


DELIVERY AGREEMENT

For Outcome: 6

An Efficient, Competitive and Responsive
Economic Infrastructure Network




INTRODUCTION

Government has agreed on 12 outcomes as a key focus of work between now and 2014. Each outcome has a limited number of measurable outputs with clearly defined targets. Each output is linked to a set of activities that will help achieve the targets and contribute to the outcome. Each of the 12 outcomes has a Delivery Agreement which in most cases involve all spheres of government and a range of partners outside government. Combined, these agreements reflect government's delivery and implementation plans for its foremost priorities.

This Delivery Agreement is a negotiated charter which reflects the commitment of key partners involved in the direct delivery process to implement the identified activities effectively. It covers strategic and priority outputs and sub-outputs which, when achieved, will contribute to the realisation of **Outcome 6**. Additional and supporting outputs, sub-outputs and activities which also contribute to the achievement of **Outcome 6** are captured in the delivery matrix attached as Annexure A. The Delivery Agreement provides detail to the outputs, targets, indicators and key activities to achieve Outcome 6, identifies the required inputs and clarifies the roles and responsibilities of the various delivery partners. It spells out who will do what, by when and with what resources. The outcomes apply to the whole of government and are long term. While the Delivery Agreement may contain longer term outputs and targets, it also includes outputs and associated targets that are realisable in the next 4 years.

It also considers other critical factors impacting on the achievement of Outcome 6, such as the legislative and regulatory regime, the institutional environment and decision-making processes and rights and resources needed as well as the re-allocation of resources where appropriate.

This Delivery Agreement will be reviewed annually in light of lessons learned and challenges identified in implementation as well as the monitoring and evaluation (M&E) of findings. Accordingly, it will be refined over time and become more inclusive of the relevant delivery partners.

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3



GLOSSARY

- **ACSA:** Airports Company of South Africa
- **CAA:** Civil Aviation Authority
- **CST:** Central Standard Time
- **CTF:** Coal Transporters' Forum
- **DTT:** Digital Terrestrial Television
- **DVBT:** Digital Video Broadcasting Terrestrial
- **DIA:** Durban International Airport
- **DSM:** Demand Side Management
- **ECNS:** Electronic Communication Network Services
- **EDI:** Electricity Distribution Industries
- **Gbps:** Gigabytes Per Second
- **GFB:** General Freight Business
- **ICASA:** Independent Communications Authority of South Africa
- **ICT:** Information, Communication and Technology
- **INEP:** Integrated National Electrification Programme
- **IPP:** Independent Power Producers
- **IRP:** Integrated Resource Plan
- **IRPTN:** Integrated Public Transport Networks
- **ISDBT:** Integrated Services Digital Broadcasting Terrestrial
- **ISO:** Independent System Operator
- **MIG:** Municipal Infrastructure Grant
- **MTEF:** Medium Term Expenditure Framework
- **MTPPP:** Medium Term Power Purchase Programme
- **MW:** Megawatt
- **NERSA:** National Energy Regulator of South Africa
- **NLTA:** National Land Transport Act
- **Mtpa:** Million tons per annum
- **PPA:** Power Purchase Agreements
- **PRASA:** Passenger Rail Agency of South Africa
- **RE:** Renewable Energy
- **REDS:** Regional Electricity Distributors
- **REFIT:** Renewable Energy Feed-in Tariff
- **RIFSA:** Road infrastructure Framework for South Africa
- **SABC:** South African Broadcasting Corporation
- **SANRAL:** South African National Roads Agency Limited
- **STB:** Set Top Boxes
- **TCTA:** Trans Caledon Tunnel Authority

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- **TNPA:** Transnet National Ports Authority
- **USAF:** Universal Services Access Fund

1. HIGH LEVEL PROBLEM STATEMENT

South Africa’s infrastructure spend has been increasing since the 2003/04 Medium Term Strategic Framework, reaching a peak with the country’s preparation for the FIFA 2010 World Cup. There is evidence to suggest that increases in infrastructure investment have helped to cushion the country against the harsh effects of the global financial crisis. However, the sector is characterized by serious challenges which limit its full contribution to the economy. These challenges range from the dominance of monopoly suppliers, lack of competition and weak regulation. In addition, the maintenance of infrastructure has also not been prioritized over the years. The upshot of such failures has been infrastructure, operations and services which are not fully responsive to the country’s economic needs. Against this backdrop, Outcome 6 focuses on the corrective measures or interventions that government needs to institute in order to maximize the impact of infrastructure investment to economic growth. The aim is to increase competition, strengthen regulation and accelerate the revitalization of the ageing infrastructure.

Four key categories of constraints to infrastructure development have been identified in respect of these sectors as summarized and discussed below:

INSUFFICIENT AND INADEQUATE INFRASTRUCTURE	<ul style="list-style-type: none"> • Infrastructure backlogs • Supply and demand imbalances • Lack of clarity on roles and responsibilities: policy planning, approvals, implementation, funding and monitoring.
LACK OF MAINTENANCE AND REFURBISHMENT	<ul style="list-style-type: none"> • Maintenance receives low priority, is poorly funded and leads to higher costs in sustaining infrastructure networks.
OPERATIONAL INEFFICIENCIES	<ul style="list-style-type: none"> • Operational inefficiencies lower the levels of service, increases costs and results in greater cost required to maintain the infrastructure.
UNCOMPETITIVE ENVIRONMENT AND REGULATORY CONSTRAINTS	<ul style="list-style-type: none"> • Lack of competition and high barriers to entry limit the responsiveness of sector. • Regulation is weak, not effectively guided by policy and there are constraints in terms of capacity and scope.

