		5	6	–	–	–	–	–

Targets were not achieved in the following areas:

1. *Shareholder compacts: South African Airways' targets for shareholder compacts for 2012/13 could not be agreed at the beginning of the financial year due to the department's not accepting the corporation's proposal to budget for a loss. South African Express Airways requested a downward revision of the 2012/13 shareholder compact targets from the targets agreed earlier as the basis for the fleet renewal programme, due to changes in the operating economic environment.*
2. *Corporate plans: Alexkor: the corporate plan was not assessed due to the board being given an opportunity to revise key performance indicators in line with the shareholder compact, which took longer than anticipated. South African Express Airways: the corporate plan was not signed due to the withdrawal of financial statements for 2010/11, which affected the setting of targets. Transnet: the corporate plan was not signed by the department due to the need for further engagement on the market demand strategy, which was a completely new strategy.*
3. *This process ceased to exist from 2012/13 as the department re-aligned its programmes.*

The national development plan

The department endorses the national development plan to improve the quality of public services at affordable prices. The department recognises the focus on investment in the economy of 30 per cent of GDP by 2030, and drives infrastructure plans within its portfolio of companies to support the investment driven economic growth strategy.

The department offers strategic direction to the state owned companies with regard to defining market demand, formulating infrastructure plans, addressing capital requirements and financing requirements to achieve the goals of the national development plan to attract private investors and reduce inequality. The department:

- promotes policy and regulatory clarity in sectors in which the state owned companies operate to stimulate investment
- facilitates industrialisation and localisation through leveraging state owned companies' investment capacity and procurement practices to address economic development imperatives
- improves the performance of state owned companies, particularly in relation to their rail and ports infrastructure and the reliable generation, transmission and distribution of electricity
- aims to improve the performance of South Africa's logistics through a shift from road to rail, by growing freight rail market share and improving port operations
- monitors the rollout of state owned companies' capital expenditure programmes in ports, rail and pipelines and improvements in aviation and in defence.

Expenditure estimates

Table 11.2 Public Enterprises

Programme	Audited outcome			Adjusted appropriation	Revised estimate	Average growth rate (%)	Expenditure/ total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expenditure/ total: Average (%)
R million	2010/11	2011/12	2012/13	2013/14		2010/11 - 2013/14		2014/15	2015/16	2016/17	2013/14 - 2016/17	
Administration	88.2	108.6	115.4	131.0	131.0	14.1%	17.4%	152.1	160.5	158.3	6.5%	53.8%
Legal and Governance	14.7	19.5	23.5	22.3	22.3	15.1%	3.1%	24.0	25.5	26.9	6.4%	8.8%
Portfolio Management and Strategic Partnerships	437.2	218.0	1 228.2	140.8	140.8	-31.5%	79.5%	83.7	93.3	100.5	-10.6%	37.4%
Total	**540.0**	**346.1**	**1 367.0**	**294.1**	**294.1**	**-18.3%**	**100.0%**	**259.8**	**279.3**	**285.6**	**-1.0%**	**100.0%**
Change to 2013 Budget estimate				57.3	57.3			–	–	–		
Economic classification												
Current payments	**160.1**	**185.1**	**195.7**	**234.5**	**234.5**	**13.5%**	**30.4%**	**255.6**	**275.6**	**281.7**	**6.3%**	**93.6%**
Compensation of employees	83.1	96.2	105.3	131.9	131.9	16.7%	16.3%	149.6	159.5	169.9	8.8%	54.6%
Goods and services	77.1	88.9	90.3	102.6	102.6	10.0%	14.1%	106.0	116.1	111.8	2.9%	39.0%
of which:												
Administration fees	*0.1*	*0.1*	*0.9*	*1.1*	*1.1*	*137.9%*	*0.1%*	*0.8*	*0.8*	*0.8*	*-8.2%*	*0.3%*
Advertising	*3.5*	*1.8*	*2.0*	*3.6*	*3.6*	*1.6%*	*0.4%*	*2.5*	*2.7*	*2.8*	*-8.2%*	*1.0%*
Assets less than the capitalisation threshold	*0.3*	*0.4*	*0.4*	*1.0*	*1.0*	*47.2%*	*0.1%*	*1.1*	*1.1*	*1.2*	*6.1%*	*0.4%*
Audit costs: External	*2.6*	*4.1*	*1.9*	*1.3*	*1.3*	*-20.5%*	*0.4%*	*2.2*	*2.3*	*2.4*	*22.9%*	*0.7%*
Bursaries: Employees	*0.9*	*0.6*	*0.4*	*1.0*	*1.0*	*2.9%*	*0.1%*	*1.0*	*1.1*	*1.1*	*3.5%*	*0.4%*
Catering: Departmental activities	*1.1*	*1.1*	*1.3*	*1.9*	*1.9*	*17.7%*	*0.2%*	*0.9*	*1.0*	*1.0*	*-17.6%*	*0.4%*
Communication	*2.4*	*3.3*	*3.7*	*3.4*	*3.4*	*12.3%*	*0.5%*	*3.6*	*4.0*	*4.2*	*6.7%*	*1.4%*
Computer services	*3.0*	*2.7*	*3.1*	*3.1*	*3.1*	*0.7%*	*0.5%*	*4.0*	*4.2*	*4.4*	*12.4%*	*1.4%*
Consultants and professional services: Business and advisory services	*26.8*	*26.8*	*23.0*	*30.0*	*30.0*	*3.8%*	*4.2%*	*37.6*	*43.7*	*35.2*	*5.5%*	*13.1%*
Consultants and professional services: Legal costs	*5.4*	*2.4*	*0.4*	*2.0*	*2.0*	*-28.3%*	*0.4%*	*3.2*	*3.3*	*3.4*	*19.4%*	*1.1%*
Contractors	*1.8*	*1.0*	*2.3*	*2.3*	*2.3*	*9.0%*	*0.3%*	*1.5*	*1.9*	*2.1*	*-3.7%*	*0.7%*
Agency and support / outsourced services	*2.9*	*2.5*	*4.1*	*3.6*	*3.6*	*7.5%*	*0.5%*	*4.0*	*4.1*	*4.2*	*6.1%*	*1.4%*
Entertainment	*0.0*	*0.1*	*0.0*	*0.4*	*0.4*	*151.8%*	*0.0%*	*0.3*	*0.3*	*0.3*	*-6.3%*	*0.1%*
Fleet services (including government motor transport)	*0.3*	*0.8*	*0.8*	*1.3*	*1.3*	*55.1%*	*0.1%*	*1.1*	*1.2*	*1.2*	*-1.8%*	*0.4%*
Inventory: Food and food supplies	*–*	*0.1*	*0.1*	*0.2*	*0.2*	*–*	*0.0%*	*–*	*–*	*–*	*-100.0%*	*0.0%*
Inventory: Materials and supplies	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*18.6%*	*0.0%*	*–*	*–*	*–*	*-100.0%*	*0.0%*
Consumable supplies	*–*	*–*	*0.0*	*0.0*	*0.0*	*–*	*0.0%*	*0.7*	*0.7*	*0.8*	*632.8%*	*0.2%*
Consumable: Stationery, printing and office supplies	*1.6*	*2.0*	*2.7*	*3.2*	*3.2*	*27.0%*	*0.4%*	*1.4*	*1.5*	*1.6*	*-20.4%*	*0.7%*

Table 11.2 Public Enterprises

Economic classification R million	Audited outcome 2010/11	2011/12	2012/13	Adjusted appropriation 2013/14	Revised estimate 2013/14	Average growth rate (%) 2010/11 - 2013/14	Expenditure/ total: Average (%) 2010/11 - 2013/14	Medium-term expenditure estimate 2014/15	2015/16	2016/17	Average growth rate (%) 2013/14 - 2016/17	Expenditure/ total: Average (%) 2013/14 - 2016/17
Operating leases	*2.8*	*1.7*	*1.8*	*0.7*	*0.7*	*-37.6%*	*0.3%*	*1.8*	*1.9*	*2.0*	*42.7%*	*0.6%*
Property payments	*5.4*	*6.9*	*9.1*	*8.1*	*8.1*	*14.2%*	*1.2%*	*8.5*	*8.9*	*9.4*	*5.0%*	*3.1%*
Travel and subsistence	*12.2*	*24.3*	*23.5*	*26.5*	*26.5*	*29.6%*	*3.4%*	*25.0*	*26.5*	*28.3*	*2.2%*	*9.5%*
Training and development	*1.6*	*2.4*	*1.6*	*2.2*	*2.2*	*10.8%*	*0.3%*	*2.0*	*2.1*	*2.2*	*-0.2%*	*0.8%*
Operating payments	*1.2*	*1.7*	*3.6*	*2.0*	*2.0*	*20.0%*	*0.3%*	*1.5*	*1.3*	*1.4*	*-12.4%*	*0.5%*
Venues and facilities	*1.0*	*1.9*	*3.3*	*3.6*	*3.6*	*53.1%*	*0.4%*	*1.5*	*1.6*	*1.7*	*-22.6%*	*0.7%*
Transfers and subsidies	**238.0**	**157.0**	**118.6**	**57.4**	**57.4**	**-37.8%**	**22.4%**	**0.1**	**0.1**	**0.1**	**-87.5%**	**5.2%**
Public corporations and private enterprises	237.3	156.3	118.3	57.3	57.3	-37.7%	22.3%	–	–	–	-100.0%	5.1%
Households	0.7	0.7	0.3	0.2	0.2	-39.3%	0.1%	0.1	0.1	0.1	-10.5%	0.0%
Payments for capital assets	**3.2**	**4.1**	**2.7**	**2.3**	**2.3**	**-10.3%**	**0.5%**	**4.1**	**3.6**	**3.8**	**18.4%**	**1.2%**
Machinery and equipment	3.2	3.9	2.6	2.3	2.3	-10.3%	0.5%	4.1	3.6	3.8	18.4%	1.2%
Software and other intangible assets	–	0.1	0.1	–	–	–	0.0%	–	–	–	–	–
Payments for financial assets	**138.7**	**0.0**	**1 050.0**	**–**	**–**	**-100.0%**	**46.7%**	**–**	**–**	**–**	–	–
Total	**540.0**	**346.1**	**1 367.0**	**294.1**	**294.1**	**-18.3%**	**100.0%**	**259.8**	**279.3**	**285.6**	**-1.0%**	**100.0%**

