

Parliamentary

Performance on Transport Conditional Grants in 2020/21

Budget
Office



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Bill

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Introduction

- The Parliamentary Budget Office assists Members with their oversight role, including assessment of the efficiency and effectiveness of the expenditure of nationally raised revenue.
- Due to the size and importance of priority funding, which is linked to implementation of the NDP, the PBO started a series of assessments on conditional grants.
- The PBO's evaluation of the performance of the Transport Conditional Grants in 2020/21 is based on the financial and non-financial performance as reflected in the Annual Report of the National Department of Transport:
 - Quarterly reporting to Parliament on conditional grant spending and progress on outputs is, however, not institutionalised
 - Performance information included in the schedules to the DORA are limited with a two year lag period
- This presentation focusses on transport, and discusses the:
 - Provides background on key Transport issues
 - Funding model for Transport
 - Reporting on the performance of conditional grants

Introduction

- Nationally raised government revenue is allocated across the three spheres of government in the form of an equitable share and conditional grants for specific purposes.
- The equitable division of revenue among spheres of government is divided according to a formula.
- Conditional allocations to provinces from the national government's share of revenue are allocated to provinces for:
 - Supplementing the funding of programmes or functions funded from provincial budgets
 - Specific-purpose allocations to provinces
 - Allocations-in-kind to provinces for designated special programmes
- In the financial year 2020/21, four conditional grants were transferred to provinces and municipalities by the National Department of Transport:
 - Provincial Road Maintenance Grant (PRMG)
 - Public Transport Operations Grant (PTOG)
 - Public Transport Network Grant (PTNG)
 - Rural Roads Asset Management System Grant (RRAMSG)

Background

- Transport, public transport in particular plays important role in the economic recovery plan (more than R 80 billion of the budget)
- Transport provides meaningful mobility for most of the population, in pursuit of economic participation
- Developing and maintaining transport infrastructure and providing an effective and efficient public transport system can create employment, improve efficiency across the economy, and ensure sustainable development by reducing carbon emissions from private vehicles in congested urban spaces
- 2019-2024 MTSF Priority 2 Economic Transformation and Job Creation
Transport related infrastructure and mobility of commuters contribute to the achievement of the 2019-2024 MTSF Priority 2
- Public transportation is key to sustainable economic growth in any country,
- In South Africa;
 - Minibus Taxi Industry accounts for more than 60 per cent of commuters, (2021 GHS more than 90 per cent passenger trips per month)
 - Buses 23.6 per cent (2021 GHS about 8 % passenger trips per month), and
 - Rail 9.9 per cent

Background

- There is a contradictory relationship between ridership levels and subsidy funding. Commuters still prefer the unsubsidized mode of transport (minibus taxis) for several reasons (including that they are reliability and easy access to commuters more so in rural areas);
 - Minibus taxi industry has been resilient over time, despite limited support from government
- Further, inequality shows that the rail network is limited in many provinces. As a result about 40 per cent of subsidies into rail largely subsidises big metros like Cape Town and Johannesburg commuters
- Given the shortcomings of the subsidised Buses and Metrorail Services, Minibus Taxis operators continue to dominate those markets
 - On the other hand, unsubsidised bus operators in the commuter bus market find it difficult to compete effectively in the market without subsidies
 - In most instances these operators provide services in rural areas, where they often encounter challenges with poor road infrastructure, frequent breakdown of buses, and high maintenance costs
 - As a result, some unsubsidised bus operators have resorted to providing scholar transport – where they compete with other unsubsidised buses

Background

- Minibus taxi industry concerned that subsidies in the sector skew competition in favour of the subsidised services creating distortions in the market
- The Competition Commission 2021 Report notes that;
 - Infrastructure grants should be prioritized (as opposed to operating grants), especially for improving access to marginalized areas. Resuscitation of previously decommissioned rail networks and expansion into high density corridors should be prioritized
 - Need for an equitable allocation of government subsidies to the Minibus Taxi industry and Rural Bus Operators. Therefore, subsidy policy should ensure equitable allocation of subsidies in the public sector and this also extends to the minibus taxi industry
 - Need to address fragmented subsidies in the public transport sector to improve coordination and correct the inconsistent distribution of subsidies between urban and rural areas

