

Vote 10

Public Enterprises

Budget summary

R million	2020/21					2021/22	2022/23
	Total	Current payments	Transfers and subsidies	Payments for capital assets	Payments for financial assets	Total	Total
MTEF allocation							
Administration	164.3	160.8	0.0	3.5	–	174.4	184.1
State-owned Companies Governance Assurance and Performance	54.6	54.6	–	–	–	57.9	61.1
Business Enhancement, Transformation and Industrialisation	37 630.4	90.4	–	–	37 540.0	4 405.1	1 873.8
Total expenditure estimates	37 849.4	305.9	0.0	3.5	37 540.0	4 637.4	2 119.1
Executive authority	Minister of Public Enterprises						
Accounting officer	Director-General of Public Enterprises						
Website	www.dpe.gov.za						

The Estimates of National Expenditure e-publications for individual votes are available at www.treasury.gov.za. These publications provide more comprehensive coverage of vote-specific information, particularly about transfers and subsidies, personnel and other public institutions. Additional tables in Excel format can be found at www.treasury.gov.za and www.vulekamali.gov.za.

Vote purpose

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 Department of Public Enterprises is government's shareholder representative for the state-owned companies in its portfolio. The department's mandate is to fulfil oversight responsibilities at these companies to ensure that they contribute to the realisation of government's strategic objectives, as articulated in the National Development Plan, government's 2019-2024 medium-term strategic framework and the reimaged industrial strategy. State-owned companies are crucial to driving the state's strategic objectives of creating jobs, and enhancing equity and transformation. The department does not directly execute programmes but seeks to use state ownership in the economy to support the achievement of these objectives.

Selected performance indicators

Table 10.1 Performance indicators by programme and related priority

Indicator	Programme	MTSF priority	Past			Current	Projections		
			2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Number of shareholder compacts signed per year	Business Enhancement, Transformation and Industrialisation	Priority 1: Economic transformation and job creation	5	6	7	7	7	7	7
Number of corporate plans reviewed per year	Business Enhancement, Transformation and Industrialisation		5	6	7	7	7	7	7
Number of quarterly financial reviews per year	Business Enhancement, Transformation and Industrialisation		24	24	26	28	28	28	28

Expenditure analysis

Chapter 13 of the National Development Plan identifies the potential of state-owned companies to build a capable and developmental state. This is given expression by priority 1 (economic transformation and job creation) of government's 2019-2024 medium-term strategic framework, with which the mandates of state-owned companies are closely aligned. In overseeing state-owned companies' fulfilment of their mandates, over the medium term the Department of Public Enterprises will continue to focus on enhancing reforms to stabilise

state-owned companies, and strengthening its oversight capacity to ensure that the state-owned companies in its portfolio are sustainable and contribute to investment in key infrastructure.

By ensuring that these companies contribute to lowering the cost of doing business in South Africa, the department aims to reduce the burden of administered prices on the economy by reducing the cost of electricity and freight transport. The department oversees the operations of 7 state-owned companies (Alexkor, Denel, Eskom, South African Airways, South African Express Airways, the South African Forestry Company and Transnet) to ensure that appropriate investments are made to create jobs and sustain economic growth.

Total expenditure decreases at an average annual rate of 66.6 per cent, from R56.9 billion in 2019/20 to R2.1 billion in 2022/23. This is due to significant additional allocations made to state-owned companies in 2019/20. Excluding payments for financial assets, compensation of employees is the department's largest cost driver, spending on which is expected to increase at an average annual rate of 8.8 per cent, from R170.2 million in 2019/20 to R219.1 million in 2022/23. However, in 2019/20 Cabinet approved baseline reductions amounting to R9.6 million over the MTEF period on the department's compensation of employees, and goods and services budgets. The department is in the process of implementing a realigned organisational structure, which is expected to enable it to be responsive and efficient in fulfilling its oversight and monitoring role.

Enhancing reforms to stabilise state-owned companies

Based on the 2013 report of the presidential review committee on state-owned entities, in 2018 Cabinet approved a number of reforms for state-owned companies. These include determining an appropriate shareholder ownership model and an overarching shareholder policy, and developing a standardised approach to the appointment of boards for state-owned companies. Accordingly, by 2020/21, the department expects to develop a state-owned enterprise bill and a shareholder management policy. The legislation and policy will be drafted with the intention of improving state-owned companies' overall performance in terms of: setting explicit goals; ensuring that boards and management monitor performance effectively; and transparently and directly linking executives' performance incentives with desired outcomes, including audit outcomes. Once a shareholder management policy is adopted and a performance evaluation framework is put in place, boards' performance will be evaluated annually.

The department's oversight activities are mainly funded in the *State-owned Companies Governance Assurance and Performance*, and *Business Enhancement, Transformation and Industrialisation* programmes. The combined budget for these programmes is expected to decrease at an average annual rate of 67.6 per cent, from R56.7 billion in 2019/20 to R1.9 billion in 2022/23. This is due to an additional R56.6 billion allocated in 2019/20 to settle state-owned companies' debts and provide working capital.