Personnel information

Table 11.3 Details of approved establishment and personnel numbers according to salary level[1]

	Number of posts estimated for 31 March 2014		Number and cost[2] of personnel posts filled / planned for on funded establishment															Number	
	Number of funded posts	Number of posts additional to the establishment	Actual 2012/13			Revised estimate 2013/14			Medium-term expenditure estimate 2014/15			2015/16			2016/17			Average growth rate (%) 2013/14 - 2016/17	Salary level/total: Average (%) 2013/14 - 2016/17
Public Enterprises			Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost		
Salary level	**222**	**31**	**172**	**105.3**	**0.6**	**243**	**131.9**	**0.5**	**265**	**149.6**	**0.6**	**265**	**159.5**	**0.6**	**265**	**169.9**	**0.6**	**2.9%**	**100.0%**
1 – 6	16	31	16	3.4	0.2	48	6.9	0.1	52	7.3	0.1	52	8.1	0.2	52	10.7	0.2	2.7%	19.7%
7 – 10	79	–	66	21.1	0.3	77	23.4	0.3	80	26.7	0.3	80	28.3	0.4	80	29.6	0.4	1.3%	30.5%
11 – 12	37	–	30	18.5	0.6	37	21.0	0.6	43	25.6	0.6	43	26.7	0.6	43	28.2	0.7	5.1%	16.0%
13 – 16	88	–	58	58.7	1.0	79	76.6	1.0	88	86.1	1.0	88	92.2	1.0	88	97.1	1.1	3.7%	33.0%
Other	2	–	2	3.7	1.8	2	3.9	1.9	2	3.9	1.9	2	4.1	2.1	2	4.4	2.2	–	0.8%

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

Expenditure trends

The spending focus over the medium term will continue to be on strengthening and expanding the department's capacity to carry out its oversight role in relation to the state owned companies, and improving internal efficiencies and the functioning of the department. This supports the national development plan's goals of growth, industrialisation, job creation and skills development. To this end, the personnel establishment is expected to increase over the medium term to 265 posts, including 6 graduates and 30 interns. At the end of November 2013 the department had 10 vacancies, mainly due to the scarcity of skills, but these will be filled by 2014/15. This is expected to increase expenditure on compensation of employees, which, at 54.6 per cent, is the largest spending item of the department's budget over the medium term. To carry out the department's high level stakeholder interactions, intergovernmental and coordinating activities, and general oversight role of the government's investment in state owned companies, personnel travel extensively domestically and internationally; and the department relies on the services of consultants who conduct highly technical research in the transport, manufacturing, energy and broadband sectors. As a result, travel and subsistence and consultants are the largest spending items in goods and services, and spending on these items is projected to increase over the medium term.

Between 2010/11 and 2013/14, certain state owned companies, such as Denel and Broadband Infraco, received non-periodic recapitalisation payments, which explains the significant fluctuations in spending in the *Portfolio Management and Strategic Partnerships* programme over this period. Spending in the programme is expected to decline significantly over the medium term as no recapitalisations are contemplated.

Departmental receipts

Table 11.4 Receipts

R thousand	Audited outcome 2010/11	Audited outcome 2011/12	Audited outcome 2012/13	Adjusted estimate 2013/14	Revised estimate 2013/14	Average growth rate (%) 2010/11 - 2013/14	Receipt/ total: Average (%) 2010/11 - 2013/14	Medium-term receipts estimate 2014/15	Medium-term receipts estimate 2015/16	Medium-term receipts estimate 2016/17	Average growth rate (%) 2013/14 - 2016/17	Receipt/ total: Average (%) 2013/14 - 2016/17
Departmental receipts	**266**	**66**	**537**	**174**	**340**	**8.5%**	**100.0%**	**102**	**107**	**110**	**-31.4%**	**100.0%**
Sales of goods and services produced by department	**44**	**51**	**56**	**52**	**52**	**5.7%**	**16.8%**	**50**	**52**	**53**	**0.6%**	**31.4%**
Other sales	44	51	56	52	52	5.7%	16.8%	50	52	53	0.6%	31.4%
of which:												
Garage rent	*31*	*35*	*36*	*35*	*35*	*4.1%*	*11.3%*	*36*	*37*	*38*	*2.8%*	*22.2%*
Commission insurance	*13*	*16*	*20*	*13*	*13*	*–*	*5.1%*	*14*	*15*	*15*	*4.9%*	*8.6%*
Replacement of security cards	*–*	*–*	*–*	*4*	*4*	*–*	*0.3%*	*–*	*–*	*–*	*-100.0%*	*0.6%*
Sales of scrap, waste, arms and other used current goods	**1**	**2**	**2**	**3**	**3**	**44.2%**	**0.7%**	**4**	**5**	**5**	**18.6%**	**2.6%**
of which:												
Sales of scrap paper	*1*	*2*	*2*	*3*	*3*	*44.2%*	*0.7%*	*4*	*5*	*5*	*18.6%*	*2.6%*
Interest, dividends and rent on land	**77**	**5**	**12**	**19**	**65**	**-5.5%**	**13.2%**	**20**	**21**	**22**	**-30.3%**	**19.4%**
Interest	77	5	12	19	65	-5.5%	13.2%	20	21	22	-30.3%	19.4%
Sales of capital assets	**5**	**8**	**–**	**–**	**–**	**-100.0%**	**1.1%**	**–**	**–**	**–**	**–**	**–**
Transactions in financial assets and liabilities	**139**	**–**	**467**	**100**	**220**	**16.5%**	**68.3%**	**28**	**29**	**30**	**-48.5%**	**46.6%**
Total	**266**	**66**	**537**	**174**	**340**	**8.5%**	**100.0%**	**102**	**107**	**110**	**-31.4%**	**100.0%**

Programme 1: Administration

Expenditure estimates

Table 11.5 Administration

Subprogramme R thousand	Audited outcome 2010/11	Audited outcome 2011/12	Audited outcome 2012/13	Adjusted appropriation 2013/14	Average growth rate (%) 2010/11 - 2013/14	Expenditure/ total: Average (%) 2010/11 - 2013/14	Medium-term expenditure estimate 2014/15	Medium-term expenditure estimate 2015/16	Medium-term expenditure estimate 2016/17	Average growth rate (%) 2013/14 - 2016/17	Expenditure/ total: Average (%) 2013/14 - 2016/17
Ministry	25 766	31 861	30 036	31 375	6.8%	26.9%	34 799	36 595	38 612	7.2%	23.5%
Management	5 198	8 240	4 173	10 346	25.8%	6.3%	18 180	24 238	15 187	13.6%	11.3%
Corporate Services	21 443	23 920	28 334	26 545	7.4%	22.6%	29 437	27 837	29 253	3.3%	18.8%
Chief Financial Officer	9 557	11 171	10 074	9 834	1.0%	9.2%	11 725	12 417	13 032	9.8%	7.8%
Human Resources	9 877	9 499	12 698	18 189	22.6%	11.3%	19 753	21 006	22 077	6.7%	13.5%
Communications	7 929	13 050	12 840	10 727	10.6%	10.1%	12 042	10 103	10 369	-1.1%	7.2%
Strategic Planning, Monitoring and Evaluation	–	–	3 379	4 850	–	1.9%	5 625	6 729	7 075	13.4%	4.0%
Intergovernmental Relations	–	–	1 772	7 158	–	2.0%	7 657	8 109	8 509	5.9%	5.2%
Internal Audit	3 009	4 285	3 276	4 250	12.2%	3.3%	4 823	4 976	5 202	7.0%	3.2%
Office Accommodation	5 413	6 609	8 785	7 758	12.7%	6.4%	8 082	8 518	8 970	5.0%	5.5%
Total	**88 192**	**108 635**	**115 367**	**131 032**	**14.1%**	**100.0%**	**152 123**	**160 528**	**158 286**	**6.5%**	**100.0%**
Change to 2013 Budget estimate				3 900			10 819	11 565	2 057		
Economic classification											
Current payments	**84 235**	**103 835**	**112 390**	**128 593**	**15.1%**	**96.8%**	**147 954**	**156 824**	**154 385**	**6.3%**	**97.6%**
Compensation of employees	42 657	51 287	56 714	66 372	15.9%	49.0%	70 972	75 533	79 333	6.1%	48.5%
Goods and services	41 578	52 548	55 676	62 221	14.4%	47.8%	76 982	81 291	75 052	6.4%	49.1%
of which:											
Administration fees	*79*	*131*	*718*	*261*	*48.9%*	*0.3%*	*810*	*817*	*823*	*46.6%*	*0.5%*
Advertising	*3 482*	*1 771*	*1 883*	*3 649*	*1.6%*	*2.4%*	*2 515*	*2 667*	*2 825*	*-8.2%*	*1.9%*
Assets less than the capitalisation threshold	*308*	*362*	*442*	*983*	*47.2%*	*0.5%*	*1 055*	*1 113*	*1 174*	*6.1%*	*0.7%*
Audit costs: External	*2 580*	*4 117*	*1 908*	*1 294*	*-20.5%*	*2.2%*	*2 200*	*2 300*	*2 400*	*22.9%*	*1.4%*
Bursaries: Employees	*917*	*629*	*393*	*1 000*	*2.9%*	*0.7%*	*1 000*	*1 054*	*1 110*	*3.5%*	*0.7%*
Catering: Departmental activities	*981*	*974*	*1 147*	*1 483*	*14.8%*	*1.0%*	*835*	*877*	*920*	*-14.7%*	*0.7%*
Communication	*2 054*	*2 864*	*3 344*	*2 639*	*8.7%*	*2.5%*	*2 759*	*3 026*	*3 188*	*6.5%*	*1.9%*
Computer services	*3 035*	*2 726*	*3 078*	*3 102*	*0.7%*	*2.7%*	*3 974*	*4 188*	*4 410*	*12.4%*	*2.6%*
Consultants and professional services: Business and advisory services	*1 847*	*3 237*	*2 325*	*7 456*	*59.2%*	*3.4%*	*20 901*	*21 726*	*12 321*	*18.2%*	*10.4%*
Consultants and professional services: Legal costs	*716*	*96*	*–*	*–*	*-100.0%*	*0.2%*	*1 000*	*1 000*	*1 000*	*–*	*0.5%*
Contractors	*1 779*	*983*	*2 130*	*2 302*	*9.0%*	*1.6%*	*1 476*	*1 941*	*2 059*	*-3.7%*	*1.3%*
Agency and support / outsourced services	*2 281*	*2 199*	*3 558*	*2 397*	*1.7%*	*2.4%*	*3 979*	*4 067*	*4 246*	*21.0%*	*2.4%*