Uncompetitive environment and regulatory constraints

Monopoly suppliers largely provide infrastructure in the transport and energy sectors. This has resulted in a lack of competition and high barriers to entry, which in turn has limited the responsiveness of the ports, rail, and electricity generation sectors to economic growth. Furthermore, regulation within and across the sectors has been weak and characterized by the absence of policy guidance in terms of the






broad economic objectives pursued by government. Consequently, regulators often do not take into account government's objectives when intervening in the respective sectors.

In addition, there are capacity constraints within the regulators. For example, in some instances regulators come against monopoly suppliers who are more resourced and render the regulator ineffective, through prolonged litigation processes. In other instances, the scope of regulation is inadequate in relation to the challenges the sectors face e.g. ICASA having to keep abreast with a rapidly changing communications environment which is driven by private sector innovation. The weak regulatory environment and practices manifests in pricing and tariff structures that are not cost reflective. Thus, there is no transparency in the extent to which prices include subsidies and this leads to questions around the sustainability of services being provided.

Insufficient and inadequate infrastructure

Over the years there has been inadequate investment in economic infrastructure and backlogs continue to grow. Consequently, economic growth has been constrained by a lack of infrastructure in some instances, and in other instances by the infrastructure going into disrepair due to inadequate investment in maintenance.

This problem stems from a lack of long term planning in a manner that takes into account projected economic demand growth. The lack of co-ordination between capital investment programmes by the public and private sectors, including its sequencing and financing, leads to poor harnessing of potential synergies that exist for the countries common good.

The lack of infrastructure in certain geographical locations in South Africa has been identified as a constraint to economic growth. Whilst access to some infrastructure (like electricity) might be seen as a social programme, there is a correlation between access to electricity by households and economic growth (stimulates demands for other goods and services that rely on electricity, e.g. appliances). Consequently, mechanisms need to be put in place to ensure that universal access is not a constraint to economic growth.

Funding in a constrained economic climate is an additional problem, but we have not been able to manage this through innovative approaches to mitigate the financing risks. Poor leveraging of finance sometimes leads to investments in old technologies, which in the long run becomes costly for the country in time and financial terms. For example, in transport the lead time for acquiring rolling stock is very long because equipment is sourced from the global market which is now mainly geared to support new technologies. Another example is rail infrastructure that cannot accommodate transportation needs due to lack of expansions to accommodate increasing needs, e.g. mining (coal mining in the Waterberg area) and Agriculture, which impedes the ability of those industries to grow and contribute to the economic growth of South Africa. Container capacity at ports not being able to meet capacity demands are impediment to exports required to support economic growth.

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Lack of maintenance and refurbishment

Maintenance of economic infrastructure does not enjoy the level of priority commensurate to ensure a sustainable and reliable service. In some sectors the problem is due to service providers appropriating inadequate levels of funding for maintenance, and in others the problem is due to the revenue not being used for the intended purpose, e.g. electricity distribution at municipality level. Poor maintenance leads to accelerated asset degradation and if there is no investment in refurbishment, the infrastructure will reach a state of complete degradation – the problem of infrastructure needing complete overhauling is common place in the economic sector.

Poor maintenance and refurbishment of infrastructure can partly be located in the lack of implementation of policy and enforcement of maintenance instruments as well as ensuring that budgets provide for maintenance programmes and monitoring for compliance. Indeed, whilst government has passed the Government Immovable Asset Management Act (GIAMA) and developed the National Infrastructure Maintenance Strategy (NIMS), the implementation of and compliance with the provisions of these instruments has been very weak at best.

A particular problem that is prevalent in municipalities and some provinces is the lack of institutional capacity for maintenance, due to skills shortages. Generally, there is a lack of sector specific asset management policies, life cycle management models and management capacity for executing maintenance to the desired standard.

Unmaintained infrastructure affects a significant part of logistics in the economy from passenger transport to the transportation of good, as it means it might take longer to transport people and goods from one destination to another, meaning that goods are not received on time, a lot of hours of work is lost with vehicles stuck in the traffic for extended hours. All these impact negatively on economic growth. Old wagons and signaling systems impact negatively on the reliability of rail freight, meaning that goods are not able to reach their destinations at desired times, or in some instances customers might cancel orders due to costly delays, all these impacting negatively on the economy's ability to grow.

Operational inefficiencies

Operational inefficiencies lower the levels of the utility service and increase the costs of the service. This invariably leads to additional infrastructure being constructed to provide capacity where an improvement in operational efficiency could have ameliorated the need for the infrastructure. The lack of consistency in the reliability of infrastructure services is symptomatic of the underlying problems. Whilst there are a myriad of factors that contribute to operational inefficiencies; low productivity levels; poor labour relations and the management thereof, the lack of experience and skills as well old technology are key contributory factors. These operational problems are most acute in the transport sector and as a result Output 6 of this Delivery Agreement focuses on operational efficiency indicators in this sector.

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The Department of Public Enterprises is currently monitoring the Transnet and Eskom Build Programmes and will consistently include the relevant reports as part of the Cluster’s progress report to apprise Cabinet of the fact that the infrastructure investment is on schedule and the relevant potential risks are being monitored and control measures are in place to mitigate those risks.

2. IDENTIFICATION OF DELIVERY PARTNERS

As a cross-cutting programme, infrastructure development requires partnerships with multiple stakeholders within and outside government. Budget and planning for infrastructure programmes cut across different government departments; the various spheres of government and the State-Owned Enterprises or Agencies. To ensure that the Infrastructure Development Cluster achieve its mandate and deliverables in a consolidated manner, a set of partnerships with various stakeholders will be required. However, for effective accountability, it will be necessary to differentiate between lead and core departments, including external stakeholders that will provide technical support and contribution towards achieving the different set of outputs as outlined in the Delivery Agreement.

