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SOE Performance Report

April - June 2013 YTD

SOE Monitoring Division, Ministry of Finance

October 2013

BACKGROUND

There are 27 State Owned Enterprises (also referred to as Public Bodies) providing various services for the benefit of the people of Samoa. 16 are Public Trading Bodies, 3 Mutual Bodies and 8 Public Beneficial Bodies. This report covers all 16 Public Trading Bodies. The Mutual and Beneficial bodies' financial performance are attached as Annex 1

Each SOE has a Shareholding Minister who acts as the "owner" on behalf of the people of Samoa. The Ministry of Finance as stipulated in the Public Bodies (Performance & Accountability) Act 2001 ("the Act") provides advice to the Shareholding Ministers and Government on all Public Bodies (PB) matters. Advice from the Ministry is furnished through its State-Owned Enterprises Monitoring Division (SOEMD) which is principally responsible for the monitoring of SOE performance and the provision of Government's divestment policy.

Directors are appointed to oversee the operation of each SOE in accordance with agreed strategies and business objectives. At present 85% of directors are from the private sector with the remaining 15% being ex-officio members appointed in line with the Act. Directors are appointed, reappointed or terminated under a competitive process and criteria reflecting best practices in terms of governance and management.

The performance of SOEs has a significant impact on the public and the economy in general through the goods and services SOEs provide. The government has set a target for Public Trading Bodies to earn at least a 7% return on equity (ROE). Public Trading Bodies are also required by Government to provide a 50% dividend payment on its Net Profit after Tax.

In line with Section 26 of the Act, all SOEs are required to submit financial reports on a quarterly and annual basis to MOF. The template for reporting was developed by MOF and agreed to by all SOEs. It is through these reporting requirements that MOF bases its monitoring and performance reports to Shareholding Ministers and Cabinet.

The following is a brief report on the performance of each Public Trading Body for the quarter April-June 2013. All amounts are in Samoan Tala (ST).

PUBLIC TRADING BODIES' PERFORMANCE (YTD⁴ APRIL-JUNE 2013)

PUBLIC TRADING BODIES		REVENUES			EXPENSES			NPAT ¹		ROE ²	
		2012	2013	Var ³	2012	2013	Var ³	2012	2013	2012	2013
1	Agriculture Stores Corporation	3.67	4.28	17%	1.80	4.1	127%	(0.26)	\$0.2	-4%	2.3%
2	Development Bank of Samoa	10.42	10.64	2%	11.62	12.6	8%	(1.20)	(\$1.9)	-2%	-3.5%
3	Electric Power Corporation	97.77	99.27	2%	92.57	97.8	6%	5.20	\$1.5	1%	0.8%
4	Land Transport Authority	33.87	41.03	21%	38.23	37.4	-2%	(4.35)	\$3.6	-169%	59.5%
5	Polynesian Airlines Limited	13.99	15.27	9%	12.88	13.6	6%	1.11	\$1.7	5.39%	8.1%
6	Public Trust Office	0.90	0.64	-29%	0.74	0.8	3%	0.16	(\$0.1)	3%	-3.7%
7	Samoa Airport Authority	9.50	13.12	38%	10.32	12.2	19%	(0.82)	\$0.9	-1%	1.6%
8	Samoa Housing Corporation	3.46	3.75	8%	2.73	3.0	11%	0.73	\$0.7	5%	4.5%
9	Samoa Land Corporation	5.17	8.40	63%	5.19	11.2	117%	(0.02)	(\$2.8)	0%	-2.5%
10	Samoa Post Limited	2.14	2.54	19%	1.84	1.8	0%	0.57	\$0.5	43%	29.2%
11	Samoa Ports Authority	12.01	11.58	-4%	14.37	13.4	-7%	(2.36)	(\$1.8)	-2%	-1.9%
12	Samoa Shipping Corporation	23.78	22.94	-4%	21.47	20.5	-4%	1.68	\$1.8	2%	8.3%
13	Samoa Shipping Services	7.22	7.30	1%	7.23	7.7	6%	(0.02)	\$0.4	-1%	-7.1%
14	Samoa Trust Estate Corporation	0.45	0.28	-38%	2.02	1.8	-12%	(1.56)	(\$1.5)	-3%	-3.4%
15	Samoa Water Authority	22.20	19.80	-11%	22.45	27.3	22%	(0.25)	(\$7.5)	0%	-10.9%
16	Unit Trust of Samoa (Management) Ltd	0.06	0.54	764%	0.58	0.6	10%	(0.52)	(\$0.1)	-36%	-14.4%

Key:

¹NPAT – Net Profit after tax

Calculated on Revenue less Expenses less any tax and dividend paid.

