Submitted in accordance with Section 52 of the PFMA, which deals with annual budgets and corporate plans provides that PRASA as a State Owned Entity must annually submit a Corporate Plan in the prescribed format covering the affairs of that public entity or business enterprise for the following three (3) financial years, and, if it has subsidiaries, also the affairs of the subsidiaries.
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1. THE PRASA MANDATE

A Brief Overview of PRASA Business

PRASA, as the implementing arm of the National Department of Transport, the sole shareholder, is primarily focused on the mandate contained in the Legal Succession Act of South African Transport Services (SATS) Act of 1989, as amended in November 2008.

The main objective and main business of PRASA is to:

A. Ensure that, at the request of the Department of Transport, for rail commuter services are provided within, to and from the Republic in the public interest, and

B. Provide, in accordance with the Department of Transport, for long haul passenger rail and bus services within, to and from the Republic in terms of the principles set out in section 4 of the National Land Transport Transition Act, 2000 (Act No. 22 of 2000)

The second objective and secondary business of PRASA is that:

C. PRASA shall generate income from the exploitation of assets acquired by it, which include real estate and property portfolio.

D. A further requirement is that, in carrying out its objectives and business, PRASA shall have due regard for key Government, social, economic and transport imperatives and policy objectives.

As a public entity, Government initiatives remain a strategy driver for PRASA. This is manifested through legislation, government policies and strategies, such as:

- National Transport Policy
- Public Transport Strategy
- Legislation such as the National Land Transport Act
- Green Paper on Rail, and
- Economic Strategy and Job creation initiatives
PRASA was established in terms of Section 22 of the Legal Succession to the South African Transport Services Act of 1989 as amended in 2008. It is a public entity wholly-owned by Government and report to the Minister of Transport. The legal mandate directs PRASA to deliver commuter rail services in the Metropolitan areas of South Africa, long-distance (inter-city) rail and bus services within, to and from the borders of the Republic of South Africa. This mandate is implemented in consultation with and under the guidance of the Minister of Transport.

Core to its strategic deliverables is a commitment to the Government’s national development agenda and objectives, which amongst other things, is to (1) develop and drive a long-term turnaround plan to reduce decades of under-investment and decline in commuter rail services, (2) contribute to the goal of integrated public transport, whilst (3) championing the transformation of public transport in South Africa.

It is in this regard that PRASA has developed a 3-Year Corporate, in accordance with Section 52 of the PFMA, containing information regarding the organization’s strategic thinking, direction, and action leading to the achievement of consistent and planned results.

Statement of Purpose

PRASA was established in terms of Section 22 of the Legal Succession to the South African Transport Services Act of 1989 as amended in 2008. It is a public entity wholly-owned by Government and report to the Minister of Transport. The legal mandate directs PRASA to deliver commuter rail services in the Metropolitan areas of South Africa, long-distance (inter-city) rail and bus services within, to and from the borders of the Republic of South Africa. This mandate is implemented in consultation with and under the guidance of the Minister of Transport.

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Vision
To be the leader in passenger transport solutions

Mission
To become a modern public entity capable of delivering high quality passenger services on a sustainable basis by 2018.

Values
The values that guide PRASA, underpinning the performance ethos of the organization have been derived from the outcome of workshops carried out across the Group. The premise of the derived values is to deliver service excellence, productive staff and business growth.
The values are –

**Fairness and Integrity**
Treating our customers and our colleagues the same as we would like to be treated.

**Service Excellence**
Provide the kind of services that meet and exceed customer expectation.

**Performance Driven**
Developing the ability to venture into new areas of opportunity whilst offering quality products to our customers.

**Safety**
Ensuring our customers and colleagues enjoy their journey and arrive safely and refreshed.

**Communication**
Sharing information with our customers and colleagues in an open and honest way.

**Teamwork**
Working together with our customers to achieve a common goal and recognising each other’s strengths and contribution.

**Operating Principles**

**Mobility**
PRASA shall contribute to sustainable public transport solutions by providing high-quality passenger services founded on an integrated network of mobility routes.

**Accessibility**
PRASA shall provide quality rail, bus and property management services that enable individuals and communities to access socio-economic opportunities and contribute to a better quality of life of the people as a whole.

**Modal Integration**
Reframing the basis of business delivery, favouring innovation, seamless integration and partnerships.

**Service Excellence**
A deep commitment to superior performance that is safe, reliable and affordable, provide a dignified travel experience that makes a lasting impression, and builds brand loyalty – both internally (employees) and externally (customers) – that adds benefit to the passenger.

**Sustainability**
A focus on sustainable development in business that considers not just the financial ‘bottom line’ of prosperity, but the environmental quality and social equity.
2. OPERATING ENVIRONMENT

Legislative and Regulatory Environment

Legal Succession Act
PRASA, a public entity reporting to the Minister of Transport, derives its mandate from the Legal Succession to the South Africa Transport Services (“SATS”) Act of November 2008.

The main object and the main business of the Agency are to —
(a) ensure that, at the request of the Department of Transport, rail commuter services are provided within, to and from the Republic in the public interest; and
(b) provide, in consultation with the Department of Transport, for long haul passenger rail and bus services within, to and from the Republic in terms of the principles set out in section 4 of the National Land Transport Transition Act, 2000 (Act No. 22 of 2000).

The second object and secondary business of PRASA is that the entity shall generate income from the exploitation of assets acquired by it.

A further requirement is that, in carrying out its object and business, PRASA shall have due regard to key government social, economic and transport policy objectives.

The Legal Succession Act does not make adequate provision for the Separation of Assets between PRASA and Transnet as a result of the transfer of Metrorail, Shosholoza Meyl and Autopax e.g. transfer of some stations, CTCs, bus depots and other related properties that are necessary for the operation of the business. Negotiations with Transnet shall to continue to ensure the required assets are transferred to PRASA and vice versa.

Other Legislation
The crafting of the PRASA strategy and business plan takes cognisance of the legislative environment with specific reference to:

• The National Land Transport Act (Act 5 of 2009) as government’s transport policy driver as well as the Public Transport Strategy and Green paper on Rail.
• Rail Safety Regulator Act of 2003
• Labour Relations Act, Employment Equity Act and Conditions of Employment Act
• National Development Plan as the platform for 2014/15 – 2016/17 Platform.
3.2. Operating Structure
4. OTHER KEY IMPERATIVES

4.1. National Development Plan

The National Development Plan assumes that by 2030, investment in the transport sector will:

a) Bridge geographic distances afford ably, foster reliability and safety so that all South Africans can access previously inaccessible economic opportunities, social spaces and services.
b) Support economic development by allowing the transport of goods from points of production to where they are concerned. This will also facilitate regional and international trade.
c) Promote low-carbon economy by offering transport alternatives that minimize environmental harm.

PRASA is aware of the need for reliable, economical and smooth-flowing corridors linking various modes of transport (road, rail, air, sea ports and pipelines). The NDP notes that currently outdated, malfunction-prone railway technology and poor intermodal linkages dominate these corridors.

PRASA is central in reversing the legacy of under-investment, social and economic exclusion caused by apartheid, which is still evident in the long distances that many people, especially the poor, travel from where they live to where they work.

Therefore, providing suitable means for the safe, efficient and cost-effective transport of people is key in PRASA’s public transport solution. In understanding the NDP imperatives, PRASA is involved in the development and deployment of the total transport network which will help improve transport efficiency and accessibility while reducing the overall environmental, social and economic costs.

PRASA has noted the NDP strategic focus areas and planning priorities which focuses on creation of workable urban transit solutions that will streamline an effective urban transport system, particularly – as it pertains to PRASA, through:

- Increasing investment in public transport and resolving existing public-transport policy issues
- Devolving transport management to local government
- Providing incentives for public transport use
- Renewing the commuter train fleet
The National Development Plan (NDP) sets the “common focus for action for all sectors and sections of the South African society” to eliminate poverty and reduce inequality by 2030 utilising a multi-dimensional framework to drive a virtuous cycle of development with integrated approach where progress in one area supports advances in others. The NDP has 12 main chapters covering various actions to which PRASA as a public entity and public transport provider contributes or is impacting the Group.

Figure 1: Multi-dimensional development framework of NDP

It is expected that the proportion of people using public transport for regular trips or commutes will expand as projected in the NDP. The requirement of public transport infrastructure is to be user-friendly, less environmental damaging, cheaper and integrated by 2030. The action is to consolidate and selectively expand transport and logistics infrastructure with, specifically for PRASA the renewal of the commuter rail fleet supported by enhanced links with road-based services. PRASA’s strategic plan echoes these requirements especially with the expansion of rail infrastructure aligned with the strengths of rail and spatial development plans of provincial and local authorities.

Employment: An effective public transport system that contributes to the movement of people facilitates employment and labour force participations thereby increasing commuter and passenger numbers and social demographics. Metrorail, providing commuter services, plays a major role in reducing costs of living through affordable rail fares. PRASA also contributes to employment as well as development of skills as well as education towards specific fields of importance for rail and bus transport.
Environment: Environmental sustainability and resilience addresses how PRASA and its entities need to approach new developments and upgrades to reduce greenhouse gas emissions and to approach stations and commercialisation projects with the aim of zero emissions on buildings by 2030. In addition PRASA also addresses clean environments in its stations and transport carriers of rail and bus as well as safety and security of passengers.

Housing: Transforming human settlements through densification of cities and settlements with substantial investments in safe, reliable and affordable public transport supported by spatial development frameworks that balance location of jobs and people are at the heart of PRASA’s 20 year strategy where developments for commuter rail are based on demand patterns and spatial plans. PRASA through its division CRES and subsidiary Intersite, also contributes to housing as part of its real estate strategy, supported by other chapters of the NDP around densification of cities to enable better public transport services.

Educations and Skills: Skills development and training for PRASA employees as well as future employees are close to the heart of the rail business. PRASA through various initiatives support development of learners towards engineering fields for rail, development and training of rail specific artisans and other transport related skills. In addition the organisation supports transport, engineering, public service management development through partnerships with South African universities such as UCT, University of Stellenbosch, Wits Business School and UNISA. PRASA also uses its modernisation programmes to illicit the support of the private sector in skills development and employment to address social protection as contained in the NDP.
Rural economic growth will impact transport services required to and from these areas for long distance buses and trains. Focused regional integration will also drive increased requirements for interregional passenger transport. PRASA has therefore already mooted cross border services with neighbours in the SADC region.

The objectives and actions of the chapter on building a capable and developmental state is the nexus for objective of corporate governance at PRASA. PRASA’s public mandate of providing public transport is the first object of PRASA’s legislative mandate. PRASA also aim to ensure that staff at all levels have the authority, experience, competencies and support to ensure safe, clean, efficient and effective transport for all South Africans; that we build careers of choice in the public rail transport sector; that we build sound relationships at local, provincial and national government and fight corruption at all levels of the organization.

### 4.2. PRASA Strategic Plan

The development of the Corporate Plan for MTEF 2015/16-2017/18 is aligned with PRASA’s Strategic Plan that focuses on the key points pertaining to:

a) A prioritized list of rail service and network expansion interventions that:
   - provide more capacity to accommodate forecast growth,
   - transform the rail product on many corridors,
   - seek to make better use of the network, and
   - propose corridor extensions to new or growing settlement.

b) Clear proposals for improving integration between rail and other public transport modes to make it easier for passenger to use railway services as part of the wider integrated transport systems, which include:
   - enhance city distribution,
   - improved intermodal interchange, and
   - use of Autopax to feed into and complement rail services and priority hubs in the network.

c) A review of the corridor classification in the 2006 National Rail Plan to confirm priorities

d) The identification of key redeployment sites to contribute funding for the implementation of the Strategic Plan
4.3. Public Value Contribution as a Driver to Public Transport

PRASA puts the delivery of Public Value and Public Good at the center of its public transport solution. To be a modern entity, delivering high quality passenger services, means PRASA must prioritize the provision of public transport services and the needs of the community it serves as the primary focus of its mandate.

The value that the individuals and the general public derive from the services that PRASA contributes to society as a whole such as affordability, accessibility and job creation, including its corporate social initiatives and skills development is immense.

In delivering Public Value, PRASA has identified the following as the key strategic drivers:

a) Improving accessibility and connectivity to marginalized communities
b) Providing affordable and subsidized transport solutions to the passengers
c) Supporting economic growth and development through the provision of access to major employment areas,
d) Delivery of frequent rural transport
e) Public employment programs
f) Localisation and Industrialization
g) Women in Rail (WIR)
h) Special program for the unemployed
i) Supporting the main economic development nodes
j) Social corporate investment
k) Contributing to emissions reduction and cleaner cities
Introduction
The Corporate Plan has been influenced by PRASA’s current positioning in the transport, property and real estate sector vis-à-vis where the organisation wants to be in the medium to long term. A market and competitive analysis was conducted regarding PRASA’s business strategy and how it relates to the market and the environment under which it operates. The market and competitive analysis was done to determine the strengths and weaknesses, as well as opportunities both PRASA and the competitors within the market. In this instance, PRASA has identified opportunities and developed strategies in pursuit of PRASA’s overall goal of being a modern entity and a leader in public transport solutions capable of providing high quality passenger services on a sustainable basis.

Central in the development of PRASA strategy was a re-focus on offering integrated yet differentiated passenger services and to look at the market from the customer’s (the passenger and the user of PRASA facilities), as well as an organisation that delivers PUBLIC VALUE.

5.1. Public Passenger Transport Assumptions

Urbanization is progressing at break-neck speed and today over 40% of SA’s people have migrated to the cities with a population of above 1 million. South Africa’s urban population is doubling every 20 years and now requiring effective and sustainable transport solutions. Also everywhere else around the world there is a revival of rail which includes (i) new rail expansion projects, (ii) upgrading and modernisation of existing rail systems, and (iii) rail technology advancements.

PRASA has not been spared from these developments.

Transport and the need for transport has become an integral part of the daily lives of South Africans. Demand for transport shapes the urban landscape and in turn influences spatial choices that the South African citizen makes in relation to social and economic services, such as residence, education and work.

Business, in particular, makes locational choices based on market proximity and size, as well as considerations for ease of spatial mobility of labour, amongst other considerations. As South Africa is becoming more and more urbanized, metropolitan cities are experiencing migration of people from rural or semi-rural areas and increasing rate. The consequence of increased rate of migration and population growth has a huge impact on urban infrastructure and transport services. Inevitably, as people migrate to urban areas from the countryside also puts demand for transport infrastructure and
services to and from these areas, as the same people migrating need transport to these urban areas and again back home as they return on a regular basis.

PRASA conducts and/or analyse regular public transport surveys in order for the organisation to make informed decisions regarding the provision and deployment of public transport, including public transport facilities, throughout the country. The surveys are conducted with specific objectives, which amongst others, are:

a) To identify transport needs of households and travellers
b) To ascertain the cost of transport and assess whether households can afford to pay for their mobility, which is essential for their survival
c) To assess attitudes towards PRASA’s transport services and facilities
d) To understand the travel choices of different market segments

The National Household Travel Survey (NHTS) conducted in 2013 reveals that barriers to mobility in the country have been reduced in the last ten years, yet several challenges remain. Rural households had better access to public transport and had reduced travel times. There has been a general increase in the percentage of households who used taxis (from 59% to 68,8%), buses (16,6% to 20,1%) and trains (5,7% to 9,9%). This reflects a general increase of the percentage of travellers in the country during 2003 and 2013.

In 2013 taxi commuters constituted 67.5% of the total passenger transport, with the buses taking 19.4% (declining from 20.0% in 2011), whereas train commuters declined to 13.1%.

There is still a huge number of the South African population that still walks to and from their destination and they constituted 21.0% in 2013, against 48.8% who use public transport and compared to 38.3% still preferring to use private cars.

The ten-year decline in comparable figures between 2003 and 2013 on the use of public transport from 40.0% in 2003 to 38.3% in 2013 against a rise from 32.0% to 38.3% of the population using private cars in the same period could have both negative and positive connotations, from which key assumptions could be drawn.

The country still battles in deploying train services to certain geographical locations in South Africa. Port Elizabeth leads statistics on households without access to train services, which stands at 85% of the population, compared to Cape Town where only 24% of the population has no access to train services. The second highest households without access to train services are Durban at 70%, followed by Pretoria and Johannesburg at 56% and 51%, respectively.

Obviously, the picture is different in outlying areas and rural communities where access to both rail and bus services still remains a huge challenge, contributing to these communities not being able to access socio-economic opportunities and therefore impacting on them not being able to enjoy a better life for all.
High travel costs have huge socio-economic impact on 70% of the population who spend 30% of their income on public transport. The impact is felt even much higher on those commuters who live in the urban fringes where their travel is as high as 90 minutes, which constitute over 47% of commuters.

The provincial public transport utilization across all modes of transport gives an interesting perspective on where the challenges and opportunities are regarding PRASA public transport solution. In KwaZulu-Natal only 6.4% of the population use trains compared to the Western Cape and Gauteng where trains usage constitute 37.1% and 17.4%, respectively. The Eastern Cape still remains the lowest province where only 3.9% of the population utilizes trains and the province the rest of the country in the use of taxis at 87.3%, followed by KwaZulu-Natal at 78.6%. Whilst Gauteng still has a fair share of taxi utilization at 70.8%, the Western Cape is the lowest at 42.4%.

Bus service stills plays a sizeable role in public transport where the Western Cape leads with 20.4% followed by KwaZulu-Natal and Gauteng at 15.0% and 11.7%, respectively. The Eastern Cape remains low at 8.8%.

5.2. Economic Assumptions

The global economy is suffering from the effects of economic recession. The effect of Quantitative Easing by the United States Federal Reserve Bank, may limit foreign direct investment in the rand i.e. bond market. At stake will the funding for major state owned key infrastructure suppliers. Contagion effect to the SA economy due to the 2008 economic crisis with one if its major trading partners, mainly the EU.

Growth of the South African economy is expected to be slow, further compounded by the electricity crisis; the inflationary impact caused by increases in administered prices (electricity, toll roads, fuel levy, municipal rates, etc). This will affect the household consumption, which may adversely impact economic growth. There is potential competition from other African economic hubs like Nigeria looking for a slice of the foreign direct investment funds. Growth in Africa is projected at 5%.

Although the matured property sector shows a sign of strain, it is generally considered stable; investors will reckon the impact of these conditions and may be inclined to look for higher returns to offset the effects of inflation and risks. There are signs of slight
recovery in the economy judging by household and private sector spending. The introduction of the Real Estate Investment Trust structure, which has aligned South African property structure to internationally recognised standard augurs well for the listed property counters.

PRASA has budgeted for a marginal increase in its passenger trips and a stable market share for the current MTEF period. This projection is based both on internal and external factors.

The South African Reserve Bank revised growth outlook late last year, for 2014 to 1.4 percent, while the 2015 growth projection was revised from 2.8 to 2.5 percent, and for 2016 from 3.1 to 2.9 percent. While there are various factors that will impact on employment creation in South Africa, it has been assumed that growth higher than 5 percent is what is required to create sustainable employment. Instability in the labour environment remains a challenge, electricity supply as well as the global economic environment – including some of South Africa’s major trading partners. The weak growth outlook is likely not to improve employment significantly or improve disposable incomes of the already stressed consumer.

On the other hand, in the transport environment, low oil prices may improve profitability for some road based transport operations. It remains to be seen whether those benefits would be passed to the travelling public in South Africa.

Various municipalities have implemented the Bus Rapid Transit systems, the City of Johannesburg and Tshwane municipality, notably. The medium to long term impact of these systems on public transport share remains to be seen.

PRASA is also embarking on a massive modernisation program, which will cause some inconvenience to passengers in the short terms, with delays on some sections on the lines as construction works begin. The most significant projects to impact on rail performance will be the signaling program, the 120 kilometre per hour projects, depot modernisation on train maintenance, and station modernisation projects, as an example.

With the delivery of the new fleet and the modernisation programs, including service improvements, rail’s share of public transport is expected to improve in the medium to long term (three to five years), while in the next twelve to thirty six months it can be expected to remain where it is.

The pronouncement by National Government to proceed with a vast infrastructure build programme gives impetus to Intersite’s business, as there is an expectation that certain transport related projects will receive much needed budget to complete and/or for new projects. In 2014/15, budget of R22.9 billion has been allocated for upgrading the commuter rail services.
5.3. South Africa Commercial Property market overview

The latest Rode report on the South African property market reveals the following key significant findings:

- Restrained growth in office rentals
- Slow growth in residential rentals
- Unstable House-price growth

Retail sector is viewed as a champion performer in helping the overall property market retain its reputation as one of the country’s key economic drivers. Research Reports also confirmed that Industrial sector came to the fore with a total return of 17.1%, marginally outperforming Retail at 16.8%. Offices sector followed its trend by underperforming the other two sectors during the property cycle recovery but still managed a respectable 13.6% total return.

Industrial Sector

In general, industrial market rentals for prime industrial space nationally showed growth of 4%. The industrial rentals growth at Regional level is also not too shabby. The growth in Durban has been heating up, so much so that in recent quarters the City is showing the strongest growth amongst other major industrial regions. Reports however cautioned that, conditions in the manufacturing sector remain challenging and this naturally places a lid on the demand for industrial space and might keep rentals growing at moderate rates.

Office Sector

The growth in office market rentals continues to be retrained by lackluster growth in the demand for office space and office vacancy rates that are stubbornly refusing to drop. However there seems to be a slight increase in the national office vacancy, some South Africa’s top office nodes are showing decent growth such as Sandton and Cape Town decentralized nodes.

Retail sector

The latest SAPOA retail trend report indicates that Gross Retail rental has continued to grow faster than sales, which have seen retailers ‘cost of occupancy increase. Cost of occupancy is currently the higher in the 10-year history of the series and is almost exclusively driven by higher operating costs.
The modernization of passenger railways has gained significant momentum, with the modern passenger rail system beginning to take shape as a result of the progress being made in the implementation of key strategic projects. Whilst Growth and Expansion is the focus the 3-year Corporate Plan and MTEF Period, modernization and investment in new capacity remain the catalyst in the PRASA Strategy.

The 3-year Corporate Plan covering, 2015/16-2017/18 MTEF period, is informed by PRASA strategic journey since its inception and guided by its ambition of creative a modern public entity capable of delivering Public Value and high quality passenger service on a sustainable basis.

The plan acknowledges the fact that the railway infrastructure and deployed technology, has over the years been unable to service the ever-increasing demand for passenger and commuter travel. The last train sets were purchased in the mid-1980s and technology is old and inherently obsolete - 1950s, whilst he average age of the current coaches is 40 years, thus resulting in (i) Poor levels of reliability and predictability, (ii) High costs of maintenance, (iii) Failure to contribute to an efficient transport system (over-crowding, slow journey times, poor modal integration and lack of off-peak services, ticketing, irregular timetables, (iv) Inability to support economic activity, as well as (v) limited access to socio-economic opportunities for rural and urban poor.

The years of underinvestment in transport infrastructure took a toll on the ability by PRASA to deliver high quality passenger service.

6.1. Modernisation

In addressing decades of underinvestment in public transport infrastructure PRASA has embarked on significant capital investment programme focused on the modernization of infrastructure and rolling stock. The key programmes include the (i) Rolling Stock Fleet Renewal Programme, (ii) Signaling, (iii) New Locomotives, (iv) 120km/h Perway Programme, and (v) Station and Depots Modernization.

These investments support PRASA’s effort to position passenger rail as a backbone of South Africa’s transport system. Spending will continue to be prioritized in these areas, mainly to support the Metrorail service. Growth in passenger rail spending has, until recently, been constraint due to other competing public demands. However, capital investment is now on the increase. The Group capital spending will reach R45 billion over the next three years, driven largely by the Rolling Stock Fleet Renewal and Signaling programmes.
PRASA's modernization programme is the catalyst for the transformation of Metrorail and long-distance rail services. It is the beginning of the rollout of a modern passenger rail transport system in the period ahead. The modernization programme has been designed to achieve a number of key Government objectives such as the delivery of quality services to the commuting public, revitalization of South Africa’s rail engineering industry through local manufacturing and, ensuring local content as part of the Government’s Industrial Policy Action Plan (IPAP2), preferential procurement, employment creation and skills development as well as Broad-Based Black Economic Empowerment.

6.2. Economic and Social Spin-Offs

The modernisation programme will see a number of economic and social spin offs at a level unparralled in the history of massive infrastructure roll-out in South Africa.

Massive economic development benefits have been quantified by PRASA. The local manufacture of new trains will see the skilling of approximately 19 527 individuals over the next ten years. These will include development of artisans, engineers, train drives, designers and technicians, as well as the creation of 8, 088 jobs over the next 10 years. Broad Based Black Economic Empowerment spend on skills development will be R923 million throughout the modernisation programme, whilst spending on empowered entities is estimated to be R35.8 billion over the same period; translating into 65% localization.

Furthermore, qualifying small enterprises and exempted micro enterprises (SMMEs) will benefit from a R5.4 billion allocation, whilst R1.64 billion has been allocated for the benefit of enterprises owned by black women. Spending of R323 million has been committed to socio economic development contributions and a further R892 million for the development of enterprises in the rail sector.

6.3. Corporate Plan Strategic Priorities for 2016-2018

PRASA’s 2015-2018 MTEF Corporate Plan is defined by the Growth and Expansion Phase, which will be expressed in the following key Strategic Priorities:

1. Rolling Out a Train System of the Future
2. Expanding PRASA Networks and Services
3. Consolidating the Real Estate Strategy
4. Embarking on a Robust Assets Investment Program
5. Enhancing Organizational Capacity
6. Public Employment Creation
7. Improving Financial Position
8. Brand Positioning and Stakeholder Engagement
A number of initiatives have been identified and agreed upon between the Board and the Executive, which will support and deliver on the above priorities with supporting business plans and key performance measurement and deliverables.

The strategy supporting the key deliverables on the Corporate Plan has set to grow the rail market share at 3% by 2018, with passenger numbers growing up to 574 million passengers. The acquisition of new locomotives and the commissioning of 48 refurbished locomotives will see long distance passenger service (MLPS) increasing its passenger numbers to 1.1 million by 2018 and a rating of at least 72% passenger satisfaction.

The growth and expansion strategy, covering the next five years with emphasis on the MTEF period has as its focus; (i) bus operations will increase its bus feeder services to twenty eight (28) by 2018, the pursue five (5) scholar bus transport and 6 opportunities in the private bus tendered business, as well as the introduction of 6 cross border routes; (ii) introduction and extension of integrated public passenger rail services and linking-high volume corridors into effective service, including introducing at least 6 regional MLPS routes on existing lines by 2018 (iii) Leveraging on station upgrades and new rail/corridor extensions Increase in Gross Lettable Area (GLA) through Commercialisation.

6.4. Capacity Building and Skills Development

Human Capital Development will be a critical feature during the Growth and Expansion phase of PRASA’s strategy deployment. The massive capital investment program amounting to billions of rands will require a caliber of employee that is capable not only to deliver such infrastructure and services, but is capable to sustain and ensure that the organisation is built to last.

Modernisation and a focus on Growth and Expansion in the next 3 years will require a particular focus on human development that will ensure that PRASA is responsive to the fast and changing environment is becoming the forever changing needs of the passengers, commuters, and user of the organisation’s facilitation in what also has become a highly competitive environment.

PRASA is poised to be a centre of excellence in the identification and development of critical skills in the rail-engineering sector, particularly the mechanical and electrical engineers, including technicians and artisans.
Building and sustaining a Modern Public Entity capable of delivering Public Value will be driven by the following factors:

- Customer-centric
- Dynamic
- Solutions Driven
- Systems and technology driven
- High Performance Teams
- An Industry Thought Leader
- Learning Organisation

6.5. Public Value Contribution

In the main, PRASA’s contribution in the deployment of a reliable, safe and high quality public transport infrastructure and service cannot be measured only in financial terms. Unlike private business, PRASA faces and will always face a challenge of not being able to clearly and in quantifiable terms articulate the value of what it delivers to the general public and be able to demonstrate in the market place if such measures continue to be financial.

Whist private sector managers can measure the financial performance of their organizations relatively easily and quickly through the use of financial indicators, public sector managers face a far more difficult problem in measuring the performance of their organizations in objective terms without creating arguments.

PRASA is at the center of delivering Public Value and during this period, the organisation will unpack and demonstrate, through a series of programs, the Public Value it creates and delivers to the public as it pertains to the following:

- Individual Value
- Citizen Value
- Economic Value
6.6. PRASA’s Capitalization Programme for 2016-2018

During the capital budgeting process for the 2015/16 Medium Term Expenditure Framework (MTEF), the Enterprise Programme Management Office (EPMO) received 83 capital funding requests, with a total value of R57.8 billion. However, the Capital Programme budget over the next three years is R44.8 billion. A total number of 375 new individual projects have been received and recorded. As part of the evaluation process, the team assessed all the funding requests received from the business units, including corporate office. In general, the team verified the following: whether each business case is in line with the prescribed guidelines, the likely financial impact of the project, return on investment, associated risks, implementation readiness, strategic intent, operational impact, needs and options analysis. In addition, an analysis was conducted to verify the proposed project/programme impact on operational efficiency, modernization, improvement of the financial position and service sustainability.

