1. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON ITS OVERSIGHT VISIT TO TRANSNET SOC LIMITED AND THE PASSENGER RAIL AGENCY SOUTH AFRICA FROM 27 TO 31 MARCH 2023, DATED 13 JUNE 2023

The Standing Committee on Appropriations, having undertaken an oversight visit to the Transnet SOC Limited and the Passenger Rail Agency South Africa from 27 to 31 March 2023, reports as follows:

1. Introduction

The Standing Committee on Appropriations (the Committee) is established in terms of section 4(3) of the Money Bills Amendment Procedure and Related Matters Act, No.9 of 2009. The Act requires the Committee to consider and report on:

- Spending issues;
- Amendments to the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriation Bill and the Adjusted Appropriation Bill;
- Recommendations of the Financial and Fiscal Commission (FFC), including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);
- Reports on actual expenditure published by the National Treasury (section 32 reports); and
- Any other related matters.

The Committee undertook an oversight visit to the KwaZulu-Natal and Gauteng Provinces in order to visit the Transnet SOC Limited and the Passenger Rail Agency of South Africa respectively, in order to engage with the leadership, organised labour and various other stakeholder on various matters affecting these state- owned companies.

In cognisance of the current difficult fiscal environment and limited government financial resources in South Africa, all programmes, projects and activities of government with Parliament's appropriated funding should be rolled out in an effective and efficient manner, and must be in compliance with the relevant laws and regulations governing the financial resources of state. Therefore, all organs of state must take active steps to improve operational efficiencies, accelerate the effectiveness of service delivery, and attain value for money. The financial and operational performance of major state-owned companies (SOEs) has steadily deteriorated over time due, in large part, to weak corporate governance, archaic business models and burdensome cost structures.

Transnet SOC Limited is a major player in the transport and logistics sector and is vital to South Africa's development, economic growth and sustainability of public finances. Due to financial under performance, Transnet received a capital injection of R2.9 billion during the 2022 Adjustments Budget. The Passenger Rail Agency South Africa also plays a critical role in the functioning of the economy through its mandate to move people to economic hubs. The Committee noted during its recent engagements with National Treasury and other stakeholders, concerns that have been raised around PRASA's implementation of its capital programme.

In light of the above, the Standing Committee on Appropriations, herein after referred to as the Committee, undertook an oversight visit to Transnet in KwaZulu-Natal province and PRASA in the Gauteng province from 27 to 31 March 2023.

2. Delegation

The Parliamentary delegation was as follows: Mr S Buthelezi (Chairperson), Mr XS Qayiso (ANC), Mr Z Mlenzana (ANC), Mr OM Mathafa (ANC), Mr HMZ Mmemezi (ANC), Mr EJ Marais (DA), Mr AM Shaik Emam (NFP), and Mr NLS Kwankwa. The delegation was accompanied by the following parliamentary officials: Mr D Arends (Committee Secretary), Mr S Magagula (Content Advisor), Mr M Zamisa (Committee Researcher), Ms N Magazi (Committee Researcher), Ms N Chaso (Committee Assistant), and Mr J Majozi (Parliamentary Communications Officer).

The Committee met with the following stakeholders at the various sites and stakeholder meetings during the oversight visit:

Department of Public Enterprises: Mr L Nthampe (Transport Economist)

National Treasury: Mr R Rajlal (Chief Director: Sectoral Oversight); Mr T Masenya Mr I Kurusha, Ms L Modiba, Ms U Britton (Chief Director), Ms CO Ubogu (Director)

Transnet SOC Limited: Ms Y Kani (Chief Business Development), Mr A Motala (Executive Manager: North Corridor), Mr SG Mkhize (Executive Manager); Mr HM Zondi (General Manager (GM): Transnet Engineering), Mr T Mpikeleli (General Manager: Long-term Financial Planning), Ms S Kubheka (GM: Loss Control Office), Ms B Duiker (GM: Supply Chain Management governance and compliance), Mr R Mthembu (Acting Executive Manager), Mr DS Mqadi (Richards Bay Port Manager), Ms N Ben-Mazwi (Acting Executive Manager: Eastern Region), Mr MK Sibisi (Senior Manager: Sales and key Account Management), Mr S Mhlakula (Managing Executive: Central Region), Mr NM Ndlovu (Richards Bay Terminal Manager), Mr TN Sithole (Programme Director), Mr R Lekala (Chief Harbour Master), Mr LM Billings (Chief Financial Officer), Mr L Mushayanyama (Senior Manager: Regional Stakeholders), Ms A Nkosi (Manager: Secretariat), Mr NM Molefe (Acting Corporate Affairs Manager: Eastern Region), Mr JL de la Rey (General Manager: Capital Assurance), Ms V Mangcu (Parliamentary Liaison Officer), and Dr B Gasa (Portfolio Director: Durban Logistics Hub).

