

# Getting Beyond the Gauteng **E-TOLL IMPASSE**



Presentation to the Minister of Transport - 28 August 2019

- OUTA does not oppose new or upgraded road infrastructure .
- We recognise the value of roads for socio-economic development.
- That road infrastructure doesn't come for free. Ultimately society pays for it.
- We also do not oppose e-Tolling technology... when in context
- South Africa needs SANRAL, and we have no desire to see their demise.

# Govt & society should agree...

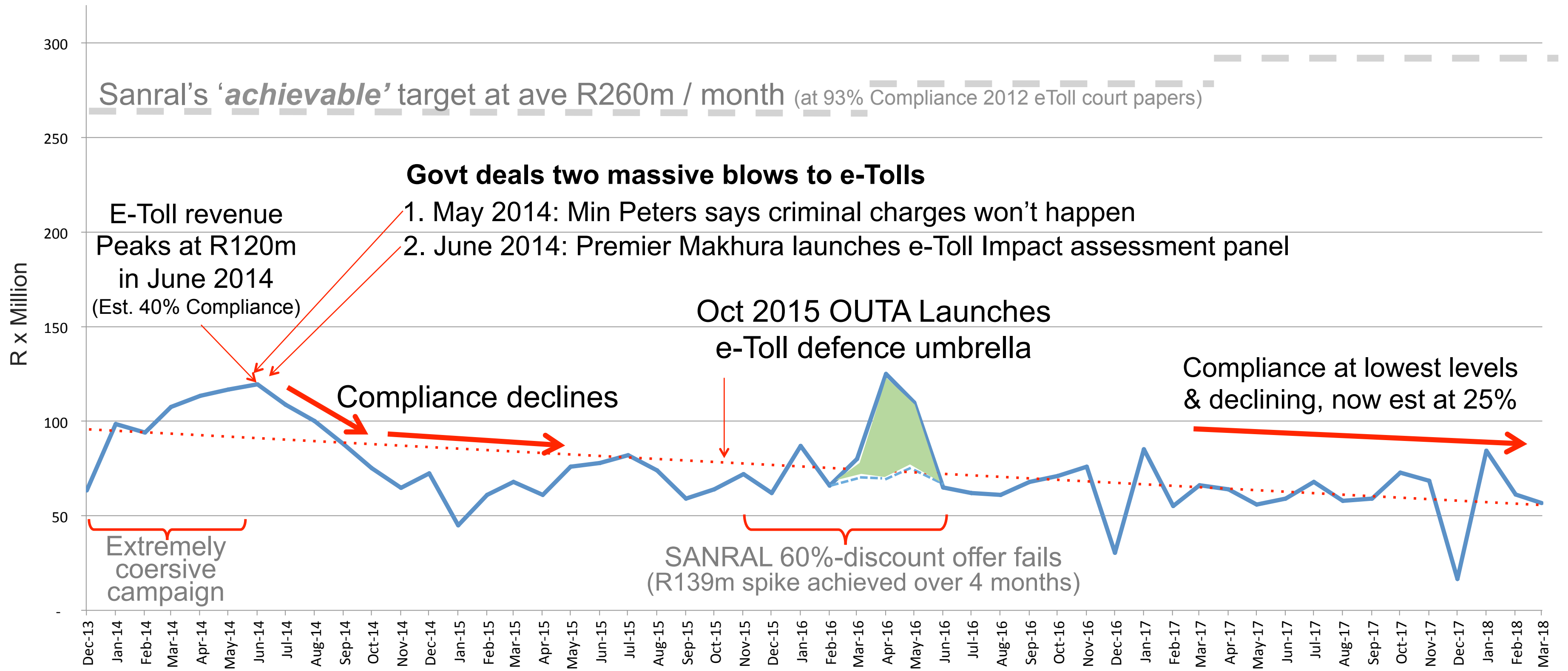
- As it is society that ultimately picks up the cost of road funding, the funding mechanisms selected should...
  - be in the best interest of society
  - at lowest cost to society
  - with efficient and workable processes
  - introduced lawfully
  - be transparent on all costs, fees and adjustments
  - not be funding corruption and maladministration



# The e-Toll funding model relied on...

- **Public Buy-in** (Achieved through trust, transparency and rationality)
  - Sanral's threats & misleading information: eTag uptake propaganda, intimidation...
  - Lack of transparency: Toll tenders & contract values, road construction costs...
  - Political Confusion: National vs Provincial (since 2014, worse in 2018/19)
  - Lack of meaningful public engagement (Gantry appearance in 2010 triggered awareness)
- **Accurate information and efficient systems...**
  - E-Natis (high % of incorrect information – 50% inaccurate?)
  - SA Post Office (grossly inefficient)
- **An effective regulatory & enforcement environment:**
  - AARTO (then, now or tomorrow) is not the panacea for e-Tolls.
  - Problematic to try fix one inefficient scheme with another inefficient plan/act.