²ROE – Return on Equity

ROE is calculated as NPAT divided by Equity for each SOE. This represents the return on government funds.

³Var = Variance – This represents the percentage change in comparison to the similar quarter for the previous year.

⁴YTD – Year to Date. This includes sum of all quarters for FY July 12 to June 13.

SUMMARY OF ANALYSIS OF PUBLIC TRADING BODIES PERFORMANCES

1. Agriculture Stores Corporation (ASC)

- Privatization program is ongoing with completion expected later this year.
- Sales of agricultural products and diversification of hardware sales have resulted in a 15% increase in revenue during the quarter.
- Expenses recorded are below budget by 25%. Salaries and wages, represents 53% of total expenses.
- High level of stock on hand continues to be an issue impacting the Corporation, indicating a need to get read of them.

2. Development Bank of Samoa (DBS)

- At the end of the quarter, 230 applications to a value of \$8.3m were approved compared to budget of \$7.3m and previous quarter \$2.1m. The increase was mainly a result of the CBS Cyclone Evan Facility which accounted for 68% of the total approved loans during the quarter.
- Cabinet approved the Stimulus Packages for major clients in Tourism and other developments. This has provided affordable terms to ensure sustainability of these developments to meet operations, commitments and to ensure positive contribution to the economy.
- Revenues are above budget due to the increase in interest income, reflecting result of the stimulus packages. Expenses also exceed budget due to the increase in administration expense, exchange loss and personnel costs.

3. Electric Power Corporation (EPC)

- A total of 30.269mkwh was generated during the quarter (Hydro = 27.67%, Diesel = 72.32% and Solar = 0.01%). The assessment for Wind Energy Capacity is still ongoing for both Upolu and Savaii.
- The total number of consumers stands at 34,722 (27,353 for Upolu, Manono and Apolima, and 7,369 for Savaii), with 82% on prepaid meters. Installation of prepaid meters for all Government Ministries is also in progress.
- EPC also continues to closely monitor several major projects such as works under Solar 440KW Photovoltaic (JICA) programme, the Power Sector Expansion Programme (PSEP), and Geographic Information System (GIS)/Management Information System (MIS).
- Revenues are below budget at the end of the quarter due to movements in electricity sales and surcharge which accounts for 72% of total revenues. Fuel costs still constitute majority (64%) of total expenditure.

4. Land Transport Authority (LTA)

- LTA remains committed to the implementation of major activities including roads rehabilitation and management systems for roads users.
- Revenue is above budget reflecting good controls of LTA operation and its own revenue components, assistance of Government contribution, and also fuel levy which constitutes of 16% of the total income.
- Expenditure at the end of the quarter is slightly above budget due to accumulated expenses from the previous three quarters as this quarter saw the decrease in expenses from reduction of asset management, advertisement and personnel costs.

- Cash Flow is adequate for ongoing operations as well as the capital works program.

5. **Polynesian Airlines**

- Loading factor remained consistent at 75%. Total passengers carried for the YTD was 53,230 at 12.08 passengers per flight.
- The operation of the company is in good condition, reflected by its recorded profit before tax of \$1.66m, with an ROE of 8%.
- The major contributors of revenues include the airline and ground handling operations which accounts for 82% of total revenue. In terms of expenditure, staff expenses accounts for 30%, engineering is 15.8%, and aircraft fuel which accounts to 13.5% of total operational costs.

6. **Public Trust Office**

- Regulations affixing the interest payable on the Common Fund are currently being finalized for Cabinet approval. It is anticipated that these new regulations will come into effect in the new financial year.
- A total of 8 wills were written during the quarter while 12 estates were recorded in the management portfolio of the Trust.
- The financial side of PTO continues to be an issue, as revenues continue to be in difficult position in meeting expenses of the office. Revenues are mainly made of interests from term deposits which amount to 62% of total revenue and 33% from administration fees and commission.
- In expenses, the highest component is salary as constitutes of 57% of total expenditure.

