department of public enterprises - strategic plan

public enterprises

Strategic Plan

public enterprises
Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

www.dpe.gov.za

www.dpe.gov.za

Contents

Contents cont.

INTRODUCTION

FOREWORD - OVERVIEW - VISION, MISSION AND MANDATE

FOREWORD BY THE MINISTER OF PUBLIC ENTERPRISES

The State Owned Enterprises (SOE) that report to the Department of Public Enterprises (DPE) will have to play an important role in the acceleration of economic growth and the sharing of that growth. This strategic plan sets out the work and objectives of the DPE over the next three years and also indicates the major programmes of the SOE. We are presenting this strategic plan in what is indeed a time of hope in our economy. The economy is experiencing its 45th quarter of consistent growth and it has the potential to continue this sustained period of growth. Business confidence remains at its highest levels ever and we are entering a period of major infrastructure development.

However, the challenge of making a substantive dent on the levels of unemployment and poverty remains. It is clear that the state has to increase its efficacy and the public sector must improve its capacity to bring about development. The challenge we now face is to forge an effective developmental state that can both accelerate and share economic growth. The Accelerated and Shared Growth Initiative of South Africa (ASGISA) is a direct response to the structural constraints that have limited our progress in achieving this objective. This strategic plan sets out the role that the DPE intends playing as it makes its contribution.

An important decision has been taken to focus the SOE on meeting strategic economic needs. By providing clarity of purpose and a supportive environment the SOE will be able to function with greater efficiency in developing our infrastructure. It is within the above context that we are reshaping the institutional structures of SOE. The expectations we now have of the SOE are indeed demanding. They are required to carry out precise and large infrastructure investment, operate efficiently and to raise capital in the capital markets. Whilst their objectives are essentially economic rather than profit maximising they have to attain high levels of operational efficiency. This confronts the Boards and Management with new and exciting challenges. If we can succeed in this institutional transformation of the SOE they will play a key role in the forging of a Developmental State.

In this period we focus on the consolidation of the governance, functional descriptions and operations of SOE which will be embodied in refined Shareholder Compacts. In addition collaboration between the SOE in certain key areas such as their property holdings, ICT infrastructure, investment programmes, advanced skill requirements and Africa will lead to important new developmental projects. Non-core activities will either be disposed off, restructured or relocated in the public sector.

The period ahead is one of building, constructing, investing and implementing projects; and for monitoring these processes. Our programmes are challenging and ambitious. Successful implementation requires tight coordination and cooperation. To ensure greater policy coherence and programmatic alignment, we set up the Chairpersons, Chief Executive Officers, Chief Financial Officers and Risk Managers fora. The process is also participatory, allowing for inputs from the private sector, labour and the community, where required.

Leading the Department of Public Enterprises during these exciting times is indeed an honour and I am confident that the department, together with its reporting SOE will contribute significantly to government's developmental objectives.

Alec Erwin, M.P.
Minister of Public Enterprises

OVERVIEW BY THE DIRECTOR GENERAL

In line with the requirements of the Public Finance Management Act, the department released its medium-term strategic framework (MTSF) in 2005, which outlined the vision, mission, mandate and key programmes of the department for the period 2005-2008. The MTSF reflected the fundamental change in the department's mandate and the structural and administrative adjustments that needed to be made for effective delivery.

Our primary focus then was to build a highly skilled and competent department with proper processes, procedures and documentation systems to better govern state-owned enterprises (SOE) and to support their operational effectiveness. These interventions were aimed at providing long-term governance frameworks to ensure that SOE are modernising, lowering the relative costs of doing business, operationally effective and addressing all maintenance backlogs.

Significant progress has been made in this regard. We now have an operationally efficient, institutionally sound department of public enterprises, with high levels of the requisite skills. A shareholder management framework has been developed to ensure the sustainability of the enterprise as well as to ensure that the enterprises contribute to national developmental objectives. Forums for regular engagement with SOE boards and chairpersons have been established to ensure synergy of action.

The period ahead will focus on strengthening administrative systems, continued restructuring of SOE and accelerated rollout of SOE investment plans. As outlined in government's accelerated and shared growth initiative, Eskom and Transnet will drive an infrastructural investment spend of over R130 billion over the next few years and the department will be monitoring these programmes closely. We will also oversee the unbundling of South African Airways from Transnet, support Denel's turnaround strategy, review the role of Safcol in the economy and establish a new entity for the Pebble-Bed Modular Reactor. The Joint Project Facility established last year to facilitate joint projects between the SOE will begin the implementation of crosscutting projects in the areas of ICT, property development, human resources development and finalise the investment strategy for the Rest of Africa.

The MTSF broadly outlines how the department's five branches and seven SOE will drive this demanding agenda. Its preparation has involved our staff at all levels through team meetings and presentations. The involvement of all staff means that there is a direct and meaningful link between the strategy and people's roles in the department as reflected in their business plans and balanced scorecards. To further support our work, we have reorganised our programmes to compliment our work-flow processes and to integrate specialised skills into a single unit. We have merged Programme 3 (Legal Governance and Secretariat) and Programme 5 (Corporate Finance and Transactions) into one programme calling it Legal Governance and Transaction in the MTEF Process. We will implement this change.

I would like to thank all the staff for their contribution to the success of the department, and the Minister for his support and guidance. I look forward, along with the staff of the department, to working with the Minister and all the SOE that report to us.

Portia Molefe
Director-General

VISION

The Department of Public Enterprises (DPE) is the shareholder representative of government with respect to Transnet, Eskom, Denel, Safcol, Alexkor and the soon to be established SAA and PBMR and their subsidiaries.

Our vision is to have SOE that:

- Are efficiently managed, meeting industry operational benchmarks domestically and internationally
- Play a role in their industry that ensures an optimal allocation of responsibility between the public and private sector
- Undertake investment programmes that provide the necessary capacity to accommodate faster economic growth
- Implement their investment programmes in such a manner that the national economy is sustainably strengthened.

In order to attain this vision it is critical that the department develops a world-class shareholder management model that will enable better coordination between the shareholder and the board.

MISSION

To provide to SOE:

- Clear mandates
- Effective performance management
- Simple, understandable and implementable governance systems

MANDATE

The mandate of the DPE is to coordinate with policy and regulatory departments and Ministries and provide oversight and strategic direction for the SOE reporting to the department. The oversight and strategic direction is with the purpose of realising the vision and mission set out above.

SECTION ONE
BACKGROUND

SECTION ONE:
BACKGROUND

1.1 Introduction

The DPE has oversight responsibility for seven SOE that are classified as Schedule 2 entities in the PFMA namely, Transnet, Eskom, Denel, Safcol, Alexkor, and SAA and PBMR, which are currently subsidiaries of Transnet and Eskom respectively. [The PFMA regards subsidiaries of Schedule 2 entities as Schedule 2 entities in their own right].

To give meaning to shareholder management by government, it is necessary to create a working definition of SOE that clarifies the reasoning behind the state retaining ownership control of the enterprise and the role of the state as a shareholder of a special type.

1.2 Leveraging key input sectors

The South African government takes the view that the state has a role to play in the development of the economy. The intervention is informed firstly by the view that the state shapes the structure and output of the economy, and secondly by the political objective of attaining a prosperous, equitable and democratic society. The state can intervene in the economy either directly or through development agencies/public utilities or the economic actions of State-owned Enterprises (SOE). Given the mandate of the DPE, the focus of the strategy is on SOE.

The state constitutes an institutional capacity, in this case, to set the basic environment within which economic activity takes place. The global trading system continues to be unequal. Despite this, an economy that offers competitive manufacturing opportunities, is richly endowed with natural resources, provides cheap electricity, offers rapid logistics to key markets and has relatively cheap skilled labour can become highly competitive and export orientated. This is South Africa's possibility.

We will focus on transport, telecommunications and energy infrastructure, as these sectors are elemental to the functioning of the economy and society and provide an important basis for competitive advantage.

As in most parts of the world the government directly financed the initial investment in this infrastructure. As the economy matured and the system of user charges strengthened, these activities were shifted off the government's balance sheet and onto individual company balance sheets.

The user charge is the price paid by users, which is not necessarily related to the cost of production or the value to the user of the service. What the user charge covers is essentially a policy choice exercised by the policy departments. Where regulators are in place they establish specific rules on allowable costs, rates of return and the extent of infrastructure investment given demand forecasts, thereby managing pricing policy.

The rate of return on assets has to be strategically controlled. It cannot be too high, as this would inhibit other forms of economic activity by raising the overall costs in the economy. If it were too low, it would limit the ability of the enterprise to build revenues and a balance sheet strong enough to finance its operations and new investments, increasing the reliance on the fiscus. It is thus critical that the price approximates a competitive market-determined price. Operational efficiency improvements in SOE have generally been weak as the profit motive is absent. Increasingly regulators are introducing incentive based rules that reward efficiency improvement.

Private sector provisioning of infrastructure is on the rise, particularly in developed economies. This trend is driven by the emergence of strong, mature and efficiently managed sector regulators. In the absence of strong regulation the risk of 'cherry picking', profiteering along with significantly reduced payback periods would see a significant increase in user charges. This would reduce the competitiveness of the economy; the overall infrastructure would be weak and disintegrated with certain economic sectors and poorer communities underserved because of the higher costs.

1.3 State Owned Enterprises

SOE are primarily located in either key input industries or strategic sectors. The SOE are owned by the state, either as sole shareholder or majority shareholder with decisive control of the enterprise.

Unlike public utilities, SOE operate off their own balance sheets and are therefore subject to the pressures and disciplines of the capital markets. The benefit of this move is added operational dynamism and reduced SOE dependence on the fiscus. However this reliance on the capital markets places pressure on the government, as often the single shareholder, to exercise disciplined and prudent oversight of the SOE and to ensure that governance systems and processes are robust and correctly implemented.

There is growing pressure for SOE to be responsive to consumer needs and to drive South Africa's competitive advantage. Furthermore as production is dependent on logistics, energy and ICT, it is in these areas that economies compete. Therefore the providers of these services must be exceptionally responsive to market conditions. The essential challenge for SOE is to deliver a public good with attributes of private sector behaviour without 'cherry picking'.

1.4 Regulation

Given the often concentrated nature of the input sectors, logistics, energy and ICT, it is essential that they function within a system of economic regulations. If left unregulated, these sectors would act as if they were 'private monopolists', thus inhibiting resource mobilisation and development and encouraging rent seeking.

Regulation is a new art in South Africa. For efficiency to be achieved in the input sectors it is essential that regulators in these sectors be established and, where they already exist, be strengthened. This means that a better exposition of the policy behind the development of the sector is critical. This is necessary as a regulatory system is in essence based on a complex economic model that falls within the political economy of planning. It is in this model that rates of return for investments are developed for both the private and public sector. These returns can be enhanced by the enterprise achieving efficiency improvements. In the absence of a regulator, the shareholder representative will determine the allowable rate of return on assets and define key areas of performance for the SOE. This remains a responsibility when a regulator is in place for the unregulated elements of the business. All these performance requirements are specified in the Shareholder Compact.