# Events impacting eToll failure...



Source of e-Toll revenue — : Sanral

## TOLL SYSTEM

218

- Contractor compensated for services rendered
- Payments made according to applicable payment band
- Tenders received:

E-Toll Tender awarded to ETC-JV in 2009 at R6,22bn. Part B (R4,73bn) covers the collection operations for five year period.

R' Billion (Rounded)	ETC JV R x bn	Areya Alternative	Hamba Goli	Areya
A. Toll System Design-Build	R1,16	R 1,43	R 1,61	R 2,46
B. Operation Service	R4,73	R 7,36	R 7,04	R12,83
C. Asset Replacement	R0,33	R -	R 0,37	R -
<b>TOTAL</b>	<b>R 6,22</b>	<b>R8,79</b>	<b>R9,02</b>	<b>R 15,29</b>



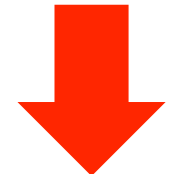
# Can't Ignore Toll Admin Costs in Road Funding...

## TOLL SYSTEM

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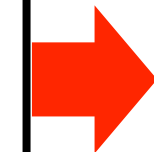
**This is what ETC was contracted to receive, if all went according to plan.**



**Ave / Annum**

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<b>TOTAL</b>	<b>R 6,22</b>

Actual Sanral Contract with ETC 5 year period		R x bn
R1,33	Tendered Amount for <b>Design-Build</b> Carried forward to volume 3 Part T2 form A5: Letter of Tender (including VAT)	
R8,20	Tendered Amount for <b>Operation Service</b> Carried forward to volume 3 Part T2 form A5: Letter of Tender (including VAT)	
R0,37	Tendered Amount for <b>Asset Replacement</b> Carried forward to volume 3 Part T2 form A5: Letter of Tender (including VAT)	
<b>R9,91</b>	<b>TOTAL</b>	

