# ISSUES CONTRIBUTING TO UNDERSPENDING BY THE PASSENGER RAIL AGENCY OF SOUTH AFRICA (PRASA)

transport
Department:
Transport
REPUBLIC OF SOUTH AFRICA

FOR STANDING COMMITTEE ON APPROPRIATIONS

DATE: 07 SEPTEMBER 2022

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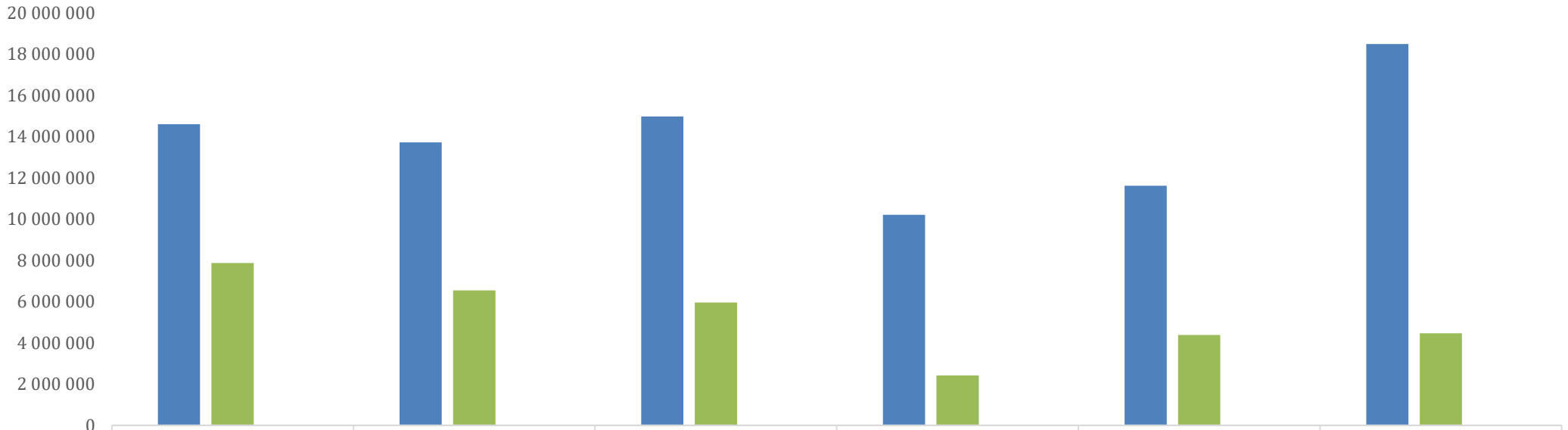
# 1. Background:

## 1.1 Challenges:

- PRASA struggled to implement its Capital Programme over time.
- This resulted in failure to spend allocated budget
- The situation worsened over the last 6 or 7 years owing to various challenges

### 1.1.1 Historical Budget vs. Acual Expenditure




| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|
| Capital Budget | 14 608 601 | 13 720 669 | 14 982 605 | 10 209 621 | 11 619 981 | 18493070 |
| Actual Expenditure | 7 871 169 | 6 542 438 | 5 951 348 | 2 414 202 | 4 380 911 | 4 466 046 |
| % Expenditure | 54% | 48% | 40% | 24% | 38% | 24% |

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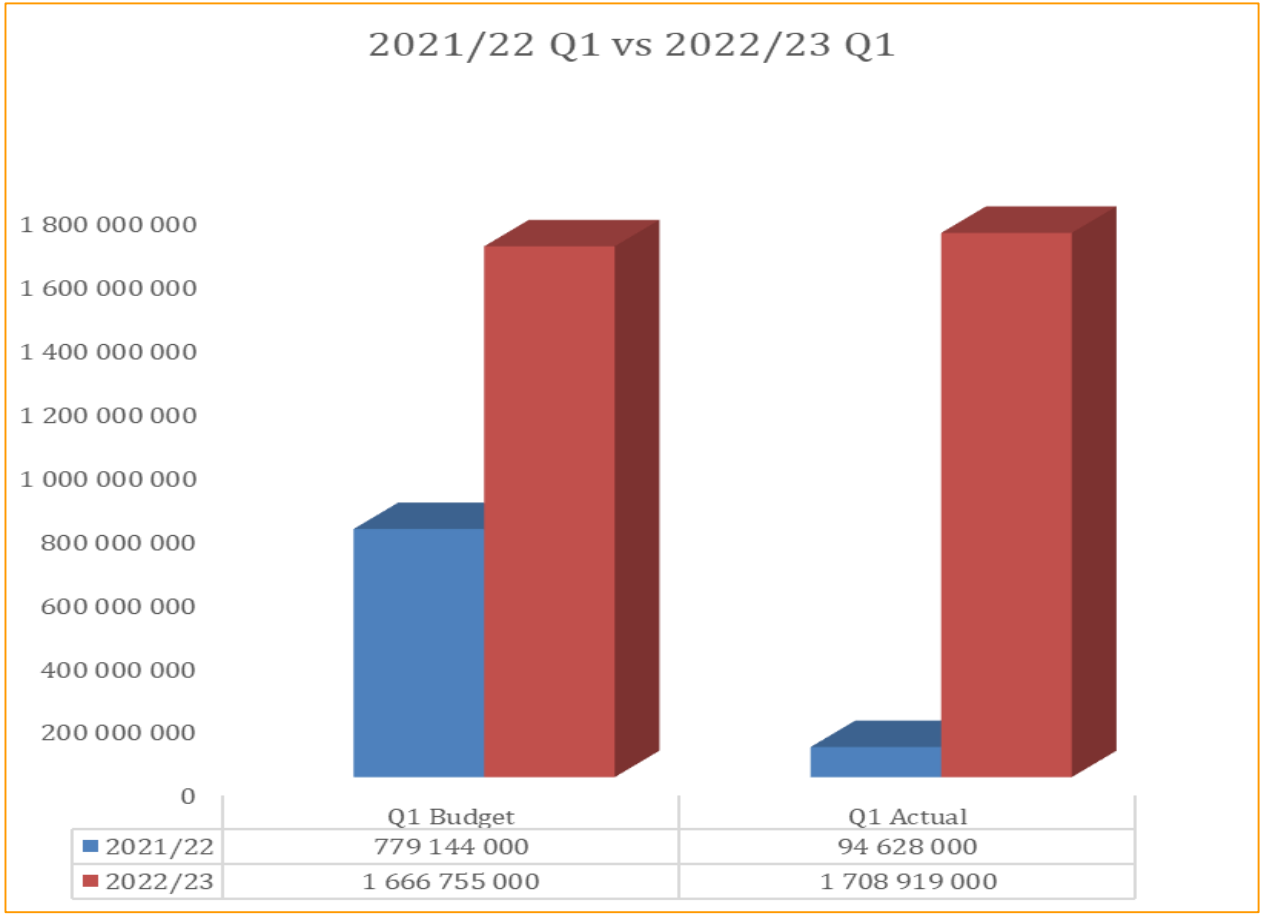
## 1.2 Status of Capital Programme:

### Status 2022/23 – Quarter 1




CAPEX performance of Quarter 1 2022/23 shows marked improvement where the expenditure exceeded the budget by 2% when compared to the same period in 2021/22 where expenditure was only 12% of the budget.

### Commitments current and MTEF

- Capital commitments (Non earmarked)
  - Contracts awarded and in progress: R4,0bn (R3,4bn still for spending and commenced)
  - Contracts in adjudication and award : R3,3bn
  - Commitments in tender adverts: R3,4bn and this could be more than R6bn by end of Quarter 2.
- Capital commitments (Earmarked Funds)
  - General Overhaul of R7.5bn over 5 years preliminary estimates
  - GIBELA advance payment R5,4bn
  - R49m for Dunnottar Factory
  - RSFRP continuation – R24,6bn for MTEF
  - Re-signalling tenders – R14bn for MTEF
- Secondary Mandate
  - R350m for development of Cape Town station

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1.3 Capital Commitment MTEF:

- ✓ Headline Total over R36 bn is effectively committed.
- ✓ Including Rolling Stock Renewal more than R59 bn.
- ✓ Spending for 2022/23 to be in order of between R16bn – R20bn (subject to GIBELA advance payment).
- ✓ The rebuild programme R2,3bn with R1,6bn for Gauteng corridors.
- ✓ Walling Programme could come at a cost of at least R8bn within the MTEF.
- ✓ The Kwazulu-Natal Flood Recovery Programme is estimated at least R2.9bn within the current MTEF.
- ✓ It is important to note that PRASA would need more capital for the recovery more than what is provided on the MTEF especially on Capital that in not ringfenced.

# 2. Reason for Under-Expenditure:

1. Leadership instability for several years which affected continuity in terms of approach and strategy;
   About 10 Group Chief Executive Officers in the last 7 years;

2. Given the long-term nature of the PRASA capital projects, stability will assist in ensuring that progress does not get disrupted;

3. Procurement policy created bottlenecks that choked the ability to implement projects in an agile and flexible manner.
   - ✓ Prescription of internal probity on high value tenders (or all tenders more than R10 million), until the DOA was changed by the current Board;
   - ✓ Delays in establishing procurement committees to leadership changes.

4. The court ruling on the PPPFA in February 2022 which lead to delay in taking some of the tenders to the open market.

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- Various programmes found to be irregular by the AGSA had to be stopped;
  - ✓ These include Station Modernization programme, General Overhaul (GO) Programme for Metrorail and Shosholoza Meyl coaches and Ad-Hoc Maintenance for the rolling stock fleet;
  - ✓ These programmes had to be halted and the procurement process started afresh;

- On the Rolling Stock GO programme, PRASA undertook under the instruction of the Board an extensive probity process to ensure that this programme does not become irregular expenditure again.

- Cancelling tenders prior to the appointment of the contractor or suppliers for various reasons including probity identifying shortcomings in the procurement process and other tenders found to be non-responsive.
  - ✓ Projects affected include: Wolmerton Depot Upgrade, Braamfontein and Salt River Depot Upgrades amongst others.

- Litigations also caused delayed or halting of projects.
  - ✓ The delivery of Locomotives for Shosholoza Meyl (Swifambo), Integrated Security and Access Management Systems (ISAMS) Programme (Speed Gates) and Depot Fencing.
  - ✓ Recently the Depot Modernisation Programme had been subject to litigation for Design Consultants that were appointed in 2021.
  - ✓ Depots impacted include Durban Yard, Springfield and Salt River Depot. This matter is now resolved where the two companies reached an agreement and work will commence on the design for these depots.

