

MOLOTO DEVELOPMENT CORRIDOR

Presentation to the Portfolio Committee: Transport

Ulrike Britton | Chief Director: Urban Development and Infrastructure, Public Finance | 18 March 2021



national treasury

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REPUBLIC OF SOUTH AFRICA

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PROJECT HISTORY

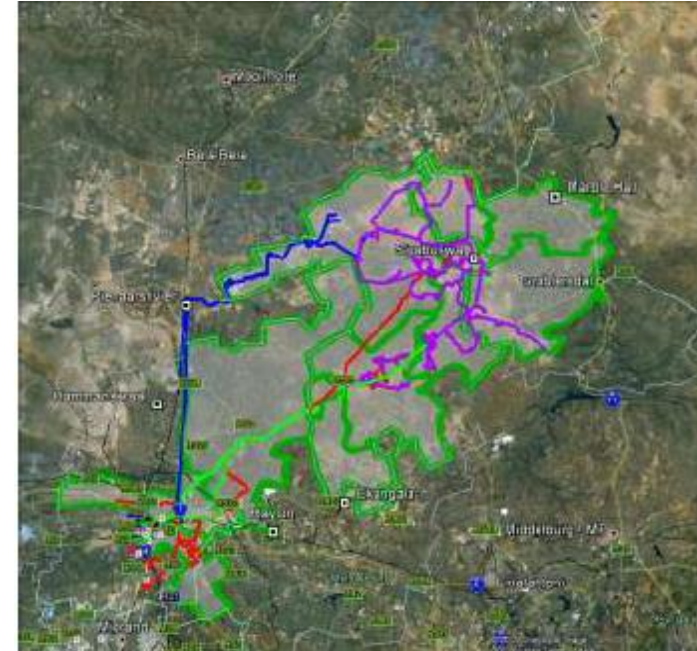
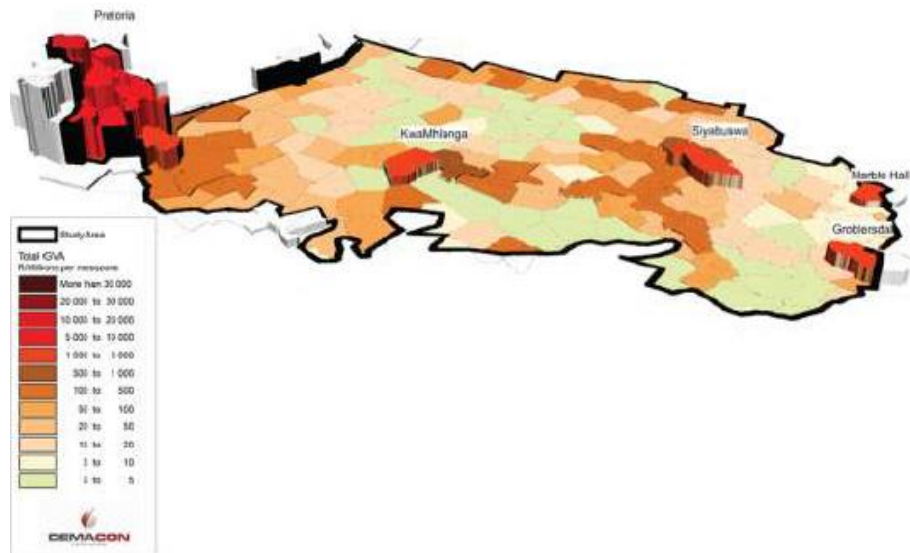


- 2008 study commissioned by the Mpumalanga Department of Roads and Transport
- 2014 feasibility study prepared by the National Department of Transport
 - Political oversight committee (POC) approved project for submission for TA 1 approval
 - As interim measure, POC approved that as interim measure, R573 is transferred to SANRAL for upgrade to improve safety measures

AREA PROFILE

- Western region of Mpumalanga linking Tshwane to rural communities along the R573 (Moloto Road) into the Sekhukhune region of Limpopo.
- 4 local municipalities in 2 provinces with linkages into the City of Tshwane in Gauteng.