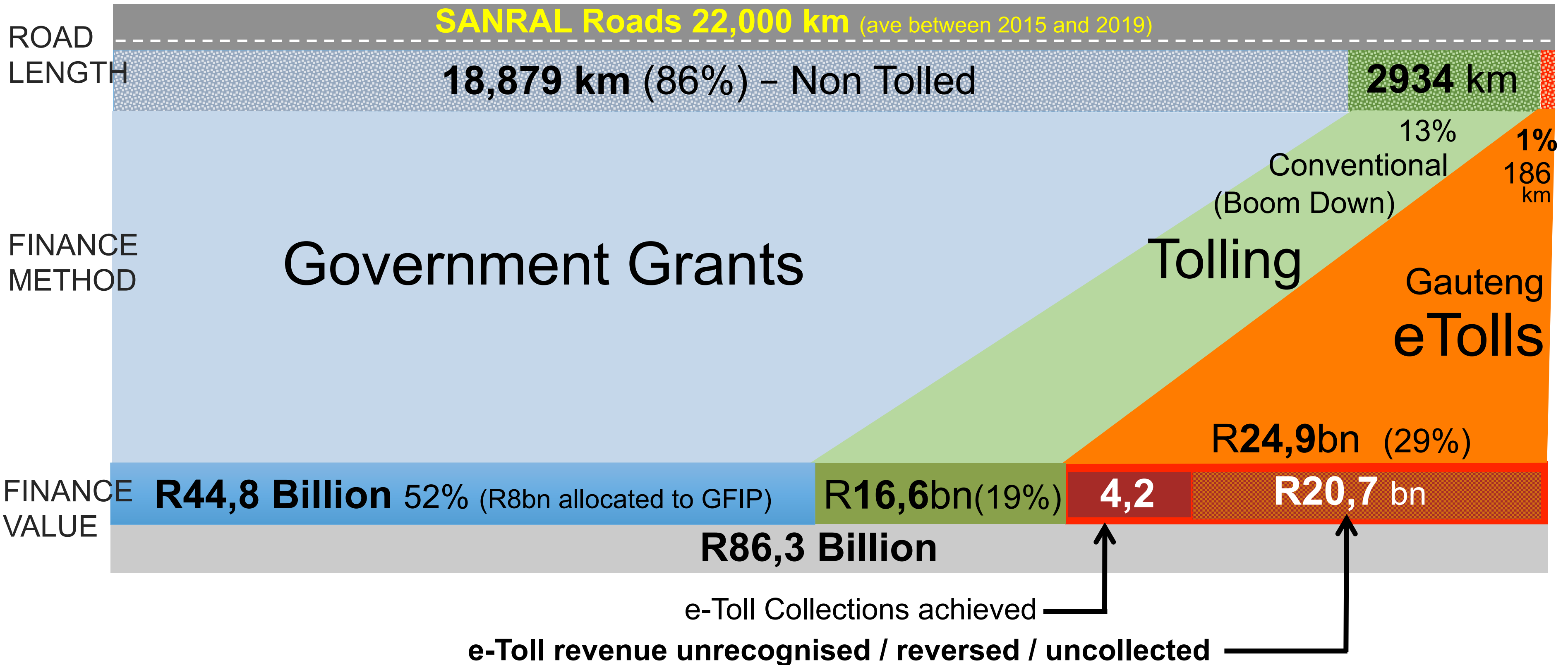


**R1,64bn**  
i.e 61% of  
finance cost  
of GFIP  
Bonds

- Had the public complied, ETC could have received **R8,2bn** for the 5-year e-Toll collection contract period (ave **R1,6bn pa**).
- Public resistance denied the full earning of R1,6bn pa.
- Income has reduced to below R650m pa (2017/18).
- i.e. roughly **R1bn pa** less than what they were contracted to earn...
- The obvious question: what would they have done with the extra R1bn+ each year, had the public succumbed and high compliance was achieved?
- **These contracted costs cannot be ignored when discussing road funding – through the e-Toll model.**



# SANRAL Finance (5 Yrs 2015 – 2019)



\*Source from Sanral's financial statements 2015, 2016, 2017, 2018, 2019

**TABLE 3: The Ever-changing Price of Gauteng Freeway Improvement Project (GFIP)**

DATE	PRICE OF GFIP CONSTRUCTION (excl Toll System)	PRICING YEAR	KM's OF PROJECT REFERENCED	AVE PRICE / KM	SOURCE OF INFO QUOTED	REF DOCUMENT
2004	R4,6bn	2004	340 km	R13,5m	Sanral	Sanral's Declaration of Intent 2005-2008. Pg 27
2007	R6,3bn		359 km	R17,5m	Star Newspaper	Pg 46 of Book published by Springer: The Changing Space Economy of City-Regions: The Gauteng City-Region, South Africa. Editor Koech Cheruiyot.
2007	R2,2bn	2004	230 km	R9,6m	Sanral	Pg 109, Table 8,8. Treasury Document: Trends in Intergovernmental Finances: 2000/01-2006/07. Chapter 8 - Roads and Transport. <a href="http://www.treasury.gov.za/publications/igfr/2004/09.%20Chapter%208%20-%20Roads%20and%20Transport.pdf">http://www.treasury.gov.za/publications/igfr/2004/09.%20Chapter%208%20-%20Roads%20and%20Transport.pdf</a>
10-Jan-08	R11,8bn	2007	187 km	R63m	Sanral	Page 18 of document from Sanral to Minister of Transport requesting declaration of GFIP routes as tolled roads. Doc Ref: N12/4/1-GFIS/ #365137. This amount is only for the GFIP road upgrade and excluded Toll system (R1,6bn) and Operations Customer Service Centres (R0.195bn). Note: This value was provided in the same year that construction started, yet the final road cost came in at 52% higher.
28-Oct-08	R11,9bn	2008	187 km	R63m	Sanral	Page 16 of Written submission to Joint Budget Committee in preparation for briefing on 28 October 2008. <a href="http://pmg-assets.s3-website-eu-west-1.amazonaws.com/docs/081028transport.pdf">http://pmg-assets.s3-website-eu-west-1.amazonaws.com/docs/081028transport.pdf</a>
01-Jul-09	R9,02bn	2009	187 km	R48,3m	Sanral	<a href="https://www.nra.co.za/live/content.php?Item_ID=260">https://www.nra.co.za/live/content.php?Item_ID=260</a> : The GFIP will allow unimpeded growth of the Gauteng region, and will contribute R29 billion to the GDP and R13 billion to the regional Geographic Gross Productivity by the end of 2009. Nearly 30 000 direct jobs will be created during construction, and R3.7 billion (41% of the total contract expenditure), will be given to SMME and black enterprise.
2012	R17,9bn	2017	187 km	R101m	Sanral	<a href="https://www.pressreader.com/">https://www.pressreader.com/</a> : Document titled E-Tolling Resolution or Revolution. 2 Feb 2017. GFIP Completed in 2011. Reference interview with Sanral, GFIP Freeways copst R17,9bn plus R2,7bn for e-Toll infrastructure.