Auditor General South Africa: Ms M Singo (Business Unit Leader), Ms T Masia (Acting Deputy Business Unit Leader), Ms ME Skosana (Acting Deputy Business Leader), Ms I Dippenaar (Senior Manager), and Ms M Griffiths (Parliamentary Liaison Officer),

South African Transport and Allied Workers Union: Mr N Mhlubulwana (President), Mr J Mazibuko (Secretary General), Mr R Goba (Union Representative), Ms S Dlamini (Union Representative), Mr S Rivimbi (National Representative), Mr Z Mogwaca (National Representative), Mr SA Dlamini (National Representative), Mr T Mofokeng (Gauteng Provincial Chairperson),

United National Transport Union: Mr D Khumalo (Deputy General Secretary) Mr CL Damons (National Representative), Ms M English (Union Representative), Mr T Mashige (National Representative), and Mr N Fingita (National Representative).

Department of Transport: Ms D Tselapedi (Operations), Mr N Makaepea (Deputy Director-General): Rail Transport and PRASA Board Member)

Passenger Rail Agency South Africa: Mr L Ramatlakane (Board Chairperson), Ms S Luthuli (Non- Executive Director: PRASA Board), Ms N Macamo (Director: PRASA Board), Ms TN

Mpye (Director: PRASA Board), Mr M Mukhuba (Director), Mr H Emeran (Chief Executive Officer [CEO]), Ms AS Lindeque (Acting CEO for Corporate Real Estate), Mr BG Alexander (Acting Chief Financial Officer), Mr TN Malefane (Acting CEO: Rail), Mr N Roesch (CEO: Autopax), Mr M Marutla (Acting CEO: Technical), Ms LV Mthayise (Group Company Secretary), Ms K Moleme (Senior Manager: Stakeholder Management),

Gibela Rail Consortium: Mr H Danisa (CEO), Mr R Boqo (Chief Financial Officer), Ms V Tlomatsane (Maintenance Services Executive), Ms C Yende (Procurement Operations Executive), Mr T Mathiba (Head of EHS), Mr K Thabiso (Rolling Stock Operations Executive), Mr CT Meintjies (Company Secretary), Ms S McCann (Project Executive), Ms VB Mnyandu (Communications Manager),

Alstom South Africa: Mr B Poille (CEO)

Ubumbano Rail: Mr N Ntiyane (Director)

3. Background and objectives of the oversight visit

3.1 Transnet SOC Limited

Transnet SOC Limited, herein after referred to as Transnet, is a major stakeholder in the transport and logistics sector and is vital to South Africa's development, economic growth and sustainability of public finances. Constraints in the logistics sector across South Africa have negatively affected economic growth and employment. More than 25 per cent of long-distance freight traffic has shifted to roads in the past five years, to the detriment of roads infrastructure network, as a result of severe deterioration in the freight rail network. The deterioration in the network has constrained the capability of South Africa to exploit the recent commodity price boom to the fullest. Recent estimates on the export revenue lost, according to the Minerals Council of South Africa, amounts to approximately R50 billion owing to inadequate rail and ports capacity across South Africa. The financial and operational performance of major state-owned companies (SOEs) has steadily deteriorated due, in large part, to weak corporate governance, corruption, archaic business models and burdensome cost structures. Consequently, this has seen Transnet receiving a capital injection of R2.9 billion in the 2022 Adjustments Budget. This was the first capital injection by government since 1994.

In order for South Africa to have a reliable, cost-effective and safe freight system, port and rail infrastructure requires large-scale investment from government. During 2021, SOEs raised R38.9 billion in debt, 40 per cent of which was attributable to Transnet. However, this has proven to be insufficient to reverse historical underinvestment in infrastructure as capital investment by the entity declined by 16.8 per cent to R13.2 billion in the 2021/22 financial year due to lack of funding.

In light of the above, the Committee decided to conduct an oversight visit to Transnet in order to gain deeper understanding and come up with sustainable interventions. The following sections outline key objectives of the oversight visit.

3.1.1 Key objectives of the oversight visit to Transnet

The overall objective of the oversight visit to Transnet was to have extensive engagement with Transnet and other key stakeholders on the finances and operations of Transnet. The Committee aimed at holding meetings with the Transnet Executives and other key stakeholders for extensive discussions and comprehensive reporting on the following areas:

- The current state of refurbishment and repairs of infrastructure, especially that damaged by April 2022 floods in KwaZulu-Natal province;
- Progress on the piloting of private sector participation in the freight rail network;
- Interventions undertaken to improve access and efficiency of the different business units, especially Transnet Freight Rail, as well as the types of backlogs at the ports and the mitigating measures introduced;
- The economic and financial impact of Transnet not operating at an optimal level in Rand value;
- Interventions undertaken to improve revenue (including plans to reintroduce the inoperable locomotives) and infrastructure investment; and
- Detailed, practical and measurable plans, and time frames to address all the critical areas of concern as identified and reported by the Auditor General of South Africa (AGSA) to Parliament on the 2021/22 financial statements of Transnet.

Based on the above objectives, the Committee also held a preparatory meeting on 27 March 2023 in Durban with the representatives from the AGSA and National Treasury to discuss the key financial matters of Transnet over the past five financial years. The Committee also held a series of meetings with Transnet's Group Executives and the labour representatives at the Employee Care Centre, Ventura Road, Port of Richards Bay on 28 and 29 March 2023.