Crafting PRASA’s response to the approved capital allocation from the Department of Transport, the evaluation team prioritized projects/programmes in line with the following business priorities:

a. Supporting the urgent priorities of PRASA to achieve modernization objectives such as Rolling Stock Fleet Renewal Programme, Station Modernization, Depots, Signaling and Acquisition of Locomotives;
b. Initiatives to increase operational effectiveness which include Drainage Projects, National Station Improvement Programme, Capital Intervention Programme, Perway, Security Systems, Electrical and ICT;
c. Projects and programmes to improve financial performance. These include Network Rail Extensions, National Station Upgrade and Property Acquisition;
d. Projects and programmes already committed from previous financial years for finalization; and

e. Projects and programmes demonstrating readiness to spend.

With the above considerations, the prioritized projects and programmes are aligned with the business priorities which should demonstrate sustained capital growth over the period ahead.

6.7. Financial Overview Summary: 2015-2018 MTEF Period

PRASA is forecasting a shortfall of R587m in the current financial year and a budgeted shortfall of over a R1 billion for 2015/16 financial year and each of the MTEF years. In the past two years the Group had a shortfall of R156 million and a profit of R336 million for 2012/13 and 2013/14 respectively. The continued shortfall is as a result of the Metrorail services being underfunded especially with Mainline Passenger Services (MLPS) not being funded. This is with the exception of the 2013/14 financial year when a R650 million was re-allocated from the Capital allocation to fund MLPS. Although the group is underfunded, significant improvements have been made in Improving Metrorail
Passenger trips by an average of 4% a year and also the exploitation of the Property Portfolio which is expected to contribute over a billion in 2015/16 and the MTEF.

### Revenue

Prasa has three main sources of revenue: Fare Revenue, Rental Income, and Government Subsidy.

- **Fare Revenue**
  The Metrorail fare revenue is expected to grow by 13% in the 2015/16 financial year. This increase is mainly driven by an increase in passenger trips and an improvement in fare collection by reducing fare evasion. Autopax revenue is also expected to grow by an average of 5% over the MTEF due to price increases and introduction of new routes and services.

- **Rental Income**
  Rental income is currently a small part of the total revenue of PRASA but shows a high increase year on year. It is expected to grow by an average of 24% a year to R976 million in year 2017/18. This increase is mainly from increase in rentals due to modernisation and commercialisation of station and new income streams including Bus Billings and Parking fees in our stations.

- **Government Subsidy**
  The subsidy has been increased over the years by an average of 4.5% which is always less than the inflation rate and is expected to be R12.8 billion in the MTEF Period. From the current allocation R1.4 billion has been earmarked, during the same period.
PRASA’s total operating expenses currently exceed the Revenue as mentioned above. The current cost coverage ratio is 93% and is not expected to change over the MTEF. The costs on average are increasing at a rate much higher than inflation. Key costs with a noticeable increase include Energy increases with an average of 6.5% year on year, mostly due to Eskom hikes electricity tariffs and opening of new facilities (depots and stations). Material and Maintenance also increase at a higher rate than inflation due to the ageing Metrorail fleet. Personnel costs are increasing at about 8% due to negotiated increases with the Bargaining Council for 95% of PRASA employees in that grade. The other key costs showing high increases include Insurance claims, Municipal costs and MLPS access fees payable to Transnet.

There are strategies that the Group is putting in place to curb the increases in the costs above which include and not limited to:

- Negotiations with Unions
- Investigations of Municipal tariffs
- Negotiations with Transnet on the Access/Haulage fees.
- Prioritizing condition based maintenance in-order to capitalize the incurred maintenance costs.
Since its inception, PRASA has embarked on systematic and sustained programme to redress some of the legacy programs arising out of decades of under investment in public transport infrastructure and services.

This programme has been rolled out in 3 phases:

- 2010-2012: Stabilization of Commuter Rail
- 2012-2014: A Focus away from Refurbishment to Replacement
- 2015-2018: Growth and Expansion

The evolution of the PRASA strategy has been defined in three (3) periods of transition:

**PHASE 1**
- Strategic Positioning of PRASA

**PHASE 2**
- Rail as a Backbone of public transport

**PHASE 3**
- Geographical Public transport integration and Expansion

The period herein below depict the journey that has defined, and will continue to influence, PRASA’s strategic direction as it continues to ensure the lead in public transport solutions.
7.1. Summary of PRASA Strategic Journey

Key Successes

a) Constructing a Modern Train System
b) Building a business of the future
c) Unlocking the value of assets
d) Reversing decades of under investment
e) Increasing Asset Value
f) Introducing new technologies

Failures and Weaknesses Successes

a) Failure to design and deliver customer-centric solutions
b) Failure of rail to serve as a backbone of public transport
c) Business with huge operational inefficiencies
d) Lack of internal cohesion and misaligned organizational culture
e) Ineffective use of capital

Key Challenges

Notwithstanding the successes in arresting the decline in and sustaining train services around the country as well as advances in modernizing and investing in new capacity, there are huge challenges that face PRASA. PRASA has not yet entered a stage in its development where customer expectations are satisfactorily met and the organization is said to be delivering world-class, high-quality (affordable, reliable and safe) passenger services.

The existing, obsolete rail system is unable to deliver train services to citizens that are reliable and predictable, yet the costs associated with the operations and maintenance of this system are disproportionately high. Despite high-costs, the rail system in its current form will not deliver significant Public Value. This is measured in terms of contribution towards an efficient transport system, significant rail share of public transport, subsidy per passenger, facilitating greater access to economic and employment opportunities for the rural and urban poor, productivity, efficient and cleaner cities, etc. This is probably the biggest failure of the existing passenger rail system.

PRASA Rail Operations also do not generate adequate resources from operations, resulting in a huge funding gap that impacts negatively on the financial and cash position of the Group as a whole, and planning assumes that this funding gap will remain for the next 5 years at least.
Below are the other major challenges that PRASA faces during the advent of modernisation:

a) The significant growth in PRASA's Capital budget, which is not accompanied by commensurate growth in the Operations budget.

b) As PRASA joins other major capital intensive companies in competing for skills, resources and expertise there still remains significant limits on the technical and professional skills that the organisation can bring in to plan, manage and execute capital projects and ensuring that these skills remain within the system..

c) The multiplicity of major projects taking place across the Group, whilst necessary as the infrastructure is excessively aged and technology obsolete, presents many risks and implementation challenges.
The Growth and Expansion period, governing the current MTEF period, has as its focus the positioning of rail as the backbone of public transport which delivers public value and rail becoming a mode of choice for public passenger transport and is supported by a vibrant property and real estate strategy that unlocks the value of assets.

Benchmarking the PRASA business against international best practices, as well as deploying sophisticated infrastructure and technology across the business will characterize modernisation period. Focus on strengthening rural and regional nodal mobility and enhancing rural mobility and access and ensuring that PRASA plays a key role in integrating neighbouring economies.

Vertical integration of PRASA across key industries will strengthen PRASA’s resolve in ensuring that rail becomes the backbone of public transport.

PRASA has identified key interventions that will ensure it contributes to the continued growth and expansion of the organization’s business and its contribution to an effective and reliable public transport system and infrastructure.

PRASA has identified and defined its strategic ambitions as the following:

a) Rolling out a Train System of the Future
b) Expanding PRASA Networks and Services

c) Consolidating the Real Estate Strategy
d) Embark on Robust Assets Investment Program
e) Enhancing Organizational Capacity
f) Improving Financial Health
g) Brand Positioning and Stakeholder Engagement

Achieving its strategic ambition will require PRASA’s:

A. Understanding of the changing preferences and demographics of commuters, passengers, and users of the deployed infrastructure, services and facilities, (Passenger Segmentation and Customer-Centric Solutions)

B. Capability to maintain relevance in an industry that is fast becoming competitive and choice sensitive (Strategic Marketing and Communication)
A sustainable business defined by an integrated network of quality services that delivers public value will be supported by the following key strategic pillars:

A World-Class Metro Service
• Asset investments
• A vibrant property portfolio
• Internal capacity
• A viable Funding Model
• Delivering Public Value

In a nutshell, PRASA’s operating model will be driven by the following:

### External Challenges
- Understanding the changing preferences of commuters, passengers and user of our facilities
- Maintaining relevance in a marketing that is becoming more competitive

### PRASA Ambitions
- Leader in passenger transport solutions.
- Modern public Entity
- Unlocking non-operational and non-core assets.
- Rail as a Mode of choice
- Delivering Public Value.

### Solutions
- Public Transport Solutions
- Rolling out a train system of the future.
- Running an integrated Rail Network
- Intergrated but Differentiated customer service
- Unlocking the value of assets.
- Delivering Public Value

### 8.1. Key Strategic Themes Informing the PRASA Strategy and Corporate Plan

a) SIP7: Spatial planning through establishing more economic opportunities where people live or creating new settlements close to work hubs

b) Mode of Choice: A shift in the public thinking about public transport that recognizes rail as a viable option for commuters

c) Growth and Expansion: Extension of bus services integrated with commuter trains and linking-high volume corridors into effective service

d) Mobility: Rural access and mobility is the key focus for the provision of public transport as people relocate from isolated rural homes to settle at transport nodes or along transport corridors in order to access services
e) Accessibility: PRASA shall provide quality rail, bus property management services that enable individual communities to access socio-economic opportunities and contribute to a better quality of life of the people as a whole.

f) Network: Reframing the basis of business delivery, favouring innovation, seamless integration and partnerships.

g) Service Excellence: A deep commitment to superior performance that is safe, reliable and affordable, provide a dignified travel experience that makes a lasting impression, and builds brand loyalty – both internally (employees) and externally (customers) – that adds benefits to the passenger.

h) Renewal: Reversing decades of underinvestment in rail infrastructure and improving the property condition.

i) Sustainability: A focus on sustainable development in business that considers not just the financial ‘bottom line’ of prosperity, but the environmental quality and social equity.

j) Public Value: PRASA providing public passenger transport solutions and services that far outweigh the financial value generated through the provision of such service and solutions to both the individual and society.
9. ROLLING OUT A TRAIN SYSTEM OF THE FUTURE

9.1. International Benchmarking and Best Practice

Deutsche Bahn
The Passenger Rail Agency of South Africa entered into a Memorandum of Understanding with Deutsche Bahn, the German Rail operator, and its South African partners, Siyayadb engineers.

The main purpose of the cooperation was to share in the experience of the German Rail system, operated and managed by Deutsche Bahn, one of the leading rail operators in the world, as PRASA was embarking on a massive modernisation and expansion program. PRASA chose to cooperate with an operator that has experience in running a modern rail system to avoid a possible conflict of interests in appointing entities aligned to manufacturers.

When the agreement was signed, the parties identified the following areas of technical and strategic cooperation:

- Share strategies, information and methodologies for modernization of signaling, rolling stock and operating systems.
- Condition assessment of infrastructure and design suitable strategies and plans
- Preventative Maintenance Programme
- Engineering Capacity Enhancement
- Capacity Building and Training in all railway sections
- Railway Operations and operating systems
- Safety Management System (SMS) and implementation thereof
- Station and Real Estate Development
- Benchmarking to set guidelines and development aims
- Other programmes and projects to be agreed by the Parties
DBI and Siyaya have supported PRASA in the execution of various strategic projects, which has provided PRASA with expertise and experience of the Deutsche Bahn Group and access the know-how of its highly qualified and specialized subsidiaries. These projects included:

- The signaling program, covering the three main regions – Gauteng, the Western Cape and KwaZulu-Natal. The projects are now all at implementation stage – construction.

- Depot Modernisation: Designs for the Braamfontein, Salt River Depots; the Wolmerton testing facility; and the Durban admin building have been completed.
- Condition Assessment of the rail network.
- Per way Asset Rehabilitation Program (also called the 120 kilometer per hour project).

**ISBERG**

PRASA joined the International Suburban Rail Benchmarking Group (ISBERG) with the Imperial College of London through the Rail Transport Strategic Centre late in 2013/14. The college is the facilitators for the benchmarking of the COMET (Major metro systems such as London Underground) and NOVA groups (medium sized Metros) as well as ISBERG that was established in 2010. The ISBeRG benchmarking group has 16 members across the world with 2 suburban rail members from Southern America, 3 in the United States of America, 3 from Australia, 2 members from Asia and 5 in Europe and lastly PRASA’s Western Cape region.

In addition to benchmarking around a range of key performance indicators covering productivity, staff training, efficiencies and financials the group also conducts 6 studies per annum that are of interest to all members the provide an opportunity to learn from each other and establish best practices for suburban rail.

PRASA Corporate has now established a National Benchmarking Forum in PRASA Rail to take the lessons learnt and benchmarking to KwaZulu Natal and Gauteng regions.
9.2. A World-Class Metro Service

Significant capital investment in the Group is focused ensuring that PRASA creates a train system of the future driven by modernization of infrastructure and rolling stock. The main key programmes include the Rolling Stock Fleet Renewal Programme, Signaling, New Locomotives, 120km/h Perway programme, Station and Depots Modernization. These investments support PRASA's effort to position passenger rail as a backbone of South Africa's modern transport system. Spending will continue to be prioritized in these areas, mainly to support the Metrorail service. However, capital investment is now on the increase. The Group capital spending will reach R44.8 billion over the next three years, which is largely driven by the Rolling Stock Fleet Renewal and Signaling programmes.

PRASA's modernization programme is the catalyst for the transformation of Metrorail and long-distance rail services. PRASA Rail's Readiness Steering Committee has been established to monitor 'modernisation readiness' identify readiness inter-dependencies and liaise with EPMO Rolling Stock Modernisation Committee, as well as PRASA Technical, to ensure a systems approach is followed for a corridor focused readiness sign-off. Dedicated structures will be proposed to manage operational systems readiness from a PRASA Rail point of view.

The following have been highlighted as special focus areas for PRASA Rail's Readiness Committee:

(a) Facilitate and confirm deployment of first trains.
(b) Ensure corridor focus system readiness plan and sign-off.
(c) Manage expectations and culture change (Change Management and Communication).
(d) Accelerate 5 Point Plan as catalyst for operational readiness.
(e) Develop a corridor focused management/business model for PRASA Rail.
(f) Include new locos for MLPS in terms of readiness plans.

In Rolling out a Train System of the Future, PRASA has identified the following strategic deliverables or key performance areas:
9.2.1. Station Modernization Programme

This programme focuses on the modernisation of stations in the Modernisation Corridors of the Rail network. One hundred and thirty five stations (135) were prioritized for Modernisation. PRASA has concentrated on stations, which have a high volume of commuters and have the potential to increase business revenue. Any improvements on these stations will translate into real benefit for commuters, improving the overall customer experience and adding value to the service offering by PRASA. The Station Modernization programme has been allocated R 2.2 billion over the 2015 MTEF cycle, with R 723 million allocated for the 2015/16, R 764 million for the 2016/17 and R740 million for 2017/18. From the current 135 stations identified as priority stations, 27 stations are at various stages of development inclusive of the 4 third party (co-funded) projects; these being Leralla, Germiston, Roodepoort and Vereeniging.

9.2.2. 120 km/h Perway Programme

PRASA’s current infrastructure allows for section speeds of up to 90km/h. In anticipation of the new rolling stock fleet, infrastructure upgrades need to be undertaken to increase section speeds to 120km/h. The programme includes the upgrading of the ballast profile for better stability, re-railing, re-sleepering, upgrading of turnouts, replacement of single & double slips, replacement of scissors & diamond crossings, drainage upgrading, ballast screening, refurbish rails via grinding and the re-alignment of track via continuous tamping. The assessment of the impacted rail corridors in order to determine the full detail scope of the project (bottlenecks, curves for realignment etc.) is at completion stage. In parallel with this process the development of technical specifications for perway material (Turnouts) and for On Track Machines that will assist in getting the track ready for the higher speeds is well underway.
Currently PRASA has 124 locomotives consisting of 2 classes of 3kV DC locomotives, 2 classes of 25kV AC locomotives and 6 classes of diesel electric locomotive. Whilst these locomotives were maintained by Transnet Engineering (TE) under contract there were no major issues regarding availability of locomotives as there was an abundance of spares available given the greater fleet required to be maintained by TE for Transnet Freight Rail (TFR). However, when PRASA took over maintenance it became clear that the logistics of maintaining a fleet of 10 classes from a spares and skills point of view is very difficult and not cost effective.

The operational footprint of these locomotives covers corridors such as Johannesburg to Musina, Johannesburg to Komatipoort, Johannesburg to Bloemfontein via Mafikeng, Johannesburg to Durban, Johannesburg to Port Elizabeth, Johannesburg to East London, Cape Town to Johannesburg, Cape Town to Durban, Cape Town to East London and Cape Town to Port Elizabeth. The operational infrastructure is 1067mm gauge track with different voltage sources per corridor (except to Komatipoort and Durban where only one type is used) and where up to 4 types of locomotives (25KVA, 3KVA and Diesel) are used per single trip per corridor as a result of the overhead constraint on the corridor. The above constraints have inherent operational inefficiencies such as time wasted when changing locomotives, changing drivers for a certain type of locomotive, functional training for all these types of locomotives for drivers and maintenance staff, maintenance facilities and the cost of carrying maintenance spares and components for all locomotives.
It is against the above background that PRASA contracted a Swifambo/Vossloh to supply a total of 70 diesel electric locomotives for duration of 5 years at a capped cost of R5 billion. The first five (5) locomotives have been delivered and are currently undergoing testing to ensure that everything responds as planned.

As part of its commitment in reversing decades of underinvestment in railway infrastructure, which has resulted in poor levels of reliability and predictability PRASA has acquired 70 locomotives.

9.2.4. Rolling Stock Fleet Renewal Programme

The PRASA Fleet Renewal Programme is the catalyst for the transformation of Metrorail services and public transport as a whole. It is the beginning of the rollout of the Government’s Comprehensive Rail Programme over the next two decades. Whilst the urgent challenge to improve passenger services remains primary, the Rolling Stock Fleet Renewal Programme has been designed to achieve a number of key Government objectives such as the delivery of quality services to citizens, revitalization of South Africa’s rail engineering industry through local manufacturing and ensuring local content (65% minimum local content is set) as part of the Government’s Industrial Policy Action Plan (IPAP2), employment creation and skills development as well as Broad-Based Black Economic Empowerment.

PRASA’s effort to procure approximately 7 224 new rolling stock is well underway. Over the next twenty years, PRASA will spend R123.5 billion, with delivery on new trains expected from 2015. The feasibility study which was conducted in 2011 concluded that the Rolling Stock Fleet Renewal Programme will deliver 5256 coaches to satisfy existing rail passenger demand on the current network until the year 2020, 456 vehicles to satisfy growth in rail passenger demand to the year 2030 on the existing network and a possible further 1512 vehicles to satisfy long term rolling stock needs on new corridors to be constructed as part of future expansion of the existing network and the development of a new network. The procurement of new rolling stock is a critical component of PRASA’s mandate to provide for modernization and growth. PRASA has since appointed Gibela Rail Transport Consortium (Gibela) to supply 3600 new Metro
Rail coaches at a cost amounting to R51 billion (subject to inflation and foreign exchange rate) over a 10 year period (2015 – 2025).

**Local Factory for the Manufacture of the New Trains:** The Rolling Stock Fleet Renewal Programme includes the development of a Local Factory for the manufacture of the New Trains. This Factory is to be the foundation for achieving revitalization of the rail industry and will be established at Dunnottar Park in Ekurhuleni. Approximately 288 hectares for the site is earmarked for this development, which includes 83 hectares for the Local Factory and direct supplier park whilst the remainder of the site will be developed as an industrial economic hub for the rail industry.

PRASA aims to provide Gibela with a compliant site by 01st March 2015, to allow Gibela to start construction of the Local Factory. As part of MSA agreement, PRASA is responsible for the Environmental Impact Assessment (EIA) and Land Zoning of the factory site.

The implementation of the Rolling Stock Fleet Renewal Programme is progressing well, and considerable progress has been made in the acquisition of new locomotives and coaches.
### Salient features of the programme

<table>
<thead>
<tr>
<th>Number</th>
<th>Economic Development</th>
<th>Technical Features</th>
<th>Shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>65% minimum local commitment</td>
<td>1344 passengers per 6-car train (Metro);</td>
<td>Alstom Southern Africa – 60.9%;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1184 passengers per 6-car train (Metro Express)</td>
<td></td>
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<tr>
<td>2.</td>
<td>8 088 direct jobs to be created over the next 10 years</td>
<td>Fitted with CCTV</td>
<td>New Africa Rail (Pty) Ltd – 9.1%</td>
</tr>
<tr>
<td>3.</td>
<td>Skilling of 19 527 individuals over the next 10 years, covering artisans, engineers,</td>
<td>Real time diagnostic data for maintenance planning (Train tracer)</td>
<td>Ubumbano Rail (Pty) Ltd – 30%</td>
</tr>
<tr>
<td></td>
<td>train drivers, designers and technicians</td>
<td></td>
<td></td>
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<tr>
<td>4.</td>
<td>Build a new factory on the 350 000 square land at (Dunnottor Park, Nigel, Ekurhuleni)</td>
<td>Passenger counting for operations planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Additional 250 000 square land to be developed for the suppliers and training academy</td>
<td>Universal Access</td>
<td></td>
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<td></td>
<td></td>
<td>Infotainment (on Metro Express)</td>
<td></td>
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<tr>
<td>5.</td>
<td>B-BBEE skills development spends of R 923 million throughout the Programme;</td>
<td>Real-time Passenger Information System (RTPIS)</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Spending of R35.8 billion on empowered entities</td>
<td>Automatic doors</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Air conditioning</td>
<td></td>
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<tr>
<td>7.</td>
<td>Qualifying small enterprises and exempted micro enterprises (SMMEs) R5.4 billion</td>
<td>Wi-Fi Access (on Metro Express)</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Enterprises owned by Black Women of R1.64 billion</td>
<td>Crashworthiness designed to raise later the top-speed to 160 km/h</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Spending of R323 million has been committed to Socio-Economic Development contributions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Spending of R892 million on the development of enterprises in the rail sector;</td>
<td>Automatic Train Protection / ERTMS level 2</td>
<td></td>
</tr>
</tbody>
</table>
## Progress and Next Milestones

### PRASA 1st Test Train Carbody

![Image of a train carbody](image)

### Design Concept of the New Train

![Image of a train](image)

| Strategic Activity                      | Responsibility | Due Date     | Current Status |
|-----------------------------------------|----------------|--------------|               |
| Design Reviews                          | PRASA/Gibela   | May 2016     | 80% Complete  |
| Factory Sod Turning                     | PRASA/Gibela   | March 2015   | 80% Complete  |
| Delivery of first Test Train            | Gibela         | November 2015| 0% Complete   |
| Provisional Acceptance of the first Train | Gibela     | June 2016    | 0% Complete   |
| Local Factory Operational               | Gibela         | July 2016    | 0% Complete   |
| Delivery of the first Test Train from Local Factory | Gibela | June 2017 | 0% Complete |
9.2.5. Modern Traffic Management

System, Scheduling and Maintenance

PRASA has embarked on a process to replace all existing signaling interlocking, which consist mainly of obsolete mechanical and electro-mechanical systems, with electronic interlocking as the technology of choice. The project is divided into stages and phase due to funds being a constraint and operations and time playing a major role when embarking on a project of this magnitude. PRASA has signed three major contracts (with Siemens, for Gauteng, Bombardier for Durban and Thales Maziya for Western Cape.

Gauteng Region – Nerve Centre

All these contracts are currently in the implementation phase. The scope of the re-signaling programme includes re-routing of services and elimination of bottle neck sections where possible; re-signaling the network using fully bi-directional signaling to increase operational flexibility; increase signaling headway capacity; and increase service speed in the A and B corridors.
The scope of work of the project (Gauteng Region) includes the construction of Gauteng Nerve Centre (GNC) and the installation of interlocking systems in the Gauteng Region. The estimated duration for the project is 7 years, with a total cost amounting to approximately R3.8 billion (excluding inflation). The work commenced in the first quarter of 2011/12 financial year and scheduled for completion by March 2019.

As part of aligning implementation, Stage 1 and 2 have now been integrated into one overall delivery programme by Siemens. The Gauteng Nerve Center (GNC), which has commenced, is currently 90% in progress. The commissioning of Midway - Lenz Station has been extended and is expected to take place during May 2015. Site installation works are continuing in the Midway – Residensia section, the Randfontein – Roodepoort section and the Kaalfontein – Leralla section.

**Western Cape Region**

The scope of work of the project includes the establishment of the Cape Metrorail Control Centre (CMCC) at Bellville and the installation of interlocking systems in the Western Cape Region. The estimated duration for the project is 5 years, with a total cost amounting to approximately R1.86 billion (excluding inflation). The work commenced in the first quarter of 2013/14 financial year and is scheduled for completion by July 2019. Design work for the first 2 phases has commenced and is ongoing.

<table>
<thead>
<tr>
<th>Number</th>
<th>Appointed Companies</th>
<th>Total Contract Value</th>
<th>Contract Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bombardier – Durban</td>
<td>R1.3 billion</td>
<td>25/03/2013 to 17/05/2019</td>
</tr>
<tr>
<td>2</td>
<td>Thales/Maziya – Western Cape</td>
<td>R1.3 billion</td>
<td>01/03/2013 to 01/07/2019</td>
</tr>
<tr>
<td>3</td>
<td>Siemens – Gauteng</td>
<td>R3.8 billion</td>
<td>08/02/2012 to 31/03/2019</td>
</tr>
</tbody>
</table>

9.2.6. **Positioning Rail as the Core of Integrated Rapid Public Transport Networks (IRPTN)**

The Corporate Plan recognizes that improving services is a cooperative exercise between PRASA, Provinces, Cities and Municipalities. Through stakeholder engagement PRASA will continue to seek a complete alignment with the aims and objectives in key transport policy documents designed to ensure an integrated public transport network.

9.2.7. **Increased Rail Share of Public Transport**

Increasing rail share of public transport is underpinned by PRASA’s defined objective of positioning rail as the backbone and mode of choice for public transport through:
a) High quality passenger services  
b) Rolling Stock Infrastructure Reliability and Availability  
c) Security of passengers and assets  
d) Operational Safety  

The repositioning of the business will be enabled and achieved through the following:  

a) Improve Rail’s Public Transport Market Share – Towards a significant rail share (35%-40%) of the passenger kilometres in public transport over a long-term period.  
b) Improve integration between passenger rail services and other transport modes to support rail’s key role in the transport network.  
c) Revising service patterns/design, resourcing plans and product offerings on some corridors.  
d) Delivering transformational timetables changes in terms of speed and frequency to strengthen rail’s role in the integrated transport network, and better respond to demand growth and the needs of the users.  
e) Continue the implementation of interventions to sustain rail services.  
f) Implement selective infrastructure enhancements where these are required to support demand growth.  
g) Turnaround the MLPS business and transform long distance and regional travel into an accessible public service through integration with the bus feeder service.  

As part of PRASA’s strategic objective in ensuring an increased rail share of public transport, rail operations has identified as its key strategic deliverables as the following:  

a) Creation of an enhanced and customer friendly Metro service  
b) Strengthening passenger security  
c) Consolidation of service proposals for the busiest corridors serving the largest residential and employment centre  
d) Revised timetables in terms of frequency and speed to strengthen role of rail supporting the city’s transport needs  
e) More flexible ticketing with retention of premium offer  
f) More frequent limited stop services  
g) Underpinned by user friendly network timetables  
h) Better connections between corridors another transport modes  
i) Enhanced station facilities  
j) Infrastructure enhancements including higher speed running  

Customer-Centric Solutions  
Increasing rail share of public transport will also require a dedicated focus on delivering customer-centric solutions throughout the organisation by placing the customer at the centre of all PRASA’s activities, through Initiatives, Projects, Interventions and Interactions with internal and external stakeholders.  

What this means to the organisation;  
- Customer focused leadership  
- Addressing customer issues fully and resolving them  
- Able to design the experiences that will delight customers.  
- Empower frontline to be able to make decisions at the point of contact with the customer  
- Measuring what matters to the customer – customer touch points  
- Continuous improvement driven by customer feedback
It is about unlocking the true potential of customer value and making the customer a partner in our organisation. It means proper alignment and prioritisation of our Initiatives, Projects, Interventions and Interactions to benefit the customer. It means alignment to the business towards improved customer service experience and revenue collection.

To support this strategy the Department had to map out the steps that need to be taken to achieve customer centricity through Integrated Management Plan. The focus of the Integrated Management Plan is aimed at improving the:

- Execution of 5 Point Plan
- Quality of service
- Enforcement of Total Station Management (TSM) Strategy
- Commuter communication
- Revenue collection and reduce fraud and fare evasion
- Security visibility
- Supervision and internal operational efficiencies
- Alliances with all key departments to improve the customer experience.

9.2.8. Frequent Transport for Rural Masses (Regional Rail Services)

Passenger rail transport provides an important service in supporting the movement of people around the country to enable them to access employment via migration. Long distance passenger service focuses mainly on low income and migration related market that has few alternatives. As economic development continues and real income rises this market will have more choice and could be lost to long distance rail passenger transport, as they switch to other modes.

Creating a long distance integrated passenger business becomes a necessity. The strategy will focus on building a more focused and efficient MLPS and mainly focusing on a core network of rail services supported by a number of fully integrated bus feeder services.

Sufficient travel demand and market interest/potential exist to support a turnaround of MLPS and MLPS’s management has already taken critical initial steps (e.g. investment in new locomotives). However, in order to turn MLPS around, more extensive measures are necessary (as outlined in the MLPS Turnaround Report).
The market potential analysis revealed a total rail market size of 25m passengers that could be served by the current MLPS network.