- Community unrest: Greenview Station, Central Line in Western Cape, Signalling programme, KwaZulu Natal Flood Recovery Programme negatively affected.

- Lack of internal capacity in engineering, technical and supply chain management. This created backlogs in moving projects from initiation to implementation stage.

# 3. Improved Capital Programme Performance:

## 3.1 Measures to Improve Capital Programme Performance:

1. Setting up Corridor Rebuilding Review Structure to oversee the implementation programme aimed at recovering PRASA business across the country.
2. Re-establishing the War Room where PRASA to facilitate integrated planning and implementation of the rebuilding programme.
3. Appointment of a Technical advisor to help the PRASA Team in driving the Corridor Rebuilding programme
4. Amendment of the Request for Quotation (RFQ) threshold from R1m to R5m per transaction to improve the turnaround time in projects and procurement of services worth R5m or less. This is especially relevant in the repairs of stations.
5. Disciplinary processes underway on all individuals identified by the SIU in wrongdoing relating to procurement irregularities.
6. PRASA internal quarterly reviews are conducted with each business unit or division implementing the Capital Programme to ensure accountability
7. A Capital Programme Steering Committee which comprises members of top leadership of PRASA and DoT has been established. This committee meets quarterly and it is providing oversight and support in driving implementation of CAPEX programmes.
8. Draft specifications are being compiled that are aimed at finding a suitable program management company who employs global best practice, skills and capacity to assist PRASA.
9. Stakeholder Management interventions now being incorporated into every project to limit or reduce adverse effect due to community unrest;
10. Procurement policy has been reviewed with a specific focus on enabling agile and efficient procurement environment.
11. Employment of skilled people as Full Time Contract Workers (FTCW) to close the technical, engineering and supply chain management skills gap is underway.
12. Consultants are being appointed to assist with development of specifications for ICT related projects.
13. Off-site evaluation committees set up to conclude evaluation of high priority tenders to reach execution stage in the shortest possible time.
14. A shared services model is being established with the core objective of optimizing current resources. The process will start with SCM where adequate work has been done to set the process in motion.

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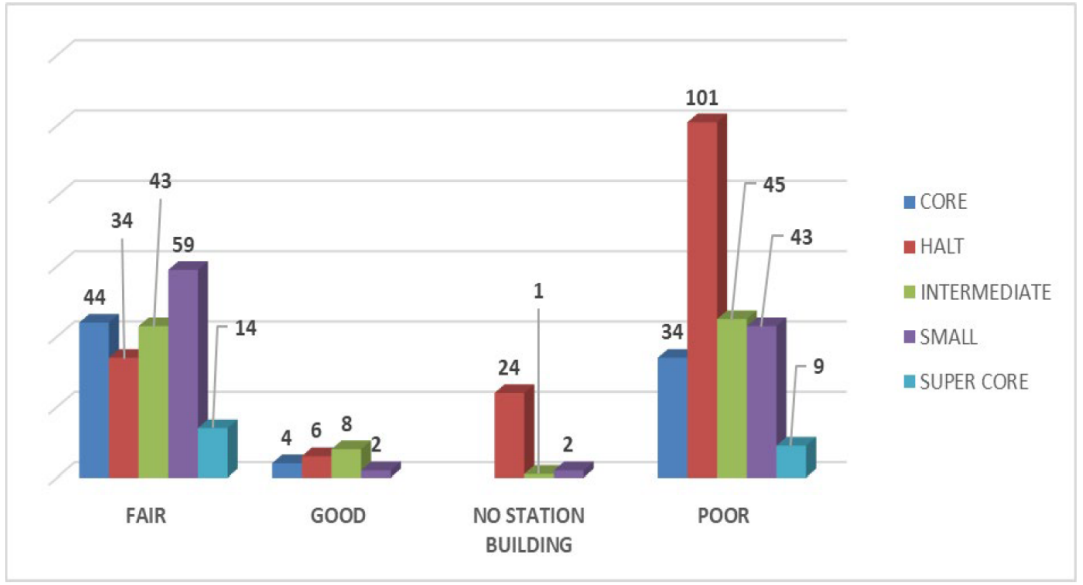
## 3.2 Condition Assessment:




| STATION CONDITION | CORE | HALT | INTERMEDIATE | SMALL | SUPER CORE | GRAND TOTAL |
|---|---|---|---|---|---|---|
| FAIR | 44 | 34 | 43 | 59 | 14 | 194 |
| GOOD | 4 | 6 | 8 | 2 | | 20 |
| NO STATION BUILDING | | 24 | 1 | 2 | | 27 |
| POOR | 34 | 101 | 45 | 43 | 9 | 232 |
| **GRAND TOTAL** | **82** | **165** | **97** | **106** | **23** | **473** |

Station portfolio has a total of 473 Commuter stations.

- ✓ 194 (41%) are recorded to be in a Fair condition
- ✓ 20 or (4%) are in a reasonably Good condition
- ✓ 242 (49%) are recorded to be in a Poor state

Super-core and Core stations make up (22%) 105 of all the stations

- ✓ 62 are recorded to in be a fair condition,
- ✓ 4 in a good condition
- ✓ 43 are reflected to be in a poor state.

- ✓ In June 2021 an independent assessment by Quantity Surveyors was conducted to determine the refurbishment cost of the stations and the total value estimated at R1.4 billion excluding Eastern Cape Region.
- ✓ It must be noted that the 2022/2023 approved CAPEX budget for station recovery is about R811 million and R26 million OPEX for station Maintenance programme.

# 4. Security:

## 4.1 Security Dashboard:

| PERFORMANCE INDICATR | STATUS | CHALLENGES | COMMENTS |
|---|---|---|---|
| Security Interventions- Mabopane | | | |
| Security Interventions- Central Line | | • Alignment of security cluster with stakeholders for removal of litter<br>• Fix & Repair Service Roads | • Cancellation of Tender<br>• Request to NT for tender advert of 10 days |
| Security Modules/ Interventions 16 Corridors ACSA Deviation (MLPS & Metrorail) | | | Deployments in Jan/Feb 2022 |
| Building Insource Capacity | | Hotlines for communications not started | Awaiting budget for allocation for communication radios to regions |
| Technical Risk Assessments | | | |
| Group Security Structure | | Structure finalized | |
| Group Security Technology Systems | | Building of secure communications separate from operations communications not yet started | Integration of technical platforms for central command & control completed<br>Specs for Control Rooms (National and Regional) completed<br>Pilot systems for counter measures & forensics |
| Internal security matters | | | Security & screening of employees in progress (to be completed in Feb 2022)<br>Security audits & protection Started (Feb 2022)<br>Joint operations ignited and implemented<br>Train & yard protection analysis completed<br>Revenue investigation & security visibility completed |

# 5. Resuscitation and Refurbishment of Damaged Infrastructure:

## 5.1 10 Priority Corridors

| | Corridor/Line | Status | Time line |
|---|---|---|---|
| 1 | Mabopane | Open | Jan 2022 |
| 2 | Southern Line | Open | Mar 2022 |
| 3 | Northern Line | Open | Mar 2022 |
| 4 | SaulsVille - PTA | Open | Mar 2022 |
| 5 | Pienaarspoort - PTA | Closed for rebuilding (Recovery Project underway) | Sept 2022 |
| 6 | Naledi - JHB | Closed for rebuilding (Recovery project underway) | Sept 2022 |
| 7 | Leralla - JHB | Closed for rebuilding (Recovery project underway) | Sept 2022 |
| 8 | Central Line | Closed - Recovery project underway – Phased Approach | P1 – Jul2022<br>P2 – Dec 2022 |
| 9 | Kwamashu - Durban | Infra Cleanup & recovery after floods underway<br>Interim Diesel Traction Service introduction | P1 – June 2022 (Diesel)<br>P2 – Oct 2022 (Electric) |
| 10 | Umlazi - Durban | Closed Infra cleanup & recovery after floods underway | P1 – Oct 2022 |

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## 5.2 Corridor Phasing:

| PHASE.1 2021 -2022 | | | PHASE.2 2022 - 2023 | | | PHASE.3 2023 - 2024 | | | PHASE.4 2024-2025 | | | PHASE.5 2025-2026 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NO | SERVICE LINE | OPR | NO | SERVICE LINE | OPR | NO | SERVICE LINE | OPR | NO | SERVICE LINE | OPR | NO | SERVICE LINE | OPR |
| 1 | Mabopane – Pretoria | P | 1 | Pienaarspoort – Pretoria | P/T | 1 | Cape Town - Strand | P | 1 | Mabopane - Pienaarspoort (via Capital Park) | T | 1 | East London - Belrin | T |
| 1 | Saulsville - Pretoria | P | 1 | Leralla – Johannesburg | P | 1 | Kelso(Umkomaas) - Durban | T | 1 | Cape Town - Kraaifontein | P/T | 1 | Port Elizabeth - Uitenhage | T |
| 1 | De Wilt - Belle-Ombre | T | 1 | Naledi – Johannesburg | P | 1 | Catoridge - Durban | T | 1 | Durban - Stanger | T | 1 | Johannesburg - Oberholzer (RFR) | T |
| 1 | Cape Town – Simon'sTown ( Wynburg) | P | 1 | Pretoria – Kaalfontein | P | 1 | Crossmoor - Durban | P | 1 | Cape Town - Wellington | P/T | 1 | Germiston - New Canada (Booysen) | T |
| 1 | Cape Town - Retreat (Athlone) | P | 1 | Durban – Umlazi ( Merebank-Durban) | P | 1 | Vereeniging - George Goch(via MDY)Incl. WST,FAR | P/T | 1 | Germiston - Vereeniging (MTN) | T | 1 | Wests - Durban | T |
| | | | 1 | Durban - Kwamashu (Incl. Brideg City) | P | 1 | Kwesine - Germiston | P | 1 | Pinetown - Durban | T | | | |
| | | | 1 | Cape Town - Khayelitsha/Chris Hani | P | 1 | Springs - Johannesburg | P | 1 | Johannesburg - Nasrec | P | | | |
| | | | 1 | Cape Town - Kaapteinsklip | P | 1 | Ranfontein - Johannesburg | P | 1 | Cape Town - Worcester | T | | | |
| | | | 1 | Cape Town - Bellville ( Sarepta) | P | 1 | Eerste Rivier - Muldersvlei | T | 1 | Cape Town - Malmasbury | T | | | |
| | | | 1 | Daveyton - Dunswart – Germiston | P | 1 | Cape Town - Bellville ( MV & GDW) | P/T | 1 | Nigel - Springs | T | | | |
| 5 | | | 10 | | | 10 | | | 10 | | | 5 | | |