3.2 Passenger Rail Agency South Africa

The Passenger Rail Agency South Africa (PRASA) plays a critical role in the functioning of the economy through its mandate to move people, mainly commuters, to and from work. However, over years, the implementation of the entity's capital programme and resultant expenditure of allocated funds have declined significantly. PRASA's expenditure on its capital infrastructure has declined significantly in recent years with the entity only spending 24 per cent in 2021/22, 38 per cent on 2020/21, and 24 per cent in 2019/20 on infrastructure/capital budget. Consequently, out of 40 Metrorail lines, only 18 offer a limited service at present. This is due to the non-availability of infrastructure, rolling stock, operational stations and some of the depots having been severely affected by theft and vandalism. All these challenges have led to a decline in planned passenger trips with the current performance indicating that the Metrorail transported only 69 million fare paying passengers trips (~278 000 weekday passenger trips) in 2021/22 compared to the Metrorail transporting 543 million fare paying passenger trips (~2.2 million weekday passenger trips) in 2013/14. The astronomical decline in the number of commuters is, to a large extent, the result of rolling stock failures. This does not only have a dire consequence on economic growth and job creation, but also adversely impacted on poor and vulnerable households who are forced to seek alternative modes of transportation which are often more expensive than rail, further negatively impacting on their livelihoods. Furthermore, these challenges put more burden to poor households whose livelihoods are already impacted by the apartheid spatial planning wherein the poor black majority reside far from key economic nodes and have to travel long distance to their places of employment and key economic nodal points of South Africa.

3.2.1 Key objectives of the oversight visit to PRASA

The overall objective of the oversight visit to PRASA was to have extensive engagement with PRASA and other key stakeholders on the finances and operations of PRASA. The Committee aimed at holding meetings with the PRASA Board and Executives and other key stakeholders for extensive discussions and comprehensive reporting on the following areas:

- Progress made since the Committee's last engagement with PRASA in September 2022 regarding the repositioning of PRASA to be able to spend its capital budget (capex) and conditional grants, particularly on the rolling stock, rail expansion, and signalling, as well as depot modernization.
- Interventions undertaken to improve spending on repairs, refurbishment and maintenance of infrastructure;
- Concrete actions that have been taken to address the continued underspending on capital projects by PRASA and results thus far (including the state of train stations – how many destroyed and refurbished against pre-determined targets, and progress made regarding the construction of depots for new trains);
- Status and the future of the South Africa's rail network considering the current challenges of infrastructure theft and vandalism;
- Update on the progress made to resuscitate and return service lines to full operation including progress on signalling and its impact on services and revenue generated;
- Overview of the suspension of PRASA officials accused of wrongdoing, including the suspension period and associated costs;
- The impact of load shedding on the operations and revenue of the entity as well as the mitigation measures introduced;
- Deliverables by Gibela Rail Consortium versus the promises made in terms of the signed performance contract;
- Follow up on issues previously raised by SCOA including the resuscitation of the Metrorail Express service, and the integration of women of youth across PRASA's business value chain.

Based on the above objectives, the Committee also held a series of meetings with the PRASA Board of Directors and Executive Management as well as the recognised labour unions at the PRASA Umjantshi House in Braamfontein, Johannesburg on 30 March 2023. The Committee also conducted a site visit to the Gibela Train Manufacturing Plant in Dunnotar, Nigel on 31 March 2023.

4 Engagements with invited stakeholders

Committee had a preparatory meeting with the Auditor General South Africa and National Treasury on 27 March 2023 focusing on the key financial aspects and audit outcomes of Transnet and PRASA. These invited stakeholders were requested to make presentations followed by questions of clarification by the Committee. The main observations and findings stemming from these discussions forms part of section 7 of the report.

5 Engagements with organised labour

The Committee engaged with the South African Transport and Allied Workers Union (SATAWU) and the United National Transport Union (UNTU) on 28 and 30 March 2023 respectively. The Committee discussed the labour related challenges facing Transnet and PRASA. The sections below provide a summary of the submissions made by the unions.

5.1 South African Transport and Allied Workers Unions

5.1.1 Transnet

SATAWU commended the Department of Transport (DoT) for its critical diagnosis of the state of rail in South Africa. However, it did not support the prescription provided by DoT, as these aimed to advance a market-fundamentalist agenda, which has been to the detriment of SOEs, following government resolution to corporatize state-owned entities (SOEs). Through the corporatisation of SOEs, such as Transnet, according to SATAWU these institutions failed to deliver public services to a majority of South African citizens.

SATAWU submitted that the future of SOEs seemed bleak as government believed that Private Sector Partnerships (PSP) through strategies such as concessions, devolution, and introduction of Special Purpose Vehicles (SPVs) was essential for the transformation of the rail sector as per the objectives of the National Transport Masterplan (NATMAP) 2050, and the United Nations Climate Change Goals of the same year. SATAWU submitted that such strategies have, in many countries with similar economic status and socio-economic issues to that of South Africa, been met with consistent failure.