Core departments and strategic partners will, as and when required, form task teams and report on various implementation elements under this outcome. The delivery partners will be led by the lead cluster departments (chair and co-chair), in this case the Departments of Transport and Public Enterprises and other core departments for the various sectoral outputs.

Table 1: Proposed Project Implementation Forum

Lead Department	Co-Chair	Signatories to the Delivery Agreement	Key Stakeholders
DOT	DPE	Department of Energy Department of Water and Environmental Affairs Department of Communications	National Treasury Department of Economic Development Department of Agriculture Department of Cooperative Governance and Traditional Affairs Transnet, Eskom, SALGA, SANRAL, TELKOM, SABC, Regulators, PRASA, Private Sector, SENTECH, Host Cities, ICASA, TransCaledon Tunnel Authority (TCTA), Central Energy Fund, Development Funding Institutions (DFIs). Provincial Departments with infrastructure development functions and responsibilities.

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3. LINKING OUPUTS TO OUTCOME 6

The benefits of investing in infrastructure are derived from the dual purpose of infrastructure being a final good providing services directly to consumers (e.g. in water and electricity) as well as an intermediate input that raises the productivity of other sectors (eg. rail). The provision of efficient infrastructure can also stimulate new investments and job creation. However, in order to realise these benefits, it is imperative that the infrastructure provider is operationally efficient, the services are appropriately priced and is accessible to users. South Africa's location which is far from its markets and the undesirability of weakening exchange rates to boost its competitiveness necessitate that the country's economic infrastructure be far more efficient and cost effective.

Over the past three decades there has been a general deterioration in most infrastructure across the sectors. In part this was due to a shift in policy in favour of social development imperatives to address our country's political legacy issue resulting in inadequate investment in and maintenance of infrastructure. However, other contributory factors have included lack of integrated planning, inability to regulate the various components of the infrastructure network sector and develop and manage processes to bring in private sector role players in the provision, operations and/or maintenance of our infrastructure. Operational efficiency, competitive pricing and accessibility continue to hamper delivery in infrastructure sectors. To address these, the following measurable outputs and targets have been identified to address these challenges to achieve the outcome: **"An efficient, competitive and responsive economic infrastructure network."** These are:-

- Output 1** - Improving competition and regulation.
- Output 2** - Ensure reliable generation, distribution and transmission of electricity.
- Output 3** - To ensure the maintenance and strategic expansion of our road and rail network, and the operational efficiency, capacity and competitiveness of our sea ports.
- Output 4** - Maintenance and supply availability of our bulk water infrastructure.
- Output 5** - Communication and information technology.
- Output 6** - Develop a set of operational indicators for each segment.

The graphic illustration below provides a summary:

CHALLENGES	ELECTRICITY	TRANSPORT	WATER	COMMUNICATIONS
Insufficient and inadequate Infrastructure	<ul style="list-style-type: none"> • Demand outstrips supply • Funding for existing and 	<ul style="list-style-type: none"> • Demand outstrips supply • Constrained and 	<ul style="list-style-type: none"> • Extending bulk networks & storages for greater access. • Appropriate pricing & 	<ul style="list-style-type: none"> • Access for under-serviced areas

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	new capacity required	accessibility and mobility across logistics chain.	funding models	
Lack of maintenance of refurbishment	<ul style="list-style-type: none"> • Distribution Maintenance and refurbishment Backlogs • Funding for backlogs 	<ul style="list-style-type: none"> • Backlogs in strategic road refurbishment , rail infrastructure and strategic roads • Funding Model 	<ul style="list-style-type: none"> • Aging dams and distribution systems • Skills and management of distribution systems 	•
Operational inefficiencies	<ul style="list-style-type: none"> • Reliability of infrastructure. • Transmission network is not able to meet the contingency requirement for (N-1) 	<ul style="list-style-type: none"> • Productivity (Port Crane moves, wagon turnaround) • Rail Reliability 		
Uncompetitive environment and regulatory constraints	<ul style="list-style-type: none"> • Pricing – Non-cost reflective tariffs • Lack of Network Access for IPPs 	<ul style="list-style-type: none"> • Industry structure • Non-cost reflective tariffs • Policy & Regulatory Frameworks • Lack of private operators 	<ul style="list-style-type: none"> • Pricing-Cost reflective tariffs on raw water • Appropriate institutional arrangements • Improved Regulation 	• Cost to communicate

The sectoral components of the infrastructure network dealt with in Outcome 6 are:

- Transport (ports, rail and roads)
- Water
- Electricity
- Information and Communication Technology

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10

Output 1: Improving competition and regulation affects all sectors and has been identified as a cross cutting output and is covered as a generic challenge in all sectors. The highly concentrated supply (industry monopolies) and the weak regulatory environment serve to sustain a lack of competition among infrastructure providers. The output aims to address the lack of competition and high barriers to entry which limit the responsiveness of the sectors to economic demands.

Output 2: Ensure reliable generation, distribution and transmission of electricity aims to tackle planning challenges within the electricity sector and to improve the efficiency and reliability of electricity infrastructure. Output 2 activities will address planning and reliability challenges caused by a lack of maintenance within the distribution sector.