As a matter of principle, an SOE will not receive National Budget support for its operations or capital expenditure unless the state exercises its right to increase the capital of the SOE or to support specific capital programmes. All National Treasury guarantees will be provided at cost to the entity and should as a practice, be discouraged unless government takes a specific decision based on the commercial or financial circumstances of the SOE.

The SOE are established under the Companies Act with the SOE expected to comply with all legislation that would affect a private entity. In the case of Sector Charters, SOE are expected to comply with all the provisions, with the exception of the shareholding provision to the extent of the equity owned by the state.

1.5 Policy, regulation and shareholder oversight

Policy departments are responsible for all policy in a particular sector and the regulation thereof. The general principle has been to separate policy development and regulation from the shareholder oversight of SOE to limit the risk of conflicts of interest or capture. Shareholder management means that the department has to act in the general interest of the SOE, within the confines of policy or regulation.

In the event that the shareholder management and the policy responsibilities are in one department, the risk of conflicts of interest arises. It is essential that the regulations and policy are set in the most unbiased fashion possible in the interest of the sector and the country, and not a single entity. This role could sometimes conflict with the role of setting policy or regulations in a neutral manner. This risk remains irrespective of sector, whether transport, a key input for the economy or Defence, a strategic sector.

1.6 Contents of this document

The remainder of this document is structured as follows:

Section Two provides details of the shareholder management framework. It unpacks the key performance areas that the department needs to balance in order to ensure that the contribution of the SOE to economic development is optimised without compromising the viability of the enterprise. It also provides an overview of key activities under-taken by the department to achieve this goal.

Section Three provides details of a shareholder governance framework that is being built by the DPE to ensure that the governance system is designed to coherently align government's strategic objectives with the strategy and activities of the SOE.

Section Four provides a broad overview of how the DPE will contribute to advancing the economic objectives set out in the Accelerated and Shared Growth Initiative of South Africa. ASGISA is the primary framework that guides government interventions in the economy for the period 2004 to 2014.

Section Five describes how this shareholder management framework is going to be applied to each SOE. It provides details of what we want to achieve at each level of impact.

Section Six specifically speaks to the activities of the Joint Project Facility initiative.

Section Seven demonstrates how the DPE is organised into five service branches to deliver on the shareholder management framework. This chapter will provide an activity matrix for each branch demonstrating how they will contribute to the achievement of DPE's vision as well as the medium term budget for each branch.

SECTION TWO

SHAREHOLDER MANAGEMENT FRAMEWORK

SECTION TWO:
SHAREHOLDER MANAGEMENT FRAMEWORK

The shareholder management framework has the aim of balancing enterprise, sector and national economic development objectives so as to optimise the impact of the SOE whilst maintaining its viability as an enterprise.

The department's shareholder management perspective is informed by the imperative of allowing sufficient scope and space for the Board of Directors and Management of state-owned enterprises to execute their functions without undue interference whilst simultaneously ensuring that the strategic goals of the shareholder are advanced.

We are therefore qualitatively shifting the level and content of SOE shareholder management towards addressing the medium to long-range economic and development goals of the country. In addition to the generic function of maximising shareholder value, the key emphasis of the department with respect to shareholder management will be defined around the following outcomes:

- infrastructure investment and delivery
- operational and industry efficiency
- financial and commercial viability
- governance and regulatory compliance

2.1 Oversight measures

The department in its shareholder management role will put in place systems aimed at monitoring the delivery of the infrastructure expansion programmes of Eskom and Transnet, the turnaround programme of Denel and SAA, the growth strategies of Safcol and Alexkor and the manufacturing programme of PBMR. This entails, in the short-term, tight monitoring of delivery timetables and information systems to ensure effective early warning systems. The information systems include the creation of databases that track delivery against the backlog in infrastructure.

2.2 Operational and industry efficiency

In general, SOE tend to operate as monopolies in the various sectors due to the overarching impact of the services that they provide to the whole economy. Government recognises the unintended consequences of monopoly behaviour, particularly resulting in inefficiencies and substandard services, hence the need to introduce competition in certain aspects of the industry value chain and, where this is not possible, to introduce strong or strengthen existing sector regulators. Competition will serve to benchmark the appropriate quality of service and ensure cost-effectiveness.

The introduction of private sector operators especially in ports and electricity generation must be done in a manner that ensures increased investment to meet demand but also provides benchmarks for operational efficiency.

2.3 Financial and commercial viability

Since 1994 the overall objective of the restructuring process of SOE was to ensure financial self-sufficiency, whilst privatising non-strategic companies. The development of companies with independent balance sheets meant that they were able to approach the capital markets for investment funds. In more recent years, the move has been towards strengthening of the balance sheets by focusing SOE on their core mandates and the disposal of non-core businesses. This has led to Transnet focusing exclusively on freight infrastructure and operations i.e. rail, ports and pipelines and exiting passenger rail and other business activities that are non-core.

The commercial viability of SOE will largely depend on, amongst other things, the structuring of the prices and tariffs in a manner that secures medium to long-term contracts with bulk users of their services. However in the short term the overall price and tariff structure may need to rise, sometimes above the level of inflation, to meet the capex funding requirements and the borrowing commitments, as in the case with Eskom. A close collaboration between the National Treasury, DPE and sector regulators is critical to ensure minimum fiscal exposure and to mitigate the macro economic impact of such a price regime.

SOE whose commercial viability is impacted upon by exchange rate movements such as SAA and Denel will have to develop strategies to protect their businesses against exchange rate volatility.

In SOE that are involved in competitive industries (SAA, Denel, Safcol and Alexkor), the commercial viability will be driven by strategic and carefully selected partnerships with global players in order to ensure greater economies of scale and access to global supply chains. The overall access to global supply chains must be underpinned by significant investments in research and development with the view to gain niche markets.

2.4 Governance and regulatory compliance

The principle challenge posed by shareholder management is ensuring compliance by SOE with the Public Finance Management Act and the Companies Act. In addition to these Acts, financial reports of SOE must meet International Accounting Standards.

2.4.1 Key tasks in respect of governance and regulatory compliance

DPE has identified a number of tasks that are essential for effective enterprise level shareholder management:

- Review of annual corporate plans to ensure that the business is both financially sustainable and is investing adequately to support government's economic development strategy.
- International benchmarking in areas such as operational efficiency and cost structures in order to set targets for best practice performance.
- Financial and operational analysis to provide an early warning system of possible problems in these two areas of the enterprise.
- Risk assessments and review of mitigation strategies to ensure robustness.
- In the absence of regulators, to develop, in collaboration with the SOE, pricing models to ensure affordable service delivery and sustainable rates of return.
- Monitoring to ensure compliance with the Public Finance Management Act and National Treasury Regulations.
- The management of shareholder governance functions including establishment and appointment of the Board of Directors.
- The overarching construction, design and regular updating of shareholder compacts with SOE on an annual basis.

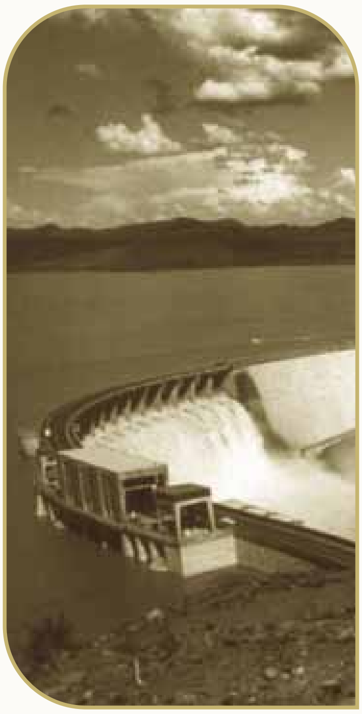
2.4.2 Shareholder compacts

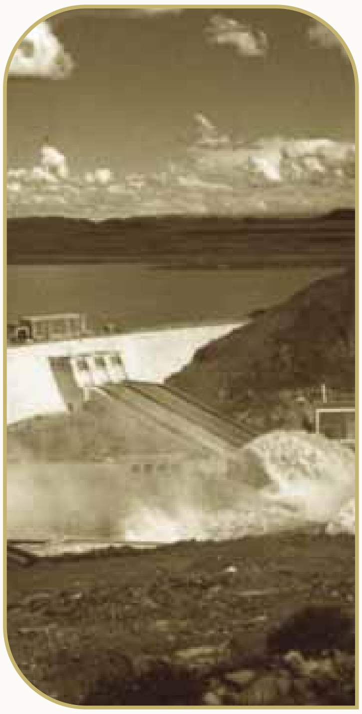
It is critically important to monitor and evaluate the corporate performance of SOE against the key performance targets and benchmarks from their industries in order to ensure overarching enterprise efficiency.

The Public Finance Management Act, the Treasury Regulations and the Protocol for Corporate Governance provide a firm basis to regulate the relationship between the State, as shareholder, and the Boards of SOE. In terms of this framework, the Boards of Directors of Schedule 2 entities, must, in consultation with their Executive Authorities, annually conclude shareholder compacts.

These shareholder compacts document key performance measures and indicators to be attained by the public entity, and are used by the board to guide the company in its strategy formulation and implementation. This provides clarity about the expectations of the state as shareholder, the expected rate of return on equity, expected operational performance, the pace of transformation in areas such as employment equity, promotion of broad-based black economic empowerment, skills development and research and development.

The next chapter expands on the governance framework and the role of shareholder compacts in this regard.





