



Presentation By PRASA Board to Portfolio Committee on Transport

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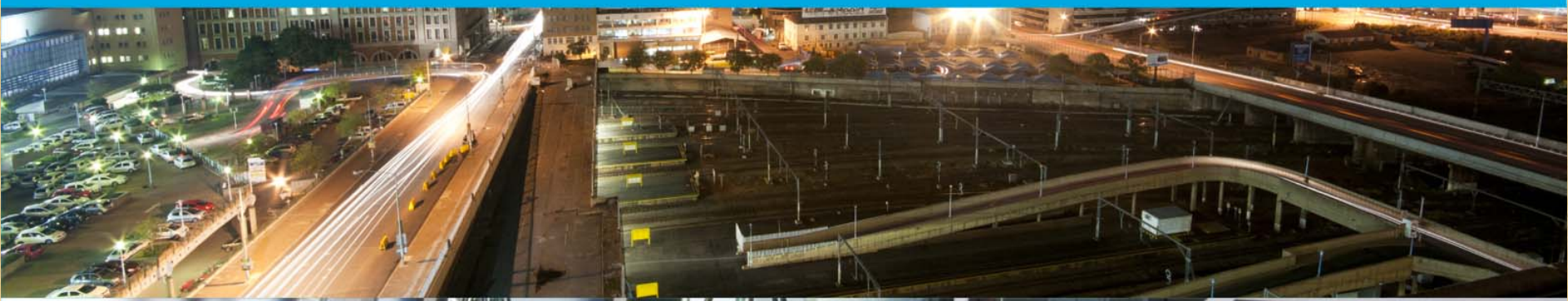


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PASSENGER RAIL AGENCY
OF SOUTH AFRICA

5 JUNE 2018

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Governance and Leadership Instability:

- **Board Changes:**

- August 2014: Dr. Molefe Led Board Appointed
- March 2017: Dr. Molefe Led Board removed
- April 2017: Mr. Ali Board Led Appointed
- May 2017: Dr. Molefe Led Board re-instated
- July 2017: Dr. Molefe Led Board term expires
- July to Oct 2017: No Board in place
- October 2017 to March 2018 – Advocate Makhubele Led Board
- Mid April 2018: Ms. Kweyama Led Board appointed

Governance and Leadership Instability:

- **Acting Group CEOs:**
 - PRASA has had Five Acting Group CEOs in 34 Months – starting in July 2015-
 - the Sixth Interim Group CEO took up the post on 1st June 2018
 - July 15 – June 16: Mr. Nathi Khena
 - June 16 – March 17: Mr. Collins Letsoalo
 - March 17 – December 17: Mr. Lindikaya Zide
 - December 17 – March 18: Mr. Cromet Molepo
 - April 18 – May 18: Mr. Lindikaya Zide
 - June 2018 - Mr. Sibusiso Sithole

Critical Vacancies at Senior Management Level

As part of the instability at leadership level, PRASA has the following vacancies at senior management level:

- Group CEO Post has been vacant since July 2015
- Group Chief Financial Officer has been vacant since June 2016
- Chief Procurement Officer
- CEO for PRASA Rail (Division)
- CEO of PRASA Technical (Division)
- Group Human Capital Management
- CEO Autopax
- CEO Intersite Asset Investments

Board Meetings since appointment

- ❑ The Interim Board was appointed with immediate effect for a period not exceeding twelve (12) months, as per the letters of appointment dated 12 April 2018.
- ❑ Since its appointment, the Board has held the following Board and Sub-Committee Meetings:

Type of the meeting	Date
Board meeting	03 May 2018
Human Capital & Remuneration Committee (HC&R)	22 May 2018
Audit and Risk Committee (ARC)	21 May 2018
Safety, Health, Environment & Quality Committee (SHEQ)	23 May 2018
Finance Capital Investment and Procurement Committee (FCIP)	24 May 2018
Governance & Performance Committee	28 May 2018
Board meeting	31 May 2018