Reference was made to the 2022 White paper on National Rail Policy which stressed the importance of reducing carbon emissions and making a just transition into low carbon, green economy. Whilst agreeing with the concept of a Just Transition, SATAWU cautioned that this had the potential of further encouraging PSPs in the form of outsourcing skills needed to operate various climate change technologies. Therefore, it was paramount that the local skills be produced and enhanced, such that citizens can be enabled to participate meaningfully in the Just Transition for climate change.

5.1.2 Passenger Rail Agency Limited

SATAWU highlighted the following during its engagement with the Committee:

- Low staff morale and despondency were serious challenges due to a failure by PRASA to honour the wage agreements between labour and management, reportedly due to an insufficient operational budget. Some of the cash-flow challenges were self-inflicted, for instance due to termination of security contracts without any contingency plans which resulted in substantial theft and vandalism of PRASA's assets. These damaged infrastructures across South Africa needed to be replaced at the expense of the employees, including management.
- The PRASA Board of Directors and Executive Management needed to build a sound relationship with the entity's employees and organised labour as this will assist with lifting the current low employee morale throughout the entity. Furthermore, the Board of Directors needed to be held accountable for their decisions.
- The misalignment between PRASA's capital and operational budget allocations was concerning as there were insufficient funds for important operational activities such as maintenance of assets and payment for goods and services. This was compounded by the numerous litigations and subsequent court rulings against PRASA, resulting in the entity owing close to R4.5 billion to security companies and other service providers, some of whom were seeking to attach some assets of the entity.
- PRASA lacked proper leadership as well as an effective marketing strategy and therefore failed to build good relationships with the communities wherein it operated and where its assets are situated. A healthy relationship with these communities would also assist with the security issue plaguing the entity.

- An effective model for the vetting of Executive Managers and Board of Directors was needed as many of them have business interests which often resulted in conflicts of interests with that of the entity, leading to court actions in some instances. This was a contributing factor to wasteful expenditure in the entity.
- The number of people acting in senior management positions was a cause for serious concern and needed to be addressed urgently. The high number of acting persons impacted negatively on the finances and operational efficiency of the entity.
- Considerations should be given to incorporating Autopax, a fully owned subsidiary of the entity, into PRASA. Furthermore, National Treasury should consider providing PRASA with a cash injection through moving funds from the capital budget to the operational budget.
- The Procurement Policy needed to be reviewed as it was laden with flaws resulting in substantial losses to the entity. These flaws resulted in wasteful expenditure.

5.2 United National Transport Union

5.2.1 Transnet

The United National Transport Union (UNTU) submitted that Transnet was in the process of consulting with an international company. The purpose of this consultation was to convert the waterside ship-to-shore cranes as well as rubber-tyre gantry cranes in Durban's Pier1 Container Terminal and Cape Town Container Terminal from manual operation to automation. These cranes would be operated remotely from offices instead of being manually operated by employees. UNTU submitted that will result in hundreds of employees being redundant and ultimately being retrenched. The automation of ship-to-shore cranes was a huge project and would create opportunities for possible corruption.

UNTU submitted that organised labour was strongly opposed automation of ship-to-shore cranes as it was not in the best interest of Transnet and its employees. UNTU suggested that alternative solutions should be sought in this regard. The mandate of the SOE's was to reduce unemployment and create sustainable jobs and grow the economy, however, this mooted project of automation would do the opposite as it would reduce the current workforce thus increasing unemployment in South Africa.

UNTU proposed that an international benchmarking exercise be undertaken by a Task Team comprising of management and labour in one of the top 10 most efficient terminals in the world. The learning from this benchmarking exercise should be used improve the efficiencies at Transnet's terminals.

5.2.2 PRASA

UNTU highlighted the following main issues during its engagements with the Committee:

- Effective security of PRASA's assets remained a cause for serious concern resulting in substantial losses for the entity due to theft and vandalism across South Africa.
- The lack of communication and employee engagement by the Executive Management resulted in low staff morale within the entity.
- There is a leadership vacuum in the business of PRASA due to a high number senior management positions being vacant and this negatively affected the operations of PRASA due to delays in decision-making.
- Delays in the supply chain management (SCM) processes of PRASA were concerning as this impacted on the operations, especially the delays in procurement of signalling equipment which negatively affected the train operations and also have safety implications.
- The financial challenges facing PRASA impacted on the morale of staff as they have not received salary increments over the past three financial years. UNTU proposed that consideration be given to providing a cash injection to PRASA in order to assist in this regard.
- Concerns were expressed at the amount of resources being allocated to the old train fleet, while the entity was in the process of introducing a new fleet. UNTU submitted that old fleet needed to be phased out and a comprehensive induction processes needed to be undertaken with employees regarding the migration system into the new fleet of trains.
- The primary objective of PRASA was to transport the poor and vulnerable however the Executive Leadership seemed to lose focus of its vision as an entity. This was due to a lack of adequate and requisite skills at senior management level who lack the in-depth knowledge of the value chain of operations across the entity. Furthermore, some senior managers have reached the saturation point and were thus not adding any value, therefore there was a need to revitalise the management of PRASA.