SECTION THREE

SHAREHOLDER GOVERNANCE FRAMEWORK

SECTION THREE:
SHAREHOLDER GOVERNANCE FRAMEWORK

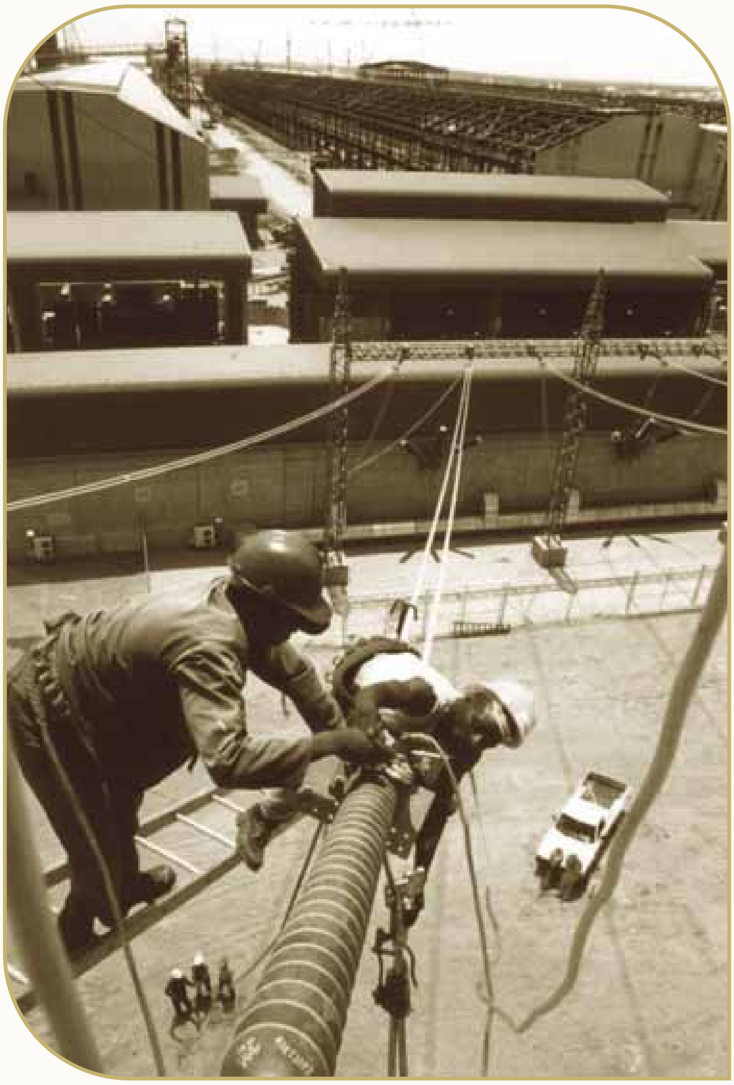
SOE are companies incorporated in terms of the Companies Act. The rights, powers and duties of shareholders of incorporated companies are defined in the Companies Act, the common law and each company's Memorandum of Association and Articles of Association. Whereas the Companies Act and the common law have general application to all incorporated companies, the Memorandum of Association (Memorandum) and Articles of Association (Articles) constitute a contract between the company and its shareholders. This contract defines the reserved rights of shareholders and the division of power between the board of directors and the shareholder(s). The robustness of the Memorandum and Articles is therefore key to effective shareholder management.

Where the state is not the only shareholder of newly established SOE, it may conclude a shareholders' agreement setting out any special rights that some or all shareholders may have. In certain cases, where it has been resolved that the benefits of its interest in SOE may be multiplied through strategic private equity partners, the shareholders' agreement will be imperative to the state's ability to exercise a decisive role in ensuring that its strategic objectives are defined and will be met.

Whilst the aforementioned body of law is equally applicable to SOE as incorporated companies, SOE are distinguished from other companies through the application of the Public Finance Management Act (PFMA), 1999 and the Constitution in so far as the rights, powers and duties of the state as shareholder and accountability measures are expanded. The PFMA sets additional requirements of transparency, accountability and the management of revenue, expenditure, assets and liabilities whilst the Constitution provides for the collective and individual accountability of the Cabinet to Parliament for the SOE.

Collectively, the PFMA, Companies Act, Memorandum and Articles present an evergreen framework that does not require regular or annual revision. In contrast, the shareholder compacts (as required by National Treasury Regulations) are intended to be an annual agreement on key performance measures and indicators between the shareholder and the board.

There is a need to refine mechanisms to ensure the state's strategic objectives are not compromised in a situation of shared shareholding within an SOE. This requires a more precise definition of measures to ensure transparent and accountable definition of measures through which the state as shareholder can exercise ownership control or decisive control in relation to key strategic measures. A uniform and clear platform for intra-governmental communication and accountability is also imperative for effective state shareholder management of SOE.



Hitherto, SOE shareholder performance management has been largely conducted through shareholder compacts as required by National Treasury regulations; whilst a potentially effective instrument to define annual performance targets, the instrument has been blunted because the definition of performance measures and indicators have been inadequately integrated with government's strategic economic intent, such as increased investment and high economic growth.

A fundamental right of a shareholder is to participate in the exercise of control over the company through general meetings during which, amongst others, the board of directors are appointed (unless specifically provided otherwise in the Articles) and entrusted with the management of the company. The directors' fiduciary duties potentially position the board as accountable in relation to the shareholder and external parties. This accountability has to be balanced against the separate legal persona of the company from the shareholder.

Notable features of the accountability framework within which SOE function are an extended chain of accountability and time bound reporting imposed by legislation. With most of the reporting referenced to the financial year of SOE, this presents a capacity challenge to the shareholder to exercise effective ownership control at regular periods. The challenge is to maintain recurring strategic engagements with the SOE outside of the regular reporting cycle whilst respecting the independence of the board. Moreover, the shareholder's accountability to Parliament has to be maintained throughout the process.

DPE's role in the shareholder management framework is to serve as executive support to the Minister of Public Enterprises as shareholder. A key challenge to DPE is to be effective in its role as advisor to the Minister, coordinator within Government and conduit of information to all stakeholders. An imperative to this is the integrity of information flow in the accountability chain.

DPE will embark on the following projects to design a governance framework that will enhance the DPE's ability to implement the shareholder management framework:

1) Improve the robustness of the legal framework within which the state exercises its role as shareholder through the preparation of:
   - Draft legislation defining transparent and accountable measures to achieve the strategic intent of the state's shareholding with reference to wholly-owned and shared shareholding SOE as well as a uniform protocol of communication between the SOE, the shareholder, other departments, Parliament and other stakeholders;
   - Guidelines for Memoranda and Articles of Association and Shareholder Agreements; and
   - Strategic intent and financial performance focused and harmonised annual shareholder compacts.

2) Strengthening government-wide consultation to improve industry level, sector and regional shareholder management and man age concurrency or convergence of roles and interest through co-operative governance protocols;

3) Strengthening the composition, performance and evaluation of the Boards of Directors of SOE through:
   - Skills demand profiling, improved vetting of directors and a shadow board database;
   - Board induction programmes;
   - Annual Board evaluation; and
   - Remuneration guidelines.

4) Strengthening of the shareholder - board relationship through:
   - Continuation of the Chairs and CEO fora; and
   - More regular strategy focused (general) meetings between the shareholder and board to facilitate deliberation on the strategic intent.

5) Improving information related to and consideration of transactions subject to shareholder approval through the revision of transaction management guidelines including a materiality and significance framework; and

6) Formulation of a SOE-wide dividend policy (in consultation with National Treasury).

SECTION FOUR

THE ACCELERATED AND SHARED GROWTH INITIATIVE OF SOUTH AFRICA

SECTION FOUR:
THE ACCELERATED AND SHARED GROWTH INITIATIVE OF SOUTH AFRICA

The core objective of government as set out in 2004 is to halve poverty and unemployment by 2014. In order to achieve these objectives, economic growth will need to increase to 6 percent per annum. In addition, growth will have to occur in a manner that is more equitable, inclusive and labour absorbing. The accelerated and shared growth initiative of South Africa (ASGISA) is a series of decisive interventions aimed at boosting sustainable, broad-based economic growth by eliminating key constraints in the economy.

The effective and focused utilisation of state assets is core to the success of ASGISA. The Department of Public Enterprises, as shareholder manager of seven SOE, therefore forms part of the lead departments responsible for driving the ASGISA programme. The DPE's contribution will be presented in the following categories:

- Infrastructure programmes;
- Property and sector development;
- Skills and education initiatives; and
- Second economy interventions.

4.1 Infrastructure programmes

Government has committed itself to radically increase investment in infrastructure to support the needs of a rapidly growing economy. Presently government investment in gross fixed capital makes up approximately 6 percent of GDP. Government has set the target of increasing this contribution to around 15 percent. The bulk of the DPE responsibility in respect of driving ASGISA resides within effective public spending in the key input sectors of energy, transport and communication. Government expenditure for the period April 2005 to March 2008 is planned to be R240bn whilst Eskom and Transnet plan to invest over R130bn over the next five years.

Because of backlogs in infrastructure, investment, inadequate planning, and in some cases inadequate competition, freight logistics services are unreliable and costs are inflated. As South Africa has considerable concentration of production inland, which is some distance from all major industrial markets, achieving high levels of logistics efficiencies is essential. Recent research by the Human Sciences Research Council suggests that telecommunications and logistics inefficiency are costing the equivalent of 4 percent of GDP. The research also found that port productivity and costs added an estimated R14bn of costs to the economy.

Hence Eskom (R84bn) and Transnet (R47bn, of which R40bn is "core") have planned an ambitious investment programme in the areas of power generation, transmission and distribution, rail transport, ports and a petroleum products pipeline. The general purpose is to improve the availability and reliability of infrastructure services in response to rapidly growing demand. Other strategic interventions in the infrastructure arena include further development of the country's research and development infrastructure, and increased private sector participation in the development, maintenance and operations of SOE infrastructure. The SOE have a significant challenge in redeveloping the capacity to roll-out the infrastructure programme timeously and effectively. The DPE will play a key role in monitoring the roll-out of the capex program and assisting SOE to remove bottlenecks.

Government's infrastructure programme will impact significantly on key manufacturing and construction sectors. However, with more than 25 years of inadequate infrastructure investment, infrastructure supplier industries have been significantly undermined. A consequence of this is that SOE are projecting that over 40 percent of the capex will be imported. Consequently, DPE is developing a local content procurement framework and a number of other supporting initiatives with the objective of optimising the impact of the procurement on the development of local supplier industries without significantly increasing prices.

Electronic communications is a key commercial and social infrastructure. Presently, the price of moving 100 kb/s of data in South Africa is ten times greater than the average price of the top twenty telecommunications countries and 125 times greater than global best practice. This inhibits business productivity, the development of new sectors such as business process outsourcing and off-shoring and the ability of the scientific community to integrate with global scientific networks. The Eskom and Transnet investment in the FSN (full service network) provides an excellent springboard to provide affordable and true broadband to the South African economy.

Furthermore, in collaboration with the Department of Education, the DPE will be providing specific sector support in the area of business process outsourcing, especially focused on rural call centres. This is an initiative that uses the SOE assets to create employment, particularly among African youth with post secondary and tertiary education qualifications. Ten call centres will be established across South Africa over the next two years, the priority areas will be locations where the Further Education and Training (FET) centres provide call centre operations courses.

4.2 Property and Sector Development

The DPE's Joint Project Facility (JPF) is assessing how non-core components of SOE property portfolios can be released for housing and development so as to ensure the realisation of the property portfolio's inherent economic potential. The SOE have a significant property portfolio - with a number of assets located in areas that can enable the development of tourism (e.g. waterfront), logistics nodes (e.g. inland terminals and back of port - sea and airports and railway sidings) and manufacturing nodes. The JPF is facilitating a review of this portfolio and, where appropriate, properties will be made available to stimulate increased economic activity and to realise value to further strengthen the SOE balance sheets.