Excluding provisional allocations to Eskom and South African Airways over the medium term, additional allocations will be made over the medium term including R33 billion for Eskom in 2020/21; R9.9 billion for South African Airways (R3.8 billion in 2020/21, R4.3 billion in 2021/22 and R1.8 billion in 2022/23); R576 million for Denel in 2020/21; and R164 million for South African Express Airways in 2020/21. Additional allocations to state-owned companies will be used to settle government guaranteed debt and for working capital in certain instances, and are subject to conditions that include restructuring, the implementation of turnaround plans, the review of business models, the sale of non-core assets and the identification of strategic equity partners, among other things. Over the MTEF period, the department intends to closely monitor and assist the state-owned companies in implementing and complying with these conditions.

Strengthening oversight capacity

In 2019/20, the department concluded an assessment to identify risk and governance shortfalls in state-owned companies. It intends to work with the companies to develop and implement a state-owned companies risk and integrity framework by 2021/22. The framework will be geared towards establishing minimum norms and standards as measures to restore good corporate governance within state-owned companies.

With regards to specific state-owned companies, over the medium term, the department plans to oversee the implementation of the 2019 roadmap for Eskom in a reformed electricity supply industry, which aims to

transform and stabilise the company. The department also plans to work closely with the business rescue practitioners for South African Airways and monitor the implementation of their recommendations. The viability of the corporatisation of Transnet's National Ports Authority will also be assessed over the period ahead. This is in line with findings from the World Bank suggesting that rail, ports and pipeline infrastructure managed by a single company could create conflicts of interest that negatively impact on the overall performance of a country's freight system.

Expenditure trends and estimates

Table 10.2 Vote expenditure trends and estimates by programme and economic classification

Programmes											
1. Administration											
2. State-owned Companies Governance Assurance and Performance											
3. Business Enhancement, Transformation and Industrialisation											
Programme											
R million	Audited outcome			Adjusted appropriation 2019/20	Average growth rate (%) 2016/17 - 2019/20	Average: Expenditure/Total (%) 2019/20	Medium-term expenditure estimate			Average growth rate (%) 2019/20 - 2022/23	Average: Expenditure/Total (%) 2019/20 - 2022/23
	2016/17	2017/18	2018/19				2020/21	2021/22	2022/23		
Programme 1	151.6	144.0	136.0	163.1	2.5%	0.9%	164.3	174.4	184.1	4.1%	0.7%
Programme 2	33.7	27.5	33.5	41.6	7.3%	0.2%	54.6	57.9	61.1	13.7%	0.2%
Programme 3	68.5	78.8	6 305.3	56 678.3	838.6%	98.9%	37 630.4	4 405.1	1 873.8	-67.9%	99.1%
Total	253.8	250.4	6 474.8	56 883.0	507.4%	100.0%	37 849.4	4 637.4	2 119.1	-66.6%	100.0%
Change to 2019				38 938.0			37 536.5	4 305.4	1 774.6		
Budget estimate											
Economic classification											
Current payments	249.5	241.9	215.5	274.3	3.2%	1.5%	305.9	324.7	338.1	7.2%	1.2%
Compensation of employees	148.3	142.2	143.8	170.2	4.7%	0.9%	197.1	209.9	219.1	8.8%	0.8%
Goods and services ¹	101.2	99.8	71.7	104.0	0.9%	0.6%	108.7	114.7	119.0	4.6%	0.4%
of which:											
Audit costs: External	3.3	3.3	4.0	3.6	2.2%	0.0%	4.8	5.0	5.2	13.5%	0.0%
Computer services	3.8	6.0	5.4	5.4	11.7%	0.0%	5.1	5.4	5.7	2.0%	0.0%
Consultants: Business and advisory services	22.1	17.0	6.6	32.7	14.0%	0.1%	38.7	41.0	42.2	8.8%	0.2%
Operating leases	10.0	12.7	15.9	11.3	3.9%	0.1%	12.6	13.3	13.8	7.0%	0.1%
Property payments	2.0	5.2	3.7	4.1	27.5%	0.0%	4.7	5.0	5.2	8.3%	0.0%
Travel and subsistence	17.2	24.9	14.9	18.8	2.9%	0.1%	22.5	23.6	24.6	9.4%	0.1%
Transfers and subsidies¹	0.4	3.1	1.0	5.3	130.6%	0.0%	0.0	0.0	0.0	-84.7%	0.0%
Provinces and municipalities	0.0	0.0	0.0	0.0	6.9%	0.0%	0.0	0.0	0.0	20.0%	0.0%
Public corporations and private enterprises	-	-	-	1.0	0.0%	0.0%	-	-	-	-100.0%	0.0%
Households	0.4	3.1	1.0	4.3	116.1%	0.0%	-	-	-	-100.0%	0.0%
Payments for capital assets	3.9	5.2	9.3	3.4	-3.8%	0.0%	3.5	3.7	3.9	4.1%	0.0%
Machinery and equipment	3.8	4.9	8.8	3.3	-4.4%	0.0%	3.5	3.7	3.9	5.6%	0.0%
Software and other intangible assets	0.1	0.2	0.5	0.2	13.7%	0.0%	-	-	-	-100.0%	0.0%
Payments for financial assets	-	0.3	6 249.0	56 600.0	0.0%	98.4%	37 540.0	4 309.0	1 777.2	-68.5%	98.8%
Total	253.8	250.4	6 474.8	56 883.0	507.4%	100.0%	37 849.4	4 637.4	2 119.1	-66.6%	100.0%

1. Tables that detail expenditure trends, annual budget, adjusted appropriation and audited outcome are available at www.treasury.gov.za and www.vulekamali.gov.za.