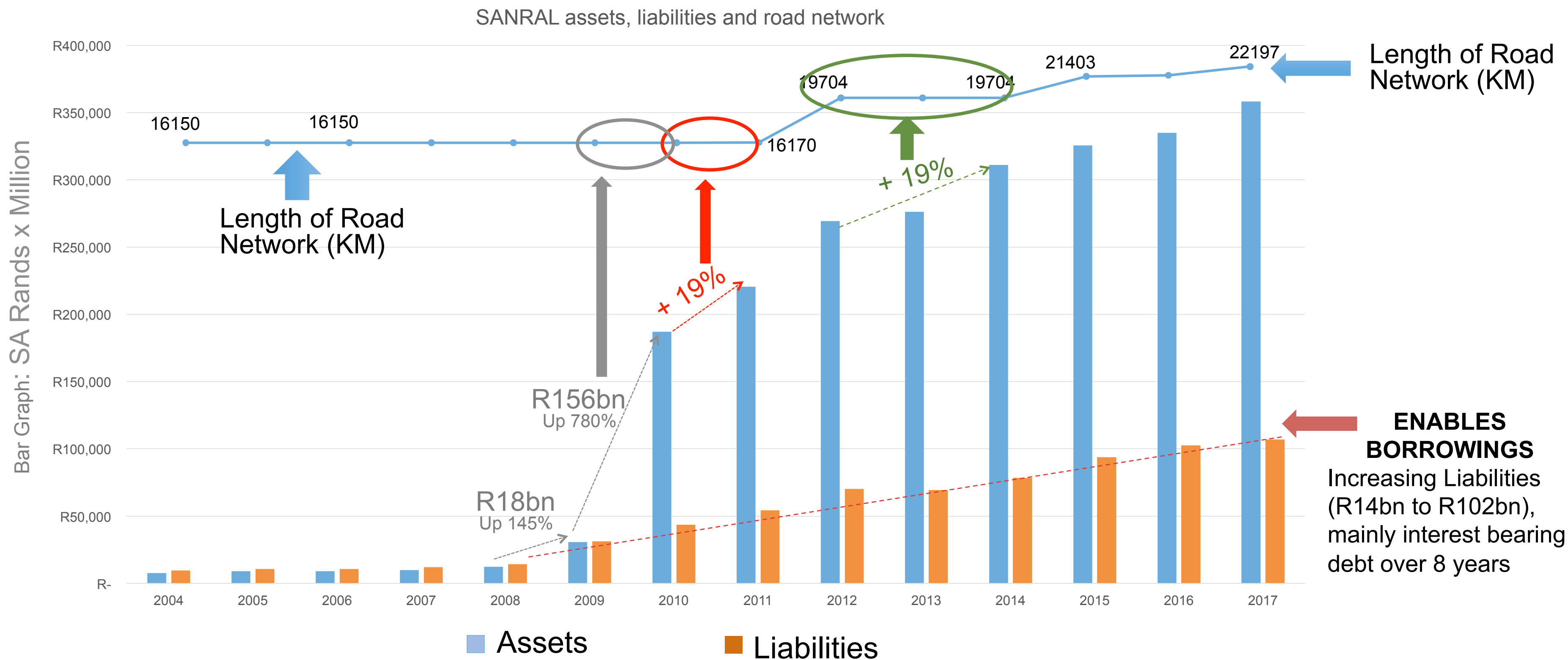
# What is required...