4.3 Education and skills development

The shortage of skills poses a specific threat to the success of both the public infrastructure and private sector investment programmes, and to economic growth in general. In recognition of the positive multipliers associated with skills development, historically, the SOE trained artisans over and beyond their immediate needs. This practice is to recommence and we are encouraging major SOE suppliers to add to the process. The SOE have also developed significant training infrastructure, much of which is sub-optimally utilised. The DPE, through the JPF, is in the process of launching a project to audit these facilities and develop a strategy to ensure that they are utilised to meet high priority skill requirements. In addition, the DPE, in partnership with the Construction Industry Development Board has established a project to determine which areas in the supplier industries will be facing a skills shortage if spend and growth targets are achieved and to provide an estimate of the extent of this shortage.

4.4 Integrating the second economy

Without interventions directly aimed at reducing South Africa's historical inequalities, growth is unsustainable. The Call Centre project and the property project have specific initiatives aimed at integrating the first and second economies. In addition, the SOE are developing programmes to enable greater participation of local communities in capex projects so as to ensure geographic spread of economic opportunities.

SECTION FIVE

STATE-OWNED ENTERPRISES

SECTION FIVE:
STATE-OWNED ENTERPRISES

This chapter provides a brief description of the SOE managed by DPE and the key shareholder management interventions relevant to these SOE.

5.1 Transnet

Transnet is the SOE responsible for the core transport operations in South Africa. Its main business units include Spoornet (rail transport), South African port operations, National Port Authority and Petronet (pipelines). In addition Transnet holds South African Airways, a range of smaller companies in road logistics, warehousing, information technology, wagon manufacture, telecommunications infrastructure and property. However, Transnet has embarked on a new strategy that will transform the company from a diversified conglomerate into a focused freight transport company. The essence of the new strategy is:

- The establishment of South African Airways as a separate entity
- Effective service delivery at the ports, on rail and pipelines
- The disposal of non-core assets by the group and the strengthening of the group's balance sheet
- Inter modal coordination to ensure seamless integration between ports and rail
- Enhancing Transnet's governance systems and risk management capabilities.

Key Challenges in Transnet

- Maintaining and improving financial stability;
- Growing market share in Spoornet's General Freight Business;
- Achieving world-class operating performance levels;
- Leveraging increases in productivity and efficiency to enable new infrastructural investments in support of economic growth;
- Keeping pace with the roll-out of the Capital Expenditure Programme, and responding to new growth demands timeously;
- Introducing the correct skills, in sufficient quantities, to enable and sustain the execution of the approved Transnet strategy;
- Adapting to imminent economic regulation in Ports, Rail and Pipelines;
- Introducing private sector participation in partnership, and in certain areas, in competition with the core operational businesses as per government policy and the Ports Act;
- Competing effectively as Private Sector Operators are introduced in Ports and Rail;
- Disposing of non-core businesses at the required speed;
- Engaging organised labour meaningfully and effectively to enable relatively quick disposals; and
- Adjustment and tweaking of Transnet Strategy to align with emerging national policy and national imperatives.

5.2 South African Airways

It is anticipated that the transfer of SAA will be completed within the current calendar year. Following the transfer of SAA to government, the DPE will embark on the following work programme:

- Effective engagement with SAA as a state owned enterprise and conclusion of the separation from Transnet;
- Stabilisation of SAA's short term financial position; and
- Developing a pragmatic airline strategy for SAA - SAA's performance will continue to be measured against set benchmarks on a quarterly and annual basis.

5.3 Eskom

Eskom is South Africa's major electricity utility and responsible for 95% of electricity supply, including the generation, transmission, distribution and retail of electricity. Electricity is a critical component of our economy's competitive advantage. The energy sector has entered an exciting time in terms of the expansion of energy supply, which is basic to future economic growth and development. Government aims to maintain low-cost, high-quality electricity supply on a sustainable basis, whilst increasing generation via cleaner fuels.

In order to address new capacity requirements, as indicated in 2004, Eskom will build 70 percent of future new capacity whilst Independent Power Producers (IPPs) will build the remaining 30 percent. Eskom will invest R84,626 billion over the next five years: R53,083 billion will be invested in the Generation sector (this amount includes the new build and the return to service of the mothballed plants); R10,958 billion will be invested in Transmission sector expansion and strengthening; while R15,412 billion will be invested in the Distribution sector. Given the faster than anticipated economic growth and the growth target of over 6 percent under ASGISA, a revision to this build programme is anticipated over the next year.

In terms of additions to current capacity, Eskom will commission 1050 Megawatts of Open Cycle Gas Turbine (OCGT) plants at Atlantis and Mossel Bay by 2007, while IPPs will commission another 1050 Megawatts of OCGT plants in Kwazulu Natal and Port Elizabeth by 2008.

With regards to Electricity Distribution Industry restructuring, the establishment of six Metro Regional Electricity Distributors (REDs) and one "National RED" should be completed by February 2007. Eskom is proposed as the foundation of the "National RED", which should see this Distributor being established speedily. This also means that the investment programme with regard to distribution assets will be significantly enhanced as the Metro REDs and the "National RED" are established.

Key projects over the next three years

- Review Eskom's long term build programme (25 years) - this requires a revision of the ISEP, Eskom's demand forecasting model
- Participate in the finalisation of the National Integrated Resource Plan (NIRP) III
- Finalise the Power Purchase Agreement (PPA) with the IPPs
- Implementation of the build programme that adds more than 1000MW per annum from 2007

Challenges

- Sufficient capacity to execute the Build Programme
- Shifting from an annual price increase to a MYPD without disrupting Eskom business
- Agreement on the establishment of the six Metro Regional Electricity Distributors and one National Distributor.

5.4 Pebble Bed Modular Reactor (PBMR)

The Pebble Bed Modular Reactor (PBMR) is the newest State Owned Enterprise to come under the leadership and administration of the DPE, having been transferred from the Department of Trade and Industry during the course of March 2006.

Although based on German technology, PBMR (Pty) Ltd has innovated considerably. These changes to the original design should result in the PBMR design being the most efficient High Temperature Reactor in the world.

Given South Africa's lack of primary fuel sources at its coastal regions, providing coastal towns and cities with electricity requires either the construction of very long and expensive transmission systems or the setting up of the logistics capability to supply coastal power stations with either natural gas or coal.

Both of these solutions are expensive. The PBMR provides a plausible and cost-competitive alternative solution. PBMRs can be situated close to the point of use and consume uranium in such small quantities that there is no need to upgrade either transmission or rail infrastructure. Furthermore, South Africa has an abundance of uranium, negating security of supply concerns. Although the country currently does not have uranium enrichment facilities, it has had these in the past, and still has the necessary skills to operate such facilities.

The DPE's role in bringing the PBMR project to fruition consists of two classes of challenges:

- Legal and Governance issues, and
- Project management of the construction of the Demonstration Plant and Pilot Fuel Plant to time and budget.

Legal and governance challenges include ensuring PBMR conformance with PFMA requirements, the production of a Corporate Plan, and the negotiation of a Shareholder Agreement that provides appropriate protections for the South African government.

Challenges to the timely construction of the Demonstration and Fuel Plants include obtaining positive environmental Records of Decision for both plants, securing a Letter of Intent from Eskom for the construction of 4000MW of PBMR plants, and finding solutions to funding and insurance requirements.

5.5 Denel

Denel is a major player in South Africa's peace keeping and defence-related industries, providing both air and land based systems. A thorough due diligence has been carried out on Denel's business and a new business strategy has been developed. Denel no longer has sufficient scale in the domestic market to be a major independent systems developer. In addition, much of global defence spend is inaccessible to independent contractors, making players highly reliant on their domestic markets. Furthermore, changes in the industry are forcing players to consolidate, build alliances and carefully focus their businesses.

Based on global and local defence industry trends, Denel is pursuing a strategy to consolidate its business and increase its market share. The strategy is based on prime contracting (lead systems level 5 integration) in the domestic market and the export of niche sub-systems and components. This will be achieved through the formation of business alliances with leading companies in South Africa and internationally.

Denel's development impact in the economy is different from Transnet and Eskom in that it is a manufacturer and not an input supplier. The nature of defence manufacturing requires advanced technology, precision manufacturing, process control and specialist skills. Consequently, Denel's developmental role is to catalyse the development of advanced manufacturing in the private sector as a whole. To achieve this goal, the DPE will be working closely with the Departments of Defence, Trade and Industry and Science and Technology (DST). A number of inter-departmental task teams have been established to align acquisition policy with the objective of further developing the local defence related industry and to develop strategies and interventions that can accelerate the development of the defence related industry as a whole. In addition, private sector partners will be invited to participate in joint ventures for specific projects being undertaken by Denel.

Significant duplication in terms of defence functions exists in national organisations. It will therefore be important to consolidate these functions and reduce overlaps. In this context, the task teams will also establish the Defence Evaluation and Research Institute (DERI) that will support the Department of Defence, Armscor and industry with research and testing services. In addition, Armscor will be reclassified as a Schedule 3A entity and will only focus on defence acquisitions as opposed to being involved in other business functions that overlap with other organisations.

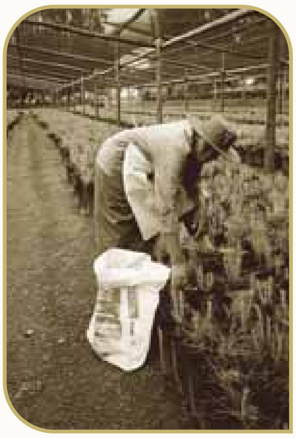
5.6 Alexkor

Alexkor principally mines diamonds in the Alexander Bay area. This includes marine mining and land mining operations. The company's ancillary businesses include diversified agricultural operations. Alexkor is the only large enterprise in the area and supports communities in the Alexander Bay and surrounding areas. This support includes employment, contracting opportunities and the provision of community services.

Key projects with respect to Alexkor are as follows:

- The development of a turn around strategy for Alexkor.
- Finalise and implement the settlement MOU with the Richtersveld community.
- The separation of the non-core agricultural businesses from Alexkor's mining business.
- The transfer of community services such as the hospital, the school, airport etc currently funded by Alexkor to the relevant authorities.
- Joint venture partnership agreements in mining production to be finalised.
- Approve the exploration programme so as to significantly increase production levels over the medium-term.

5.7 Safcol



Safcol currently manages the state-owned commercial forestry plantations, the total area under management being 142 598 hectares (equivalent to around 10% of the country's commercial forest plantations). The bulk (around 90%) of this planted area falls under Safcol's Komatiland Forests (Pty) Ltd (KLF) subsidiary. Safcol also manages small-scale sawmilling operations.