Regional rail services cater to a different target market to that of long-distance services – potential regional rail passengers have a distinct set of needs and wants, and therefore require a completely different service. Thus, potential regional rail routes need to be evaluated for feasibility on case-by-case basis before implementation.

In order to attract more passengers and realize its market potential, MLPS’s product must meet consumers’ needs through reliable train operations, technical functionality and cleanliness and improved service delivery – coach refurbishment is highly recommended.

The MLPS Turnaround Strategy recommends improving productivity through schedule optimization, efficiency and sweating available assets and resources, with an over 50% reduction in locomotives, rolling stock and stops while almost doubling train activity through increased frequencies and services on key routes.

Although efficiencies in the major cost drivers of personnel, security and access charges will partially fund the turnaround requirements, no reduction in personnel numbers is envisaged, and available staff numbers will be absorbed in increased and expanding train activity/services.

During the 5-year turnaround period, MLPS passenger numbers will increase by over 50% and cost saving measures will lead to approximately R1,2bn accumulated savings, provided that the Turnaround Strategy’s market, operational and organizational initiatives are implemented timeously and effectively. MLPS will not be able to sustain the business without Government support (estimated at R600m- R700m per annum) together with turnaround efficiencies and increased revenues. However, should the Turnaround Strategy be implemented, the benefits that this annual subsidy will provide to the South African people will increase significantly as it will enable MLPS to provide high quality, affordable long-distance passenger rail services, thus achieving the South African Government’s transport objectives of mobility, social integration, road accident management as well as reducing environmental externality impacts.
Regional and Cross-Border Routes

PRASA Rail therefore identified 25 possible regional and cross-border routes and commenced with the assessment of the 7 priority routes identified through rapid viability appraisals. The assessments include track/station inspections, demand/travel requirement assessments and resource/operational requirements. The assessments also include Autopax bus viability as optimisation alternative as well as feeder and distribution bus/taxi services at remote and small town stations.

The medium-longer term regional services plan also include the upgrade of rolling stock more suitable for regional travel, including air-conditioning, improved seating, ablution facilities and self-catering equipment/services.

Priority Areas for Regional Services

The 9 priority routes being assessed for possible preparation and implementation over the Business Plan MTEF period (2015 – 2018) are:

- Johannesburg – Mafikeng
- Durban – Ulundi
- Polokwane – Beitbridge
- Nelspruit – Maputo
- Nelspruit – Hoedspruit
- Pretoria – Hammanskraal
- Bloemfontein – Mahikeng
- King Williamstown – Alice
- Cape Town – Port Elizabeth

9.2.9. Intermodal Integration (Bus, Rail and Taxi)

Modal integration poses both internal and external challenges.

Internally, the integration of systems across urban and regional services requires a single enterprise platform and architecture, the review of operational service synergies that can be developed between the urban and rural systems specifically in the peripheral or peri-urban areas of the metropolitan conurbations, including integrated facilities, passenger information and ticketing.

In urban environment, integration of rail and road transport modes is essential, since many passengers use two or more modes to complete their journey. Interchange facilities at key stations should be improved, and, through cooperation with other operators, timetables should be coordinated to provide better connections. Where possible way-finding and signage should be provided to encourage passenger to interchange between modes, and ticketing used to support this pricing through journeys rather than separate portions.

Some of the bus services should be provided by Autopax, especially as part the plans to build up a more strategic network across a wider region. The role and mandate of Autopax in the Metro areas would need to be reviewed with the cooperation of local planning authorities.
Passenger rail services are more efficient and effective when focusing on high volume flows of passengers and routes in high density population or employment corridors. But it is much less efficient when densities and volumes are lower. In these situations other modes, including bus, bus rapid transit and light rail in cities and long distance bus or minibus taxi in more rural areas may be more appropriate. To ensure that the best mode is adopted focus on interchange between modes is important.

PRASA is committed in driving an integrated and intermodal transport strategy and working with various stakeholders.

9.3. Expanding PRASA Networks and Services

The overall objective for PRASA Rail for the period 2015/16 – 2017/18, as cascaded from the PRASA Corporate strategy, will focus on enabling the Repositioning of Passenger Rail services as the backbone of the public transport system in South Africa, and getting the passenger rail system to work for the country.

The growth and expansion period ahead is interpreted by PRASA Rail as a period of planning for growth/expansion and rationalization; creating a viable public entity that provides public value and transforming the culture/people, with the overall PRASA strategic objective of Creating a sustainable business defined by an integrated network of quality public transport services that delivers Public Value.

9.3.1. Quality Rail and Bus Passenger Network

PRASA’s strategic focus in ensuring the provision of an efficient and reliable rail and bus passenger network takes into account the future growth and the reliance on rail to make cities work in future, linking coastal cities, develop rural rail networks/services, linking with feeder bus services in rural areas, re-developing branch lines and expand with high speed and light rail networks. This strategy is also guided by the new draft national green paper that deals with the ownership and regulation of the future strategic national rail network between PRASA and Transnet.

For Rail operations the provision of quality rail network and services will be heavily influenced by the deployment of a safe, predictable, reliable, high quality rail commuter and passenger services in high volume key corridors through:

a) Integrated public transport solutions.

b) Differentiated products in terms of demand/travel patterns.

c) Service capacity and quality networks for growing demand in cities.

d) Transformation of the business into a modern public entity, delivering:
   • Public value.
   • Value for Government in terms of allocated operating subsidy and capital grants.
A Quality Rail and Bus Passenger Network strategy will be driven by the following:

a) Improving the safety, security, resilience, reliability and efficiency of the network;

b) Supporting economic growth and development, particularly by providing access to major employment areas;

c) Connecting current and new economic or growth nodes (including major airports, ports and industrial development zones), particularly by enhancing connectivity into the main cities of Johannesburg, Tshwane, Ekurhuleni, Durban, Cape Town, East London and Port Elizabeth;

d) Supporting the main economic development corridors;

e) Improving accessibility and connectivity to marginalized communities;

f) Promoting better integration between land-use planning and railway development to promote densification and sustainable development and to play to rail’s strength in supporting high volumes of travel;

g) Developing rail as the high-volume backbone of each province’s integrated transport network, thereby contributing to the development of a modern, integrated, high-quality, affordable and customer-focused public transport system that will improve people’s quality of life and promote social inclusion;

h) Minimizing its impact on the environment;

i) Supporting social activities to improve the quality of life of our citizens;

j) Supporting tourism;

k) Providing demand-responsive services in rural areas, where rail is the most appropriate mode;

l) Providing strategic connectivity between provinces where this is appropriate, particularly supporting connections from KZN, the Western Cape and Eastern Cape to Gauteng.
9.3.2. Network Expansion

9.3.2.1. Rail Operations

Rail operations have set for itself the introduction and extension of public passenger regional rail services as its main objective during the MTEF Period, which will be characterized by, amongst others, the following Key Focus Areas:

A. New Rail Corridors

Moloto Rail Development Corridor
The Moloto Rail Project’s main objective is to ensure that passenger rail as the backbone of an integrated multi-modal transport system using proven state of the art rolling stock and equipment. In addition this rail project would serve as a catalyst for economic development initiatives within and around the Corridor resolving challenges of safety, efficiency, reliability, affordability and overall integration with other public transport services.

The Moloto Development Corridor has its main objective to increase speed for buses from 70km per hour to 120km/h and from 160km/h to 200km for standard gauge trains thereby reduce travel time for commuters. This part of the government’s policy to develop an inter-modal transportation solution and involves the following catalytic projects:

- 13 new train stations
- Koedoespport Rapid Rail Alignment (117km of dual track)
- Modal Integration Points
- Surface 240km of feeder routes
- Tshwane Bus Rapid Transit

- New Dual 67km Carriageway from Siyabuswa to Moloto
- Mamelodi East and Greenview Pienaarspport Alignment

On a high-level the feasibility design proposes a rail and operational service design of the following components that PRASA needs to deliver on:

- 125 km of double track
- 3 KV DC OHT
- 38 Road over rail bridges
- 23 Rail over road bridges
- 9 pedestrian bridges
- 44 river crossings
- 14 new stations
- At least 1 major multi modal inter change
- 160km/h operational design speed
- 46 Train sets
- 12 car train sets
- 15 000 passenger / hour
- 2 hour peak high
- Additional passing loops and duplicate track section
- 54 Million operational km (base year)
- 3 new staging yards in the corridor
- 9.75 Million Passenger per year

The Moloto project has been registered with National Treasury as a Public Private Partnership (PPP) Project and the Feasibility Study has since been completed in terms of Treasury Regulation 16 and the PPP guidelines, approved by the Political Oversight Committee chaired by the Minister of Transport and by the PRASA Board.
B. Rail Line Extensions

B.1 Motherwell Rail Link

Motherwell is situated 20km north of Nelson Mandela Bay CBD, and has expanded rapidly with over 2000 dense settlements with low per capita income. The Motherwell extension will enhance the role of rail in Nelson Mandela Bay with 15 000 – 20 000 new daily passenger in the short term and increasing to 35 000 daily passengers by 2020. In this regard, the Motherwell Rail extension is confirmed as a category A corridor in the 2006 Rail Plan and Local ITP respectively. The Motherwell Rail Spur is considered the first phase of the full Motherwell Loop (±17km). The development of the full “Loop” becomes more attractive in the medium – long term with the Coega Development has reached greater density. The Motherwell Spur is proposed as the first phase of the Motherwell Loop and will include the construction of four new stations, double electrified line, central train control, and route length of 7.5km new spur. The total estimated cost for the project is R2 billion.

B.2 Daveyton – Etwatwa Rail Corridor

The project entails the extension of the rail corridor from the Daveyton Station into the areas of Chris Hani, Etwatwa and Knoppiesfontein. The extension is approximately 11km, which will also include the construction of 4 new stations. The first feasibility study for this extension was undertaken in 1999 and is captured as a priority rail extension in both the City’s Integrated Transport Plan and PRASA’s Rail Plan. In 2014, PRASA undertook a review of the feasibility study and has since updated the demand projections. The study investigated three alternatives for the rail alignment between Daveyton and Etwatwa. The proposed extension of the Daveyton rail line connects along the southern edge of Daveyton across the Blesbokspruit, into the Sentra-Rand Corridor and into Etwatwa Extension 23. The total estimated cost for the project is R2.1 billion.
B.3 Blue Downs Rail Link
The proposed Blue Downs Rail Link consists of a rail connection between the existing Khayelitsha and Bellville – Strand Lines. The preferred route alignment, as identified during earlier planning, takes off between Nolungile and Nonqubela stations on the Khayelitsha Line thereafter passing thorough the Mfuleni residential area and the Blue Downs CBD before linking up to the south of Kuils River Station on the Bellville – Strand Line. The preferred route alignment is approximately 9.5km in length and consists of a double line with the possibility of three to four stations. The Blue Downs Rail Link will not only service the greater Blue Downs community, but also form a fundamental component of the future metropolitan rail and transport network of Cape Town. It will allow the established communities of Khayelitsha and Mitchell’s Plain direct access to the Bellville corridor of activity. Equally, it will form the second of three sectors of rail, enabling east-west linkage of a southerly rail corridor from Bellville via the Blue Downs Rail Link, Philippi Corridor (existing) and the future Philippi – Southfield link to the commercial corridor of Wynberg, Claremont and Rosebank in the west. The City of Cape Town undertook a planning study during 1987, which supported the need for the line. More recently, the City of Cape Town’s Integrated Development Plan (IDP) identifies Access and Mobility as one of its five strategic themes focusing on socio-economic development and improved service delivery to attain its vision and goals. Drawing on this strategic theme, the City has adopted the concept of putting Public Transport, People and Quality of Life First. Rail is the predominant public transport mode in Cape Town that rail remains the backbone of the transport system.

B.4 Cape Town International Airport Rail Link
The provision of a rail connection to the Cape Town airport will be achieved by building a ±4.5km rail link between the airport and the existing Bellville – Sarepta line to the north. The rail link will enable the movement of people between the airport and Cape Town Central Business District, as the main destination/originator of trips. In addition to maximizing the use of existing infrastructure this rail solution makes it possible to access the greater network should the train stop at Mutual station. Future phases of this solution will enable more direct access to the Bellville area and surrounds, and potentially linking more directly with the Metro south east (Khayelitsha, Mitchells Plain, etc.). The Cape Town rail network is considered the backbone of the public transport system for the City. The existing Sarepta-Bellville rail line is situated approximately 2-3 km north of the airport. The new ±4 km link between the existing railway line and the airport ensures that existing infrastructure is used optimally and also improves the reach and accessibility of the rail network. The review of the feasibility study for the project focusing on the operational and funding scenarios was considered. Some considerations were the funding concepts in the form of commercial banking, development banking, commercial
paper, equity, government guarantees and non-fare revenue streams. Even though this has been considered, detailed examination of funding scenarios is yet to be finalized. From an operational viewpoint, the PRASA developed 4 alternative route options with a view to propose a viable route both from a financial and operational point of view.

**B.5 King Shaka and Northern Links**

Significant growth is experienced in the North of Ethekwini, together with the Dube Trade Port development. The port will contain various developments including a passenger and freight hub (King Shaka), accommodating 50 000 residential units and house over 200 000 people. Rail based solution is being investigated to serve the airport and the Cornubia development. The study is to look at rail opportunities for the northern area with a view to investigate the possibility of a new commuter rail corridor to serve the significant planned and future growth in the northern areas. The study comprises of route identification, station location and Environmental investigation. Due to large scale developments in areas like Dube Trade Port, Umhlanga and Ballito the north has rapidly developed as a major commercial and retail hub, thereby firmly establishing itself as a major investment area. As development continues in this area, a northwards investment direction is very evident. The northward development trend is further reinforced with another key development proposal, viz. the Cornubia mixed use development. The development is set to be eThekwini and the Province’s largest sustainable integrated human settlement initiative. This 1200ha multi-billion rand project has the potential to accommodate more the 50 000 dwelling units, 80ha industrial platform, and over 1.5 million square metres for commercial uses. In the area of Ballito, a mixed use development comprising of 1.187million square meters of bulk has been proposed. This development is proposed to include a new international conference centre, residential, light industrial and retail/office uses.

A number of other public and private projects have also been proposed for the northern area. Given the significance and scale of the existing and proposed developments in the north, an ideal opportunity exists to expand rail, to ensure it plays a vital role in the provision of efficient and effective public transport in this area. Consideration for the creation of a rail link to the proposed Dube Trade Port and King Shaka International Airport stems from a notional routing for a railway link to the passenger terminal at the King Shaka Airport that was illustrated in the environmental assessment report for this development. Such a link would make a rail connection between the new airport and south to Durban Central Business District, as well as north to Ballito, thereby facilitating in connectivity and integration at a regional level. The increasing congestion on the road network in the north, coupled with the planned size and trip generation of the various developments, warrants the need for a public transport solution in this area, which is also attractive to existing and future public transport users. It is within this overall context that the need for the study has emanated.
B.6 Bara Link
The Greater Bara link area has been the focus of several developmental initiatives during the past 10 years with no access to the rail network. The proposed rail linkages would provide commuters from the Soweto areas access to the following developments: The Orlando Ekhaya redevelopment (residential, commercial and retail), University of Johannesburg (Soweto Campus), Development corridor along Potchefstroom road and Chris Hani Hospital, Industrial Development in Aeroton areas, Greater Nasrec re-development and FNB Stadium. Furthermore the rail link would also enable a full through services for the residents of south-western sector and the above-mentioned areas to the expanding work opportunities along the “Mineral Belt” to the south of Johannesburg. Similarly it would enable services from the eastern areas of Gauteng to access the area through this link that is not currently justifiable due to the single link spur to Nasrec.

The PRASA has invested in excess of R300 million into Nasrec station and infrastructure in preparation for 2010, including future capacity requirements for the Bara-link. The proposed rail link will also reduce the need for isolated BRT proposals to serve the southern communities. The project involves the provision of a new ±10km rail link from a locality north of the existing Nancefield station on existing Vereeniging – New Canada – Johannesburg lines through the areas of Orlando, Ekhaya, Baralink, Aeroton and Nasrec to link to the existing spur link to Nasrec station and the “Mineral Lines” to the south of the Johannesburg Central Business District (CBD). Further, a total of 14 bridges and 3 stations will be built to complement the rail line. It is estimated that the proposed corridor will transport approximately 40 000 commuters daily. Other public transport road based modes will complement the rail service by providing feeder and distribution services. The total estimated cost is R2 billion.

B.7 Bridge City
The Bridge City Development is located in the Inanda, Ntuzuma and Kwa-Mashu. The development on the approximately 60 hectare site comprises high density mixed-use development and equates to approximately 700 000m2 building area. The overall developments in the area include a regional hospital, retail, residential, magistrate’s court and other commercial facilities. As part of PRASA’s strategy to facilitate a better movement of commuters in the area, the implementation of the Bridge City Rail Link was proposed. This includes the construction of a railway station (situated in KwaMashu) and a 3.5 km rail extension project for the Metrorail Durban region. The rail line is servicing the newly constructed Bridge City Shopping Centre and the surrounding areas. The rail service will be complemented by an integrated bus and taxi interchange located adjacent to the railway station. The Metrorail service has since commenced with operation. PRASA is currently constructing the overhead pedestrian bridge at Dalbridge and Duffs Road station upgrade.
B.8 Queenstown and Mthatha Rail Link
The feasibility study of the Queenstown-Mthatha Rail Link indicated it will not be feasible to provide a metro service as buses and taxis services are more efficient to service the route. However, the upgrade of the station is necessary to support Mainline Service.

C. Extension of Rail Services

C1. Hammanskraal
The Hammanskraal to Pretoria Rail Corridor (HPRC) was served by a limited passenger train service until 1987. At that time approximately 10,000 one-way passengers used the service on a daily basis. Of these, approximately 8,000 passengers travelled in the peak period. Due to the long travel times (approximately 105 minutes) the service became unpopular with commuters. Based on the recommendation of a study done by the Department of Transport and the Council for Scientific and Industrial Research (CSIR) in 1986, the service was terminated towards the end of 1987. The current public transport services along the HPRC are provided by Bothlaba Bus Service and minibus taxis. The vast majority of commuters (over 90%) travel by bus. A pre-feasibility study done in 2004 and subsequent feasibility study in 2010 found that a passenger train service could only be viable if the parallel competing bus service is terminated.

Hammanskraal is situated approximately 40 km to the north of the City of Tshwane (COT) which renders it fairly isolated from the rest of Tshwane, especially since it is separated from the more central areas by a large expanse of agricultural land. The area holds a total population of about 206,000 people (Census 2001)(2). Estimates showed that the population in the study area was approximately 240,000 by 2005 and could have increased to approximately 264,000 in 2010 and by 2025 it could be 358,000(2).

The Spatial Development Framework (SDF) (June 2005)(2) for Hammanskraal and the Northern Cross Border Area identified the Hammanskraal precinct as an activity node and stated that it “is essential that the proposed major road and rail network be constructed and or upgraded as a top priority in the area”. The National Treasury (NT) has approved funding for the development of the precinct as part of COT’s Tsošološo Programme on the condition that the Passenger Rail Agency of South Africa (PRASA) commits itself to the reintroduction of the train passenger service.

C2. Mafikeng
The corridor/route inspection and assessment have been completed for the JHB – Mahikeng route, as first priority for implementation and review of the regional services concept. Due to the freight orientation of the corridor, the current running time will be 6 hours and not entirely competitive as per business/travel requirements without some investment in infrastructure to increase speeds/running times. Total distance is 302km and will be diesel locomotive operated, with 700 passenger capacity per train. Although tested rail
travel time is currently not competitive against road running times, the rail options provides significant benefits in terms of affordability, safety and comfort above road transport options on the Mahikeng corridor, especially if regular services are introduced on a weekly basis.

Stations to be served include:
- Johannesburg
- Krugersdorp
- Magaliesburg
- Koster
- Swartruggens
- Zeerust
- Mahikeng (also note future identified route linking Mahikeng to Bloemfontein/Kimberley, which will extend the regional connectivity across provinces).

Most of the identified en-route stations are currently not accessible or in condition for passenger usage, where an investment plan have been developed to provide minimum requirements for safe passenger access and boarding.

The implementation of the service is dependent on investment allocation and completion of station upgrades, as well as negotiations with Transnet on use/ownership of station assets, track access and operating co-operation.

With the MLPS coach upgrade program to more comfortable and pleasant train interiors, the first upgraded coaches will form part of the testing and review of JHB - Mahikeng service, when available.

Discussions are extended to include other stakeholders such as regional government and communities to ensure buy-in, support and possible co-investment in reviving regional rail transport in South Africa on these regional routes.
9.3.2.2. Network Expansion: Bus Operations

As part of its business growth and expansion strategy, Autopax is considering to extend its service to including the following new services:

a) Offering Scholar Bus Transport Services
b) Offering Bus Feeder Services to Rail
c) Increasing Cross Border Routes
d) Pursuing and Competing with Private Bus Operators

In determining the extent of the pursuit of its strategic ambitions and objective the following factors were taken into account:

**Educational Travel Patterns**

Educational and educational related travel suggests that 10,5% of travel is by pre-school children, and 79,4% is by learners attending grade 1 to high school, whilst 5,2% is by students attending tertiary institutions, and the rest is other at 4.9%.

Only 6,6% of the learners use trains, and 24,6% use buses, whilst 69,8% travel by taxis to and from learning institutions. The Western has the highest usage of trains at 20.7%, whilst the Northern Cape has the highest utilization of buses at 52,2%, followed by Mpumalanga at 47,9%, whilst the Eastern Cape and Free State have the highest usage of taxis by learners at 82,2% and 77,9%, respectively.

About 60,9% of learners travel between 7 and 8 in the morning and estimated 6,6 million learners across South Africa walk to get to their first transport with scholars (68,8%) and pre-scholars (61,5%) walking all the way to reach educational institutions, and broken down as follows:

- 93,6% walk between 1 – 15 minutes to get to first transport
- 5,4% of Gauteng learners walk more than 15 minutes to first transport
- 97% of learners in the North West province walked 1 – 15 minutes to first transport
- Offer Bus feeder service to rail
The mandate, support rail operations through effective feeder and distribution services to supplement and support rail operations. Currently there are 20 business express distribution and feeder services operated for Rail with a possible opportunity to render 3 extra services.

The monitoring by Rail of rail passenger demands and additional requirement such as the requirement to re-introduces services on the Hammanskraal line could result in current low occupancy rail services being terminated and be replaced by bus transport.

Increasing cross-border routes

As part of its growth and expansion strategy for bus services, Autopax is considering expanding long distance road transport operations to selected countries in the SADC region. A study has been conducted to investigate the feasibility of expanding services to six (6) countries; Democratic Republic of Congo (DRC), Namibia, Malawi, Mozambique, Zambia, and Zimbabwe.
Market Environment

The six countries are projected to grow at an average rate of 6.02% GDP, which makes them attractive future markets. The six countries have a combined GDP of US$97.5 billion which is projected to grow to US$151.4 billion over by 2018.

Traveller Profiles

Close to half of the cross border bus travellers from the six countries are self-employed business people. More than a third of travellers come to South Africa to buy goods for resale back in their home countries. The ability by bus operators to accommodate relatively bulkier luggage, compared to other transport modes, is another reason for cross border bus transport to be the mode of choice, hence 1 in 2 travellers prefer this mode.

The average monthly income for these travellers is approximately R6,500.00, except for Zimbabwean travellers, which equates to approximately R5,000.00. The mostly commonly used booking method is by cash payment at the respective operator’s point of sales, approximately 92%.

Traveller Volumes

On average, a single cross border bus traveller uses a bus to and from South Africa up to 7 times in a year, with Zambia, Mozambique at 10,4 and 8.8 repeat travel rates, respectively, followed by Zimbabwe at 7.2 and DRC and Namibia being the lowest at 4.6 and 2.3 repeat rates, respectively.

Based on the 2012 South African Tourism figures, the estimated total travelling population to South Africa from the six target countries was 3.44 million, of which 3.28 million (95%) arrived by road. Of the 3.2 million cross border travellers 0.4 million travelled by bus, representing 12.3% of the total road travelling population.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Population travelling to RSA</th>
<th>Population travelling to RSA by Road</th>
<th>Populations travelling to RSA by Bus</th>
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<td>3 259 832</td>
<td>400 109</td>
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<td>Zimbabwe</td>
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<tr>
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<td>109 389</td>
<td>61 087</td>
</tr>
<tr>
<td>DRC</td>
<td>32 582</td>
<td>10 752</td>
<td>8 602</td>
</tr>
</tbody>
</table>
Market Value

The existing cross border bus market value in the six countries is about R445 million, with Malawi and Zimbabwe offering the biggest value at about R134.98 million each.

Autopax, even 10% market share gain would be significant based on the overall market segment below:

<table>
<thead>
<tr>
<th>Country</th>
<th>Current</th>
<th>Potential</th>
<th>Populations travelling to RSA by Bus</th>
</tr>
</thead>
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<tr>
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<td>Existing bus travelling market value (ZAR)</td>
<td>Total road travelling market value (ZAR)</td>
<td></td>
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<td>313 390 978</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>134 717 580</td>
<td>1 478 858 420</td>
<td>1 496 858 130</td>
</tr>
<tr>
<td>Zambia</td>
<td>82 899 262</td>
<td>199 932 330</td>
<td>243 820 090</td>
</tr>
<tr>
<td>Mozambique</td>
<td>59 533 650</td>
<td>606 870 450</td>
<td>613 749 210</td>
</tr>
<tr>
<td>DRC</td>
<td>21 212 532</td>
<td>26 514 432</td>
<td>80 347 212</td>
</tr>
<tr>
<td>Namibia</td>
<td>12 194 600</td>
<td>228 082 536</td>
<td>406 502 184</td>
</tr>
</tbody>
</table>

The potential market value is markedly higher at approximately R2.8 billion and therefore the value of current cross border bus business represents only 16% of potential value, suggesting non-optimal utilization of the available market by current cross border bus service providers.

Autopax Bus Service Appeal

Market research indicates that there is an appetite for Autopax bus services with more than 56% of travellers expressing likelihood to use City to City bus services if they were introduced. The DRC has 66% of travellers willing to utilize City to City bus services, followed by Malawi at 65% and Zimbabwe and Zambia at 56% and 50%, respectively.

Six (6) out ten (10) travellers have expressed willingness to utilize Translux bus services in the DRC at 70% and with Malawi at 69%, whilst Zimbabwe has close 63% likelihood.

In Mozambique, 43% of travellers, currently not utilising City to City bus services are open to switch, whilst 52% of are also willing to switch to Translux bus services.
Potential Market for Autopax

The estimated total road travel market value between South Africa and the six targeted market is approximately R2.8 billion and current cross border bus business is only taking 16% of that value.

An opportunity therefore exists for the conversion of part of the available R2.3 billion worth of the road travelling market into a bus travelling market.

<table>
<thead>
<tr>
<th>Country</th>
<th>Un-captured road travelling market value (ZAR)</th>
<th>Percentage of Services</th>
<th>Road Travellers Switching to Bus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>116 712 738</td>
<td>233 425 476</td>
</tr>
<tr>
<td></td>
<td>Zimbabwe</td>
<td>67 107 042</td>
<td>134 214 084</td>
</tr>
<tr>
<td></td>
<td>Mozambique</td>
<td>27 366 840</td>
<td>54 733 680</td>
</tr>
<tr>
<td></td>
<td>Namibia</td>
<td>10 794 397</td>
<td>21 588 794</td>
</tr>
<tr>
<td></td>
<td>Zambia</td>
<td>5 851 653</td>
<td>11 703 307</td>
</tr>
<tr>
<td></td>
<td>Malawi</td>
<td>5 327 711</td>
<td>10 655 421</td>
</tr>
<tr>
<td></td>
<td>DRC</td>
<td>265 095</td>
<td>530 190</td>
</tr>
</tbody>
</table>

The table above, shows that even at a conservative 5% capture of the available road travelling market in the short term, the potential additional market value approximately R116 million per year. In the long term, this value could grow to about R350 million per year.

Compete with private companies bus tender services

Explore tender opportunities in the bus transport market such as employee staff transport, mining industry, commuter services etc. Autopax currently operates employee transport services to Transnet transporting employees to their Sentra rand facilities in Johannesburg.

19 Buses are leased to the City of Johannesburg as an interim solution awaiting the delivery of their new bus fleet. The contract expires end of January 2015. Negotiations to extend for at least the next six months with a possible increase in numbers are continuing.

All possible tender business is continually monitored and a number of applications made to Eskom, FNB, Volkswagen SA etc. in the past will be pursued.
9.3.3. Integrated Ticketing

A new ticketing system, which integrates with other modes of transport and for use across all platforms, offering a standard solution is being investigated for development and implementation.

PRASA intends to introduce an integrated system that is:

a. An electronic ticketing system which would be compatible with other local transport providers
b. More flexible and allows users to buy a ticket for a period of consecutive days rather defined calendar months or providing reduced fares outside the peak period
c. Passenger friendly gating systems which will improve the appearance of stations, support access control and help to reduce ticketless travel
d. Helping to spread demand by incentivizing travel on less busy services
e. Addressing ticketless travel by providing low income passengers and special needs groups with concessionary passes to allow them to travel for reduced fares or free of charge outside the peak period; and
f. Providing much more accurate data to PRASA and stakeholders on travel patterns and journeys to help make service planning more responsive to passenger needs

9.3.4. Systems & Sub-Systems Integration of the Existing and the New

The transition from the old to the new system would require systems integration which will both encompass technology and process integration. But, more importantly is also the management of change during the transition period. The management of the human element in the new environment is critical.