Background

- Competition Commission Report highlights that, South Africa is largely dominated by rural provinces such as the Eastern Cape, Limpopo, North West, Free State and Mpumalanga
- Several factors contribute to the inadequate provision of public transport services in South Africa's rural areas;
 - Rural areas in general are sparsely populated, which makes provision of public transport infrastructure costly and difficult
 - High incidence of poverty and levels of unemployment in rural areas make the demand for public transport uneconomically viable for unsubsidised operators
 - Road conditions in rural areas are bad, to the extent that buses get stuck during rainy seasons. As a result, operators are faced with low economies of scale that lead to high operating costs, which are not catered for in the design of subsidized contracts for buses. Therefore, there is a need to have a dedicated funding for rural public transport
 - To promote the use of public transport as an integrated system and improve coordination, dedicated provincial transport authorities should be established and be the recipient of all public transport subsidies. National government should only manage the Shosholozza Meyl grant funding
 - Government (National and Provincial) and SALGA to create capacity at local government level to ensure that transport planning is prioritised by municipalities
 - The current subsidy system for buses *prevents competition* between commuter bus operators and serves as an *artificial barrier to entry* for small bus operators.

Methodology

Evaluation of available data

- For the PBO to determine the efficiency and effectiveness of the expenditure of nationally raised revenue it is important to have access to:
 - Quality and complete sets of performance information to evaluate performance outcomes on expenditure
 - Performance indicators that are specific, relevant and linked to the budget
 - A series of regularly reported data to measure change over time to determine impact/effectiveness
- Performance information from the 2020/21 Annual Report of the Department of Transport was used for this evaluation (official published information on performance and expenditure)
- The National Department of Transport arranged the data according:
 - To the purpose of the conditional grants
 - Expected output 'targets' and actual outputs achieved in 2020/21
 - Expenditure against the budget

Findings from the evaluation

Update of the November 2021 brief

- Due to incomplete performance information in the 2020 Annual Report, the November 2021 brief used the 2021 DORA performance information for the evaluation
- The November 2021 brief was updated with audited data reflected in the 2020/21 Annual Report of the Department of Transport to provide Members with the most recent performance information
- This presentation is therefore based on the updated brief that has been circulated with this presentation

Provincial Road Maintenance Grant

- Projected outcomes:
 - To Improve the condition and lifespan of provincial roads and level of service backed by a periodic five year review of the road network conditions; and
 - Improved rates of employment and community participation through labour-intensive construction methodologies and skills development through the delivery of roads infrastructure project
- Projected outputs are developed to monitor activities on planning, physical performance, job creation and contractor development
- Of the R10.47 billion transferred for this grant, R9.94 billion was spent by provinces by the end of the financial year
- Underspensing was due to reprioritisation and re-packaging of projects by the Limpopo Department of Public Works, Roads and Infrastructure, as a result of advertisement of tenders
- The Department reported total actual outputs, but did not provide projected targets. It is; therefore, not possible to determine whether the planned outputs were achieved
- An indicator with a baseline of the condition of roads and targets will be useful to determine if the real needs are addressed by this grant

Provincial Road Maintenance Grant: Job creation

- Of the R630 million transferred for employment stimulus through this grant, only R182 million was spent by provinces
 - The main reasons indicated for underspending were the late tabling of the budget during the Medium Term Budget in October 2020 and that transfers ~~only~~ were made only in February 2021.
- Most of the Provinces failed to comply with the requirements of the Presidential Employment Stimulus Package:
 - Western Cape province did not comply with the Presidency mandate of Job creation, jobs created were not in labour intensive activities
 - Northern Cape province utilised parts of the Presidential Employment Stimulus budget for other things
 - Limpopo province just started other Employment Stimulus projects this new financial year. This will pose a serious challenge in terms of reporting
 - Kwa-Zulu Natal failed to advertise tenders within the required time frame for implementation of Phase one
 - Some provinces did not report on SMMEs. Most provinces did not report on FTEs
 - Only two provinces, Gauteng and North West ~~provinces~~ achieved their set targets, most of the provinces performed poorly

Provincial Road Maintenance Grant: Summary of performance

Performance indicators	Actual 2019/20	Actual 2020/21	Targets 2021/22	Q2	Percentage of annual Q2
Number of kilometre upgraded		100	376	23	6.1%
Number of m ² rehabilitated	3 267 714		5 980 937	1 347 455	22.5%
Number of m ² resealed	6 330 463	7 021 417	4 808 039	789 084	16.4%
Number of m ² blacktop patching	1 947 598	1 158 365	1 154 579	261 481	22.6%
Number of kilometres of gravel roads re-gravelled	3 743	4 035	3 594	1 238	34.4%
Number of kilometres of gravel roads bladed	378 458	357 232	400 761	88 879	22.2%
Number of kilometres of gravel roads upgraded	190				
Social indicators					
Number of work opportunities	142 908	206 056	175 425	101 261	57.7%
Number of full time equivalents created	56 659		58 523	21 148	36.1%
Number of youths employed (18 — 35)	45 452	42 667	75 967	77 902	102.5%
Number of women employed	94 701	156 159	89 598	19 054	21.3%
Number of people living with disabilities employed	504	360	2 778	387	13.9%
Number of SMMEs contracted					
Expenditure budget and actual R'billion	R1.40	R9.94	R11.9	R4.3	36.1%
Source of information	2021 DORA	2020/21 Annual Report	Q 2 report submitted to the National Treasury by the Department of	PBO calculation	