Transfers and subsidies expenditure trends and estimates

Table 10.3 Vote transfers and subsidies trends and estimates

R thousand	Audited outcome			Adjusted appropriation 2019/20	Average growth rate (%) 2016/17 - 2019/20	Average: Expenditure/Total (%) 2019/20	Medium-term expenditure estimate			Average growth rate (%) 2019/20 - 2022/23	Average: Expenditure/Total (%) 2019/20 - 2022/23
	2016/17	2017/18	2018/19				2020/21	2021/22	2022/23		
Households											
Social benefits											
Current	405	2 890	1 029	4 286	119.5%	97.4%	-	-	-	-100.0%	98.5%
Employee social benefits	405	2 816	1 029	4 286	119.5%	96.6%	-	-	-	-100.0%	98.5%
Donation cash	-	74	-	-	-	0.8%	-	-	-	-	-
Provinces and municipalities											
Municipal bank accounts											
Current	9	11	12	11	6.9%	0.5%	17	18	19	20.0%	1.5%
Vehicle licences	9	11	12	11	6.9%	0.5%	17	18	19	20.0%	1.5%
Households											
Other transfers to households											
Current	20	167	-	-	-100.0%	2.1%	-	-	-	-	-
Employee social benefits	20	167	-	-	-100.0%	2.1%	-	-	-	-	-
Total	434	3 068	1 041	4 297	114.7%	100.0%	17	18	19	-83.6%	100.0%

Personnel information

Table 10.4 Vote personnel numbers and cost by salary level and programme¹

Number of posts estimated for 31 March 2020		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 (%)	Average: Salary level/ Total (%)	
		2018/19			2019/20			2020/21			2021/22			2022/23					2019/20 - 2022/23
Public Enterprises		Number	Cost	Unit cost	Number	Cost	Unit cost	Number	Cost	Unit cost	Number	Cost	Unit cost	Number	Cost	Unit cost			
Salary level	214	22	197	143.8	0.7	202	170.2	0.8	234	197.1	0.8	234	209.9	0.9	231	219.1	0.9	4.6%	100.0%
1 – 6	19	–	13	3.5	0.3	14	5.2	0.4	18	6.6	0.4	18	7.1	0.4	18	7.6	0.4	8.7%	7.5%
7 – 10	78	–	72	34.5	0.5	76	39.5	0.5	78	43.3	0.6	78	46.3	0.6	78	49.5	0.6	0.9%	34.4%
11 – 12	42	–	36	30.7	0.9	40	34.2	0.9	42	37.9	0.9	42	40.3	1.0	42	42.9	1.0	1.6%	18.4%
13 – 16	73	–	54	68.7	1.3	70	91.1	1.3	76	102.3	1.3	76	108.8	1.4	73	111.3	1.5	1.4%	32.7%
Other	2	22	22	6.4	0.3	2	0.2	0.1	20	7.0	0.3	20	7.4	0.4	20	7.8	0.4	115.4%	6.9%
Programme	214	22	197	143.8	0.7	202	170.2	0.8	234	197.1	0.8	234	209.9	0.9	231	219.1	0.9	4.6%	100.0%
Programme 1	122	22	117	69.6	0.6	114	85.4	0.7	139	98.3	0.7	139	104.8	0.8	139	111.6	0.8	6.8%	58.9%
Programme 2	35	–	28	26.3	0.9	34	31.7	0.9	36	36.0	1.0	36	38.3	1.1	36	40.7	1.1	1.9%	15.8%
Programme 3	57	–	52	47.9	0.9	54	53.1	1.0	59	62.8	1.1	59	66.9	1.1	56	66.8	1.2	1.2%	25.3%

