

2016

**DOES THE DEPARTMENT OF PUBLIC
ENTERPRISES HAVE ADEQUATE
CAPACITY FOR EFFECTIVE OVERSIGHT?**

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NATIONAL TREASURY

1. INTRODUCTION

The mandate of the Department of Public Enterprises is to ensure that the state owned companies in its portfolio are directed to serve government's strategic objectives, as articulated in the national development plan, the new growth path and the industrial policy action plan. In the current economic climate, state owned companies have emerged as key instruments for the state to drive its developmental objectives of creating jobs, and for enhancing equity and transformation.

The state owned companies in the department's portfolio form the cornerstone of the economy and their capacity must be strategically utilised to support the delivery of the national development plan's outcomes, making the strengthening of oversight tools for the state owned companies crucial to socioeconomic transformation. The department does not directly execute programmes but seeks to leverage off state ownership in the economy to support the delivery of key outcomes outlined in the national development plan and government's 2014-2019 medium term strategic framework.

The Department of Public Enterprises oversees the 6 state owned companies in its portfolio: Alexkor, Denel, Eskom, the South African Forestry Company, South African Express Airways and Transnet. The department aims to ensure that they are financially sound and pursuing government's national development objectives, in particular outcome 6 (an efficient, competitive and responsive economic infrastructure network) of the 2014- 2019 medium term strategic framework. Over the medium term, the department will focus on strengthening its oversight functions, increasing the public sector's investment in the economy, reducing state owned companies' reliance on the fiscus, and ensuring the financial sustainability of state owned companies.

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2. INSTITUTIONAL ANALYSIS

The State-Owned Companies (SOCs) are positioned strategically as levers to drive radical economic transformation. The path informing radical economic transformation amongst others entails ensuring capacitating the youth with the necessary skills and knowledge towards creating a transformed society.

Major strides were made by the department over the past year towards ensuring that SOCs have a meaningful impact on the communities. Since 2009, there has been an increased focus on the role of SOCs to support the objectives and outcomes outlined in the Medium Term Strategic Framework. This requires the department to strengthen its oversight related activities to ensure that SOCs are not only aligned to the government's objectives, but also play a leading role. The entities within the department's portfolio have been in the forefront in the implementation of government's economic strategy that identified infrastructure investment as one of the key job drivers.

Furthermore, the department was established initially as a privatization and corporatization office. This reflected the government's policy to restructure its ownership and participation in the economy. As an office, limited resources (both financial and human) were provided to oversee the disposal of state assets. The process of privatization was largely informed by the need to reduce government debt, as most of the state companies were incurring losses. As the government introduced and implemented transformative policies, the role of SOCs in driving the developmental agenda strongly emerged. As a result, the mandate of the department has evolved to reflect the change of the policy approach.

The evolution of the mandate has exerted extreme pressure on the capacity of the department and has exposed some weaknesses in the current operational model. As a government department, DPE operates within the Public Service Act and Regulations. This constraints the

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department's ability to effectively compete in the labour market. This has resulted in relatively high staff turnover at senior management level and inability to attract high caliber individuals.

The department has three programmes. These are discussed below:

Programme 1: Administration

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

Programme 2: Legal and Governance

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

Programme 3: Portfolio Management and Strategic Partnerships

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

3. ANALYSIS OF THE STAFF COMPLEMENT

Just like all the government departments, the role of human resource as a strategic partner for line managers is in line with the DPSA competency dictionary has been implemented and HR undergo annual assessment on this new role in line with DPSA assessment tool to identify areas for improvement.

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During the 2013/2014 financial year, the department approved a new structure; new posts were created, mostly at senior level. Most of these posts were filled during that year with the department maintaining a lower vacancy rate. However, the high staff turnover rate during the 2015/2016 financial year resulted in a higher vacancy rate of 10.8% at the end of the period. The department still needs additional posts to be able to deliver on its mandate. The department continues to monitor organizational and individual performance to ensure alignment and achievement of strategic goals. Individual performance agreements were aligned to organizational targets and government performance objectives. High performing employees are recognized and awarded using non-monetary vouchers on a quarterly basis. This is to promote a high performance culture within the organization.