**The issue of inflated costs of GFIP construction cannot be ignored when discussing road financing.**

- The SOE's are the custodians of our money on capital expenditure projects.
- **Substantive variances** must be vigorously investigated by SOE's, CIDB, Treasury *etc*, to protect public funds.
- Sanral's GFIP construction cost of **R17,9bn** WAS grossly excessive.
  - Lacked transparency. GFIP information missing in public construction data program
  - OUTA's contracted Engineers estimate GFIP at max **R10bn**.
  - And if this was the case – **the e-toll funding models & decision would have been very different**



# ASSET vs LIABILITIES (2004 – 2017)



- Finding the solutions for road funding in South Africa requires that:-
  - Road construction costs are free from collusion and corruption.
  - That absolute transparency is necessary.
  - That we exercise caution on borrowing against inflated & meaningless asset valuations.
- All existing & possible new mechanisms to be explored: Taxes, User Pay Levies etc
- E-Toll is NOT the only “user pays” scheme or option to fund GFIP bonds.
- Government must recognise Gauteng’s significant contribution to the SA Economy and that all regions & citizens benefit from its roads.



## 3. SUMMARY

- 3.1 The state of the freeway system in Gauteng is a concern not only for Gauteng, but for South Africa as a whole. Contributing 38% of the country's Gross Domestic Product (GDP), Gauteng is the economic hub of South Africa. The condition of freeways has been gradually deteriorating over the years due to reasons including high exposure to heavy vehicle traffic, pavement age, no freeway expansions and limited resources. In addition expanding economic activities and urban attraction have resulted in traffic volumes on average increasing at 5% since 1991. The amount of vehicles on the roads has thus increased tremendously leading to congestion problems. Accident risk is also much higher on these roads.

**Supporting OUTA's view that National Taxes / Levies should be used to fund GFIP**



## ANNUAL FUNDS REQUIRED FROM TREASURY (20 year period)

	OUTAs Est of GFIP	ACTUAL GFIP	GFIP + E-TOLLS
<b>BOND AMOUNT (x R1m):</b>	10,000	18,000	21,500
<b>Amortised per annum at 7%:</b>	250	440	530
<b>Interest on Capital at 10%:</b>	1,000	1,800	2,150
<b>Annual Financing Costs from Treasury:</b>	1,250	2,240	2,680

To renegotiate current bonds & outstanding interest (with PIC) is possible.  
 Sadly by not going with this option from the outset, additional financial burden has been placed on society.

### If the Treasury pot is empty, then consider fuel levy

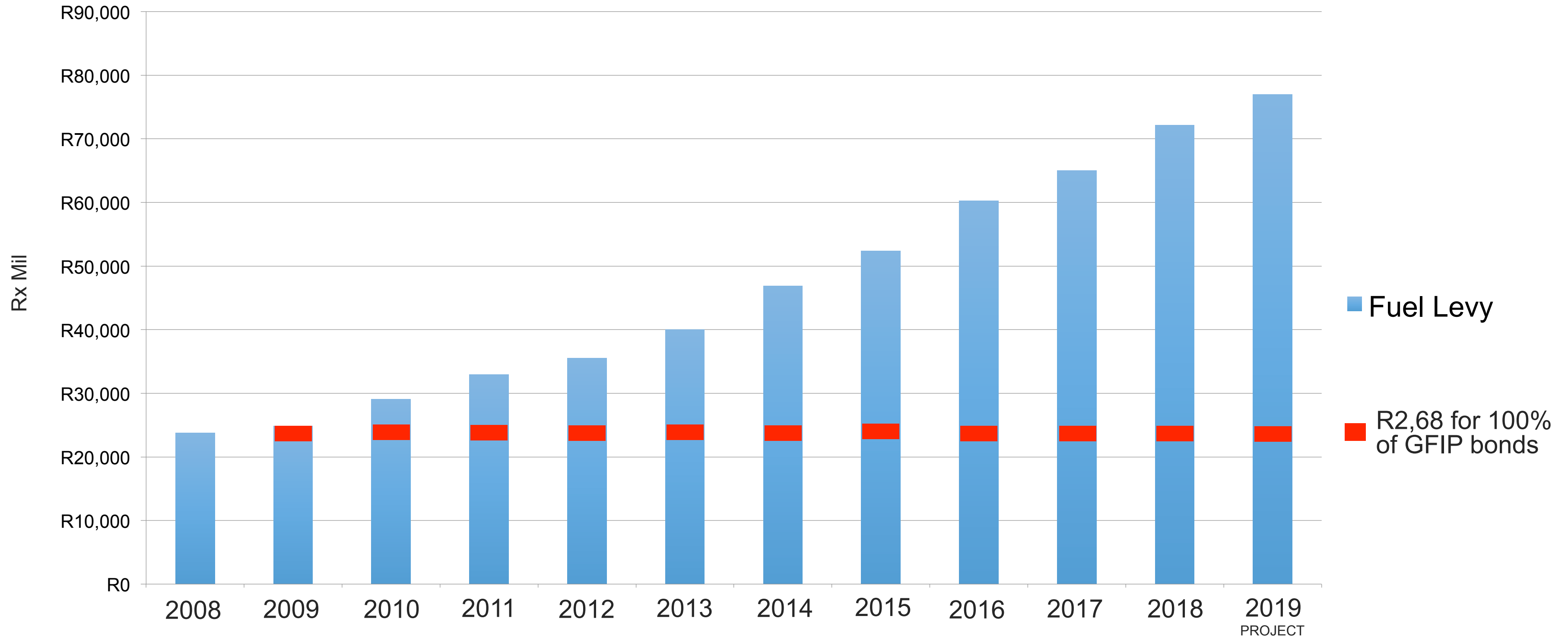
Ave Litres Sold: 23,000 (x Mil)