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## 5.3 Targeted Infrastructure Recovery:

| CORRIDOR | OHTE | SUBS | PERWAY | SIGNALS | TELECOMS | Service Recovery (Limited) |
|---|---|---|---|---|---|---|
| Cape Town - Strand | May-23 | May-23 | Apr-23 | Nov-23 | Mar-22 | Jun-23 |
| Kelso(Umkomaas) - Durban | Mar-24 | Mar-24 | Apr-24 | May-24 | Apr-24 | May-24 |
| Catoridge - Durban | TFR LINE More information need | | | | | |
| Crossmoor - Durban | Mar-23 | Mar-23 | Feb-23 | 01-Dec | Aug-23 | Apr-23 |
| Vereeniging - George Goch(via MDY)Incl. WST,FAR | Nov-23 | Nov-23 | Dec-23 | Jan-24 | Dec-23 | Jan-24 |
| Kwesine - Germiston | Jun-23 | Jun-23 | May-23 | Dec-23 | Sep-23 | Jul-23 |
| Springs - Johannesburg | Feb-24 | Feb-24 | Mar-24 | Aug-24 | Mar-24 | Apr-24 |
| Ranfontein - Johannesburg | May-23 | May-23 | Apr-23 | Feb-24 | Mar-22 | Jun-23 |
| Eerste Rivier - Muldersvlei | Mar-23 | Mar-23 | Feb-23 | 01-Dec | Aug-23 | Apr-23 |
| Cape Town - Bellville ( MV & GDW) | Apr-23 | Apr-23 | Mar-23 | Oct-23 | Feb-22 | May-23 |
| Daveyton - Dunswart – Germiston | Feb-24 | Feb-24 | Mar-24 | Aug-24 | Mar-24 | Apr-24 |
| Mabopane - Pienaarspoort (via Capital Park) | Mar-23 | Mar-23 | Feb-23 | 01-Dec | Aug-23 | Apr-23 |

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## 5.4 Cost of Infrastructure Theft and Damage:

Gauteng

| Department | Total distance of asset vandalised (single track km ) |
|---|---|
| Electrical | 880 |
| Perway | 100 |
| Signalling | 880 |
| Telecoms | 880 |
| Total | |

Western Cape

| Department | Total distance of asset vandalised (single track km ) |
|---|---|
| Electrical | 231.61 |
| Perway | 20 |
| Signalling | 278.99 |
| Telecoms | 278.99 |
| Total | |

KZN

| Category` | Qty (km or other) |
|---|---|
| Electrical: OHTE | OHTE wires stolen in 3 corridors, Smallpart steework in 3 corridors stolen |
| Electrical: substations | 5 substation vandalised |
| Perway | 44 theft incidents |
| Signalling | 501 theft incidents |
| Telecoms | 60 theft incidents |
| Total | |
| Grant total | |

# 6. Financial Performance:

**PRASA**

**Financial performance over last 5 years**

| | 2021/22 R'000 | 2020/21 R'000 | 2019/20 R'000 | 2018/19 R'000 | 2017/18 R'000 |
|---|---|---|---|---|---|
| Loss from operational activities | **(4 236 060)** | **(4 795 680)** | **(2 429 952)** | **(5 615 942)** | **(3 230 051)** |
| Made up of (major items): | **(4 236 060)** | **(4 795 680)** | **(2 429 952)** | **(5 615 942)** | **(3 230 051)** |
| Depreciation | (2 833 988) | (2 942 421) | (2 924 828) | (2 184 943) | (2 357 682) |
| Impairment (Loss)/Reversals on assets | (38 240) | (3 656 144) | 19 402 | (1 533 593) | (41 557) |
| Other non cash flow items | (402 798) | (113 867) | (320 423) | (639 969) | 117 897 |
| Earmarked additional funds - Covid, security and capex reallocation | - | 2 079 321 | 2 123 906 | - | - |
| **Cash (deficit)/surplus from operations** | **(961 034)** | **(162 569)** | **(1 328 009)** | **(1 257 437)** | **(948 709)** |

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## 6.1 Financial Performance:

1. The above analysis depicts the losses generated from train operations over the last 5 years.
2. The overall operational losses include the non-cash items which have been removed to arrive at the actual cash loss incurred by the business of running trains which is highlighted in the last line.
3. It is clear that PRASA's current cost structure cannot be sustained as the business is simply pushing itself deeper and deeper into debt which it cannot pay.
4. In order to address this PRASA needs to clearly articulate what its future looks like and how it will run trains are within its budget. This will include the following:
   - ✓ Develop a funding model that suits the operational and capital subsidy received.
   - ✓ Rationalise the business so that's its costs are within budget and the operational subsidy is available to fund the running of trains.
   - ✓ Develop a dynamic pricing model for fare revenue that better represents the cost of running rail but still makes a significant contribution economically.
   - ✓ Grow income from the secondary mandate to support the primary mandate above.

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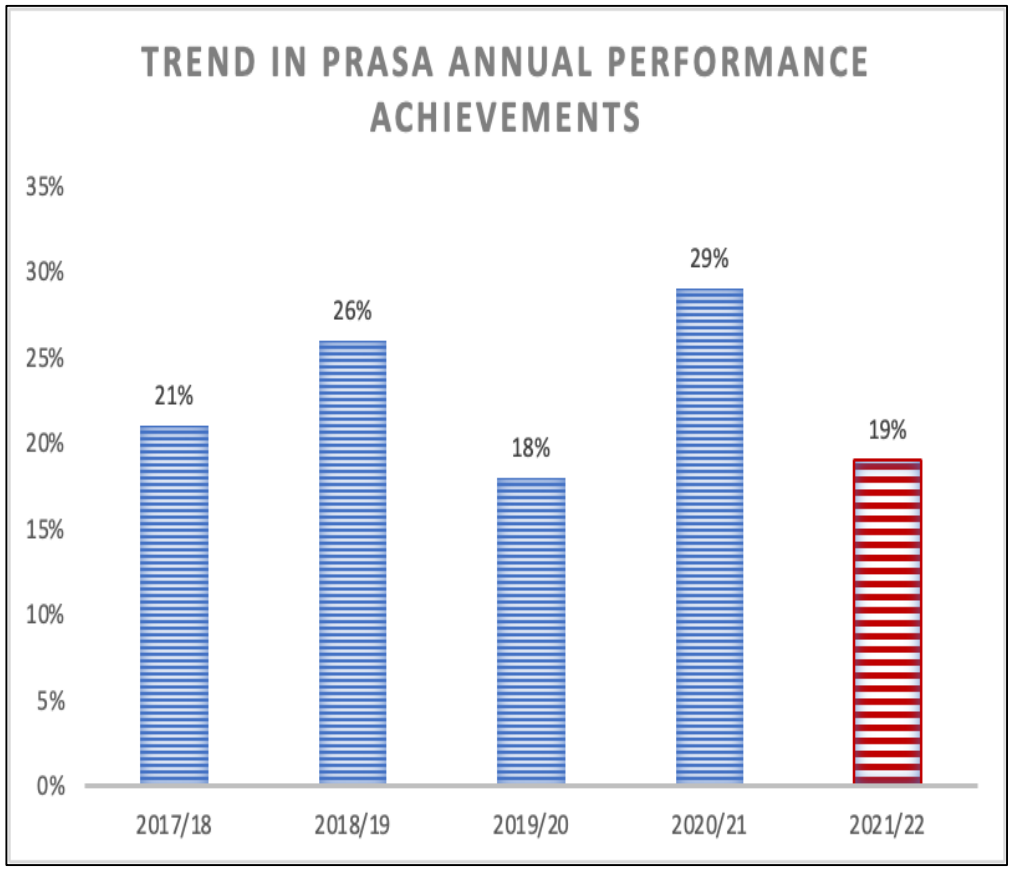
## 6.2 Non-Financial Performance:




- ✓ Over the last two years, safety performance has improved significantly partly due to low commuters on the system. The occurrences remain low in 2022/23 Q1 and no problems is expected with RSR renewal of Rail Safety permit.
- ✓ Security incidents continues to be low as well and security interventions especially on Mabopane line very successful, albeit at high cost.
- ✓ Mabopane line was introduced January 2022, with Saulsville line in February 2022 with new trainsets; the Southern Line in March 2022 as well as the Cape Town to Bellville via Goodwood line.
- ✓ The 2021/22 performance shows the difficulties in completing work on corridors especially the Central Line in Western Cape that require the removal of illegal settlements that is not in PRASA's control.
- ✓ The new Rolling Stock programme reflected the impact of shortages in electronic components with less deliveries than anticipated.
- ✓ Overoptimism and political pressure a challenge