Update on the Submission of Annual Report

Non submission of Annual Financial Statements

The Annual Report for 2016/17 financial year is still outstanding and the context for late submission is per the following:

- The Auditor General terminated the auditing in July 2017 quoting a Board not quorating
- Minister advised the Speaker of Parliament on the reasons for non submission
- Annual Financials resubmitted applying Section 49(2b) 1 aug and 19 Oct)
- In November 2017 the Board signed off on the financials but the AG did not accept the financials because the Board still did not quorate
- Treasury only appointed its representative in Feb 2018
- 19 March Audit Committee was supposed to meet but the Chair had resigned on 16 March
- Acting Chairperson only appointed on 27 March 2018
- Board met on 5 April
- Audit Committee was set for 13 April 2018 but a new Board was announced on 12 April
- Audit Committee will consider on 12 June then recommended to the Board

Unspent CAPEX

Failure to spend CAPEX

There was a number of factors that led to PRASA not spending on its allocated CAPEX and the reasons are listed herein below:

- PRASA did not have a Board for a better part of 2017/18
- The reviewed 2016 SCM Policy could not be approved
- In July Group Executives reverted to 2009 SCM Policy
- PRASA could then procure using the 2009 SCM Policy but to a limited extent
- Procuring above the delegated authority needed Board approval which in the main did not exist

The new Board has now initiated the following process

- The new Board has endorsed the 2009 SCM Policy as temporary measure
- Where there are gaps the National Directives will be applicable
- DRAFT SCM Policy to be submitted to the FCIP by end of June
- Then recommended to the Board for approval in July
- SCM Committees have been resuscitated (BSC, BEC, BAC)
- AG and PP's Findings will now be addressed in the new policy

Safety and Security Update

Impact of Crimes on PRASA Operations and Services

The Board has noted with concern the impact of crimes committed on PRASA rail environment

- ❑ **Theft of Signal Cable**

Train delays, driver forced to proceed on sight, train not protected by other signals. History shows high potential for rear end collisions and signals passed on danger.

- ❑ **Theft of Perway Equipment**

Risk of train derailments and consequential disastrous impact.

- ❑ **Theft of Rolling Stock Equipment/component**

Train delays and cancellations, trains depart with doors not functioning which have a direct impact on railway safety.

- ❑ **Vandalism of signal cables**

Train delays, driver forced to proceed on sight, train not protected by other signals. History shows high potential for rear end collisions and signals passed on danger.

- ❑ **Theft of Signal Equipment**

Train delays, driver forced to proceed on sight, train not protected by other signals. History shows high potential for rear end collisions and signals passed on danger.

- Root cause for commuter backlash and possible burning of trains**

- ❑ Train delays and cancellations

Update on Safety and Security

The Board shares the same sentiments on holistic approach to Safety and Security

- The Board has noted the concern by stakeholders that there appears to be bias towards the protection of assets and no focus on safety of commuters
- The Board has noted the need to escalate safety and security within the Rail system to the level of both relevant Ministers
- The Board will urge the two Ministers to work together to assist PRASA in curbing crime conducted on PRASA's environment
- PRASA will make its submission on the envisaged MoU between PRASA and SAPS regarding the minimum requirements
- Rolling stock availability and reliability has a direct impact on the safety of commuters and the Board has directed management to address this as a priority
 - 368 Metrorail coaches will be brought back to service in 2018/19
 - 47 Shosholoza Meyl coaches will be brought back to service in 2018/19
- Stakeholder engagements have already started with civic organisations to address concerns about passenger safety and a Security Plan has been prioritized by the Board
- The Board has directed management to expedite the signing of Social Compacts with various stakeholders and to be rolled out across the regions

Status on Modernisation

Modernise the Rail System through investment programme of R173 billion

Key programmes in Modernisation of PRASA in multi-year implementation phase:

Rolling Stock Fleet Renewal

- 18 new train sets already in service
- Train Manufacturing Plant
 - The plant in Dunottar already manufacturing the trains
 - 2 new train sets by December 2018