This period will be defined by a change and transformation process that will, amongst other things, ensure that PRASA is a Modern Public Entity that delivers Public Value and characterized by the following:

- Customer-centric
- Dynamic
- Solutions Driven
- Systems and technology driven
- High Performance Teams
- Thought Leader
- Learning Organisation
- Financial Sustainability
- Environmental Sustainability

9.3.5. Light Rail Solutions

Light Rail has been identified as the preferred technology by which to improve rails service specific and identified corridors. Light Rail can provide more relevant local services compared to heavy rail and make it possible to match service provision with current and potential future passenger numbers.

Using benchmarking and best practice case studies PRASA has studied a number of cities around the world who have made better use of light rail in certain corridors. Examples include Manchester Metrolink in the UK and Karlsruhe in Germany.
The priority and implementation timescales of the proposed Light Rail Network (see PRASA National Strategic Plan) is in the medium and long term.

During the MTEF Period, PRASA shall develop options for each of the identified corridors with a view to producing fully worked through business for each proposal.

9.3.6. High-Speed Project

Air completion and the distance around the country offer the potential to investigate creating high speed rail corridors operating at around 400kph. Experience in Europe and Asia has shown that high speed rail are critically dependent on the size of the overall travel market between key cities and the potential to achieve mode shift from air to high speed rail.

PRASA has identified two routes with adequately sized travel markets – from Gauteng to Cape Town and Durban. Although Cape Town – Gauteng has the larger travel market (when air) its distance of 1400km makes it difficult to be air competitive when city centre – city centre air and high speed rail journey times are compared. In contrast Durban – Gauteng is only 640km creating a real potential for a rail to capture a significant proportion of the air market in the future and a potentially stronger base case.

For high-speed rail to be successful a large travel market of over 1, 1000 passenger per hour needs to be present and end to end journey times will be a maximum of four hours to be competitive with air. Journey times of 3 hours, Johannesburg to Durban, and 4.5 hours to Cape Town would need to be achieved to make the service competitive in terms of time travelled. Eventual implementation will be dependent on growth in demand making high Speed Rail a longer term aim in the country. The early identification of corridors will be essential to safeguard future implementation and to identify how spatial and economic policy decisions might support future high speed rail development. A feasibility study will be conducted by PRASA during the MTEF Period.
Eventual implementation will be dependent on growth in demand making high Speed Rail a longer term aim in the country. The early identification of corridors will be essential to safeguard future implementation and identify how spatial and economic policy decisions might support future high speed rail development.

A feasibility study will be concluded by PRASA during the MTEF Period.

9.4. Embarking on a Robust Assets Investment Program

Intersite’s mandate is to leverage PRASA Group’s large asset base and is responsible for property and asset development, as well as to drive the commercialization of selected and approved PRASA assets through facilitating of private sector investment in PRASA’s assets.

Being the property and asset investment arm of PRASA, Intersite’s objective is to provide property and asset investment solutions to PRASA through a range of innovative and entrepreneurial initiatives. In addition Intersite undertakes project services to third parties to enable PRASA and Intersite to derive maximum economic and financial benefit.

Key Performance Areas:

a) The facilitation of investments by strategic partners;

b) Facilitating the sale of select and approved properties and assets;

c) Facilitating property developments and investments;

d) Procuring the developments on PRASA properties;

e) Undertaking project services for select third parties; and

f) Changing the business model from once-off success fee to a sustainable annuity income structure for Intersite.

The strategy is to achieve sustainability and deliver additional revenues to PRASA by:

Operating Environment:

The property development industry is a mature and competitive environment in South Africa, which is dominated primarily by listed and unlisted property players. These major players include Growth Point, Liberty, Old Mutual, PIC, Redefine, Hyprop, Rebosis, etc.

The major players are primarily focused on retail and commercial properties, although a few residential property funds have also recently been established.

The fact that PRASA stations have a captive market based on the commuter numbers has a positive impact and makes the property portfolio desirable over other property owners. However, land owners adjacent to PRASA stations represent significant competition and a viable alternative for commuters.
The PRASA stations have a captive market based on the commuter numbers, and this gives the portfolio a competitive advantage over other property owners. The commuter living standard measure (LSM) profiles differ and this needs to be taken into consideration in terms of the attractiveness of the portfolio.

Private sector professionals are not seen as direct competitors. Intersite’s experience and expertise provide the necessary competitive advantage coupled with the advantage of public-to-public business opportunity. Intersite has developed a relationship with National Treasury’s Neighbourhood Development Programme Grand (NDPG) and various designated municipalities, who may be beneficiaries of the NDPG.

Strategic Priority: Embark on a Robust Assets Investment Program through the delivery of the following key performance areas:

9.4.1. Leasing and Debt Funding of Property/Asset Development

Intersite plans to lease certain assets from PRASA for investment opportunities. Intersite will then raise capital for investments in the properties and assets in order to grow the investments assets.

This will then place Intersite as a lessor in respect of these services and assets.

9.4.2. Optic Fibre and Telecoms Commercialisation

Optic fibre and telecoms assets places PRASA as key player in the telecommunication infrastructure sector. It is intended that Intersite will have control over these assets and lease the surplus / excess capacity for commercialization to the market.

In addition to capacity selling, Intersite also intends providing value added services on top of the network. This will allow migration by Intersite up the value chain from dark fibre into higher value, better margin managed services.

9.4.3. Disposal of Assets

Intersite will play a role as transactor and develop a disposal strategy. It is intended that the revenue generated will be for PRASA and Intersite will charge a fee.

9.4.4. Private Sector Participation

Various agreements have been concluded with preferred developers for the development of various mixed-used developments. It is expected that direct private sector investment of circa R3 billion will be invested into the developments. Intersite has an opportunity to co-invest with these proven developers for a share of the revenue, in addition to land rentals.

To limit the risk related to delays in implementing the developments, Intersite plans to obtain the required development rights to give impetus to the feasibility of the planned developments.
9.4.5. Borrowing Plan

The borrowing plan is linked to the capital required by Intersite, both internally [from PRASA] and externally [from various funders], to fund various investments. For the MTEF, an amount circa R6.5 billion is planned to be raised for various select identified investments.

9.5. Unlocking the Value of Assets: Real Estate Solution

9.5.1. Mandate & Strategic Intent

The Corporate Real Estate Solutions (CRES) division manages on behalf of PRASA the Rail Property Portfolio with the intent of enhancing commuter experience and growing property value through an offering of improved, functional and clean facilities.

The portfolio has a national footprint made up of 4 700 land parcels of which the bulk is primarily utilised to support PRASA operations in line with the Legal Succession to the S.A transport services “SATS” act of 1989 amended in 2008. The portfolio structure consists of four (4) categories i.e. the Stations, Depots, Land & Residential facilities which, except for Depots, have both the operational and commercial elements.

9.5.2. Key Focus & Delivery Areas

To realise its intended purpose and set objectives, CRES is implementing a three (3) pronged strategy focusing on the following:

a) Improving property portfolio condition to enhance capacity and commuter experience.

b) Unlocking and growing property value to achieve financial sustainability.

c) Managing and maintaining property portfolio condition to increase operational effectiveness.

9.5.3. Key Assumptions informing the Real Estate strategy

a) Growth in the Property Market
b) The outlook of the Retail and Industrial Sector current and future performance is positive show double digits growth figures (IPD Total Property Return of 15% for 2014 only

c) Entry of new international brands in the retail spaces (i.e. Burger King, Domino Pizza, etc.

d) Continued and sustained interest by retailers in the under serviced mass market

e) Appetite for SMME’s to trade in PRASA environment (current 3% of Revenue with a potential to grow).

f) Demand for space to provide Government Services and Primary Health Care facilities.

9.5.4. Improving Property Portfolio Condition

The Division has over time made strides towards enhancing the general outlook and functionality of portfolio facilities as evidenced by an increase in the number of completed station projects in the 2013/14 FY when compared to the 2012/13 FY.
By the end of the 2014/15 FY, a total of seventy (70) stations improvements & upgrades projects are expected to be completed. Over the MTEF period CRES intends to deliver an additional two hundred and forty (240) projects by the 2017/18 FY.

An example of NSIP project in KZN – Jacob Station shown below:

9.5.5. Unlocking and Growing the Property Portfolio Value

Since 2013/14 FY was officially the first year of implementing the Real Estate Strategy approved by PRASA Board in November 2012, a noticeable increase in the Gross Lettable Area (GLA) or commercial space on key facilities through programmes like Commercialisation and Acquisition of Development Leases has been observed. A total of ten (10) Development leases have to date been acquired in this regard and more than three (3) commercial initiatives came to realisation.

These initiatives have significantly improved PRASA’s financial position and increased the asset value to approximately R3.2 billion in the 2013/14 FY from R2.5 billion of 2012/13 FY. Consequently, rental income has also gone up by approximately 26% from the R236 million in 2011/12 FY to R325 million in 2013/14 FY. Revenue projections over the MTEF period show a significant growth in rental revenue up R927 million by year 2017/18 FY.
An example of a Commercialisation and Acquired development lease initiative is shown below:

9.5.6. Managing and maintaining property portfolio

Significant progress has also been noted in the management and maintenance of the portfolio facilities which is characterised by ensuring consistent delivery of municipal services, facility repairs, cleaning and horticultural services. This to an extent is attributed to the effectiveness of the Upgrades & Improvement programmes. The delivery of a functional and clean station environment remains one of the key success factors for the Division.
PRASA has made tremendous progress with the implementation of the procurement phase of the Rolling Stock Fleet Renewal programme; including the contract negotiations leading up to Financial Close in April 2014. The next phase of implementing the programme is about unlocking the value in the committed investments, to the public that relies on PRASA services and the country’s economy. This will be realised when the new Rolling Stock is delivered within the parameters of the contract, AND is able to operate within the PRASA network as intended.

The perspective of unlocking value sets an important context of RSFRP implementation. It elevates the fact that the programme includes new Rolling Stock and all enabling projects / programmes required to make the system work effectively as intended. The context of this work is summarised in the discussions below:

10.1. Delivery Of New Rolling Stock – GIBELA MSA and TSSSA

This entails effective project management to ensure:
- Design, manufacture and delivery of new trains at the right quality, scope and budget,
- Delivery on the localisation and economic development commitments and objectives of both the MSA and TSSSA.
- Managing all commercial risks and obligations of the organisation related to the implementation of the contract.
- Building capacity and capability of the organisation at technology and skills levels.

10.2. Business Readiness Programmes

Business readiness programmes capture the key enabling projects / programmes required to ensure that the business will be ready to receive and operate the new rolling stock, thereby unlocking the value to the public who rely on PRASA’s services. They include the following:

(a) Infrastructure Readiness Programmes

This entails effective project management and delivery of the following:
- Depot Modernisation programme.
- Perway, Drainage and Platforms

MSA = Manufacturing Supply Agreement; TSSSA = Technical Support and Spares Supply Agreement.
- Testing Facilities at Wolmerton (for use by GIBELA until the local factory is operational)
- Signaling Infrastructure
- Electrical works and Substation upgrades
- ICT infrastructure related
- Station Modernisation

With the exception of station modernisation, these programmes must be ready before the new trains can be deployed in the respective corridors. They will support new train maintenance requirements, enable higher train speeds (120 km/h), increased train frequency, compatibility with platforms amongst other requirements.

(b) Maintenance readiness
Over and above the specific interventions being implemented to support new maintenance requirements, PRASA has to ensure that the new and current rolling stock can operate in the same network, and be maintained in the within the same environment. The TSSSA introduces a new maintenance concept that requires both new skill sets and a different culture. High number of trains running per day may necessitate maintenance to be conducted at night, presenting new sets of labour management challenges. Successful management of this change is fundamental to the sustainable operation of the new train service.

(c) Rail Operations Readiness and Preparedness

The introduction of new rolling stock goes beyond simply adding more units or capacity into the system. It redefines and modernise the train service offering in many ways. New skills for drivers, maintainers, securities and other support functions will be required – recruitment and/or training – nationally. New train service will be required to exploit the new technology (rolling stock and signaling). Management plans to operate new and current rolling stock in a transition phase will require careful implementation. All these will present a culture shock to all employees and will require focused change management initiatives to successfully implement.

(d) Customer Preparedness and Managing Expectations

The enhanced travel experience to be delivered by the New Trains represents a step-change from the service currently provided. There will be a number of changes to the way that passengers must use the service. Some of current passenger behaviours are not possible in the new train, such as riding with the doors open. A behavioural and educational programme will be required over a long period leading up to and during the introduction of the New Trains to inform the public of what to expect. These programmes could be national or regional, but note should be taken that it is more likely that an effective change in behaviour will be achieved when the customers are exposed to a step change in offer on a local basis immediately before New Train introduction.

The five areas discussed above set the context of implementation scope and requirement of of the Rolling Stock Fleet Renewal program (RSFRP).

10.3. Risk Areas And Critical Success Factors

As noted above, the two main areas of the RSFRP are the Rolling Stock itself, and Business readiness programmes. Based on current assessment of the situation, the Rolling Stock component has been well defined and structured. It is easy to see what success looks like, and what to do to achieve it. It requires good solid project management, quality assurance and governance – and it will be delivered. On the other hand, the Business Readiness aspects of the programme are not as well defined and structured as yet, save for the Infrastructure readiness programmes. Although some projects are still in planning and procurement phase, infrastructure projects are the most advanced of the readiness programme. However, a significant amount of work is
required in 2.2 (a) – 2.2 (d) - to define what success should look like, and implement ON TIME for the roll out of Rolling stock.

The main risk for the programme will be the inability for PRASA to implement and integrate the Business readiness programme successfully, which must include an overall change management initiative towards a new public enterprise.

Strong leadership and integration should cut across the functional areas and business units of the GROUP for the successful implementation of the programme. In addition, high levels of collaboration and teamwork are required amongst the functional areas and business units alike. The success of the programme will depend on collective effort of the organisation than an individualistic approach.

10.4. Implementation Strategy

In due consideration of the context, the risks and critical success factors for successful implementation of the programme as set out above, the following implementation strategy is being proposed. It covers the programme mission, execution assumptions, implementation structure and internal governance structure.

The Programme Mission

The proposed mission of the programme flows from the corporate strategic priority no. 1 for 2015 MTEF Corporate plan. Through this programme, the mission is to create a No. 1 public Transport Service in South Africa. The figure below illustrates the key drivers to this mission.
The Execution Assumptions and Implementation Framework

The following key assumptions form basis of execution framework. They attempt to address the need focused implementation of the two streams, the need for integration and cross functional collaboration.

• **Recognise the two Delivery Streams** (Rolling Stock and Business Readiness) and assign **Clear Execution Responsibility and Accountability per stream**.

• **Implementation Organisation**: A dedicated Programme Team Organisation (PTO), composed of Central Programme Management Team (CPMT), and Seconded members from Line Functional Areas. This is a matrix reporting and functioning structure.

• **The CPMT team focuses on Global Programme Objectives delivery, Systems Integration, Alignment and Overall Programme performance.**

The functional teams execute the work streams or packages in their respective areas. The functional members will full time on the programme where the demand of the work so requires.

• **A Functional Sponsor is appointed** in each Functional area where Programme work is performed. This is preferable the leader of that function: Divisional/Subsidiary CEO or Executive Manager.

• **Single line of accountability**: For the duration of the Programme, the team members are accountable to the Programme Director’s office for their performance. Functional Sponsor provides execution support.

• **Alignment of Performance** contracts for the PTO members, to clearly reflect the deliverables/objectives of the Programme, as per their areas of responsibility and in support of each other.

Figure below summarise the implementation framework accordingly.
Implementation Framework

10.5. Implementation Organisational Structure

Implementation Structure – Company wide
The following implementation structure is proposed in line with the above framework. While the structure for the Central Programme Management Team (CPMT) is defined to a vacancy level, the functional team structures need to be defined with the Functional Sponsors, based on the scope of readiness programmes / projects. This will be completed as soon as approval is secured. The Rolling Stock project management is done at the CPMT level.

Internal Governance Structure
It has been sufficiently indicated that integration, cross-functional collaboration and speedy resolution of identified problems is critical for the success of the programme. There are current forums to support these initiatives such as Business Readiness Forum, in addition to the normal project review meetings. It is proposed that these must be supported by a high level oversight team in the form of a RSFRP Steering Committee.

The primary role of the RSFRP Steering Committee will be:

- Oversee overall performance of the programme (Rolling stock and readiness programme)
- Assess performance of the Works and the Economic Development Obligations against the relevant Plans
- Guide and steer the implementation team on matters escalated to the committee for adjudication
- Observe governance issues in the implementation of the programme.

PRASA has done a splendid job in the implementation of the procurement phase of the Rolling Stock Fleet Renewal programme; including the contract negotiations leading up to the Financial Closure in April 2014. The next phase of implementing the programme is about unlocking the value that is locked in the committed investments, to the public that relies on PRASA services and the country’s economy. This will be realised when the new Rolling Stock is delivered within the parameters of the contract, AND is able to operate within the PRASA network as intended.

The perspective of unlocking value sets an important context of RSFRP implementation. It elevates the fact that the programme includes new Rolling Stock and all enabling projects / programmes required to make the system work effectively as intended. The context of this work is summarised in the discussions below:

10.6. Risk Areas And Critical Success Factors

As noted above, the two main areas of the RSFRP are the Rolling Stock itself, and Business readiness programmes. Based on current assessment of the situation, the Rolling Stock component has been well defined and structured. It is easy to see what success looks like, and what to do to achieve it. It requires good solid project management, quality assurance and governance – and it will be delivered.

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as well defined and structured as yet, save for the Infrastructure readiness programmes. Although some projects are still in planning and procurement phase, infrastructure projects are the most advanced of the readiness programme. However, a significant amount of work is required in 2.2 (a) –

2.2 (d) - to define what success should look like, and implement ON TIME for the roll out of Rolling stock.

The main risk for the programme will be the inability for PRASA to implement and integrate the Business readiness programme successfully, which must include an overall change management initiative towards a new public enterprise.

11. HUMAN CAPITAL INVESTMENT: BUILDING CAPACITY

Reactive organizations are very costly whilst proactive organizations reduce cost, eliminate duplication and eliminate non-value added processes

Ron Higgins (Transformational Specialist)

Human Capital Development will be a critical feature during the Growth and Expansion phase of PRASA’s strategy deployment. The massive capital investment program amounting to billions of rands will require a caliber of employee that is capable not only to deliver such infrastructure and services deployment, but is capable of sustain itself and ensuring that the organisation is built to last.

PRASA is poised to be a centre of excellence in the identification and development of critical skills in the rail-engineering sector, particularly the mechanical and electrical engineers, including technicians and artisans.

Modernisation and a focus on Growth and Expansion in the next 3 years will require a particular focus on human development that will ensure that PRASA is responsive to the fast and changing environment in what is becoming the forever changing needs of the passengers, commuters, and user of the organisation's facilitation in what also has become a highly competitive environment.

Building and sustaining a Modern Public Entity capable of delivering Public Value will be driving by the following factors:

- Customer-centric
- Dynamic
- Solutions Driven
- Systems and technology driven
- High Performance Teams
- Thought Leader
- Learning Organisation
During the Growth and Expansion phase, PRASA's human capital development and management strategy will focus on the following:

- Future Skills development
- Leadership Calibration & Development
- Transformation Management
- Culture management (model PRASA Employee)
- Employer of Choice

In ensuring the implementation of an effective capacity development plan for the future, PRASA has identified the following as the key pillars:

- Funding (Capital & Operational Funding)
- Identification of employees to be trained
- The establishment of the Future Capacity Project office and the training Centre of Excellence
- Communication of the transition journey through the planned change initiatives
- Business Readiness Forums (across the organization)
- A well structured learnership and internship regime
- Leadership participation

**11.1. Developing Critical Skills**

The transition, from the **old** to the **new**, requires a detailed competency profiling and skills analysis exercise that will help the organisation to give answers to the following questions:

- a) Who is in our workforce?
- b) What are the current skills mix?
- c) What skill sets are required for the PRASA future business?
- d) Who should be **re-skilled, up-skilled, re-deployed** or **recruited** from the external market.
- e) What are the characteristics of the **model PRASA employee**?
- f) Do we have employees who have the passion, the right attitude to help fulfil our strategy?

**Why Future Priority Skills Project**

To focus on future skills requirements; the FPS Project Team will provide an integration role for PRASA Technical, PRASA Rail and PRASA Corporate, by coordinating all skills transfer and Skills upgrade requirements for each of the key Capital Projects i.e. STEP, Depot & Training Facilities upgrade and AFRO4000, New Rolling Stock programmes, etc.

In preparing for and rolling out a World-Class Train System of the Future, PRASA will train a total of 1,185 employees in key and critical skills as depicted in the following:
Moving from the Old to the New

With the modernisation underway, PRASA has is conducting a competency profiling and skills identification process in respect of its key Departments that will be impacted by the change. The following clearly identifies critical skills in respect of the specific modernisation projects currently underway.

- **Modern Commuter trains:**
  - Engineers – Rolling Stock
  - Maintenance Engineers
  - Train Drivers
  - Metro Guards
  - Customer Services Agents (product knowledge)
  - ICT
  - Managers

- **Modern Depot’s stations –**
  - Infrastructure
  - Customer Services Agents
  - Managers

- **Modern Signaling, Telecom and Energy: 2012 – 2014**
  - Signaling and Telecoms Engineers
  - TCO’s

- Train Drivers
- Managers
- ICT

**Priority Skills: Streams**

Streams for each Priority Skills Programme has been identified and categorized and classified according to their area of emphasis, as per the following:

- Stream 1 New Rolling stock and AFRO4000
- Stream 2 STEP
- Stream 3 Depot and Station upgrade
- Stream 4 CTC
- Stream 5 Training Center’s and Training Material review
- Stream 6 HCM Architecture Review and Re-Design (Scope to be defined)
- Stream 7 Operational Safety and Security (Scope to be defined)
- Stream 8 ICT (Scope to be defined)
- Stream 9 Customer Services and Marketing & Comms (Scope to be defined)
11.2. Leadership Development

In building a future proof organisation, critical questions will need to be asked and more importantly the following:

a) Do we have the right calibre of leaders who can lead the transition?

b) Is the leadership aware that we are already in the transition journey?

• What aspects of the business are to be transitioned (old – new)? And by when?

c) Is each leader making the relevant and required transition decision?

d) What leadership development is required?

For PRASA to realise these strategic business programmes it will require dynamic leadership skills, authentic leaders, leaders with integrity, driven by business interest and performance, leaders who are ready and willing to take the organisation into the future. The leadership development academy will enable the organisation to build the requisite skills and competencies and provide structured and personalised development solutions for the railways leaders of the future.

The proposed leadership development strategy aims to build a legacy of rail founded on solid leadership development programmes and commitment to service excellence as the anchor of the curriculum development of PRASA leader programme, ensuring that we have the right leaders in positions at the right time. The leadership development strategy will be elevated and supported by bold practical programs to ensure that the most marketable individuals are not lost to competition, and that there is sufficient supply of leadership in the pipeline to ensure that our demands are met to fill vacancies resulting from natural attrition, promotion, and or other movements.

The organisational culture change shall be driven by leadership: PRASA senior leadership need to create this expectation, this can't be delegated, and organisational leaders need a different set of skills*, other than intellectual & technical skills, to help their employees respond effectively to company challenges. Hence, irrespective of one's core business, such core leadership skills would span across functions.

Leadership Development Rationale

• To build a PRASA leadership brand supported and valued by all PRASA leaders

• To introduce a leadership development strategy that will not only focus on traditional mainstream development.

• Ensuring consistent execution of PRASA leadership Strategy

• Strategy that will link day to day leadership, performance and business strategy

• Leadership development programme aligned to organisational vision and mission
11.3. Change Management

A change management and transformation programme has been developed for implementation and rolling out throughout the organisation, involving the following:

- Leadership development programme defined by PRASA Values and Leadership ETHOS
  Desired end state
  - Build thought leadership, leaders who are game changers
  - Build coercive leaders
  - Build leadership mind set aligned to modernised business
  - Build a Leadership pipeline and competent leadership bench strength
  - Build Leadership commitment through Leadership ETHOS
  - Build leadership confidence and accountability
  - Improve decision making and leadership ability to see opportunities
  - Build leadership to effectively execute business strategy

- Identification and nurturing of the model PRASA Employee.
- Inculcating high customer service standards
- Managing the PRASA transition Process
- Communicate the change to employees, customers and key stakeholders

The project will be looking into how best the organisation can assist the current leadership through structured, personalised leadership development programme. Develop a PRASA leadership competency framework to help build leadership bench strength, position leadership recruitment, as key element in driving the organisations strategy and will also look present the idea of establishing Rail Leadership School in partnership with other strategic partners/institutions in the leadership development.

The road map to a new Prasa – a modern public entity – that delivers Public Value will be driven by a change management campaign called BEe Employee Campaign.

In a new and modern environment a Prasa BEe employee will be defined as:

**Focussed, Prepared, Reliable, On The Ball, being Aware, Modern, Dynamic, Communicative, Professional, Honest**

A campaign will be rolled out beginning of the MTEF Period in two Phases

**Phased 1: Change Has Begun: The Future is Here**
Rolling Out a Train System of the Future

**Phased 2: Be Engaged:**

- living the values
- living the modern PRASA
- recognition and rewards

In addressing the transition from the old to the new and preparing for the business of the future, PRASA has implement the following business readiness framework:
Establishing a Programme Management Office to Manage Modernisation Readiness Programme

The PRASA modernization programme will be a transitional process managed through extremely ambiguous deadlines that will require a resource management plan. The focus is organization wide and scope of work will have a high dependency on interphases that will need to be managed on a daily basis. A consolidation and coordination of all activities will need to be centralized to increase the speed and quality of all deliverables.

• Purpose
The scale and magnitude of all project activities existing and envisaged will require rigorous monitoring that is structured and well resourced. It is key that there is an alignment to PRASA strategy to ensure the realization of strategic objectives. A centralized structure, namely HCM Programme Management Office is proposed, to ensure seamless execution of project initiatives relating to Future Priority Skills Project. The success of this project will have a high dependency on centralized planning to minimize risks associated with change programmes. The scale of complexity will be assessed through an “AS IS” analysis process that will probably have outcomes which will then determine a phased in approach for implementation. This approach will offer the Programme Management Office an opportunity to conduct periodical adjustments based on project risks, milestones and progress.

• The Programme Management Office (PMO)
The PMO will ensure that the key organizational priorities for HCM Modernisation Programmes are in scope during the modernization phase. The fact is that the impacted areas are currently highly under capacitated, though very highly experienced in the Rail industry and there is reasonable consideration that business operations have a zero tolerance on service disruptions. These then channels our thinking towards establishing a centralized structure with resources that will be able to provide strategic
advice, operational expertise and business support. The identified resources will be both internal and external including acceleration of skills transfer, centralized coordination, monitored performance management, structured delivery, one governance structure and well trained resources over time.

- **Key principles of PMO**

The office will be managed in accordance to acceptable industry best practices approach, model, norms and standards that will be beneficial to Creating a New PRASA. The process will aim at introducing transformational methodologies that will facilitate time, cost and quality in order to:

- Provide a centralized office that will manage HCM project management activities related to modernization
- Establish a knowledge management repository for PRASA (HCM)
- Allocate permanent and part time resources to participate and provide subject matter expertise
- Centralize governance to determine efficiency and effectiveness in managing project scope
- Standardize and accelerate delivery of agreed milestones
- Provide structured skills transfer process
- Allocate required budget to ensure achievement of desired deliverables
- Structured implementation and accountability

**Responsibilities of HCM PMO**

The centralized office set up will require a common understanding of the role that HCM-PMO will play and will include the following:

- Ensure adherence to all organizational governance requirements
  - Define standards and norms in accordance to best practice
  - Provide strategic and operational content and guide delivery of scope of work
- Monitor and manage transfer of skills process
- Consolidate and distribute reports
- Build knowledge management repository for HCM
- Manage resources in relation to scope, time, cost and quality indicators
- Manage supplier contracts (Training element for all modernisation contracts: New Rolling Stock, Signaling, Perways, Electrical and Telecoms)
- Manage project alignment, coordination and support
- Manage project decisions, risks and issues as presented in the business case
- Manage overall PMO performance

**The benefits of PMO**

The organization will implement project scope within the provided and agreed timeline of the projects. The management of organizational risks will be effected centrally and escalated speedily to the steering committee, which will be managing the programme rigorously. The budget will be allocated against all identified milestones and activities and accountability will be cascaded to operational level.

The performance of the team will be closely tracked and monitored by the steering committee and feedback will be
managed in accordance with risks identified coupled with mitigating plans put in place phase. There will be continued stakeholder engagement and management throughout the programme delivery phase.

The communication and messaging to the organization will be based on real-time data as and when required and this will increase the change management hype and excitement for all stakeholders. The customers will be well informed ahead of time on potential service disruptions and projects activities.

The skills transfer process will be visible through interactions and crucial engagements at business level during and post the programme phase. There is also consideration that some of the projects are way behind and acceleration strategies will be consolidated, put in place, monitored and tracked for ease of management of risks and issues.