Table 11.5 Administration

Economic classification	Audited outcome			Adjusted appropriation	Average growth rate (%)	Expenditure/ total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expenditure/ total: Average (%)
R thousand	2010/11	2011/12	2012/13	2013/14	2010/11 - 2013/14		2014/15	2015/16	2016/17	2013/14 - 2016/17	
Entertainment	*20*	*57*	*30*	*355*	*160.9%*	*0.1%*	*252*	*264*	*279*	*-7.7%*	*0.2%*
Fleet services (including government motor transport)	*349*	*765*	*805*	*1 261*	*53.4%*	*0.7%*	*1 108*	*1 168*	*1 232*	*-0.8%*	*0.8%*
Inventory: Food and food supplies	*–*	*122*	*113*	*199*	*–*	*0.1%*	*–*	*–*	*–*	*-100.0%*	*–*
Inventory: Fuel, oil and gas	*–*	*–*	*21*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Inventory: Materials and supplies	*30*	*61*	*63*	*50*	*18.6%*	*–*	*–*	*–*	*–*	*-100.0%*	*–*
Inventory: Medical supplies	*–*	*1*	*3*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Inventory: Other supplies	*49*	*24*	*25*	*19*	*-27.1%*	*–*	*–*	*–*	*–*	*-100.0%*	*–*
Consumable supplies	*–*	*–*	*34*	*2*	*–*	*–*	*708*	*747*	*787*	*632.8%*	*0.4%*
Consumable: Stationery, printing and office supplies	*1 553*	*2 021*	*2 616*	*3 120*	*26.2%*	*2.1%*	*1 361*	*1 502*	*1 607*	*-19.8%*	*1.3%*
Operating leases	*2 814*	*1 720*	*1 814*	*363*	*-49.5%*	*1.5%*	*1 790*	*1 887*	*1 986*	*76.2%*	*1.0%*
Property payments	*5 435*	*6 884*	*9 137*	*8 100*	*14.2%*	*6.7%*	*8 472*	*8 918*	*9 380*	*5.0%*	*5.8%*
Travel and subsistence	*8 621*	*16 418*	*14 838*	*17 108*	*25.7%*	*12.9%*	*16 392*	*17 690*	*18 733*	*3.1%*	*11.6%*
Training and development	*1 259*	*1 932*	*1 068*	*1 990*	*16.5%*	*1.4%*	*2 004*	*2 112*	*2 223*	*3.8%*	*1.4%*
Operating payments	*1 031*	*1 078*	*2 352*	*1 938*	*23.4%*	*1.4%*	*1 491*	*1 278*	*1 350*	*-11.4%*	*1.0%*
Venues and facilities	*358*	*1 376*	*1 831*	*1 150*	*47.5%*	*1.1%*	*900*	*949*	*999*	*-4.6%*	*0.7%*
Transfers and subsidies	**694**	**723**	**227**	**155**	**-39.3%**	**0.4%**	**100**	**105**	**111**	**-10.5%**	**0.1%**
Households	694	723	227	155	-39.3%	0.4%	100	105	111	-10.5%	0.1%
Payments for capital assets	**3 169**	**4 071**	**2 742**	**2 284**	**-10.3%**	**2.8%**	**4 069**	**3 599**	**3 790**	**18.4%**	**2.3%**
Machinery and equipment	3 169	3 922	2 649	2 284	-10.3%	2.7%	4 069	3 599	3 790	18.4%	2.3%
Software and other intangible assets	–	149	93	–	–	0.1%	–	–	–	–	–
Payments for financial assets	**94**	**6**	**8**	**–**	**-100.0%**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**88 192**	**108 635**	**115 367**	**131 032**	**14.1%**	**100.0%**	**152 123**	**160 528**	**158 286**	**6.5%**	**100.0%**
Proportion of total programme expenditure to vote expenditure	**16.3%**	**31.4%**	**8.4%**	**44.5%**			**58.6%**	**57.5%**	**55.4%**		

Details of transfers and subsidies											
Households											
Other transfers to households											
Current	**694**	**723**	**227**	**155**	**-39.3%**	**0.4%**	**100**	**105**	**111**	**-10.5%**	**0.1%**
Gifts and donations	694	723	93	100	-47.6%	0.4%	100	105	111	3.5%	0.1%
Employee social benefits	–	–	134	55	–	–	–	–	–	-100.0%	–

Personnel information

Table 11.6 Details of approved establishment and personnel numbers according to salary level[1]

	Number of posts estimated for 31 March 2014		Number and cost[2] of personnel posts filled / planned for on funded establishment															Number	
	Number of funded posts	Number of posts additional to the establishment	Actual			Revised estimate			Medium-term expenditure estimate									Average growth rate (%)	Salary level/total: Average (%)
			2012/13			2013/14			2014/15			2015/16			2016/17			2013/14 - 2016/17	
Administration			Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost		
Salary level	**126**	**15**	**103**	**56.7**	**0.6**	**138**	**66.4**	**0.5**	**141**	**71.0**	**0.5**	**141**	**75.5**	**0.5**	**141**	**79.3**	**0.6**	**0.7%**	**100.0%**
1 – 6	16	15	16	3.4	0.2	32	4.7	0.1	30	4.3	0.1	30	4.6	0.2	30	4.8	0.2	-2.1%	21.7%
7 – 10	54	–	43	14.0	0.3	52	15.7	0.3	56	18.9	0.3	56	20.0	0.4	56	21.0	0.4	2.5%	39.2%
11 – 12	21	–	17	9.8	0.6	19	11.4	0.6	23	14.0	0.6	23	14.9	0.6	23	15.7	0.7	6.6%	15.7%
13 – 16	33	–	25	25.8	1.0	33	30.7	0.9	30	29.8	1.0	30	31.9	1.1	30	33.5	1.1	-3.1%	21.9%
Other	2	–	2	3.7	1.8	2	3.9	1.9	2	3.9	1.9	2	4.1	2.1	2	4.4	2.2	–	1.4%

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

Expenditure trends

The spending focus over the medium term will be on supporting the department in playing its oversight role over state owned companies by providing administrative support to the minister, and corporate and human resource services to the department. The programme will also focus on improving the department’s efficiency and productivity by reconfiguring its business, which will enable it to carry out its mandate; and will put in place a three-year rolling evaluation plan to assess the impact of programmes implemented by the department and the state owned companies. Thus over the medium term, the bulk of the programme’s allocation will be spent on compensation of employees, who provide technical and administrative support to the department. Spending on this item is projected to grow following the reconfiguration. This will result in the number of personnel increasing from 138 in 2013/14 to 141 in 2016/17. There were 3 vacancies as at 30 November 2013 due to resignations; the vacancies are expected to be filled by 2014/15. The increase in expenditure on compensation of employees between 2010/11 and 2013/14 was due to additional funding for improved conditions of service and to fund the increase in the number of personnel needed to take up roles in the *Strategic Planning, Monitoring and Evaluation* and *Intergovernmental Relations* subprogrammes, which deal with international and intergovernmental issues and performance monitoring and evaluation processes for individual programmes.

Directly related to the growth in personnel is an increase in expenditure on goods and services. Within this, significant items are consultants and professional services. These provide the specialist expertise required particularly in the transport, manufacturing, energy and broadband sectors. Over the medium term, expenditure on consultants is expected to increase due to the reassignment of consultants from the *Portfolio Management and Strategic Partnerships* programme to this *Administration* programme, following the reorganisation of the department's programmes. The consultants support the minister and director general in achieving the department's strategy.

Programme 2: Legal and Governance

Objectives

- Ensure effective shareholder oversight of state owned companies by:
  - providing legal services and corporate governance systems
  - facilitating the implementation of all legal aspects of transactions that are strategically important to the department and state owned companies
  - ensuring that financial and operational risk management processes are embedded throughout the department as and when required, over the medium term
  - 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)
  - providing guidance on appropriate delegation frameworks between the state owned company boards and executive management on a regular basis
  - advising the minister regularly on the appointment of boards of directors, preparation for annual general meetings, conducting annual reviews of ownership policies, governance, appointments, remuneration, and the performance of the boards and executive management.