Signaling Programme

- Gauteng (67.15% complete)
- KZN (66.33% complete)
- Western Cape (72.45%)

Depot Modernisation

- 5 Depots to be modernised (2 in Gauteng, 2 in KZN and 1 in Western Cape)
- Are now the priority of the Board

120km/H Perway Programme

- In support of new Rolling Stock for Metrorail
- Progressing well

Status on Military Veterans

Military Veterans

- The Board is aware on the matter regarding Military Veterans
- The matter has now been escalated to the Board
- The Board has instructed management to prioritize the management of the issues affecting the Military Veterans

Value Added Service (VAS)

VAS Agreement with VODACOM

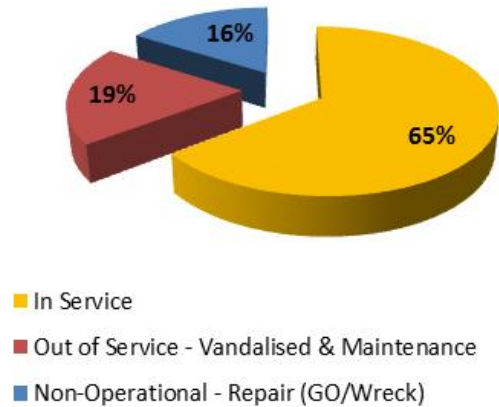
- The Board has been briefed on the matter and is looking into



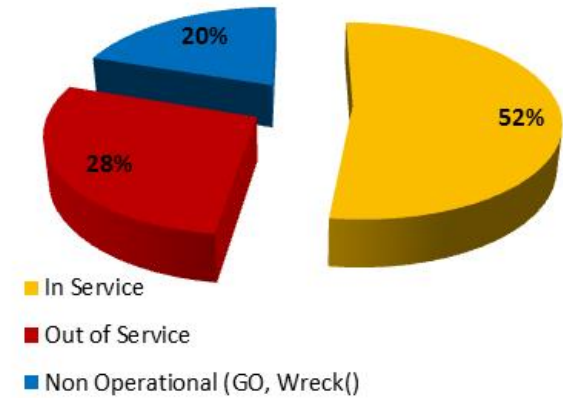
Status of the Rail Business

Rolling Stock capacity – fleet availability

Status March 2016



Status March 2018



Coaches	March 2016				March 2018			
	Motor Coaches	Trailer Coaches	Total	%	Motor Coaches	Trailer Coaches	Total	%
In service	727	2 221	2 948	65%	552	1 829	2 381	52%
Out of Service - Vandalised and Maintenance	330	557	887	19%	405	872	1 277	28%
Non-Operational - Repair (GO / Wreck)	264	466	730	16%	364	543	907	20%
Total Fleet	1 321	3 244	4 565		1 321	3 244	4 565	

- During 2015/16 a total of 250 coaches were vandalized and affecting fleet availability – 2017/18 - **1 519 coaches or 33% of fleet vandalized**

TRAIN PERFORMANCE:

Comparison YTD Mar. 2016 with YTD Mar. 2018

Train Availability and Service Performance

	YTD		YTD		% Change on Mar-16
	Mar-16	%	Mar-18	%	
Trains Scheduled	650 882		611 311		-6%
Trains Cancelled	29 290	4.5%	82 588	13.5%	182%
Trains Delayed	126 921	19.5%	159 919	26.2%	26%

Train/Coach Configuration

59% of trains ran with shorter sets than required 12 coach configuration (2016 = 49.6%) = 311 947 trains.