Total GVA per Mesozone Within the Study Area



- Low economic activity in the area with a population of approximately 714 123 people.
- As of 2013, out of the 714 123 population, almost 40 000 people commute to Tshwane on a daily basis.
- 87 per cent of HHs live in adequate housing, with 14 per cent of HHs with a tap in the dwelling and 70 per cent of HHs have below RDP sanitation

PROBLEM STATEMENT

- A lack of economic development in the area
- Limited access to work opportunities in the immediate vicinity
- Excess commuting distances from home to work
- Long travel times on the commute
- High costs to government and commuters
- Poor levels of service on substandard local roads
- Increasing traffic congestion in urban areas
- Unsafe operations on the R573

URBAN AND REGIONAL DEVELOPMENT

- Towns and cities shaped by legacy of segregation and exclusion from social and economic opportunities
- National Development Plan
 - Transport planning should be in line with evolving land-use changes that is guided by plans for the urban form that will increase the concentration in settlements and improve economies of scale for transport modes
- Integrated Urban Development Framework
 - Economic potential of towns and cities is driven by raised productivity resulting from the concentration of people and economic activities

STRATEGIC PROJECT OBJECTIVES

- Reducing travel demand through local economic and spatial development initiatives
- Increase operational safety by targeted infrastructure upgrades
- Reducing travel times by providing exclusive rights of way or new transport links
- Enhancing efficiency by improved linkages with other public transport initiatives
- Implementing new technology to increase capacity and levels of service
- Contributing to development of the local economy

ECONOMIC EVALUATION METHODOLOGY

- Based on an economic cost-benefit analysis
 - Quantification of the direct and indirect benefits and costs
 - Output, employment and trade gains as part of developmental impact
- To pass the cost-benefit test, a project should demonstrate excess benefits over costs
 - Meet an acceptable social rate of return, taking into account the opportunity cost, adjusted for risk and uncertainty
- The PPP test
 - Affordability
 - Transfer of risk
 - Value for money

SUMMARY OF THE ANALYSIS OF THE FEASIBILITY STUDY

- Economic analysis does not provide sufficient justification for a new investment in a rail link
 - Spatial and economic dynamics of the region weigh against cost-effective public transport investments
 - Feasibility study recognises that substantial road investments required to complement the rail project
 - Time savings, improved safety and quality of travel are main benefits associated with proposal
 - Costs of improvements to provide these benefits may be reasonably met by the fiscus if it is also associated with densification, industrial investment and trade, employment growth and scale economies in local development
 - Where costs of investments associated with time savings, travel convenience and improved safety cannot be fully passed on to beneficiaries, it is important to identify external economies of scale to warrant public investment
 - Exacerbates existing inequities in public transport subsidisation

SUMMARY OF THE ANALYSIS OF THE FEASIBILITY STUDY

- Technical concerns and assumptions in the study
 - Inconsistencies in timespans and discounting assumptions
 - Passenger growth assumed over long periods, without associated social, demographic and economic analysis – population growth in study area lower than national average
 - Survey questionnaires and sampling on which demand projections are based
- Passing the PPP test
 - Affordability
 - The feasibility study states that: *“None of the options modelled are affordable based on the budgets identified during the needs analysis...In the event that Government decides to implement any of these options, it would need to close the identified funding gaps at National, Provincial and Municipal level”*. Funding gap between R24 billion to R45 billion.
 - Upgrades to municipal infrastructure to support feeder services means that municipalities will have to divert all their Municipal Infrastructure Grant funding for at least 7 years
 - Funding gap underestimated as the feasibility treats the existing IC52 subsidy as revenue.

SUMMARY OF THE ANALYSIS OF THE FEASIBILITY STUDY

- Passing the PPP test
 - Transfer of risk
 - Private sector allocated design, build and maintain rail infrastructure with public sector allocated the operational responsibility.
 - Existing bus service transfers greater risk to private sector than proposed arrangements
 - Separation of infrastructure from operations raises integration risks and associated risks of unanticipated cost increases
 - Value for money
 - Treatment of existing subsidies inconsistent
 - In public sector comparator, subsidies are treated as a cost to government, whereas it is treated as revenue to the private sector
 - Taking this into account, the PSC is able to deliver at lower cost to hybrid PPP model.

CONCLUSION

- TA1 approval not granted
 - Not affordable, does not transfer significant risk, does not provide value for money
- Feasibility study makes case for development interventions in study area
 - Assumes a considerably higher level of budget contribution than is likely to be affordable
- In focussing on transport solutions, it neglects broader settlement and development challenges of the region
- Without investments to change the spatial economy, project is unlikely to yield the social, economic and development dividends that would warrant an investment of this scale and magnitude.

FUNDING AND EXPENDITURE

- Responsibilities related to budget set out in the PFMA
 - Section 6 of the PFMA sets out National Treasury responsibilities
 - Manage the budget preparation process
 - Exercise control over the implementation of the national budget process
 - Sets norms and standards
 - Promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities and constitutional institutions
 - Section 38 of the PFMA sets out responsibilities of accounting officers
 - Effective, efficient and economical and transparent use of the resources of the department, trading entity or constitutional institution
- Budgeting system in South Africa is programme based, not project based
 - Appropriated by an Act of Parliament by vote and main division of the vote
 - No earmarked allocation approved by Cabinet and Parliament for the feasibility study
- Department reports expenditure of R10.2 million in 2013/14 and R7.7 million in 2014/15 on feasibility study

Thank you