The department intends to re-organise the current resources to be able to deliver on its strategic plan, to ensure optimal utilization of existing resources. The departmental HR plan will be reviewed in line with the new departmental strategy.

4. COSTING MODELS: PERSONNEL

Tables below in this section display costing of personnel and vacancies.

Table 1: Personnel expenditure by programme for the period 1 April 2015 to 31 March 2016

Programme	Total Expenditure (R'000)	Personnel expenditure (R'000)	Training expenditure (R'000)	Professional and special services expenditure	Personnel expenditure as a % of the total	Average personnel cost per employee
Administration	145,761	73,460	1466	9366	50.4	357
Legal and governance	19,761	17,086	0	612	86.5	83
Portfolio management and strategic partnerships	23,094,186	49,429	0	4823	0.2	240
Total Cost	23,259,708	139,975	1466	14801	0.6	680

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Table 2: Employment and vacancies by salary band as at 31 March 2016

Salary band	Number of posts on approved establishment	Number of posts filled	Vacancy rate	Number of employees additional to the establishment
Lower skilled (1-2)	0	0	0	0
Skilled (3-5)	7	6	14.3	0
Highly skilled production (6-8)	55	49	10.9	1
Highly skilled supervision (9-12)	75	74	1.3	4
Senior management (13-16)	86	70	18.6	0
Total	223	199	10.8	5

Table 3: Personnel costs by salary band for the period 1 April 2015 to 31 March 2016

Salary band	Personnel expenditure (R'000)	% of total personnel cost	No of employees	Average personnel cost per employee (R'000)
Skilled (Levels 3-5)	1112	0.8	6	185
Highly skilled production (Levels 6-8)	15438	10.8	45	343
Highly skilled supervision (Levels 9-12)	35158	24.7	65	541
Senior management (Levels 13-16)	52152	37.15	52	1003
Contract (Levels 3-5)	330	0.2	1	330
Contract (Levels 6-8)	3431	2.4	6	572
Contract (Levels 9-12)	7301	5.1	14	522
Contract (Levels 13-16)	21962	15.4	17	1292
Periodical remuneration	1773	1.2	15	118
Abnormal appointment	1714	1.2	25	69
Total	140371	98.95	246	571

As can be seen in table 3, the majority of employees are in the highly skilled supervision salary band. This is because the department requires highly skilled personnel who have the right expertise to handle complex work related to both the financial and operations of state owned

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companies. This is a challenge for the department as it has to compete with the private sector in retaining their employees due to uncompetitive government salary structures.

The department is reviewing its talent pipeline, currently supplied through the graduates and internships projects to ensure alignment with the DPE's critical and core skills. This is aimed at ensuring that the department has an internal supply of the required talent. A career management programme was also introduced; this is aimed at assisting non-SMS members with career path options and interests to ensure suitability for future posts.

