**3. REPORT OF THE SELECT COMMITTEE ON TRANSPORT, PUBLIC SERVICES AND ADMINISTRATION, PUBLIC WORKS AND INFRASTRUCTURE ON THE ADJUSTED ALLOCATIONS OF BUDGET VOTE 40: TRANSPORT, DATED 17 JULY 2020**

The Select Committee on Transport, Public Service and Administration, Public Works and Infrastructure (hereinafter referred to as the Select Committee), having considered the directive of the National Council of Provinces (the Council) to consider and report on the adjusted allocations of Budget Vote 40: Transport, reports as follows:

1. **INTRODUCTION**

Section 30(1) of the Public Finance Management Act (PFMA) (1999) empowers the Minister of Finance to table an adjustments budget in the National Assembly when necessary. The fiscal and economic impact of the national state of disaster declared as a result of the COVID-19 pandemic has made it necessary for the Minister to table a special adjustments budget to revise government’s spending priorities for 2020/21.

Section 30(2) of the PFMA specifies the type of spending that the adjustments budget may provide for. This special adjustments appropriation makes provision for:

• Adjustments due to significant and unforeseeable economic and financial events: these adjustments are required due to a significant reduction in government revenues and changes in spending priorities in response to the COVID-19 pandemic.

• Virements and shifts within the vote: a virement is the use of unspent funds from amounts appropriated under one main division (programme) to defray excess expenditure under another main division (programme) within the same vote. Section 43 of the PFMA, read together with Treasury regulation 6.3 and section 5 of the Appropriation Act (2020), sets out the parameters within which virements may take place. The virements included in this adjustments budget are mainly those intended to respond to COVID-19.

All other adjustments not included in this adjustments budget will be implemented in the October 2020 adjustments budget, with the details outlined in the Adjusted Estimates of National Expenditure.

The adjustments budget was tabled on 24 June 2020. The supplementary budget was necessitated by three things: a collapse in economic activity, a large decline in tax revenue collection, and the need to increase the money allocated to departments and programmes linked to the government’s Covid-19 response. The largest reprioritisations were to the education infrastructure grant to provide water, sanitation and personal protective equipment to schools, and construct temporary classrooms and fund continual deep-cleaning of facilities. Reprioritisations were also being redirected to the municipal infrastructure grant to provide water to households and sanitise public transport facilities in municipalities that do not receive the public transport network grant.

During its engagements with the entities and the Department, the Committee was informed of the impact on the entities by the Covid-19 regulations and resultant proposed changes to projects as well as the proposed budget requirements in order to keep the entities financially viable. Despite the aviation industry having been hardest hit by the global impact of the pandemic, the supplementary or adjustments budget makes no mention of allocations of funds to the aviation industry, specifically ACSA and SACAA. The International Air Transport Association (IATA) estimates that revenues generated by airlines in the South African market will fall by approximately R55 billion in 2020, 56% below 2019 levels. This puts at risk more than 250 000 South African jobs and about R93 billion of South Africa’s gross domestic product (GDP), which is generated by aviation directly and air transport-depended tourism.

This budget also does not budget for any additional allocations to the maritime entities who also stand to lose revenue due to the impact of Covid-19 restrictions on the operations of ports, harbours and docking of maritime vessels to off load seafarers and/or non-essential goods. As far as maritime transport is concerned, combating COVID-19 poses new dilemmas for South Africa, in addition to the existing challenge of policing one of the largest maritime zones in Africa, which lies astride one of the world’s most significant shipping lanes. Thanks to the pandemic, South Africa will have to, among other things, ensure supply chain efficiency for itself and much of Southern Africa. Any reduction in supply chain efficiency caused by piracy and accidents could wreak economic havoc on the country and its neighbours.

The allocations in terms of the adjustments budget for PRASA and the South African National Roads Agency Limited (SANRAL) were to a large extent drawn from funds already budgeted for line-items/projects in these entities’ plans which were not able to continue due to the lockdown. The allocation of funds to the taxi relief fund is in part covered by a reduction in the budget allocated to the taxi recapitalisation program which has notoriously not been able to spend its entire budget for multiple years due to low uptake for scrapping by the industry. The taxi relief fund poses another concern as there has been an outcry from the mini-bus taxi industry that this allocation is simply not sufficient and that the industry would, similar to the recapitalisation programme, not take up this relief offered.

The rating agencies are likely to downgrade South Africa further on the back of this Budget (which will greatly affect SANRAL and ACSA, among others), as the key objective of any credit rating agency is to assess the ability of a country (or corporate) to repay its debt, and with South Africa now signalling that its debt burden will rise to 87.4% of GDP by 2023/24, has deteriorated the country’s ability to repay its debt.