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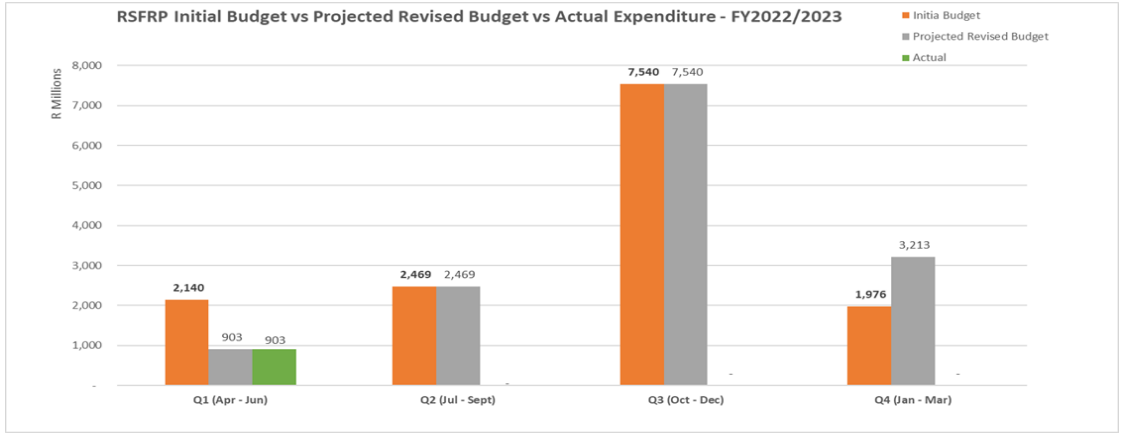
## 6.3 Indicative financial Dashboard:

| ACCUMULATED CAPITAL SUBSIDIES RECONCILIATION | VALUES |
|---|---|
| ESTIMATED CASH BALANCE AS AT END FY2020-2021 | 10,206,514,000 |
| FY2021-2022 MTEF Allocation | 4,830,522,000 |
| Less: FY2021-2022 Anticipated Spending | -5,427,637,997 |
| ESTIMATED CASH BALANCE BY END FY2021-2022 | 9,609,398,003 |
| Add: FY2022-2023 MTEF Allocation | 6,801,794,000 |
| Less: FY2022-2023 4th Advance Payment Assumption | -5,400,000,000 |
| Less: FY2022-2023 Anticipated Spending | -8,725,300,965 |
| ESTIMATED CASH BALANCE BY END FY2022-2023 | 2,285,891,038 |
| Add: FY2023-2024 MTEF Allocation | 6,908,676,000 |
| Less: FY2023-2024 Anticipated Spending | -11,921,367,500 |
| ESTIMATED CASH BALANCE BY END FY2023-2024 | -2,726,800,463 |
| Add: FY2024-2025 MTEF Allocation | 7,218,941,000 |
| Less: FY2024-2025 Anticipated Spending | -13,926,473,854 |
| ESTIMATED CASH BALANCE BY END FY2024-2025 | -9,434,333,316 |




| ACTUAL MTEF ALLOCATIONS VS PROJECTED REVISED BUDGETS | | | |
|---|---|---|---|
| FINANCIAL YEAR | MTEF ALLOCATION | PROJECTED | VARIANCE |
| FY2021-2022 | 4,830,522,000 | 5,427,637,997 | -597,115,997 |
| FY2022-2023 | 6,801,794,000 | 14,125,300,965 | -7,323,506,965 |
| FY2023-2024 | 6,908,676,000 | 11,921,367,500 | -5,012,691,500 |
| FY2024-2025 | 7,218,941,000 | 13,926,473,854 | -6,707,532,854 |
| TOTALS | 25,759,933,000 | 45,400,780,316 | -19,640,847,316 |

✓ Figures are indicative and remain updatable once PRASA Finance treatment of accruals for New Train acceptance instalments, retentions and indexation etc. are finalised

# 7. Future of PRASA Moving Forward:

1. Quarter 1 and YTD July 2022, reflects 50% and 60% achievement of targets, respectively. A significant improvement on previous years.
2. The commitments on Capital Expenditure will increase capital spending and planning for execution of the next set of corridors has already kicked off. Procurement processes need to be completed in current FY for execution in next FY.
3. The rebuilding programme, especially in Gauteng is extensive. The programme focus on rebuilding of corridors based on priorities linked to the volumes of commuters within the remaining lines.
4. The lessons learnt in rebuilding and construction as opposed to a maintenance driven organisation, over the last two years, is showing how to fast track procurement within prescripts of laws and policies, address material shortages, imports for large transformers and dealing with communities and business forums.
5. Ten priority corridors will be In operation in 2022/23 (including those from 2020/21).
6. Services provided in 2022/23 will remain with limited frequencies as signal replacement (re-signalling work that must be re-done), has long lead times largely as result of worldwide shortages of electronic component. Services resumed in 2022/23 will be able to have increased train frequencies from around mid-year 2023/24.
7. The GO programme is again in place. Due to the long period where there was no contracts, the industry players that received the contracts require setup time. We are in discussions to accelerate and increase the coaches being returned to service from this programme.
8. The new rolling stock fleet renewal programme is expected to increase train set delivery yet be balanced with deployment as corridors are rebuilt.
9. Depot modernisation reflects progress with three depot design phases commencing (Durban & Springfield in KZN and Saltriver in Western Cape). Two depots, Wolmerton and Paarden Eiland, with turnkey tenders, is expected to be concluded in 2022/23. These are all multi-year contracts and once contractors appointed, delivery and timelines can be more accurately provided.
10. Station recovery has gained momentum with proper bills of quantity. This area experience more challenges with business forums due to low barriers of entry. Scoping of stations are done as close to contract award due to continued vandalism.

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11. The foundation for the rebuilding of PRASA services, remain SECURITY.
    - ✓ Security technology roll-out cannot outpace corridor recovery. In order to install security equipment  walling and fencing is required especially on tracks outside of stations.
    - ✓ Walling and high security grade fencing will allow Metrorail to again provide consistently good services with assets that are modern and maintained (i.e. not constantly replaced as result of vandalism).  Other tangible benefits will be significant reduction in public fatalities where people cross the rail lines, significant reduction of fare evaders and safe station environment for commuters and staff.
    - ✓ Security technology tenders is expected to be completed in current FY and then roll-out will be aligned with the lines prioritized as well as completion of fencing.
    - ✓ Government however need to clamp down on criminality that continues to threaten safety of staff and contractors.

12. Addressing the policy requirements of the National Rail Policy of 2022.
    - ✓ Participation with Department of Transport on devolution strategy
    - ✓ Preparation of regions for devolution.
    - ✓ Preparing the organisation to allow for shift to infrastructure owner and rolling stock provider.
    - ✓ Investigate possibilities for concessioning within the PRASA service lines.

13. A new organisation focused on the future, with commitment to consistently good services will bring customer growth and loyalty with social, environmental and economic benefits for South Africa.

14. Addressing the policy requirements of the National Rail Policy of 2022.
    - Participation with Department of Transport on devolution strategy
    - Preparation of regions for devolution.
    - Preparing the organisation to allow for shift to infrastructure owner and rolling stock provider.
    - Investigate possibilities for concessioning within the PRASA service lines.

15. A new organisation focused on the future, with commitment to consistently good services will bring customer growth and loyalty with social, environmental and economic benefits for South Africa.

# 8. Condition of Coaches:

Table 1: National Rolling Stock Figures

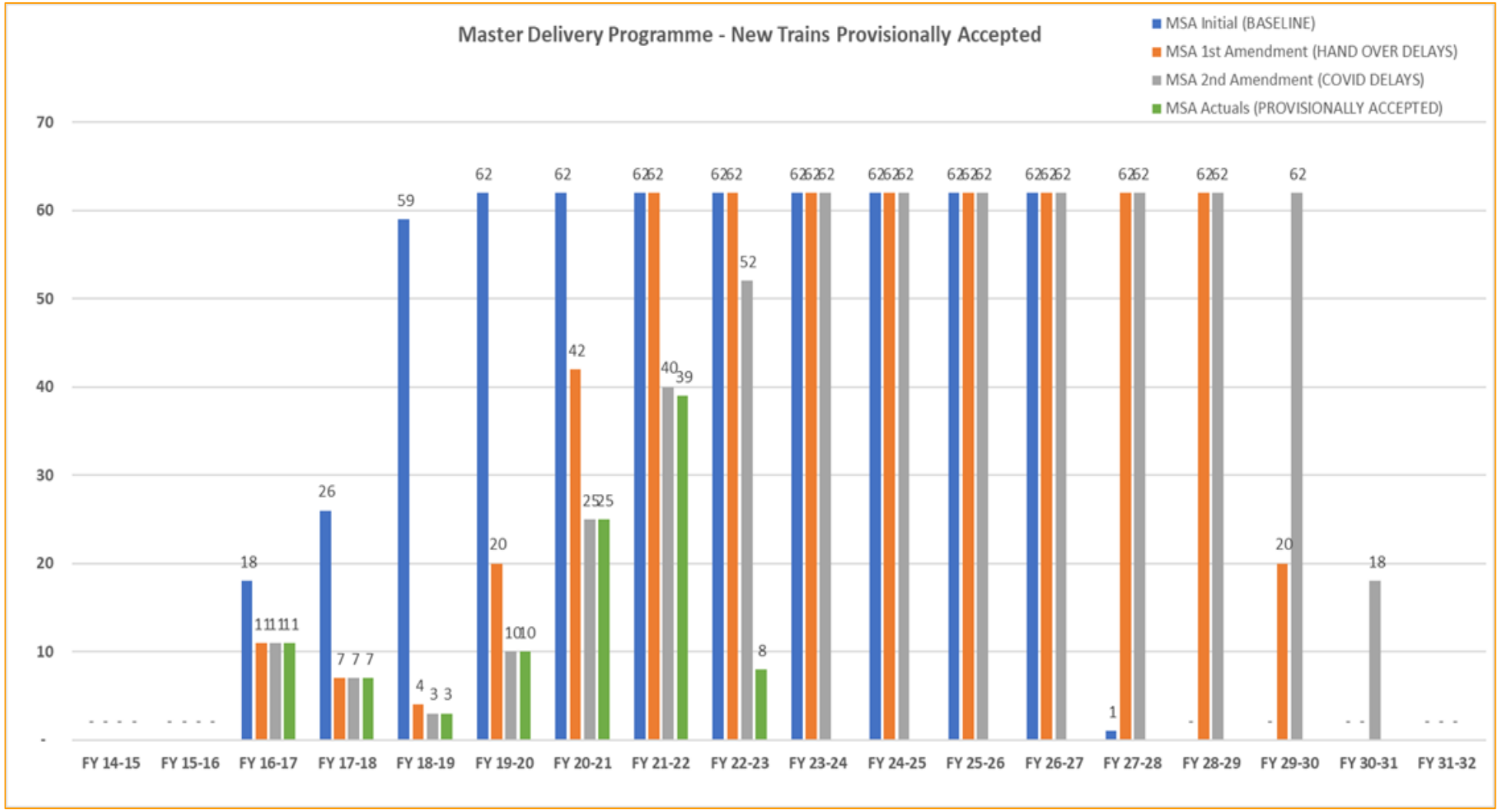
| Coach Status | Total |
|---|---|
| Operational MC's In Service: | 199 |
| Operational MC's Out of Service: | 359 |
| Non-Operational MC's | 242 |
| Total Allocated MC's | 800 |
| Operational PT's In Service: | 641 |
| Operational PT's Out of Service: | 977 |
| Non-Operational PT's | 1594 |
| Total Allocated PT's | 3212 |
| **Total Coaches Allocated** | 4012 |

Table 2: Regional Breakdown

| Coach Status | Wolmerton | Durban | Braamfontein | Western Cape | Eastern Cape |
|---|---|---|---|---|---|
| Operational MC's In Service: | 22 | 33 | 31 | 113 | 5 |
| Operational MC's Out of Service: | 8 | 113 | 16 | 222 | 2 |
| Non-Operational MC's | 193 | 83 | 412 | 130 | 1 |
| Total Allocated MC's | 223 | 229 | 459 | 465 | 8 |
| | | | | | |
| Operational PT's In Service: | 78 | 110 | 173 | 200 | 80 |
| Operational PT's Out of Service: | 2 | 293 | 22 | 598 | 62 |
| Non-Operational PT's | 410 | 143 | 919 | 120 | 0 |
| Total Allocated PT's | 490 | 546 | 1114 | 918 | 142 |
| Total Coaches Allocated | 713 | 775 | 1573 | 1383 | 150 |

# 9. GIBELA Contract:

## 9.1 Master Delivery Programme:



*continued…*

## 9.2 Progress on the Implementation of the Contract:

1. The current delivery profile (in financial years) is shown in the figure above (with projected COVID-19 impact and overall actuals to date) – refer to Sections 2 and 8 of this ISC Report for further detail on the impact of COVID-19 and other relevant influencing factors.