Subprogrammes

- *Management* comprises the office of the deputy director general, which provides strategic leadership and management of the programme's personnel. This subprogramme had a staff complement of 2 in 2013/14.
- *Legal* provides internal legal services and oversight support to sector teams. This entails providing legal services, including transaction and contract management support, to the department, as well as work related to sector teams' oversight of the commercial activities of the state owned companies within their portfolios. In 2013/14, the liquidator of Aventura, appointed in March 2013, was assisted in confirming claims by the company's creditors. The creditors first met in October 2013 and the liquidator is currently awaiting the convening of a second meeting by the master of the high court, in which the creditors will attempt to prove their claims. In addition, the disbursement of Diabo Share Trust funds continued, with 1 364 beneficiaries successfully tracked and paid. The subprogramme had a staff complement of 11 in 2013/14.
- *Governance* develops, monitors and advises on legislative, corporate governance and shareholder management systems for the department and its portfolio of state owned companies. In 2013/14, the 2013 annual general meeting cycle was successfully coordinated, with seven state owned companies' annual reports tabled and compliant with Public Finance Management Act (1999) requirements. Six state owned

companies’ memorandums of incorporation were approved in compliance with the new Companies Act (2008). In November 2012, Cabinet considered the new state owned companies remuneration and incentive standards for non-executive directors, executive directors and prescribed officers. This was followed by consultation with national government departments to ensure that the standards addressed the many challenges encountered in the current remuneration model. These consultations have been concluded and refinement of the standards is underway, for resubmission to Cabinet in 2014/15. The new standards will require state owned companies to be more accountable for and transparent about remuneration and incentives. Risk and compliance management is a unit within this subprogramme and it is responsible for developing and implementing risk and compliance management guidelines and systems, providing risk advisory services and overseeing compliance with laws and regulations. In 2013/14, work continued on implementing an integrated system of risk management, in accordance with the approved enterprise risk management framework, policy and strategy, and compliance policy. The department’s legislative universe has been established within the unit to ensure compliance with legislation. This unit had a staff complement of 6 in 2013/14.

Expenditure estimates

Table 11.7 Legal and Governance

Subprogramme	Audited outcome			Adjusted appropriation	Average growth rate (%)	Expenditure/ total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expenditure/ total: Average (%)
R thousand	2010/11	2011/12	2012/13	2013/14	2010/11 - 2013/14		2014/15	2015/16	2016/17	2013/14 - 2016/17	
Management	1 581	1 822	2 252	2 089	9.7%	9.7%	2 826	2 999	3 158	14.8%	11.2%
Legal	10 340	12 775	13 370	11 789	4.5%	60.4%	12 919	13 737	14 461	7.0%	53.6%
Governance	2 732	4 921	7 855	8 460	45.8%	30.0%	8 222	8 800	9 266	3.1%	35.2%
Total	**14 653**	**19 518**	**23 477**	**22 338**	**15.1%**	**100.0%**	**23 967**	**25 536**	**26 885**	**6.4%**	**100.0%**
Change to 2013 Budget estimate				(1 500)			(1 119)	(1 180)	(1 243)		
Economic classification											
Current payments	**14 653**	**19 518**	**23 450**	**22 338**	**15.1%**	**100.0%**	**23 967**	**25 536**	**26 885**	**6.4%**	**100.0%**
Compensation of employees	6 453	13 206	14 111	15 429	33.7%	61.5%	18 198	19 459	20 486	9.9%	74.5%
Goods and services	8 200	6 312	9 339	6 909	-5.6%	38.5%	5 769	6 077	6 399	-2.5%	25.5%
of which:											
Administration fees	–	–	*148*	–	–	*0.2%*	–	–	–	–	–
Advertising	–	–	*41*	–	–	*0.1%*	–	–	–	–	–
Assets less than the capitalisation threshold	–	–	*2*	–	–	–	–	–	–	–	–
Catering: Departmental activities	*51*	*54*	*74*	*71*	*11.7%*	*0.3%*	*24*	*24*	*27*	*-27.6%*	*0.1%*
Communication	*79*	*78*	*124*	*125*	*16.5%*	*0.5%*	*204*	*215*	*226*	*21.8%*	*0.8%*
Consultants and professional services: Business and advisory services	*2 404*	*422*	*4 322*	*2 924*	*6.7%*	*12.6%*	*1 450*	*1 529*	*1 610*	*-18.0%*	*7.6%*
Consultants and professional services: Legal costs	*4 557*	*2 300*	*430*	*2 000*	*-24.0%*	*11.6%*	*2 166*	*2 282*	*2 402*	*6.3%*	*9.0%*
Contractors	–	*28*	*84*	–	–	*0.1%*	–	–	–	–	–
Agency and support / outsourced services	*576*	*343*	*552*	*705*	*7.0%*	*2.7%*	–	–	–	*-100.0%*	*0.7%*
Entertainment	*6*	*1*	*2*	*8*	*10.1%*	–	*14*	*15*	*15*	*23.3%*	*0.1%*
Inventory: Materials and supplies	–	*24*	–	–	–	–	–	–	–	–	–
Inventory: Medical supplies	–	–	*2*	–	–	–	–	–	–	–	–
Consumable: Stationery, printing and office supplies	–	*2*	*74*	*1*	–	*0.1%*	–	–	–	*-100.0%*	–
Operating leases	–	–	–	*5*	–	–	–	–	–	*-100.0%*	–
Travel and subsistence	*402*	*2 547*	*2 753*	*775*	*24.5%*	*8.1%*	*1 831*	*1 928*	*2 030*	*37.8%*	*6.6%*
Training and development	*34*	*120*	*170*	*191*	*77.8%*	*0.6%*	–	–	–	*-100.0%*	*0.2%*
Operating payments	*48*	*275*	*325*	*24*	*-20.6%*	*0.8%*	–	–	–	*-100.0%*	–
Venues and facilities	*43*	*118*	*236*	*80*	*23.0%*	*0.6%*	*80*	*84*	*89*	*3.6%*	*0.3%*
Transfers and subsidies	**–**	**–**	**27**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Households	–	–	27	–	–	–	–	–	–	–	–
Total	**14 653**	**19 518**	**23 477**	**22 338**	**15.1%**	**100.0%**	**23 967**	**25 536**	**26 885**	**6.4%**	**100.0%**
Proportion of total programme expenditure to vote expenditure	**2.7%**	**5.6%**	**1.7%**	**7.6%**			**9.2%**	**9.1%**	**9.4%**		
Details of transfers and subsidies											
Households											
Other transfers to households											
Current	**–**	**–**	**27**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Employee social benefits	–	–	27	–	–	–	–	–	–	–	–

Personnel information

Table 11.8 Details of approved establishment and personnel numbers according to salary level[1]

	Number of posts estimated for 31 March 2014		Number and cost[2] of personnel posts filled / planned for on funded establishment																Number	
	Number of funded posts	Number of posts additional to the establishment	Actual			Revised estimate			Medium-term expenditure estimate										Average growth rate (%)	Salary level/total: Average (%)
			2012/13			2013/14			2014/15			2015/16			2016/17				2013/14 - 2016/17	
Legal and Governance			**Number**	**Cost**	**Unit Cost**	**Number**	**Cost**	**Unit Cost**	**Number**	**Cost**	**Unit Cost**	**Number**	**Cost**	**Unit Cost**	**Number**	**Cost**	**Unit Cost**			
Salary level	**19**	**3**	**20**	**14.1**	**0.7**	**19**	**15.4**	**0.8**	**27**	**18.2**	**0.7**	**27**	**19.5**	**0.7**	**27**	**20.5**	**0.8**		**12.4%**	**100.0%**
1 – 6	–	3	–	–	–	3	0.7	0.2	5	0.7	0.1	5	0.7	0.1	5	0.7	0.1		18.6%	18.0%
7 – 10	4	–	6	1.5	0.2	5	1.8	0.4	4	1.3	0.3	4	1.4	0.3	4	1.5	0.4		-7.2%	17.0%
11 – 12	1	–	3	1.4	0.5	3	1.4	0.5	3	1.6	0.5	3	1.7	0.6	3	1.8	0.6		–	12.0%
13 – 16	14	–	11	11.2	1.0	8	11.6	1.5	15	14.6	1.0	15	15.6	1.0	15	16.5	1.1		23.3%	53.0%

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

Expenditure trends

The spending focus over the medium term will be on increasing the programme’s capacity to provide legal services and transaction and contract management support; and on facilitating the creation of a legislative framework for the department’s mandate to ensure compliance with applicable legislation and enhance corporate governance procedures by state owned companies. As a result, the *Legal* and *Governance* subprogrammes receive the bulk of the programme’s allocation over the medium term. In line with the laws governing state owned companies, the Minister of Public Enterprises is obliged to exercise care in carrying out these responsibilities. Specialist corporate legal expertise is frequently required to assist on issues including proposals by state owned companies, and the assessment of contractual obligations and transactions. Spending on consultants who provide legal services decreased between 2010/11 and 2013/14 as internal capacity to perform this function increased. However, due to an increase in transaction services, contractual arrangements and governance arrangements, spending on legal costs is expected to increase over the medium term.

Over the medium term, 74.5 per cent of the programme’s budget is allocated to spending on compensation of employees, with the number of personnel projected to increase from 19 in 2013/14 to 27 posts in 2016/17. The projected increase in the establishment and its effect on compensation of employees is a continuation of the trend observable between 2010/11 and 2013/14. There were 3 vacancies as at 30 November 2013 due to the scarcity of skills in these sector specific areas. However, these vacancies are in the process of being filled.

Programme 3: Portfolio Management and Strategic Partnerships

Objectives

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 information and communication technology sectors on an ongoing basis.
- Contribute to the enhancement of the performance of state owned companies by:
  - evaluating corporate plans to determine whether state owned companies’ performance aligns with agreed key performance indicators, and providing advice and guidance to their boards on an ongoing basis
  - monitoring 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, electricity generation and distribution efficiency, and its reserve margins on an ongoing basis

  - ensuring that Eskom supplies electricity by monitoring, evaluating and engaging with Eskom on system security and the new build programme to alleviate constraints on an ongoing basis
  - monitoring the rollout of the capital investment programme to ensure it is delivered on time, is of appropriate quality and within budget.
- Ensure the legal and regulatory compliance of Eskom by regularly engaging with relevant stakeholders such as the departments of Energy, Environmental Affairs and Water Affairs and with the National Energy Regulator of South Africa regarding policies and regulations affecting Eskom.
- Reduce Eskom's dependence on funding from the fiscus by monitoring cost escalations for its capital investment programme and operations in order to cost effectively roll out the build programme.
- Exercise oversight to ensure that Eskom's capital investment supports local supplier industries by monitoring the implementation of the competitive supplier development programme and evaluating the company's quarterly reports to assess progress.
- Ensure the care and maintenance of the Pebble Bed Modular Reactor Company in accordance with the Cabinet decision that Eskom is to host the company.

