

SOE Performance Report

July-September 2013 YTD

SOE Monitoring Division, Ministry of Finance

May 2014

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, 11 Public Beneficial Bodies including 3 Mutual Bodies. This report covers all 16 Public Trading Bodies. The Mutual and Beneficial bodies' financial performance are attached as Annex 1 to this report.

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 (PBs) 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 July-September 2013. All amounts are in Samoan Tala (ST).

PUBLIC TRADING BODIES' PERFORMANCE (YTD⁴ JULY - SEPTEMBER 2013)

PUBLIC TRADING BODIES		REVENUES			EXPENSES			NPAT		ROE	
		2013	2012	Variance	2013	2012	Variance	2013	2012	2013	2012
1	Agriculture Stores Corporation	1.31	0.91	44%	1.14	1.0	16%	0.2	(0.1)	3%	0.2%
2	Development Bank of Samoa	1.55	2.43	-36%	2.75	2.8	-2%	(1.2)	(0.4)	-2%	0.0%
3	Electric Power Corporation	28.71	25.44	13%	26.29	24.4	8%	2.4	1.1	1%	0.4%
4	Land Transport Authority	11.37	11.97	-5%	11.21	12.3	-9%	0.2	(0.4)	5%	19.8%
5	Polynesian Airlines Limited	4.05	3.82	6%	3.59	3.3	9%	0.5	0.5	2%	2.0%
6	Public Trust Office	0.13	0.04	186%	0.21	0.2	30%	(0.1)	(0.1)	-3%	-5.7%
7	Samoa Airport Authority	3.56	3.67	-3%	3.05	2.9	5%	0.5	0.8	1%	0.6%
8	Samoa Housing Corporation	1.10	0.92	20%	0.68	0.6	8%	0.4	0.3	2%	1.1%
9	Samoa Land Corporation	1.48	2.05	-28%	2.82	2.6	7%	(1.3)	(0.6)	-3%	2.3%
10	Samoa Post Limited	0.51	0.62	-18%	0.42	0.5	-23%	0.1	0.1	4%	12.8%
11	Samoa Ports Authority	3.66	2.95	24%	2.85	3.4	-17%	0.8	(0.5)	1%	-1.0%
12	Samoa Shipping Corporation	5.51	6.45	-14%	4.37	5.0	-13%	1.1	1.4	4%	4.1%
13	Samoa Shipping Services	2.72	2.49	9%	2.70	2.6	5%	0.0	(0.1)	0%	-0.1%
14	Samoa Trust Estate Corporation	0.08	0.10	-22%	0.65	0.5	31%	(0.6)	(0.4)	-1%	-0.9%
15	Samoa Water Authority	4.72	4.88	-3%	5.95	5.8	3%	(1.2)	(0.9)	-2%	0.0%
16	Unit Trust of Samoa (Management) Ltd	0.27	0.06	336%	0.16	0.2	-2%	0.1	(0.1)	15%	-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 compared to corresponding quarter of the previous year.

⁴YTD – Year to Date.

SUMMARY OF ANALYSIS OF PUBLIC TRADING BODIES PERFORMANCES

1. Agriculture Store Corporation (ASC)

- Privatization program is still ongoing with completion expected in May 2014
- Sales have increased from Micro agricultural funded projects for this financial year.
- Noted increase in sales from Ministries and Corporations especially from Government projects that are currently implemented in the Environment and Agricultural sectors.
- Individual sales also noted an increase with the operation of the delivery truck.

2. Development Bank of Samoa (DBS)

- At the end of the quarter, 221 applications to a value of \$23.8million were approved compared to budget of \$4.1million and prior period of \$5.54million. The significant increase is due to approval of Cyclone Evan Facility which accounts for 84% of the total approval.
- The Stimulus Package for major clients in Tourism and other developments approved by Cabinet continued to provide affordable terms to ensure sustainability of these developments to meet operations, commitments and to ensure positive contribution to the economy.
- Total portfolio at the end of the quarter was \$115.5million, an increase of 3% and 25% compared to budget and prior year respectively.

3. Electric Power Corporation (EPC)

- EPC continued to monitor several major projects under Solar 440KW Photovoltaic (JICA) program and Power Sector Expansion Program.
- Total Electricity generated during the quarter was 31,789,997 kilo watts per hour (kwh). 25.25% of the generated electricity was from hydro, 74.74% of diesel and 0.01% of solar.
- EPC achieved a record revenue output for the quarter; the output was the highest ever recorded. The performance was boosted by strong growth in electricity sales which account for 65% of revenue. Non-electricity sales also performed strongly exceeding budget by \$235,094.
- Total expenditure for the quarter is 2% below budget. The performance was fueled by Generation and Financial costs being below budget by 2% and 12% respectively. The main expenditure items are Fuel costs, repairs and maintenance costs and Payroll, with Fuel accounting for 67% of expenditure alone.
- EPC recorded a Net Profit for the quarter of \$2.4 million. As mentioned above the record profit plus the lower than budget expenditure output was the reason for the high Net Profit.