<b>Increase in Fuel Levy to cover 100% bond</b>	<b>0.05</b>	<b>0.10</b>	<b>0.11</b>
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These figures are backed by Econometrix, Impact Investment and Bernal Floor

# The fuel levy over time...

### SA Fuel Levy



# Adding eToll costs to GFIP funding...

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## WHEN ADDING ETC TOLL COSTS TO GFIP FUNDING

<b>E-Toll Admin costs / CONTRACT</b>	<b>1,640</b>	<b>1,640</b>	<b>1,640</b>
<b>TOTAL Cost for Public to finance:</b>	<b>2,890</b>	<b>3,880</b>	<b>4,320</b>
<b>Tolling Administration as % GFIP Bonds:</b>	131%	73%	<b>61%</b>
<b>IF AT REDUCED ETC COSTS (2017/18)</b>	<b>643</b>	<b>643</b>	<b>643</b>
<b>TOTAL Cost for Public to finance:</b>	<b>1,893</b>	<b>2,883</b>	<b>3,323</b>

← **NOTE: This is the amount that ETC was contracted to earn, had society succumbed to the plan**



- The e-Toll scheme has failed & barely covers the toll collection costs.
- The scheme is inefficient and plagued with billing / service problems.
- Offers to reduce or write off past debt, doesn't negate the issues:-
  - Excessive road cost requires independent inquiry
  - Excessive ETC operations service fee remains unacceptable
  - Unlawfulness of declaration of toll roads
  - Current legal challenges remain
- Punting that e-Tolls is the only user pays scheme is incorrect.
- Suggested debt write-off / discounted tariffs, or threats of fines and withholding of vehicle licenses will not work.

- Greater Manchester – 2008: failed to launch
- Edinburgh – 2002: Failed to launch
- Hong Kong Mid 80s: Rejected twice.
- Portugal – 2012: 80% compliance & cannot chase outstanding debt.
- Australia Brisbane – 2013: Tunnel toll, bailed out by Govt.
- California – 2013: System deeply in debt.
- Texas SH 130 Concession - 2007: Bankrupt.
- San Diego – 2003: Bankrupt
- Spain - 2018: Govt scraps toll road charges.

## To move forward, OUTA suggests...

- Acknowledgement that current e-toll scheme cannot address the GFIP Debt.
- That GFIP bonds (with PIC) are renegotiated.
- Funding can be applied through either one of the following options:-
  - Treasury Grants from national fiscus
  - Fuel Levy increase.
  - Hybrid of Treasury grant & increase in the fuel levy
  - Hybrid of Treasury grant and a mix of national fuel levy & inland fuel levy
- Govt. establish **Road Funding Committee** (Sanral, Civil Society, CIDB & Treasury) to address these issues, introduce **Transport Regulator**, and find solutions for SANRAL's financial challenges - to get road construction back on track.



Thank You!



**IT IS UP TO US  
STANDING  
TOGETHER, TO  
CREATE A BETTER  
SOUTH AFRICA.**