2. In terms of the Master Delivery Programme above, GIBELA is lagging by a total of 5 New Trains whereby the issuance of Provisional Acceptance Certificates ("PACs) was due to be for 108 New Trains however only 105 PACs were issued. This is due to significant Delay Events as described under Section 8 of this ISC Report and GIBELA's general overall performance.

3. Initial delays due to PRASA challenges with handing over unencumbered site to GIBELA for development of Local Factory in Dunnottar resulting in Extension of Time ("EOT") 1.

4. GIBELA was delayed prior to COVID-19 and the Delay Penalties Certificates were issued in line with contractual remedies. GIBELA will pay Delay Penalties (on Default and pre-COVID Delay Penalties for New Trains #1 to #42 to the value of ZAR226,571,090.92 (excl. VAT) linked to COVID-19 Extension of Time ("EOT") 2 of 12 months (as the dominant delay) agreed with Gibela (MSA end date now 30 June 2030) now linked with finalisation of FAP still under negotiation - awaiting AGCEO final approval upon receipt of approval response from the Ministers of Transport /Treasury. Application of penalties and finalisation of COVID-19 EOT arrangements on hold per AGCEO instruction.

5. Most Likely Minimum New Trains projections are rationalisation of Optimistic projections to accommodate adjusted budgets, anticipated further COVID and/or other delays and PRASA capacity for New Train Dynamic Storage whilst Depot Modernisation is successfully implemented.

6. Programme may further be severely affected by worldwide electronic crisis emanating from COVID-19.

7. Business Case/Needs Analysis for New Rolling Stock has commenced in consideration of potential adjustment to PRASA Business Plan (potential new/revised market survey and analysis required to guide New Rolling Stock Manufacturing and Roll-out plans).

*continued…*

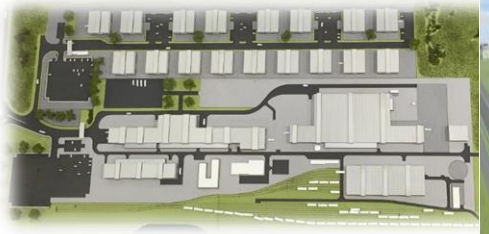
## 9.3 Local Factory and Supplier Park: Manufacturing of Trains in SA:

### Local Factory

- Construction of the factory at Dunnottar Park, Ekurhuleni has advanced:
  - Construction of Training Centre and main Car-Body Shell Building is complete
  - Main Fittings and Tooling have been installed for start of operations
  - Start of basic operations, including testing of manufacture processes begun in January 2018
- GIBELA on-boarding suppliers for South African manufacture
- Manufacture has progressed well, with 1st local train delivered in December 2018

### Supplier Park

- Is a critical enabler for the development of a central industrial rail hub which will support localisation
- Mobilization to develop the Supplier Park that supports the Local Factory is currently underway
- Construction of the Supplier Park cannot begin until:
  - Exemption from MFMA regulations for subleasing
  - Sublease is drafted
  - Council approval of sale of site to PRASA obtained from EMM. The Minister of Transport initially requested additional information which was forwarded by PRASA. In and around 12 June 2022 the Minister of Transport requested further submissions from PRASA which PRASA is attending to and will forward to the Minister in due. Once approval to proceed is received from the Minister of Transport, PRASA will finalise the acquisition with EMM. Draft Agreements are ready to be signed and attorneys are on board to effect the transaction
- Several companies already have in principle agreement to have facilities in the Supplier Park



# 10. Rolling Stock Fleet Renewal Programme:

## 10.1 Progress on Manufacture and Supply Agreement:

- ✓ GIBELA's shareholding includes Alstom, New Africa Rail and Ubumbano. Ubumbano is a 30% equity shareholder allocated by PRASA to support transformation objections within major projects. Ubumbano comprises of 3 entities and 3 trusts. The 3 entities are Khipunyawo Rail (current active), Community Rail Services (new entrant), and Elgin-Identity Rail (Investor Black Enterprise). The 3 trusts are the PRASA Employee Trust, GIBELA Employee Trust and the PRASA Education Trust:

| UBUMBANO RAIL (PTY) LTD | | |
|---|---|---|
| CATEGORY OF B-BBEE EQUITY PARTNER | NAME OF B-BBEE EQUITY PARTNER | BREAKDOWN OF 30% SHAREHOLDING |
| **Active Black Enterprises:** | | |
| Current Active | Khipunyawo Rail (Pty) Ltd | 8% |
| New Entrants | Community Rail Services (Pty) Ltd | 2% |
| Investor Black Enterprises | Elgin-Identity Rail Corporation | 7% |
| **Trusts:** | | |
| PRASA | PRASA Employee Trust | 7% |
| GIBELA | GIBELA Employee Trust | 3% |
| Education Trust | PRASA Education Trust | 3% |
| **TOTAL** | | **30%** |

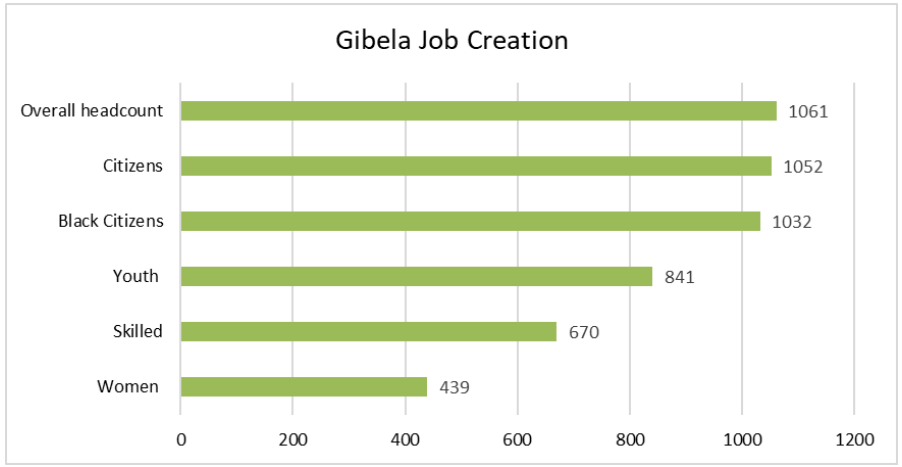
- ✓ Ubumbano is integrating into the Programme through 2 fronts, namely, shareholding through GIBELA and entering the rail industry through providing goods and services. Through the shareholding perspective, Ubumbano is actively participating in the management of GIBELA and obtaining key learnings of train manufacture. Within the rail industry, Ubumbano is positioning itself to be a supplier of components to GIBELA (or GIBELA's sub-suppliers). Currently, Ubumbano is in the phase of establishing partnerships and shareholding in component manufacturers. As part of PRASA's consideration of the 4th Advance Payment (described elsewhere in this Quarterly Report), PRASA requested transfer of 19.1% of GIBELA shares from Alstom to Ubumbano which would take Ubumbano's total shareholding in GIBELA to 49.1%

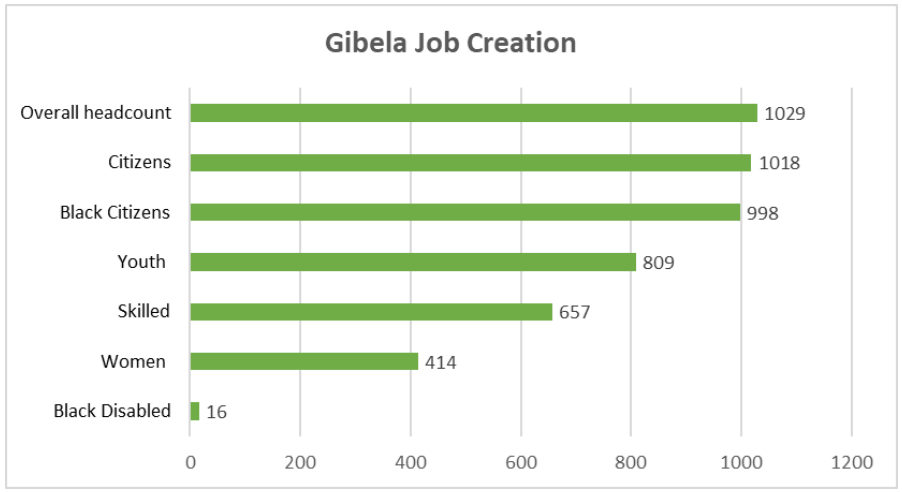
- ✓ The matter of GIBELA share transfers is being negotiated at a PRASA Board, PRASA Acting Group CEO and Ministry of Transport level