KLF was the last remaining forestry package that was to be disposed of under the forestry restructuring programme. Significant concerns were raised at the Competition Tribunal during 2005 with respect to market structure. Bonheur 50 General Trading (Pty) Ltd (Bonheur) withdrew from the Tribunal in February 2006. The DPE subsequently cancelled the transaction on 17 March 2006.

There are a number of particular challenges with respect to Safcol:

- Market structure concerns - It has been suggested that, in some provinces, forest ownership is too concentrated for an efficient market to operate, to the detriment of SMME sawmillers. DPE wishes to ensure that the operation of the market is as economically efficient and equitable as possible and that it is suitably transparent.
- Increased roundwood demand - Projections for supply and demand of roundwood, for the period to 2035, show an increasing shortfall of supply, with a resulting adverse impact on the contribution of this sector to economic growth and to job creation. DPE will assess appropriate interventions to increase the supply of roundwood available for SA industry and to determine the appropriate role for Safcol. In addition, DPE wishes to make sure that private sector investors have adequate information to judge the potential availability of round wood for new investments they may be considering.
- Decreased saw log availability due to forest fires - Safcol's supply of sawlogs to the market during 2004 and 2005 was reduced by the impact of the 2003 forest fires. Some sawmills appeared to be unable to purchase the volume of sawlogs they wanted. DPE will assess what else can be done to reduce these short-term fluctuations in supply and the resultant impacts on the sawmilling industry.
- The long-term sustainability of saw log supply - Forest owners are obliged, by SA law and by the requirements of their independent forest management certification systems, to practice "sustainable forest management". This can reduce the flexibility available to forest owners to respond to events such as the fires mentioned above. The long-term contributionof the wood-using industry to the economy is dependent on a continued balancing of absolute supply in the short term against long-term sustainability.

There are opportunities within the wider Forest, Timber, Pulp and Paper industry (FTPP) for greater contributions to the ASGISA objectives of skills development, the cost of intermediate inputs for industry, expansion and development of SMMEs and maintaining the competitiveness of SA industry. DPE wishes to make sure that the opportunity for Safcol to contribute to these objectives is fully taken account of and addressed in the future strategy for Safcol. As a result, the role of Safcol in the economy is being reviewed from a strategic perspective. Safcol's new strategy and mandate will be defined by 31 March 2007.

5.8 Arivia.kom

Arivia.kom is indirectly owned by DPE. Denel has disposed of its shareholding in Arivia.kom with Transnet planning to do the same. Arivia.kom will support Eskom's business with strategic information, technology services and will effectively become a direct subsidiary of Eskom. This means that in future Arivia.kom will receive similar treatment as all other subsidiaries.

AGGREGATED PERFORMANCE
The table below summarises the financial performance of the SOE for which DPE is responsible:

Income Statement Line item	Transnet 31/03/04 R'm	Eskom 31/12/03 R'm	Denel 31/03/04 R'm	Arivia.kom 31/03/04 R'm	Alexkor 30/6/04 R'm	Safcol 30/6/04 R'm	Aventura 30/6/03 R'm	Total R'm
Turnover	43 637	32 848	4 442	1 728	265	682	138	82 655
Net operating expenses	(43 450)	(26 030)	(4 309)	(565)	238		(144)	(73 789)
Profit/ (loss) from operations	187	6,818	205	215	26	65	6	7 210
Finance cost	(2 211)	(5 328)	(155)	(13)	-	(2)	(4)	(7 707)
Derivative fair value gain/(loss)	(4 529)	(283)	(255)	Nil	-	-	-	(5 067)
Investment income	273	4 024	28	13	6	14	1	4 338
Profit/(loss) before tax	(6 119)	5 276	(377)	91	38	72	(5)	(1 129)
Tax	204	(1 859)	Nil	(34)	(2)	(35)	0	(1 689)
Profit/(loss) after tax	(6 323)	3 417	(377)	56	36	37	(5)	(3 227)
Dividend pd	Nil	59	Nil	Nil	Nil	50	Nil	569
EBITDA								

SECTION SIX

JOINT PROJECT FACILITY

SECTION SIX:
JOINT PROJECT FACILITY

The Department of Public Enterprises (DPE) and its reporting SOE recognised the need for a financial facility that would enable the development of projects that enhance the value of an industry or can leverage off the assets and/ or capabilities of SOE to the benefit of those SOE and the economy as a whole.

In 2005, the Minister of Public Enterprises and SOE established a Joint Project Facility (JPF) in order to pursue cross-cutting projects, with participation by our SOE.

The objective of the facility is to ensure the rapid development of projects to the point where an investment case has been accepted in principle by relevant operational companies and, where appropriate, financial investors. All projects in the JPF are developed and executed by highly skilled project managers who report operationally to the DPE. In 2005/6 the JPF was funded by the SOE directly. However, the JPF is now funded through the fiscus.

The JPF manages projects under 6 themes, and these are:

- Continental Investments
- Energy & Pipelines
- Human Resources and Capacity Building
- Information Communication Technologies
- Properties
- Optimisation

6.1 Continental Investments

SOE have an important role to play in South Africa and on the continent. In recognition of the importance of SOE, particularly the infrastructure focused companies, DPE has set out to assess our current investments outside of our borders and provide strategic direction to SOE with respect to future investments.

6.2 Energy and Pipelines

Sufficient liquid fuels at the best possible price are key elements of the energy sector that will make for efficient input costs in our economy. The Pipelines Master Plan project will firstly model the impact of various pipeline scenarios for South Africa and ultimately, recommend the best possible solution for future build strategies in the liquid pipelines sector.

Based on the industry's projected growth and demand scenarios, infrastructure options will be identified and suggested at the relevant fora. By 2007, a Framework for Implementation of agreed priority pipeline projects will be finalised. This will include defining specific objectives and targets for the project, strategies for involving the private sector and financial institutions in pipeline infrastructure development; identification of potential strategic financial partners and methods for leveraging the investment capital and documenting an institutional structure for implementation.

6.3 Human Resources & Capacity Building

SOE have considerable potential to enhance the quality and quantity of skills in particular areas of education and training. This is because these enterprises have developed strong education and training capabilities and infrastructure in the past, and because they are embarking on a major capital expenditure programme in the next decade. Large capital expenditures imply a qualitative change in the infrastructural, personnel and other capabilities of SOE and necessitate large scale upgrading and development of their knowledge and skills requirements.

The work of this project will concentrate on a strategy and plan to prioritise, develop and deliver a range of critically important technical, technological and high-level engineering skills that will enhance and extend the capabilities of SOE. They will therefore be concentrated in the areas of pre-artisanal, artisanal and high level skills in the engineering sector. Further, the project will assess current SOE training capabilities, and it will look for synergies between SOE and opportunities for further collaboration with each other and other educational institutions, such as Further Education and Training Facilities (FETs).

6.4 Information Communication Technologies

High telecommunications costs have been a hindrance to economic growth and, through leveraging the existing SOE investment in a full service network and a fibre-optic spine that traverses the country, the department will be implementing a broadband solution for the country over the next few years. This broadband solution addresses domestic and international broadband access and pricing.

Business Process Outsourcing (BPO) is an industry that has been identified by the Deputy-President and the dti as a key growth sector in the short to medium term. The DPE, in conjunction with the Department of Education, will be establishing 10 call centres across South Africa over the next 2 years. These BPO centres will be located in the DoE Further Education and Training Colleges (FET). Umsovombu Youth Trust (UYF) will be supporting this initiative through providing funding for learnerships for the newly recruited call centre operators offered employment in this pilot project.

6.5 Property

The Property Project has sought to categorise SOE properties as core or non-core properties. Whilst core properties will be retained by SOE as part of their mandate to deliver their services, non-core properties are to be disposed of in the short to medium term. Non-core properties are further classified as those for outright sale, transfer to other government departments, properties identified for housing, and development properties.

In collaboration with the Department of Public Works (DPW), the DPE has developed Broad-Based Black Economic Empowerment (BBBEE) criteria for the disposals. These are in line with the dti codes and the Property Sector Charter.

Properties for development include properties and precincts of strategic importance adjacent to ports or CBDs with the potential to provide greater returns for SOE and promote mixed use, urban renewal and integrated development. Substantial opportunities for joint ventures and public private partnerships exist in this process and the development process provides significant BBBEE opportunities. The Department intends contracting a Management Company that will in turn establish Special Purpose Vehicles (SPVs) for each of the developmental projects.

Potential properties for development include:

- Culemborg, Cape Town
- Johannesburg International Airport (JIA)
- Port of Port Elizabeth
- Durban Bayhead and Point areas
- Newtown North Precinct
- Kaserne-City Deep

6.6 Optimisation

Transnet and Eskom are gearing up to manage the procurement associated with the five year R133 billion capital expenditure program. This expenditure will have significant impact on local industry, particularly in the capital goods and transport equipment sectors.

It is presently projected that over 40% of the capital expenditure requirements associated with Eskom and Transnet will be imported. There is thus a challenge to:

- Optimise the local content of the procurement.
- Ensure that the industrial participation component of the imports is leveraged to optimise local industry development.
- A model developed by National Treasury suggested that increasing the local content of the infrastructure programme will have a disproportional positive impact on economic growth. The Optimisation Project seeks to address this through developing a local content procurement policy that will provide a variety of mechanisms to enhance the participation of both large and small nationally based businesses in the programme. In addition, the industrial participation programme will be reviewed with the aim of focusing and radically simplifying the programme. The project is also exploring programmes to build SOE and national strategic procurement skills and capabilities.

SECTION SEVEN

THE ORGANOGRAM, BRANCH PROGRAMMES AND BUDGET ESTIMATES

SECTION SEVEN:

THE ORGANOGRAM, BRANCH PROGRAMMES AND BUDGET ESTIMATES

DPE has been tasked with greater responsibility for achieving government's overarching objective of accelerated and shared economic growth and development. DPE has therefore undergone an internal restructuring and a staff recruitment programme.

The DPE currently has five programmes, to fulifil its mandate namely:

- Administration: responsible to enable the effective and efficient service delivery of the whole of DPE so that the department meets its strategic objectives.
- Analysis and Risk Management: responsible for identifying risk associated with shareholding in SOE, risk in SOE corporate strategy, industry analysis and SOE performance monitoring and benchmarking
- Legal, Governance and Secretariat: responsible for analysis of the legal and regulatory framework in which SOE operate to optimise compliance, effectiveness and transparency of service delivery, overall monitoring and implementation of transactions and governance in SOE.
- Corporate Strategy and Structure: responsible for defining and implementing industry structures, public/ private service delivery and SOE strategies that will optimise overall industry efficiency, service provision, pricing of services and economic development. The Joint Project Facility (JPF) was established by the CEO Forum in 2005 and is mandated to facilitate the development of projects that enhance the value of an industry and/or capabilities of the SOE to the benefit of those SOE and the economy as a whole.
- Corporate Finance and Transactions: responsible for the successful execution of government-led transactions through efficient and effective financial and project management within the recommended timeframes.