7. **Samoa Airport Authority (SAA)**

- Some capital items were procured during the quarter including a Bus, a tractor, a new truck for operations and two new 4WD vehicles to replace the Fire Control Vehicle and the Security Patrol Vehicle.
- Main sources of income for the Authority are Departure tax (54%) and Landing fees (25%). Major expenditure items are depreciation and operating expenses. It is noted that operating income from departure tax and landing fees are improved at the end of this quarter.
- Passenger movement has increased by 8% in this quarter, indicating increased number of passengers.
- Aircraft movement increased by 31% in comparison with the previous quarter.

8. **Samoa Housing Corporation (SHC)**

- Total value of loans at the end of the quarter is \$32.87m, including new loans with a value of \$16.4m. It is noted that income from loan administration have increased, indicating an increase in the number of loans processed during the year. This includes loans for rehabilitation from Cyclone Evan as part of Government's recovery program.
- One of the issues identified in the quarter was several personnel costs exceeding budget such as overtime, resulting in personnel costs only being the equivalent of 45% of revenue.
- Cash flow is negative as a result of cash outflow exceeding cash inflow on all operating, investing and financing activities of the company.

9. **Samoa Land Corporation (SLC)**

- Faleata Golf Course Club House and Pro Shop achieved a profit of \$80,014.
- One of the issues affecting the financial situation of SLC continues to be delay of repayments from leased lands at Vaitele. In this quarter, it is noted that SLC has extended terms for the land payments, due to the downturn in economy affecting businesses in the private sector. This has impacted on revenues and collection levels.
- Expenses have increased, mainly due to repairs and maintenance costs, costs of water delivery to Falelauniu, and unbudgeted costs for land negotiations.
- A website for clients to view the corporation's operations online is underway.

10. **Samoa Post Limited (SPL)**

- SPL was selected as the winner of the International Star for Leadership Quality (ISLQ) receiving the Gold Award by the Business Initiative Direction (BID) in Paris. This reflects consistent good service by SPL.
- Express Money Transfer was in operation on a trial basis in June 2013. The 4 week trial allowed the company to identify any potential problems in the system before publicizing the new service to the public.
- SPL continues with its existing partnerships with other companies, such as the Australasian Mail Services (AMS), and the National Sports Lotto.
- The total staff employed by SPL is 25, 22 full-time and 3 casuals.

11. **Samoa Ports Authority (SPA)**

- A total of 23,037 containers, 453,289 tons of cargo discharged, and 237 vessels have been handled by SPA at the end of this quarter. All these indicators are an improvement compared to the last quarter and last year's corresponding quarter.
- However, the financial situation of the Authority remains as an issue as SPA has again recorded a net loss for the quarter and a larger net loss for the YTD. Its cash flow position at the end of the quarter was a negative \$1.27 million.
- The recent scoping study which was done to assist SPA improving its performance, duly supports reviewing fees and charges as a way for SPA to sustain operations.
- SPA was given exception from Corporate Planning (CP) requirements of the Public Bodies Act 2001, in order to allow them to accord priority to its financial situation first and to implement strategies in the scoping study. The next CP should be based on the results of their scoping study, including setting a strategic vision over the near future.

12. **Samoa Shipping Corporation (SSC)**

- SSC has identified and launched a niche market for courier services called "I'a Lele Courier". It is hoped that this initiative will add value to the Corporation's core function which is the provision of shipping services to its customers. The courier is now in operation under the Operations Division and is intended to offer smooth integration of domestic and international courier services, working in alignment with global courier companies.
- The Celebration of the Seafarer's Day in which Hon. Minister of MWTI delivered the keynote address, to pay tribute to the seafarers of Samoa took place during the quarter.

- It is noted that revenues are below budget, mainly attributed to drop in revenue from domestic, international and charter services. Expenses on the other hand, are above budget due to high spending specifically for vessel operations.
- The liquidity position of SSC remains healthy at \$7.86 million.

13. Samoa Shipping Services (SSS)

- Total number of seafarers employed by SSS on foreign going vessels is 248, consists of 237 on Mediterranean Shipping Company (MSC) vessels and 11 on MV Forum Samoa II.
- This continues to provide benefits for Samoa's economy, specifically financial assistance to seafarers' families, and employment opportunities for NUS related graduates. This also provides 88% to SSS revenue, via commission for its crewing service which in every quarter, SSS records around \$2.3 million to \$2.5 million average. This is apart from earning foreign exchange on this crewing service, which is recorded at \$1.06 million at the end of this quarter.
- SSS's market share in imported cargo business maintained at 2.2% at the end of this quarter, which is improved compared to 1.3% in the last corresponding quarter.
- Personal costs are SSS largest expense making up around 87% of total expenditure.
- Total staff employed by the Company is 18, apart from seafarers.