*continued…*

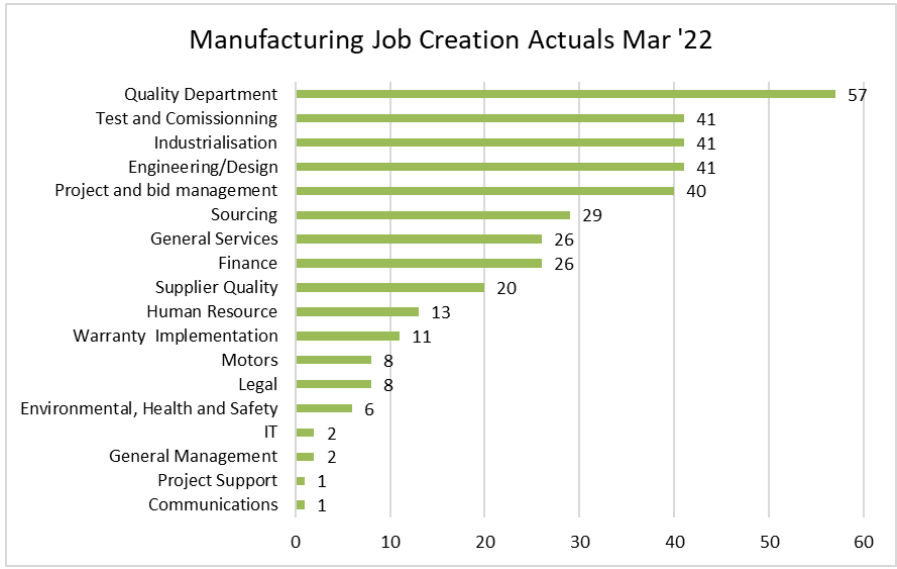
## 10.2 Enterprise Development Progress:

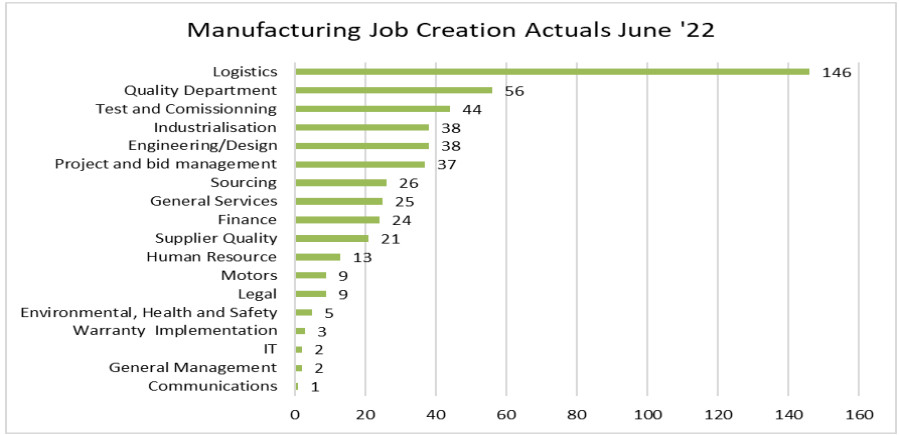
### *10.2.1 Progress and Job Creation - Categories:*



