12/03/09 see approp

Supporting Note on the Additional Adjustment Appropriation Bill (2011/12 financial year), 2012 (As requested by the Standing Committee on Appropriations)

1. The objective of the Bill is to provide additional allocation of R5.75 billion to the Department of Transport in the 2011/12 financial year to support the South African National Roads Agency in paying for debt relating to the Gauteng Freeway Improvement Project.

2. In 2007, Cabinet approved that the Gauteng Freeway Improvement Project (GFIP) be implemented. The South African National Road Agency Limited (SANRAL) was to finance the project through raising debt which would be serviced through toll tariff collections. The project was announced in 2008 and the road declared toll.

3. In 2011 the Minister of Transport announced a suspension of the gazetted tariffs in response to concerns raised by road users and established a steering committee to review these. The matter was taken back to Cabinet with recommendation that the tariffs is revised downward from 66c per km to 58c per kilometre for light vehicles; that the ration for light to medium to heavy vehicles is reduced from 1:3:6 to 1:2.5:5; that the discount for an electronic tag is increased from 25% to 31%; and frequent-user discounts of 15% after R400 per month is provided. These recommendations were approved and Cabinet further approved public transport vehicles will be exempted from paying tolls.

4. The implementation of the GFIP tolls was again put on hold in 2012 after the Minister of Transport requested the SANRAL Board to further review the proposed structure of the tolls.

5. The additional allocation presents the outcomes of this review to provide a solution which covers the cost of the GFIP whilst reducing the tariffs and ensuring that debt level of SANRAL does not become unsustainable.

6. In reply to the concerns expressed regarding the Gauteng freeway improvement project and in consideration of the adverse economic environment which faces the country, Cabinet approved the following responses: an increase in the debt levels of SANRAL; a reduction in the toll tariffs and additional discounts and caps; a contribution from the fiscus; the prioritisation of local and provincial alternative routes through upgrades and maintenance and continued prioritisation of public transport services

7. The GFIP was envisaged as a multi- phased project, which provided for the upgrading of existing freeways, and the construction of new freeways. The total scheme envisaged an estimated 560 km of existing and new freeways.

8. Phase 1 has been completed. It involved the substantial upgrading of approximately 185 km of freeway, including pavement rehabilitation, interchange upgrades and lane additions including: upgrading 34

interchanges, 4 new fly – overs, 47 new bridges, widening 134 existing bridges, 186 km of freeway lighting, 127 km of concrete median barriers and implementation of close circuit television and message systems

9. The expansion and refurbishment of the freeways has led to marked improvements in traffic flow and reduced congestion on a transport network that is central to the economic dynamism of the region: benefits which are already being enjoyed by users.

10. The total debt for phase 1 is R20 billion which SANRAL raised through the bond market.

    10.1 Subsequent to the project being put on hold, the Moody's Rating Agency has placed SANRAL on credit watch and have downgraded SANRAL to Baa1 with a negative outlook due to the uncertainties created on the toll project. The sovereign credit rating is also in jeopardy should tolling not be implemented due to the increase in Government's liabilities.

    10.2 A total of R19 billion of the debt that has been raised is guaranteed by Government. According to SANRAL's Domestic Medium Term Note programmes' respective default clauses, in the event of default including terminating SANRAL's toll road business, all the entity's debt becomes payable immediately.

    10.3 To prevent such a situation from arising and in anticipation of the negative impact a default by SANRAL will have on the company and national debt ratings, it is imperative to act swiftly in providing an alternative which will allow tolling to commence as soon as possible whilst providing tariffs which are acceptable to the public and will ensure that the credibility of the country and its entities are protected.

11. In reply to the concerns expressed by the road using public and other stakeholders and in consideration of the adverse economic environment which faces the country the following responses are recommended: an increase in the debt levels of SANRAL; a reduction in the toll tariffs and additional discounts and caps; a contribution from the fiscus; the prioritisation of local and provincial alternative routes through upgrades and maintenance and continued prioritisation of public transport services.

    11.1 An increase in the debt level of SANRAL from R58.42 billion to R59 billion with the nominal amount of interest paid to increase from R86.69 billion to R94.53 billion.

    11.2 A reduction of the per km toll fee payable

    - for motor cycles with e-tags to 20 cents

- for light vehicles with e-tags to 30 cents
- for non-articulated trucks with e-tags to 75 cents
- for articulated trucks with e-tags to R1.51

11.3 Exemption for public transport services (taxis and busses will not pay toll fees)

11.4 Maximum toll fees payable per month R550 and 15% discount after R400 per month to remove uncertainty and provide relief to frequent users

11.5 Time-of-day savings of 20% for heavy vehicles to deal with concerns of freight industry. This allows for lower toll fees for off peak times to reduce congestion during peak hours and reduce the economic impact of the toll fees for consumers.

11.6 A contribution from the fiscus to reduce the tariff without placing too much strain on SANRAL's balance sheet of R5.75 billion as an adjustment appropriated in 2011/12 financial year. The adjustment is motivated in accordance with the PFMA Section 30 which provides for adjustments due to significant and unforeseeable economic and financial events affecting the fiscal targets set by the annual budget.

12. To reduce the revenue risk to SANRAL and to mitigate against a default, it is important to ensure proper enforcement of the tolling system. The large discounts on the e-tags provides additional certainty regarding revenue and therefore the initial non e-tag costs for vehicles remains as approved in 2011 with additional discounts only applicable to vehicles with e-tags. In addition, it is critical that SANRAL is provide with the necessary powers to collect toll fees and hence Cabinet has approved the finalisation and tabling of the Transport Law Enforcement and Related Matters Amendment Bills, 2010.

13. The reduction of the tariffs with the R5.75 billion fiscal support will result in a maximum debt level of R59 billion in 2021/22 and for the debt to be paid off by 2033/34.

14 The present value of the interest is estimated to increase to R94.53 billion.

15. The tolling of GFIP will have negligible direct impact on vulnerable groups due to the exemptions provided to the users of public transport. The indirect impact from the inflationary impact of tolling will, over time, be lower than the costs imposed as a result of congestion.

16. The opportunity costs of providing fiscal support for a project that will not be widely used by vulnerable groups needs to be taken into account when considering further projects.