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 below budget by 0.7% but has increased by 24% compared to last quarter. This is mainly due to the increase in Government contribution during the quarter.

- Expenditure is above budget by 20% and has increased by 29% compared to last quarter. This is mainly due to the increase of asset management and personnel costs.

5. **Polynesian Airlines**

- Loading factor of 79% exceeded budget by 5%. Total passengers flow of 14,696 exceeded budget by 7%.
- Revenue for the quarter and YTD is 5.5% above budget. Aside from the General Agency services, all of PAL's other business units exceeded revenue projections. The Airline operation was the biggest contributor with revenue being 8% above budget.
- Expenditure was 7.5% above budget for the quarter. The main expenditure items are staff expenses (30.4%), engineering expenses (18.7%) and fuel costs (13.9%). It is explained in the report that budgeted staff costs are understated by \$150,000 due to an error in the calculation of pay periods for the month of July.
- PAL's recorded profit of \$454,436 is below budget by 7.5%. However as noted above if the staff costs are understated, the recorded profit will be well above budget.

6. **Public Trust Office**

- The Office plans to obtain and develop a legal management practice software system as well as other relevant software packages available to improve its service delivery to the public as well as the swift and accurate preparation of reports.
- New Regulations and Common Fund Interest Rates Order is awaiting Cabinet's approval which anticipates reducing expenditure whilst boosting the Office's revenue earning capacity from estates administration and trustee services.
- Total revenue for the quarter is below budget by 29% as a result of decrease in administration fees, commission earned, interest on term deposits and other income declining below budget.
- Total expenditure reported in the period is below budget and YTD by 42%. This indicates good control by the office during the quarter.

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

- The first quarter saw the implementation of the construction of new VIP building, complete civil works for the Car park ticketing system, complete factory acceptance test for the car park ticketing system and continuous upgrade of Terminal Building.
- Total Revenue is above budget by 5%. This was mainly due to the increase of operating income from departure tax and landing fees for this quarter.
- Total Expenditure is 5% below budget and has increased by 9% if compared to last quarter. An increase in operating expenses and depreciation has been the main contributing factor.

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

- Total value of loans at the end of the quarter is \$36.40m, including new loans with a value of \$6.9m. It is noted that income from loan administration have increased, indicating an increase in the number of loans processed during the quarter. This

includes loans for rehabilitation from Cyclone Evan as part of Government's recovery program.

- Cash flow is positive and has improved from previous quarter as a result of cash inflow exceeding cash outflow in operating activities of the Corporation.

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

- The current FY 2013-2014 marks the beginning of new Accounting e-system implemented allowing the corporation to report by output/division which previously has only been managed manually.
- SLC continues to provide staff with opportunities to further develop their capabilities having said that two staff members are sitting FQE, two staff members are part of the Leadership Samoa Programme and one continuing on post-graduate studies.
- The Corporation continues its efforts on completing their website for their clients to view all operation and services online.

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

- Express Money Transfer financial system is operational online and gathers momentum with increasing funds transmitted into the country through this service partnership.
- SPL hired Lesa ma Penn Company for the preparation of the Company's Financial Statements 2013 to meet Audit Office targets and comply with international standards required.
- Total revenue is below budget by 17% mainly due to the decrease of other revenue, retail services and agency services compared to budget for the reporting period.
- Total expenditure is also below budget by 16%, a direct result of the decrease of ministerial, financial costs and direct operating expenses.

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

- A total of 6,168 containers, 120,014 tons of cargo discharged, and 132 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.
- The results recorded a profit for this quarter, reflecting a significant improvement compared to the past quarters largely as a result of increased revenue due to grant of \$0.75 million received from Government. The grant is part of the recommendation from SPA's study to improve SPA performance.
- The results also indicate that SPA managed to achieve profit even with no Government grant. This reflects the above budget of revenues from port charges and wharfage. Expenses have reduced mainly administration and depreciation.
- Cash flow however is in its inadequate position due to the accumulated negative balance from the past quarters. The cash flow balance collected for this quarter is \$1.1million; however this is not sufficient to cover the negative balance of \$1.3 million accumulated from the past.
- The improvement in the above measures supports the increase in revenue without the Government grant. Specifically, it supports the increase in incomes from port charges and wharfage in comparison to budgets. The incomes from wharfage also are increased compared to the last quarter.