6 Engagements with Transnet Group Executives and Senior Managers

The Committee met with the Group Executives for Transnet's different business units i.e. National Ports Authority TNPA), Port Terminals (TPT), Engineering (TE), Freight Rail (TFR), and Property (TP). Presentations were made by these different business units followed by in-depth discussions between the Committee and invited stakeholders. The main observations and findings emanating from these discussions will form part of section 7 of the report.

7 Overall Committee Observations and Findings

The observations and findings which were highlighted by the Committee during the deliberations with the various stakeholders and subsequent site visits are outlined below in different thematic areas for the oversight:

7.1 Audit Opinions

Transnet's Audit Opinion

7.1.1 The Committee notes the improvement in the audit outcomes of Transnet for the 2021/22 financial year wherein the entity received that Transnet received an unqualified audit opinion, with findings on compliance legislation. This is an improvement from four years of qualified audit opinions since the 2017/18 to 2020/21 financial year. However, the Committee is concerned that this seemingly improved audit outcomes might not be a true reflection of how Transnet operates, particularly in the finance environment.

7.1.2 The Committee notes with concerns that the improvement in the audit opinion on Transnet by the AGSA is mainly due to it receiving exemption from section 55(2)(b)(i)(ii) and (iii) of the Public Finance Management Act, No. of 1999 (PFMA) that was granted by the Minister of Finance. The said exemption was granted on 31 March 2022 for a period of three financial years from 31 March 2022 to 31 March 2024. The Committee is concerned by the lack of transparency in granting these exemptions by the Minister of Finance, particularly lack of or inadequate consultations. The Committee is strongly of the view that Parliament, as elected representative of the people, tasked by the Constitution to maintain oversight over the

Executive, should play a pivotal role when decisions to exempt SOEs on any financial reporting requirement are taken.

7.1.3 The Committee notes with concerns the report from AGSA that had it not been for the exemption, Transnet would have received a modified audit opinion in 2021/22 as instances of material non-compliance relating to procurement and disclosure of irregular and fruitless and wasteful expenditure were identified.

7.1.4 The Committee notes with concern that the most prevalent areas of non-compliance by Transnet related to procurement and contract management, expenditure management, consequence management and material errors in the financial statements submitted for audit. These were mainly due to weaknesses in the control environment where preventative as well as detection controls over procurement and contract management were inadequate when compared to previous years. Furthermore, compliance with legislation was not adequately monitored, while progress with investigations and follow-through on consequence management proceedings was slow.

7.1.5 In terms of non-financial performance, the Committee notes with serious concern that Transnet only managed to achieve 39 per cent of its annual targets as reported in its annual performance report for the 2021/22 financial year. Furthermore, over a period of five years, Transnet's average performance was 40 per cent, with the highest performance being 60 per cent in 2018 and the lowest being 10 per cent in 2021 mainly due to the impact of Covid-19. This was particularly concerning due to Transnet being a critical role player in the rail transport environment. Furthermore, its mandate was closely aligned with the government's 2020-2025 Medium Term Strategic Framework (MTSF) priorities 1 and 2 which seek to ensure a capable, ethical and development state and economic transformation and job creation.

PRASA's Audit Opinion

7.1.6 The Committee notes with serious concerns that PRASA received a disclaimed audit opinion from the 2018/19 to 2021/22 financial years, regressing from a qualified audit opinion in 2017/18 financial year. The Committee is concerned that this is due to four material and pervasive areas that remained unaddressed in 2021/22, namely; property, plant and equipment (assets) and related line items depreciation; impairment; losses on the disposal of assets and prior year error corrections related to assets, completeness of irregular expenditure, completeness of fruitless and wasteful expenditure, and commitments.

7.1.7 In terms of non-financial performance, PRASA only managed to achieve three or 19 per cent out of the total 16 predetermined performance indicators across all objectives for the 2021-22 financial year. This is a cause for serious concern by the Committee given the fact that PRASA plays an important function in transporting the most vulnerable people in South Africa.

7.2 Finances

Transnet's finances

7.2.1 The Committee notes the submission by the AGSA that Transnet has to date been able raise funding without government support and guarantees. Furthermore, the Committee notes that the liquidity and financial health of the entity still required close monitoring in light of the operational challenges which continued to impact its ability to generate cash flows that would sustain the business going forward. These operational challenges, which are evident in the substantial reduction of dry bulk rail volumes to the Richards Bay Coal Terminal (RBCT) from a high of 77 million tons in 2017, to 50.9 million tons in 2022.

7.2.2 The Committee notes the report from Transnet that, should the impasse with the CRCC be addressed, the outlook for the export of coal would be 74.70 tonnes in 2023/24, 77.00 tonnes in 2024/25, and 81.00 tonnes in 2025/26. Based on the aforementioned coal exports outlook, it is very important for the impasse between Transnet and the CRCC be addressed as a matter of urgency. The Committee is of the view that the implication of Transnet not operating optimally, has negative effects on others organs of the state such as the South African National Roads Agency Limited due to as increased maintenance costs. The Committee is also of the view that the agency should also look at in-house resources within the Transnet Engineering Business Unit to maintain the locomotives.