Gauteng:

- 49% trains ran as short configured trains. (2016 = 60.6%)

Western Cape:

- 68% trains ran as short configured trains. (2016 = 43.5%)

KwaZulu-Natal:

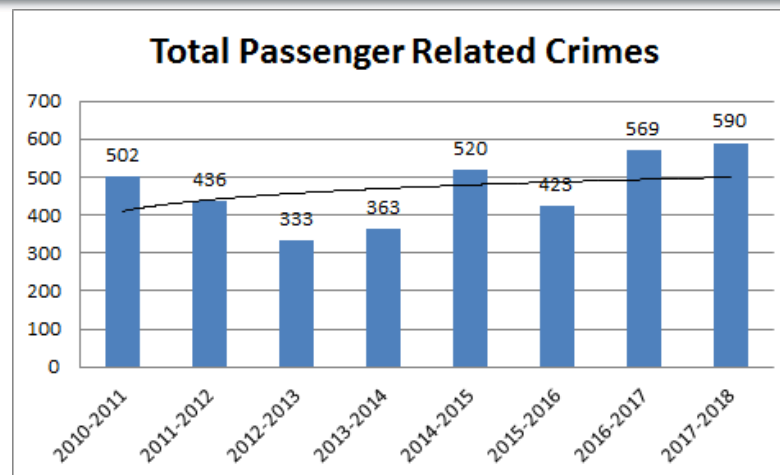
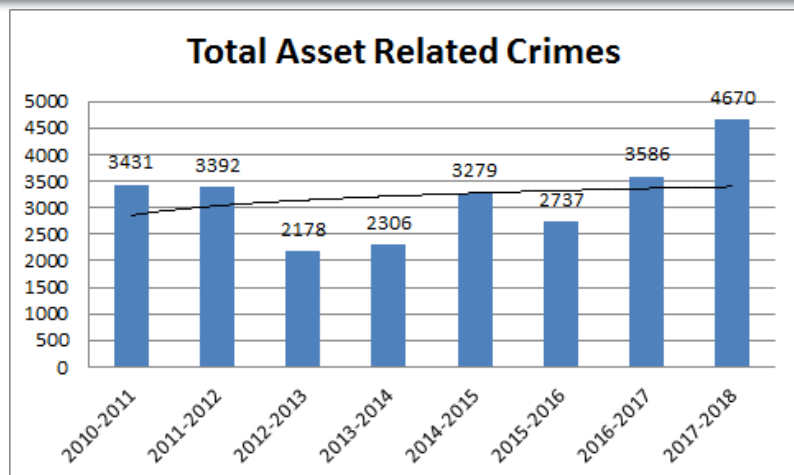
- 57% trains ran as short configured trains. (2016 32.1%)

Metrorail Service Performance March 2018

Except in the Eastern Cape there has been a severe shortage of rolling stock due to vandalism and asset theft, shortage of spares and quality of returning train sets

		March 2018		
		Target	Actual	Sets Short
Train Sets Requirement	Metrorail	295	176	-40%
	Gauteng	141	123	-13%
	Western Cape	88	51	-42%
	KZN	57	40	-30%

Security of Assets and Passengers



Contracted Security	Reduction in guards following budget cuts						
	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Region							
Gauteng	1757	2117	2117	1687	1687	1687	1324
Western Cape	1034	1084	654	799	799	799	799
KZN	217	226	186	183	56	140	140
Eastern Cape	98	98	98	98	98	98	98
MLPS	358	358	346	321	323	315	315
Total	3464	3883	3401	3088	2963	3039	2676

*Correlation between increase in crime and reduction in security resources

Key Priority Areas for Recovery of Metrorail

- Service Recovery
 - Rolling Stock Availability and Reliability
 - Infrastructure Availability and Reliability
 - Asset Protection
 - Train Performance
- Customer Communication and Information
- Fare Revenue Collection and Protection
- Operational Safety

Autopax Challenges

Autopax: Challenges

The long distance Bus provider, Autopax, with Brands Translux and City to City is facing serious challenges that its Board and the PRASA Board will be attending to in the next couple of Months:

- Technical Insolvency
- Autopax is not deemed to be a going concern by AGSA.
- Deemed to be trading recklessly by AGSA.
- Severe cash flow challenges and inability to fulfil business requirements.
- High amounts of fruitless and wasteful expenditure as a result of interest incurred on unpaid debt.
- Very high historic debt (historic debt accumulated in the past 3 years).
 - External debt: R 181 m
 - PRASA debt: R 485 m
- Business is facing an avalanche of legal challenges (with some service providers threatening to sequester Autopax).