- To be able to provide Members with relevant information, as reflected in the table, on the performance of the grant, several sources had to be consulted
- These sources are not always publicly available or have a lag period of two years when published in the DORA

Public Transport Operations Grant

- The purpose of this grant is to provide supplementary funding towards public transport services provided by provincial departments of transport
- R5.96 billion of the transferred funds amounting to R6.7 billion was spent by provinces
 - This expenditure amount reflects an under spending of 11 per cent
- Reduced spending emanated from COVID-19 lockdown restrictions affecting operations:
 - Almost 50 per cent of buses were not operating, resulting in non-spending
 - In Gauteng, the Meyerton and three Ekurhuleni contracts were not operating due to operators withdrawing services
- Although progress was made with the implementation of the outputs, it cannot be measured in terms of planned targets:
 - 6 170 vehicles subsidised
 - 74 039 cumulative annual vehicles subsidised
 - 4 585 420 trips operated
 - Scheduled trips 4 585 420
 - 162 263 214 passengers subsidised
 - 225 349 765 kilometres subsidised
 - 154 638 employees
 - Number of kilometres 175 297 039

Public Transport Network Grant

- Municipalities spent R3.1 billion of the R4.39 billion transferred, leading to an under spending of R1.29 billion
- The municipal sphere's financial year annually runs for three more months after the end of the national financial year
 - Therefore, the unspent funds are likely to be spent thus increasing the expended amount to date
- Municipalities that received the grant are making progress with the provisioning of the Network Infrastructure Component
- However, there is no reporting on the progress made with the provisioning of the Network Operations Component
- The Network Operations Component should include reporting on:
 - Number of average weekday passenger trips carried on Public Transport Network Grant funded networks
 - Number and percentage of municipal households within a 500m walk to an Integrated Public Transport Network station or stop that has a minimum peak period frequency of 15 minutes or better
 - Percentage uptime for network operating systems as a proportion of the network's public operating hours
 - Passengers per network vehicle per average weekday

Rural Road Asset Management Systems Grant

- The goal of this grant is to ensure efficient and effective investment in municipal roads through the development of the Road Asset Management Systems and collection of data
- Municipalities spent R40.8 million of the R108.4 million transferred
- The slow spending of 38 per cent of the funds was due to the impact of COVID19, which delayed procurement as well as implementation
- It must also be noted that the municipal financial year ends in June
- Expected outputs for this grant are as follows:
 - Road condition data (paved and unpaved)
 - Traffic data
 - Data on condition of structures as per Technical Methods for Highways (including bridges and culverts)
 - Prioritised project list for roads to inform Municipal Infrastructure Grant project selection

Rural Road Asset Management Systems Grant

- Actual outputs as per annual report:
 - The Department reports that road condition data and traffic data is available
 - The RAMS data is being cleaned and updated
- The following are some of the challenges encountered in the programme:
 - COVID-19 Regulations have delayed the appointment of service providers in some districts and fieldwork was impacted due to regulations
 - The ownership of the programme by the municipalities, as most times data is hosted by service providers instead of districts
 - Involvement of some local municipalities in the programme
 - Delays by district municipalities to procure technical services on time, long before the expiry of the contracts
 - Handing over of graduates by outgoing service provider when the contract comes to an end to the DM and/or the newly appointed service provider

Conclusion

- In the financial year 2020/21, four conditional grants were transferred to provinces and municipalities by the National Department of Transport:
 - Provincial Road Maintenance Grant, Public Transport Operations Grant, Public Transport Network Grant and Rural Road Asset Management Systems Grant
- The analysis of the information on the conditional grants shows:
 - Underspending that is accompanied by under and in certain circumstances over performance
 - Performance outputs/indicators were not well defined
 - Poor or no reporting on actual non-financial information
 - No targets were set for outputs
 - There was incomplete performance information in the Annual Report
- The lack of proper performance information on conditional grants in the Annual Reports of departments, in general, makes it difficult for Parliament to determine the effectiveness of expenditure and impact of the outputs delivered by provincial departments