12. EMPLOYMENT EQUITY

Introduction

PRASA’s perception of the spirit of the Employment Equity initiative is to ensure the establishment of a healthy context within which all South Africans will both develop the competence required for life-long employability and enjoy the opportunity to be able to reap the rewards of being an integral part of a successful and profitable world-class organisation. We realise and acknowledge that in the past there have been inequalities in this regard and that a significant challenge now faces businesses and Government to rectify the situation.

Central to the challenge is the removal of barriers to entry by previously disadvantaged groups where such competence exists, as well as the development of competence in such groups where this has previously been neglected. Both goals must be achieved as quickly as possible without compromising the competitiveness and thus the sustainable profitability of businesses in the process.

In order to achieve this delicate balance, a committed to partnership is required between business and those tasked with the execution of the Employment Equity legislation to ensure success. Both parties must be sensitised to each other’s needs and priorities to ensure an optimal working relationship, which will generate both a healthy, constructive database and creativity in developing innovative solutions to this enormous challenge.

Guiding Principles

Fairness and Integrity – Treating our customers and our colleagues the same as we would like to be treated.

Service Excellence – Provide the kind of service that ensures that our customer leaves with a smile.
Performance Driven –
Developing the ability to venture into new breakthrough areas of opportunity whilst offering quality products to our customers.

Safety –
Ensuring our customers and colleagues enjoy their journey and arrive safely and refreshed.

Communication –
Sharing information with our customers and colleagues in an open and honest way.

Teamwork –
Working together with our customers to achieve a common goal and recognising each other’s worth.

Purpose of Employment Equity
To realise PRASA’s vision, deliberate and pervasive action throughout the organisation is required. Affirmative action is a necessary stage of the process. Our strategy document addresses the procedural steps necessary to create a fair and just environment. The intention is to implement a Code of Best Practice to counteract any bias that favours certain groups over others while ensuring continuous improvements in standards within the group. The Code thus combines equitable people management with improved business standards.

The Code of Best Practice will apply until critical mass is achieved within time frames decided upon after consultation with all relevant stakeholders. In this document, “critical mass” implies that the targets as set according to the EE plan, are met and the overall percentage of employees from the designated groups mirrors our customer base in terms of race. Employment Equity Committees will monitor the process and report to the EE Office on progress.

It is PRASA’s commitment to identify, develop, reward and retain each employee who demonstrates the qualities of individual initiative, enterprise, hard work and loyalty in their jobs. PRASA will prioritise the advancement of those severely disadvantaged. In prioritising this process, line management should be guided by the general consensus within South Africa that the list below illustrates the order of disadvantages to overcome.

Priority order is inter alia:
• Females of all races including disabled females (African/Coloured/Indian and White)
• African/Coloured/Indian Male including males with disabilities of all races
• People with disabilities all races
• And white Males

Conditions of the Environment
The Employment Equity planning aims to create an environment conducive to the implementation of Employment Equity values and changing of attitudes within the organisation through:

a) The establishment of a diversity
and Employment Equity programme.  
b) EE Targets for every Division/Regional Office and subsidiary of PRASA. 
c) Introduction of diversity management workshops that will prepare all employees at all levels with regards to the negative impact of discrimination and stereotyping. 
d) The integration of the diversity philosophy into all management and leadership training.  
f) Employment Equity Training at all levels and establishment of EE Committees  
g) to address Diversity interventions.

Employment Equity Targets for the PRASA Group

### Numerical Goals

The numerical goals and timetable were based on certain assumptions in terms of workforce flow data. If the assumptions change during the duration of the plan, the numerical goals that are put forward will be re-evaluated and adapted. This will, however, be done only after consultation with the Employment Equity Forums.
The following variables were taken into account:

a) Growth per level based on projected financial and/or operational growth.
b) Labour turnover annually, people from disadvantaged groups and whites
c) Promotability refers to the approximate length of time that an employee may function at a level before being suitably qualified to be promoted to the next level.
d) Individuals irrespective of race and gender may be promoted in a shorter or longer time period in line with the PRASA Employment Equity plan and actual reports from time to time.
e) New appointments, which refer to employees that would have to be appointed from outside the organisation in order to meet targets. Blacks will represent 85% of new appointments and Whites 15%. The ratio for male and female to be in proportion to the identified demographics.

Objectives/Affirmative Action Measures for 2015-2016

a) To achieve numerical goals and targets for Year 2015 of the plan.
b) To implement properly designed mentorship programmes.
c) To provide training for EE Committee members (on-going)
d) To promote diversity in the workplace.
e) To ensure that retention strategy for designated groups is in place
f) To implement appropriate training measures to provide for the skills required.
g) To design programmes to deal with people with disabilities so as to ensure that they enjoy equal opportunities.
h) To constantly monitor the workforce movement. To advocate Employment Equity to all employees, including managers.
i) To capture targets for Year 2016 and develop a new EE Plan.

Monitoring the Employment Equity Plan

Monitoring and control mechanisms will be implemented to assess and regulate the progress towards targets on a regular basis so that corrective measures are taken timeously.

a) Divisional CEO’s and the Group CEO are directly accountable for implementing corrective measures aimed at correcting their negative variances, within The group particularly on female and disability representation.
b) Divisional and Regional HR jointly with the EE Committees are responsible for the Implementation and monitoring of the Divisional/Regional Employment Equity Plan

c) The National Employment Equity and Diversity Manager is responsible for the overall

d) Monitoring and implementation of the National Employment Equity Strategy and the EE Plan at a National Level.

Dispute Resolution

The committee shall attempt to reach consensus on the following:

a) All analysis as required by the
Employment Equity Act and Skills development Act

b) The preparation and implementation of the Employment Equity Plan and The Skills development Plan

c) The submission of the Employment Equity Reports and WSP to the Department of Labour and SETA.

d) Failing consensus, any disputes in respect of 6.1 will be referred to an independent source for conciliation, mediation and or/ arbitration. Any agreements and or/ awards will be final and binding on all parties.

e) Any dispute in respect of Unfair Discrimination (Chap. I of the Employment Equity Act) must be referred to the appropriate body for Conciliation, arbitration or adjudication in terms of the Labour Relations Act (Chap. VIII).

Insofar as a budget for the implementation of the Employment Equity Plan is concerned, this must be reasonable and appropriate. The company retains the right to allocate resources within its normal financial and budgetary disciplines.

Acknowledgement of the PRASA Employment Equity Plan

- PRASA Group EXCO - including the Group CEO
- SATAWU – PRASA National Employment Equity Committee
- UTATU SARWHU – PRASA National Employment Equity Committee
- The PRASA National Employment Equity Committee
- The National Employment Equity and Diversity Manager for PRASA

13. ENTERPRISE DEVELOPMENT

13.1. Women in Rail Program

PRASA is responsive to the socio-economic and political imperatives of the country defined by the need to improve the living conditions of the people it serves. This is informed by the need, for just for PRASA, but for the entire country to develop much needed skills and capacity so as to increase the country’s competitiveness.

Aligned to the much needed skills, PRASA has focused on making a contribution towards the development of rail specific skills and capacity and especially the development of women, who for many years have not access to this sector.

PRASA’s Women in Rail is strategic and deliberate strategy in this regard and is informed by the following framework and programme, which will see an increased participation of women in the entire value chain of PRASA’s rail business. During the MTEF Period, Prasa has earmarked a total of R3,5 billion for Women in Rail Program.
Background to Women in Rail Program

• In 2008 PRASA established the Women In Rail (Phase I) initiative 2008 – 2012.
• 637 m worth of contracts delivered by Women Owned Entities (WOEs).
• Women did not make the necessary in-roads in the core Rail technical areas
• Women In Rail Phase II (2013-2018) was launched in August 2013 by the Minister Of Transport, Ms. Dipuo Peters

Objectives:

• To improve the representation of women professionals and women owned enterprises in the core technical areas of Railway sector over 5 years (2013 – 2018)
• To facilitate technical skills development of women professionals and Women Owned Entities
• To facilitate comprehensive enterprise development and support

Key Focus Areas for Women in Rail Program

• Property
• Construction,
• Facilities Management
• Professional Services

Rail Engineering Services

• Rolling Stock,
• Infrastructure,
• Perways
• Information Communication Technology

Professional Services

• Architecture,
• Quantity Surveying,
• Project Management,
• Legal Services,
• Auditing and Finance Management

Risk Management advisory,

Strategic Partnership Enabling the
Women in Rail Program

• Financing and Funding Partners
  • Development and Support
  • Small Enterprise Development Agency (SEDA) – Incubation Collaboration
  • Transport Education and Training Authority (TETA) - Training
  • Construction Education and Training Authority (CETA)
  • Department of Trade and Industry Incubation Funding
  • SEIFSA – Technical Training

• Regulating Bodies
  • The Construction Industry Development Board (CIDB) - Endorsement
  • The South African Revenue Services (SARS)
  • The National Treasury - Endorsement
  • South African Bureau of Standards (SABS)

• Enterprise Development (Co-funded by Dti at R74m)
  • Mtiya Dynamics
  • Wits Enterprise (Customized Business Courses)
  • University of Pretoria (Case Study Memo)
  • Incubation Centres
  • Rail Engineering and Property and Construction
  • Mentoring of SMEs by established businesses within the PRASA supply chain.
  • Exchange Programs
  • Exposure to global business perspectives

• Foster entrepreneurial confidence

13.2. Connectivity in Schools: Broadband Rollout

PRASA is rolling out broadband digital rollout and other related ICT services to 291 previously disadvantaged schools located within the 5 to 7 kilometers radius of the commuter rail network and in close proximity to PRASA’s broadband network. This will be implemented through the PRASA Development Foundation.

PRASA’s broadband project is in response to the government’s policy of providing universal access to previously disadvantaged communities, particularly to schools in black communities.

13.3. Black Economic Empowerment and Job Creation

Massive economic development benefits have been quantified by PRASA. The local manufacture of new trains will see the skilling of approximately 19,527 individuals over the next ten years. These will include development of artisans, engineers, train drives, designers and technicians, as well as the creation of 33,000 jobs over the next 10 years.

Broad Based Black Economic Empowerment spend on skills development will be R923 million throughout the modernisation programme, whilst spending on empowered entities is estimated to be R35.8 billion over the same period; translating into 65% localization.
In positively positioning PRASA, amongst its stakeholders and the public it serves, the organisation has identified as its **BRAND PROMISE: a Modern Public Entity Delivering Public Value.**

In fulfilling its Brand Promise, PRASA will engage in a series of programs including targeted messaging, regular stakeholder engagements and brand activations to ensure that will

- Ensure PRASA is the backbone and mode of choice in public passenger transport
- Increase footprint of the PRASA Brand
- Increase awareness and appreciation of the PRASA Brand
- Increase association and affinity with the PRASA Brand
- Ensure 80% coverage and talkability of Prasa activities through print and electronic media

**In Living the Brand** Prasa has committed itself in being:

- **Dynamic:** Fast and Responsive
- **Customer Centric:** through commitment to Service Excellence
- **A Thought Leader:** a reference on public transport discourse
- **Solutions Driven:** through the provision public transport solutions
- **Environmental Friendly:** by respecting and having regard for the environment
- **Public Oriented:** by Delivering Public Value (individual, citizen and economic value)

**Marketing, Promoting and Communicating the Prasa Brand**

The brand will be marketed, promoted and communicated using Above and Below The Line (ABTL) brand communication campaigns and activations:

- Print and electronic media (Radio, TV and Online)
- Out Of Home (OTH): Billboard, Street posters
- Brand Activations
- Product Launches
- Exhibitions
- Sponsorships
- Stakeholder Engagement and Partnerships (Public and Private)

PRASA is admired and recognised as a leader in public passenger transport solutions and a mode of choice and delivering Public Value.
The Passenger Rail Agency of South Africa ("PRASA") is committed to a rigorous, structured and effective Enterprise risk management (ERM) approach; that ensures that risk management is a core capability and an integral part of all its strategic and operational activities. This integrated approach considers governance, opportunity management, compliance, and financial reporting.

The ERM Framework has been developed to integrate strong corporate oversight with a series of well-defined independent risk management systems and processes. The end to end embedded processes involve the participation of the Board, Management, and all stakeholders.

The Framework is based on the recognised principles as contained in the South African Public Sector Risk Management Framework, King III Report on Governance, IRMSA Code of Practice and ISO 31000:2009 Standard to manage change and uncertainty. It provides guidance on the implementation of a consistent, efficient, and economical approach to identify, evaluate and respond to key risks that may impact PRASA’s objectives.

While the management of risks is the primary responsibility of each function or service responsible; the implementation of Framework will be coordinated by a dedicated and independent risk management team to achieve operational excellence and to ensure alignment with best practice.

PRASA believes that these risk management processes will significantly contribute to continuous quality decision making and the sustained business performance.

**Scope of the ERM framework**

The ERM Framework applies throughout PRASA including its divisions and subsidiaries. It also applies to the Board of Control of PRASA, the Board of Directors of Intersite and Autopax, and to all the employees.

**Purpose of the ERM framework**

The ERM framework provides a comprehensive approach to Risk management processes and procedures to assist in implementing and embedding the Risk management culture and discipline in the organisation.

The ERM Framework is developed to:
- Describe the key elements of risk management and the adopted methodology.
- Establish common risk language and direction related to risk management;
- Identify critical risks and opportunities in the organisation’s activities and strategy;
- Drive the achievement of the strategic objectives;
- Continuously evaluate the organisation’s risk management processes and their effectiveness;
- Ensure that risks are managed and measured in an effective and consistent manner across the organisation;
- Facilitate open communication between management and the Board with
respect to risk;
• Build an appropriate culture of integrity and risk awareness;
• Encourage proactive decision making; and
• Improve operational efficiency and effectiveness.

Definitions
The definitions establish a common language for describing, understanding, reporting and classifying the risks. The risk terms and definitions are outlined in Appendix D

The key risk terms are defined below.
Risk refers to positive or negative effect or uncertainty on the objectives.

Risk management is the term applied to a logical and systematic method of communicating, establishing the context, identifying, analyzing, evaluating, treating and monitoring risks associated with an activity, function or process in a way that will enable organisations to minimize losses and maximise opportunities.

Enterprise Risk Management (ERM) is a process, effected by PRASA’s Board of Control, Management and the relevant personnel, applied in the strategy setting and across the enterprise. It is designed to identify potential events that may affect the entity, and establish strategies and mitigation action to manage those events within the identified risk appetite and to provide reasonable assurance regarding the achievement of the entity’s objectives.

Figure 1: PRASA ERM Framework (Adopted from ISO31000: Standard)
The framework that PRASA has adopted outlined in Figure 1 will ensure that all elements of the risk management are effectively implemented.

The benefits of adopting the approach described in ISO31000 Standard is to provide the principles and guidelines for managing any form of risk in a systematic, transparent and credible manner and within any scope and context.

When ERM is implemented and maintained in accordance with ISO 31000 Standard, the management of risk will enable PRASA to:

- Increase the likelihood of achieving objectives;
- Encourage proactive management;
- Be aware of the need to identify and treat risk throughout the organization;
- Improve the identification of opportunities and threats;
- Comply with relevant legal and regulatory requirements and international norms;
- Improve mandatory and voluntary reporting;
- Improve governance;
- Improve stakeholder confidence and trust;
- Establish a reliable basis for decision making and planning;
- Improve controls;
- Effectively allocate and use resources for risk treatment;
- Improve operational effectiveness and efficiency;
- Improve loss prevention and incident management;
- Minimize losses;
- Improve organizational learning; and
- Improve organizational resilience.

**Mandate and Commitment**

The success of ERM and its effectiveness require dedicated and sustained commitment by the PRASA’s leadership, as well as strategic and rigorous communication and education to drive commitment at all levels.

PRASA’s Risk Management Department will:

- Define and manage the ERM policy;
- Align risk management objectives with the objectives and strategies of PRASA;
- Determine risk management performance indicators that align with performance indicators of the organisation and manage the risk maturity;
- Ensure that PRASA’s culture and risk management policy are aligned
- Ensure legal and regulatory compliance to risk management;
- Assign accountability and responsibilities at appropriate levels within PRASA;
- Ensure that the necessary resources are allocated to risk management;
- Communicate the benefits of risk management to all stakeholders; and
- Ensure that the Framework and Methodology for managing risk is continuously updated to respond to any changes in the PRASA business.
ERM Governance Structure

PRASA’S risk management governance structure specifies the roles, responsibilities, communication and risk reporting structure. Figure 2 depicts the risk management structure.

The roles and responsibilities, accountability and reporting frequencies at each level of the structure are provided in Appendix A.

Communication

The Internal and external risk management stakeholders that will influence PRASA’s ability to manage risks are outlined in Figure 3 below:

![Figure 3: Internal & External Stakeholders]
A communication, risk awareness and training plan has been developed to:
• Inform all stakeholders of the clearly defined goals and outcomes of the PRASA Enterprise Risk Management Framework;
• Gain buy-in by instilling the risk culture to all stakeholders through education on the key benefits of risk management;
• Maximise the utilisation of risk management tools, guidelines and other outputs produced; and
• Support the development of, acceptance and implementation of the enterprise risk management system.

The risk management communication, awareness and training plan is provided in a separate document.

Risk Management Methodology

The ERM methodology is a comprehensive and rigorous process PRASA will follow to ensure the successful implementation of the risk management. The process is continuous and will be applied at PRASA enterprise level (subsidiary level, divisional and functional levels). Figure 4 below is a flow chart expression of the risk management activities.

Figure 4: Risk Management Methodology (Adopted from ISO31000: 2009)

The seven integrated processes of the risk management methodology form the basis of the risk management approach and practice within PRASA. Each process is described in more detail below.

Communication and Consultation
PRASA is committed to ensuring that the risk management process is communicated effectively and that all key stakeholders are consulted accordingly. The stakeholders will be consulted during the following stages of the risk management process:
Establishing the risk context

Effective risk management requires a thorough understanding of the context in which PRASA operates as this will be a foundation for an effective risk management approach and risk appetite. Therefore, the PRASA risk context consists of its internal and external environment. The internal environment comprises of the organisation’s history, culture, values, structure, strategy, policies and procedures.

The external environment comprises the social, cultural, political, legal, regulatory, financial, economical or technological environment in which the organisation operates.

At this stage, it is critical to understand the relevant business objectives in scope for the risk assessment. These will provide a basis for subsequently identifying potential risks that could affect the achievement of these objectives, and ensure the resulting risk mitigation plans and action are effective.

PRASA’s objectives are clearly stipulated in the corporate plan, business unit plans, and functional unit charters and in the capital programme.

The risk context in PRASA is firstly defined according to the institutional arrangement within PRASA in the following manner.

- **Level 1** represents PRASA Group. This level looks at the entire organisation holistically and has its processes defined by the various functions within the group.
- **Level 2** represents PRASA divisions and subsidiaries respect ively (PRASA Technical, PRASA Rail, PRASA CRES, Autopax and Intersite).
- **Level 3** represents the regions and depots for the divisions and subsidiaries of PRASA and these are also known as the operating units.

Each level above has its functions and departments that define the operating processes.

- The functions within a level are defined as Level A.
- The sub-processes per function are defined as level B

As an example, a risk assessment being done on Employee Wellness at HCM department at PRASA Group will be a level 1B risk assessment. Level 1 defines that it is at group level and ‘B’ defining that it is a sub process that is being assessed. However, a risk assessment performed on the entire PRASA Rail is a level 2 risk assessment. The following diagram represents the context as defined above.
Establishing The Risk Criteria
The objective of establishing risk criteria is to allow the business to clearly define what tolerance it is prepared to accept for a particular risk. It is against these criteria that PRASA will evaluate an identified risk to determine if it requires treatment or control.

The risk criteria are based on a number of factors and depend on PRASA's strategic and organisational position (also defined during the context stage). Factors that affect the way the organisation operates include:

- Internal policies, vision, mission, values and objectives;
- The interests of the stakeholders;
- The environment or location in which the organisation operates; and
- The layout of the organization in terms of both its physical and management structures.

The risk criteria will be reviewed and updated annually, or as the emerging risks are identified and analyzed.

Risk Assessment
Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. This process provides an understanding of risks and risk causes, consequences and their likelihood.

<table>
<thead>
<tr>
<th>Risk Identification</th>
<th>Identify risks that could affect the achievement of objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Classification</td>
<td>Classify the risks according to their risk category</td>
</tr>
<tr>
<td>Risk Analysis</td>
<td>Assess inherent likelihood and impact of risks</td>
</tr>
<tr>
<td>Risk Evaluation</td>
<td>Evaluate the portfolio of risks</td>
</tr>
</tbody>
</table>

Figure 6: Risk Assessment Process
Risk Identification

The objective of risk identification is to understand the risk within the context of the organisation’s explicit and implicit objectives, and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

In the risk identification process risks are identified, recognised, and recorded in the risk management system. There are various Risk Identification techniques available e.g.

- Brainstorming
- Value Chain Analysis
- Business Process Analysis
- Interview and Self-Assessment
- Risk Questionnaires and Surveys
- Benchmarking etc

... The most widely used is the Brainstorming technique as it provides a more precise indication of the state of affairs based on more than one person’s view of the risks.

Risk Identification Technique – Brainstorming Workshop

Brainstorming is the collection and sharing of ideas and discussion of the risk events that could impact the objectives, stakeholder expectations or key dependencies.

Brainstorming involves stimulating and encouraging free-flowing conversation amongst a group of knowledgeable people to identify potential failure modes and associated risks, criteria for decisions and/or options for treatment.

In this technique, a brainstorming team of individuals with knowledge of the organisation, systems, processes or applications being assessed will participate during the risk assessment workshop. The aim of the workshop is to identify as many potential risks as possible from the brainstorming team.

It is important to note that the final list is the product of a collective team effort, rather than a list of individual contributions.

Phase 1: Creative phase

- Objectives of the workshop are defined and rules explained by the facilitator;
- Participants are divided into small teams (where applicable);
- Under the leadership of the facilitator, the participants generate ideas about risks. The facilitator should extract one risk at a time from the team members;
- The brainstorming workshop proceeds without interruption, without expressing judgment or criticism of others’ ideas and without regard to individuals’ status in the organisation.
- Risk causes and consequences of risk are identified in broad scope and posted for all to examine during the workshop.
- All risks identified should be recorded as they are extracted from the workshop.

Phase 3: Evaluation Phase

- Once the list of risks is complete, each one is evaluated by all members of the team.
- Technical expertise and experience is then applied by individual members in order to identify those risks that have potential and those that do not.
- The brainstorming team members are now effectively working as a multidis-
disciplinary analysis team, sharing expertise and experience in order to arrive at an optimum joint or mutual solution.

- Each risk is considered in detail, and a final shortlist is formulated. These are the risks that are regarded as having potential to materialise and require further consideration.

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**Figure 7: Risk – Cause – Impact Identification**

**Risk Classification**
Risk classification is the process of allocating risks into identified categories; PRASA has identified four main categories of risks

**Figure 8** summarises each of the five main risk categories and the respective risk elements.
Risk Analysis

The objective of risk analysis is to assess the impact of the risks and the likelihood that they will materialise. Therefore, risk Analysis assists in identifying the extent to which potential risks and their respective risk causes might affect PRASA's objectives.

A “Risk Heat Map” matrix has been developed to assist PRASA in determining the level of impact and the likelihood of the risk occurring and this combination is known as the current risk level.

The Risk Heat Map and the definitions of I) impact and II) Likelihood are outlined in Appendix B.

Risk Evaluation

Risk evaluation is the process of prioritising risks that require immediate treatment, based on the result of the risk analysis. The decision takes into consideration the risk tolerance level of PRASA and in accordance with legal, regulatory and other requirements.

Risk evaluation provides a further assessment of inherent risks considered to assess residual, likelihood and impact of risks and determine the residual risk rating. This assessment will help management determine whether risks are adequately controlled, over-controlled, or under-controlled in relation to the defined risk tolerance.

PRASA has adopted the residual risk management approach which considers both the risks as previously identified and the related risk mitigating mechanisms and control activities in place to determine the impact and probability of their occurrence. In other words, it evaluates the adequacy and effectiveness of the mitigating control, providing reasonable assurance that the likelihood and impact of adverse events is reduced to an acceptable level.

A risk that is deemed acceptable should be monitored and periodically reviewed to ensure it remains acceptable. A risk deemed unacceptable should be treated in accordance to the agreed mitigation control and timelines.

The table below depicts the residual risk rating table that is utilised to categorise the various levels of residual risk:

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<thead>
<tr>
<th>RATING*</th>
<th>MAGNITUDE</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>19-25</td>
<td>Extreme Risk</td>
<td>Unacceptable level of residual risk - Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation</td>
</tr>
<tr>
<td>12-18</td>
<td>High Risk</td>
<td>Unacceptable level of residual risk - Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.</td>
</tr>
<tr>
<td>7-11</td>
<td>Moderate Risk</td>
<td>Unacceptable level of residual risk - Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.</td>
</tr>
<tr>
<td>1-6</td>
<td>Low Risk</td>
<td>Mostly acceptable level of residual risk - Requires minimal control improvements.</td>
</tr>
</tbody>
</table>

* Risk rating calculation = inherent risk rating x (100% - control effectiveness)
**Risk Register**

A risk register is designed to ensure a uniform approach to the collection of risk information in the organisation. A risk register recognises the compilation of outputs of risk identification, risk analysis and risk treatment steps in the risk management process. A risk register is used to record all the risks identified by management that could impact the attainment of PRASA’s strategic goals, the residual risk ratings decided upon and the appropriate risk response taking into account the organisation’s risk appetite. It also provides for management to record the treatment actions and controls it has in place to mitigate the identified risks and serves as an action registry for those areas where there are gaps in the controls implemented. The PRASA adopted risk register template is outlined in Appendix C.

**Risk Treatment**

Risk treatment varies from one risk type to another, depending on the importance to the organisation’s key mission, values, and objectives. Accordingly, treatments to different “high” risks may vary, and a portfolio view of risk exposures should be considered to adequately determine risk treatments see below:

The risk response for identified risks will be assessed according to the PRASA’s risk appetite. The five possible risk responses are:

- Avoid (terminate) the risk;
- Reduce (mitigate) the risk;
- Transfer the risk (e.g. insurance);
- Share the risk; or,
- Accept the risk.

Risk responses may be “quick wins” that yield immediate results and/or longer-term process improvement initiatives to help achieve organizational objectives. Treatments are often incremental and build on each other. Risk treatments therefore need to be prioritised based on cost and benefit and the relative importance to the organisation’s objectives and availability of resources. Risk treatments are expected to bring the level of risk exposure down to defined risk tolerance levels. Control activities should be put in place and evaluated to ensure that these risk treatments are operating as intended.

- The risks that have a ‘LOW’ magnitude shall be accepted;
- The risks that have a ‘MODERATE’ magnitude shall be managed and
- The risks that have a ‘HIGH’ magnitude shall be mitigated and reduced.

The transfer, or risk through insurance, shall always be informed by appropriate considerations and consultation with the Insurance department of the PRASA, as provided for by legislation and of Treasury Regulations.

**Monitoring and Review**

The ongoing monitoring and review of the risk management activities is a critical factor in ensuring that the process remains effective and relevant to the organisation. The control effectiveness is monitored as indicated next page
### Controls

<table>
<thead>
<tr>
<th>Rating</th>
<th>Assessment</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>Excellent</td>
<td>Controls are totally effective and efficient, totally implemented, user friendly and demonstratively best practice</td>
</tr>
<tr>
<td>80%</td>
<td>Very Good</td>
<td>Controls are reasonable, well balanced and effective</td>
</tr>
<tr>
<td>60%</td>
<td>Good</td>
<td>Controls are reasonable and well balanced, improvements are possible</td>
</tr>
<tr>
<td>40%</td>
<td>Moderate</td>
<td>Controls are just starting</td>
</tr>
<tr>
<td>20%</td>
<td>Poor</td>
<td>There are very few controls in place</td>
</tr>
<tr>
<td>0%</td>
<td>No control</td>
<td>There are no controls in place</td>
</tr>
</tbody>
</table>

There are various monitoring mechanisms in place which include:
- Periodic reporting at various levels;
- Continuous risk assessments at all levels; and
- Structured reporting process including templates.

**Risk Appetite And Tolerance**

It is the responsibility of PRASA to establish a risk appetite in its various areas of operation. The risk appetite shall be clearly stated and articulated so that it informs management decisions. As a principle, and in accordance with the Public Finances Management Act (PFMA), the PRASA shall have a low risk appetite for all forms of loss resulting from negligence and wasteful or fruitless expenditure.

At Board level, risk appetite is a driver of strategic risk decisions. At executive level, risk appetite translates into a set of procedures to ensure that risk receives adequate attention when making tactical decisions. At operational level, risk appetite dictates operational constraints for routine activities.

The Board may set limits regarding the PRASA’s risk appetite. In determining the risk appetite, the Board should consider the following factors:
- Risk appetite level is supported by a rigorous analysis and expert judgment expressed in the same values as the key performance indicators to which they apply;
- Set for all material risk individually, as well as aggregate for particular categorization of risk; and
- Consistent with the materiality and significance framework.

In setting risk tolerance level, the Board should consider:
- Both the external and internal business environment.
- The levels could be measured quantitatively, qualitatively or both.
- Should be specific to each of the relevant business activities.
- Should be used to set the parameter for the development of the business strategy.

**Risk Management Tool**

In order for PRASA to implement and maintain effective, efficient and transparent systems of risk management and
control, a risk management system or tool that meets the requirement as contained in the PFMA and Public Sector Risk Management framework will be used as an enabler of successful implementation of enterprise risk management.