Broadband Infraco

- Support Broadband Infraco in securing government as an anchor client after the finalisation of the information, communication and technology strategy and the broadband implementation plan, thus contributing to its long term sustainability, which will reduce reliance on government for recapitalisation of the company.
- Support increased access to broadband by:
  - monitoring Broadband Infraco's capital expenditure programmes for rolling out the national long distance backhaul infrastructure on an annual basis
  - monitoring the establishment of broadband access points in major cities and under-serviced areas from 5 in 2011/12 to 18 in 2014/15
  - monitoring the implementation of the national, regional and international investment programme as well as providing strategic financial and transactional analysis including interfacing with investors and strategic stakeholders across the sector on an ongoing basis.

Manufacturing Enterprises

- Ensure continuous alignment between shareholder strategic intent and the objectives of state owned companies in the defence, mining and forestry sector by annually reviewing their enterprise strategies and mandates in the context of industry and policy shifts, and alert their boards and enterprises to material deviations.
- Support state owned companies in delivering on their outcomes as set out in the shareholder compacts and corporate plans by benchmarking key performance measures annually and analysing quarterly and annual reports in order to assess the extent of progress.
- Collaborate with other state owned companies to contribute to achieving the national economic development objectives.

Denel

- Oversee the development of a long term growth strategy to achieve financial stability and growth of manufactured export products.
- Leverage off the company's advanced manufacturing capability through securing work packages in support of the industrialisation drive aligned with the industrial policy action plan.
- Monitor the implementation of the turnaround plan over the medium term to ensure Denel's sustainability
- Conclude a study to review strategic equity partnerships with multinational companies to address matters such as intellectual property ownership, market access and broad terms of consolidation of original equipment manufacturers in the defence market over the medium term.
- Conclude a study by 2014/15 to review the economic impact derived from the Rooivalk attack helicopter manufacturing programme and apply benefits and lessons learned to other Denel programmes.

Alexkor

- Monitor the implementation of Alexkor's strategy on an ongoing basis to diversify into coal and lime mining and monitor the implementation of the pooling and sharing joint venture turnaround strategy to ensure increased production and promote financial stability of the joint venture.
- Develop a collaborative model with the state owned mining company over the medium term.
- Support and coordinate the joint efforts of the departments of Public Enterprises, Mineral Resources, and Rural Development and Land Reform to stabilise the Richtersveld region and use revenues to develop sustainable economic activities linked to the agricultural sector on an ongoing basis.

South African Forestry Company

- Oversee the implementation of the land restitution strategy for claims over the Komatieland Forests land claims settlement model, to ensure meaningful benefits to the successful land claimants over the medium term.
- Oversee the formulation and implementation of the South African Forestry Company corporate strategy, within the forestry sector over the medium term.
- Engage with the Department of Rural Development and Land Reform to warehouse the South African Forestry Company shares in privatised plantations, in terms of the company strategy over the medium term.

Transport Enterprises

- Ensure the alignment of the corporate strategies of Transnet, South African Airways and South African Express Airways with government's strategic intent and ensure that these state owned transport companies remain competitive, financially sustainable, and deliver an optimal service to the economy.
- Support Transnet, South African Airways and South African Express Airways in delivering their outcomes by identifying appropriate benchmarks and key performance measures for their respective shareholder compacts and corporate plans and assess their performance on a quarterly and annual basis.
- Create an enabling environment for transport enterprises and ensure an appropriate balance between the enterprises' interests, sustainability and developmental objectives by engaging with policy departments and relevant regulators at least once every quarter to discuss and resolve areas of misalignment; and inform the boards of Transnet, South African Airways and South African Express Airways accordingly.
- Implement the national corridor performance measurement system, over the medium term, which will identify inefficiencies in the logistics systems in South Africa; contribute to increased competitiveness; ensure an appropriate modal split between road, rail and pipeline services; ensure effective utilisation of the existing logistics infrastructure; and identify those areas that legitimately qualify for investment and upgrade.
- Contribute to and facilitate the national transport policy formulation, as and when required, to achieve improvements in passenger and cargo movements.

Transnet

- Provide oversight of Transnet's implementation of the market demand strategy to 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 and potential cost overruns and time delays on major capital projects; and take necessary action when there are deviations.
- Ensure that Transnet operates an efficient, competitive and responsive transport and logistics system by:
  - reviewing the logistics cost in the economy and finalising the methodology to measure Transnet's contribution to transport costs as a percentage of Gross Domestic Product; this will be completed in March 2016
  - overseeing the introduction of multiple private rail operators on the branch line network to revitalise the rail network, and quantifying the operational efficiency of freight corridors to realise socioeconomic benefits by March 2015
  - monitoring the implementation of the competitive supplier development programme to leverage off Transnet's locomotive fleet procurement for the development of local railway supplier industries by evaluating progress towards achieving localisation targets in the Transnet quarterly and annual reports.

South African Airways and South African Express Airways

- Monitor and assist with the implementation of South African Airways' long term turnaround strategy and South African Express Airways' 20:20 vision strategy, on an ongoing basis.
- Provide strategic guidance as and when required to strengthen the financial positions of South African Airways and South African Express Airways to ensure their long-term sustainability.
- Monitor the development of economic regulation and competition policy applications, over the medium term, to ensure that the achievement of the state owned companies' strategic objectives is not compromised.
- Support the implementation of transformation at South African Airways and South African Express Airways in support of national policies and economic growth, over the medium term, with a specific focus on skills development; job creation; procurement that supports broad based economic empowerment; and corporate social investments targeted at designated groups such as youth, women, people with disabilities, and cooperatives.
- Lead the formulation of policies and strategies for the sustainability of the airlines and improvements within the aviation sector and related systems over the medium term.
- Monitor the development of the West Africa aviation hub in support of the department's Africa strategy, which focuses on regional infrastructure development to improve South African aviation.

Economic Impact and Policy Alignment

- Conduct macro-economic modelling, and research and impact assessments, over the medium term, to ensure that state owned companies are contributing to economic growth; enhance the alignment between national industrial and macro-economic policies and the role of state owned companies; and monitor the implementation of these objectives.
- Develop frameworks and guidelines to ensure that state owned companies comply and align with environmental laws and policies to optimise their role in reducing carbon emissions and developing the green economy, while supporting the companies' business needs; and monitor the implementation of these objectives on an ongoing basis.
- Develop frameworks and guidelines for the economic and social transformation agendas of state owned companies to ensure their support for and alignment with national policies and economic growth, with a specific focus on skills development, job creation, procurement that supports broad based economic empowerment, and corporate social investments targeted at designated groups; and monitor the implementation and measure the impact of these objectives on an ongoing basis.
- Develop a strategy to guide and optimise the disposal of state owned companies' non-core property in support of the national economic development objectives of transformation, industrialisation, increased employment, and economic growth; and monitor the implementation and measure the impact of these objectives on an ongoing basis.

Strategic Partnerships

- Identify and oversee major investment projects, as and when required, by defining at least one catalytic investment to be driven by the department; and oversee the project implementation from pre-feasibility to completion, including the design of relevant compacts.
- Secure funding for major investment projects by developing innovative funding structures and designing associated compacts with relevant partners, on an ongoing basis.
- Leverage off state owned companies' procurement programmes to drive industrialisation and create jobs by developing overarching procurement leverage policies, overseeing fleet procurement design and implementation, establishing collaborative initiatives between state owned companies and large customers, and developing and implementing capability building programmes and institutions, on an ongoing basis.

Subprogrammes

- *Energy and Broadband Enterprises* manages the portfolio of state owned companies whose focus is energy and broadband, including Eskom, and Broadband Infraco. In 2013/14, the department supported Eskom with its multi-year price determination application, which determined Eskom's revenue requirements for the next five years. In 2013/14, the department focused on the completion and protection of the state's intellectual property strategy and on monitoring the implementation of the care and maintenance of the Pebble Bed Modular Reactor Company. This subprogramme had a staff complement of 23 in 2013/14.

- *Manufacturing Enterprises* exercises shareholder oversight over Denel, Alexkor and the South African Forestry Company. In 2013/14 the development, and Cabinet approval, of Denel's turnaround plan was monitored, with implementation progressing satisfactorily and the company recording positive financial results. In 2013/14, the department continued to monitor the execution of activities linked to the deed of settlement with the Richtersveld community supported by the transfer of R350 million in 2012/13 to help Alexkor meet all its obligations related to that settlement. The South African Forestry Company's new role as an agent for rural economic development was finalised and the board has been strengthened with the requisite skills in order to carry out their mandate. This subprogramme had a staff complement of 14 in 2013/14.
- *Transport Enterprises* exercises shareholder oversight over Transnet, South African Airways and South African Express Airways. The department closely monitored the implementation of the Transnet market demand strategy capital roll out programme and other key projects. The department was instrumental in setting the parameters for the development of the South African Airways long term turnaround strategy that was finalised in 2013/14. This subprogramme had a staff complement of 21 in 2013/14.
- *Economic Impact and Policy Alignment* aligns state owned companies with overarching government economic, social and environmental policies. The subprogramme is organised into: management, which provides strategic leadership and management of the subprogramme's personnel; environmental policy alignment, which oversees alignment and implementation of state owned companies' strategically important developments, with a special focus on the Eskom and Transnet build programmes, and provides oversight and alignment of the climate change policy framework for state owned companies in support of national policies and the green economy; economic policy alignment, which focuses on appropriate macroeconomic modelling and research to enhance the links between industrial policy, macroeconomic policy and the role of state owned companies; transformation, skills development and youth development, which focuses on the provision of scarce and critical skills by the state owned companies in support of the national skills agenda and the new growth path, as well as optimising the state owned companies' skills training facilities through national skills funding. In 2013/14 the subprogramme analysed and monitored the state owned companies' dashboards and completed a transformation dialogue report. It had a staff complement of 11 in 2013/14.
- *Strategic Partnerships* ensures that state owned companies maintain commercial sustainability and attain desired strategic outcomes and objectives. The subprogramme is organised into: management, which provides strategic leadership and management of the subprogramme's personnel; project oversight, which defines catalytic investments that are to be driven by the department, and oversees project implementation from pre-feasibility to completion; funding mechanisms, which assists in developing innovative funding structures and designing associated compacts with relevant partners; and supplier relationships, which develops overarching procurement leverage policies, oversees fleet procurement design and implementation, including panel reviews, and develops and implements capability building programmes and institutions. This subprogramme had a staff complement of 8 in 2013/14.