5. CONCLUSION AND RECOMMENDATIONS

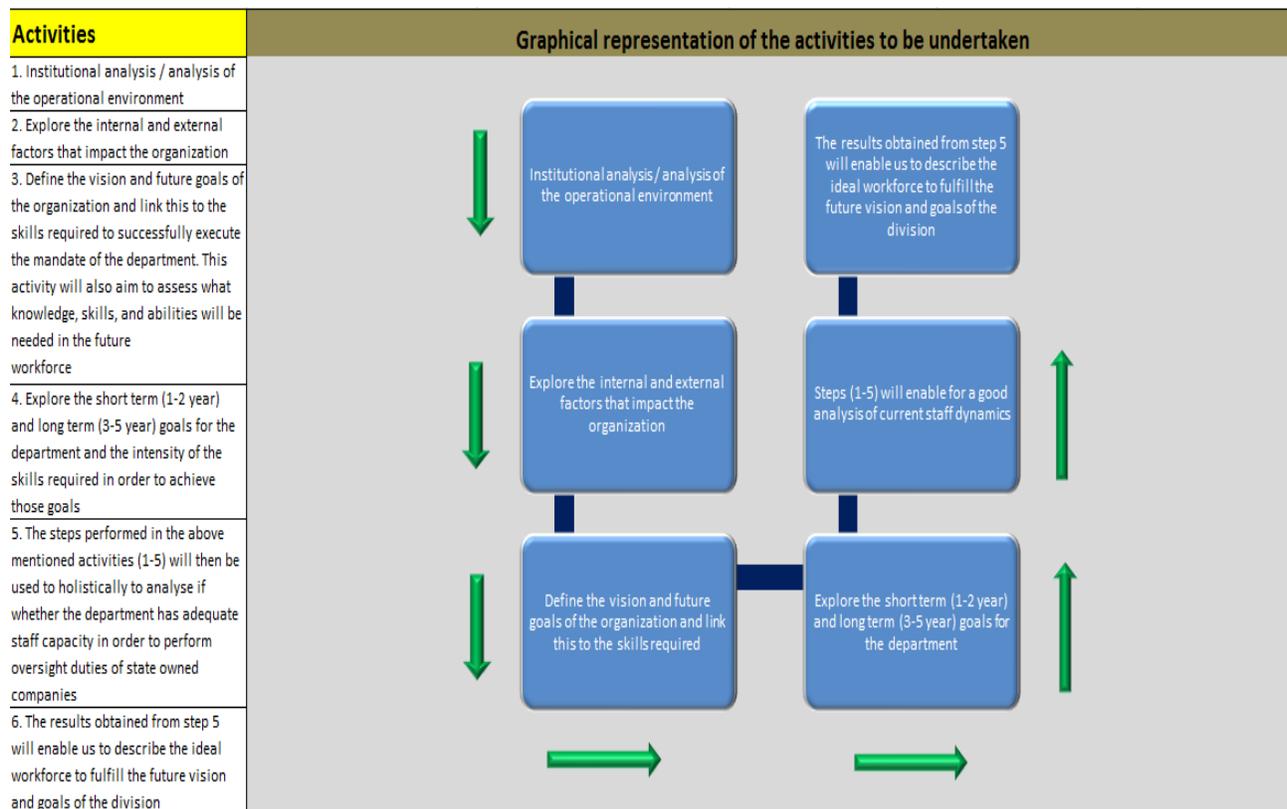
The department is unable to spend the entire compensation budget as a result of a high vacancy rate due to the scarcity of skills in the market. The department has recognized the impact of a balance-focused work culture can have on the retention of top performers. High rates of retention are clearly linked to the amount of attention the employee gets in terms of their professional development and career growth. When employees feel that their career goals have been acknowledged and that they are continuing to be challenged on the job, they are likely to stick around. Generally, employees who feel stagnated, ignored, or bored will likely start to look for other opportunities. This is a major challenge in the department given the flat structure of the staff complement, too many managers and too few lower level staff members. Many managers within department have no subordinates; this is primarily because they get hired for their expertise, which warrant a higher salary bracket. The department doesn't have adequate staff for effective oversight.

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Annexure 1: Logical Framework