Autopax: Challenges (Cont.)

- Autopax has a fleet of 518 buses.
- During the third quarter of 2017/18 the company operated 90 buses.
- During the fourth quarter this was improved to 190 buses
- The rest of the fleet is defective (Vehicles off the Road) with major repairs required.
- Business currently on a recovery trajectory and operating 190 buses today.
- Granted ten (10) licences to operate to Zambia, currently operating to Mozambique. Applications for Lesotho, Namibia, Botswana and Zimbabwe underway.
- Lack of requisite skills to operate the business.
- Manually intense business processes (Operations, Technical and Customer Service).
- Three main cost driver are Employee cost, Energy and Spares & Maintenance (the last two are affected by Rand/Dollar exchange).

Financials

Financial Trend Analysis

Rm	Group				
	2018	2017	2016	2015	2014
Operational subsidy	5 890	4 380	4 125	3 887	3 678
Fare revenue	1 796	2 347	2 736	2 941	2 872
Lease income	675	531	535	480	458
Other income	181	229	222	219	699
	8 541	7 487	7 618	7 527	7 707
Less: Expenses	(10 469)	(10 583)	(9 216)	(8 753)	(8 172)
	(1 928)	(3 097)	(1 598)	(1 226)	(464)
Net finance income	1 015	708	417	185	(90)
	(913)	(2 388)	(1 181)	(1 040)	(555)
Additional subsidy	-	800	800	-	650
Property valuation	213	221	(14)	115	322
	(700)	(1 368)	(395)	(926)	417
Net amortisation/depreciation/loss	(141)	440	(159)	(128)	(132)
Net profit/(loss) for the year	(841)	(928)	(554)	(1 053)	285

Financial Trend Analysis(cont.)

Fare revenue shows a declining trend throughout the years

Main causes are:

- ❖ Vandalism of Signal Cable and Perway Equipment
- ❖ Rolling stock failure
- ❖ Signal and electrical faults as a result of maintenance.
- ❖ Theft of Rolling Stock Equipment/component
 - Train delays and cancellations, trains departs with doors not functioning
 - which have a direct impact on railway safety.
- ❖ Security incidents
- ❖ Poor state of rolling stock and infrastructure has been characterised by poor train availability as well as poor on time train performance which resulted in loss of patronage
- ❖ Recently effect of storms and floods

Financial Trend Analysis(cont.)

Key cost drivers are:

- ❖ Employee benefits which make more than 50% of operating expenses
- ❖ Energy
- ❖ Security as a result of numerous train burning incidents, escalation in vandalism of infrastructure and assault of train crew
- ❖ Insurance claims due to increase in number of accidents as a result of old signalling infrastructure
- ❖ Maintenance expenditure due to old rolling stock

Irregular Expenditure:

	2015/16	2016/17	2017/18
	R'000	R'000	R'000
General overhaul	1 263 063	1 534 886	1 410 433
Signaling	260 026	552 039	1 176 005
Security	582 650	428 396	531 715
Panel of attorneys	-	54 545	390 428
Ad hoc suppliers for spares and maintenance	537 878	-	-
Major suppliers appointed with following procurement process	836 145	-	-
Other	600 577	1 463 130	216 119
	4 080 339	4 032 995	3 724 699

Irregular Expenditure

- General overhaul, signalling and security expenditure form the major part of the irregular expenditure.
- The general overhaul contracts are legacy contracts that were inherited from the South African Rail Commuter Commission (SARCC).
- The general overhaul consists of six supplier contracts which did not go through the procurement process and the process of regularising them has not taken place.
- These contracts will expire during the 2018/19 financial period.
- Expenditure for signalling suppliers is irregular due the appointment process not being fair, equitable and transparent.
- Contracts for security suppliers expired in 2013 and are being extended on a month to month basis. A process to appoint new suppliers is underway.
- Other irregular expenditure is due to the procurement process not being adhered to.