7.2.3 The Committee notes with serious concerns the report from AGSA that Transnet was not generating sufficient cash flows from operations that would enable it to settle capital loans/bond repayments. Consequently, it has to rely heavily on additional external loans/bonds to re-finance significant portions of their maturing loans. The Committee is concerned about the possibility of government having to recapitalise Transnet in the future in order to assist the entity to pay its external principal debt and interests to prevent the entity from defaulting on its debt repayment.

PRASA's finances

7.2.4 The Committee notes with concerns the report from AGSA on the significant underspending of PRASA's capital budgets, which according to the AGSA, has a negative impact on the delivery of infrastructure and ultimately affects service delivery and negatively impacts the citizens of the country. The Committee is concerned that only 35 per cent or R6.5 billion of the allocated R18.4 billion of PRASA's capital budget was spent at the end of the 2021/22 financial year, mainly due to procurement challenges within the entity. The Committee is concerned that despite its numerous engagements with the National Treasury, the Department of Transport and PRASA on issues of capital expenditure related matters over the years, there seems to be no end in sight of this reported under expenditure, despite many promises and plans presented to the Committee.

7.2.5 The Committee notes with caution PRASA's projections that it will be able to spend the entire capital budget allocation at the end of the 2022/23 financial year. Even though the Committee is encouraged by this commitment from PRASA, the Committee feels that it is still early to celebrate this projection given the myriad of issues raised by the AGSA and the recent failures by PRASA to spend their appropriated capital budget.

7.2.6 The Committee notes with concerns the report by organised labour that PRASA employees' salaries were paid through the interest generated from the capital budget. This was corroborated by PRASA's Board and Executives who reported that salaries would have had to be reduced by 25 per cent if the interest on the capital budget allocation had not been utilised. The Committee is therefore of the view that over and above the challenges that inhibit the entity from spending on its capital allocations, there might be some elements of a deliberate move by the PRASA's executive not to spend its capital allocation to allow it to generate interest to pay employees' salaries.

7.2.7 The Committee notes and welcomes the report from PRASA that 16 corridors would have been recovered by the end of the 2022/23 financial year with a further 12 to be recovered in the 2023/24 financial year. The Committee is of the view that the recovering of corridors will further strengthen the entity's revenue generating capacity and this will go a long in alleviating some of the operational budget challenges faced by the entity.

7.2.8 The Committee notes that PRASA owed its operational creditors (Transnet and other creditors) a total of R3.921 billion, while the entity only had R163 million in operational cash available ,thus having a shortfall of R3.758 billion at the time of the oversight visit. The Committee further notes the historical debt owed to Transnet amounting to R2.114 billion and the Committee is of the view that PRASA through the Department of Transport should accelerate engagement with Transnet through the Department of Public Enterprises in order to address this matter with the required urgency. The Committee is concerned by the possible legal action that Transnet want to institute against PRASA and the Committee is firmly of the view that government institutions can use available government resolution and mediation mechanisms when disputes arise, instead of taking each other to court, where the ultimate losers are the taxpayers.

7.3 Transnet's infrastructure

7.3.1 The Committee notes with concerns about the reported number of locomotives that are not operational, thus impacting the capacity of the entity to move volumes due to legal proceedings which commenced in March 2021 between Transnet and four Original Equipment Manufacturers (OEMs) due to alleged procurement irregularities. These legal proceedings resulted in the suspension of the four contracts and led to OEMs not supplying Transnet with spare parts to maintain locomotives. Consequently, Transnet has a number of locomotives that are not operational and thus impacting their capacity to move volumes.

7.3.2 The Committee noted with appreciation that, at the time of the oversight visit, an urgent intervention was undertaken by government, with a view to solving the issues as per 7.7.1 above where it was resolved that Minister of Public Enterprises would travel to China in order to address the impasse between Transnet and the China Railway Construction Company (CRCC). The Committee has always held a view that urgent matters of national interest require urgent intervention from government, both at a political and administrative levels and government has to move with speed in the provision of related services.

7.3.3 The Committee notes with concerns the reports on the substantial security incidents (mainly cable theft and vandalism) which have been increasing over the past four years, locomotive unavailability and the poor state of the rail infrastructure. These security issues, mostly impacting the north (between Limpopo and Richards Bay, central (between Krugersdorp and Mafikeng) and north-east corridors (between Limpo and Richards Bay), resulted in less available slots to move volumes thus resulting in reduced revenue.

7.3.4 The Committee notes with concern the increase in truck volumes which increased from 13 163 in 2018/19 to 52 113 in 2021/22, compounded by the rail freight volumes decreases to the Richards Bay Coal Terminal (RBCT), decreasing from a high of 77 million tons in 2017, to 50.9 million tons in 2022. The Committee would like to implore on Transnet to accelerate the rehabilitation all of its infrastructure assets in order to decrease truck volumes on South African roads, which have a negative impact on the entire South African road network, causing long congestions on the roads and ultimately in some cases leading to loss of lives that would otherwise be prevented by a fully functional Transnet rail network.