	Narrative Summary	Indicators	Means of Verification	Risks and Assumptions	Data source
Goal	A comprehensive assessment of the staff complement the Department of Public Enterprises currently has	1. Number of people currently employed by the department in comparison to the approved establishment. 2. Vacancy rate. 3. Capacity of critical occupations.	Examination of the departmental payroll data	1. Information not properly captured on the system. 2. Employees shifting to different units across the department.	1. Persal 2. BAS
Purpose	To examine if whether the Department of Public Enterprises has adequate capacity (i.e. enough staff skilled personnel) to exercise its shareholder responsibility.	Results emanating from the analysis of the of the number of people currently employed by the department in comparison to the approved establishment, vacancy rates and critical occupations	Compare the data to the annual reports, strategic documents and annual performance plans	Government pay structures do not reflect skills and ability to perform the required tasks	1. Persal 2. BAS
Outputs	Improved understanding of the of the overall departmental capacity	Historical or current operational data or analytically derived information from BAS, Persal, annual reports, strategic documents and annual performance plans. This will be at a high level	Compare the data to the annual reports, strategic documents and annual performance plans	<i>Assumption</i> : most recent data will be used	Annual report, Strategic documents, Annual performance plans
	Improved understanding of the capacity across the different divisions within the department	Historical or current operational data or analytically derived information from BAS, Persal, annual reports, strategic documents and annual performance plans. This will be at divisional level, especial for critical programmes.	Compare the data to the annual reports, strategic documents and annual performance plans	<i>Risk</i> : Employees who have tendered their resignations might be included in the data	Annual report, Strategic documents, Annual performance plans
	Understanding of the salary structure relative to skills	Number of employees by qualification obtained	Compare the data to the annual reports, strategic documents and annual performance plans	<i>Risk</i> : Employees whose qualifications are not properly captured on the system	BAS, Persal, Annual report, Strategic documents, Annual performance plans
	Dominant critical occupations	Special attention will be given to programme 3: Portfolio Management and Strategic Partnerships where most of the work on state owned companies takes place	Compare the data to the annual reports, strategic documents and annual performance plans	<i>Assumption</i> : Shortage of high-quality candidates might be affected by geographic location	BAS, Persal, Annual report, Strategic documents, Annual performance plans
	Overview of total number of funded SMS posts	Total of Compensation of Employees and Unit Costs	Compare the data to the annual reports, strategic documents and annual performance plans	<i>Risk</i> : Employees who have tendered their resignations might be included in the data	BAS, Persal, Annual report, Strategic documents, Annual performance plans
	Overview of total number of funded MMS posts	Total of Compensation of Employees and Unit Costs	Compare the data to the annual reports, strategic documents and annual performance plans	<i>Risk</i> : Employees who have tendered their resignations might be included in the data	BAS, Persal, Annual report, Strategic documents, Annual performance plans
	Employment equity	Number of employees by race categories	Compare the data to the annual reports, strategic documents and annual performance plans	<i>Risk</i> : Employees who have tendered their resignations might be included in the data	BAS, Persal, Annual report, Strategic documents, Annual performance plans