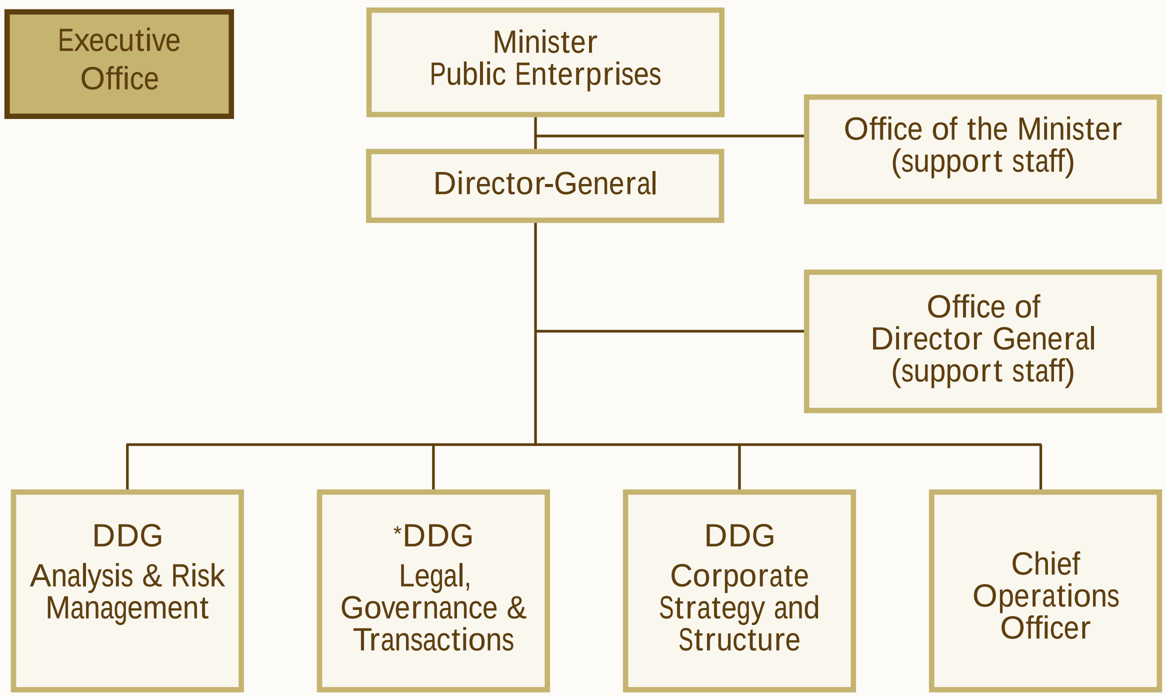
A decision has been taken to delegate oversight of LGS and CFT to one Programme Manager (DDG) in order to integrate all advisory legal services within the department and strengthen the capacity to provide guidelines for and evaluate applications by SOEs for Section 54(2) transaction approvals.

However, the Programme Manager (DDG) within CFT will be dealing with special projects such as the resolution of Aventura as well as Alexkor.

While it has been useful to organise the DPE's activities into the above programmes, in reality a number of projects involve inputs from different programmes. Hence, the DPE has put a significant amount of effort into the establishment of matrix teams that bring all relevant skills and responsibilities into a single team. The teams are made up of champions, team leaders and team members.

The following table provides an organogram for the department as a whole, which is followed by the medium term budget estimates for the department. This is followed by details for each of the Programmes and their associated medium term budget estimates.

DPE ORGANISATIONAL STRUCTURE



Expenditure estimates

PUBLIC ENTERPRISES								
Programme	**Audited outcome**			**Adjusted appropriation**	**Revised estimate**	**Medium-term expenditure estimate**		
R thousand	**2002/03**	**2003/04**	**2004/05**	**2005/06**		**2006/07**	**2007/08**	**2008/09**
1. Administration	30 533	37 114	36 358	43 441	45 641	44 329	49 510	53 700
2. Analysis and Risk Management	4 371	6 008	13 943	13 772	13 272	16 723	18 966	21 096
3. Legal , Governance and Secretariat	5 700	5 543	6 096	9 091	8 091	15 204	17 827	20 045
4. Corporate Strategy and Structure	6 067	6 120	606 578	589 292	588 592	600 764	23 943	24 762
5. Corporate Finance and Transactions	163 860	29 181	15 711	2 020 312	2 020 312	6 437	7 722	8 100
Total	**210 531**	**83 966**	**678 686**	**2 675 908**	**2 675 908**	**683 457**	**117 966**	**127 703**
Change to 2005 Budget estimate				2 583 925	2 583 925	603 701	29 105	34 488

* As the ENE for 06/07 was already finalised at the time of printing this strategy document, the following section discusses programme 3 and programme 5 as if still seperate for ease of analysis.

Expenditure estimates

PUBLIC ENTERPRISES								
Programme	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06		2006/07	2007/08	2008/09
Economic classification								
Current payments	**207 434**	**74 613**	**67 219**	**78 841**	**77 991**	**101 905**	**116 857**	**126 540**
Compensation of employees	25 525	30 088	34 970	48 083	46 583	57 888	61 395	66 908
Goods and services of which:	181 909	44 482	32 249	30 758	31 408	44 017	55 462	59 631
Communication	301	2 780	2 200	1 636	1 386	2 799	3 313	3 475
Computer Services	-	641	1 315	497	497	8 209	8 971	9 435
Consultants, contractors and special services	166 109	25 432	6 966	5 187	5 187	7 520	11 435	11 890
Inventory	1 350	1 526	2 354	754	754	3 127	3 607	3 784
Operating leases	8	774	3 360	3 890	3 890	3 873	4 300	4 686
Travel and subsistence	1 624	7 124	5 498	4 753	4 303	10 040	12 355	12 960
Interest and rent on land	-	1	-	-	-	-	-	-
Financial transactions in assets and liabilities	-	42	-	-	-	-	-	-
Transfers and subsidies	**1 573**	**8 571**	**609 032**	**2 596 540**	**2 596 540**	**581 086**	**620**	**650**
Provinces and municipalities	73	93	110	133	133	49	-	-
Departmental agencies and accounts	1 500	8 342	6 922	3 626	3 626	437	-	-
Public corporations and private enterprises	-	-	602 000	2 592 781	2 592 781	580 000	-	-
Households	-	136	-	-	-	600	620	650
Payments for capital assets	**1 524**	**782**	**2 435**	**527**	**1 377**	**466**	**489**	**513**
Machinery and equipment	1 524	782	2 338	527	527	466	489	513
Software and other intangible assets	-	-	97	-	850	-	-	-
Total	**210 531**	**83 966**	**678 686**	**2 675 908**	**2 675 908**	**683 457**	**117 966**	**127 703**

7.1 Measurable Objectives, Medium Term Outputs and Expenditure Estimates: Management and Administration

Purpose: Responsibility for the overall direction and management of the Ministry and the department and provision of administrative support services to the department.

Measurable objective:

- To provide strategic direction and leadership.
- To provide support services to enable the department to deliver on its organisational objectives in an environment where the human capital within DPE is both motivated and empowered.
- To improve the quality of corporate governance and performance monitoring systems by ensuring that appropriate policies, processes and procedures are developed and implemented within DPE.

Management and Administration includes the Ministry, the Office of the Director-General and Corporate Services. The programme includes policy formulation by the Minister and senior management. Support services are provided by the ministerial support staff, strategy and business planning, human capital, information technology, communications, finance, security services, legal counsel and internal audit.

Medium-term Output Targets

MEASURABLE OBJECTIVE: Strategic direction and leadership and appropriate support services.					
Sub programme	Output	Measure/Indicator	2006/07 target/milestone	2007/08 target/milestone	2008/09 target/milestone
Planning, Monitoring and Evaluation	Project performance monitoring	Monthly reports on the status of projects	Effective monitoring of projects' performance	Effective monitoring of projects' performance	Effective monitoring of projects' performance
Human Resources	Performance Management System	Effective performance management system in place	Effective monitoring of individual performance	Effective performance monitoring of individuals	Effective performance monitoring of individuals
Corporate Services	Accessible, accurate and secure document management	Proper system to access documents in place	Effective document management	Effective document management	Effective document management
Information Technology	Network availability, security and stability	98% Network availability	98% System availability	Effective information technology systems	Effective information technology systems
Communications	Weekly hot-spot report Updated web-site	Submissions to the media Reports from external service provider	Regular press briefings; informative web site	Effective communication	Effective communication
Finance	Efficient, effective and economic management of financial resources - Accounting - Procurement - Donor Funding	Proper recording of all financial transactions Establishment of good financial governance, planning and budgeting systems	Clean audit report	Clean audit report	Clean audit report
Security Services	Effective security of information and personnel	Security systems in place Security clearance for all DPE personnel	Effective Security systems in place	Effective Security systems in place	Effective Security systems in place
Internal Audit	Effective internal audit review	Clean internal audit report	Clean internal audit report	Clean internal audit report	Clean internal audit report

Expenditure estimates

ADMINISTRATION							
Sub programme	**Audited outcome**			**Adjusted appropriation**	**Medium-term expenditure estimate**		
R thousand	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Minister[1]	816	876	791	837	887	934	981
Management	3 322	4 660	6 090	16 200	13 341	14 009	14 695
Corporate Services	26 164	31 334	26 463	23 149	25 905	29 917	32 964
Property Management	231	244	3 014	3 255	4 196	4 650	5 060
Total	**30 533**	**37 114**	**36 358**	**43 441**	**44 329**	**49 510**	**53 700**
Change to 2005 Budget estimate				7 962	6 721	8 795	10 991
[1] *Payable as from 1 April 2005. Salary: R 669 462. Car allowance: R 167 365.*							
Economic classification							
Current payments	**29 451**	**36 463**	**34 466**	**43 093**	**43 571**	**48 744**	**52 897**
Compensation of employees	13 785	16 923	15 120	24 961	30 313	31 819	34 817
Goods and services of which:	15 666	19 497	19 346	18 132	13 258	16 925	18 080
Communication	301	1 810	940	1 011	1 181	1 299	1 363
Computer Services	-	385	1 000	350	2 601	2 911	3 078
Consultants, contractors and special services	5 314	10 548	3 546	1 632	600	740	776
Inventory	540	610	1 899	597	1 505	956	1 003
Operating leases	8	774	3 360	3 741	3 873	4 300	4 686
Travel and subsistence	1 211	3 804	3 706	3 183	1 650	1 850	1 941
Interest and rent on land	-	1	-	-	-	-	-
Financial transactions in assets and liabilities	-	42	-	-	-	-	-
Transfers and subsidies	**39**	**188**	**19**	**73**	**619**	**620**	**650**
Provinces and municipalities	39	52	19	73	19	-	-
Households	-	136	-	-	600	620	650
Payments for capital assets	**1 043**	**463**	**1 873**	**275**	**139**	**146**	**153**
Machinery and equipment	1 043	463	1 776	275	139	146	153
Software and other intangible assets	-	-	97	-	-	-	-
Total	**30 533**	**37 114**	**36 358**	**43 441**	**44 329**	**49 510**	**53 700**

7.2 Measurable Objectives, Medium Term Outputs and Expenditure Estimates: Analysis and Risk Management

Purpose: The main purpose of Analysis and Risk Management (ARM) programme is to analyse and monitor the financial, operational and socioeconomic performance of SOE to ensure compliance with the Corporate Plans, and Shareholder Compacts and actively mitigate keys risks flowing from the SOE activities.