The Select Committee on Transport, Public Service and Administration considered the adjustments budget of the Department on 7 July 2020 in a joint meeting with the Portfolio Committee on Transport. This report contains an analysis of the Department’s adjustments budget allocation, and the observations and recommendations of the Committee on this revised budget.

# AdjustmentS budget analysis

**Table 1: Revised Allocation of the Department of Transport**

| **Programme**  **R’ 000** | **2020/21 Main Budget** | **Downward Revision** | | | **Reallocations** | |  | **2020/21 Total Net** **Change Proposed** | **2020/21 Total Allocation Proposed** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Suspension of Funds (COVID-19** **Purposes** | **Virements from (COVID-19** **Purposes)** | **Virements (from other)** | **Allocated to (COVID-19 Purposes)** | **Virements to (CIVID-19** **Purposes)** | **Virements to (Other)** |
| Administration | 491 808 | - | -9 614 | - | - | - | - | -9 614 | 482 194 |
| Integrated Transport Planning | 104 509 | - | -10 740 | - | - | - | - | -10 740 | 93 769 |
| Rail Transport | 13 195 199 | -1 021 348 | -1 266 954 | - | - | 1 267 377 | - | -1 011 925 | 12 183 274 |
| Road Transport | 33 816 703 | -2 851 801 | -312 044 | -2 530 000 | - | 613 336 | 2 530 000 | -2 550 509 | 31 266 194 |
| Civil Aviation Transport | 240 699 | - | -44 018 | - | - | - | - | -44 018 | 196 681 |
| Maritime Transport | 149 357 | - | -6 000 | - | - | - | - | -6 000 | 143 357 |
| Public Transport  **Direct Charges** | 14 037 977  **10 997** | -2 998 069  - | -270 123  - | -  - | 2 230 794  - | 29 780  - | -  - | -1 007 618  - | 13 030 359  **10 997** |
| **TOTAL** | **62 047 729** | **-6 871 218** | **-1 919 493** | **-2 530 000** | **2 230 794** | **1 919 493** | **2 530 000** | **-4 640 424** | **57 406 825** |
| **Economic Classification**  **Current Payments** |  |  |  |  |  |  |  |  |  |
| **1 450 386** | **-** | **-99 580** | **-** | **-** | **29 780** | **-** | **-69 800** | **1 380 586** |
| Compensation of Employees | 571 399 | - | - | - | - | - | - | - | 571 399 |
| Goods and Services | 878 987 | - | -99 580 | - | - | 29 780 | - | -69 800 | 809 187 |
| **Transfers and Subsidies** | **60 591 586** | **-6 871 218** | **-1 819 913** | **-2 530 000** | **2 230 794** | **1 889 713** | **2 530 000** | **-4 570 624** | **56 020 962** |
| Provinces and Municipalities | 24 897 039 | -4 753 909 | - | - | 1 095 794 | - | - | -3 658 115 | 21 238 924 |
| Departmental Agencies and Accounts | 22 086 973 | -1 095 961 | -309 336 | -2 530 000 | - | 629 136 | 2 530 000 | -776 161 | 21 310 812 |
| Foreign Governments and International Organisations | 31 138 | - | - | - | - | - | - | - | 31 138 |
| Public Corporations and Private Enterprises | 13 077 119 | -1 021 348 | -1 260 577 | - | - | 1 260 577 | - | -1 021 348 | 12 055 771 |
| Non-Profit Institutions | 28 236 | - | - | - | - | - | - | - | 28 236 |
| Households | 471 081 | - | -250 000 | - | 1 135 000 | - | - | 885 000 | 1 356 081 |
| **Payments for Capital Assets** | **5 277** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **5 277** |
| Machinery and Equipment | 5 277 | - | - | - | - | - | - | - | 5 277 |
| Payment for Financial Assets | - | - | - | - | - | - | - | - | - |
| **TOTAL** | **62 047 249** | **-6 871 218** | **-1 919 493** | **-2 530 000** | **2 230 794** | **1 919 493** | **2 530 000** | **-4 640 424** | **57 406 825** |

**Source: (National Treasury, 2020)**

Prior to the Adjustments Budget, the Department’s budget for 2020/21 stood at R62 billion (excluding direct charges) – constituting 6.4% of the R963.1 billion national budget vote.[[1]](#footnote-1) After the adjustment, it declines to R57.4 billion, indicating a decrease of R4.6 billion or 7.5%.[[2]](#footnote-2) Of the R4.6 billion decrease, the budget for the Road Transport programme goes down by R2.6 billion, down from R33.8 billion prior to the adjustment to R31.3 billion after the adjustment. This translates into a decrease of 7.5%. In addition, the allocation to the Rail Transport programme declines by R1 billion, down from R13.2 billion before the adjustment to R12.2 billion after the adjustment, indicating a decrease of 7.7%. Similarly, the budget for the Public Transport programme goes down by R1 billion, down from R14 billion prior to the adjustment to R13 billion after the adjustment, indicating a decline of 7.2%.