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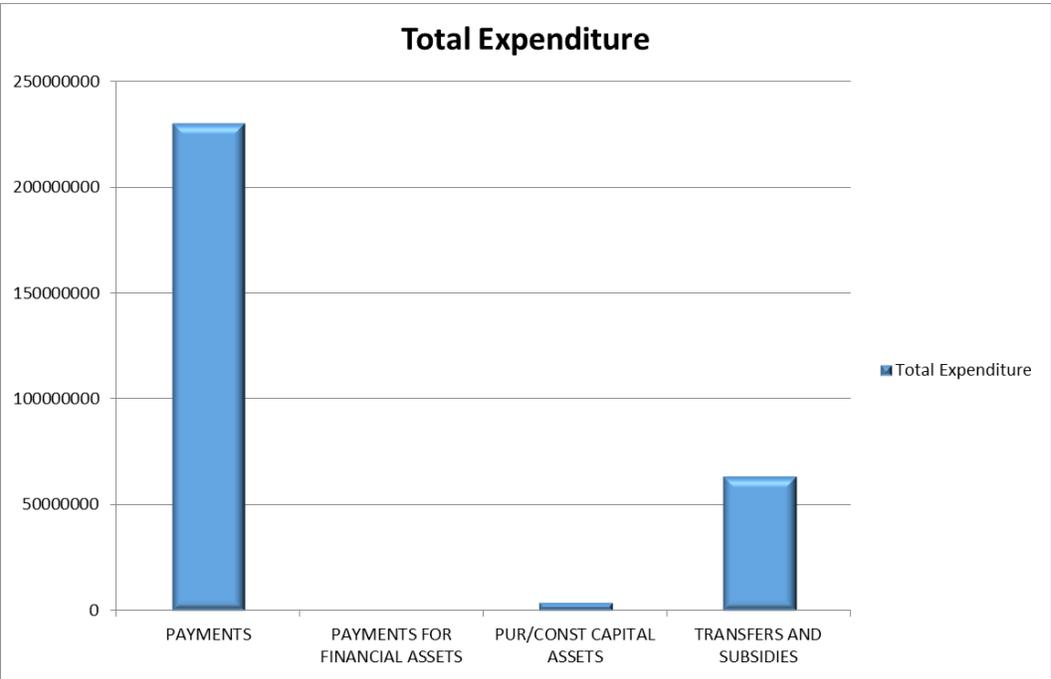
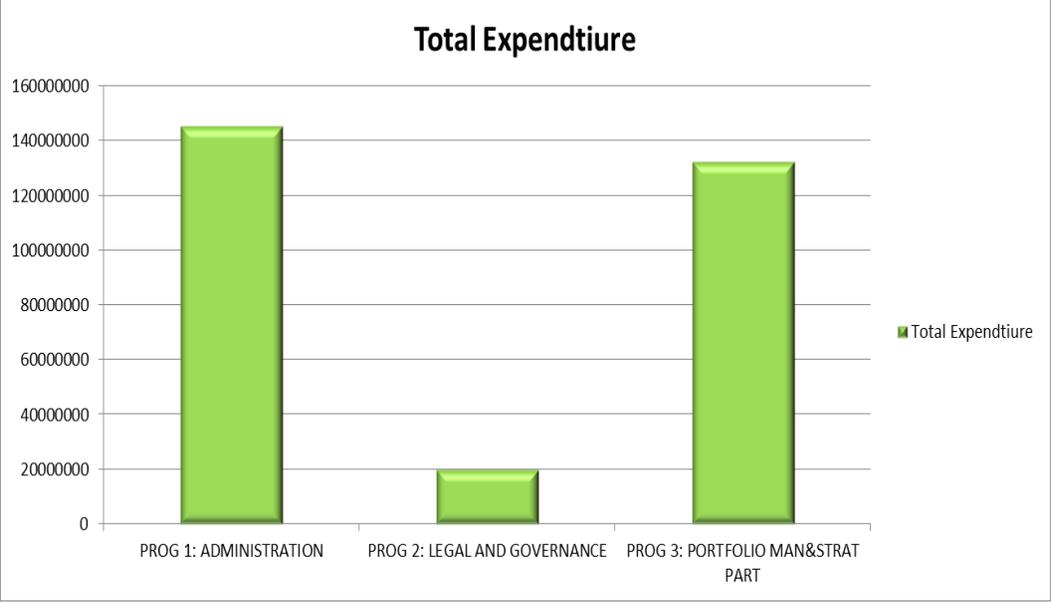
Annexure 2: Data Analysis

The administration programme is the largest spending programme in the department. Followed by the Portfolio Management and Strategic Partnerships programme. Legal and Governance (Programme 2) spends the least amount of money.