Apart from the Management component of the programme, there are two sub-programmes:

Analysis sub-programme continuously analyses and monitors the performance of SOE, focusing on their operations, financial performance and their role in socioeconomic development. The sub-programme plays a vital role in the shareholder compact and oversight process as it identifies the key performance indicators and targets for inclusion in the compacts and is responsible for a comparative benchmarking programme of SOE.

Risk Management is responsible for formulating risk management framework related to SOE, analyse and monitors risks associated with SOE activities, advise on the section 54 PFMA applications and materiality frameworks, identify key risks to be monitored by the shareholder, assess their impact and likelihood, setting up an early warning and reporting systems. The sub-programme regularly reports on systemic risks, vulnerabilities and potential shocks in and across the SOE and advises on mitigations plans.

These key risks include the following, amongst others:

- Safety
- Occupational Health and HIV/AIDS
- Environment
- Security of key infrastructure- pipelines, ports, railways, and airline
- Security of supply against demand in the growing economy
- Industrial action
- Skills
- Solvency of SOE and their contribution to national financial stability
- Governance
- Litigation

The Risk Management Framework related to the SOE is also derived from the following mandate:
The Public Finance Management Act that requires Board of SOE to establish structured systems of risk management and internal controls; and effectively manage enterprise-wide risk- such as market risk, credit risk and operational risk, and

The need for the department, as the Executive Authority responsible for key SOE in the economy and key sectors, to provide a risk management framework, an early warning system on key risks with economy-wide impact and set up a risk management system.

Medium-term Output Targets

MEASURABLE OBJECTIVE: Analyse the financial operational and socio-economic performance of SOE and mitigate the key risk related to the SOE					
Sub programme	Output	Measure/Indicator	2006/07 target/milestone	2007/08 target/milestone	2008/09 target/milestone
Risk Management	Review Risk management plans	Approved assessment report	May 06	May 07 Update Risk Management plans	May 08 Review & update Risk Management plans
	Conduct Risk Management assessment per SOE	Approved assessment reports for all SOE's	Oct 06	Oct 07 Review assessments reports and make recommendations	Oct 08 Conduct risk assessment per SOE
Analysis	Government Financial Exposure in SOE's	Approved recommendations by the Minister	Dec 06	Dec 07	Dec 08
	Analysis of the Corporate Plans for all SOE's	Approved report on Corporate Plan	April 06	April 07 Analysis of the Corporate plans	April 08 Analysis of the Corporate plans
	SKPI's and targets	Approval of the SKPI's & targets	April 06	April 07 Update and monitoring compliance to the SKPI's & targets	April 08 Update & monitor compliance with the SKPI's & targets
	Analysis of Quarterly Performance of SOE's	Approval of report on the quarterly performance of SOE's	March 06 Finalisation of targets for Transnet	March 07 Update targets & monitor compliance with targets	March 08 Update & monitor compliance with targets
	Analysis of Annual reports of SOE's	Approved annual analysis reports	Aug 06	Aug 07 Analysis of annual reports of SOE's	Aug 08 Analysis of annual reports for SOE's
	Five year financial performance review	Approved review by the Minister	June 06 (Budget vote)		

Expenditure estimates

ANALYSIS AND RISK MANAGEMENT							
Sub programme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Management	1 295	2 265	2 941	2 278	5 913	5 639	6 517
Analysis	320	1 602	5 242	8 402	6 578	9 047	9 819
Risk Management	2 756	2 141	5 760	3 092	4 232	4 280	4 759
Total	**4 371**	**6 008**	**13 943**	**13 772**	**16 723**	**18 966**	**21 096**
Change to 2005 Budget estimate				(91)	2 428	2 913	4 257
Economic classification							
Current payments	**4 264**	**5 876**	**13 808**	**13 654**	**16 713**	**18 966**	**21 096**
Compensation of employees	1 572	2 219	7 389	10 381	6 941	7 278	8 701
Goods and services of which:	2 692	3 657	6 419	3 273	9 772	11 688	12 396
Computer Services	-	128	198	77	2 804	3 382	3 548
Consultants, contractors and special services	1 060	780	1 655	450	2 500	3 695	3 876
Travel and subsistence	75	1 450	362	402	1 250	1 140	1 196
Transfers and subsidies	**7**	**12**	**26**	**18**	**10**	**-**	**-**
Provinces and municipalities	7	12	26	18	10	-	-
Payments for capital assets	**100**	**120**	**109**	**100**	**-**	**-**	**-**
Machinery and equipment	100	120	109	100	-	-	-
Total	**4 371**	**6 008**	**13 943**	**13 772**	**16 723**	**18 966**	**21 096**

7.3 Measurable Objectives, Medium Term Outputs and Expenditure Estimates: Legal, Governance and Secretariat (LGS)

Purpose: Provide clear SOE mandates and ensure alignment of SOE governance systems, compliance and performance with government policy objectives.

Measurable objective: Develop effective governance and policy frameworks that ensure that all SOE activities are performed with integrity, honesty and in compliance with appropriate legislation.

Legal, Governance and Secretariat (LGS) is comprised of three functional areas: Corporate Governance, Legal Office and the Secretariat. All three deliver internal services. Corporate Governance has a distinct role in the interface with SOEs, National Treasury and other Government Departments. A substantial portion of the Secretariat's workload relates to the Economic Cluster.

The Legal, Governance and Secretariat programme provides clear mandates for SOE and ensures SOE governance systems comply with government policy. The programme also provides advisory and secretariat services to the department and the economic and employment cluster. The programme has a distinctly legal focus, as it interprets, develops and records factual frameworks in relation to powers, functions and duties, and formal decisions, hence all legal activities were centralised in one programme this year.

LGS has a three-pronged delivery focus, namely:

- interpretation of current law, monitoring of statutory/contractual compliance and induction of good governance protocol
- repository and disseminator of factual records and information supporting the functions of LGS, DPE, the Minister and the Economic Cluster
- inter-governmental co-ordinator and conduit for communication between other Government Departments and SOE in respect of issues which are SOE-specific.

Medium-term Output Targets

MEASURABLE OBJECTIVE: Develop effective governance and policy frameworks that ensure that all SOE activities are performed with integrity, honesty and in compliance with appropriate legislation.

Sub programme	Output	Measure/Indicator	2006/07 target/milestone	2007/08 target/milestone	2008/09 target/milestone
Governance	Shareholder Management model	Legislation on Shareholder management model	July 2006	Shareholder management oversight	Shareholder management oversight
	Updated protocol on corporate governance for SOEs	Updated protocol	October 2005		
Legal	Contract Management (including drafting, vetting and storage)	All contracts within DPE via legal	Ongoing	Annually	Annually
Secretariat	Management of SOE for: Chairpersons', CEOs', CFOs', Risk Officers', company secretary/legal	• 4x Chairpersons' Forum • 7x CEOs' Forum • 3x CFOs' Forum • 3x Risk Officers' Forum • 3x Company Secretary's Forum	Annually	Annually	Annually

Expenditure estimates

LEGAL, GOVERNANCE AND SECRETARIAT							
Sub programme	**Audited outcome**			**Adjusted appropriation**	**Medium-term expenditure estimate**		
R thousand	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Management	3 080	2 809	1 175	1 893	3 006	4 157	4 361
Legal and Litigation	576	658	2 441	1 577	3 877	6 049	6 488
Governance and Secretariat	2 044	2 076	2 480	5 621	4 268	4 482	4 702
Legal Transactions	-	-	-	-	4 053	3 139	4 495
Total	**5 700**	**5 543**	**6 096**	**9 091**	**15 204**	**17 827**	**20 045**
Change to 2005 Budget estimate				111	6 032	6 865	8 546
Economic classification							
Current payments	**5 596**	**5 517**	**5 900**	**8 986**	**14 964**	**17 585**	**19 791**
Compensation of employees	1 947	2 198	3 000	3 451	9 318	9 869	10 353
Goods and services of which:	3 649	3 319	2 900	5 535	5 646	7 716	9 439
Communication	-	-	280	120	296	350	367
Computer Services	-	128	117	55	1 402	382	401
Consultants, contractors and special services	1 493	1 254	475	2 415	1 770	2 000	2 098
Inventory	270	305	455	40	196	396	415
Maintenance repair and running cost	-	181	192	-	-	-	-
Operating leases	-	-	-	54	-	-	-
Travel and subsistence	178	870	548	417	920	2 305	2 418
Printing and Publications	-	-	-	-	250	150	157
Other	1 708	581	834	2 434	812	2 133	3 582
Transfers and subsidies	**7**	**6**	**23**	**11**	**9**	**-**	**-**
Provinces and municipalities	7	6	23	11	9	-	-
Payments for capital assets	**97**	**20**	**173**	**94**	**231**	**242**	**254**
Machinery and equipment	97	20	173	94	231	242	254
Total	**5 700**	**5 543**	**6 096**	**9 091**	**15 204**	**17 827**	**20 045**

7.4 Measurable Objectives, Medium Term Outputs and Expenditure Estimates: Corporate Strategy and Structure

Purpose: Define and implement industry structures, public/private service delivery and SOE strategies that will optimise overall industry efficiency, service provision, pricing of services and economic development.

Measurable Objectives: The principal objective of the CSS Unit is to design strategies and structures for SOE and the industries in which they operate that will ensure delivery on Government's economic growth objectives. This will be achieved through:

- Increased competitiveness:
  - Lowest sustainable input costs
  - Globally competitive services
  - Sufficient capacity provision
- Utilising SOE to strengthen key sectors

The following are the other objectives:

- To review level of investment in SOE infrastructure and improve quality of investment
- Development of back of port IDZ industry
- To liase with the Joint Project Facility in the development of strategies

The branch is comprised of four sub-branches including Energy, Transport, Defence and Forestry. The above programme objectives cut across the four branches. The JPF is a financial facility that will enable the development of projects that enhance the value of an industry or can leverage off the assets and/or capabilities of the SOEs to the benefit of those SOE and the economy as a whole.