Output 3: To ensure the maintenance and strategic expansion of our road and rail network, and the operational efficiency, capacity and competitiveness of our sea ports aims to address the underinvestment in ports, road and rail, the consequential obscure subsidies in ports and rail which impact on pricing efficiencies as well as the need to secure adequate funding for infrastructure investment. It addresses the requirement for a shift of goods from road to rail to enable competitive and responsive supply chains for bulk exports from South Africa. The activities flowing from this output address the need to have an innovative solution for road maintenance.

Output 4: Maintenance and supply availability of our bulk water infrastructure aims to address the insufficient supply of water to support the growing economy. The output proposes an intervention through government investment in the bulk raw water infrastructure network which will serve as a catalyst for growth in development corridors.

Output 5: Communication and information technology deals with the need for improved broadband infrastructure to stimulate economic growth, considering that the ICT market contributes approximately 6.4 % of South Africa's GDP (according to the International Peer Benchmarking Study on the Cost to Communicate in South Africa, 2008). The cost of broadband and its impact on low broadband penetration and usage, digital divide and rural-urban divide are addressed to ensure provision of competitively priced ICT infrastructure that is responsive to the needs of the South African economy.

Output 6: Develop a set of operational indicators for each segment. Although there are challenges with operational inefficiencies across all infrastructure networks, the problem is more pronounced in the transport sector and it constitutes a major constraint to the competitiveness of the transport system, particularly in ports and rail. Consequently, Output 6 which focuses on the development of operational indicators is only addressed in the port and rail sub-sectors of transport. Operational efficiency

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11



indicators selected to monitor improvement in efficiencies include port productivity and rail reliability indicators.

OUTPUT 2: ENSURE RELIABLE GENERATION, DISTRIBUTION AND TRANSMISSION OF ELECTRICITY

Electricity has been characterized by blackouts and brownouts (where there is insufficient power to run machinery) which impact negatively on the economy. The following have been identified as key issues to address, which when successfully implemented will significantly improve generation, distribution and transmission or sustainable supply of energy for the country:

- (i) introduction of a long term planning framework (Integrated Resource Plan or IRP);
- (ii) development of a funding model for the build programme of the country;
- (iii) introduction of a regulatory environment conducive for Independent Power Producers (IPPs) to bring investments in the generation sector side-by-side with Eskom;
- (iv) creation of an Independent System Operator for electricity; and
- (v) increasing access to electricity by domestic households.

2.1 Long-Term Plan to balance electricity supply-demand

The need to provide a long-term plan for electricity capacity expansion is premised on the need to trigger timely investment decisions that will be in tandem with economic growth. Historically South Africa has either over-invested in new power stations, or delayed investments to such an extent that energy security has been jeopardized. This problem is based on the lack of a co-ordinated approach to initiating timely investments, exacerbated by the lack of a long-term plan that provides certainty about the investments necessary for the sector. The Integrated Resource Plan (IRP) is designed to address this problem. It also provides a framework for meeting other government objectives for the electricity sector, including diversification from coal as a dominant source of primary energy, curbing environmental degradation caused by the sector (through renewable energy and energy efficiency) and aligning with the growth path set for the country.

LEAD DEPARTMENT	DEPARTMENT OF ENERGY
OTHER DEPARTMENTS	IMC ON ENERGY (DPE, DWA, NT, CoGTA, DTI, PRESIDENCY)
OTHER STAKEHOLDERS	ESKOM

2.2 Funding model for the generation capacity programme

In order to ensure that the IRP is practical and implementable, it needs to be linked to a funding model. The funding model will address Eskom’s and the IPP requirements by considering the appropriate allocation between tariff, fiscal and borrowings in respect of the capacity required in the IRP.

In the case of Eskom, a funding gap of about R190bn has been identified in relation to its build programme. The funding of Eskom going forward requires government to seriously consider other related issues (beyond tariff and guarantees), like the appropriateness of an equity injection by the State

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and the extent to which the private sector rather than Eskom must deliver on the build programme. In the case of IPPs, the funding model will also address the extent to which a government support package needs to be provided to the buyer of electricity from IPPs, for credit-enhancement purposes.

LEAD DEPARTMENT	DEPARTMENT OF PUBLIC ENTERPRISES
OTHER DEPARTMENTS	IMC ON ENERGY (DPE, DWA, NT, CoGTA, DTI, PRESIDENCY)
OTHER STAKEHOLDERS	ESKOM, DEVELOPMENT FINANCE INSTITUTIONS

2.3 Conducive environment for Independent Power Producers

Eskom is a dominant player in the generation of electricity, providing over 90% of the country's requirements. The extent of funding required for new power stations over the next 20-years is a key determinant in the decision that Eskom alone cannot provide the capacity requirements, and that IPPs are necessary to bring in private sector investment to augment the public sector funding.

LEAD DEPARTMENT	DEPARTMENT OF ENERGY
OTHER DEPARTMENTS	IMC ON ENERGY (DPE, DWA, NT, CoGTA, DTI, PRESIDENCY)
OTHER STAKEHOLDERS	ESKOM, DTI

2.4 Institution of the Independent System Operator (ISO)

The current regulatory framework for power generation and trading favours Eskom and is not conducive for IPP participation in the sector. In addition to the introduction of an Independent System Operator (a role which Eskom currently plays at the same time as being a dominant seller), which is discussed hereunder, there are regulatory constraints that have to be addressed to facilitate IPPs. These constraints include open and non-discriminatory access to the transmission grid, providing regulatory certainty to the buyer regarding cost recovery and a fair return on investment, and providing government support to underpin the risks associated with power purchase agreements.