14. Samoa Trust Estate Corporation (STEC)

- Negotiations are in progress with foreign development/investors for proposed hotel development on STEC lands adjacent to the Mulifanua wharf. This is part of the revitalization program for STEC.
- Salary and wages remains to be the main expense item accounting for around 19% of total expenditure.
- STEC continues to record losses as a result of revenue continuing to be below its level of spending. As a result, liquidity and cash flow positions continue to be in unsustainable conditions.

15. Samoa Water Authority (SWA)

- The Non Revenue Water reduction program continues to be in progress for all urban service areas and the Fuluasou EU system. Given that this is one of SWA's critical issues, measures have been put in place to improve the service and contribute to better financial performance for SWA.
- All water supply systems for urban, rural and Savaii were fully operational with intakes overflowing. Ongoing operations and maintenance work were also being done to the system, to counter for fluctuation of weather patterns, and to ensure reliable water supply services are provided.
- New activities commenced in the quarter including the first phase of the Falealupo and Neiafu Water Supply Scheme, and the opening of the new office at Asau both launched on the 28th May 2013.
- SWA recorded a loss at the end of this quarter. Outstanding payments from debtors, is at a very high level. The main reason behind this is the delay of addressing non revenue water issues.

16. Unit Trust Of Samoa Ltd (UTOS Management)

- The Number of unitholders has reached 881 as at end of this quarter. The company is now targeting 1,000 unitholders by the end of December 2013. The value of units sold increased as a result of changes in unit price and the increase in number of units sold.
- UTOS continues to assist SOEs through issuing debt instruments. Total Capital Notes issued at end of this quarter were valued at \$28.95 million.
- The Company commenced in this quarter a pilot project in collaboration with PacificEzy Money Exchange, to tap into the expatriate Samoan market in New Zealand.
- Revenue is 150% above budget, indicating an improvement as a result of the increased in management service fee on investment projects. Other income including exit fees and interest on term deposits has also positively contributed.
- Expenses in addition are above budget, mainly due to personnel costs as a result of the increase in overtime expense for non-contracted staff.
- Liquidity position is still in sound condition. Cash flow is sufficient to meet short term obligations.

MUTUAL AND BENEFICIAL BODIES PERFORMANCE (APRIL-JUNE 2013)

		REVENUES			EXPENSES			NPAT ¹	
		2012	2013	Var ³	2012	2013	Var ³	2012	2013
	<u>MUTUALS</u>								
1	Accident Compensation Corporation	14.1	13.9	-1%	7.41	4.65	-37%	6.66	9.24
2	Samoa Life Assurance Corporation	10.6	10.3	-4%	8.47	9.35	10%	2.13	0.99
3	Samoa National Provident Fund	36.6	36.6	0%	8.58	8.61	0%	27.98	28.04
	TOTAL	61.3	60.8	-1%	24.46	22.61	-8%	36.77	38.28
	<u>PUBLIC BENEFICIAL BODIES</u>								
1	National Health Services of Samoa								
2	National Health Kidney Foundation of Samoa	5.3	5.3	1%	5.86	5.54	-5%	(0.55)	(0.19)
3	National University of Samoa								
4	Samoa Qualifications Authority	1.8	2.3	25%	1.88	2.13	13%	(0.05)	0.15
5	Scientific Research of Samoa	2.7	3.6	33%	1.84	4.06	121%	0.85	(0.49)
6	Samoa Sports Facilities Authority	3.8	3.8	-0.3%	5.33	4.70	-12%	(1.53)	(0.91)
7	Samoa Fire and Emergency Service Authority	0.9	3.6	305.2%	1.06	3.70	250%	(0.17)	(0.09)
8	Samoa Tourism Authority	12.0	11.7	-2.6%	9.74	11.93	22%	6.76	0.27
	TOTAL	88.2	30.3	-66%	142.02	32.06	-77%	(0.04)	(1.26)
	TOTAL	396.1	345.2	-13%	412.54	312.82	-24%	34.83	32.38

Data unavailable