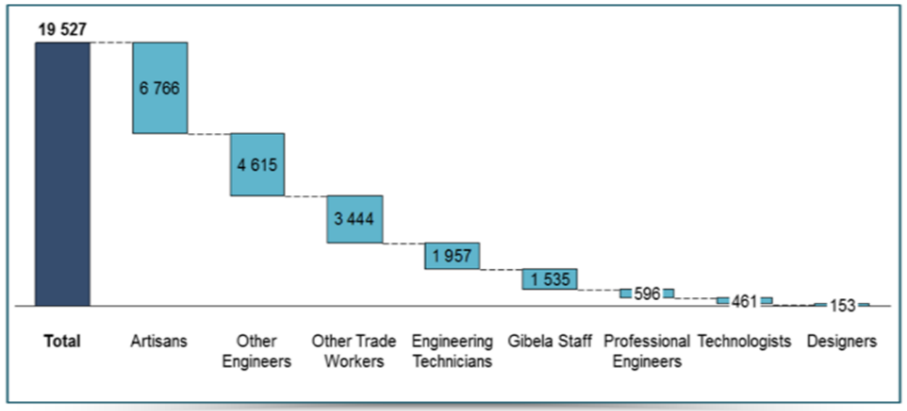



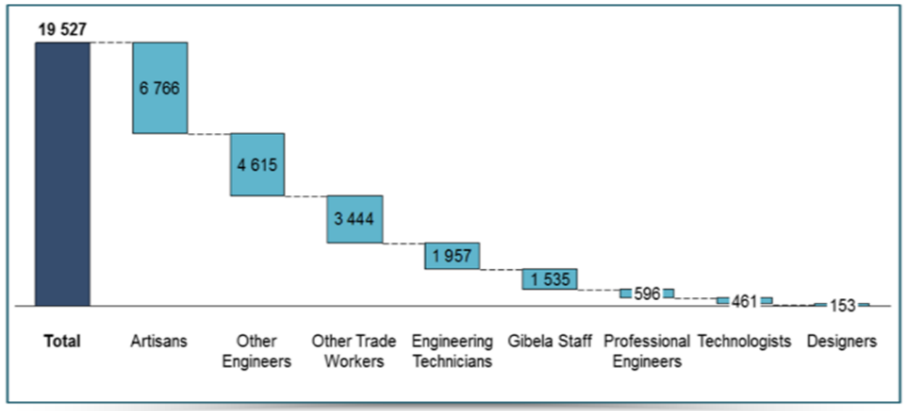

### *10.2.2 Progress and Job Creation – Manufacturing:*



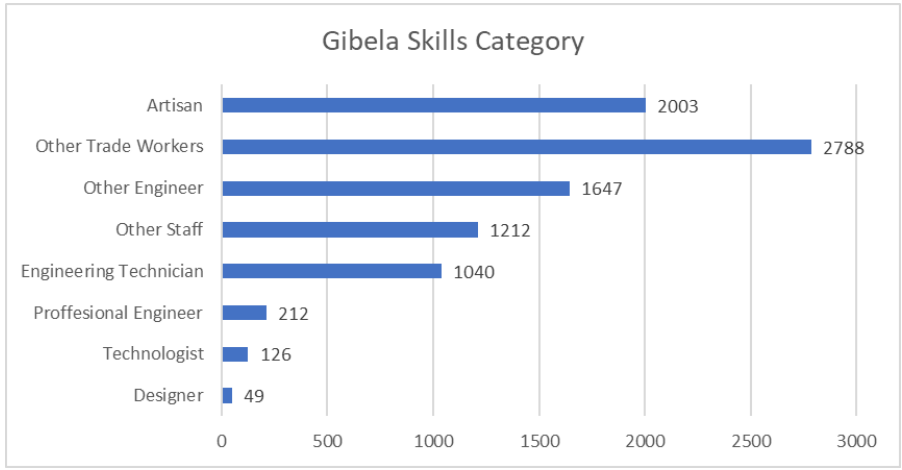



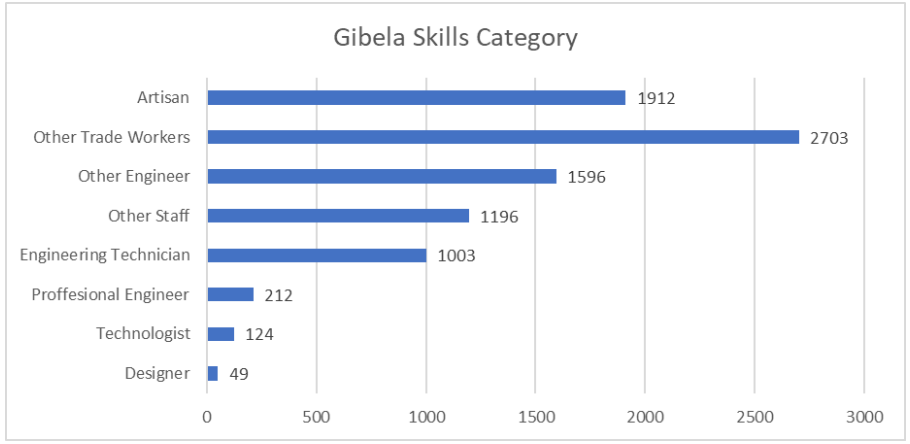
### *10.2.3 Summary of Skills:*



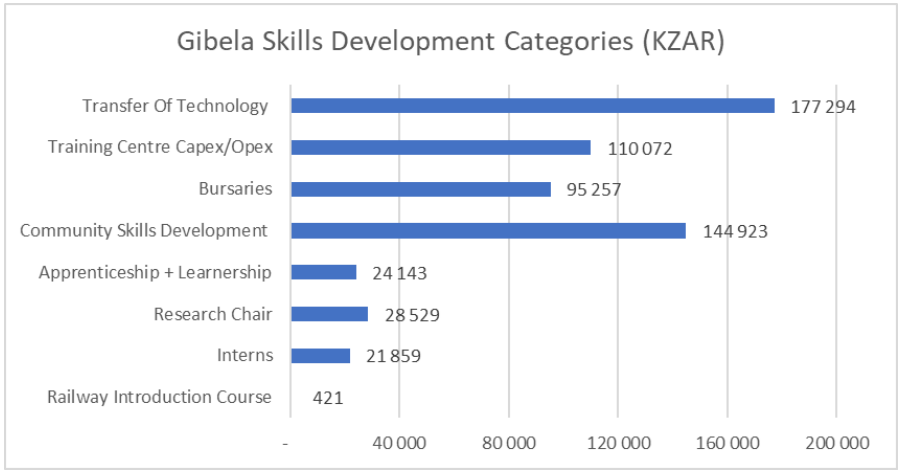



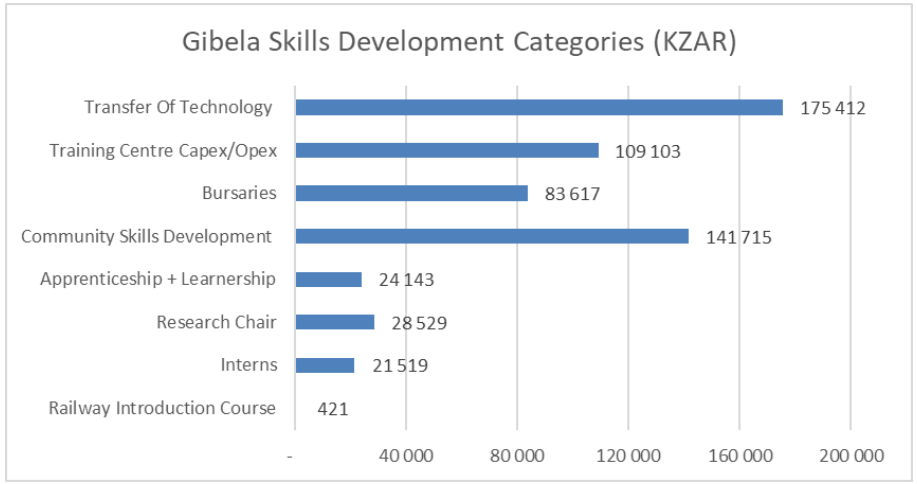

### *10.2.4 Number of people trained per Category:*



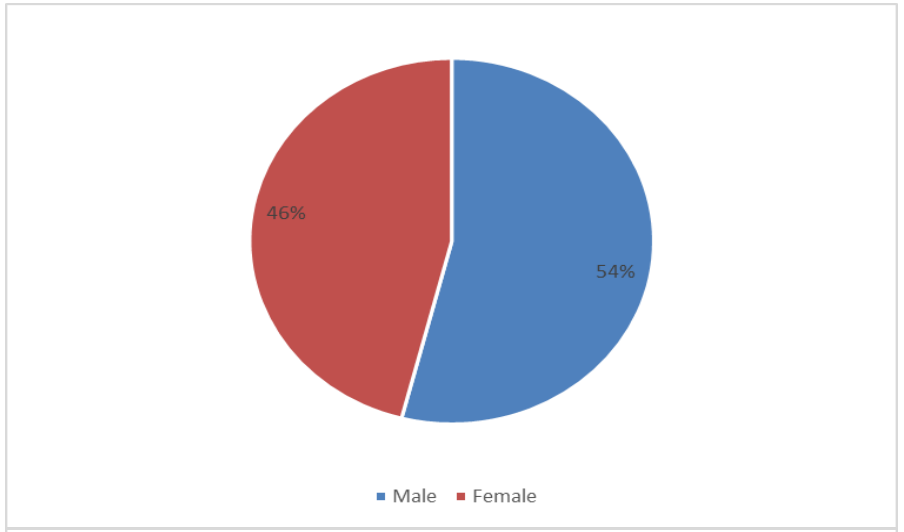



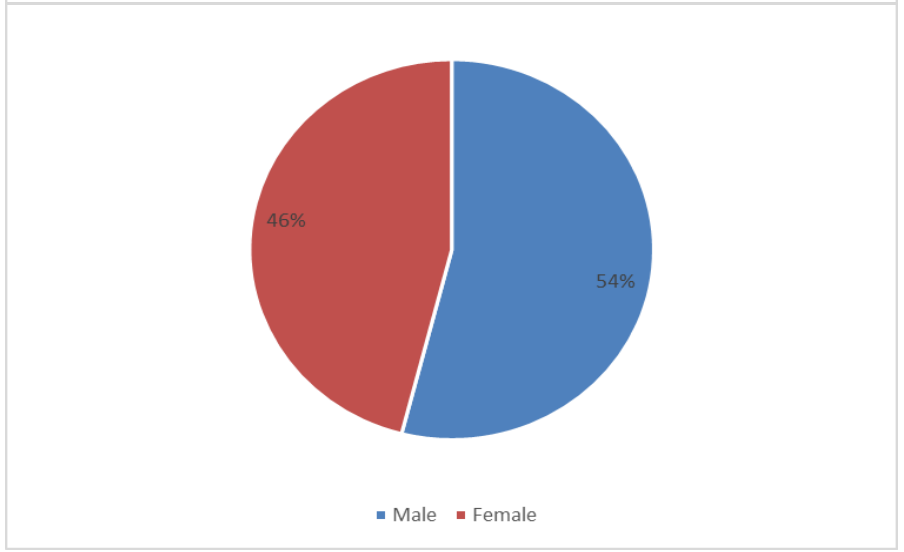
### *10.2.5 Skills Development Spend:*




### *10.2.6 Bursary Gender Distribution:*



## *10.2.7 Community Skills Programme:*

| Skills Programme | Numbers |
|---|---|
| Carpentry NQF Level 3 | 116 |
| Artisan Programme | 113 |
| Entrepreneurship Training | 403 |
| Technical business Management | 355 |
| PCD (Community SMART Toolkit) | 120 |
| Masonry NQF Level 3 | 145 |
| Painting and Decorating NQF Level 3 | 161 |
| Plastering and Tiling NQF Level 3 | 104 |
| Plumbing NQF Level 4 | 148 |
| Work Readiness Training | 764 |
| Project Management | 180 |
| Solar Installation | 30 |
| Electrical Wiring | 120 |
| Welding | 120 |
| Spray Painting | 50 |
| Vehicle Body Builder | 40 |
| Pipe Fitter | 40 |
| TOTAL | 3089 |


| Skills Programme | Numbers |
|---|---|
| Carpentry NQF Level 3 | 116 |
| Artisan Programme | 113 |
| Entrepreneurship Training | 403 |
| Technical business Management | 355 |
| PCD (Community SMART Toolkit) | 120 |
| Masonry NQF Level 3 | 145 |
| Painting and Decorating NQF Level 3 | 161 |
| Plastering and Tiling NQF Level 3 | 104 |
| Plumbing NQF Level 4 | 148 |
| Work Readiness Training | 764 |
| Project Management | 180 |
| Solar Installation | 30 |
| Electrical Wiring | 120 |
| Welding | 120 |
| Spray Painting | 50 |
| Vehicle Body Builder | 40 |
| Pipe Fitter | 40 |
| TOTAL | 3089 |


## *10.2.8 Sourcing Achievements:*

### Local Content _ Sourcing Achievements

Localization and preferential procurement

- **79% of sourcing spend for trains** currently manufactured in Dunnottar by Gibela **with 111 active local suppliers**
- **Already at >50% local content** considering the complete tier flow, but recent increase of imports due to Covid-19 impacts

| | Number of suppliers | Sourcing spend |
|---|---|---|
| Europe | 25 | 20% |
| Others (China, Brazil, etc.) | 1 | 1% |
| South Africa | 111 | 79% |

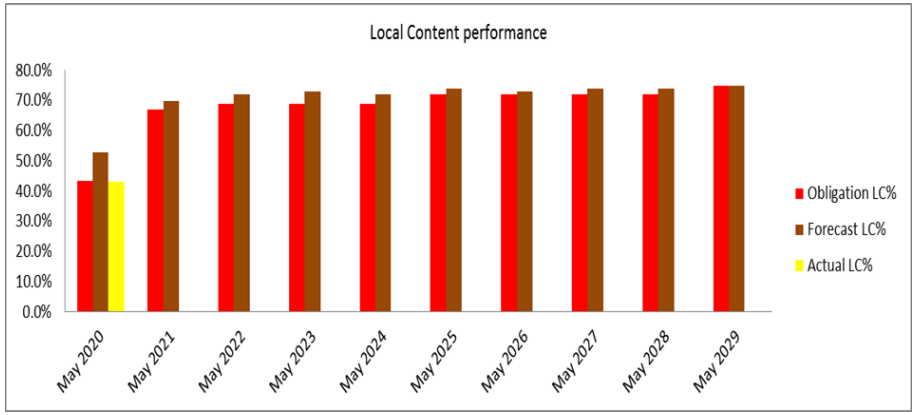
**Preferential Procurement**

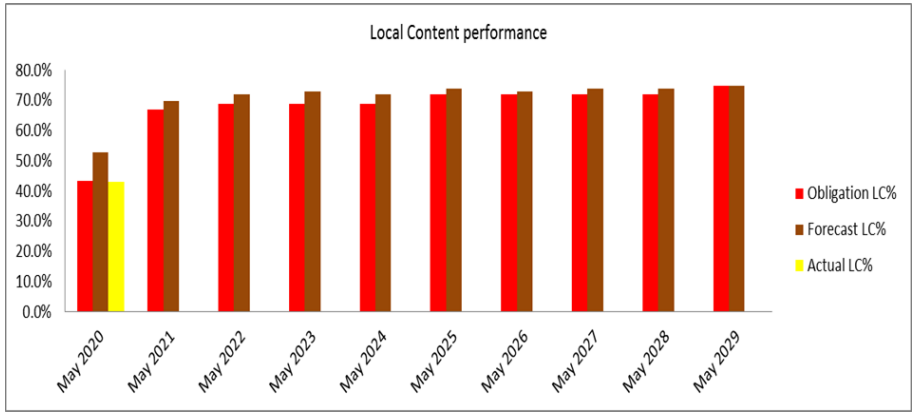
- **80% of the spend** for train components done using **suppliers with B-BBEE Level 1 to 4**
- Currently:
  - **11 Black Women Owned companies (>51%)**
  - 36 Black Owned companies (>51%)
  - 15 EMEs
  - 22 QSEs

  Are providing train components.

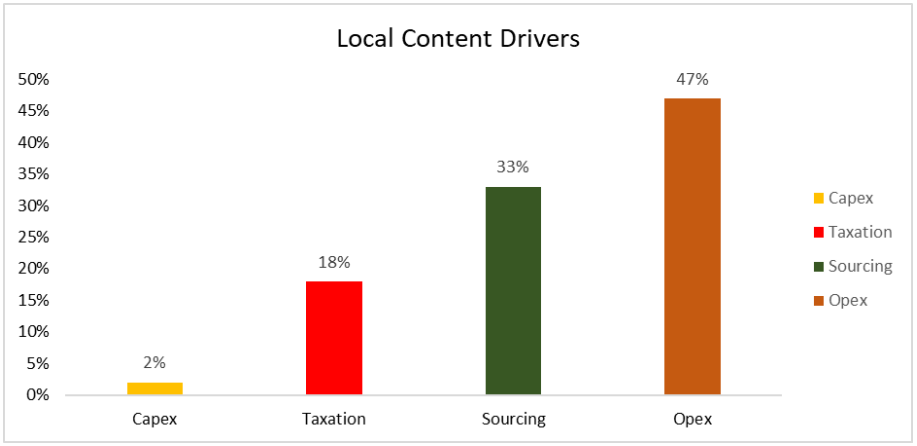
GIBELA 20

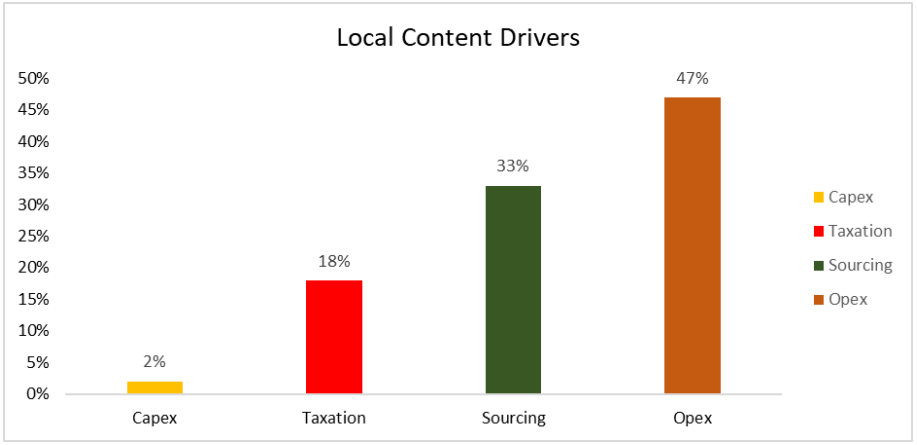
### *10.2.9 Local Content Performance:*




### *10.2.10 Local Content Driver:*



# 11. Milestones:

## 11.1 Milestones Achieved and Upcoming:

1. Q4 Achievements:
   - ✓ PRASA PAC'd 8 New Trains in Q1 of FY2022/2023
   - ✓ On 04 July 2022, PRASA celebrated the manufacture and acceptance of the 100th New Train which was PAC'd in June 2022
   - ✓ Spend ramping up in line with New Train delivery ramp up