The risk management tool will achieve the following primary objectives:

- Collate and aggregate (in electronic format) information relating to ERM;
- Functionality, as a performance management tool based on risk registers, controls and implementation of actions by risk owners;
- Enable effective monitoring and evaluation of the ERM processes;
- Ensure the integrity of the data and provide an audit trail on actions and omission related to the implementation of the ERM processes;
- Act as a management information tool that analyses the captured risk data, in order to identify trends and patterns; and
- Function as an integrated governance, risk and compliance system for PRASA to enable combine assurance.

### Continuous Improvement Of Risk Management Framework And Methodology

The risk management activities should be traceable; in the risk management process, records will provide the foundation for improvement in the methodologies and tools, as well as in the overall process.

The relationship between the Risk Management and the Internal Audit functions must be detailed in the Internal Audit plan i.e. the annual audits of the organization are based on the risks identified.

There has to be at least monthly interaction between the two departments that will be recorded. Internal Audit will also assist give assurance on the following ERM areas:

- ERM processes (design and effectiveness);
- Management of key risks as well as the effectiveness of controls and responses to these controls; and
- Reliable and appropriate risk assessment, reporting and control statuses.
## APPENDIX A: RISK MANAGEMENT ROLES AND RESPONSIBILITIES, ACCOUNTABILITY AND REPORTING FREQUENCY

<table>
<thead>
<tr>
<th>COMMITTEE</th>
<th>RESPONSIBILITIES</th>
<th>RESPONSIBLE</th>
<th>ACCOUNTABILITY</th>
<th>FREQUENCY</th>
</tr>
</thead>
</table>
| **BOARD OF CONTROL**                           | • Responsible for the governance of risk through formal processes.  
• Should show leadership in guiding the efforts aimed at meeting risk management expectations requirements.                                               | CHAIRPERSON                  | BOARD OF CONTROL                                     | Annually        |
| **AUDIT AND RISK MANAGEMENT COMMITTEE (ARM)**   | • Review the risk management process and maturity of the organisation.  
• Review the effectiveness of risk management activities, the key risks facing the company and the responses to address these key risks.                       | GROUP CHIEF RISK OFFICER     | AUDIT AND RISK MANAGEMENT COMMITTEE (CHAIRPERSON AND ARM COMMITTEE) | Quarterly       |
| **EXECUTIVE COMMITTEE (EXCO)**                  | • Responsible to design, implement and monitor risk management plan.  
• Should execute the Boards risk strategy consistent with the board approved risk management policy and plan.                                               | GROUP CHIEF RISK OFFICER     | GROUP CHIEF RISK OFFICER                             | Monthly         |
| **RISK COMMITTEE (RISCOM)**                     | • Assist EXCO in the execution of its obligation by monitoring the risk management plan effectively continually and regularly report to EXCO.  
• Ensure that risk management plan is integrated in the day-to-day activities of the organisation.                                                | GROUP CHIEF RISK OFFICER     | RISCOM                                               | Quarterly       |
| **DIVISION/SUBSIDIARY RISK COMMITTEES**         | • Assist divisions and subsidiaries in the execution of its obligation by monitoring the risk management plan effectively continually and regularly report to respective EXCOs.  
• Ensure that risk management plan is integrated in the day-to-day activities of the divisions and subsidiaries | DIVISION/SUBSIDIARY CEOs     | RISCOM                                               | Monthly         |
APPENDIX B: RISK HEAT MAP

The Risk Heat Map risk rating table is utilised to determine the current levels of risk.

<table>
<thead>
<tr>
<th>LIKELIHOOD</th>
<th>Insignificant</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Catastrophic</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Almost Certain</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>4 Likely</td>
<td>4</td>
<td>8</td>
<td>12</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>3 Moderate</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>2 Unlikely</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>1 Rare</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Rating</td>
<td>Assessment</td>
<td>Safety and Health</td>
<td>Reputation</td>
<td>Operational</td>
<td>Financial</td>
</tr>
<tr>
<td>--------</td>
<td>------------</td>
<td>-------------------</td>
<td>------------</td>
<td>-------------</td>
<td>-----------</td>
</tr>
<tr>
<td>1</td>
<td>Insignificant</td>
<td>First aid treatment required</td>
<td>No Media attention</td>
<td>Minor errors in systems or processes requiring corrective action. Minor service delay without impact on overall schedule</td>
<td>Financial loss more than 0.5% and equal to or less than 10% of the budget of the process under review</td>
</tr>
<tr>
<td>2</td>
<td>Minor</td>
<td>Minor injuries or exposure requiring medical attention</td>
<td>few stakeholders unhappiness</td>
<td>Policy procedural rule occasionally not met or services do not fully meet needs.</td>
<td>Financial loss more than the 10% and equal to or less than 20% of the budget of the process under review</td>
</tr>
<tr>
<td>3</td>
<td>Moderate</td>
<td>Disabling injury causing hospitalisation, occupational illness, multiple medical treatment cases</td>
<td>Regional media attention. Multiple Stakeholder unhappiness</td>
<td>One or more key accountability requirements not met. Inconvenient but not client welfare threatening</td>
<td>Financial loss more than the 20% and equal to or less than 25% of the budget of the process under review</td>
</tr>
<tr>
<td>4</td>
<td>Major</td>
<td>Fatality, multiple disabling injuries, disabling diseases</td>
<td>Provincial media attention. Multiple stakeholder action with few litigation threats</td>
<td>Strategies not consistent with Government’s agenda. Trends show service is degraded.</td>
<td>Financial loss more than the 25% and equal to or less than 35% of the budget of the process under review</td>
</tr>
<tr>
<td>5</td>
<td>Catastrophic</td>
<td>Multiple fatalities, fatality with multiple extensive injuries</td>
<td>National media attention. Multiple litigations threats.</td>
<td>Critical system failure, inability to fulfil mandate</td>
<td>Financial loss more than 35% of the budget of the process under review,</td>
</tr>
</tbody>
</table>

**Definition - Impact:** The impact rating table is utilised to assess the impact of risks.
DEFINITION - LIKELIHOOD

The likelihood rating table is utilised to assess the likelihood of risks.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Assessment</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Almost certain</td>
<td>There a 95% chance or more of it occurring</td>
</tr>
<tr>
<td>4</td>
<td>Likely</td>
<td>There is a 80% to &lt; 95% chance of it occurring</td>
</tr>
<tr>
<td>3</td>
<td>Possible</td>
<td>There is a 60% to &lt;80% chance of it occurring</td>
</tr>
<tr>
<td>2</td>
<td>Unlikely</td>
<td>There is a 40% to &lt;60% chance of it occurring</td>
</tr>
<tr>
<td>1</td>
<td>Rare</td>
<td>There is a less than 40% chance of it occurring</td>
</tr>
</tbody>
</table>
### APPENDIX D: DEFINITIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consequence</td>
<td>The outcome of risk and has an effect on objectives.</td>
</tr>
<tr>
<td>Enterprise (wide) Risk Management</td>
<td>A process, effected by PRASA’s Board of Control, Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of organisation objectives.</td>
</tr>
<tr>
<td>Inherent risk</td>
<td>The measure of the probability of occurrence of a risk and the severity of outcome, prior to control measures.</td>
</tr>
<tr>
<td>Likelihood</td>
<td>The chance that a given risk will happen.</td>
</tr>
<tr>
<td>Operational risk</td>
<td>The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.</td>
</tr>
<tr>
<td>Project risk (or change risk)</td>
<td>Operates at numerous levels within the organisation. Changes can be imposed by variations elsewhere either within or outside the organisation. Project risk operates at the programme or project levels.</td>
</tr>
<tr>
<td>Residual risk</td>
<td>The probability of occurrence of a risk and the severity of outcome, after the control measures are taken into consideration (i.e. inherent risk less risk controls.)</td>
</tr>
<tr>
<td>Risk</td>
<td>A deviation from the expected outcome, actual or potential, to service delivery and other performance objectives of PRASA caused by the presence of risk factors. PRASA needs to anticipate such deviations and take steps to control their impact, reduce negative consequences and take advantage of the opportunities they present.</td>
</tr>
<tr>
<td>Risk analysis</td>
<td>The process by which minor acceptable risks are separated from the major risks, by considering the inherent impact and the probability of occurrence.</td>
</tr>
<tr>
<td>Risk allocation</td>
<td>An allocation of responsibility for dealing with the consequences of each risk to one of the parties to the contract, or agreeing to deal with the risk through a specified mechanism which may involve sharing the risk.</td>
</tr>
<tr>
<td>Risk appetite</td>
<td>An amount of residual risk that PRASA is willing to accept.</td>
</tr>
<tr>
<td>Risk assessment</td>
<td>A process of determining the likelihood of identified risks materialising and the magnitude of their consequences if they do materialise.</td>
</tr>
<tr>
<td>Risk champion</td>
<td>A nominated individual from business units that is responsible for liaison with the risk.</td>
</tr>
<tr>
<td>Risk control</td>
<td>Action taken to minimize inherent risk.</td>
</tr>
<tr>
<td>Risk management</td>
<td>A logical and systematic method of communicating, establishing the context, identifying, analyzing, evaluating, treating and monitoring risks associated with an activity, function or process in a way that will enable organizing to minimize losses and maximise opportunities.</td>
</tr>
<tr>
<td>Risk matrix</td>
<td>A matrix used to determine the expected reduction in level of risk (expected consequence, likelihood and target risk level) resulting from the successful implementation of the treatment.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>Risk mitigation</td>
<td>An attempt to reduce the likelihood of the risk occurring and the degree of its consequences for the risk-taker.</td>
</tr>
<tr>
<td>Risk Owner</td>
<td>A person responsible for ensuring that approved risk responses to identified risks are effectively implemented</td>
</tr>
<tr>
<td>Risk register</td>
<td>The repository or log of identified risks. The risk register documents inherent and residual risk ratings, it also includes action plans to mitigate risk exposure.</td>
</tr>
<tr>
<td>Strategic risk</td>
<td>A risk, at the corporate level, that affects the development and implementation of an organisation’s strategy</td>
</tr>
<tr>
<td>Target risk</td>
<td>The level of risk, which is within the risk appetite of PRASA, to be achieved through an action plan to improve the management of the risk.</td>
</tr>
<tr>
<td>Tolerance limit</td>
<td>The maximum level of risk acceptable to PRASA.</td>
</tr>
<tr>
<td>Unforeseeable risk</td>
<td>The type of risk that cannot be accurately forecast before it occurs.</td>
</tr>
</tbody>
</table>
16. A FRAUD PREVENTION PLAN

PRASA recognises the potential negative effects of fraud to the achievement of its mandate and objectives. PRASA hereby intends to promote consistent organisational behaviour by providing guidelines and assigning responsibility for the management of fraud in the organisation. These guidelines are to act as enablers to allow the effective fraud prevention within PRASA. It is the responsibility of management to assess their environment and implement these guidelines in their areas of responsibility. Fraud and corruption prevention like any other risks, is the responsibility of everyone in PRASA.

14.2. PURPOSE

The purpose of this Fraud Prevention Plan is:

• To highlight practical steps that PRASA will implement to ensure that its employees, suppliers and other stakeholders behave ethically in their dealings with, or on behalf of PRASA.
• To ensure that appropriate steps are put in place to create a culture which is intolerant to fraud and corruption.
• To provide direction and identify various areas of training on fraud and corruption to deter employees, suppliers and other stakeholders from committing fraud and corruption.
• To provide a framework for investigating all suspected cases of fraud, theft or corruption where:
  • the value of PRASA has suffered or may have suffered; or
  • has been misrepresented for personal gain as a result of the actions or omissions of directors and staff employed by PRASA and/or Customers, contractors and other external stakeholders.

14.3. SCOPE

The Fraud Prevention Policy applies throughout PRASA including its divisions and subsidiaries. It also applies to the Board of PRASA, the Board of Directors of Intersite and Autopax, and to all the employees.

14.4. DEFINITIONS

Fraud

Fraud is commonly defined as the unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another.

Fraud prevention/ Fraud risk management

Fraud prevention / fraud risk management is a process that is adopted which puts mechanisms in place, to manage Institution’s vulnerability to fraud. Such mechanisms are designed to prevent, deter and detect fraud.
General Actions constituting fraud
The following are examples only and should not be seen as exhaustive:

- Corruption
- Forgery
- Money Laundering
- Bribery
- Embezzlement;
- Misappropriation;
- Theft;
- Overstatement of assets & income to conceal unauthorised transactions;
- Understatement of liabilities & expenses to conceal illegal transactions; or
- False and/or omitted disclosure, etc.
- Undeclared Conflict of interest
- Circumvention of internal controls
- Tender and other procurement irregularities
- Misuse of assets
- Other Financial malpractice

14.5. FRAUD FRAMEWORK

PRASA’s Fraud Management framework is based on the National Treasury Fraud Prevention Plan guideline and consists of the following pillars: Fraud Prevention, Fraud Detection, Fraud Investigation, Fraud Response and Communication.

14.6. FRAUD PREVENTION

Prevention of fraud is the primary focus of the fraud prevention plan as the effects of fraud are costly, time-consuming, disruptive and unpleasant. The following are the measures to be taken to prevent Fraud:

1) Awareness, training and education

- In order to create awareness amongst employees a continuous training program throughout the group will be developed and implemented.
- The fraud awareness program will include promoting policies that
must be adhered to, including the code of ethics

2) Ethics policy
PRASA shall maintain a code of ethics that shall be availed to all employees through the intranet and other areas that are accessible to all employees. Induction programs for newly recruited employees shall include training on the company’s ethics.

3) Fraud Risk assessments
• Any risk assessments at operational, business and corporate level will include the assessment of fraud and identification of mitigating action plans and controls.
• Top 10 Fraud risk areas will be identified and monitored at EXCO level.
• As part of the risk monitoring, management will be required to report periodically on the risk control effectiveness.
• Fraud risk indicators will be identified and monitored for all identified Fraud risks.

4) Denial of opportunity
○ Management will put in place basic internal controls to prevent and detect fraud and corruption.
○ Management will ensure that the following internal controls are in place;
  • physical controls over assets
  • information security and
  • general controls and supervisory controls.

• Management will ensure the adherence to internal controls that prevent and/or eliminate the opportunity for Fraud
• As part of strengthening internal controls, Management will ensure adequate segregation of duties is maintained in processing transactions.
• All business units within PRASA will have to align their financial and business internal control systems to the fraud prevention plan by putting in place key controls that specifically address the risk of fraud.
• PRASA will implement common financial, human resources and other business policies and procedures that must be applied consistently throughout the group.
• Management will ensure that there is awareness and knowledge of PFMA and common policies and procedures including the Supply Chain Management and other related policies throughout the group.
• The anti-fraud policies and procedures will include information security and other technological considerations and will be reviewed annually.
• The internal audit departments continuously monitor the effectiveness of the internal controls.
• Management continuously improves the design of the controls.
• The system of financial and business controls will be reviewed annually to determine its effectiveness in
preventing and detecting fraudulent activities by process owners including finance and internal audit.

- All employees recruited to key positions will be vetted by the corporate security and human resources departments.
- Business process owners from Executives will be responsible for implementation of the fraud prevention plan within their area of responsibility.
- At various risk committees the risk of fraud shall be part of the agenda and minutes of how fraud risk is being dealt with shall be kept for review by the internal and external auditors.
- A fraud policy shall be reviewed annually by the Audit and Risk Management Committee and approved by the Board and Board Members shall highlight the importance of fraud prevention in their communications to employees.

14.7. FRAUD DETECTION

No amount of preventative systems can guarantee the absence of fraud. Managers should remain vigilant to detect any suspicious activities from employees. The following are the measures to be followed to detect fraud:

- Trend analysis should be performed on all fraud risk indicators to detect any fraudulent activities.
- Systems must be in place to detect any transactions that did not follow procedure.
- Employees will be encouraged to report any fraudulent and corrupt activities.
- A response plan will be developed and consistently applied throughout the group.
- The response plan will include the roles and responsibilities, reporting of fraud and investigation.
- A whistle blowing policy will be implemented in line with the fraud policy to encourage employees and the public to report any fraudulent activities and provide mechanisms that will ensure that those who report fraudulent and corrupt activities are not victimized.
- An independently run hotline will be established.
- The hotline will be marketed extensively throughout the group by the Marketing and Communications Department.
- All reported incidents will be investigated jointly by the Internal Audit, the Corporate Security Departments.
- Periodic reports of all reported incidents will be presented to the Audit and Risk Management Committee including the outcomes of any investigation.
- A fraud register will be maintained by the Group Risk Department.
14.8. FRAUD RESPONSE

The following flow chart (chart 1) outlines the response to be followed in situations of suspected fraud or other illegal acts involving the organization by an employee or perpetrated on the organization:

- **You suspect fraud or other illegal act involving the organization by an employee or perpetrated on the organization**
  - Either/or
    - Discuss with your line manager/head of department
  - If suspicions appear well grounded, department head or head of HR tells the GMS/CAE

- **GMS/CAE records details immediately in a log**
  - Fraud and other illegal acts log

- **GMS/CAE considers need to inform Group Chief Executive Officer, external auditor and police**
  - Log reviewed by audit committee

- Where applicable, GMS/CAE to initiate action to end loss, and correct any weaknesses in controls or supervision any weaknesses

To Chart 2
14.9. FRAUD INVESTIGATION

Fraud Investigation Process (See Chart 2 – managing the investigation)

- Investigations seek to establish at an early stage whether a criminal act has taken place.
- If it appears that a criminal act has not taken place, an internal investigation will be undertaken to:
  - determine the facts
  - consider what, if any, action should be taken against those involved
  - consider what may be done to recover any loss incurred
  - Identify any weaknesses in the system and look at how internal controls can be improved to prevent a recurrence.

The Group Chief Audit Executive will present the findings of his investigation to the Chief Financial Officer who will make the necessary decisions and maintain a record of the subsequent actions in relation to closing the case. Once concluded, details of such cases will be reported to the Audit and Risk Management Committee on a quarterly basis for information.

Where an investigation involves a member of staff and it is determined that no criminal act has taken place the General Manager Corporate Security will liaise with the head of human resources and appropriate line manager to determine which of the following has occurred and therefore whether, under the circumstances, disciplinary action is appropriate:

- gross misconduct (i.e. acting dishonestly but without criminal intent)
- negligence or error of judgment was seen to be exercised

Nothing untoward occurred and therefore there is no case to answer.

The disciplinary procedures of PRASA will be followed in any disciplinary action taken towards an employee. This will usually involve a disciplinary hearing at which the results of the investigation will be considered.

Where, after having sought legal advice, the General Manager Corporate Security judges it cost effective to do so, PRASA will normally pursue civil action in order to recover any losses. The General Manager Corporate Security will refer the case to PRASA’s legal department for action.

Where initial investigations point to the likelihood of a criminal act having taken place the Chief Audit Executive will, with the agreement of the General Manager Corporate Security, contact the police and PRASA’s legal advisers at once. The advice of the police will be followed in taking forward the investigation.

Where there are sufficient grounds, the organization will, in addition to seeking recovery of losses through civil proceedings, also seek a criminal prosecution. The General Manager Corporate Security will be guided by the police in arriving at his decision on whether a criminal prosecution is to be pursued. Where appropriate the General Manager Corporate Security will consider the possibility of recovering losses from PRASA’s insurers.
Does it appear that a criminal act has taken place?

Either

- No case to answer
- Investigate internally to decide which of the following
  - CRO/CAE and or head of dept to decide what, if any, action to take in conjunction with head of HR
  - Error of judgment/ negligent conduct

Or

- Gross misconduct

From Chart 4B

Consider possibility of making good the loss

Loss recovered

- Yes
  - Investigate internally to decide which of the following
    - In conjunction with head of HR, implement disciplinary procedures if appropriate
  - GMS/CAE updates the fraud and other illegal acts log

- No

From Chart 4A

Inform police and external auditors

To Chart 3

Diary of events

Either

- Investigate internally to decide which of the following
  - CRO/CAE and or head of dept to decide what, if any, action to take in conjunction with head of HR
  - Error of judgment/ negligent conduct

Or

- Consider possibility of making good the loss

Loss recovered

- Yes
  - Investigate internally to decide which of the following
    - In conjunction with head of HR, implement disciplinary procedures if appropriate
  - GMS/CAE updates the fraud and other illegal acts log

- No

From Chart 4A

Inform police and external auditors

To Chart 3

Diary of events
Interviewing suspect(s)

If the Group Chief Audit Executive/ General Manager Corporate Security decides to proceed with interviewing a suspect, and where the suspect is an employee of PRASA, the interview will usually be carried out by the Group Chief audit Executive/ General Manager Corporate Security and Group Executive Human Resources.

The individual(s) being interviewed should be informed of the reason for the interview and a contemporaneous record will be made of all that is said. They should also be advised that they are not under arrest and are free to leave at any time.

The individual(s) being interviewed will also be given the opportunity to be supported by a friend or trade union official. This type of interview will not take place under caution. If the need for caution arises during the course of an interview, the interview will be terminated immediately after the caution is given and the individual concerned advised to seek legal advice. The Group Chief Risk Officer will be notified and police advice sought at this point. Once the interview is over, the suspect will be given the opportunity to read the written record and sign each page in acknowledgement of its accuracy. All other persons present will also be asked to sign to acknowledge accuracy. Where external PRASA/individuals are involved, interviews will generally be undertaken by the police unless the Group Chief Audit Executive is able to gain the co-operation of PRASA's management or auditors.
Chart 3

Criminal act believed to have taken place

Is there any physical evidence?

Collect evidence with documentary record of time and place

Are there any witnesses?

Discuss events with witnesses

Are witnesses prepared to give a written statement?

Make a written note of any discussion

Chief Audit Executive to report to GMS/CAE

GMS/CAE to consider if suspect should be interviewed

To Chart 4
14.10. FRAUD RESOLUTION

Through the risk committees the PRASA group will share any learning’s from fraudulent activities within the group. The risk committee will review all controls and measures put in place post any fraudulent event within the group.

14.11. COMMUNICATION

The Group Executive Committee (EXCO) shall continuously review the fraud statement and ensure that it is adequately communicated throughout the group.

Communication of fraud prevention and actions necessary to prevent fraud will be communicated to every employee within PRASA through the Group Marketing and Communication department.

The Group Marketing and Communication department will devise appropriate communication channels to ensure that all employees remain alert and are continuously made aware of possible fraudulent activities.

APPENDIX A
FRAUD RISK LIBRARY

Risk associated with procurement

a. Risks associated with the operation of purchasing systems include the false input of invoices, the diversion of payments and misappropriation of purchases.
b. Unauthorised use of purchasing systems in order to misappropriate goods or use services for personal gain.
c. Short deliveries of goods or services may be accepted as a result of collusion
d. Acceptance of unsolicited goods or expanded orders as a result of fraudulent acceptance
e. Misuse of Procurement Cards / Credit Cards
f. Orders placed on the internet fail to be delivered or goods received are not of desired quality.

Risks associated with the use of contractors

a. A contractor could be selected as a result of favoritism or who does not offer best value for money.
b. Payments made for work not carried result out as a result of collusion between the contractor and official.

Risks associated with assets

Risks in this area include use of assets for personal gain, or misappropriation of assets.

a. Theft or unauthorised use of assets.

Risks associated with sensitive information

a. Theft of sensitive/restricted documentation or information.

Risks associated with travel

b. Making false claims for allowances, travel and subsistence.

PRASA Corporate Plan MTEF 2015 - 2018
17. A MATERIALITY/SIGNIFICANT FRAMEWORK, REFERRED TO IN TREASURY REGULATION 28.3.1

General

This document was developed to give effect to the March 2005 amendment to the Treasury Regulations (TR), whereby the following new requirement was placed on public entities:

Section 28.3.1 – “For purposes of material [sections 55(2) of the Public Finance Management Act (Act)] and significant (section 54(2) of the Act), the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority.”

From a financial statement perspective, IAS 1 Par 7, defines “material omissions or misstatements of items are material if they could, individually or collectively influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

In order to arrive at the materiality framework we considered the following:

- Nature and risks associated with PRASA’s business;
- Statutory requirements;
- Quantitative and qualitative factors; and
- Material impact of the omission or misstatement on decision making.

These considerations are to be discussed and agreed with members of the Board of Control, members of executive management as well as supported by the relevant documentation such as the Corporate Plan 2011/12 – 2014/15, Shareholder Compact and the PRASA budget. In addition, the materiality framework will be discussed with the external auditors. Also required will be the preparation of appropriate and relevant mitigation strategy to elimination of probable omission.

Accordingly, this framework deals with materiality aspects in two main categories, quantitative and qualitative. The policy set out hereunder should be appropriately presented in the annual report as required.
Implications of a Materiality Framework for PRASA

The materiality framework provides a guideline against which PRASA can identify, measure and evaluate any losses or irregular, fruitless or wasteful expenditure as and when they occur during the financial year. PRASA will then review these items individually and aggregated against the materiality framework to ensure that the annual report materially reflects the financial position of the Group.

As a public entity PRASA is required by law and treasury regulations to include the materiality framework in the following documents to be submitted to the entity’s executive authority:
• Annual Report [section 28.3.1 of the Treasury Regulation] – Including Financial Statements
• Strategic plan [section 30.1.3 of the Treasury Regulation] – Three-year plan.

Quantitative Aspects

Group materiality
Gross operational expenditure will be used as the basis for the materiality calculation due to the following:
• PRASA is unable to be profitable as its fare revenue income generated is significantly less than its operational expenditure required to execute its mandate, hence receives a subsidy allocation from Government to sustain itself;
• Gross operational expenditure is therefore a more representative measure of the economic activities undertaken in PRASA than income received including the subsidy allocation;
• This method is a stable basis of measure and is consistent with the prior years;
• The use of net assets as a measure would provide a materiality level that is significantly higher than that calculated using operational expenditure and PRASA wishes to be prudent in its approach to determining its materiality level.

The percentage utilized (namely, 0.5%) of gross operational expenditure as audited for the 2013/14 financial year to calculate the materiality level and takes into account the following considerations:
• The Agency received an unqualified audit report for the year ended 31 March 2014.
• The primary users of the financial statements are Board of Directors, Management, the Auditor-General, National Treasury, the Department of Transport, SCOPA and Parliament.
• The control and inherent risks associated with the Agency.
• The statutory requirements laid down to regulate the business activities of the Agency with specific reference to:
  • The Legal Succession to the South African Transport Services Act, (Act No. 38 of 2008), as amended;
  • The Public Finance Management Act, 1999 (Act No. 1 of 1999), as amended 31 December 2010; and
  • The Treasury Regulations as amended 15 March 2005

Materiality level calculation

The total materiality level for the Group of R42 131 229 has been calculated in Annexure A and been divided into the relevant individual business units and subsidiaries.

Qualitative Aspects

Misstatements and/or omissions either individually or in aggregate could influence the economic decisions of a user. Materiality is not solely limited to the quantum of the assertions contained in its financial statements, but is also affected by the nature of business operation and environment, the impact can be implied and/or explicit. The nature of the misstatement and/or omissions may also influence the economic decisions of a user even though the quantum is below the materiality threshold. Qualitative aspects include:

• Endorsement of the mandate and the interpretation on the mandate;
• Sustainability of the Agency considering its mandate, corporate plan and funding requirements;
• Environmental practices and impacts on the business;
• Contingent liabilities;
• Potentially damaging legal actions pending;
• Level of compliance with relevant legislation;
• Transactions entered into, including fraudulent and dishonest
behaviour, that could result in a reputa-
tional risk and damage to PRASA;
• The impact of political decisions on
PRASA such as its mandate and
the required funding;
• Conflict of interest disclosures by
directors, management and staff;
and
• Potential competitor(s).

Subsidiaries
Annexure A shows the inclusion of Intersite
Assets Investments (SOC) Ltd and Auto-
pax Passenger Services (SOC) Ltd. The
rationale for the exclusion of subsidiaries in
the main document is informed by the
independence of their respective Audit

6. ANNEXURE A

<table>
<thead>
<tr>
<th>Materiality excluding Subsidiaries</th>
<th>AFS 2013/14</th>
<th>Gross Operating Expenditure</th>
<th>Materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>1 009 483 800</td>
<td>5 047 419</td>
<td></td>
</tr>
<tr>
<td>PRASA Rail</td>
<td>5 768 446 426</td>
<td>28 842 232</td>
<td></td>
</tr>
<tr>
<td>PRASA CRES</td>
<td>719 601 033</td>
<td>3 598 005</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7 497 531 260</strong></td>
<td><strong>37 487 656</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Materiality including Subsidiaries</th>
<th>AFS 2013/14</th>
<th>Gross Operating Expenditure</th>
<th>Materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>1 009 483 800</td>
<td>5 047 419</td>
<td></td>
</tr>
<tr>
<td>PRASA Rail</td>
<td>5 768 446 426</td>
<td>28 842 232</td>
<td></td>
</tr>
<tr>
<td>PRASA CRES</td>
<td>719 601 033</td>
<td>3 598 005</td>
<td></td>
</tr>
<tr>
<td>Intersite</td>
<td>40 679 299</td>
<td>203 396</td>
<td></td>
</tr>
<tr>
<td>Autopax</td>
<td>888 035 246</td>
<td>4 440 176</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8 426 245 805</strong></td>
<td><strong>42 131 229</strong></td>
<td></td>
</tr>
</tbody>
</table>
18. FINANCIAL POSITION

17.1. Projections of revenue, expenditure and borrowings

Group Revenue Streams

Major Income Streams

- Operational Subsidy (From Department Of Transport)
- Fare revenue (Autopax and PRASA Rail)
- Rental Income (PRASA CRES and PRASA Rail)

Major revenue lines show an upward trend. The increases are due to:

- Inflation Increase
- Fare revenue increase strategies (collection)
- Real Estate Strategies
Group Subsidy for the 2015/16 shows only an increase of 4.6% from 2014/15 and a steady inflation increase over the 2015/16 MTEF.