In terms of economic classification, transfers and subsidies decline by R4.6 billion, down from R60.6 billion before the adjustment to R56 billion after the adjustment, translating into a decrease of R4.6 billion or 7.5%.[[3]](#footnote-3) Transfers and subsidies to provinces, as well as municipalities go down from R24.9 billion prior to the adjustment to R21.2 billion after the adjustment, indicating a decrease of R3.7 billion or 14.7%.[[4]](#footnote-4) Transfers and subsidies to departmental agencies and accounts decrease from R22.1 billion prior to the adjustment to R21.3 billion after the adjustment, indicating a decrease of R776.2 million or 3.5%. Moreover, transfers and subsidies to public corporations and private enterprises decline from R13.1 billion before the adjustment to R12.1 billion after the adjustment, translating into a decrease of 7.8%.

## 2.1 Explanation of Budget Adjustment

The table below explains the budget adjustment:[[5]](#footnote-5)

**Table 2: Explanation of Budget Adjustment**

| **Explanation of Budget Adjustment**  **R’000** | **Downward Revisions** | **Reallocations** | **2020/21 Total Net Change** |
| --- | --- | --- | --- |
| **Goods and services**: Reduction in non-essential goods and services such as travel and reprioritisation towards protective equipment and sanitisation for taxi industry and project management fees to implementing agent. | -99 580 | 29 780 | -69 800 |
| **Taxi recapitalisation:** Reduction in the number of taxis to be scrapped this year. | -250 000 | - | -250 000 |
| **Provincial Roads Maintenance Grant (PRMG):** Delay in planned construction projects. | -1 755 840 | - | -1 755 840 |
| **Public Transport Network Grant (PTNG):** Delay in planned construction projects. | -2 998 069 | 1 095 794 | -1 902 275 |
| **Passenger Rail Agency of South Africa (PRASA):** Rolling stock fleet renewal programme:Underspending on capital projects means that the Agency has sufficient cash balances to minimise 8the impact on planned projects. | -1 021 348 | - | -1 021 348 |
| **South African National Roads Agency (SANRAL): Capital – Non-toll roads:** Delay in planned construction projects. | -1 095 961 | - | -1 095 961 |
| **Taxi relief fund:** Once-off payment to taxi operators to assist them during the COVID-19 pandemic. | - | 1 135 000 | 1 135 000 |
| **Revenue support to the Railway Safety Regulator (RSR):** To cover the reduction in revenue due to restrictions on economic activity | - | 15 800 | 15 800 |
| **Revenue support to PRASA:** To cover the reduction in revenue due to restrictions on economic activity. | -1 260 577 | 1 260 577 | - |
| **Revenue support to SANRAL:** To cover the reduction in revenue due to restrictions on economic activity. Additional support to pay debt that was due. | -2 839 336 | 2 839 336 | - |
| **Revenue support to the Road Traffic Infringement Agency (RTIA):** To cover the reduction in revenue due to restrictions on economic activity | - | 200 000 | 200 000 |
| **Revenue support to the Cross-Border Road Transport Agency (C-BRTA):** To cover the reduction in revenue due to restrictions on economic activity. | - | 104 000 | 104 000 |
| **TOTAL** | **-11 320 711** | **6 680 287** | **-4 640 424** |

During its presentation, the Department indicated that the reductions in the budget was assessed during the bilateral discussions with National Treasury to ensure that it does not affect the existing policy priorities as well as contracted infrastructure projects.

It is also worth noting that out of all the budget reductions under the PTNG allocations that was originally budgeted for the 10 cities, the largest reduction in this adjusted allocations budget was from the budget for the Western Cape City of Cape Town that, in the February Budget Vote, received a substantial higher budget allocation for the 2020/21 financial year towards the expansion of the MyCiti bus routes.

# COMMITTEE OBSERVATIONS

The Committee made the following observations during discussions:

* 1. The Committee noted that despite the aviation industry having infrastructure and service delivery projects affected by the impact of Covid-19 regulations, the supplementary budget makes no mention of allocations to the aviation industry.
  2. It was noted that the total Department budget received a R4.6 billion or 7.5% of the total budget reduction and the Committee expressed that the reallocated funds as well as the remaining budget must be used effectively to ensure value for money spent.
  3. A discussion was needed on how PRASA infrastructure and assets could be better secured and, if possible, have these assets and infrastructure designated as national key points (similar to international airports) to stop the destruction of rail transport infrastructure.
  4. It was noted that a proper revision and review of the budget was taken for purposes of this adjustments budget, but the Committee requires that serious consideration should be taken by the Department for a review, rationalisation and consolidation of its State \*Owned Enterprises with similar or shared areas of operation into one, which may assist the Department to ensure effective and efficient project delivery, to remove duplication of work as well as further reduce expenditure. The same consideration should also be given to consolidate PRASA and Transnet into one entity.
  5. It was noted again with concern that the Public Transport Network Grant (PTNG) was decreased from 13 to 10 cities in the budget that was tabled in February 2020 which would leave 3 cities without a functional BRT system. The Committee further noted an expenditure inability in these cities. The Committee is of the opinion that the Department should improve its oversight and assistance over the cities implementing their Integrated Public Transport Networks (IPTNs) under the PTNG budget.