The ISO will provide a platform for introducing IPPs and REnewable technologies whilst minimizing impact to the end-users

LEAD DEPARTMENT	DEPARTMENT OF PUBLIC ENTERPRISES
OTHER DEPARTMENTS	IMC ON ENERGY (DPE, DWA, NT, CoGTA, DTI, PRESIDENCY)
OTHER STAKEHOLDERS	ESKOM

2.5 Reduce distribution maintenance backlogs

The distribution leg provides the interface with the electricity end-user in the electricity value chain. Whilst it is necessary to build new power stations and to increase supply capacity, it is equally important that the integrity of the distribution sector is improved to ensure reliability of electricity supply and

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ensuring security of energy supply. The reliability of municipal distribution infrastructure in particular, is compromised by huge backlogs in maintenance and refurbishment. Consequently, this sub-output will assist in achieving reliability through the reduction of current levels of maintenance and refurbishment backlogs in municipalities and Eskom (currently estimated at R27bn) to R15 billion by 2014.

2.6 Household access to electricity and protection of the poor

Access to electricity in South Africa has improved considerably from the levels of 1994. Current access is beyond 80% from 32% before 1994. Even with such figures, a lot more work is still required to ensure that 92% of the country is electrified by 2014. Protection of the poor also remains important in the context of rising tariffs. The Electricity Pricing Policy highlighted the need for cost reflective tariffs, this is being phased in over 5 years by the regulator.

LEAD DEPARTMENT	DEPARTMENT OF ENERGY
OTHER DEPARTMENTS	IMC ON ENERGY (DPE, DWA, NT, CoGTA, DTI, PRESIDENCY)
OTHER STAKEHOLDERS	SALGA, METROS

2.7 Funding framework

Funding for electricity industry infrastructure is one of the biggest challenges for the country. Whilst a subordinated loan of R60 billion has been provided government for committed capital expenditure, a further R550 billion (of which R176 billion has already been granted by Government) in guarantees is required by Eskom to source adequate funding and limiting the risk of expensive loans.

Further funding needs to be sought for the electricity distribution industry maintenance and refurbishment backlogs.

Project Details

Major Capital Projects	MW Installed	Total Costs (est.) (R'bn)	Funding secured (Y/N)	Funding Source	Completion Date
Grootvlei RTS	1 200	7.9	Y	Retained Earnings+Debt	2011
Komati RTS	1 000	13	Y	Retained Earnings+Debt	2012

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Ingula	1 352	21.8	Y	Retained Earnings+Debt	2015
Kusile	4 800	170	N	Debt, Equity, Guarantee	2015
Medupi	4 764	125	Y	Debt, Equity, Guarantee	2013
Arnot Capacity Increase	300	1.45	Y	Debt, Equity, Guarantee	2011
Sere Wind Farm	100	1.17	Y	Debt, Equity, Guarantee	2012
Upington Solar	100	3.5	Y	Debt, Equity, Guarantee	2012
OCGT IPP	1 000	6	N	Debt, Equity, Guarantee	2013

OUTPUT 3: ENSURE MAINTENANCE AND STRATEGIC EXPANSION OF ROAD AND RAIL NETWORK, OPERATIONAL EFFICIENCY, CAPACITY AND COMPETITIVENESS OF SEA PORTS

The maintenance and expansion of road and rail networks, operational efficiency, capacity and competitiveness of the sea ports is an overarching output for streamlining freight and passenger movement in a manner that allows integrated planning and competitive supply chains across the transport sector. This output therefore has the following underpinning elements as sub-outputs:

3.1 Increase market share of total rail freight

It is estimated that there are approximately 1,5 billion tons of land freight moving within the country. However, only about 177 million tons move by rail, and the rest is by road. This has led to a situation where there is overloading on roads whilst rail remains under-utilised. Inefficiencies within the rail system has often been cited as the main driving force behind the under-utilisation of rail. The problem is further exacerbated by the absence of competition in the rail environment.

In this regard activities on this output include a detailed diagnostic of Transnet Freight Rail (TFR) operations and issues related to the continuous decline of rail market share to road, where road currently transports over 13% of corridor traffic (i.e. 213 million tons) and rail only 3%. Critical rail investments to address backlogs will be made in respect of the procurement of rolling stock (i.e. wagons and locomotives) for Transnet and PRASA. Planned rolling stock investments are dealt with as part of the Competitive Supplier Development Programme (CSDP) which will consolidate the 15 year fleet procurement plan for the two State entities. An additional measure to increase rail market share is through the introduction of multiple operators on the branch line network. The logic is that the revitalization of branch lines will facilitate additional volumes on the core/primary network as branch

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lines are feeders to the core network. Currently branch lines move 5.9 million tons (net tons per annum) of freight and the target is to increase rail friendly cargo moved on branch lines to 8 million tons by 2014. The revitalization of branch lines will not only contribute to increased traffic on rail but will impact positively on the secondary road network (where it is located parallel to branch lines) which currently carries the bulk of the traffic that should naturally be moved by rail.

In order to attract more cargo to rail, there is a need for Government to intervene decisively to increase the rail market share and foster competition through the introduction of private operators. In the meantime, Government has set a target of increasing the rail market share to 250 million tons by 2014. There is a joint initiative involving the DOT, DPE and Transnet which is aimed at developing policy that will ensure an optimum cargo split between road and rail; increase corridor traffic on rail; and mitigate against further deterioration of the secondary road network.

LEAD DEPARTMENT	PUBLIC ENTERPRISES
OTHER DEPARTMENTS	DoT, NT, PRESIDENCY
OTHER STAKEHOLDERS	TRANSNET, FREIGHT INDUSTRY

3.2. Adequate Maintenance of Roads in support of coal haulage and migration of coal haulage to rail

In February 2010 Eskom, the South African National Roads Agency Limited (SANRAL) and the Mpumalanga Department of Public Works, Roads and Transport (DPWRT) undertook a comprehensive assessment of the condition of existing and possible future coal haulage routes in an effort to establish and identify the coal haulage network. The network comprises of 2 430 km of road length and a project list of all the road sections required to be repaired and their proposed treatments and initial cost estimates was done for each project.