7.3.5 The Committee notes National Treasury's submission that a ssignificant investment is required to rehabilitate the rail network and improve its reliability, requiring investment in upgrading rail infrastructure. The Committee notes that due to fiscal constraints, consideration must be given to where public funding is needed and where private sector funding can be leveraged to greater effect. However, the Committee is of the view that Transnet is critical for the development of South Africa, and considerations should be made by government to recapitalize Transnet in order to resuscitate its rail network as a key strategic entity of the state.

7.3.6 The Committee notes the submission by the National Treasury that Transnet estimates that R29.4 billion in additional funding will be required from 2023/24 to 2025/26 to restore the network condition to an acceptable level (2023/24: R10.522 billion, 2024/25: R9.631 billion and 2025/26: R9.288 billion).

7.3.7 The Committee notes with serious concern the report from Transnet that from a thousand arrests that have been made relating to theft and vandalism of its infrastructure, only 12 per cent of the culprits have been convicted. The Committee undertakes to take this matter up with the relevant stakeholders and other government institutions in order to fully understand the challenges thereof.

PRASA's Infrastructure

7.3.8 The Committee notes with concerns that like Transnet, PRASA's infrastructure is also a target for vandalism and theft, with crime related incidents reaching an all-time high in November 2019. This was in the wake of the cancellation of irregular security contracts without appropriate alternate measures in place. Furthermore, the Committee notes that high levels of incidents continued during the Covid-19 lockdown during the first half of 2020. However the Committee is encouraged by the submission that by the AGSA that measures put in place by PRASA has resulted in a significant decrease of reported asset related crimes.

7.3.9 The Committee notes and welcomes the report from AGSA that the 600 new trains in terms of the Rolling Stock Renewal Programme through the Gibela Rail Consortium has significantly improved the operations of PRASA. However, the Committee is concerned by the report from organised labour as well as AGSA that these trains were underutilised due to delays in the Depot Modernisation Programme, and this programme has been delayed by over three years. The Committee would like to implore on PRASA to accelerate the spending of capital budget if South Africans are to meaningfully benefit from this new rolling stock.

7.3.10 The Committee notes and welcomes the introduction of the National Depot Fencing Project at six depots i.e. Braamfontein Depot, Durban Yard, Springfield Depot, East London Station, Paarden Eiland Depot, and Salt River Depot. The Committee views this project as important given the widespread challenges relating to infrastructure safety at PRASA. This project will require close monitoring by the Committee as well as the Portfolio Committee on Transport.

7.4 Procurement and supply chain management

7.4.1 The Committee notes with concerns the reports from AGSA and organised labour on the procurement challenges at PRASA which are reported to be mainly due to shortage of officials with appropriate skills. The Committee is concerned that given the capital budget allocation to PRASA and the consistent underspending over the year on this allocation, the required skills and capacity are urgently needed at PRASA if the entity is to be brought back to its path.

7.4.2 On local content and procurement of locally produced goods, the Committee is strongly of the view that localisation of goods and services is one of the mechanisms to reignite the economy and that Transnet and PRASA should produce its rails infrastructure locally, especially given fact that South Africa has large reserves of iron ore, and develop the required necessary capacity where possible.

7.4.3 The Committee notes and welcomes the advances made by the Gibela Rail Transport Consortium in the production of the new trains locally and local capacity it has created around train manufacturing The consortium, in terms of the contract with PRASA, must manufacture 600 trains for PRASA and to date it managed to deliver 115 trains from the Dunnotar factory. Furthermore, 1126 direct jobs have been created and R650 million has been spent by the consortium on training, including the training of small business.

7.5 Labour Relations

7.5.1 The Committee notes with concern the strained relations and trust deficit between the Board of Directors, Executive Management and organised labour at PRASA and Transnet. The Committee is of view that effective and good industrial relations are important for the success of any SOE, and would like to encourage all the stakeholder to engage and create trusting working relationships.

7.6 Human Resources

7.6.1 The Committee notes that PRASA had, at the time of the oversight visit, there were active suspensions which ranged from 1 month (February 2023) to an unacceptable 52 months (November 2018). The Committee views the excessively long suspensions as adding to the financial burden of PRASA and these need to be concluded expeditiously.

8 Recommendations

The Committee having engaged with the stakeholders of Transnet and PRASA and having undertaken site visits, recommends as follows:

8.1 That the Minister of Finance should ensure the following:

8.1.1 That National Treasury always consult Parliament through all the relevant Committees of Parliament in the future before approving financial reporting exemption to any government institution in terms of section 55(2)(b)(i)(ii) and (iii) of the Public Finance Management Act, No. of 1999 (PFMA). Parliament has a Constitutional obligation of exercising oversight over the executive, including decisions taken by the executive, and therefore the Committee is of the view that Parliament through all its relevant Committees must be consulted on any material decisions that will affect the financial reporting on Parliament's appropriated public funds. This is also intended to ensure there is transparency on decisions taken with public funds involved and the views of Parliament as a representative of the people are taken into consideration before these decisions are taken and implemented.