2. Annual Planned vs Actual Targets:
   - ✓ On track to achieve most likely minimum target of 34 New Trains for FY2022/2023

| MOST LIKELY MINIMUM NEW TRAINS | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|
| Provisionally Acceptable | 28 – 30 | 34 - 36 | 36 - 40 | 40 - 44 |

# 12. Key Risks and Opportunities:

## 12.1 Milestones Achieved and Upcoming:

| Item | Project Risk | Responsibility | Likelihood of occurring | Potential Impact | Comments |
|---|---|---|---|---|---|
| 1 | Frequent power outages impacting the manufacturing capacity of the Local Factory and the Contractor's suppliers | GIBELA | Medium | Delayed delivery schedule | GIBELA will need to ensure that sufficient power back-ups are implemented at the Local Factory |
| 2 | Community/Employee strikes at the Local Factory | GIBELA | Low | Delayed delivery schedule | GIBELA is engaging with the Community, with support from PRASA, to mitigate any issues with the Community |
| 3 | GIBELA Cash Flow may result in lack of funds for GIBELA to support manufacture of New Trains notwithstanding 3 MSA Advance Payments totalling R8,936b (including VAT) made to date according to MSA provisions | GIBELA / PRASA / DOT / NATIONAL TREASURY | High | Delayed delivery schedule | The risk of the Cash Flow may materialise within the next financial year. Mitigation measures are now being processed to address the issue, as captured in Section 5.3 (consideration of Gibela Fourth Advance Payment "FAP") |
| 4 | Global COVID-19 Pandemic | Force Majeure | High | Delayed delivery schedule and increased costs | The initial pandemic has already affected the Delivery Programme. However, until the Pandemic can be managed globally, the risk on the rest of the Programme will continue |
| 5 | PRASA's lack of resources and/or commitment to acquire sufficient and permanent resources to manage the MSA | PRASA | High | Catastrophic implementation failure | PRASA's ongoing lack of resources and/or commitment to acquire sufficient and permanent resources will result in inadequate management of the RSFRP (particularly GIBELA) therefore catastrophic failure and audit findings |
| 6 | Delayed Rail Network and Depot Modernisation may affect New Train Deployment/Roll-out | PRASA | High | Delayed delivery schedule and increased costs | PRASA to review and update its New Train Deployment/Roll-out Plan to accommodate for delays in implementing its Rail Network and Depot Modernisation strategy and plan |
| 7 | Budget availability | PRASA / DOT / NATIONAL TREASURY | High | Delayed delivery schedule | DoT and National Treasury to assist PRASA with addressing foreseeable budget shortfalls due to ramp up in New Train Manufacturing and Multicurrency invoicing by Gibela from New Train #104 onward. Close ongoing deep reviews and monitoring of MSA contract lifecycle cost and affordability required |

*continued…*

| Item | Project Risk | Responsibility | Likelihood of occurring | Potential Impact | Comments |
|---|---|---|---|---|---|
| 8 | Ad-hoc and/or ineffective ED Monitoring | PRASA | **High** | Audit Findings | PRASA to resolve the ED matter with the SABS so that resumption of ED services is effected as soon as possible |
| 9 | Non-resolution of FY2021/2022 Indexation issue | PRASA / DOT / NATIONAL TREASURY/ GIBELA | **High** | Audit Findings | Resolve Indexation impasse with GIBELA, most likely through formal dispute resolution (Arbitration) else realistic view of actual MSA contract costs from FY2021/2022 onward may not be possible |
| 10 | Alleged Alstom Transfer of GIBELA Funds to Off-shore Banks | PRASA / DOT / NATIONAL TREASURY/ GIBELA | **High** | Audit Findings and Catastrophic implementation failure | PRASA, through one of GIBELA's shareholders, has been officially notified that Alstom has allegedly moved an amount of circa R6bn-R7b of GIBELA funds to off-shore accounts. This matter must be treated in serious light hence requires in-depth review, audit, forensic investigation and rectification |
| 11 | PRASA passenger demand lower than initially expected hence roll-out of New Trains may be affected in the short to medium (particularly COVID-19 impact) | PRASA | **Medium** | Delayed delivery schedule and increased costs | COVID-19 is considerably affecting demand and total impact thereof cannot yet be determined due to ongoing nature. NRS demand can be reviewed however must be noted that existing "yellow trains" are ageing at an increasing rate therefore demand for NRS will, whilst low at the moment, also ramp up at an increasing rate therefore a delay then spike. PRASA can run models with sensitivities however it must further be noted that COVID-19 is ongoing |
| 12 | Indexation may not be in accordance with the Gazette | PRASA / DOT / TREASURY | **High** | Audit Findings | National Treasury concern regarding the difference between the Gazette (CPI) and the Project Agreement (Indexation over CPI) under legal review. Close ongoing deep reviews and monitoring of MSA contract lifecycle cost and affordability required |
| 13 | GIBELA non-compliance with King IV (particularly Audit & Risk Committee etc.) | GIBELA | **High** | Ongoing contract exposure to failure and/or mismanagement and/or irregularities that could also lead to audit findings | GIBELA refusing to comply with King IV (particularly Audit & Risk Committee etc.) as per PRASA's requirements |

*continued…*

| Item | Project Risk | Responsibility | Likelihood of occurring | Potential Impact | Comments |
|---|---|---|---|---|---|
| 14 | Lack of transparency from GIBELA. GIBELA's business management, operations and finances requires in-depth and transparent audit and analyses for route cause determination and effecting consequence management with strict supervision and intervention by PRASA. GIBELA is unclear on its utilisation of the previous 3 MSA Advance Payments totalling R8,936b (including VAT). PRASA requested a detailed report from Gibela on how the funds were utilised and GIBELA's response was scant. GIBELA not willing to provide detailed business management, operations and finance information to PRASA | PRASA / DOT / TREASURY | **High** | Ongoing contract exposure to failure and/or mismanagement and/or irregularities that could also lead to audit findings | This matter must be treated in serious light hence requires in-depth review, audit, forensic investigation and rectification. Increase state resource capacity to ensure close ongoing deep reviews and monitoring (including audits, forensic investigation and rectification) throughout MSA contract lifecycle. GIBELA must be compelled to always transparently, without contest and uncompromisingly comply and cooperate with all Company requests for information (that PRASA, at PRASA's discretion, determines relevant or necessary), for PRASA's undertaking of ongoing assessments, audits and analyses of GIBELA's business management, operations and finances. This is required for route cause determination and effecting consequence management toward avoiding repetition of Gibela's ongoing intrinsic quagmire that is continuously sought to be resolved by PRASA (through injection of State funds). |
| 15 | PRASA rights, capacity and upskilling toward taking over Local Factory (in circa 2030 or earlier) including operations and early marketing to ensure that the RSFRP creates sustainable intrinsic and extrinsic opportunities | PRASA / DOT / TREASURY | **High** | Long term RSFRP failure and opportunity loss | As part of the FAP negotiations - notwithstanding the provisions of Schedule 18 of the MSA (the "Local Factory Option"), Gibela/Owner agrees that PRASA may, at PRASA's discretion, exercise the Factory Option through issuance of the Exercise Notice earlier than the period(s) and/or date(s) contemplated in Schedule 18. Gibela/Owner agrees to the related Grant of Factory Option should this earlier exercise be realised therefore waives the limitation of the Factory Option Conditions and waives any rights to claim any costs from PRASA in this regard therefore there shall be no consideration payable under Schedule 18 for the Grant of Factory Option. PRASA's ongoing lack of resources and/or commitment to acquire sufficient and permanent resources must be adequately addressed and investment in internal resource capacity needs to commence as early as possible to maximise chances of long-term success. |
| 16 | Flexibility toward ongoing adoption of new technologies and future proofing of New Trains (in design, functionality and operability) | GIBELA / PRASA / DOT / NATIONAL TREASURY | **High** | New Train long-term obsolescence | Look into options and early implementation of new technologies etc. to facilitate future proofing e.g. alternate New Train operating energy options (Hydrogen Technology) |

*continued…*

| Item | Project Risk | Responsibility | Likelihood of occurring | Potential Impact | Comments |
|---|---|---|---|---|---|
| 17 | GIBELA not following contract protocols:<br>• PACs delayed due to GSM-R/UHF Radio functionality/fit-for-purpose issues related to programming which is being resolved therefore Retentions (ranging between 10%-15% of New Train Prices) are being held until PRASA is completely satisfied with the product. GIBELA follows out of contract processes to have these Retentions reduced and/or waived<br>• PACs delayed due to ongoing unresolved and/or new Fleet Defects which GIBELA is paying limited attention toward resolving therefore Retentions (ranging between 10%-15% of New Train Prices) are being held until PRASA is completely satisfied with the product. GIBELA follows out of contract processes to have these Retentions reduced and/or waived | GIBELA / PRASA | **High** | Ongoing contract exposure to failure and/or mismanagement and/or irregularities that could also lead to audit findings | PRASA's project team needs more support when it comes to enforcing the terms and conditions of the MSA |

# THANK YOU