Expenditure estimates

Table 11.9 Portfolio Management and Strategic Partnerships

Subprogramme	Audited outcome			Adjusted appropri-ation	Average growth rate (%)	Expen-diture/ total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expen-diture/ total: Average (%)
R thousand	2010/11	2011/12	2012/13	2013/14	2010/11 - 2013/14		2014/15	2015/16	2016/17	2013/14 - 2016/17	
Energy and Broadband Enterprises	170 857	56 488	13 944	17 731	-53.0%	12.8%	17 708	21 082	22 032	7.5%	18.8%
Manufacturing Enterprises	225 595	123 423	1 178 268	72 896	-31.4%	79.1%	18 131	17 975	18 796	-36.4%	30.6%
Transport Enterprises	19 077	18 752	20 030	20 089	1.7%	3.9%	24 297	25 038	24 089	6.2%	22.4%
Economic Impact and Policy Alignment	10 134	11 744	9 990	19 139	23.6%	2.5%	13 286	14 054	14 637	-8.6%	14.6%
Strategic Partnerships	11 493	7 555	5 973	10 914	-1.7%	1.8%	10 274	15 111	20 897	24.2%	13.7%
Total	**437 156**	**217 962**	**1 228 205**	**140 769**	**-31.5%**	**100.0%**	**83 696**	**93 260**	**100 451**	**-10.6%**	**100.0%**
Change to 2013 Budget estimate				54 850			(9 700)	(10 385)	(814)		

Table 11.9 Portfolio Management and Strategic Partnerships

Economic classification	Audited outcome			Adjusted appropri-ation	Average growth rate (%)	Expen-diture/ total: Average (%)	Medium-term expenditure estimate			Average growth rate (%)	Expen-diture/ total: Average (%)
R thousand	2010/11	2011/12	2012/13	2013/14	2010/11 - 2013/14		2014/15	2015/16	2016/17	2013/14 - 2016/17	
Current payments	**61 260**	**61 707**	**59 821**	**83 519**	**10.9%**	**13.2%**	**83 696**	**93 260**	**100 451**	**6.3%**	**86.3%**
Compensation of employees	33 948	31 665	34 502	50 086	13.8%	7.4%	60 404	64 535	70 126	11.9%	58.6%
Goods and services	27 312	30 042	25 319	33 433	7.0%	5.7%	23 292	28 725	30 325	-3.2%	27.7%
of which:											
Administration fees	–	–	–	*803*	–	–	–	–	–	*-100.0%*	*0.2%*
Advertising	–	*7*	*38*	–	–	–	–	–	–	–	–
Catering: Departmental activities	*112*	*108*	*120*	*313*	*40.9%*	–	*90*	*95*	*98*	*-32.1%*	*0.1%*
Communication	*298*	*318*	*273*	*675*	*31.3%*	*0.1%*	*682*	*720*	*759*	*4.0%*	*0.7%*
Consultants and professional services: Business and advisory services	*22 558*	*23 156*	*16 348*	*19 601*	*-4.6%*	*4.0%*	*15 200*	*20 418*	*21 298*	*2.8%*	*18.3%*
Consultants and professional services: Legal costs	*146*	–	–	–	*-100.0%*	–	–	–	–	–	–
Contractors	*1*	*1*	*36*	*2*	*26.0%*	–	–	–	–	*-100.0%*	–
Agency and support / outsourced services	–	–	–	*450*	–	–	–	–	–	*-100.0%*	*0.1%*
Entertainment	–	*2*	–	*52*	–	–	*46*	*47*	*47*	*-3.3%*	–
Fleet services (including government motor transport)	–	–	–	*41*	–	–	–	–	–	*-100.0%*	–
Inventory: Clothing material and accessories	–	–	–	*14*	–	–	–	–	–	*-100.0%*	–
Inventory: Materials and supplies	–	–	*1*	–	–	–	–	–	–	–	–
Inventory: Medical supplies	–	–	*3*	–	–	–	–	–	–	–	–
Inventory: Medicine	–	–	*2*	–	–	–	–	–	–	–	–
Consumable: Stationery, printing and office supplies	*2*	*5*	*3*	*65*	*219.1%*	–	–	–	–	*-100.0%*	–
Operating leases	–	–	–	*316*	–	–	–	–	–	*-100.0%*	*0.1%*
Travel and subsistence	*3 162*	*5 364*	*5 908*	*8 639*	*39.8%*	*1.1%*	*6 754*	*6 897*	*7 545*	*-4.4%*	*7.1%*
Training and development	*352*	*334*	*386*	*57*	*-45.5%*	*0.1%*	–	–	–	*-100.0%*	–
Operating payments	*82*	*302*	*941*	*44*	*-18.7%*	*0.1%*	–	–	–	*-100.0%*	–
Venues and facilities	*599*	*445*	*1 260*	*2 361*	*58.0%*	*0.2%*	*520*	*548*	*578*	*-37.4%*	*1.0%*
Transfers and subsidies	**237 296**	**156 255**	**118 384**	**57 250**	**-37.7%**	**28.1%**	**–**	**–**	**–**	**-100.0%**	**13.7%**
Public corporations and private enterprises	237 296	156 255	118 313	57 250	-37.7%	28.1%	–	–	–	-100.0%	13.7%
Households	–	–	71	–	–	–	–	–	–	–	–
Payments for financial assets	**138 600**	**–**	**1 050 000**	**–**	**-100.0%**	**58.7%**	**–**	**–**	**–**	**–**	**–**
Total	**437 156**	**217 962**	**1 228 205**	**140 769**	**-31.5%**	**100.0%**	**83 696**	**93 260**	**100 451**	**-10.6%**	**100.0%**
Proportion of total programme expenditure to vote expenditure	**81.0%**	**63.0%**	**89.8%**	**47.9%**			**32.2%**	**33.4%**	**35.2%**		

Details of transfers and subsidies	2010/11	2011/12	2012/13	2013/14	2010/11 - 2013/14		2014/15	2015/16	2016/17	2013/14 - 2016/17	
Households											
Other transfers to households											
Current	**–**	**–**	**71**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Employee social benefit	–	–	71	–	–	–	–	–	–	–	–
Public corporations and private enterprises											
Public corporations											
Other transfers to public corporations											
Current	**237 296**	**156 255**	**118 313**	**57 250**	**-37.7%**	**28.1%**	**–**	**–**	**–**	**-100.0%**	**13.7%**
Denel	181 296	116 255	118 313	57 250	-31.9%	23.4%	–	–	–	-100.0%	13.7%
Alexkor	36 000	–	–	–	-100.0%	1.8%	–	–	–	–	–
Pebble Bed Modular Reactor	20 000	40 000	–	–	-100.0%	3.0%	–	–	–	–	–

Personnel information

Table 11.10 Details of approved establishment and personnel numbers according to salary level[1]

	Number of posts estimated for 31 March 2014		Number and cost[2] of personnel posts filled / planned for on funded establishment															Number	
	Number of funded posts	Number of posts additional to the establishment	Actual			Revised estimate			Medium-term expenditure estimate									Average growth rate (%)	Salary level/total: Average (%)
			2012/13			2013/14			2014/15			2015/16			2016/17			2013/14 - 2016/17	
Portfolio Management and Strategic Partnerships			Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost	Number	Cost	Unit Cost		
Salary level	**77**	**13**	**49**	**34.5**	**0.7**	**86**	**50.1**	**0.6**	**97**	**60.4**	**0.6**	**97**	**64.5**	**0.7**	**97**	**70.1**	**0.7**	**4.1%**	**100.0%**
1 – 6	–	13	–	–	–	13	1.6	0.1	17	2.3	0.1	17	2.9	0.2	17	5.2	0.3	9.4%	17.0%
7 – 10	21	–	17	5.6	0.3	20	5.9	0.3	20	6.5	0.3	20	6.8	0.3	20	7.2	0.4	–	21.2%

Table 11.10 Details of approved establishment and personnel numbers according to salary level[1]

	Number of posts estimated for 31 March 2014		Number and cost[2] of personnel posts filled / planned for on funded establishment															Number	
	Number of funded posts	Number of posts additional to the establishment	Actual			Revised estimate			Medium-term expenditure estimate									Average growth rate (%)	Salary level/total: Average (%)
			2012/13			2013/14			2014/15			2015/16			2016/17			2013/14 - 2016/17	
11 – 12	15	–	10	7.3	0.7	15	8.3	0.6	17	10.0	0.6	17	10.1	0.6	17	10.6	0.6	4.3%	17.5%
13 – 16	41	–	22	21.6	1.0	38	34.3	0.9	43	41.6	1.0	43	44.7	1.0	43	47.1	1.1	4.2%	44.3%

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

Expenditure trends

The spending focus over the medium term will be on enhancing capacity to oversee strategic infrastructure projects. This includes training staff and developing new project management tools to improve oversight of the current build programme. Because of the need to provide effective oversight of the state owned companies, spending on compensation of employees increased between 2010/11 and 2013/14 and is expected to continue to increase over the medium term. The increase in the number of personnel from 90 in 2013/14 to 97 in 2016/17 is attributed to additional approved and funded posts, which come into effect in 2014/15 to strengthen the strategic oversight function of the department on infrastructure projects. As at 30 November 2013 there were 4 vacancies due to new positions created, which will be filled by 2014/15. The department makes use of consultants for specialised services in transport, manufacturing and broadband sectors, which, notwithstanding the increased capacity in the department, is still a necessity. Due to the realignment of functions expenditure on goods and services is expected to decrease over the medium term.