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

2. Rand million.

Departmental receipts

Table 10.5 Departmental receipts by economic classification

R thousand	Audited outcome			Adjusted estimate	Revised estimate	Average growth rate (%)	Average: Receipt item/ Total (%)	Medium-term receipts estimate			Average growth rate (%)	Average: Receipt item/ Total (%)
	2016/17	2017/18	2018/19					2019/20	2020/21	2021/22		
Departmental receipts	5 213	188	366	214	214	-65.5%	100.0%	294	312	315	13.8%	100.0%
Sales of goods and services produced by department	75	64	60	97	97	9.0%	4.9%	99	99	101	1.4%	34.9%
Sales by market establishments	46	64	35	61	61	9.9%	3.4%	62	62	63	1.1%	21.9%
of which:												
Sales by market establishments	46	64	35	61	61	9.9%	3.4%	62	62	63	1.1%	21.9%
Other sales	29	–	25	36	36	7.5%	1.5%	37	37	38	1.8%	13.0%
of which:												
Commission insurance	29	–	24	36	36	7.5%	1.5%	37	37	38	1.8%	13.0%
Replacement of security cards	–	–	1	–	–	–	–	–	–	–	–	–
Sales of scrap, waste, arms and other used current goods	–	–	4	–	–	–	0.1%	–	–	–	–	–
of which:												
Sales of scrap paper	–	–	2	–	–	–	–	–	–	–	–	–
Cellular phones	–	–	2	–	–	–	–	–	–	–	–	–
Interest, dividends and rent on land	1	19	–	2	2	26.0%	0.4%	2	3	4	26.0%	1.0%
Interest	1	19	–	2	2	26.0%	0.4%	2	3	4	26.0%	1.0%
Sales of capital assets	–	95	17	–	–	–	1.9%	65	65	65	–	17.2%
Transactions in financial assets and liabilities	5 137	10	285	115	115	-71.8%	92.7%	128	145	145	8.0%	47.0%
Total	5 213	188	366	214	214	-65.5%	100.0%	294	312	315	13.8%	100.0%

Programme 1: Administration

Programme purpose

Provide strategic leadership, management and support services to the department.

Expenditure trends and estimates

Table 10.6 Administration expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome			Adjusted appropriation	Average growth rate (%)	Average: Expenditure/ Total (%)	Medium-term expenditure estimate			Average growth rate (%)	Average: Expenditure/ Total (%)
	2016/17	2017/18	2018/19				2019/20	2020/21	2021/22		
R million											
Ministry	31.2	35.0	22.3	30.9	-0.3%	20.1%	34.8	37.0	38.7	7.8%	20.6%
Management	9.9	8.8	11.9	20.9	28.2%	8.6%	15.0	16.1	17.0	-6.5%	10.1%
Communications	38.3	36.3	33.6	40.2	1.6%	25.0%	37.4	39.8	41.9	1.4%	23.2%
Chief Financial Officer	15.2	16.1	17.2	19.4	8.3%	11.4%	20.9	22.3	23.4	6.5%	12.5%
Human Resources	36.3	27.7	27.5	29.3	-6.8%	20.3%	30.9	32.3	35.2	6.2%	18.6%
Internal Audit	6.1	3.6	3.6	6.9	4.3%	3.4%	7.0	7.4	7.7	3.7%	4.2%
Corporate Services	3.9	3.4	3.2	4.0	0.6%	2.4%	4.4	4.7	4.8	6.7%	2.6%
Office Accommodation	10.7	13.2	16.7	11.6	2.8%	8.8%	14.0	14.8	15.3	9.8%	8.1%
Total	151.6	144.0	136.0	163.1	2.5%	100.0%	164.3	174.4	184.1	4.1%	100.0%
Change to 2019 Budget estimate				(1.8)			(11.6)	(11.7)	(0.1)		
Economic classification											
Current payments	147.4	135.8	125.8	155.4	1.8%	94.9%	160.8	170.7	180.2	5.1%	97.3%
Compensation of employees	77.9	68.8	69.6	85.4	3.1%	50.7%	98.3	104.8	111.6	9.3%	58.3%
Goods and services ¹	69.5	67.0	56.2	70.0	0.2%	44.2%	62.5	65.9	68.7	-0.6%	38.9%
of which:											
Audit costs: External	3.3	3.3	4.0	3.6	2.2%	2.4%	4.8	5.0	5.2	13.5%	2.7%
Computer services	3.8	6.0	5.4	5.4	11.7%	3.5%	5.1	5.4	5.7	2.0%	3.1%
Consultants: Business and advisory services	6.9	5.2	2.2	12.6	22.0%	4.5%	7.7	8.1	8.5	-12.5%	5.4%
Operating leases	10.0	12.7	15.9	11.3	3.9%	8.4%	12.6	13.3	13.8	7.0%	7.4%
Property payments	2.0	5.2	3.7	4.1	27.5%	2.5%	4.7	5.0	5.2	8.3%	2.8%
Travel and subsistence	11.3	16.3	10.0	10.5	-2.3%	8.1%	11.5	12.1	12.6	6.2%	6.8%
Transfers and subsidies¹	0.3	2.9	1.0	4.3	140.5%	1.4%	0.0	0.0	0.0	-83.5%	0.6%
Provinces and municipalities	0.0	0.0	0.0	0.0	6.9%	-	0.0	0.0	0.0	20.0%	-
Households	0.3	2.9	1.0	4.3	142.6%	1.4%	-	-	-	-100.0%	0.6%
Payments for capital assets	3.9	5.2	9.3	3.4	-4.1%	3.6%	3.5	3.7	3.9	4.4%	2.1%
Machinery and equipment	3.8	4.9	8.8	3.3	-4.4%	3.5%	3.5	3.7	3.9	5.6%	2.1%
Software and other intangible assets	0.1	0.2	0.5	0.1	5.0%	0.1%	-	-	-	-100.0%	-
Payments for financial assets	-	0.3	0.0	-	-	-	-	-	-	-	-
Total	151.6	144.0	136.0	163.1	2.5%	100.0%	164.3	174.4	184.1	4.1%	100.0%
Proportion of total programme expenditure to vote expenditure	59.7%	57.5%	2.1%	0.3%	-	-	0.4%	4.2%	4.7%	-	-

1. Estimates of National Expenditure data tables can be downloaded from www.treasury.gov.za. These tables contain detailed information by goods and services, and transfers and subsidies items by programme.

Programme 2: State-Owned Companies Governance Assurance and Performance

Programme purpose

Provide and enforce state-owned companies' governance, legal assurance, and financial and non-financial performance monitoring, evaluation and reporting systems in support of the shareholder to ensure alignment with government priorities.

Objectives

- Ensure effective shareholder oversight of state-owned companies on an ongoing basis by:
 - providing governance and legal systems
 - developing and maintaining shareholder risk profiles and mitigating strategies
 - monitoring, evaluating and reporting on financial and non-financial performance, and proposing intervention measures when required.

Subprogrammes

- *Management* comprises the office of the deputy director-general, which provides strategic leadership and management for the programme's personnel.

- *Legal* provides external legal services and support, including transaction and contract management support, to sector teams and the commercial activities of the state-owned companies within their portfolio.
- *Governance* develops, monitors and advises on legislative, corporate governance and shareholder management systems for the department and its portfolio of state-owned companies. This subprogramme develops and implements risk and compliance management guidelines and systems for shareholder risk.
- *Financial Assessment and Investment Support* analyses state-owned companies' capital planning, operational performance, the execution of capital programmes and proposed restructuring proposals, and advises on appropriate action.

Expenditure trends and estimates

Table 10.7 State-owned Companies Governance Assurance and Performance expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome			Adjusted appropriation	Average growth rate (%)	Average: Expenditure/ Total (%)	Medium-term expenditure estimate			Average growth rate (%)	Average: Expenditure/ Total (%)
	2016/17	2017/18	2018/19				2019/20	2020/21	2021/22		
R million					2016/17 - 2019/20		2020/21	2021/22	2022/23	2019/20 - 2022/23	
Management	3.2	2.8	2.7	3.1	-0.4%	8.7%	3.3	3.5	3.6	4.5%	6.3%
Legal	12.9	11.6	12.1	12.2	-1.7%	35.8%	18.0	19.1	19.9	17.6%	32.2%
Governance	7.6	7.2	8.8	11.6	14.9%	25.8%	15.8	16.3	17.5	14.6%	28.4%
Financial Assessment and Investment Support	10.0	6.0	9.9	14.7	13.7%	29.7%	17.5	19.0	20.2	11.3%	33.2%
Total	33.7	27.5	33.5	41.6	7.3%	100.0%	54.6	57.9	61.1	13.7%	100.0%
Change to 2019 Budget estimate				(2.3)			7.5	7.7	(0.1)		
Economic classification											
Current payments	33.6	27.4	33.5	40.6	6.5%	99.1%	54.6	57.9	61.1	14.7%	99.5%
Compensation of employees	17.7	21.4	26.3	31.7	21.4%	71.2%	36.0	38.3	40.7	8.8%	68.1%
Goods and services ¹	15.9	6.0	7.2	8.9	-17.5%	27.8%	18.7	19.6	20.4	31.9%	31.4%
<i>of which:</i>											
Communication	0.3	0.2	0.2	0.3	7.2%	0.6%	0.3	0.3	0.3	1.2%	0.6%
Consultants: Business and advisory services	4.8	0.6	0.0	3.5	-9.8%	6.6%	11.0	11.6	12.1	50.8%	17.8%
Legal services	5.2	3.3	5.5	3.0	-16.9%	12.4%	3.1	3.2	3.4	4.5%	5.9%
Entertainment	-	-	-	-	-	-	0.0	0.0	0.0	-	-
Travel and subsistence	2.0	1.9	1.3	2.0	-0.1%	5.3%	4.2	4.4	4.5	30.7%	7.0%
Venues and facilities	0.2	0.0	0.0	0.1	-28.8%	0.2%	0.1	0.1	0.1	1.0%	0.1%
Transfers and subsidies ¹	0.1	0.1	-	1.1	127.1%	0.9%	-	-	-	-100.0%	0.5%
Public corporations and private enterprises	-	-	-	1.0	-	0.8%	-	-	-	-100.0%	0.5%
Households	0.1	0.1	-	0.0	-31.4%	0.2%	-	-	-	-100.0%	-
Total	33.7	27.5	33.5	41.6	7.3%	100.0%	54.6	57.9	61.1	13.7%	100.0%
Proportion of total programme expenditure to vote expenditure	13.3%	11.0%	0.5%	0.1%	-	-	0.1%	1.4%	1.6%	-	-

1. Estimates of National Expenditure data tables can be downloaded from www.treasury.gov.za. These tables contain detailed information by goods and services, and transfers and subsidies items by programme.

Programme 3: Business Enhancement, Transformation and Industrialisation

Programme purpose

Provide sector oversight to ensure that state-owned companies contribute to the advancement of industrialisation, transformation, intergovernmental relations and international collaboration services. Support the shareholder in strategically positioning and enhancing the operations of state-owned companies.

Objectives

- Contribute to the enhancement of the performance of state-owned companies on an ongoing basis by:
 - conducting reviews and research, and modelling pipeline and new business enhancement opportunities within state-owned companies
 - assessing the operations of state-owned companies and developing mitigation instruments in conjunction with policy departments, regulatory bodies and industry

- conducting research, and modelling job creation and transforming instruments for state-owned companies to inform compact alignment imperatives, unlock bottlenecks affecting state-owned companies and inform evidence-based policy formulation.

Subprogrammes

- *Energy Resources* exercises shareholder oversight of Eskom, Alexkor and the South African Forestry Company.
- *Research and Economic Modelling* conducts cost-benefit analysis reviews on business enhancement and transformation initiatives, and develops economic sustainability models for proposed work packages and projects.
- *Transport and Defence* exercises shareholder oversight of Transnet, South African Express Airways, South African Airways and Denel.
- *Business Enhancement Services* develops and coordinates the implementation of state-owned companies' strategies to leverage localisation programmes; provides intergovernmental coordination and support to programmes and state-owned companies in relation to economic development programmes, as agreed with provincial and local government; and maintains a register of commitments made by state-owned companies and lobbies for the implementation of special programmes focusing on skills development, transformation and youth.

Expenditure trends and estimates

Table 10.8 Business Enhancement, Transformation and Industrialisation expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome			Adjusted appropriation	Average growth rate (%)		Medium-term expenditure estimate			Average growth rate (%)	Average Expenditure/ Total (%)
	2016/17	2017/18	2018/19		2016/17 - 2019/20	2019/20	2020/21	2021/22	2022/23		
R million											
Energy Resources	22.5	14.5	9.5	49 013.7	1195.4%	77.7%	33 012.8	13.5	13.4	-93.5%	81.6%
Research and Economic Modelling	5.7	25.2	6.9	12.5	30.1%	0.1%	12.3	13.0	12.9	0.9%	0.1%
Transport and Defence	24.3	15.0	6 262.1	7 620.0	579.7%	22.1%	4 577.6	4 348.9	1 817.4	-38.0%	18.3%
Business Enhancement Services	16.0	24.3	26.7	32.0	25.9%	0.2%	27.7	29.7	30.2	-2.0%	0.1%
Total	68.5	78.8	6 305.3	56 678.3	838.6%	100.0%	37 630.4	4 405.1	1 873.8	-67.9%	100.0%
Change to 2019 Budget estimate				38 942.1			37 540.6	4 309.4	1 774.8		
Economic classification											
Current payments	68.5	78.8	56.2	78.3	4.5%	0.4%	90.4	96.1	96.7	7.3%	0.4%
Compensation of employees	52.7	51.9	47.9	53.1	0.3%	0.3%	62.8	66.9	66.8	7.9%	0.2%
Goods and services ¹	15.8	26.8	8.3	25.1	16.8%	0.1%	27.6	29.2	29.9	6.0%	0.1%
<i>of which:</i>											
<i>Catering: Departmental activities</i>	0.1	0.2	0.0	0.0	-14.1%	-	0.0	0.0	0.0	2.9%	-
<i>Communication</i>	0.5	1.4	0.2	0.6	6.5%	-	0.6	0.6	0.6	1.0%	-
<i>Consultants: Business and advisory services</i>	10.3	11.1	4.3	16.6	17.1%	0.1%	20.0	21.3	21.6	9.2%	0.1%
<i>Entertainment</i>	-	-	-	0.0	-	-	0.0	0.0	0.0	3.0%	-
<i>Travel and subsistence</i>	3.9	6.7	3.6	6.2	16.7%	-	6.9	7.2	7.5	6.5%	-
<i>Venues and facilities</i>	0.4	0.3	0.0	0.0	-68.3%	-	0.1	0.1	0.1	96.7%	-
Transfers and subsidies¹	0.0	0.1	0.1	-	-100.0%	-	-	-	-	-	-
Households	0.0	0.1	0.1	-	-100.0%	-	-	-	-	-	-
Payments for financial assets	-	-	6 249.0	56 600.0	-	99.6%	37 540.0	4 309.0	1 777.2	-68.5%	99.6%
Total	68.5	78.8	6 305.3	56 678.3	838.6%	100.0%	37 630.4	4 405.1	1 873.8	-67.9%	100.0%
Proportion of total programme expenditure to vote expenditure	27.0%	31.5%	97.4%	99.6%	-	-	99.4%	95.0%	88.4%	-	-
Details of transfers and subsidies											
Households											
Social benefits											
Current	0.0	0.1	0.1	-	-100.0%	-	-	-	-	-	-
Employee social benefits	0.0	0.1	0.1	-	-100.0%	-	-	-	-	-	-

State-owned companies

Alexkor

Alexkor was established in terms of the Alexkor Limited Act (1992) to mine marine and land diamonds in Alexander Bay, Northern Cape. Over the medium term, the company will continue to execute its remaining deed of settlement obligations, which include the transfer of public and residential properties to the Northern Cape government and the Richtersveld community.