- The number of vessels handled is increased substantially due to the number of yachts, which amounts to 83 in this quarter alone.
- The review of SPA trading revenues is still in progress. This includes reviewing of port charges for both port users and port dues for all vessels except cruise ships.

12. Samoa Shipping Corporation (SSC)

- Samoa Shipping Maritime Academy held its first graduation ceremony in August whereby the PM delivered the keynote address and congratulate the Board, Management and staff for achieving this milestone.
- Total revenue is below both budget and previous quarter by 18% and 0.33% respectively as a result of the decrease in revenue collection from the international and charter services.
- Total expenditure is below budget and previous quarter by 17% and 28% respectively. Contributing to this, is due to low spending on vessel, operational and financial expenses with the exception on administration expenses which is well above budget.

13. Samoa Shipping Services (SSS)

- Total number of seafarers employed by SSS on foreign going vessels is 269, consists of 257 on Mediterranean Shipping Company (MSC) vessels and 12 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. The Company has earned about 0.8million USD of foreign exchange on its crewing services.
- SSS Ltd have increased its market share on cargo sea freight of 1.9% compared to 1.4% of the corresponding quarter in 2012.
- The major contributing factor in the positive net profit for the quarter was mainly due to the overall reduction in expenses and a slight increase in the number of seafarers in this quarter.
- The Company continues to struggle as the majority of its core activities are dictated by factors beyond its control (such as fluctuating rates of exchange, poor disciplinary status of crew leading to reduce employment opportunities, strong ship agency competition, a weak cash flow situation and FSII JV financial obligations)

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)

- Non Revenue Water (NRW) reduction and management programs continued for all targeted water supply schemes. With the negative impacts of the TC Evan exacerbating leakages in Upolu, more work is needed to be done in order to reduce NRW in the next 5 years.

- SWA continued to implement and monitor its construction works to counter for fluctuation of weather patterns and to ensure reliable water supply services are provided.
- SWA continued to record losses as from previous quarter. Outstanding payments from debtors, is at a very high level. The main reason behind this is the delay in addressing non revenue water issues.

SWA managed to have all water supply systems fully operational within the report period with ongoing routine and maintenance. There were no major problems with any of the systems during the report period.

16. Unit Trust Of Samoa Ltd (UTOS Management)

- In July 2013, UTOS paid its second dividend of \$0.08 per unit.
- The Management Company first quarter performance commenced with a profit of \$118,567 mainly driven by the increase in manager's fee charged on the Trust's net assets.
- UTOS held its second annual general meeting on the 25th September 2013 and was well attended by Unitholders.

ANNEX 1: MUTUAL AND BENEFICIAL BODIES PERFORMANCE (YTD JULY-SEPTEMBER 2013)

Mutual and Beneficial Bodies		REVENUES			EXPENSES			NPAT	
		2013	2012	Var	2013	2012	Var	2013	2012
	<u>Mutual Societies</u>								
1	Accident Compensation Corporation	3.8	3.3	15%	1.04	1.01	3%	2.7	2.3
2	Samoa Life Assurance Corporation	2.1	2.3	-10%	2.22	2.18	2%	(0.2)	0.1
3	Samoa National Provident Fund	10.1	8.3	21%	2.32	1.93	20%	7.7	6.4
	TOTAL	15.9	13.9	15%	5.58	5.12	9%	10.3	8.8
	<u>PUBLIC BENEFICIAL BODIES</u>								
1	National Health Services of Samoa	12.3	16.2	-24%	16.52	18.20	-9%	(4.2)	(2.0)
2	National Health Kidney Foundation of Samoa	1.4	1.3	2%	1.17	0.74	59%	0.2	0.6
3	National University of Samoa	5.9	5.7	4%	5.26	5.24	0%	0.6	0.4
4	Samoa Qualifications Authority	0.6	0.5	17%	0.49	0.47	4%	0.1	0.1
5	Scientific Research of Samoa	0.9	0.8	15%	0.93	0.95	-2%	(0.0)	(0.1)
6	Samoa Sports Facilities Authority	1.4	1.0	48%	1.28	1.25	2%	0.1	(0.3)
7	Samoa Fire and Emergency Service Authority	1.0	0.9	11%	0.92	0.84	10%	0.1	0.1
8	Samoa Tourism Authority	2.9	4.0	-27%	3.56	2.76	29%	(0.6)	1.3
	TOTAL	26.5	29.5	-10%	30.14	29.61	2%	(3.6)	(0.1)

Key:

¹NPAT – Net Profit after tax

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

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

⁴YTD – Year to Date