No "additional" Subsidy was identified in the latest allocation letter to fund MLPS.

This funding has been earmarked from the existing allocation

Fare Revenue is driven by PRASA Rail (Metrorail and MLPS) and Autopax, with Rail contributing 76%.

The various fare revenue contributors are showing an increase from the 2014/15 forecast to the 2015/16 budget as follows:

- MLPS 89%
- Autopax 14%
- Metrorail 13%

Metro Rail Fare Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>R 3.15</td>
<td>R 3.40</td>
<td>R 3.65</td>
<td>R 3.75</td>
<td>R 3.85</td>
</tr>
<tr>
<td>Passenger Numbers</td>
<td>575,733,697</td>
<td>574,000,002</td>
<td>563,908,563</td>
<td>585,429,111</td>
<td>614,695,157</td>
</tr>
<tr>
<td>Revenue per Passenger</td>
<td>R 3.50</td>
<td>R 3.64</td>
<td>R 3.80</td>
<td>R 3.85</td>
<td>R 3.90</td>
</tr>
</tbody>
</table>

- Group Fare Revenue

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>METRORAIL</td>
<td>2,611,382</td>
<td>2,332,405</td>
<td>2,438,850</td>
<td>2,568,086</td>
<td>2,695,417</td>
</tr>
<tr>
<td>MLPS</td>
<td>650,000</td>
<td>-</td>
<td>448,124</td>
<td>471,897</td>
<td>459,666</td>
</tr>
<tr>
<td>PRASA Corporate</td>
<td>790,771</td>
<td>835,779</td>
<td>874,224</td>
<td>920,558</td>
<td>966,586</td>
</tr>
<tr>
<td>PRASA CRES</td>
<td>275,850</td>
<td>291,550</td>
<td>304,962</td>
<td>321,125</td>
<td>337,181</td>
</tr>
<tr>
<td><strong>GROUP SUBSIDY</strong></td>
<td>4,328,003</td>
<td>3,887,342</td>
<td>4,066,160</td>
<td>4,281,666</td>
<td>4,495,750</td>
</tr>
<tr>
<td>% Growth</td>
<td>4.3%</td>
<td>5.7%</td>
<td>4.6%</td>
<td>5.3%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>5.6%</td>
<td>5.4%</td>
<td>5.6%</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>
The increase in Fare revenue is due to increase in Passenger Numbers. The following strategies are put in place to try and retain the customer base and improve collections:

- Reduce fare evasion and eliminate fraud
- Improve cash management controls
- Completion and commissioning of fencing projects
- Commissioning of ISAMS Phase 1
- Continue with the implementation of TSM to increase supervision and accountability at stations and corridor level
- Clean stations and improved customer touch points
- The 2015/16 estimate does include a 5% increase on fares

**Fare Revenue: Prasa Rail**

<table>
<thead>
<tr>
<th>Material</th>
<th>Gauteng</th>
<th>Western Cape</th>
<th>KZN</th>
<th>Eastern Cape</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fare Revenue</td>
<td>R 1 639 334 481</td>
<td>R 846 593 236</td>
<td>R 296 236 396</td>
<td>R 36 586 824</td>
<td>R 2 218 599 895</td>
</tr>
<tr>
<td>Passenger Numbers</td>
<td>283 384 306</td>
<td>206 195 064</td>
<td>45 911 315</td>
<td>9 520 383</td>
<td>585 424 913</td>
</tr>
<tr>
<td>Trains</td>
<td>147</td>
<td>89</td>
<td>54</td>
<td>9</td>
<td>297</td>
</tr>
<tr>
<td>Revenue per Passenger</td>
<td>R 1.67</td>
<td>R 4.18</td>
<td>R 3.45</td>
<td>R 3.69</td>
<td>R 3.79</td>
</tr>
</tbody>
</table>

| Revenue per Passenger | R 7 068 942.05 | R 9 510 025.74 | R 5 456 783.31 | R 4 065 202.88 | R 7 419 397.84 |

**VFare Revenue: Main Line Passenger Service**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fare Revenue</td>
<td>R 242 970 188.28</td>
<td>R 250 707 935.40</td>
<td>R 251 325 049.27</td>
<td>R 406 766 996.05</td>
<td>R 412 809 065.83</td>
</tr>
<tr>
<td>Passenger Numbers</td>
<td>1 263 509</td>
<td>930 691</td>
<td>1 068 791</td>
<td>1 978 329</td>
<td>2 073 098</td>
</tr>
<tr>
<td>Trips</td>
<td>2 078</td>
<td>2 078</td>
<td>2 076</td>
<td>2 076</td>
<td>2 076</td>
</tr>
<tr>
<td>Revenue per Passenger</td>
<td>R 192.30</td>
<td>R 235.73</td>
<td>R 195.70</td>
<td>R 202.05</td>
<td>R 203.95</td>
</tr>
</tbody>
</table>
Fare Revenue: Autopax

Fare Revenue for Autopax is showing a steady increase over 2015/16 and the MTEF.

- The increase was determined as follows:
- A 5% increase on these prices by 1 April 2015
- The budgeted passenger seat occupancy was 75% for off peak periods and 85% for peak periods
- Cross-Border routes

### Group Rental Income

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Actual</td>
<td>Budget</td>
<td>Budget</td>
<td>Budget</td>
</tr>
<tr>
<td>Intercity: Rent received</td>
<td>1 471 279</td>
<td>1 754 611</td>
<td>2 443 538</td>
<td>2 625 788</td>
<td>3 067 778</td>
</tr>
<tr>
<td>Intercity: Rent received</td>
<td>8 650 793</td>
<td>6 260 349</td>
<td>34 560 271</td>
<td>23 054 658</td>
<td>22 472 655</td>
</tr>
<tr>
<td>Intercity: Rent received</td>
<td>13 754 000</td>
<td>18 679 254</td>
<td>7 714 364</td>
<td>8 197 694</td>
<td>9 052 495</td>
</tr>
<tr>
<td>Commercialisation Income</td>
<td>-</td>
<td>65 286 954</td>
<td>140 360 159</td>
<td>150 964 120</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>230 313 891</td>
<td>241 325 931</td>
<td>277 276 042</td>
<td>346 334 903</td>
<td>465 762 553</td>
</tr>
<tr>
<td>Recoveries</td>
<td>65 970 315</td>
<td>70 004 157</td>
<td>70 300 994</td>
<td>70 889 690</td>
<td>94 656 588</td>
</tr>
<tr>
<td>Arrears</td>
<td>6 111 829</td>
<td>9 216 935</td>
<td>9 216 935</td>
<td>9 216 935</td>
<td></td>
</tr>
<tr>
<td>Rental Straightlining</td>
<td>502 884 217</td>
<td>2 952 564</td>
<td>685 655</td>
<td>769 841</td>
<td>804 000</td>
</tr>
<tr>
<td>Development Income</td>
<td>10 113 901</td>
<td>6 900 495</td>
<td>51 397 524</td>
<td>20 693 857</td>
<td>21 176 560</td>
</tr>
<tr>
<td>Information</td>
<td>482 292</td>
<td>12 706 082</td>
<td>13 616 254</td>
<td>17 284 421</td>
<td>21 124 679</td>
</tr>
<tr>
<td>Gas Billing Revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Parking Income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Group Key Operating Costs

17.1.1. Asset and Liability Management
17.1.2. Cash flow projections;

<table>
<thead>
<tr>
<th>PASSENGER RAIL AGENCY OF SOUTH AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATEMENT OF CASH FLOWS FOR THE MTEF PERIOD ENDING 2015-2018</td>
</tr>
<tr>
<td>2015/16</td>
</tr>
<tr>
<td>R’000</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM OPERATING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS BEFORE WORKING CAPITAL CHANGE</td>
<td>(633,695)</td>
<td>(556,004)</td>
<td>(434,590)</td>
</tr>
<tr>
<td>CHANGES IN WORKING CAPITAL</td>
<td>41,371</td>
<td>1,732,414</td>
<td>1,159,860</td>
</tr>
<tr>
<td>CASH (UTILISED)/GENERATED FROM OPERATIONS</td>
<td>(552,324)</td>
<td>1,176,411</td>
<td>725,270</td>
</tr>
<tr>
<td>FINANCE COST</td>
<td>(8,896)</td>
<td>(6,680)</td>
<td>(7,253)</td>
</tr>
<tr>
<td>NET CASH (USED)/GENERATED FROM OPERATING ACTIVITIES</td>
<td>(601,220)</td>
<td>1,169,531</td>
<td>718,017</td>
</tr>
</tbody>
</table>

**CASH FLOW FROM INVESTING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESTMENT INCOME - INTEREST RECEIVED</td>
<td>156,887</td>
<td>106,270</td>
<td>56,533</td>
</tr>
<tr>
<td>ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT</td>
<td>(16,016,363)</td>
<td>(14,627,712)</td>
<td>(15,467,005)</td>
</tr>
<tr>
<td>ACQUISITION OF INTANGIBLES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACQUISITION OF INVESTMENT PROPERTY</td>
<td>(550,000)</td>
<td>(300,000)</td>
<td>(210,000)</td>
</tr>
<tr>
<td>PREPAYMENT MOVED TO CAPITAL</td>
<td>2,441,366</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET CASH USED IN INVESTING ACTIVITIES</td>
<td>(13,968,100)</td>
<td>(14,821,442)</td>
<td>(15,620,422)</td>
</tr>
</tbody>
</table>

**CASH FLOW FROM FINANCING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>REPAYMENT OF OTHER FINANCIAL LIABILITIES</td>
<td>(59,683)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REPAYMENT ON INSURANCE CLAIMS</td>
<td>19,481</td>
<td>20,045</td>
<td>20,648</td>
</tr>
<tr>
<td>CAPITAL SUBSIDY AND GRANTS RECEIVED</td>
<td>13,605,887</td>
<td>14,958,602</td>
<td>15,707,895</td>
</tr>
<tr>
<td>NET CASH FLOWS FROM FINANCING ACTIVITIES</td>
<td>13,565,665</td>
<td>14,978,647</td>
<td>15,728,541</td>
</tr>
<tr>
<td>NET INCREASE IN CASH AND CASH EQUIVALENTS</td>
<td>(1,003,654)</td>
<td>1,326,736</td>
<td>826,135</td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS AT THE BEGINNING</td>
<td>2,028,920</td>
<td>1,623,266</td>
<td>2,350,002</td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</td>
<td>1,022,266</td>
<td>2,350,002</td>
<td>3,176,138</td>
</tr>
</tbody>
</table>

**PASSENGER RAIL AGENCY OF SOUTH AFRICA**

**STATEMENT OF CASH FLOWS FOR THE MTEF PERIOD ENDING 2015-2018**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS BEFORE WORKING CAPITAL CHANGE</td>
<td>(633,695)</td>
<td>(556,004)</td>
<td>(434,590)</td>
</tr>
<tr>
<td>CHANGES IN WORKING CAPITAL</td>
<td>41,371</td>
<td>1,732,414</td>
<td>1,159,860</td>
</tr>
<tr>
<td>CASH (UTILISED)/GENERATED FROM OPERATIONS</td>
<td>(552,324)</td>
<td>1,176,411</td>
<td>725,270</td>
</tr>
<tr>
<td>FINANCE COST</td>
<td>(8,896)</td>
<td>(6,680)</td>
<td>(7,253)</td>
</tr>
<tr>
<td>NET CASH (USED)/GENERATED FROM OPERATING ACTIVITIES</td>
<td>(601,220)</td>
<td>1,169,531</td>
<td>718,017</td>
</tr>
</tbody>
</table>

**CASH FLOW FROM INVESTING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESTMENT INCOME - INTEREST RECEIVED</td>
<td>156,887</td>
<td>106,270</td>
<td>56,533</td>
</tr>
<tr>
<td>ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT</td>
<td>(16,016,363)</td>
<td>(14,627,712)</td>
<td>(15,467,005)</td>
</tr>
<tr>
<td>ACQUISITION OF INTANGIBLES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACQUISITION OF INVESTMENT PROPERTY</td>
<td>(550,000)</td>
<td>(300,000)</td>
<td>(210,000)</td>
</tr>
<tr>
<td>PREPAYMENT MOVED TO CAPITAL</td>
<td>2,441,366</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET CASH USED IN INVESTING ACTIVITIES</td>
<td>(13,968,100)</td>
<td>(14,821,442)</td>
<td>(15,620,422)</td>
</tr>
</tbody>
</table>

**CASH FLOW FROM FINANCING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>REPAYMENT OF OTHER FINANCIAL LIABILITIES</td>
<td>(59,683)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REPAYMENT ON INSURANCE CLAIMS</td>
<td>19,481</td>
<td>20,045</td>
<td>20,648</td>
</tr>
<tr>
<td>CAPITAL SUBSIDY AND GRANTS RECEIVED</td>
<td>13,605,887</td>
<td>14,958,602</td>
<td>15,707,895</td>
</tr>
<tr>
<td>NET CASH FLOWS FROM FINANCING ACTIVITIES</td>
<td>13,565,665</td>
<td>14,978,647</td>
<td>15,728,541</td>
</tr>
<tr>
<td>NET INCREASE IN CASH AND CASH EQUIVALENTS</td>
<td>(1,003,654)</td>
<td>1,326,736</td>
<td>826,135</td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS AT THE BEGINNING</td>
<td>2,028,920</td>
<td>1,623,266</td>
<td>2,350,002</td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</td>
<td>1,022,266</td>
<td>2,350,002</td>
<td>3,176,138</td>
</tr>
</tbody>
</table>
Proposed Capital Programme: 2015/16 – 2017/18 financial years

During the capital budgeting process for the 2015 Medium Term Expenditure Framework (MTEF), the Enterprise Programme Management Office (EPMO) received 83 capital funding requests, with a total value of R57.8 billion over the next three years. A total number of 375 new individual projects have been received and recorded. As part of the evaluation process, the team assessed all the funding requests received from the business units, including corporate office. A detailed technical analysis report is attached as Annexure A. In general, the team verified the following: whether each business case is in line with the prescribed guidelines, the likely financial impact of the project, return on investment, associated risks, implementation readiness, strategic intent, operational impact, needs and options analysis. In addition, an analysis was conducted to verify the proposed project/programme impact on operational efficiency, modernization, improvement of the financial position and service sustainability.

Crafting PRASA’s response to the approved capital allocation from the Department of Transport, the evaluation team prioritized projects/programmes in line with the following business priorities:

a. Supporting the urgent priorities of PRASA to achieve modernization objectives such as Rolling Stock Fleet Renewal Programme, Station Modernization, Depots, Signaling and Acquisition of Locomotives;
b. Initiatives to increase operational effectiveness which include Drainage Projects, National Station Improvement Programme, Capital Intervention Programme, Perway, Security Systems, Electrical and ICT;
c. Projects and programmes to improve financial performance. These include Network Rail Extensions, National Station Upgrade and Property Acquisition;

- Projects and programmes already committed from previous financial years for finalization; and
- Projects and programmes demonstrating readiness to spend.

With these above considerations, the prioritized projects and programmes are aligned with these business priorities which should demonstrate sustained capital growth over the period ahead.
The sections below outline the budget framework, projected financial commitments into the 2015/16 financial year, general observations and funding recommendations.

18.1. Budget Framework
The total PRASA Group capital baseline amounts to about R44.8 billion over the next three years as shown in Table 1 below. The 2015 capital budget allocation from the Department of Transport allows for a reprioritization of R3.2 billion in the baseline to adjust for the PRASA capital programme which is shifted from the Rolling Stock Fleet Renewal Programme due to a revised payment profile at a Financial Close. This reduction in the Rolling Stock Fleet Renewal Programme is aligned with contract payment terms. There is no additional funding approved for the new projects in the capital programme. However, overall growth in capital expenditure has increased by 11.3 per cent when comparing the 2014 MTEF (R40.2 billion) with 2015 MTEF (44.8 billion).

Over the medium term, PRASA’s capital expenditure is expected to reach R14 billion in 2015/16, R15 billion in 2016/17 and R16 billion in 2017/18 bringing the total to R45 billion.

The budget framework further reflects a projected financial commitment of R12.4 billion carried forward into the 2015/16 financial year. The budget framework makes a provision for these financial commitments before new projects are considered for funding.

<table>
<thead>
<tr>
<th>Table 1: Budget Framework over the 2015 MTEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
</tr>
<tr>
<td>11 058 959</td>
</tr>
<tr>
<td>14 203 547</td>
</tr>
<tr>
<td>4 348 000</td>
</tr>
<tr>
<td>1 351 959</td>
</tr>
<tr>
<td>1 961 492</td>
</tr>
<tr>
<td>5 699 959</td>
</tr>
<tr>
<td>8 592 558</td>
</tr>
<tr>
<td>11 058 959</td>
</tr>
</tbody>
</table>
18.2. Projected financial commitments into the 2015/16 financial year

There are currently projects and programmes which are already committed from the previous financial year and will be carried into the new financial year. In addition, more contracts are being finalised for projects to be implemented over a period ahead. The total projected financial commitment amounts to R8.5 billion. These include projects and programmes such as signaling, Rolling Stock Fleet Renewal Programme, Integrated Station Access Management System (ISAMS), Accelerated Rolling Stock Programme, New Locomotives and Greenview, amongst others. Taking into account these commitments, the budget framework makes provision for these projects before allocating to other areas of priority for the business.

18.3. Business Drivers and Benefit Analysis

Over the MTEF, the largest share of the capital funding requests (40 per cent) from the business units relate to Increasing Train Availability which includes programmes such as General Overhaul Programme, Acquisition of New Locomotives, critical components for the existing rolling stock and Rolling Stock Fleet Renewal Programme. About 25 per cent of funding requests relate to Capital Programmes that would Lower Mean Time Failures and include Capital Intervention Programme, Signalling, Electrical Programme, Depots Upgrade and Telecommunication. Capital requests for programmes relating to Increase in Revenue accounts for 20 per cent and include National Station Upgrade Programme, Network Rail Extensions, Fencing and Developmental Leases. Approximately 8 per cent of the funding requests relate to projects to Reduce Train Delays and are mainly Drainage and Perway Programmes. The last 7 per cent relate to programmes which will ensure PRASA is in Full Compliance with the Railway Safety Regulator (RSR) directives and other statutory requirements. These programmes include platform rectification, overhead bridges and National Station Improvement Programme.
18.4. Funding Recommendations

The proposed capital budget over the next three years is reflected in Table 3 below. The proposed allocations are in line with the business priorities of PRASA as part of the modernization programme, improve financial performance, increase in operational effectiveness and managing business risks. This is all about improving PRASA’s service offering to the customer. The prioritization framework continues to support key programmes which include depots modernization, station upgrade programme, signaling, 120km/h perway programme, additional electrical capacity in the substations, overhead lines, station improvement programme, accelerated rolling stock programme, security projects and related infrastructure.

Planned spending on the Rolling Stock Fleet Renewal Programme is the largest single category and will continue to grow strongly over a 10 year period ahead, together with further investment in accelerated rolling stock programme, new locomotives, signaling, station improvement and other related infrastructure. The robust growth in infrastructure development and upgrade is in line with PRASA’s priority to modernize the infrastructure, which will be compatible with the new rolling stock for Metro Rail service.
Table 2: Proposed capital Allocations over the 2015 MTEF

<table>
<thead>
<tr>
<th>Capital Programme</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>Total MTEF</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRASA Corporate</td>
<td>4 576 097 393</td>
<td>6 532 160 107</td>
<td>6 982 889 713</td>
<td>18 305 170 213</td>
</tr>
<tr>
<td>Rolling Stock Fleet Renewal Programme</td>
<td>2 580 586 253</td>
<td>4 170 266 732</td>
<td>4 420 402 736</td>
<td>11 175 255 721</td>
</tr>
<tr>
<td>Signalling and telecommunications Programme</td>
<td>1 875 973 240</td>
<td>1 844 164 241</td>
<td>1 912 835 295</td>
<td>5 632 993 776</td>
</tr>
<tr>
<td>Asset Protection Programme</td>
<td>181 125 000</td>
<td>199 191 000</td>
<td>231 591 886</td>
<td>572 907 986</td>
</tr>
<tr>
<td>ICT Systems</td>
<td>176 963 000</td>
<td>206 734 134</td>
<td>263 938 182</td>
<td>661 795 326</td>
</tr>
<tr>
<td>Enterprise Resource Planning (ERP)</td>
<td>40 587 000</td>
<td>40 794 000</td>
<td>43 241 049</td>
<td>124 222 039</td>
</tr>
<tr>
<td>PRASA Rail</td>
<td>1 681 777 035</td>
<td>1 690 428 045</td>
<td>1 751 849 530</td>
<td>5 154 050 614</td>
</tr>
<tr>
<td>Capital Intervention Programme (fencing, safety, emergency &amp; SHP)</td>
<td>584 496 125</td>
<td>403 720 681</td>
<td>427 944 848</td>
<td>1 416 160 653</td>
</tr>
<tr>
<td>Depots Machinery and Equipment</td>
<td>15 900 000</td>
<td>80 000 000</td>
<td>80 000 000</td>
<td>215 900 000</td>
</tr>
<tr>
<td>New Locomotives</td>
<td>552 251 000</td>
<td>719 103 285</td>
<td>702 249 402</td>
<td>2 043 605 287</td>
</tr>
<tr>
<td>Rolling Stock Adhoc: Condiction Work</td>
<td>100 000 000</td>
<td>108 000 000</td>
<td>179 770 600</td>
<td>508 370 600</td>
</tr>
<tr>
<td>Rolling Stock Components</td>
<td>300 000 000</td>
<td>318 000 000</td>
<td>337 000 000</td>
<td>955 000 000</td>
</tr>
<tr>
<td>PRASA Technical</td>
<td>4 722 194 156</td>
<td>4 408 605 660</td>
<td>4 708 599 037</td>
<td>13 839 394 853</td>
</tr>
<tr>
<td>General overhaul of Metrell Coaches</td>
<td>1 267 474 223</td>
<td>1 283 522 676</td>
<td>1 399 534 637</td>
<td>3 941 930 536</td>
</tr>
<tr>
<td>Rehabilitation of Smeiy Coaches</td>
<td>217 529 000</td>
<td>103 750 000</td>
<td>151 415 304</td>
<td>472 454 304</td>
</tr>
<tr>
<td>Depots Modernization (5-depots, incl fencing)</td>
<td>1 336 579 516</td>
<td>604 345 000</td>
<td>929 372 441</td>
<td>3 080 656 957</td>
</tr>
<tr>
<td>Electrical Programme: Substation, New Overhead Lines &amp; CHTE</td>
<td>333 678 500</td>
<td>342 067 000</td>
<td>352 612 220</td>
<td>1 028 357 720</td>
</tr>
<tr>
<td>Footbridges, Level Crossings and Structures</td>
<td>122 708 250</td>
<td>126 372 000</td>
<td>137 510 620</td>
<td>386 954 870</td>
</tr>
<tr>
<td>Metrorail/Gautrain Stray Current Mitigation</td>
<td>67 543 067</td>
<td>42 034 626</td>
<td>-</td>
<td>109 568 683</td>
</tr>
<tr>
<td>Green View - Pienaapspoort Project</td>
<td>161 006 000</td>
<td>117 050 000</td>
<td>-</td>
<td>278 056 000</td>
</tr>
<tr>
<td>Queenspark - Unitals</td>
<td>58 190 000</td>
<td>50 297 000</td>
<td>50 725 900</td>
<td>169 152 900</td>
</tr>
<tr>
<td>Wetservietel Rail Extension</td>
<td>87 000 000</td>
<td>363 308 190</td>
<td>623 800 862</td>
<td>1 634 248 162</td>
</tr>
<tr>
<td>Bridg City</td>
<td>55 000 000</td>
<td>66 000 000</td>
<td>-</td>
<td>121 000 000</td>
</tr>
<tr>
<td>Station Modernization Programme (135 station)</td>
<td>2 222 965 300</td>
<td>704 341 116</td>
<td>749 201 583</td>
<td>2 976 508 996</td>
</tr>
<tr>
<td>12km Ferway Programme</td>
<td>310 000 000</td>
<td>327 732 000</td>
<td>347 955 920</td>
<td>985 728 850</td>
</tr>
<tr>
<td>PRASA Corporate Real Estate</td>
<td>2 577 917 826</td>
<td>2 372 412 000</td>
<td>2 828 260 879</td>
<td>7 378 600 505</td>
</tr>
<tr>
<td>Station Improvement Programme</td>
<td>204 432 250</td>
<td>317 750 000</td>
<td>392 809 320</td>
<td>1 095 981 770</td>
</tr>
<tr>
<td>Station Upgrade Programme</td>
<td>474 160 230</td>
<td>305 350 000</td>
<td>403 471 600</td>
<td>1 188 981 970</td>
</tr>
<tr>
<td>Park Station Upgrade</td>
<td>360 506 000</td>
<td>425 121 000</td>
<td>493 488 259</td>
<td>1 379 515 280</td>
</tr>
<tr>
<td>Mabopane Station Upgrade</td>
<td>110 000 000</td>
<td>116 600 000</td>
<td>-</td>
<td>226 600 000</td>
</tr>
<tr>
<td>Workplace Improvement Programme, (incl depots facilities)</td>
<td>406 276 375</td>
<td>414 093 000</td>
<td>423 929 580</td>
<td>1 244 398 955</td>
</tr>
<tr>
<td>Property Acquisition</td>
<td>197 869 468</td>
<td>-</td>
<td>-</td>
<td>197 869 468</td>
</tr>
<tr>
<td>Integrated Station Access Management System (ISAMS)</td>
<td>802 456 433</td>
<td>614 070 000</td>
<td>619 528 695</td>
<td>2 162 653 129</td>
</tr>
<tr>
<td>Total</td>
<td>14 155 887 000</td>
<td>14 959 601 000</td>
<td>15 707 850 000</td>
<td>44 822 383 000</td>
</tr>
<tr>
<td>2015 MTEF Allocation</td>
<td>14 155 887 000</td>
<td>14 959 601 000</td>
<td>15 707 850 000</td>
<td>44 822 383 000</td>
</tr>
<tr>
<td>Unallocated</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Year-on-year growth</td>
<td>28.0%</td>
<td>5.7%</td>
<td>5.0%</td>
<td>-</td>
</tr>
</tbody>
</table>
Percentage Share of allocation per Division: Figure 2

Percentage Share of the proposed total allocation: Figure 3

Infrastructure Investment and Rolling stock over the next three year: Figure 4
18.5. **Acquisition of New Rolling Stock for Metro Rail Service**

A revised capital baseline of R11.2 billion is earmarked for spending over the next three years for the implementation of Rolling Stock Fleet Renewal Programme. This is the first step to kick-start PRASA’s process of procuring 3,600 new rolling stock over the next 10 years. The procurement of new rolling stock is a critical component of PRASA’s mandate to provide for modernization and growth. PRASA has since made considerable progress to achieve this objective. In April 2014, PRASA reached a Financial Close with Gibela Rail Transport Company effectively entering the implementation phase of the programme. Overall, PRASA is expected to spend R51 billion over a 10 year period between 2015 and 2025, (subject to foreign exchange movement and indexation).

PRASA has paid Gibela Rail Transport Company an advance payment amounting to R5.7 billion in 2014/15 financial year. In 2015/16, PRASA will spend R2.6 billion, further R4.2 billion in 2016/17 before reaching R4.4 billion in 2017/18. PRASA is currently expected to receive delivery of the first test train in November 2015, with provisional acceptance of the first new train expected in June 2016. By the end of the 2015 MTEF (end of March 2018), PRASA expects to have provisionally accepted 44 New Trains. The table below shows the budget for the 2015 MTEF and the expected delivery programme over the MTEF:

<table>
<thead>
<tr>
<th>Year</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure</td>
<td>R 2 560 508</td>
<td>R 4 170 267</td>
<td>R 4 420 483</td>
<td>R 11 151 258</td>
</tr>
<tr>
<td>Number of Trains provisionally accepted</td>
<td>-</td>
<td>18</td>
<td>26</td>
<td>44</td>
</tr>
</tbody>
</table>
Overall, the Rolling Stock Fleet Renewal Programme will deliver 5256 vehicles to satisfy existing rail passenger demand on the current network until the year 2020, 456 vehicles to satisfy growth in rail passenger demand to the year 2030 on the existing network and a possible further 1512 vehicles to satisfy long term rolling stock needs on new corridors to be constructed as part of a possible future expansion of the existing network and the development of a new network. However, the strategy to procure the remaining 3600 trains will be formulated after 5 years of the delivery of the New Trains. This will allow PRASA to analyse the current capabilities within the South African market based on building new trains resulting from PRASA’s initial contract.

18.6. Accelerated Rolling Stock Programme

The capital baseline for the Accelerated Rolling Stock Fleet Renewal Programme for meeting the objectives of rolling stock upgrade and refurbishment programme is supported. The refurbishment and upgrading of the existing rolling stock for metro and long-distance rail services have the primary aim of improving the quality of service and predictability over the short to medium term. Although not adding additional service, the programme addresses the needs of the Regional Integrated Transport Plans with provinces and the Rail Plan.