In the *Energy and Broadband Enterprises* and *Manufacturing Enterprises* subprogrammes, expenditure decreased significantly between 2011/12 and 2013/14, and is expected to decrease over the medium term due to once-off recapitalising payments in 2012/13 to the state owned companies. Between 2010/11 and 2012/13, a total of R473.2 million was paid to Denel for claims under an indemnity agreement, while Denel received a further R700 million in 2012/13 for recapitalising the entity. In 2010/11, R36 million was paid to Alexkor to establish a joint venture with the Richtersveld community under an out of court settlement for land claims. A further R350 million was allocated to the entity in 2012/13 to address liabilities in terms of the deed of settlement and other obligations. Between 2010/11 and 2011/12 a total of R60 million was transferred to the Pebble Bed Modular Reactor Company to comply with statutory requirements for the decommissioning and dismantling of the fuel development laboratory and implementation of the care and maintenance programme. Broadband Infraco received R138.6 million for capital and operational costs; this is reflected as a payment for financial assets during 2010/11.

Other public entities and agencies

Overview: 2010/11 – 2016/17

Alexkor

Alexkor was established in terms of the Alexkor Limited Act (1992) in order to mine marine and land diamonds in Alexander Bay. The company and the government reached an out of court settlement in 1998 with the Richtersveld community over the community's land claim. The settlement provides for the formation of a joint venture between the company and the community, whereby Alexkor retains its marine mining rights and the Richtersveld Mining Company, on behalf of the community, remains the holder of the land mining rights. Alexkor and the Richtersveld Mining Company have placed their marine and land mining rights under the control of the joint venture. The settlement also directs government to upgrade the Alexkor township to municipal standards in order to transfer the township to the Richtersveld local municipality.

Since 7 April 2011, all diamond sales were for the account of the pooling and sharing joint venture. Alexkor has no other income generated from operations apart from its 51 per cent share in the joint venture. The company posted a profit of R29.7 million, compared to a loss of R14.0 million in 2012/13. Alexkor was recapitalised by R350 million in 2012/13. This had a positive impact on the company's financial statements. As a result, Alexkor's profitability improved significantly from the previous year.

Alexkor's main focus has been the sustainability of the joint venture and it was given the mandate to investigate alternative investment opportunities outside the Richtersveld area and the mining of other minerals. This is to negate the risks of depending on returns from the joint venture. To date, Alexkor has identified coal and limestone mining operations as focus areas by partnering with other state owned companies.

Alexkor's focus, apart from diversifying, will be on fulfilling the 2007 deed of settlement obligations. There are only two remaining obligations: the handover of the township to the Richtersveld municipality, which was expected to be transferred in 2013/14; and the settling of the rehabilitation liability, which will create jobs over the 15 year life of environmental rehabilitation.

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 in underserviced areas. It has invested in a national long distance fibre optic network, building on the foundation of the fibre optic assets deployed by Eskom on power transmission lines and Transnet on railway lines. Broadband Infraco launched its services to the market in November 2010 after obtaining an electronic communications network services licence in October 2009. By March 2013, Broadband Infraco had deployed and commissioned 13 125 kilometres of network.

In addition to national connectivity, the other major cost component of capital expenditure for the company has been the international connectivity, which includes the rollout of the West Africa coast cable system. The system will reduce broadband costs, increase bandwidth capacity, and ensure regional connectivity for South Africa and other African states. To this end, the company has concluded an agreement with the Council for Scientific and Industrial Research with the assistance of the department. The objective is to support the Square Kilometre Array project and other research projects through this investment in cable systems.

In 2006/07, a capital transfer of R1.3 billion was made to Broadband Infraco for establishment and operational costs. This was made up of R627 million in 2006/07, R377 million in 2008/09, R208.5 million in 2009/10, and a final transfer of R138.6 million in 2010/11. There have been no further transfers to the company since 2010/11, and the company has been able to generate cash flows to complement shareholder funding. The company is also expected to play a significant role in terms of broadband infrastructure roll out and the objective of achieving universal broadband access by 2020. This will require the company to have access to additional resources to contribute to this goal. Broadband Infraco continues to explore funding options and institutions to address its funding gaps in terms of capital investment to ensure that its network meets the service level requirements, reach, and performance of its existing and future customer base. Significant reinvestment in the Broadband Infraco network needs to be undertaken in order to address end of life and technology upgrades so as to meet customer expectations which will enable revenue growth and diversification.

Denel

Denel was incorporated as a private company in 1992 in terms of the South African Companies Act (1973). Its sole shareholder is the South African government.

Denel has made some progress towards ensuring its sustainability. In the past three financial years, the company has posted positive results despite tough market conditions, including cuts in defence spending due to the global economic downturn. A turnaround plan was approved in 2012/13 by Cabinet, indicating the positive steps Denel has taken to return to profitability. This turnaround is anchored on revenue growth through: export contracts and maximising opportunities from the local client, cost containment, strengthening stakeholder relations, and risk sharing partnerships with global clients and suppliers.

Denel Aerostructures, which has been negatively affecting Denel's performance over the years, continues to reduce its losses and is on a course to sustainability. With the foundation laid by the A400M military transport plane price renegotiation and restructuring efforts, Denel Aerostructures has managed to secure additional contracts and continues to explore additional work packages with both current and new original equipment manufacturers.

Denel's financial position has improved with this recent positive financial performance. The R700 million recapitalisation received in 2012/13, and the rollover of the R1.9 billion government guarantees for five years, has allowed Denel to restructure the debt, purge the default risk and improve working capital management. This bodes well for the company's ability to raise the high working capital requirements anticipated as a result of the new contracts, potential and secured.

Eskom

Eskom's mandate is to generate, transmit and distribute electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. The company is governed by the Eskom Conversion Act (2001).

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 due to a lack of significant investment in generation capacity and an increase in economic growth, leading to increases in electricity demand. In recent years, Eskom has had to rely on shifting maintenance of the power plants to meet demand, and to address the constrained power system to avoid shedding load. The consequence of this has been an increase in maintenance backlogs and a decline in power plant performance.

Working closely with the government, Eskom has since introduced a recovery plan, which includes securing enough primary energy (the coal stockpile to be greater than the 48 day level) to avoid the incident of 2008 that led to widespread load shedding; the returning to service of power plants that were previously mothballed; and increasing the maintenance done at power stations. This has resulted in the average capacity reserve margin increasing (to be more than 14 per cent commercially available), and the maintenance outage backlog being significantly reduced from the levels seen in previous years.

Additionally, Eskom has since 2004 been undertaking a capacity build programme to increase capacity and ensure the secure and reliable supply of electricity. Completed projects between 2005/06 and 2012/13 include all the returned to service power plant units in Komati, Camden and Grootvlei, and the completion of the two open cycle gas turbines. As a result, Eskom installed and commissioned 6 017 Megawatts of additional generating capacity into the system, installed 4 686 kilometres of transmission networks, and increased its transmission substation capacity by 23 775 megavolt amperes. In 2013/14, the Eskom capital expenditure programme added 260 Megawatts of additional capacity to the national grid, built 787 kilometres of transmission lines, and installed 3 580 megavolt amperes of transformation capacity. Eskom also electrified 144 558 homes. The focus for 2013/14 has been on finalising the revenue application with the energy regulator and developing a response based on the revenue determination; securing the balance of the required funding to complete the new build programme; improving the rollout of the new build programme; improving operational performance and maintenance of assets to ensure security of supply; assessing the entity's role in the implementation of the 2010 integrated resource plan; and developing the appropriate investment plan for Eskom's future build programme. As at 31 September 2013, 88 per cent of the required funding had been secured, which will ensure that the build programme continues uninterrupted. However, this may change as Eskom reprioritises and responds to the revenue shortfall following the electricity price increase decision.

In support of the commitment to introduce independent power producers, Eskom had contracted capacity of 1 135 Megawatts from independent power producers as at the end of March 2013. Over the period between 2011/12 and 2018/19, Eskom's build programme is estimated at about R330 billion. Eskom plans to deliver an additional 11 126 Megawatts of capacity into the system, which will go a long way towards addressing the current constraints. The company continues to play a key role in demand side management with the successful implementation and execution of the comprehensive suite of integrated demand management solutions that will exceed targets set by shareholders and the National Energy Regulator of South Africa.

Over the long term, Eskom's planned capacity expansion programme is expected to double capacity to 80 000 Megawatts by 2026, with a budget over that timeframe of more than a trillion rand. This will include the power stations Medupi, Kusile and Ingula.

As its sole shareholder, Eskom has hosted the Pebble Bed Modular Reactor Company since 1 April 2012 to minimise costs and ensure implementation of its care and maintenance in accordance with a Cabinet decision. The reactor was mandated to research and develop nuclear energy, and was funded wholly by the government. The project was established in 1999 as a nuclear architect engineering company that was to design and licence a standardised nuclear heat supply system and pebble fuel, and develop and market small scale, high temperature reactors locally and internationally.

Cabinet approved that the company be placed into care and maintenance to protect its intellectual property and assets while ensuring that no additional funding will be required from government. The department is monitoring the implementation of this care and maintenance.