3.6 The Committee expressed that with the easing of restrictions, some entities would be generating their own revenue again to carry on with their programmes and would not need additional financial assistance.

3.7 Although the budget adjustments were required due the impact of Covid-19, the Committee was concerned that the allocation for road transport went down by R2.6 billion. The impact of Covid-19 has also meant an increase on the backlog of road maintenance in all provinces. The R1.8 billion reductions for the PRMG was queried, especially in the light of old road infrastructure in provinces and more so in rural areas.

3.8 There is a need now, more than ever, to reposition transport to play a critical role in boosting the economy. It is critical to use the reallocations to improve road infrastructure and boost labour intensive work opportunities across all provinces to reengineer the economic drive in all spheres of government, especially in the rural areas.

3.9 The introduction of the once-off Taxi Relief Fund was noted as a manner to provide relief to the industry.

3.10 It was noted with huge concern that PRASA was unable to operate from 1 June 2020 under level 4 restrictions as first announced and that under level 3 restrictions from 1 July 2020 there were only 4 lines/routes operational nationwide. The Committee required that all lines/routes become operational as soon as possible. The Committee was concerned regarding whether PRASA would have sufficient cashflow and protocols in place to safely operate in a manner to limit the spread of the virus.

3.11 It was noted that the Department made recommendations to Cabinet on a final solution regarding the finalisation of the e-tolls matter, however, there was once more a call from members for the urgent finalisation of the e-toll funding policy matter.

3.12 In noting the adjustments to SANRAL’s budget, the Committee proposes that the entity ensures that current projects are finalised rather than starting new projects and calling for new tenders.

1. **COMMITTEE RECOMMENDATIONS**

The Committee recommends that the Minister of Transport, through the Department, should ensure the following:

4.1 That the Department provide the Committee with a report, within 60 days of the adoption of this report by the Council, to indicate how PRASA would, with its adjusted budget and Covid-19 restrictions, be able to prioritise the entity targets as presented by the Administrator to the Committee.

4.2 That the Department ensure careful consideration for budget planning to prevent future under expenditure.

4.3 That the Department present a plan to the Committee to mitigate job losses in the entities as a result of Covid-19 and provide the Committee with a report on this, within 60 days of the adoption of this report by the Council.

4.4 That the Department ensure that the Revised Taxi Recapitalisation Project is fast tracked in order to remove as many unroadworthy vehicles from the industry as possible and prevent future continued roll-overs or virements from this project.

4.5 That the Department, along with ACSA and SACAA, provide a clear report on the projects that would require additional funding in the adjustments budget and provide the Committee with a report on this, within 60 days of the adoption of this report by the Council.

4.6 That the Department report on the expenditure of the reallocated funds.

4.7 That the Department report on the planned security measures for PRASA infrastructure and assets as well as start a discussion with the relevant Departments responsible for the declaration of National Key Points to have PRASA infrastructure and entities be declared as National Key Points.

4.8 That the Department undertake a revision and consolidation process of its entities.

4.9 That the Department improve their oversight over the implementation of IPTNs in the 13 cities (reduced to 10) receiving PTNG funding. That the Department provide the Committee with a report, within 60 days of the adoption of this report by the Council, on the progress in the cities on these projects.

4.10 That the Department ensure that, for purposes of allocations under the PRMG, proper scrutiny of plans are done and that approved planning is in place prior to allocation of funding. The Department must further improve its oversight over PRMG projects in all provinces.

4.11 That the Department ensure that the e-toll funding policy matter is finalised urgently and report back to the Committee immediately upon finalisation of the matter in Cabinet.

4.12 That the Department report to the Committee on its planned and actual expenditure and assistance provided for the supply of Personal Protective Equipment (PPE) and sanitiser to the public transport industry and provide the Committee with a report on this, within 60 days of the adoption of this report by the Council.

The Committee further recommends that the Council passes the special adjustment budget of Budget Vote 40: Transport.

[The DA reserved its position on the Report and abstained. The EFF objected to the Report.]

Report to be considered.

1. National Treasury (2020a). [↑](#footnote-ref-1)
2. National Treasury (2020b). [↑](#footnote-ref-2)
3. National Treasury (2020b). [↑](#footnote-ref-3)
4. *Ibid*. [↑](#footnote-ref-4)
5. *Ibid*. [↑](#footnote-ref-5)