The contribution of the programme must continue to significantly improve the rolling stock availability and improve train set availability for the commuters. Even with the new rolling stock recapitalization program implemented in full and new train sets are acquired at the rate of 40 train-sets per annum for the next 20 years, it is expected that the refurbishment programme will continue. However new General Overhaul concepts must be introduced to enhance the current refurbishment and upgrade programme in order to realize value for money. This can be done by introducing modern components to improve train performance.

In supporting the programme and ensuring its sustainability going forward, the proposed baseline is retained. Over the past three years, 1 641 passenger coaches were refurbished and upgraded through the Accelerated Rolling Stock Programme. It is further anticipated that approximately 554 Metrorail coaches will be refurbished and upgraded in the current financial year.
The proposed baseline for the General Overhaul (GO) of Metrorail Coaches allows for R1.27 billion in 2015/16, R1.28 billion in 2016/17 and R1.36 billion in 2017/18. This brings the total to R3.9 billion over the next three years. This investment will allow for approximately a further 1,500 coaches to be refurbished/upgraded including the purchasing of critical components.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metrorail Coach Quantities</td>
<td>510</td>
<td>579</td>
<td>552</td>
<td>554</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
</tbody>
</table>

### 18.7. Acquisition of New Locomotives and Refurbishment of Mainline Coaches

The proposed capital baseline supports the acquisition of new locomotives and Refurbishment Programme of Shosholoza Meyl Coaches. Proposed allocation allows for R2.04 billion over the next three years for the acquisition of new locomotives. A further R473 million is proposed for the refurbishment of existing Shosholoza Meyl Coaches over the next three years. This brings the total allocation to R2.5 billion over the next three years to support Mainline Rail Service. The operational footprint of these locomotives will cover corridors such as Johannesburg to Port Elizabeth, Johannesburg to East London, Cape Town to Johannesburg, Cape Town to Durban, Cape Town to East London and Cape Town to Port Elizabeth. PRASA has signed a contract with Swifambo consortium to supply a total of 70 diesel electric locomotives for duration of 4 years with the contract amount capped at R5 billion. To date, R2.7 billion has been paid against this contract. PRASA took delivery of the first four (4) locomotives in November 2014 and January 2015.

The funding allocation of R473 million SMeyl will allow for the delivery of 300 coaches under the SMeyl GO Programme over the next three years.
### 18.8. Corridor Modernization Programme

#### Signaling

A revised capital baseline of R1.9 billion in 2015/16, R1.8 billion in 2016/17 and R1.9 billion in 2017/18 is supported to further support the rollout of the signaling modernization programme, bringing the total revised allocation to R5.6 billion over the next three years across all regions. This investment is about bringing the modern signaling system which will give PRASA additional operational capacity. The majority of signaling is old and yields an inherently low inefficiency in the train service level and increases the potential risk for accidents and delays. It is PRASA’s intention to replace all existing signaling interlockings, which consist mainly of obsolete mechanical and electro-mechanical systems, with electronic interlockings as the technology of choice. This is to improve the safety of commuters and ensure reliability of the network.

All three major signaling contracts (with Siemens for Gauteng, Bombardier for Durban, and Thales Maziya for Western Cape) are currently in the implementation phase. Siemens is currently implementing the first and second phase of the signaling programme. The scope of work includes the replacement of existing signaling interlockings, and re-signaling the network using fully bi-directional signaling to increase operational flexibility. In addition, Siemens is responsible for the construction of the Gauteng Nerve Centre. The Gauteng Nerve Center (GNC), which has commenced, is currently 90% in progress. The commissioning of Midway - Lenz Station has been extended and is expected to take place during the end of May 2015. The late delivery is mainly due to the problems found in the safety core of the interlocking software. Siemens Germany is currently addressing the issue with the assistance of PRASA’s Validation Team. Site installation works are continuing in the Midway – Residensia section, the

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New locomotives</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>11</td>
<td>6</td>
<td>44</td>
</tr>
<tr>
<td>S/Meyl Coach Quantities (GO)</td>
<td>2</td>
<td>3</td>
<td>10</td>
<td>60</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
Randfontein – Roodepoort section and the Kaalfontein – Leralla section.

Bombardier was appointed for the establishment of the Durban CTC at Rossborough and the installation of interlocking systems in the Durban Region. Bombardier Alliance and PRASA reached contractual agreement in March 2013 and the works have since commenced with the completion date expected to be 10 September 2019. The total cost for the project amounts to R1.3 billion (excluding inflation). Thales Maziya has started with the design work for the first phase and is currently ongoing. Site offices have been established at Bellville accommodating the installation teams. The scope of work of the project includes the establishment of the Cape Metrorail Control Centre (CMCC) at Bellville and the installation of interlocking systems in the Western Cape Region. The estimated duration for the project is 5 years, with a total cost amounting to approximately R1.86 billion (excluding inflation). The work commenced in the first quarter of 2013/14 financial year and is scheduled for completion by July 2019.

18.10. 120km/h Perway

Funding amounting to R985 million is proposed for the upgrade of perway infrastructure over the next three years. This allows for a funding space of R310 million in 2015/16, R328 million in 2016/17 and R347 million in 2017/18. The 120km/h Perway Programme aims to improve accessibility and create modern stations which are customer friendly.
to revitalize the track infrastructure in the three modernization corridors to enable new trains to achieve 120km/h speed. Amongst others, the works will include the rehabilitation of drainage system, re-railing of the track and replacement of the turnouts. PRASA’s current infrastructure allows for section speeds of up to 90km/h. In anticipation of the new rolling stock fleet, infrastructure upgrades need to be undertaken to increase section speeds to 120km/h. The programme includes the upgrading of the ballast profile for better stability, re-railing, re-sleepering, upgrading of turnouts, replacement of single & double slips, replacement of scissors and diamond crossings, drainage upgrading, ballast screening, refurbish rails via grinding and the re-alignment of track via continuous tamping.

18.11. Asset Protection Programme

Allocation of R573 million on security equipment is proposed over the next three years to improve security in key strategic points. This allows for a funding space of R181 million in 2015/16, R190 million in 2016/17 and R202 million in 2017/18. The allocation will allow spending on an Integrated CCTV system, access control and alarm systems in key stations, buildings and rail corridors. Even though the proposed spending is R573 million over the next three years, the overall PRASA Capital Programme includes a number of security initiatives which are not part of this security capital baseline. These include spending on Depots fencing which is part of PRASA Technical infrastructure rollout plan as well as PRASA Rail Capital Intervention Programme. There is also further spending on speed gates which include CCTV and access points.

The re-signaling programme also places an emphasis on the security of the signal components. This includes the cabling trench which is more secure compared to the current system. All these investments support PRASA’s plan to secure assets and reduce fare evasion.

18.12. Corporate Real Estate Solutions (CRES)

Station upgrade/transit oriented developments programme, Station Improvement Programme and Workplace Improvement Programme

PRASA continues to prioritise spending on stations, with the primary goal of creating precincts that are commuter friendly. It is therefore proposed that PRASA CRES receives R2.6 billion
over the next three years for the station upgrade programme at various stations across the country, developmental leases and Station Improvement Programme, providing immediate improvements at the stations.

Furthermore, funding amounting to R1.3 billion is proposed for the upgrade of Park Station over the next three years. CRES started with the planning and conceptual designs for the station in the 2013/14 financial year. Over the same period, the electrical and pumping works were implemented. Amongst others, the scope of the upgrade will include the creation of additional parking bays, bus ticketing offices, resurfacing of platforms, and commercial space. Funding amounting to R2.1 billion is proposed to further support the implementation of the Integrated Station Access Management System (ISAMS) over the next three years. Lastly, R1.2 billion is recommended for the Workplace Improvement Programme over the next three years. This programme involves the improvement of the office accommodation, depots facilities and workshops. This is in line with PRASA’s strategy to improve the working condition of staff across the Group.

The revised capital baseline brings the total funding to R7.4 billion for CRES over the next three years. This allows for a funding space of R2.8 billion in 2015/16, R2.3 billion in 2016/17 and R2.3 billion in 2017/18. It is anticipated that over the medium term, 180 stations will be upgraded and improved under the station improvement programme and station upgrade programme. Further, six (6) properties will be acquired over the medium term through the Property Acquisition Programme.

18.13. Infrastructure and Capital Intervention Programme

Investment in infrastructure (perway, electrical, network expansion, telecommunications, bridges and structures) continues to be critical in the Group. To renew ageing infrastructure in these areas will go a long way in addressing the modernization as well as sustaining the service. It is also a strategy to renew the entire infrastructure to support effective operation of the new rolling stock.

Over the next three years, R1 billion is proposed for the National Electrical Programme. The condition of some of the electrical structures is a risk from a safety viewpoint which could potentially endanger the lives of commuters and the general public. Funding in this area is therefore critical for the restoration of infrastructure
and increased power capacity. A further R390 million is proposed for footbridges, level crossings and structures. This will eliminate high risk level crossings and improve the safety of pedestrians.

Allocation amounting to R3.1 billion is proposed for the modernization of Maintenance Depots. These include Braamfontein (Gauteng), Wolmerton (Gauteng), Salt River (Western Cape) and Springfield and Durban Yard (KwaZulu-Natal). The allocated capital will also cover costs for the interim measures for Braamfontein and Salt River to cater for current operations to be performed at Benrose station and Furgrove respectively during the Depot upgrades.

It is further proposed that Capital Intervention Programme receives a capital funding of R1.4 billion over the next three years for minor works, emergency works, special needs and safety projects.

18.14. Rail Network Extensions

Additional funding amounting to R298 million is proposed for Greenview-Pienaar-spoort project, expected to be completed by 2016/17. The Greenview project allows for doubling of the rail line between Eerste Fabrieke and Mamelodi Gardens section in the Mamelodi area. In addition the project includes the provision of new platforms at Greenview station and construction of the piling and foundations for the new overhead station buildings at Mamelodi Gardens and Greenview. The project was earlier delayed due to resettlement issues and community unrests.

The doubling of the line from Eerste Fabrieke to Mamelodi Gardens is 97 per cent complete, with the installation of the signaling system and track slab outstanding. The construction of the Greenview station is currently at 57 per cent completion while the upgrading of Mamelodi Gardens is currently at 10 per cent completion which mainly includes the installation of piling.

Investment in other rail network projects like Queenstown-Umtata and Motherwell rail extension will continue over the period ahead. Allocation of R180 million on the upgrade of Queenstown station is proposed over the medium term. The feasibility study of the Queenstown-Mthatha Rail Link indicated it will not be feasible to provide a metro service as buses and taxis services are more efficient to service the route. However, the upgrade of the station is necessary to support Mainline Service. It is anticipated that the procurement for construction will be undertaken in the last quarter of 2014/15 financial year.
Furthermore, allocation of R1 billion for Motherwell Rail Extension is proposed over the next three years. This allows for a funding space of R60 million in 2015/16, R368 million in 2016/17 and R606 million in 2017/18. The appointment for the professional team to undertake a detailed design review is yet to be completed. It is anticipated that a full detailed design will take place in the 2015/16, with construction targeted to start in the first quarter of 2016/17 financial year.

Additional funding amounting to R120 million is proposed for the Bridge City project. This will support for the rehabilitation of Piessangs River which runs along the rail track, upgrading of the Dalbridge Pedestrian Bridge over the M4 highway to uMlazi and the Crossover Points at Berea station. It is anticipated that the work will be completed by 2016/17.

18.15. General observations

The following has been observed through the review and allocation process:

a) Cost overruns are being recorded on some projects such as Green view and Mabopane station due to delays;

b) Financial analysis including cost benefit analysis and benefit tracking is still lacking;

c) Poor risk assessments on projects in line with enterprise risk framework;

d) Poor stakeholder identification and communication strategy; and

e) General lack of integrated capital planning and budgeting by business units.
19. CONCLUSION

The Corporate Plan is a total commitment by the organisation to deliver not only on its strategic ambitions and priorities but on the government’s imperative, driven by the National Development Plan. Prasa’s commitment to increase its rail share is not a competitive strategy but a key driver that ensure access and mobility of the multitudes of South African who currently do not have access to public transport.

More important is Prasa’s contribution to job creation through its investment in public employment programmes, which will be delivered through specific and dedicated projects such as, more 33,000 jobs created through the local manufacture of trains. The Women in Rail project will provide much needed opportunities for women in the transport sector with a huge potential to create more jobs for women.

With its massive modernisation programme Prasa will revitilise the Rail Engineering Industry and mobilise critical skills much needed in the transport industry. The introduction of Regional Services for the rural masses remains Prasa’s key commitment in ensuring that rail becomes the backbone and mode of choice for public passenger transport.

Our commitment to good corporate governance through strict adherence to PFMA and a clean audit will remain a pillar of our operations. This plan will only come to life with the full support of PRASA staff and all the stakeholders.
21. Annual Performance plan 2015/16 to 2017/18
1) Strategic Priority: Rolling out a Train System of the Future
   
a) Strategic Objective: Positioning Rail as the backbone and mode of choice for public transport annual targets 2016
   
i) Key performance area: Increased Rail Share of Transport

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieve numbers to 574 million Metrorail Passenger trips by 2018</td>
<td>528 million passenger trips per annum</td>
<td>525 million passenger trips per annum</td>
<td>541 million passenger trips per annum</td>
</tr>
<tr>
<td>Achieve 1.1 million Mainline Passenger Services (MLPS) passenger numbers by 2018</td>
<td>1.263 million passengers per annum</td>
<td>Forecast 900 000 passengers per annum</td>
<td>1 million passengers per annum</td>
</tr>
<tr>
<td>Achieve a rating of 70% in passenger satisfaction by 2018 for Metrorail</td>
<td>60.4% Customer satisfaction rating for Metrorail</td>
<td>62% Customer satisfaction rating for Metrorail</td>
<td>65% Customer satisfaction rating for Metrorail</td>
</tr>
<tr>
<td>Achieve a rating of 75% in passenger satisfaction by 2018 for MLPS</td>
<td>74.5% Customer satisfaction rating for MLPS</td>
<td>72.06% Customer satisfaction rating for MLPS</td>
<td>73% Customer satisfaction rating for MLPS</td>
</tr>
</tbody>
</table>
### ii) Key Performance Area: A World Class Metro Service

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide Reliable Commuter Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average 813 km travelled before failure of rolling stock (trains) (Mean distance between failures = MDBF)</td>
<td>Average 865 km travelled before failure of rolling stock (trains) (Mean distance between failures = MDBF)</td>
<td>Average 739 km travelled before failure of rolling stock (trains)</td>
<td>Average 720 km travelled before failure of rolling stock (trains)</td>
</tr>
<tr>
<td>Average 739 km travelled before failure of rolling stock (trains)</td>
<td>Average 720 km travelled before failure of rolling stock (trains)</td>
<td>Average 740 km travelled before failure of rolling stock (trains)</td>
<td>Average of 760 km before failure of rolling stock (trains)</td>
</tr>
<tr>
<td>Metrorail Train service performance: 81.8% trains run on time</td>
<td>Metrorail Train service performance: 82.5% trains run on time</td>
<td>Train Service Performance - 81% trains run on time</td>
<td>Train Service Performance - 82% trains run on time</td>
</tr>
<tr>
<td>Metrorail Trains Service Availability 96.6% (3.4% of trains cancelled)</td>
<td>Metrorail Trains Service Availability 96.6% (3.4% of trains cancelled)</td>
<td>Metrorail Trains Service Availability 96.6% (YTD Jan 2015) (3.4% of trains cancelled)</td>
<td>Metrorail Trains Service Availability 96% (4.5% trains cancelled)</td>
</tr>
<tr>
<td>579 Metrorail coaches refurbished</td>
<td>566 Metrorail coaches refurbished</td>
<td>&lt;500 Metrorail coaches refurbished</td>
<td>Metrorail coaches refurbished</td>
</tr>
<tr>
<td>3 MLPS coaches refurbished</td>
<td>32 MLPS coaches refurbished</td>
<td>60 MLPS coaches refurbished</td>
<td>MLPS - 60 refurbished</td>
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<td>MLPS - 60 refurbished</td>
<td>MLPS - 60 refurbished</td>
<td>MLPS - 60 refurbished</td>
<td>MLPS - 60 refurbished</td>
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</table>
### Key Performance Area: Operational Safety

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operationally safe and secure passengers and assets in the rail environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.06 crime incidents per track km.</td>
<td>0.06 crime incidents per track km.</td>
<td>0.1 crime incidents per track km.</td>
<td>0.1 crime incidents per track km.</td>
</tr>
<tr>
<td>0.07 personal crime incidents per 100 000 passengers</td>
<td>0.07 personal crime incidents per 100 000 passengers</td>
<td>0.1 personal crime incidents per 100 000 passengers</td>
<td>0.1 personal crime incidents per 100 000 passengers</td>
</tr>
<tr>
<td>2.18 passenger injuries and fatalities per million passengers</td>
<td>2.01 passenger injuries and fatalities per million passengers as at Jan 2015</td>
<td>2.01 passenger injuries and fatalities per million passengers</td>
<td>2.01 passenger injuries and fatalities per million passengers</td>
</tr>
<tr>
<td>1.03 public injuries and fatalities per million passengers</td>
<td>1.26 public injuries and fatalities per million passengers as at Jan 2015</td>
<td>1.26 public injuries and fatalities per million passengers</td>
<td>1.26 public injuries and fatalities per million passengers</td>
</tr>
</tbody>
</table>
### iv) Key Performance Area: Modern Traffic Management, Scheduling and Maintenance Tools

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
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<tbody>
<tr>
<td></td>
<td>2012/13</td>
<td>2013/14</td>
<td>2015/16</td>
</tr>
<tr>
<td>Roll-out of signaling system as per contract</td>
<td></td>
<td>Complete Gauteng Nerve Centre Construcion (Building)</td>
<td>Gauteng Nerve Centre (GNC) building and associated facilities completed by Quarter 1 2015/16</td>
</tr>
</tbody>
</table>

Commission 1st Traffic Control Centre (TCC): Midway – Lenz
### v) Key Performance Area: Modernisation of Rolling Stock and Infrastructure

<table>
<thead>
<tr>
<th>Key Performance Area</th>
<th>Modernisation of Rolling Stock and Infrastructure</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Fleet Renewal Programme</td>
<td>1 train set delivered in SA for testing as per contract</td>
<td>18 train sets accepted as per contract</td>
<td>26 train sets accepted as per contract</td>
</tr>
<tr>
<td>National Fleet Renewal Programme</td>
<td>1 train set delivered in SA for testing as per contract</td>
<td>18 train sets accepted as per contract</td>
<td>26 train sets accepted as per contract</td>
</tr>
<tr>
<td>Acquisition of 70 modern locomotives</td>
<td>9 locomotives delivered in SA as per contract</td>
<td>11 locomotives delivered in SA as per contract</td>
<td>44 locomotives delivered in SA as per contract</td>
</tr>
<tr>
<td>Modernisation of 135 stations (Phase 1: 12 stations by 2018)</td>
<td>2 stations commenced construction (Philippi &amp; Duff’s Road) as per contract</td>
<td>2 stations completed (Philippi, Duff’s Road) as per contract</td>
<td>1 station completed (Oakmoor) as per contract</td>
</tr>
<tr>
<td>2 Depot modernisation projects commenced by 2018</td>
<td>Tenders for Braamfontein Depot and Salt River depots completed.</td>
<td>Demolition work on Braamfontein and Salt river completed by end 2015/16.</td>
<td>Facility for maintenance of new trains completed</td>
</tr>
</tbody>
</table>
vi) Key Performance Area: Delivery of Improved, Functional and Clean facilities through Station / Facility Upgrade Programme

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
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<tr>
<td></td>
<td>2012/13</td>
<td>2013/14</td>
<td>2015/16</td>
</tr>
<tr>
<td>Number of improved &amp; upgraded Stations and workplaces</td>
<td>80 station improvement projects completed</td>
<td>80 station improvement projects completed</td>
<td>58 station improvement projects completed</td>
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<tr>
<td></td>
<td>8 station upgrade projects completed</td>
<td>14 station upgrade projects completed</td>
<td>11 station upgrade projects completed</td>
</tr>
<tr>
<td></td>
<td>12 workplace improvement projects completed</td>
<td>28 workplace improvement projects completed</td>
<td>38 workplace improvement projects completed</td>
</tr>
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</table>

vii) Key Performance Area: Frequent Transport for the rural traveller

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
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<tbody>
<tr>
<td></td>
<td>2012/13</td>
<td>2013/14</td>
<td>2015/16</td>
</tr>
<tr>
<td>Increase MLPS services to 30 train services by 2018</td>
<td>26 MLPS train services per week</td>
<td>26 MLPS train services per week</td>
<td>28 MLPS Train services per week</td>
</tr>
<tr>
<td>Introduction of 6 MLPS regional services by 2018</td>
<td>1 MLPS regional service introduced</td>
<td>2 MLPS regional services introduced</td>
<td>2 MLPS regional services introduced</td>
</tr>
</tbody>
</table>
2) Strategic Priority: Expanding PRASA Networks and Services

a) Strategic Objective: Extension of differentiated bus services with commuter trains and linking high volume corridors and regional services

i) Key Performance Area: Increase bus services

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
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</thead>
<tbody>
<tr>
<td>Increase cross-border routes by 6 in 2018</td>
<td></td>
<td>2 new cross border routes to be identified and business plans completed</td>
<td>Implement additional cross border routes subject to permit approval</td>
</tr>
<tr>
<td>Offer 28 bus and taxi feeder services to rail by 2018</td>
<td></td>
<td>22 bus feeder services to Metrorail</td>
<td>Complete business plan for additional 2 routes</td>
</tr>
<tr>
<td>Identify and pursue 3 scholar transport services by 2018</td>
<td></td>
<td>Identify opportunities and complete business plan by March 2016</td>
<td>Implement scholar services as identified and prioritised</td>
</tr>
<tr>
<td>Identify and pursue 3 opportunities in bus tender services</td>
<td></td>
<td>Identify tender opportunities and complete business plan by March 2016</td>
<td>Implement tender opportunities as identified and prioritised</td>
</tr>
</tbody>
</table>
**b) Strategic objective: Introduction and extension of integrated passenger rail services, linking high volume corridors into an effective service annual targets 2016**

<table>
<thead>
<tr>
<th>Key Performance Area</th>
<th>Key performance</th>
<th>Estimated Performance</th>
<th>Medium-term targets</th>
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</thead>
<tbody>
<tr>
<td>New Rail corridors and line extensions – Moloto Corridor</td>
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<td>Established</td>
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<td>PIMO for</td>
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<td>Moloto Corridor</td>
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<td>Appoint</td>
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<td>Transaction</td>
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<td>Advisors &amp;</td>
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<td>initiate</td>
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<td>Detailed</td>
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<td>Design study</td>
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<td>Treasury</td>
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<td>Approval 1</td>
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<td></td>
<td>Complete GLA</td>
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<td></td>
<td>construction</td>
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<td>of 10000 square</td>
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<td>meters as per</td>
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<td></td>
<td>project scope.</td>
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<td>GLA increase</td>
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<tr>
<td></td>
<td>GLA increase</td>
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</tbody>
</table>

**c) Strategic Objective: Leveraging on station upgrades and new rail/corridor extensions annual targets 2016**

i) Key Performance Area: Leveraging on station upgrades and new rail/corridor extensions

<table>
<thead>
<tr>
<th>Key Performance Area</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Gross Lettable Area (GLA) through Commercialisation by 10 000 square meters by 2018</td>
<td>GLA Baseline: 1103018 square meters</td>
<td>Complete GLA construction of 10000 square meters as per project scope.</td>
<td>GLA increase by 5000 square meters</td>
</tr>
</tbody>
</table>
3) Strategic Priority: Consolidate Real Estate Strategy
   a) Strategic Objective: Increase the value of the property portfolio
   i) Key Performance Area: Increase the value of the property portfolio

<table>
<thead>
<tr>
<th>Key Performance Area</th>
<th>Acquisition of development leases</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012/13</td>
<td>2013/14</td>
<td>2015/16</td>
<td>2016/17</td>
</tr>
<tr>
<td>Acquisition of 9</td>
<td>8 development leases acquired</td>
<td>3 development leases acquired</td>
<td>Buy back 2 Development Leases</td>
<td>Buy back 3 Development Leases</td>
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<tr>
<td>development leases</td>
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<td>by 2018 for a managed</td>
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<tr>
<td>portfolio</td>
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</tr>
</tbody>
</table>

4) Strategic Priority: Embarking on a Robust Asset Investment Program
   a) Strategic Objective: Property and Asset development and facilitation for private sector investment in PRASA’s Assets.
   i) Key Performance Area: Partner with private sector to create value on assets

<table>
<thead>
<tr>
<th>Key performance Area</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012/13</td>
<td>2013/14</td>
<td>2015/16</td>
</tr>
<tr>
<td>Facilitation of new</td>
<td>2 property construction</td>
<td>2 property construction</td>
<td>2 property</td>
</tr>
<tr>
<td>property developments</td>
<td>construction projects</td>
<td>construction projects in</td>
<td>construction</td>
</tr>
<tr>
<td></td>
<td>commenced</td>
<td>progress</td>
<td>progress</td>
</tr>
</tbody>
</table>
5) Strategic Priority: Enhancing Organisational Capacity

a) Strategic objective: Human Capital Development and Talent Management annual targets 2016

i) Key Performance Area: Skills and capacity building for the business of the future

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012/13</td>
<td>2013/14</td>
<td>2015/16</td>
</tr>
<tr>
<td>Building technical and operational skills for a modern public entity</td>
<td>154 employees completed training or enrolled for training in specific critical technical and operational skills</td>
<td>204 employees completed training or enrolled for training in specific critical technical and operational skills</td>
<td>300 employees completed training or enrolled for training in specific critical technical and operational skills</td>
</tr>
<tr>
<td>Building operational skills through learnerships</td>
<td>2070 employees completed or are enrolled for learnerships, interns, experiential learning.</td>
<td>2252 employees completed or are enrolled for learnerships, interns, experiential learning.</td>
<td>1400 employees completed or are enrolled for learnerships, interns, experiential learning.</td>
</tr>
<tr>
<td>Building customer services skills through “My Station” programme</td>
<td>859 employees trained on “My Station” programme as per contract</td>
<td>700 employees trained on “My Station” programme as per contract</td>
<td>600 employees trained on “My Station” programme as per contract</td>
</tr>
</tbody>
</table>
6) Strategic Priority: Brand Positioning and Stakeholder Engagement

a) Strategic objective: Position PRASA as a Modern Public Entity that Delivers Public Value annual targets 2016

i) Key Performance Area: Brand activation and stakeholder engagement

<table>
<thead>
<tr>
<th>Key Performance Area</th>
<th>Key performance Outcome</th>
<th>Brand activation and stakeholder engagement</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Audited / Actual performance 2012/13</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2013/14</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2015/16</td>
<td>2016/17</td>
</tr>
<tr>
<td></td>
<td>80% of public perceives</td>
<td></td>
<td>60% positive coverage in print and electronic media</td>
<td>70% positive coverage in print and electronic media</td>
</tr>
<tr>
<td>and admires Prasa as delivering public value by 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ii) Key Performance Area: Enterprise development and Black Economic Empowerment

<table>
<thead>
<tr>
<th>Key Performance Area</th>
<th>Key performance Outcome</th>
<th>Brand activation and stakeholder engagement</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Audited / Actual performance 2012/13</td>
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<tr>
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<td></td>
<td>2013/14</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2015/16</td>
<td>2016/17</td>
</tr>
<tr>
<td></td>
<td>R3.6bn Value of Contracts placed with Women in Rail programme by 2018</td>
<td></td>
<td>R450m estimated</td>
<td>R1.2bn</td>
</tr>
<tr>
<td></td>
<td>BBBEE recognition Spend</td>
<td></td>
<td>90% BBBEE Recognition spend</td>
<td>90% BBBEE Recognition spend</td>
</tr>
<tr>
<td></td>
<td>((Based on the BBBEE recognition levels where levels 1 – 4 BEE companies get 100% and more spending recognized as per DTI reporting guidelines.)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Recognition of levels 1 – 4 can result in more than 100% of R-value recognised.
7) Strategic Priority: Improving Financial Health

a) Strategic objective: Strengthening the Financial position annual targets 2016

i) Key Performance Area: Balance Sheet Restructuring

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012/13</td>
<td>2013/14</td>
<td>2015/16</td>
</tr>
<tr>
<td>Disposal of 500 property assets by 2018</td>
<td>Disposal of 100 property assets</td>
<td>Disposal of 150 property assets</td>
<td>Disposal of 250 property assets</td>
</tr>
</tbody>
</table>
b) Strategic objective: Improve Financial Performance and Governance

i) Key Performance Area: Financial Performance

<table>
<thead>
<tr>
<th>Key performance Outcome</th>
<th>Audited / Actual performance</th>
<th>Estimated Performance 2014/15</th>
<th>Medium-term targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce operational shortfall to R487m by 2018</td>
<td>(R156.7m) (R336.35m)</td>
<td>(R1.09bn) (Forecast)</td>
<td>(R588m) (R559m) (R487m)</td>
</tr>
<tr>
<td>Good corporate governance</td>
<td>Unqualified audit Unqualified audit</td>
<td>Unqualified audit Unqualified audit</td>
<td>Unqualified audit Clean Audit</td>
</tr>
</tbody>
</table>