South African Forestry Company Limited

The South African Forestry Company Limited's mandate is to ensure the sustainability of forests under its management, and to play a catalytic role in the realisation of the state's afforestation, rural development and transformation goals. The company remains certified through the Forestry Stewardship Council for forestry plantation and chain of custody.

The company's performance over the past three financial years has worsened as a result of a slow recovery in its primary market, the residential construction sector, as well as rigid business structures. This has seen the company's cash reserves reducing over this period, with its cash generation from operations under strain from the above factors. Despite this, the company's solvency remains solid; this ensures that it continues trading as a going concern. This will be critical when the company begins its capital investment programme.

The company has expanded its rural development contribution, as it assumes its role as a rural development agent. This has resulted in the signing of social compacts with communities surrounding its operations, with some already being implemented. The main areas of these corporate social investments are in education, recreational centres, health care, and enterprise development.

South African Airways

South African Airways is South Africa's national air carrier, which operates a full service network in the international, regional and domestic markets, from its head office at OR Tambo International Airport.

The airline has developed a long term turnaround strategy to ensure the long term sustainability of the airline and reduce its reliance on government for financial support. The airline is in the process of refining an implementation plan for the strategy, though it has started with some of the initiatives that require implementation, such as the review of strategic code share agreements and its route network. The airline is also focusing on achieving its strategic objectives as defined in its shareholder's compact to ensure it achieves a sustainable capital base and financial efficiency, led by a focus on commercial and operational efficiencies and effectiveness.

The airline continues to be affected negatively by increasing oil prices and the deteriorating exchange rate, as most of the operating costs are denominated in United States dollars. This is exacerbated by operating fuel inefficient aircraft, high airport and navigation charges, as well as increased competition from carriers from the Middle East. These factors have a significant impact on the financial performance of the airline.

Over the medium term period, South African Airways will focus on improving its procurement processes and compliance with the Public Finance Management Act (2008) to reduce irregular, fruitless and wasteful expenditure.

South African Express Airways

The airline operates regional and domestic flights from OR Tambo International Airport, King Shaka International Airport, and Cape Town International Airport, serving secondary routes in South Africa and the continent. South African Express Airways operates regional routes to Botswana, Namibia, the Democratic Republic of the Congo, Zimbabwe, Zambia and Mozambique. It also provides feeder air services that connect with South African Airways' network.

The airline's 2010/11 financial statements were restated in August 2012. This followed a misstatement in relation to value added tax recoverable, and amounts owing from South African Airways of R48 million. Further errors and omissions were identified by management but could not be substantiated to the satisfaction of the auditors, resulting in a disclaimer of opinion for the restated 2010/11 annual financial statements. This has affected the airline's ability to raise funds without government support.

The slowdown in the economy also affected the airline's ability to generate profits, and it reported a loss of R187 million in the restated 2010/11 annual financial statements after four previous consecutive years of profit generation. Although South African Express Airways began replacing its aged fleet, the process was suspended after receiving 7 of the 24 planes due to liquidity challenges, which were exacerbated by the economic slowdown. The disclaimer of opinion on the 2010/11 annual financial statements also resulted in financial institutions suspending any further financial support on the strength of the balance sheet. Although the restated 2010/11 annual financial statements resulted in equity declining from R1.2 billion to R462 million, the gearing was still within industry standards. However, the disclaimer of opinion resulted in the airline approaching government for temporary support in the form of a guarantee, as it was unable to borrow on the strength of its balance sheet. A guarantee of R539 million was granted in March 2013. The company has also subsequently tabled the 2011/12 and 2012/13 annual reports, and has no outstanding annual reports due for tabling. There have been improvements in the audit reports issued on the airline's annual financial statements, from a disclaimer of opinion for the 2010/11 and 2011/12 annual financial statements to a qualified audit report for the 2012/13 annual financial statements. The airline is aiming for an unqualified audit report in the next financial year.

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 despite efforts by South African Express Airways to address issues of financial and operational performance in order to improve the joint venture prospect. Lessons learnt from the failed operation will be used in all future implementation of the African hub strategy.

The focus over the medium term will be on expanding the airline's operations in the African market and on establishing Durban as a regional hub. To date, operations between Lusaka and Durban, and Harare and Durban, have commenced. Furthermore, the airline intends to strengthen its balance sheet through the generation of profit and cash flow. The airline will also strive to restore confidence in its financial position and performance over the medium term and beyond.

Transnet

Transnet's mandate is to assist in lowering the cost of doing business in South Africa, enabling economic growth, and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost effective and efficient manner, within acceptable benchmarks.

The anticipated economic recovery post the recession has not gained as much momentum as was expected. However, despite the prolonged economic slowdown, Transnet has continued to post a strong financial performance over the past three years. Revenue grew by an average rate of over 16 per cent per year during the period under review, from R37.9 billion in 2010/11 to R50.2 billion in 2012/13. Net profit average growth for the same period was only 2.4 per cent per year. This was due to major increases in operating expenses, especially in fuel and electricity.

In 2012/13, Transnet introduced the market demand strategy, which aims to increase capacity through infrastructure investments and efficiency improvements in order to meet customer demand and recapture lost volumes. The strategy is underwritten by a rolling capital expenditure programme of just over R300 billion for the seven year period, which is expected to create 588 000 new job opportunities over the same period. From 2011/12 to 2012/13, Transnet spent a total of R71 billion on capital projects. It will spend a further R121 billion between 2013/14 and 2015/16, most of which will be spent on the rail division in order to replace the aged locomotive and wagon fleet.

In spite of the increased funding acquired for capital investments over the past few years, the company's balance sheet has remained very strong with a current gearing ratio of 45.6 per cent. This indicates Transnet's ability to raise more funds in the debt markets. In accordance with the market demand strategy, two thirds of the capital programme will be funded from cash generated from operations, and the remaining third from external funding sources.

Freight rail volumes grew from 181 megatons in 2010/11 to 207 megatons in 2012/13, an average annual growth of 7 per cent. Container volumes, however, only had an average annual growth of 4 per cent over the same period. The lower growth in container volumes was due to depressed demand as a result of the economic slowdown. Pipeline volumes were also affected by the economic slowdown, as total volumes pumped decreased from 18 billion litres in 2010/11 to 15.9 billion in 2012/13. It should be noted that the 2010/11 volumes were significantly higher due to the increased economic activity related to the 2010 FIFA World Cup.

The focus of Transnet over the medium term will be on recapturing rail friendly volumes from road traffic by replacing the aged locomotive fleet and employing modern technologies to improve on efficiencies. Transnet will also be ensuring that complementary capacity is created at the ports in line with the strategy of creating capacity ahead of demand.

Additional tables

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

Programme	Appropriation		Audited	Appropriation			Revised
	Main	Adjusted	outcome	Main	Adjustments	Adjusted	estimate
R thousand	2012/13		2012/13	2013/14			2013/14
Administration	104 394	108 546	115 367	127 132	3 900	131 032	131 032
Legal and Governance	26 937	26 237	23 477	23 838	(1 500)	22 338	22 338
Portfolio Management and Strategic Partnerships	1 117 741	1 241 975	1 228 205	85 919	54 850	140 769	140 769
Total	**1 249 072**	**1 376 758**	**1 367 049**	**236 889**	**57 250**	**294 139**	**294 139**
Economic classification							
Current payments	**197 511**	**206 176**	**195 661**	**234 505**	**(55)**	**234 450**	**234 450**
Compensation of employees	105 759	111 475	105 327	130 714	1 173	131 887	131 887
Goods and services	91 752	94 701	90 334	103 791	(1 228)	102 563	102 563
Transfers and subsidies	**100**	**118 489**	**118 638**	**100**	**57 305**	**57 405**	**57 405**
Public corporations and private enterprises	–	118 313	118 313	–	57 250	57 250	57 250
Households	100	176	325	100	55	155	155
Payments for capital assets	**1 461**	**2 093**	**2 742**	**2 284**	**–**	**2 284**	**2 284**
Machinery and equipment	1 461	2 061	2 649	2 284	–	2 284	2 284
Software and other intangible assets	–	32	93	–	–	–	–
Payments for financial assets	**1 050 000**	**1 050 000**	**1 050 008**	**–**	**–**	**–**	**–**
Total	**1 249 072**	**1 376 758**	**1 367 049**	**236 889**	**57 250**	**294 139**	**294 139**

Table 11.B Summary of expenditure on training

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of employees (R thousand)	83 058	96 158	105 327	131 887	149 574	159 527	169 945
Training expenditure (R thousand)	2 562	3 025	2 017	3 238	3 305	3 483	3 666
Training spend as percentage of compensation	3.1%	3.1%	1.9%	2.5%	2.2%	2.2%	2.2%
Total number trained (headcount)	256	260	150	–			
of which:							
Employees receiving bursaries (headcount)	*31*	*35*	*35*	–			
Internships (headcount)	*18*	*24*	*21*	*21*			
Households receiving bursaries (headcount)	3	5	5	–			

Table 11.C Summary of donor funding

Donor	Project	Departmental programme	Period of commitment	Amount committed	Main economic classification	Spending focus	Audited outcome			Estimate	Medium-term expenditure estimate		
R thousand							2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Foreign													
In cash													
United Kingdom Department for International Development	South African growth strategic programme	Portfolio Management and Strategic Partnerships	1 year	2 136	Goods and services	Studies in renewable energy and industrial policy	2 136	–	–	–	–	–	–
United Kingdom 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	826	–	–	–	–	–	–
Total				**7 736**			**2 962**	**–**	**–**	**–**	**–**	**–**	**–**

BUDGET *2014*

ESTIMATES OF NATIONAL EXPENDITURE

Private Bag X115, Pretoria, 0001, **Tel:** +27 12 395 6697, **Fax:** +27 12 315 5126

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA