

Vote 9

Public Enterprises

Budget summary

R million	2017/18				2018/19	2019/20
	Total	Current payments	Transfers and subsidies	Payments for capital assets	Total	Total
MTEF allocation						
Administration	155.5	152.6	–	2.9	162.5	173.6
Legal and Governance	25.2	25.2	–	–	26.4	28.3
Portfolio Management and Strategic Partnerships	86.0	86.0	–	–	88.3	94.6
Total expenditure estimates	266.7	263.8	–	2.9	277.2	296.5

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, personnel, entities, donor funding, public private partnerships, conditional grants to provinces and municipalities, and expenditure information at the level of site service delivery, where appropriate.

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 the shareholder representative for government at the state-owned companies in its portfolio. The department's mandate is to fulfil oversight responsibilities at these state-owned companies to ensure that they contribute to the realisation of government's strategic objectives, as articulated in the National Development Plan (NDP), the medium-term strategic framework (MTSF), the new growth path and the industrial policy action plan. 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 these objectives.

Selected performance indicators

Table 9.1 Performance indicators by programme and related outcome

Indicator	Programme	Outcome	Past			Current	Projections		
			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Number of shareholder compacts ¹ signed per year	Portfolio Management and Strategic Partnerships	Outcome 6: An efficient competitive and responsive economic infrastructure network	7	7	6	6	6	6	6
Number of corporate plans ² reviewed per year	Portfolio Management and Strategic Partnerships		8	7	6	6	6	6	6
Number of quarterly financial reviews per year	Portfolio Management and Strategic Partnerships		32	28	24	24	24	24	24

1. Shareholder compacts: The South African Express Airways compact is not yet finalised due to the delayed process where the compact needs to be signed by both the Minister of Public Enterprises and the Minister of Finance. The compact regulates the relationship between the shareholders, in this case the state, and the board of directors of the state-owned companies.

2. Corporate plans: The South African Express Airways 2016/17 corporate plan is to be resubmitted subsequent to the finalisation of the 2016/17 shareholder compact, which is not yet finalised. The corporate plan sets out the company's long-term plans to meet certain objectives, such as business growth and sales volumes.

Expenditure analysis

The Department of Public Enterprises oversees six state-owned companies: Alexkor, Denel, the South African Forestry Company, Eskom, South African Express Airways and Transnet. These companies are key drivers of economic growth over the short and medium term. The department monitors state-owned companies to ensure

that the right investments are made to create jobs and sustain economic growth. In delivering on its mandate, the department contributes to the NDP objectives as expressed in outcome 4 (decent employment through inclusive growth) and outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government's 2014-2019 medium-term strategic framework. The department's focus over the medium term is on strengthening its oversight capacity and ensuring that state-owned companies under its authority are contributing to investment in key infrastructure.

Strengthening oversight capacity

In February 2015, the department developed a new strategy to improve the performance of state-owned companies in order to sustainably enhance their contribution to the implementation of the NDP. The strategy calls for the department to strengthen its ability to execute its oversight mandate and increase its capacity to perform the oversight function. Several initiatives are underway in this regard.

The department is developing a government shareholder policy, which is expected to standardise the shareholder function, improve the interface between the state and the private sector, and streamline and maximise the impact of the state's investments in the economy. A draft of the policy has been prepared and consultations with departments in the economic cluster are under way. Oversight activities such as the development of a government shareholder policy, involve significant travel and the technical research provided by consultants. Spending on travelling over the medium term is expected to reach R17.7 million in 2019/20, declining at an average annual rate of 6.5 per cent once the policy has been prepared, while spending on consultants is set to reach R36.8 million, growing at an average annual rate of 2.3 per cent. However, the department's overall spending on goods and services is expected to decrease over the medium term by R2.7 million, and payments for capital assets by R116 000, as the department cuts spending as part of curtailing overall aggregate spending.

The department is reorganising its internal operational model so that it is structurally equipped to support the new strategy. As such, over the medium term, the department expects to prioritise capacity in the *Portfolio Management and Strategic Partnerships* programme. The department has also implemented measures to ensure vacant positions are filled timeously, including introducing an electronic recruitment system. To ease the effects of the baseline reductions, the department is in the process of realigning its departmental organisational structure and is considering implementing reductions on non-core goods and services items. The department's approved personnel establishment is set to decrease from 218 in 2016/17 to 212 in 2019/20. Spending on compensation of employees is 57.4 per cent of the total budget in 2016/17 and is expected to grow to reach R184.5 million in 2019/20.

Increasing investments of state-owned companies

The capital expenditure programme in state-owned companies, under the oversight of the department, is an important policy instrument to accelerate economic growth. The programme is intended to enhance the capacity of infrastructure networks, such as rail and electricity, to improve the competitiveness of the economy in the medium to long term. The department as a shareholder determines key infrastructure projects to be pursued that contribute to national policy imperatives and it ensures that state-owned companies invest in such infrastructure.

Investments by state-owned companies have significantly increased from approximately R25 billion a year in 2005 to more than R160 billion in 2015. This has largely been driven by Eskom and Transnet, which invested more than R90 billion in 2015. The implementation of Eskom's build programme, a key example of investment in public-sector infrastructure, has played a pivotal role in addressing the energy challenges experienced in the past two financial years, with the company commissioning additional units to boost its base load and peak capacity. In 2015/16, Eskom's continued implementation of the electrification programme meant that the number of households connected to the grid had increased to 90 per cent. Transnet continues to spearhead the delivery of government's economic growth objectives with regard to the Operation Phakisa programmes, with particular focus on growing GDP and creating jobs through the oceans economy, and has allocated R2 billion towards improving port infrastructure. The implementation of the market demand strategy continues to be a key driver in improving the performance of ports. Despite economic challenges, spending on the capital and infrastructure investment programmes, which is designed to expand freight logistics infrastructure, remains stable. In 2016/17, state-owned companies are expected to spend R90 billion on replacing existing infrastructure and creating additional capacity.

The department continues to advocate for a supportive policy framework that will promote the sustainability of state-owned companies and ensure they deliver on their obligations to support long-term growth. It also approves and provides support on state-owned companies' proposals on funding options and ensures that they are implemented. In addition, the department evaluates financial and non-financial performance, monitors costs escalations, engages with other executive authorities to ensure payment of electricity debts, and monitors the implementation of turnaround plans. These activities are mainly funded through the *Legal and Governance*, and *Portfolio Management and Strategic Partnerships* programmes. The combined budget of these programmes is set to increase from R112.2 million in 2016/17 to R122.9 million in 2019/20.

Expenditure trends

Table 9.2 Vote expenditure trends by programme and economic classification

Programmes														
1. Administration														
2. Legal and Governance														
3. Portfolio Management and Strategic Partnerships														
Programme	Annual budget	Adjusted appropriation	Audited outcome	Annual budget	Adjusted appropriation	Audited outcome	Annual budget	Adjusted appropriation	Audited outcome	Annual budget	Adjusted appropriation	Revised estimate	Average: Outcome/Annual budget (%)	Average: Outcome/Adjusted appropriation (%)
R million	2013/14			2014/15			2015/16			2016/17			2013/14 - 2016/17	
Programme 1	127.1	131.0	133.3	152.1	156.9	145.6	158.6	161.9	145.8	158.0	155.8	155.8	97.4%	95.8%
Programme 2	23.8	22.3	23.2	24.0	24.3	20.3	23.8	23.5	19.7	26.0	25.9	25.9	91.3%	92.8%
Programme 3	82.8	137.7	112.9	80.3	138.4	130.2	85.1	23 117.2	23 094.2	90.0	86.3	86.3	6 926.0%	99.8%
Total	233.8	291.1	269.4	256.4	319.5	296.1	267.5	23 302.6	23 259.7	274.0	268.0	268.0	2 335.3%	99.6%
Change to 2016 Budget estimate	(6.0)													
Economic classification														
Current payments	231.4	231.2	208.4	252.2	252.1	227.9	263.8	264.6	217.8	270.1	263.9	263.9	90.2%	90.7%
Compensation of employees	127.8	129.0	124.9	146.4	147.1	141.2	152.3	153.1	140.0	160.1	153.9	153.9	95.5%	96.0%
Goods and services	103.6	102.2	83.6	105.9	105.0	86.7	111.5	111.5	77.9	110.0	110.0	110.0	83.1%	83.5%
Transfers and subsidies	0.1	57.4	57.6	0.1	63.4	63.8	0.1	34.4	35.5	0.1	0.3	0.3	-	101.1%
Public corporations and private enterprises	-	57.3	57.3	-	63.1	63.1	-	33.1	33.1	-	-	-	-	100.0%
Households	0.1	0.2	0.4	0.1	0.3	0.7	0.1	1.3	2.4	0.1	0.3	0.3	903.6%	188.3%
Payments for capital assets	2.3	2.5	3.2	4.1	4.1	4.3	3.6	3.6	6.3	3.7	3.7	3.7	128.9%	127.2%
Machinery and equipment	2.3	2.3	2.8	4.1	4.1	4.2	3.5	3.5	5.7	3.6	3.6	3.6	121.3%	120.8%
Software and other intangible assets	-	0.2	0.5	-	-	0.1	0.1	0.1	0.6	0.1	0.1	0.1	624.8%	384.2%
Payments for financial assets	-	-	0.1	-	-	-	-	23 000.0	23 000.0	-	-	-	-	100.0%
Total	233.8	291.1	269.4	256.4	319.5	296.1	267.5	23 302.6	23 259.7	274.0	268.0	268.0	2 335.3%	99.6%

Expenditure estimates

Table 9.3 Vote expenditure estimates by programme and economic classification

Programmes									
1. Administration									
2. Legal and Governance									
3. Portfolio Management and Strategic Partnerships									
Programme	Revised estimate	Average growth rate (%)	Average: Expenditure/Total (%)	Medium-term expenditure estimate			Average growth rate (%)	Average: Expenditure/Total (%)	
R million	2016/17	2013/14 - 2016/17		2017/18	2018/19	2019/20	2016/17 - 2019/20		
Programme 1	155.8	5.9%	2.4%	155.5	162.5	173.6	3.7%	58.4%	
Programme 2	25.9	5.1%	0.4%	25.2	26.4	28.3	3.0%	9.6%	
Programme 3	86.3	-14.4%	97.2%	86.0	88.3	94.6	3.1%	32.0%	
Total	268.0	-2.7%	100.0%	266.7	277.2	296.5	3.4%	100.0%	
Change to 2016 Budget estimate				(12.8)	(12.8)	(13.1)			

Table 9.3 Vote expenditure estimates by programme and economic classification

Economic classification	Revised estimate	Average	Average:	Medium-term expenditure estimate			Average	Average:
		growth rate (%)	Expenditure/Total (%)	2017/18	2018/19	2019/20	growth rate (%)	Expenditure/Total (%)
R million	2016/17	2013/14 - 2016/17					2016/17 - 2019/20	
Current payments	263.9	4.5%	3.8%	263.8	275.6	293.2	3.6%	98.9%
Compensation of employees	153.9	6.1%	2.3%	166.9	171.5	184.5	6.2%	61.1%
Goods and services	110.0	2.5%	1.5%	96.9	104.1	108.6	-0.4%	37.9%
Transfers and subsidies	0.3	-82.2%	0.7%	-	-	-	-67.6%	0.0%
Provinces and municipalities	-	-	-	-	-	-	122.4%	-
Households	0.3	27.6%	-	-	-	-	-100.0%	-
Payments for capital assets	3.7	14.9%	0.1%	2.9	1.6	3.3	-3.8%	1.0%
Machinery and equipment	3.6	16.4%	0.1%	2.8	1.5	3.2	-3.9%	1.0%
Software and other intangible assets	0.1	-12.3%	-	0.1	0.1	0.1	1.2%	-
Total	268.0	-2.7%	100.0%	266.7	277.2	296.5	3.4%	100.0%

Goods and services expenditure trends and estimates

Table 9.4 Vote goods and services expenditure trends and estimates

	Audited outcome			Adjusted appropriation	Average	Average:	Medium-term expenditure estimate			Average	Average:
	2013/14	2014/15	2015/16		growth rate (%)	Expenditure/Total (%)	2017/18	2018/19	2019/20	growth rate (%)	Expenditure/Total (%)
R thousand	2013/14	2014/15	2015/16	2016/17	2013/14 - 2016/17					2016/17 - 2019/20	
Administrative fees	870	2 155	2 334	1 472	19.2%	1.9%	2 298	2 457	2 624	21.3%	2.1%
Advertising	4 361	1 421	2 326	1 629	-28.0%	2.7%	1 567	1 656	1 749	2.4%	1.6%
Minor assets	357	73	224	200	-17.6%	0.2%	12	13	14	-58.8%	0.1%
Audit costs: External	2 087	2 822	3 559	3 650	20.5%	3.4%	3 400	3 593	2 795	-8.5%	3.2%
Bursaries: Employees	463	271	724	960	27.5%	0.7%	1 032	1 091	1 152	6.3%	1.0%
Catering: Departmental activities	1 622	763	698	1 320	-6.6%	1.2%	1 232	1 314	1 454	3.3%	1.3%
Communication	3 714	4 543	4 165	4 447	6.2%	4.7%	5 659	5 002	6 337	12.5%	5.1%
Computer services	4 125	6 129	3 958	5 705	11.4%	5.6%	2 570	2 459	2 182	-27.4%	3.1%
Consultants: Business and advisory services	12 910	25 081	14 800	34 446	38.7%	24.4%	32 142	34 865	36 839	2.3%	33.0%
Legal services	1 878	2 108	829	3 162	19.0%	2.2%	3 804	3 410	3 614	4.6%	3.3%
Contractors	909	2 627	2 039	9 514	118.7%	4.2%	5 784	6 554	6 784	-10.7%	6.8%
Agency and support/outourced services	2 625	985	1 659	1 080	-25.6%	1.8%	1 441	1 522	1 607	14.2%	1.3%
Entertainment	19	4	-	116	82.8%	-	75	68	74	-13.9%	0.1%
Fleet services (including government motor transport)	1 190	975	771	1 018	-5.1%	1.1%	997	1 062	1 121	3.3%	1.0%
Inventory: Clothing material and accessories	25	-	1	-	-100.0%	-	-	-	-	-	-
Inventory: Materials and supplies	5	45	5	-	-100.0%	-	-	-	-	-	-
Inventory: Medical supplies	1	-	3	-	-100.0%	-	-	-	-	-	-
Inventory: Medicine	-	1	2	-	-	-	-	-	-	-	-
Consumable supplies	823	725	356	775	-2.0%	0.7%	732	774	817	1.8%	0.7%
Consumables: Stationery, printing and office supplies	2 376	1 526	1 566	1 339	-17.4%	1.9%	1 382	1 460	1 542	4.8%	1.4%
Operating leases	2 288	1 196	1 223	1 709	-9.3%	1.8%	1 248	571	864	-20.3%	1.0%
Rental and hiring	-	306	367	98	-	0.2%	15	16	17	-44.2%	-
Property payments	7 504	8 441	10 196	9 636	8.7%	10.0%	10 259	10 853	11 460	5.9%	10.1%
Transport provided: Departmental activity	-	69	3 619	71	-	1.0%	100	106	112	16.4%	0.1%
Travel and subsistence	22 879	17 645	15 620	21 606	-1.9%	21.7%	13 256	17 857	17 650	-6.5%	16.8%
Training and development	1 859	2 602	3 769	1 800	-1.1%	2.8%	1 650	1 744	1 841	0.8%	1.7%
Operating payments	1 505	1 983	710	3 038	26.4%	2.0%	4 008	3 235	3 472	4.6%	3.3%
Venues and facilities	7 177	2 218	2 338	1 218	-44.6%	3.6%	2 253	2 390	2 523	27.5%	2.0%
Total	83 572	86 714	77 861	110 009	9.6%	100.0%	96 916	104 072	108 644	-0.4%	100.0%

Transfers and subsidies expenditure trends and estimates

Table 9.5 Vote transfers and subsidies trends and estimates

	Audited outcome			Adjusted appropriation	Average	Average:	Medium-term expenditure estimate			Average	Average:
	2013/14	2014/15	2015/16		growth rate (%)	Expenditure/Total (%)	2017/18	2018/19	2019/20	growth rate (%)	Expenditure/Total (%)
R thousand	2013/14	2014/15	2015/16	2016/17	2013/14 - 2016/17					2016/17 - 2019/20	
Provinces and municipalities											
Municipal bank accounts											
Current	2	-	-	1	-20.6%	-	10	11	11	122.4%	9.3%
Municipality bank account: Fines and penalties	2	-	-	1	-20.6%	-	-	-	-	-100.0%	0.3%
Vehicle licences	-	-	-	-	-	-	10	11	11	-	9.0%
Public corporations and private enterprises											
Other transfers to public corporations											
Current	57 250	63 141	33 106	-	-100.0%	97.6%	-	-	-	-	-
Denel	57 250	63 141	33 106	-	-100.0%	97.6%	-	-	-	-	-

Table 9.5 Vote transfers and subsidies trends and estimates

R thousand	Audited outcome			Adjusted appropriation 2016/17	Average growth rate (%) 2013/14 - 2016/17	Average: Expenditure/ Total (%)	Medium-term expenditure estimate			Average growth rate (%) 2016/17 - 2019/20	Average: Expenditure/ Total (%)
	2013/14	2014/15	2015/16				2017/18	2018/19	2019/20		
Households											
Social benefits											
Current	300	611	1 923	63	-40.6%	1.8%	-	-	-	-100.0%	17.7%
Employee social benefits	300	611	1 923	63	-40.6%	1.8%	-	-	-	-100.0%	17.7%
Households											
Other transfers to households											
Current	60	96	447	259	62.8%	0.5%	-	-	-	-100.0%	73.0%
Employee social benefits	13	-	61	148	125.0%	0.1%	-	-	-	-100.0%	41.7%
Gifts and donations	47	96	386	111	33.2%	0.4%	-	-	-	-100.0%	31.3%
Total	57 612	63 848	35 476	323	-82.2%	100.0%	10	11	11	-67.6%	100.0%

Personnel information

Table 9.6 Vote personnel numbers and cost by salary level and programme¹

Programmes		Number of posts estimated for 31 March 2017		Number and cost ² of personnel posts filled / planned for on funded establishment												Number				
1. Administration	2. Legal and Governance	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 (%)			
				2015/16		2016/17		2017/18		2018/19		2019/20		2016/17 - 2019/20						
				Number	Cost	Unit cost	Number	Cost	Unit cost	Number	Cost	Unit cost	Number	Cost	Unit cost	Number	Cost	Unit cost		
Public Enterprises		219	26	200	140.0	0.7	218	153.9	0.7	220	166.9	0.8	211	171.5	0.8	212	184.5	0.9	-0.9%	100.0%
Salary level																				
1 – 6		15	20	13	7.2	0.6	18	5.2	0.3	18	5.7	0.3	18	6.2	0.3	18	6.7	0.4	-	8.4%
7 – 10		76	6	77	32.5	0.4	82	37.7	0.5	82	40.9	0.5	82	44.3	0.5	83	47.8	0.6	0.4%	38.2%
11 – 12		42	-	40	25.9	0.6	42	29.5	0.7	44	33.3	0.8	41	34.0	0.8	41	36.8	0.9	-0.8%	19.5%
13 – 16		86	-	70	71.3	1.0	76	81.5	1.1	76	87.1	1.1	70	86.9	1.2	70	93.3	1.3	-2.7%	33.9%
Other		-	-	-	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Programme		219	26	200	140.0	0.7	218	153.9	0.7	220	166.9	0.8	211	171.5	0.8	212	184.5	0.9	-0.9%	100.0%
Programme 1		117	26	113	73.5	0.7	124	80.9	0.7	124	87.6	0.8	124	94.6	0.8	124	102.1	0.8	-	57.6%
Programme 2		21	-	19	17.1	0.9	21	20.0	1.0	20	20.0	1.0	20	21.5	1.1	20	23.1	1.2	-1.6%	9.4%
Programme 3		81	-	68	49.4	0.7	73	53.0	0.7	76	59.4	0.8	67	55.4	0.8	68	59.4	0.9	-2.3%	33.0%

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

2. Rand million.

Departmental receipts

Table 9.7 Departmental receipts by economic classification

R thousand	Audited outcome			Adjusted estimate 2016/17	Revised estimate	Average growth rate (%) 2013/14 - 2016/17	Average: Receipt item/ Total (%)	Medium-term receipts estimate			Average growth rate (%) 2016/17 - 2019/20	Average: Receipt item/ Total (%)
	2013/14	2014/15	2015/16					2017/18	2018/19	2019/20		
Departmental receipts	373	203	3 377	1 083	41	-52.1%	100.0%	105	112	114	40.6%	100.0%
Sales of goods and services produced by department	57	68	72	288	37	-13.4%	5.9%	85	89	90	34.5%	80.9%
Sales by market establishments	-	41	45	234	23	-	2.7%	30	31	32	11.6%	31.2%
of which:												
Sales by market establishments	-	41	45	154	23	-	2.7%	30	31	32	11.6%	31.2%
Other sales	-	-	-	80	-	-	-	-	-	-	-	-
Administrative fees	-	-	-	1	-	-	-	1	2	2	-	1.3%
of which:												
Licence agency fees	-	-	-	1	-	-	-	1	2	2	-	1.3%
Other sales	57	27	27	53	14	-37.4%	3.1%	54	56	56	58.7%	48.4%
of which:												
Garage rent	35	-	-	38	-	-100.0%	0.9%	38	39	39	-	31.2%
Commission insurance	13	25	25	15	14	2.5%	1.9%	16	17	17	6.7%	17.2%
Replacement of security cards	9	2	2	-	-	-100.0%	0.3%	-	-	-	-	-

Table 9.7 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 (%)
	2013/14	2014/15	2015/16					2016/17	2017/18	2018/19		
Sales of scrap, waste, arms and other used current goods	3	-	-	-	-	-100.0%	0.1%	6	6	6	-	4.8%
of which:												
Sales of scrap paper	3	-	-	-	-	-100.0%	0.1%	6	6	6	-	4.8%
Transfers received	-	-	-	244	-	-	-	-	-	-	-	-
Interest, dividends and rent on land	31	3	7	11	1	-68.2%	1.1%	5	6	6	81.7%	4.8%
Interest	31	3	7	11	1	-68.2%	1.1%	5	6	6	81.7%	4.8%
Sales of capital assets	-	130	187	300	-	-	7.9%	-	-	-	-	-
Transactions in financial assets and liabilities	282	2	3 111	240	3	-78.0%	85.1%	9	11	12	58.7%	9.4%
Total	373	203	3 377	1 083	41	-52.1%	100.0%	105	112	114	40.6%	100.0%

Programme 1: Administration

Programme purpose

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

Expenditure trends and estimates

Table 9.8 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 (%)
	2013/14	2014/15	2015/16				2016/17	2017/18	2018/19		
R million											
Ministry	31.3	28.4	28.9	27.8	-3.9%	20.1%	28.6	29.4	31.6	4.4%	18.1%
Management	9.3	15.2	12.8	11.3	6.9%	8.4%	9.8	10.5	11.4	0.3%	6.7%
Corporate Services	27.1	28.1	30.1	35.0	9.0%	20.7%	36.8	38.5	40.9	5.4%	23.4%
Chief Financial Officer	11.3	12.6	13.9	17.0	14.6%	9.4%	16.4	17.1	18.3	2.5%	10.6%
Human Resources	17.6	23.4	22.2	23.9	10.6%	15.0%	21.0	21.6	23.1	-1.1%	13.8%
Communications	14.2	16.1	12.0	16.0	4.0%	10.0%	15.0	15.9	16.8	1.6%	9.8%
Strategic Planning, Monitoring and Evaluation	4.8	4.4	4.8	4.7	-0.7%	3.2%	7.1	7.5	8.0	19.5%	4.2%
Intergovernmental Relations	6.7	5.8	5.7	5.1	-8.6%	4.0%	4.6	4.8	5.2	0.4%	3.0%
Internal Audit	3.7	3.6	5.3	6.1	17.4%	3.2%	6.7	7.2	7.7	8.2%	4.3%
Office Accommodation	7.2	8.1	10.0	9.0	7.4%	5.9%	9.4	10.0	10.5	5.5%	6.0%
Total	133.3	145.6	145.8	155.8	5.3%	100.0%	155.5	162.5	173.6	3.7%	100.0%
Change to 2016				(2.2)			(5.9)	(5.7)	(5.8)		
Budget estimate											
Economic classification											
Current payments	129.6	141.0	137.7	151.8	5.4%	96.5%	152.6	160.9	170.2	3.9%	98.2%
Compensation of employees	66.7	73.8	73.5	80.9	6.7%	50.8%	87.6	94.6	102.1	8.1%	56.4%
Goods and services ¹	63.0	67.2	64.2	70.9	4.0%	45.7%	65.0	66.3	68.1	-1.3%	41.8%
of which:											
Communication	3.2	4.1	3.7	3.6	4.3%	2.5%	4.7	4.0	5.3	13.1%	2.7%
Consultants: Business and advisory services	7.9	16.2	9.4	13.6	19.8%	8.1%	11.5	12.2	10.9	-7.0%	7.4%
Contractors	0.8	2.5	2.0	5.7	92.2%	1.9%	4.4	4.8	4.9	-5.1%	3.1%
Property payments	7.5	8.4	10.2	9.6	8.7%	6.2%	10.3	10.9	11.5	5.9%	6.5%
Travel and subsistence	15.0	11.7	9.2	10.9	-10.0%	8.1%	7.4	8.2	8.9	-6.5%	5.5%
Operating payments	1.1	2.0	0.6	3.0	41.3%	1.2%	4.0	3.2	3.5	4.6%	2.1%
Transfers and subsidies¹	0.3	0.3	1.7	0.2	-9.7%	0.4%	0.0	0.0	0.0	-63.9%	-
Households	0.3	0.3	1.7	0.2	-9.7%	0.4%	-	-	-	-100.0%	-
Payments for capital assets	3.2	4.3	6.3	3.7	4.6%	3.0%	2.9	1.6	3.3	-3.8%	1.8%
Machinery and equipment	2.8	4.2	5.7	3.6	9.2%	2.8%	2.8	1.5	3.2	-3.9%	1.7%
Software and other intangible assets	0.5	0.1	0.6	0.1	-38.1%	0.2%	0.1	0.1	0.1	1.2%	0.1%
Payments for financial assets	0.1	0.0	0.0	-	-100.0%	-	-	-	-	-	-
Total	133.3	145.6	145.8	155.8	5.3%	100.0%	155.5	162.5	173.6	3.7%	100.0%
Proportion of total programme expenditure to vote expenditure	49.5%	49.2%	0.6%	58.1%	-	-	58.3%	58.6%	58.5%	-	-

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

Programme 2: Legal and Governance

Programme 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.

Objective

- Ensure effective shareholder oversight of state-owned companies by:
 - providing legal services and coordinated governance systems on an ongoing basis
 - facilitating the implementation of all legal aspects of transactions that are strategically important to the department and state-owned companies on an ongoing basis
 - 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 an ongoing basis
 - providing assistance for developing and negotiating shareholder compact frameworks annually in terms of the Public Finance Management Act (1999)
 - providing guidance on appropriate delegation frameworks between the boards of state-owned companies and executive management on an ongoing basis
 - advising the Minister of Public Enterprises on an ongoing basis on the appointments of boards of directors including remuneration; preparations for annual general meetings; and conducting annual reviews of ownership policies, governance, appointments and the performance of the boards and executive management.

Subprogrammes

- *Management* comprises of the office of the deputy director general, which provides strategic leadership and management of the programme personnel.
- *Legal* provides internal and external legal services and support to sector teams. This entails providing legal services, including transaction and contract management support, as well as work specifically related to the commercial activities of the state-owned companies within their portfolios.
- *Governance* develops, monitors and advises on legislative, corporate governance and shareholder management systems for the department and its portfolio of state-owned companies. Risk and compliance management is a unit within this subprogramme and is responsible for developing and implementing risk and compliance management guidelines and systems. The risk management unit also identifies both operational and shareholder risk.

Expenditure trends and estimates

Table 9.9 Legal and Governance expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome				Adjusted appropriation 2016/17	Average growth rate (%) 2013/14 - 2016/17	Average Expenditure/ Total (%) 2013/14 - 2016/17	Medium-term expenditure estimate			Average growth rate (%) 2016/17 - 2019/20	Average Expenditure/ Total (%) 2016/17 - 2019/20
	2013/14	2014/15	2015/16	2016/17				2017/18	2018/19	2019/20		
R million												
Management	3.0	2.9	2.8	3.2	1.6%	13.3%	3.0	3.2	3.4	2.8%	12.1%	
Legal	12.7	11.7	10.7	13.1	1.0%	54.0%	13.4	14.0	15.0	4.7%	52.4%	
Governance	7.4	5.7	6.3	9.6	9.1%	32.7%	8.8	9.2	9.9	0.7%	35.5%	
Total	23.2	20.3	19.7	25.9	3.8%	100.0%	25.2	26.4	28.3	3.0%	100.0%	
Change to 2016 Budget estimate				(0.1)			(1.5)	(1.5)	(1.5)			

Table 9.9 Legal and Governance expenditure trends and estimates by subprogramme and economic classification

Economic classification	Audited outcome			Adjusted appropriation 2016/17	Average growth rate (%) 2013/14 - 2016/17	Average: Expenditure/ Total (%) 2013/14 - 2016/17	Medium-term expenditure estimate			Average growth rate (%) 2016/17 - 2019/20	Average: Expenditure/ Total (%) 2016/17 - 2019/20
	2013/14	2014/15	2015/16				2017/18	2018/19	2019/20		
R million											
Current payments	23.1	20.3	19.7	25.8	3.7%	99.9%	25.2	26.4	28.3	3.1%	99.9%
Compensation of employees	15.2	16.8	17.1	20.0	9.6%	77.5%	20.0	21.5	23.1	4.9%	79.8%
Goods and services ¹	8.0	3.5	2.6	5.8	-9.8%	22.4%	5.3	4.9	5.3	-3.5%	20.1%
of which:											
Communication	0.1	0.1	0.1	0.2	6.7%	0.6%	0.2	0.2	0.2	11.5%	0.8%
Consultants: Business and advisory services	2.5	0.4	0.6	1.9	-9.0%	6.0%	1.5	1.6	1.8	-1.3%	6.4%
Legal services	1.9	1.4	0.7	2.2	4.8%	6.9%	2.6	2.1	2.2	1.0%	8.5%
Travel and subsistence	1.7	1.4	1.2	1.5	-4.9%	6.5%	0.9	0.9	0.9	-15.0%	3.9%
Venues and facilities	0.2	0.1	0.0	0.1	-14.0%	0.5%	0.1	0.1	0.1	-22.7%	0.3%
Transfers and subsidies¹	0.0	-	-	0.1	68.3%	0.1%	-	-	-	-100.0%	0.1%
Households	0.0	-	-	0.1	68.3%	0.1%	-	-	-	-100.0%	0.1%
Total	23.2	20.3	19.7	25.9	3.8%	100.0%	25.2	26.4	28.3	3.0%	100.0%
Proportion of total programme expenditure to vote expenditure	8.6%	6.9%	0.1%	9.7%	-	-	9.5%	9.5%	9.6%	-	-

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

Programme 3: Portfolio Management and Strategic Partnerships

Programme 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.

Objectives

- Contribute to enhancing the performance of state-owned companies by:
 - approving and evaluating corporate plans to determine whether the performance of state-owned companies aligns with agreed key performance indicators, and provide advice and guidance to their boards, on an ongoing basis
 - monitoring the implementation of corporate plans and shareholder compact targets quarterly
 - assessing shareholder and enterprise risks and advising boards on areas of concern quarterly.

Energy enterprises

- Provide shareholder management and oversight of the Eskom business, including the generation, transmission and distribution of electricity, with particular emphasis on ensuring the security of supply, over the medium term.
- Ensure the legal regulatory compliance of Eskom by engaging on an ongoing basis with relevant stakeholders such as the Department of Energy, the Department of Environmental Affairs, the Department of Water and Sanitation, and 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 roll out the build programme in a cost effective manner, on a quarterly basis.
- Exercise oversight to ensure that Eskom's capital investments support local suppliers by monitoring the implementation of the competitive supplier development programme and assessing progress in the company's quarterly report.
- Support Eskom on an ongoing basis to address municipal debt challenges to ensure financial sustainability.

Eskom

- Support the security of electricity supply by:
 - examining Eskom’s maintenance plans, operational practices, electricity generation and distribution efficiency, and its reserve margin, on an ongoing basis
 - ensuring that Eskom supplies electricity by monitoring, evaluating and engaging with the company on system security and the new build programme to alleviate constraints on an ongoing basis
 - facilitating engagement between Eskom and other spheres of government to address municipal debt on an ongoing basis
 - monitoring the rollout of the capital investment programme to ensure that it is delivered on time, is of appropriate quality and is within budget 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 sectoral policy shifts, and alert their boards and enterprises to material deviations, if any.
- Support state-owned companies in delivering on their objectives, as set out in 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 made.
- Promote collaboration among state-owned companies in order to contribute towards achieving national economic development objectives.

Denel

- Oversee the development of a long-term growth strategy to achieve financial stability and the growth of manufacturing export products on an ongoing basis.
- Leverage off the company’s advances in manufacturing capability through securing work packages in support of the industrialisation drive aligned with the industrial policy action plan over the medium term.
- Ensure Denel’s ongoing sustainability by monitoring the implementation of the multi-year turnaround plan over the medium term.
- Ensure a balance between the need to develop indigenous capabilities in response to national defence equipment requirements and the need to cooperate and collaborate with international armaments companies in the context of high development costs and the importance of having access to selected markets on an ongoing basis.

Alexkor

- Ensure increased diamond production and promote the financial stability of the Alexkor and Richtersveld Mining Company’s Pooling and Sharing Joint Venture by monitoring the implementation of Alexkor’s strategy to promote financial sustainability and monitoring the joint venture’s turnaround strategy on a quarterly basis.
- Ensure collaboration and alignment between Alexkor and the African Exploration Mining and Finance Corporation through the development of a collaborative model over the medium term.
- Contribute to developing non-mining sustainable economic activities through the support and coordinated joint efforts of the Department of Public Enterprises, the Department of Mineral Resources and the Department of Rural Development and Land Reform over the medium term.

South African Forestry Company

- Oversee the implementation of the land restitution strategy for claims over the Komatiland Forests land claims settlement model to ensure meaningful benefits to the successful land claimants over the medium term.
- Oversee the implementation of the South African Forestry Company’s corporate strategy over the medium term.

- Engage with the Department of Rural Development and Land Reform; the Department of Agriculture, Forestry and Fisheries; and the Department of Trade and Industry to ensure the warehousing of the shares held by the South African Forestry Company in the four privatised forestry companies.

Transport enterprises

- Align the corporate strategies of Transnet and South African Express Airways with government's strategic intent, and monitor and benchmark their financial and operational performance by:
 - ensuring the alignment of the corporate strategies of Transnet and South African Express Airways with government's strategic intent and ensuring that these companies remain competitive, financially sustainable and deliver an optimal service to the economy on an ongoing basis
 - supporting Transnet and South African Express Airways in delivering on their objectives by identifying appropriate benchmarks and key performance measures for their respective shareholder compacts and corporate plans on an ongoing basis
 - creating an enabling environment for transport enterprises and ensuring an appropriate balance between the enterprises' interests, stability and developmental objectives by engaging with policy departments and relevant regulators on an ongoing basis
 - ensuring the effective use of existing logistics infrastructure, planning for the creation of new infrastructure and the provision of optimal services on an ongoing basis.

Transnet

- Provide oversight on Transnet's implementation of the market demand strategy to optimise the economic impact of infrastructure investment on the economy by monitoring the rollout of Transnet's capital expenditure programme, quarterly and annually, to assess any significant deviations from corporate plans, and potential cost overruns and time delays on major capital projects.
- Contribute to the national freight logistics strategy by informing the freight sector on developments and attributes to guide policy such as government's commitment investment or rail and modal optimisation over the medium term.
- Develop a strategic position with the rail economic regulator to prioritise government objectives over the medium term.

South African Express Airways

- Monitor and assist with the implementation of South African Express Airways' 20/20 vision and austerity measures on an ongoing basis.
- Engage with policy departments on the strategic direction of policy and regulation in the aviation sector to ensure that new policies take into consideration the mandate and objectives of the airline as determined by government over the medium term.
- Develop a strategic proposal regarding the optimal group structure of state-owned airlines to assist in rationalising the structure and unifying their operations over the medium term.
- Facilitate the review of commercial arrangements, as and when required, in order to support the financial position of the company and ensure its long-term financial and commercial sustainability over the medium term.

Economic impact and policy alignment

- Oversee and supervise processes to conduct macroeconomic modelling, research and impact evaluation to ensure that state-owned companies contribute to economic growth on an ongoing basis.
- Enhance the alignment of state-owned companies' investments and operational activities with national industrial policy, macroeconomic policy and the role of state-owned companies, as well as monitor implementation, in 2017/18.
- Oversee processes to ensure that state-owned companies comply with environmental laws, and optimise the impact of state-owned companies on the reduction of carbon emissions and the development of a green economy, while supporting the business needs of state-owned companies, on an ongoing basis.

- Oversee the implementation of state-owned companies' economic and social transformation agendas in support of national policies and economic growth, with specific focus on skills development, job creation, procurement/broad based black economic empowerment and corporate social investments targeted at designated groups on an ongoing basis.

Strategic partnerships

- Oversee catalytic project implementation from pre-feasibility to completion, including the design of relevant compacts, on an ongoing basis.
- Implement innovative funding structures and design associated compacts with relevant partners over the medium term.
- Oversee Eskom and Transnet's implementation of the competitive supplier development programme, and oversee Transnet's locomotive fleet procurement design and implementation, and the development and implementation of its executive leadership programme on an ongoing basis.

Subprogrammes

- *Energy Enterprises* exercises shareholder oversight over Eskom.
- *Manufacturing Enterprises* exercises shareholder oversight over Denel, Alexkor and South African Forestry Company.
- *Transport Enterprises* exercises shareholder oversight over Transnet and South African Express Airways.
- *Economic Impact and Policy Alignment* aligns state-owned companies with overarching government economic, social and environmental policies.
- *Strategic Partnerships* ensures that state-owned companies maintain commercial sustainability and attain desired strategic outcomes and objectives.

Expenditure trends and estimates

Table 9.10 Portfolio Management and Strategic Partnerships expenditure trends and estimates by subprogramme and economic classification

Subprogramme	Audited outcome			Adjusted appropriation 2016/17	Average growth rate (%) 2013/14 - 2016/17	Average: Expenditure/ Total (%) 2013/14 - 2016/17	Medium-term expenditure estimate			Average growth rate (%) 2016/17 - 2019/20	Average: Expenditure/ Total (%) 2016/17 - 2019/20
	2013/14	2014/15	2015/16				2017/18	2018/19	2019/20		
R million											
Energy Enterprises	12.9	13.1	23 012.2	17.0	9.6%	98.4%	17.6	16.9	18.1	2.1%	19.6%
Manufacturing Enterprises	68.1	77.5	47.2	19.7	-33.9%	0.9%	19.9	20.5	22.0	3.7%	23.1%
Transport Enterprises	15.0	20.6	18.3	23.0	15.4%	0.3%	19.6	20.2	21.7	-1.9%	23.8%
Economic Impact and Policy Alignment	9.7	10.7	11.0	13.6	11.9%	0.2%	16.8	17.9	19.1	12.1%	19.0%
Strategic Partnerships	7.3	8.3	5.5	13.0	21.4%	0.1%	12.1	12.8	13.7	1.9%	14.5%
Total	112.9	130.2	23 094.2	86.3	-8.6%	100.0%	86.0	88.3	94.6	3.1%	100.0%
Change to 2016				(3.7)			(5.4)	(5.6)	(5.8)		
Budget estimate											
Economic classification											
Current payments	55.7	66.7	60.4	86.3	15.7%	1.1%	86.0	88.3	94.6	3.1%	100.0%
Compensation of employees	43.0	50.6	49.4	53.0	7.2%	0.8%	59.4	55.4	59.4	3.9%	64.0%
Goods and services ¹	12.6	16.1	11.0	33.3	38.1%	0.3%	26.6	32.9	35.2	2.0%	36.0%
of which:											
Catering: Departmental activities	0.3	0.0	0.0	0.1	-27.9%	-	0.1	0.1	0.1	12.1%	0.1%
Communication	0.4	0.4	0.3	0.6	21.0%	-	0.7	0.8	0.8	9.4%	0.8%
Consultants: Business and advisory services	2.6	8.4	4.8	19.0	95.0%	0.1%	19.2	21.1	24.2	8.3%	23.5%
Contractors	0.0	0.2	0.1	3.8	1135.2%	-	1.4	1.7	1.9	-20.8%	2.5%
Travel and subsistence	6.2	4.6	5.2	9.2	14.1%	0.1%	4.9	8.8	7.8	-5.3%	8.7%
Venues and facilities	0.9	0.4	0.3	0.5	-18.4%	-	0.3	0.4	0.4	-6.5%	0.4%
Transfers and subsidies¹	57.3	63.5	33.8	0.0	-92.2%	0.7%	-	-	-	-100.0%	-
Public corporations and private enterprises	57.3	63.1	33.1	-	-100.0%	0.7%	-	-	-	-	-
Households	0.0	0.4	0.7	0.0	-4.5%	-	-	-	-	-100.0%	-
Payments for financial assets	-	-	23 000.0	-	-	98.2%	-	-	-	-	-
Total	112.9	130.2	23 094.2	86.3	-8.6%	100.0%	86.0	88.3	94.6	3.1%	100.0%
Proportion of total programme expenditure to vote expenditure	41.9%	44.0%	99.3%	32.2%	-	-	32.2%	31.8%	31.9%	-	-

Table 9.10 Portfolio Management and Strategic Partnerships expenditure trends and estimates by subprogramme and economic classification

Details of selected transfers and subsidies											
R million	Audited outcome			Adjusted appropriation 2016/17	Average growth rate (%)		Medium-term expenditure estimate			Average growth rate (%)	
	2013/14	2014/15	2015/16		2013/14 - 2016/17	Average: Expenditure/ Total (%)	2017/18	2018/19	2019/20	2016/17 - 2019/20	Average: Expenditure/ Total (%)
Public corporations and private enterprises											
Public corporations											
Other transfers to public corporations											
Current	57.3	63.1	33.1	-	-100.0%	0.7%	-	-	-	-	-
Denel	57.3	63.1	33.1	-	-100.0%	0.7%	-	-	-	-	-

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

Entities¹

Alexkor

Alexkor was established in terms of the Alexkor Limited Act (1992) to mine marine and land diamonds in Alexander Bay. As part of the 2007 deed of settlement for the restoration of land and mineral rights between government and the Richtersveld community, Alexkor is the owner of the sea mining rights and 51 per cent of the mining operations in Richtersveld. The land mining rights and the balance of the mining operations are owned by the Richtersveld community. The mining operations are managed through an unincorporated entity, the Alexkor Pooling and Sharing Joint Venture. Alexkor is also exploring opportunities to mine coal and limestone to supply to Eskom's power stations to support the energy security objectives in outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government's 2014-2019 medium-term strategic framework.

Alexkor experienced operational challenges during 2015/16 that led to poor carat production and a 7 per cent decrease in revenue. As a result, the company reported a loss of R35 million in the period and has implemented turnaround strategies to improve carat production at the Alexander Bay operations. A mining vessel commissioned to explore deep-sea diamond resources is expected to complement current carat production and improve Alexkor's financial position.

In 2014, the company commissioned a study into non-mining activities in Northern Cape that the Richtersveld community could possibly pursue from the proceeds of the pooling and sharing joint venture. The focus areas of the study include agricultural and mariculture opportunities. The study has begun and feedback will be given once it is completed.

Denel

Denel was incorporated as a private company in 1992 in terms of the South African Companies Act (1973), with its sole shareholder being the South African government. In terms of the 2014 Defence Review, Denel is deemed a strategic national asset in support of national security. The Department of Defence and the South African National Defence Force are its primary customers. Denel operates in the military and civil aerospace, land, maritime, and defence electronic environments. Denel's advanced industrial capabilities support outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government's 2014-2019 medium-term strategic framework and the industrial policy action plan. The defence and aerospace sector has strong upstream and downstream linkages with other key sectors in the economy, and has high export potential.

Denel has made strides in achieving sustainability and has been ranked among the top 100 global defence manufacturers for the past two consecutive years. In 2015/16, the company grew its revenue by 41 per cent, or R8.2 billion, from the previous financial year. Export revenue in that year constituted 58 per cent of total revenue and net profit was R395 million, an increase of R125 million from the previous financial year. However, this rapid growth has placed significant strain on the company's cash resources. Denel remains highly

¹ This section has been compiled with the latest available information from the entities concerned.

geared, with debt of R3.7 billion, up from R2.2 billion in 2014/15, of which about 45 per cent is due within the next 12 months. The department is working with the company to ensure this cash position is managed responsibly.

A model of the South African regional aircraft, a 24-passenger regional airliner, was released to the public at the 2016 Africa Aerospace and Defence Expo. A pre-feasibility study has been concluded that confirms the viability of the design and the existence of a market for this kind of aircraft. A team from Denel and the department made a presentation in July 2016 to solicit support to complete the next phase of the project.

Over the medium term, Denel is preparing to take over the management and operation of the naval dockyards in both Simon's Town and Durban through the Denel Maritime and Integrated Systems division.

South African Forestry Company

The South African Forestry Company was established in 1992 to ensure the sustainable management of the state's forestry plantation assets. The company was established in terms of the Management of State Forests Act (1992). The company's mandate is to ensure the sustainable management of plantation forests, increase downstream timber processing and play a catalytic role in rural economic development and transformation. The company's work includes research and development, plantation management and timber processing. Revenue is generated from the sale of forest products, sawn timber and value-added products. The company operates in the rural areas of Mpumalanga, Limpopo and KwaZulu-Natal and provides opportunities for economic development and rural economic transformation through providing social infrastructure for basic services such as health and education. This is aligned with outcome 7 (comprehensive rural development and land reform) of government's 2014-2019 medium-term strategic framework. Over the medium term, the company plans to invest in its processing business to ensure the availability of material to build social infrastructure.

The company's financial performance remains under pressure because of slow growth in revenue and a continual increase in costs. Cash generation from operations has been under strain because of increasing logistical and labour costs, and a rigid pricing environment. This performance has constrained the business in investing in downstream operations, which is critical to sustaining forestry operations and reducing dependence on sawlog customers.

Eskom

Eskom is governed by the Conversion Act (2001), with a mandate to generate, transmit and distribute electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. In doing this, it contributes to the realisation of outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government's 2014-2019 medium-term strategic framework.

Eskom generates 95 per cent of the electricity used in South Africa and 45 per cent of the electricity used in Africa. The company's reserve margin has been steadily declining since 1999 because of a lack of significant investment in generation capacity and an increase in economic growth, which, in turn, has led to an increase in electricity demand. During the years of economic growth, Eskom had to rely on shifting the maintenance of power plants to meet demand and address the constrained power system in an attempt to avoid load shedding. The consequence of this was an increase in maintenance backlogs and a decline in power plant performance. This necessitated urgent government intervention to assist the company to remain financially and operationally stable. As part of the rescue package from government, Eskom had to develop a turnaround plan incorporating four key areas: financial sustainability, operational sustainability, revenue and customer sustainability, and sustainable asset creation.

Eskom's revenue grew by 10.6 per cent between 2014/15 and 2015/16, from R147.7 billion to R163.4 billion. The improvement was driven largely by additional revenue of R7.8 billion awarded by the National Energy Regulator of South Africa through the regulator clearing account. The company's liquidity position increased significantly from R17.4 billion in March 2015 to R38.7 billion in March 2016, largely due to the receipt of the R23 billion equity injection through the government support package. Eskom has already secured 77 per cent of the R69 billion funding requirement for 2016/17. The sources of funding are domestic bond private placement, development finance institutions, export credit agencies, domestic bonds, commercial paper and swap restructuring.

Eskom developed a generation turnaround strategy that aims to address the country's electricity demand while allowing the company to remain financially viable. The strategy has started to yield positive results, with Eskom's power generation plant availability significantly improving from 73 per cent in March 2015 to 78.6 per cent in March 2016. This shows a positive trend towards the achievement of the 80:10:10 strategy by 2020, which will ensure 80 per cent energy availability from the current fleet, and 10 per cent for unplanned load shedding and 10 per cent for planned load shedding. As at March 2016, there had been no load shedding for almost 11 months, which was achieved through reducing unplanned plant breakdowns from 15.2 per cent in March 2015 to 14.9 per cent in March 2016.

Since 2004, Eskom has been executing a build programme to increase capacity and ensure that the supply of electricity is secure and reliable. The company successfully commissioned Ingula's units 4, 2 and 1 in 2016/17. These have strengthened the financial position of the company and the security of electricity supply. The commissioning of Ingula added 999 megawatts (MW) of peaking capacity, further reducing the use of the more expensive open-cycle gas turbines. Medupi unit 5 (500 MW) and Ingula unit 3 (333 MW) were synchronised to the grid in September and October 2016, adding an additional 833 MW. In 2015/16, Eskom installed 345.8 kilometres of transmission lines and 2 435 megavolt amperes of transmission capacity. Once completed, the build programme will bring 11 002 MW of new capacity online by 2022.

Eskom has significantly improved its implementation of the integrated national electrification programme, which is managed by the Department of Energy. The company electrified 159 853 additional households in 2014/15, and 158 016 additional households in 2015/16. Since the inception of the universal access programme, the number of electrified households has increased to about 5 million.

Eskom acknowledges the role independent power producers play in the South African electricity market. As such, Eskom has connected 58 projects to the grid, enabling access to a further 4 375 MW. As its sole shareholder, Eskom has hosted the Pebble Bed Modular Reactor Company since April 2012 to minimise costs and ensure the implementation of its care and maintenance to protect its intellectual property and assets.

South African Express Airways

South African Express Airways is a regional carrier with a mandate to provide transportation services for passengers, cargo and mail, air charters, and other related aviation services on low-density domestic routes and African regional routes. It was established in 1994, and operates from OR Tambo International Airport (Johannesburg), King Shaka International Airport (Durban) and Cape Town International Airport, serving secondary routes in South Africa and regional routes to Botswana, Namibia, Democratic Republic of the Congo, Zimbabwe and Zambia. It also provides feeder air services that connect with the South African Airways network.

Over the MTEF period, the department and National Treasury will review the relationship between state-owned airlines with the objective of developing an optimal structure. This will assist in better coordination between the state airlines, and ensure financial stability over the medium term. Once the airline has attained financial stability, it will commence with expanding its operations into Africa and partnering with South African Airways to establish other hubs on the continent.

The airline has experienced challenges with regards to its operational and financial performance, as well as the maintenance of proper systems of internal control. As a result of not maintaining proper internal controls, the airline was issued with a qualified audit opinion on its 2014/15 annual financial statements as a result of being unable to provide sufficient appropriate audit evidence due to a lack of adequate accounting records. It was the fourth consecutive year the airline was issued with a qualified audit opinion on its annual financial statements. The finalisation of the audit for 2015/16 has also been delayed as the airline has been unable to satisfactorily demonstrate to the Auditor-General its ability to continue operating on a going concern basis for a period of at least 12 months after the signing off of the annual financial statements as required by section 4 of the Companies Act (2008). The department is working with the airline to ensure the matter is resolved.

South African Express Airways has also been implementing a long-term strategy called 20/20 vision, which was developed in 2013 to address its poor performance and reliance on government for financial support. The main focus of the strategy is to assess, review and define a new business model to improve the sustainability of the organisation for the next 20 years. The vision is aligned with South African Airway's long-term turnaround

strategy, and aims to ensure alignment between the airlines' strategies to derive the maximum shareholder value through greater collaboration, cooperation and coordination.

However, South African Express Airways did not implement the strategy as envisaged, which resulted in the airline developing short-term austerity measures in September 2014. Some of the initiatives include renegotiating contracts and agreements, optimising the network schedule and reducing the labour costs with the intention of making the airline sustainable. The austerity measures were initially expected to result in savings of R579 million over the three years up leading to 2016/17. By the end of 2015/16, the airline had saved R379 million. The airline continues to identify new initiatives to augment those already implemented. However, its achievements have been eroded by its inability to operate an optimal network as a number of aircrafts were grounded because of delays in raising funds to acquire the required spares and rotables.

Through the SA Express shareholder compact, the department is working together with National Treasury to ensure that there is alignment between the targets set for South African Airways and South African Express Airways, and that the initiatives outlined in the 20/20 vision are agreed on. The performance against these targets is monitored monthly and quarterly.

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 Legal Succession to the South African Transport Services Act (1989) brought about the establishment of this state-owned company. Transnet remains the largest freight logistics company in South Africa, enabling competitiveness, growth and the development of the South African economy by delivering reliable freight transport and handling services that satisfy customer demand.

Over the medium term, the company will focus on growing domestic volumes to assist government in moving rail-friendly cargo from road to rail. This will be done by improving the performance of freight corridors so that they are cost effective, reliable and efficient. Regional integration remains integral to ensure South Africa remains competitive in growing the freight logistics networks in Africa and create economic growth to yield the required skills, jobs and investments in critical economic sectors such as containers, automotives, petroleum and gas.

The objectives and strategy of Transnet are agreed on between the Minister of the Department of Public Enterprises and the board of directors through a shareholder compact. This shareholder compact is informed by the medium-term strategic framework and other national policy guidelines such the industrial policy action plan and the new growth path, with the intention to facilitate strategic interventions of government programmes to support economic growth.

Although lacklustre economic performance has exerted pressure on Transnet, its financial position remains sound. However, the poor performance of the economy put pressure on Transnet's drive to grow volumes in the general freight business. In response, the company provided price reprieves in moving commodities, particularly to the mining industry, to preserve jobs. This resulted in Transnet postponing some of its infrastructure projects, particularly where demand is low, while also aggressively growing general freight markets to increase volumes through the road to rail migration strategy.