Medium-term Output Targets

MEASURABLE OBJECTIVE: Strategies and structures for SOE and the industries in which they operate that will ensure delivery on the government's economic growth objectives

Sub programme	Output	Measure/Indicator	2006/07 target/milestone	2007/08 target/milestone	2008/09 target/milestone
Transport	Performance management of Transnet and core divisions	Quarterly reporting assessment to Minister within 14 days of receipt Signed compact incorporating strategic KPIs	Quarterly	Quarterly	Quarterly
	Procurement of private sector partner for the Coega container terminal	Approval for transaction structure RFP issued PSP awarded	Obtain approval for PSP Establish joint transaction team with National Port Authority August 2006	Investment by PSP commences July 2007	PSP commences operations in Coega
	Separation of SAA from Transnet	DPE, National Treasury and Transnet agreement on transaction	Signed Heads of Agreement between DPE, Transnet and SAA. All contingent liabilities and assets confirme July 2006	Transnet resolved of all contractual obligations towards SAA April 2007	
Energy	Develop an integrated framework that aligns Eskom's strategies to government policies and objectives	Corporate strategy for Eskom and industry structure for the electricity sector agreed by DPE Minister and Eskom Board	April 2006		
	Develop pricing policy for the electricity sector	NER approved pricing policy and multi year tariff			

Medium-term Output Targets

MEASURABLE OBJECTIVE: Strategies and structures for SOE and the industries in which they operate that will ensure delivery on the government's economic growth objectives

Sub programme	Output	Measure/Indicator	2006/07 target/milestone	2007/08 target/milestone	2008/09 target/milestone
Energy	Develop pricing policy for the electricity sector	NER approved pricing policy and multi year tariff	October 2006		
	Development of investment frameworks for SOE and financing arrangements for five year investments	25 year investment plan, forecast and financing arrangements approved by DPE Minister and Eskom Board	April 2006 June 2006	June 2007	August 2008
Defence	Oversight of the implementation of Denel's business strategy: Approval of sale of non-core assets	Consolidation of Denel's business and increase in market share Disposal of all non-core assets, achievement of revenue projections from disposals and limited risk for Denel	Key partnerships identified July 2006 Commencement of disposal process September 2006	Partnership agreements concluded. August 2007 Finalisation of all disposals. July 2007	Local industry consolidation complete and optimal industry structure finalised. Business plan implementation
	Development of sector strategy	Defence policy alignment Industry collaboration	Scoping and implementation of short-term interventions Nov 2006	Policy alignment Implementation of medium-term interventions June 2006	A target of 70% of defence spend to be directed towards domestic industry. Oct 2006
Forestry	Development of Safcol strategy and mandate	Strategy and mandate finalised. Effective strategy implementation	Research on global and local industry trends September 2006	Finalisation of strategy and mandate in consultation with SAFCOL, DWAF and DTI May 2007	Effective strategy implementation -oversight by DPE June 2006
Joint Project Facility	Efficient SOE infrastructure investment in the Continent	Clearly defined projects with respect to financial or developmental goals	Continental Investments Strategy	Monitoring implementation of the Continental Investments Strategy	Monitoring implementation of the Continental Investments Strategy
	Pipelines Masterplan	Sufficient capacity in the liquid fuels pipelines to facilitate economic growth	Defined framework for SOE investment in pipeline infrastructure projects	Pipelines master plan finalised	
	Appropriate training facilities and opportunities for the SOE capital expansion programme	Adequate skills in the economy to facilitate SOE capital expansion programmes	Programme of Action for SOE	Implementation and Monitoring of POA	Implementation of POA
	Provision of low cost telecommunications infrastructure	Price of telecoms reduced.	Telecommunications costs reduced by 50%	Telecommunications costs reduced by a further 15%	Telecommunications costs reduced by a further 15%
	Disposal of SOE non-core properties	Reduce SOE property portfolios to include only core-properties	First tranche non-core property sales Initiate 5 development projects	Second tranche non-core property sales. Holding Company to manage development projects and raising of capital	Finalisation of disposal of non-core properties. Development project in implementation phase
	Consolidate SOE procurement for supplier industry development	Growth of local suppliers and reduction of imports (20%) for capital programme	Strategic procurement framework approved by DPE Minister	Implementation and monitoring of framework	Implementation and monitoring of framework

Expenditure estimates

CORPORATE STRATEGY AND STRUCTURE							
Sub programme	**Audited outcome**			**Adjusted appropriation**	**Medium-term expenditure estimate**		
R thousand	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Management	4 204	4 233	2 417	2 525	2 631	3 413	3 580
Transport Unit	654	698	1 054	3 205	3 311	4 282	4 492
Energy	1 209	1 189	603 107	583 562	581 616	1 728	2 076
Strategy	-	-	-	-	2 157	3 352	3 516
Economic Research Unit	-	-	-	-	1 049	1 168	1 097
Joint Project Facility	-	-	-	-	10 000	10 000	10 000
Total	**6 067**	**6 120**	**606 578**	**589 292**	**600 764**	**23 943**	**24 762**
Change to 2005 Budget estimate				578 228	589 036	10 921	11 102
Economic classification							
Current payments	**5 966**	**6 095**	**6 382**	**9 220**	**20 661**	**23 842**	**24 656**
Compensation of employees	3 977	1 789	3 972	6 918	7 115	7 471	7 837
Goods and services of which:	1 989	4 306	2 410	2 302	13 546	16 371	16 819
Consultants, contractors and special services	1 312	1 461	1 141	409	2 650	5 000	5 140
Inventory	270	305	-	42	1 050	1 710	1 794
Travel and subsistence	60	872	647	432	5 389	6 158	6 460
Transfers and subsidies	**4**	**5**	**600 023**	**580 020**	**580 007**	**-**	**-**
Provinces and municipalities	4	5	23	20	7	-	-
Public corporations and private enterprises	-	-	600 000	580 000	580 000	-	-
Payments for capital assets	**97**	**20**	**173**	**52**	**96**	**101**	**106**
Machinery and equipment	97	20	173	52	96	101	106
Total	**6 067**	**6 120**	**606 578**	**589 292**	**600 764**	**23 943**	**24 762**
Details of transfers and subsidies:							
Public corporations							
Other transfers							
Current	**-**	**-**	**600 000**	**580 000**	**580 000**	**-**	**-**
Pebble Bed Modular Reactor	-	-	600 000	580 000	580 000	-	-

7.5 Measurable Objectives, Medium Term Outputs and Expenditure Estimates: Corporate Finance and Transactions (CFT)

Purpose: Oversee and execute shareholder initiated transactions such as initial public offerings (IPO), joint ventures and public-private partnerships (PPP's).

Measurable objective: Successful execution of government-led transactions through efficient and effective financial and project management within the recommended timeframes.

This programme's aim is to be responsible for identifying, managing, executing and reporting all Shareholder led transactions.

This programme has a management function and is divided into four sub programmes:

Corporate Legal Services is responsible for analysing contractual agreements and providing strategic reports.

Corporate Finance is responsible for developing optimal financing structures, taking into account the nature and extent of the finance requirements, the SOEs ability to access capital markets, its financial position and objective of the transaction.

Transaction Specialist Services is responsible for managing, executing and reporting on major transactions led by the shareholder in relation to the SOEs

Initial Public Offering prepares identified SOEs for their listing on the domestic and international equity exchange markets.

Medium-term Output Targets

MEASURABLE OBJECTIVE: Successful government-led transactions through efficient and effective financial and project management within the recommended timeframes.

Sub programme	Output	Measure/Indicator	2006/07 target/milestone	2007/08 target/milestone	2008/09 target/milestone
Corporate Finance	Optimal financing strategies aligned with corporate structure and strategy of the SOE	Financing strategy supported by research and benchmarked data	Annually		
	Reports on the optimal capital structure and adequacy of SOE	Published report	Annually		
	Asset and liability management strategies for each SOE	Strategies approved	Annually		
Transaction Specialist Services	Framework on the disposal of non-core businesses in each SOE	Published framework	Annually		
	Report on the viability of public private partnerships, joint ventures and concessions	Published framework report	Annually		
	Strategy on listing SOE on equity markets	Published framework strategy	Annually		

Expenditure estimates

CORPORATE FINANCE AND TRANSACTIONS							
Sub programme	**Audited outcome**			**Adjusted appropriation**	**Medium-term expenditure estimate**		
R thousand	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Management	-	-	-	2 014 766	3 007	2 844	2 983
Corporate Finance	608	646	4 668	1 075	1 626	3 347	3 511
Transaction Specialist Services	-	-	4 121	845	1 367	1 531	1 606
Initial Public Offering	163 252	28 535	6 922	3 626	437	-	-
Total	**163 860**	**29 181**	**15 711**	**2 020 312**	**6 437**	**7 722**	**8 100**
Change to 2005 Budget estimate				1 997 715	(516)	(389)	(408)
Economic classification							
Current payments	**162 157**	**20 662**	**6 663**	**3 888**	**5 996**	**7 722**	**8 101**
Compensation of employees	4 244	6 959	5 489	2 372	4 201	4 958	5 201
Goods and services of which:	157 913	13 703	1 174	1 516	1 795	2 764	2 900
Consultants, contractors and special services	156 929	11 389	150	281	-	-	-
Travel and subsistence	100	129	235	319	831	902	946
Transfers and subsidies	**1 516**	**8 360**	**8 941**	**2 016 418**	**441**	**-**	**-**
Provinces and municipalities	16	18	19	11	4	-	-
Departmental agencies and accounts	1 500	8 342	6 922	3 626	437	-	-
Public corporations and private enterprises	-	-	2 000	2 012 781	-	-	-
Payments for capital assets	**187**	**159**	**107**	**6**	**-**	**-**	**-**
Machinery and equipment	187	159	107	6	-	-	-
Total	**163 860**	**29 181**	**15 711**	**2 020 312**	**6 437**	**7 722**	**8 101**
Details of transfers and subsidies:							
Public entities							
Current	**1 500**	**8 342**	**6 922**	**3 626**	**437**	**-**	**-**
Diabo Trust	1 500	4 505	3 119	3 152	437	-	-
Khulisa Trust	-	3 837	3 803	474	-	-	-
Public corporations							
Other transfers							
Current	**-**	**-**	**2 000**	**12 781**	**-**	**-**	**-**
Alexkor	-	-	2 000	12781	-	-	-
Capital	**-**	**-**	**-**	**2 000 000**	**-**	**-**	**-**
DENEL	-	-	-	2 000 000	-	-	-
Total	**1 500**	**8 342**	**8 922**	**2 016 407**	**437**	**-**	**-**

Notes:

NOTES:

public enterprises
Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

Physical Address: Suite 401, Infotech Building, 1090 Arcadia Street, Hatfield, 0028
Postal Address: Private Bag X15, Hatfield, 0028
Tel: 012 431 1000
Fax: 012 431 1040