Funding for the road rehabilitation has been a major challenge for both Eskom and Government. Working group 8 (Coal haulage logistics) of the Inter-Ministerial Committee (IMC) in Energy has established of a funding mechanism to repair and rehabilitate the damaged road. The funding for the coal haulage road rehabilitation programme can be divided into three streams which include:

- Existing allocations towards the coal haulage network in Mpumalanga of R 120 m in 2010/11 and R 200 m in 2011/12. The DPWRT is utilising these funds for the rehabilitation of coal haul roads (P29/1 from eMalahleni to Ogies and P50/1 from Ermelo towards Morgenzon).
- Expenditure and reporting on these projects will be separated from general reporting on the Provincial Infrastructure Grant and made available to the National Treasury on a quarterly basis.
- Funding available on the DOT budget baseline amounts to R750 million in 2011/12 and R750 million in 2012/13.

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In an effort to reduce the number of truck on the roads, Eskom plans to execute the rail migration plan which will see the migration of some 26 million tons per annum (Mtpa) of coal from road to rail by 2018. This will reduce the road transport to less that 5% of the total coal procured.

Currently Eskom only receives coal by rail at the Majuba Power Station, amounting to ~ 5,8Mtpa in FY 2010 (year ended 31 March 2010). This coal is railed in coal wagons, and is off-loaded by means of a Tippler mechanism into a conveyor system. This volume therefore serves as the baseline for the Eskom Rail Migration growth profile of volumes to be railed going forward.

The successful implementation of the rail migration strategy will see the number of full truck trips per day decline to some 550 and the total required number of vehicles reduced to approximately 250. This strategy has been formally tabled by Eskom with the Road Transporters and has been fully debated with their representative body, the Coal Transporters Forum (CTF).

Eskom and TFR have agreed to conclude a Heads of Agreement covering the rail migration strategy, and this document has had input from DPE, the Department of Transport (DoT) and the National Treasury.

This Heads of Agreement will comprehensively deal with:

- Capacity (slot) planning in the National Infrastructure Plan
- Service Design, train plans and resourcing (as has been supplied for Majuba and Camden)
- Required investments by TFR in rolling stock (locomotives/wagons) and infrastructure; and
- Competitive pricing regime for Eskom business.

As Government's shareholder representative for both Eskom and Transnet, DPE will be responsible for ensuring that a Heads of Agreement is concluded between the two parties and that the rail migration milestone dates are timeously achieved.

The DPE will also be responsible for ensuring that all inefficiencies encountered by Transnet are closely monitored to prevent any delays and all required investments by Eskom and Transnet are rolled out as planned. Eskom and TFR have already established structures to manage the growth in volumes to Majuba as well as joint project teams to manage the Majuba Heavy Haul line as the other planned rail projects.

LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	DPE, ENERGY, NT, PRESIDENCY
OTHER STAKEHOLDERS	ESKOM, TRANSNET, MPUMALANGA PROVINCIAL GOVERNMENT

3.3 Implementation of the Ports Act

A high proportion (28%) of South Africa's GDP is derived from exports. Globally, ports face multiple challenges as a result of fast growing trade volumes and global trends that drive structural changes. The freight system's ability to effectively respond to these challenges will become a critical factor in ensuring future trade growth prospects.

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This sub-output aims to address the challenge faced by South Africa to achieve the objective of a globally competitive ports system that is responsive to the shipping industry trends. New investments in ports are now mainly targeted at certain ports which are well placed to serve as major or hub ports. This development arises from the global shipping trend of bigger vessels calling at only major ports thus necessitating the need for transshipment (in the container industry specifically). These hub ports would then service the shipping lines for purposes of transshipment to other 'smaller' ports which serve as feeder ports. The port of Ngqura has been identified as the best location to establish a container transshipment facility. Presently the public operator, Transnet Port Terminals (TPT) is the dominant operator (with 98% of the market) of container handling facilities. In consideration of the requirements for a viable terminal, it is proposed that a private operator (with some association to shipping lines), is introduced at the Ngqura container terminal to enhance Ngqura's role as a transshipment terminal. The introduction of a new private operator will also entail some competition to the public operator (TPT) for the market. In order to achieve this objective, there is a need to review certain provisions of the Ports Act.

LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	DPE, NT, PRESIDENCY
OTHER STAKEHOLDERS	NPA

3.4 Rail Act

The development of the rail policy and act to provide an enabling framework for economic and safety regulation within the rail sector is necessary to address the weaknesses in competition and regulation in this sector. The branch lines will benefit from the policy and legislative review.

LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	DPE, NT, PRESIDENCY
OTHER STAKEHOLDERS	TRANSNET, NPA

3.5 Review of the transport industry structure (separation of infrastructure and operations)

The transport industry is characterized by poor institutional co-ordination and regulation and limited private sector participation especially in the rail and ports sectors. The challenge extends to regulatory institutions where the policy emphasis has been on establishing regulators for various modes e.g. port and rail. Further impacting this challenge is the fact that, there is no clear distinction between policy, regulation and operations. This has resulted in difficulties in streamlining transport logistics in the country.

A re-appraisal of the transport industry structure is necessary to address these challenges; which appraisal will be achieved through a review of the National Freight Logistics Strategy. In addition, a

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comprehensive Transport Regulator for the sector is being considered, with the aim of facilitating private sector participation in ports and rail.

LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	DPE, NT, PRESIDENCY, ECONOMIC DEVELOPMENT
OTHER STAKEHOLDERS	TRANSNET, NPA

3.6 Framework for cross-subsidisation in the transport sector

There is lack of transparency with cross-subsidisation of operations and infrastructure in ports and rail, which affects funding and investment decisions. An Inter-Ministerial Committee between the DoT and DPE has been established to provide guidance and direction on the development of a model for transparent cross subsidization and information sharing.

LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	DPE, NT, PRESIDENCY
OTHER STAKEHOLDERS	TRANSNET, NPA

3.7 Secure adequate funding for Integrated Rapid Public Transport Networks (rail passenger and road based transport)

After many years of neglect, the existing commuter transport system has reached saturation levels and is unable to satisfy passenger demands while its infrastructure is not able to meet the requirements of a rapidly changing and modern society. Passenger rail and road transport in South Africa, still faces inadequate investments in rolling stock, infrastructure and operations as well as the loss of appropriate managerial and technical skills. The urbanising metropolitan areas in relation to rail corridors have not kept pace with the rapidly changing landscape resulting in limited coverage in key areas of urban expansion with the consequential loss of significant market share. A prolonged 30 year under-investment has resulted in levels of service experiencing continued decline, due to reduced availability of reliable rolling stock, where the condition of the rolling stock is deteriorating faster than the rate of overhauls undertaken.

The Public Transport Infrastructure and Services Grant for the 2010 FIFA World Cup created an enabling environment for improving public transport operations and infrastructure development. This intervention has provided a solid foundation for the prioritisation and implementation of integrated public transport solutions for improved mobility. In this context, the Moloto Rail Corridor has been prioritised for construction to facilitate the development of rural commuter rail. The initiative will help to bring to fruition the integration of the travel chain between rail, buses and taxis as envisaged in the Public Transport Strategy.

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Furthermore, there are plans to extend the Integrated Rapid Public Transport Networks systems, for both Bus Rapid Transport and rail, to other areas of demand. Currently these operations are only in the Johannesburg, Nelson Mandela Bay and Cape Town cities. A full rollout of Phase 1 is underway for completion and funding allocations over the MTEF period is R 12,3 billion for the road based transport and R 16,6 billion for rail.

The Passenger Rail Agency of South Africa (PRASA) has targeted six category A and five category B corridors, having 500 new coaches and 9400 signaling elements by 2030. The available funding for rail passenger transport over the MTEF period is R 16,6 billion, of the required R 23, 4 billion, with the current backlog of R109 billion.

The disintegration of passenger and freight rail services and the lack of a Transport Regulator to allow for integrated services have impacted negatively on the operational efficiencies of both passenger and rail services e.g. network access. Under-investment in rolling stock has resulted in passenger rail and road services not being able to meet the required customer demand and service. The delayed integration of operations (travel chain) as per the mandate of the Public Transport Strategy (2006), the key thrust of which is to optimise and transform the bus sector, implement the taxi recapitalization programme, etc.

LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	NT, PROVINCIAL DEPARTMENTS
OTHER STAKEHOLDERS	METROS

3.8 Secure adequate funding for Integrated Rapid Public Transport Networks (rail passenger transport)

Currently, Moloto Rail Corridor is prioritized to provide rural rail passenger services. The Department of Transport has also prioritised 11 other passenger rail corridors to be provided with 500 new coaches and 9400 signaling systems by 2030. Over the MTEF period an amount of R16,6 billion has been allocated from the required R 23,4 billion resulting in a backlog of R6,8 billion.

LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	NT, PRESIDENCY
OTHER STAKEHOLDERS	PRASA

3.9 Secure adequate funding for Integrated Rapid Public Transport Networks (road based transport)

Currently BRT infrastructure and services have been implemented in Johannesburg, Cape Town and Nelson Mandela Bay. There is a need to extend the service to cover other transport corridors which are part of the overall Integrated Rapid Public Transport Networks as per the Public Transport Action Plan of 2007-2010.

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LEAD DEPARTMENT	DEPARTMENT OF TRANSPORT
OTHER DEPARTMENTS	NT, PRESIDENCY
OTHER STAKEHOLDERS	METROS, SANRAL

3.10 Operational efficiency

3.10.1 Ports

Transnet has invested a total of R 93, 4 billion over the next 5 years in its capital expenditure programme. Of this amount R 24, 7 billion will be spent on ports, with the aim of enhancing the provision of port infrastructure to meet the current and future demand. The two main objectives with regards to operational efficiencies are:

1. To improve the productivity of container handling and operations within all the sea ports in the country. Specifically the target is to increase the current movement of 22 containers per hour to 40 moves per hour by 2014.
2. To improve the ship turnaround time in the sea ports from the current 48 hours to 38 hours by 2014 focusing on the Durban Container Terminal, as it is the busiest port in the Southern hemisphere in both tonnage and value.

LEAD DEPARTMENT	PUBLIC ENTERPRISES
OTHER DEPARTMENTS	DOT, NT, PRESIDENCY
OTHER STAKEHOLDERS	TRANSNET, PORTS AUTHORITY, NPA

3.10.2 Rail

Currently, the rail market share is approximately 14% of the total land freight movement with the remaining 86% tons moved by road. This clearly indicates the loss of freight volumes from rail to road; however, with improved investments by Transnet, the rail market share is continuously improving. From the total Transnet capex of R93, 4 billion, R54,6 billion is earmarked for investment in the rail freight sector with the following objectives:

1. To improve the rail market share, particularly in relation to corridor traffic from 3% in 2008 to 6% by 2012 and 10% by 2014.
2. To improve service reliability within the rail sector to reduce train cancelation, derailments and delays in scheduled departure and arrival times. No specific performance targets have been set, further engagement with Transnet will take place in this regard.