In 2018/19, Alexkor experienced financial challenges due to the poor performance of the Alexkor Richtersveld Mining Company Pooling and Sharing Joint Venture. Despite a 31.3 per cent increase in diamond production in 2018/19 (63 000 carats) compared to 2017/18 (48 000 carats), revenue in 2018/19 was constrained due to the poor quality of diamonds mined. This was exacerbated by an unsustainable corporate structure and cost base.

Alexkor generated revenue of R209.9 million in 2018/19, a 1 per cent increase from the previous year's revenue of R208.6 million. The company reported a loss of R149.6 million in 2018/19 compared to a profit of R34.2 million 2017/18. In 2019, the department appointed an administrator to oversee the business and ensure that the company is appropriately restructured. As such, the department's immediate focus is to review the current operating structures of Alexkor to restore the sustainability of its operations.

Denel

Denel was incorporated as a private company in 1992 in terms of the Companies Act (1973), with the South African government as its sole shareholder. It operates in the military aerospace and landward defence environment, and provides strategic defence equipment. Denel supplies the South African National Defence Force with strategic and sovereign capabilities. The company's broad focus over the medium term will be on restructuring, which entails optimising its cost structure and reviewing its business model to improve its global competitiveness. Emphasis will also be placed on the company's internal cost structure, efficiency, effectiveness, disposal of non-core businesses, improved supply chain policies and alignment of IT infrastructure with its new organisational structure. In 2019/20, the company commenced with its restructuring process, which is focused on optimising labour, consolidating its group corporate structure, reviewing its property portfolio and plant utilisation, and introducing strategic sector participation.

The restructuring process was necessitated by the company's steady decrease in revenue over the past 4 years. Total revenue generated in 2018/19 was R3.8 billion compared to R8.2 billion in 2015/16. A loss of R1.7 billion was recorded in 2018/19 compared to a loss of R1.1 billion in the previous year. This decrease in revenue was mainly due to liquidity challenges that constrained operations and, in turn, affected sales. However, cost savings and restructuring initiatives that are already in place, as well as recapitalisation allocations from the department (R1.8 billion in 2019/20 and R576 million in 2020/21) are expected to stimulate revenue generation through the expansion of the company's export base and improvement of its access to markets. Accordingly, the company expects to increase its revenue to more than R7 billion by 2022/23.

Eskom

Eskom is governed by the Eskom Conversion Act (2001) and is mandated to generate, transmit and distribute electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Eskom generates 95 per cent of the electricity used in South Africa and 45 per cent of the electricity used in Africa. In response to the company's persistent financial, operational and structural challenges, in 2019 it was announced that Eskom will be unbundled into three subsidiaries (generation, transmission and distribution) under a holding company, Eskom Holdings. This announcement led to the drafting and adoption of the 2019 roadmap for Eskom in a reformed electricity supply industry, which outlines actions to overcome the crisis, defines key steps in transforming the electricity supply system, addresses steps to restore the company's finances, identifies measures to reduce the company's cost structure and details the process of restructuring the entity.

However, while the roadmap has been adopted and a nine-point plan to improve generation is in place, Eskom's coal generation plants have been performing poorly due to an ageing fleet, poor maintenance practices and

poor performance of new units within the Medupi and Kusile power stations. As a result, rotational load shedding has been implemented because of insufficient capacity to meet demand. Although some progress has been made, Eskom's operational performance remains inadequate, with persistent technical and plant faults. The company aims to address supply constraints through interventions as set out in the nine-point plan, which are short-term, medium-term and long-term in nature. These interventions primarily involve fixing new plant defects, reducing trips and full load losses, accelerating the return of serviced units on long-term forced outages, fixing partial load losses and boiler tube leaks, rebuilding coal stockpiles, increasing diesel stocks and recruiting critical staff for the generation division.

Eskom's revenue increased from R177.4 billion in 2017/18 to R179.9 billion in 2018/19. Profit before depreciation and amortisation and net fair value loss decreased significantly, from R45.4 billion in 2017/18 to R31.5 billion in 2018/19. The company's loss for the year increased significantly, from R2.3 billion in 2017/18 to R20.7 billion in 2018/19, mainly due to high primary energy costs, depreciation and finance costs. To stabilise Eskom's financial position in the short term, an additional R33 billion has been allocated to the company in 2020/21 through the Special Appropriations Act (2019) in addition to the provisional allocation of R23 billion. These allocations are subject to conditions, which include providing updates on strategies to manage municipal and other consumer debts, coal contract renegotiation and cost containment measures.

South African Airways

South African Airways operates a full-service network in the international, regional and domestic markets. The airline is responsible for promoting air links with South Africa's key business, trading and tourism markets across the world, and contributing to key domestic air linkages.