8.1.2 That National Treasury put concrete measures in place to stop the transferring of capital allocation to entities that will not spend these Parliament appropriated funds but chooses to deposit these allocations to bank accounts for the purposes of generating interest to pay employees' salaries as confirmed by PRASA during the Committee's oversight visit. This practice, if it is allowed to continue, has a potential of hiding the true financial state of government entities until it is too late for government to intervene successfully through mechanisms available at its disposal and it also hampers the financial oversight role of Parliament over government entities.

8.2 That the Minister of Public Enterprises should ensure the following:

8.2.1 Transnet quarterly reports to the Portfolio Committee on Public Enterprises on progress made in all the matters that are excluded from being reported on Annual Financial Statements by Minister on Finance. Those matters exempted by the Minister of Finance in terms of section 55(2)(b)(i)(ii) and (iii) of the Public Finance Management Act, No. of 1999 (PFMA). The Portfolio Committee on Public Enterprises must periodically evaluate any progress made in addressing the identified challenges which gave rise to this exemption.

8.2.2 That Transnet furnish Parliament through the Committee with a detailed plan on how it plans to generate sufficient cash flows from its operations that would enable it to settle capital loans/bond repayments, while reversing the phenomenon of heavily relying on additional external loans/bonds to re-finance significant portions of their maturing loans. The Committee is of the view that an urgent intervention is needed at Transnet if government is to avoid approving future bailouts to Transnet in the near future, because once lenders become sceptical about refinancing these maturing loans, government will be required to intervene with funding to Transnet, a situation that is undesirable considering South Africa's tight fiscal environment and other pressing issues affecting the poor majority.

8.2.3 Transnet provide a detailed report on the legal challenges between Transnet and four Original Equipment Manufacturers (OEMs) due to procurement irregularities, which has prompted the Minister of Public Enterprises to travel to China in order to address the impasse between Transnet and the China Railway Construction Company (CRCC), due its negative impact on Transnet operations.

8.2.4 That Transnet seek an urgent solution to unavailability of rolling stock and related infrastructure maintenance challenges that will improve its ability to deliver on its mandate, while reducing the heavy burden on the South African road network.

8.2.5 That Transnet furnish Parliament with a detailed plan and strategy to address the identified problems relating to the lack of internal capacity and skills, inefficiencies regarding procurement processes, and overhauling its administration.

8.3 That the Minister of Transport should ensure the following:

8.3.1 That the Passenger Rail Agency South Africa (PRASA) urgently addresses the persistent issues identified by the AGSA, resulting in the entity receiving a disclaimed audit opinion, and quarterly report to the Committee on concrete plans and progress made in addressing these identified issues. The Committee is of the view that consistent disclaimed audit opinions does not bode well with good governance and the prudent management of limited public funds, and an urgent, focused, integrated, and time-bound actions and a recovery plan are needed to arrest the decline of PRASA.

8.3.2 That PRASA accelerates the development of a time-bound integrated plan that will allow it to generate enough revenue from its operations to pay employee salaries. Furthermore, the said plan must stop PRASA from continuing the dangerous practice of paying employee salaries through interest earned from banking the capital budget and not spending it as required and as appropriated by Parliament. This practice has a potential of bringing into question the integrity and rationales of the decisions taken by Parliament through the recommendations of the Committee to appropriate capital funds to PRASA, only for those funds to be deposited into interest bearing bank accounts for interest earning purposes.

8.3.3 That the Department of Transport and National Treasury should consider allowing the conversion of a portion of PRASA's capital budget to operational expenditure, to allow PRASA to spend more on its capital project allocations.

8.3.4 Autopax plays a critical role in the public transport ecosystem. The Department of Transport should therefore consider application to spend R600 million to acquire new buses. Autopax buses go to most rural services areas of our country. This will allow it to be taken out of business rescue and be allowed to provide a service to the poorest of the poor.

8.3.5 That PRASA urgently engages with all its operational creditors (Transnet and other creditors), with whom it has a debt totalling R3.921 billion, while the entity only had R163 million in operational cash available. In particular, PRASA should urgently engage with Transnet on the monies it owes Transnet and try all means necessary to avoid the looming litigious process over the Transnet debt. This reflects negatively on government when one entity of government takes another entity of government to court and this should be avoided whenever it is possible to do so.

8.3.6 That PRASA prepares and expedites the implementation of action plans for the implementation of the Depot Modernisation Programme.

8.3.7 That PRASA provide a regular detailed report on the progress made in finalising the active suspensions of employees which ranged from 1 month (February 2023) to an unacceptable 52 months (November 2018). The Committee views these delays in finalising these matters as problematic for an entity that is facing the kind of financial challenges that PRASA is facing and these need to be concluded expeditiously. In this regard PRASA should provide the Committee and the Portfolio Committee on Transport with the plan to fill vacancies permanently, especially at executive and senior management levels. Also, progress reports should be provided with regards to suspended officials who continue drawing salaries from PRASA.

9 Conclusion

The responses to the recommendations as set out in section 8 above by the relevant Executive Authorities must be sent to Parliament as well as the Committee within 60 days of the adoption of this report by the National Assembly.

Report to be considered.