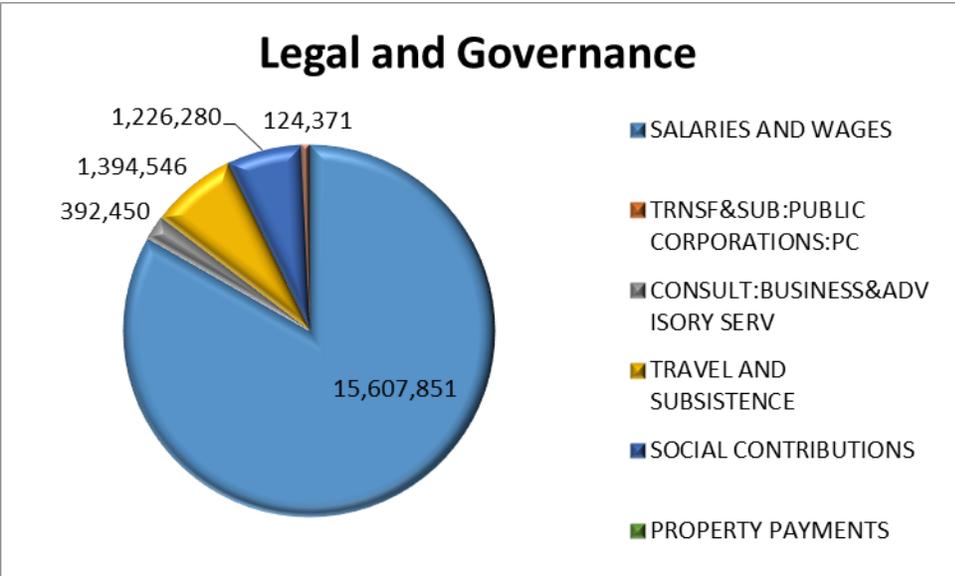
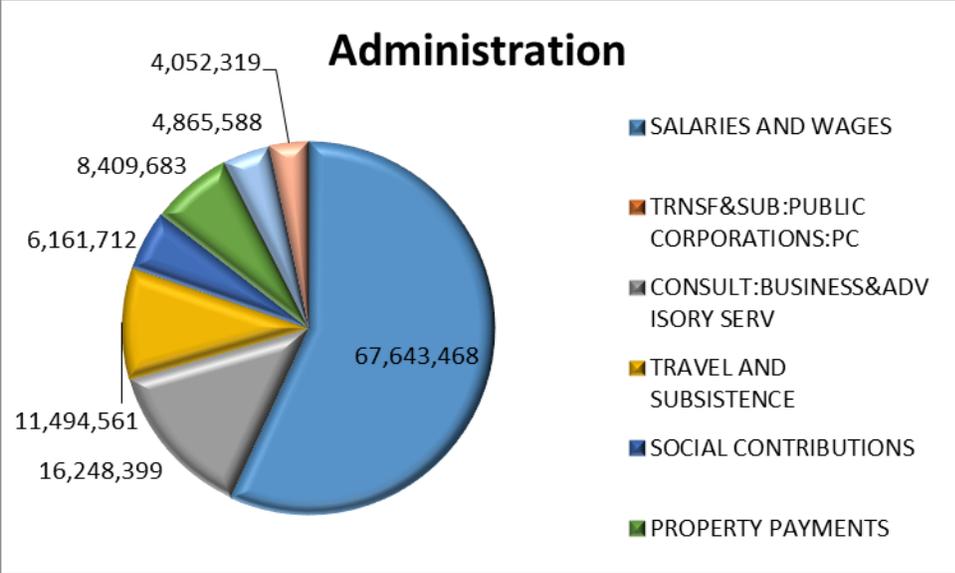
The main cost drivers in the Administration programme are compensation of employees, consultants and travel and subsistence (for commuting between Pretoria and Cape Town). The department spends a significant portion of its budget in this programme primarily on compensation of employees because of the following reasons:

- (a) All the training programmes the programme provides are centralised on the human resources budget which sits under this programme; and
- (b) All interns in the department sit under this programme in the human resources budget.

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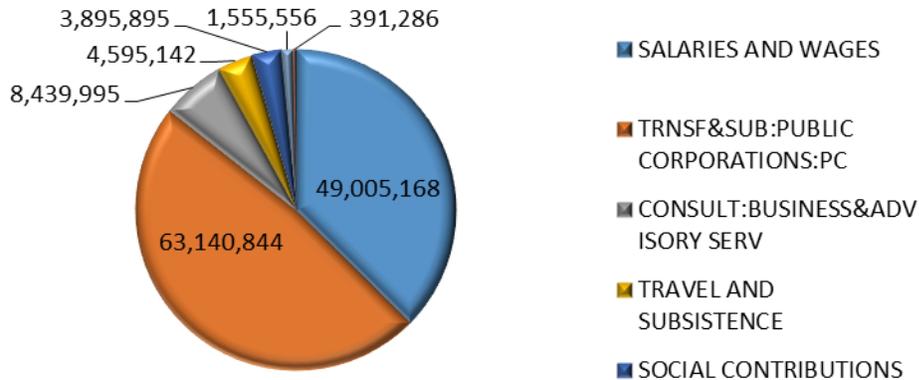


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Portfolio Management & Strategic Partnerships



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