In December 2019, South African Airways was placed under business rescue to restore confidence in the airline and safeguard the company's assets. The business rescue process is also intended to restructure and reposition the company towards greater sustainability and attract strategic equity partners. Over the medium term, the airline's future will be guided by the recommendations of its business rescue practitioners. This is expected to take place in conjunction with the continued implementation of the company's long-term turnaround strategy, which aims to assist the airline in returning to solvency and profitability. The company refined its long-term turnaround strategy in 2019/20 to focus on: liquidity and balance sheet restructuring, revenue stimulation and network optimisation, organisational design, supply chain transformation, and business process transformation at South African Airways Technical. In 2019/20, R5.5 billion was allocated to South African Airways for repayment of debt and working capital. Over the MTEF period, R9.9 billion (R3.8 billion in 2020/21, R4.3 billion in 2021/22 and R1.8 billion in 2022/23) has been allocated to the airline for the repayment of government guaranteed debt and the provision of working capital. The airline is expected to continue relying on government support under business rescue.

The airline generated revenue of R27.1 billion in 2018/19 and recorded a provisional loss of R4.9 billion, compared to R28.1 billion and R5.4 billion, respectively, in 2017/18. As losses were anticipated in 2018/19 and 2019/20, government allocated R5 billion to the airline in 2018/19. This was in addition to the R10 billion allocated to the company in 2017/18. However, despite these recapitalisations, South African Airways remains insolvent, with its liabilities exceeding its assets by R13 billion at the end of 2018/19.

South African Express Airways

South African Express Airways serves as a regional air carrier mandated to provide transportation and other related aviation services on low-density domestic and African regional routes. The airline faces serious financial and liquidity challenges, and was grounded by the South African Civil Aviation Authority in May 2016, May 2018 and August 2019. The airline's continuing liquidity challenges are driven by a number of factors, including: unfavourable contracts entered into with service providers, an inability to raise financing facilities with local banks, suppliers placing the airline on a cash basis and demanding very stringent payment plans to settle old debt, and increased legal expenses due to disputes with suppliers where proper procurement processes were not followed.

The airline resumed operations in August 2018 with a new turnaround strategy focusing on governance,

profitability, operations, customer service and human capital. The strategy mainly includes initiatives to optimise the airline's route network, cancel or renegotiate contracts and agreements, strengthen revenue collection and management, fill key positions and reduce employee costs, enhance its organisational culture and values, and improve schedule and aircraft reliability. The airline's current business model is unsustainable and is being reviewed as part of the plan to consolidate the two state-owned airlines. The placing of South African Airways under business rescue provides a structured opportunity to reorganise state aviation assets to better position them as sustainable and attractive to investors.

The airline received a recapitalisation allocation of R1.2 billion in 2018/19, which was earmarked for the repayment of government guaranteed debt, and an additional R300 million in 2019/20. These allocations temporarily restored the solvency of the airline. In 2020/21, R164 million has been allocated to eliminate government's contingent liability exposure, relating to aircraft lease payments and letters of credit

South African Forestry Company

The South African Forestry Company was established in 1992 in terms of the Management of State Forests Act (1992). It is mandated to ensure the sustainable management of plantation forests, increase downstream timber processing, and play a catalytic role in rural economic development and transformation. Over the medium term, the company plans to continue fulfilling its commitments to communities near its operations, and diversify its product offering by increasing its production of timber for public facilities, poles for the electricity distribution sector, and furniture. The company supports communities around its operations, and is developing suitable land settlement models in partnership with the newly formed Department of Agriculture, Land Reform and Rural Development.

Although revenue increased from R926.4 million in 2017/18 to R1 billion in 2018/19, the company recorded a loss of R117.6 million in 2018/19, increasing from R80.2 million in the previous year as a result of a decrease in demand for timber, and delays in upgrading obsolete equipment. Revenue is expected to increase to R1.6 billion in 2021/22 as a result of planned investments in new projects.

Transnet

Transnet provides and operates freight transportation services and infrastructure. The company's current operating model is geared towards lowering the cost of doing business in South Africa. As such, Transnet aims to improve the competitiveness of South African goods and services to stimulate economic growth and ensure the security of supply in providing ports, rail and pipeline infrastructure in a cost-effective manner.

To sustain and expand its capacity, over the five-year period ending 2024/25, Transnet plans to invest R153.5 billion in capital expenditure, particularly in rail, port and pipeline infrastructure, across its operating divisions. The company is also addressing operational challenges with regards to rail and ports, with the aim of improving performance and increasing the volume of freight transported by rail. The department is investigating the implications of giving effect to the National Ports Act (2005) to ensure that this is done in a manner that is prudent and responsible. This is especially in light of volumes transported on rail by Transnet having decreased from 226.3 million tons in 2017/18 to 215.1 million tons in 2018/19, and port container volumes decreasing from 4.7 million 20-foot equivalent units in 2017/18 to 4.5 million 20-foot equivalent units in 2018/19.

Revenue increased by 1.6 per cent, from R72.9 billion in 2017/18 to R74.1 billion in 2018/19, mainly due to a 9.1 per cent increase in petroleum volumes. The company generated a net profit of R6 billion in 2018/19, increasing from R4.9 billion generated in 2017/18, and has remained self-sustaining. Transnet contributes significantly to public infrastructure investment. In 2018/19, R17.9 billion was spent on capital projects, bringing the company's total investment over the last 7 years to R183.5 billion.