LEAD DEPARTMENT	PUBLIC ENTERPRISES
OTHER DEPARTMENTS	DPE, NT, PRESIDENCY, ECONOMIC DEVELOPMENT

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Funding framework

Transport infrastructure development has benefited from the R 842 billion Government investment in infrastructure which has enabled the implementation of major transport projects such as the Gauteng Rapid Rail Link - Gautrain (R23b), the revitalization of rolling stock and locomotives for PRASA, the Public Transport Infrastructure and Systems Grant (R9b) and off-balance sheet investment in airports infrastructure development and the Gauteng Freeway Improvement Project (R22b). Owing to the underinvestment in infrastructure over the past three decades, there is still significant infrastructure funding backlogs.

Project Details

Major Capital Projects	Road Km installed	Total Costs (est.) (R'bn)	Funding secured (Y/N)	Funding Source	Completion Date
ROADS					
Gauteng Freeway Improvement Project (GFIP)	185 km (ph1) 375 km (ph2)	23 (ph1) 33 (ph2)	Y N	Debt Debt	2010 (Ph1) 2020 (Ph 2b)
N2 Wild Coast	560 km	12	N	Private sector equity/debt	2018
Winelands	85 km	10	N	Private sector equity/debt	2015
Integrated Rapid Public Transport Networks	2-300km of trunk BRT	12.3	Y	PTIS Grant	5 cities – by 2014
Maintenance & Refurbishment Projects					
Rehabilitation: Coal Haulage Routes	2156 km	17	partial	Coal haulage levy, Fiscus and Eskom contribution	
Maintenance		67	R150b MTEF	MTEF: R41b Per annum	

PORTS					
Containers					
Construction of Port of Ngqura		3, 5	Y	Debt & Retained Earnings	2010
Ngqura Container Terminal development		5,3	Y	Debt & Retained Earnings	2011
Durban Harbour entrance channel widening and deepening		3,4	Y	Debt & Retained Earnings	2010
Durban Container Terminal reengineering		1,9	Y	Debt & Retained Earnings	2011
Durban berth: deepening of container berths 101 to 103 (Pier 1)		2, 5	N	Debt & Retained Earnings	Project commencing in the 2011/12 Financial year
Cape Town Container Terminal		4, 4	Y	Debt & Retained Earnings	2011
Break bulk					
Reconstruction of sheet pile quay walls at Maydon Wharf – Durban		1, 6	Y	Debt & Retained Earnings	2012
Dry bulk					
Dry Bulk Terminal (DBT) refurbishment and replacement of equipment		1, 7	Y	Debt & Retained Earnings	

FREIGHT RAIL					
Coal line expansion		3,1	Y	Debt & Retained Earnings	2015
Iron ore line expansion		4,2	Y	Debt & Retained Earnings	2013
General Freight Business		3,2	Y	Debt & Retained Earnings	2012
Re-instatement of all closed and lifted branchlines		64	N	Private investment via concessions	2014
Maintenance & Refurbishment					
Capitalization of infrastructure, wagon maintenance and locomotive change outs on core network		23,1	Y	Debt & Retained Earnings	Ongoing
Capitalization of maintenance on branch lines		1,0	Y	Budget request	Ongoing

OUTPUT 4: MAINTENANCE AND SUPPLY AVAILABILITY OF OUR BULK WATER INFRASTRUCTURE

To support South Africa's growth and development path, there must be sufficient water for the country to achieve its economic growth targets. At the same time, every person in South Africa must have access to potable water. These two goals must be achieved without compromising the ecological sustainability of the resource. Rigorous water assessment studies referred to as Reconciliation Strategies are undertaken in order to achieve the reconciliation of supply and demand for both water scarce areas as well as those experiencing relatively high levels of water demand. These strategies aim to ensure the supply of water at adequate levels of assurance within the constraints of affordability and appropriate levels of service to users and protection of current and possible future water resources. Due to an

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uneven distribution of water resources it is often necessary to transfer water across boundaries of water management areas.

The notion of water for development alludes to the role of water in the alleviation of poverty and people's constitutional rights to have access to a source of safe and reliable drinking water. Where a community cannot be serviced by a large-scale infrastructure project due to the cost of such an intervention (for example, pumping water to mountain-top communities at higher altitudes), then small-scale schemes must be planned and implemented. Where large-scale infrastructure could solve local water scarcity, such as the De Hoop Dam, the necessary planning and resourcing must be undertaken and interim measures introduced to compensate for the long lead-times. There is also a need to prioritise schemes in areas with resource development potential that coincide with areas with high service backlogs. It will also support sector plans where water use for growth purposes can simultaneously support water use for development purposes. The Department of Water Affairs (DWA) will seek out and support interventions that support the dual goals of water for growth and development as one goal should not be at the expense of the other.

The National Water Act (No 36 of 1998) provides for the establishment and management of infrastructure for the collection and delivery of untreated water as Government Water works. This infrastructure typically comprises of dams, tunnels, pipelines, canals, pump stations and associated infrastructure that spans the length and breadth of the country and is an essential life-line for industry, including users of national strategic importance such as Eskom power stations and Sasol, to agriculture, and to water service authorities which are responsible for treatment and onward delivery for household and commercial purposes. The ability of this infrastructure to perform effectively, in the context of the vagaries of rainfall patterns, is a matter of national consequence, with potential impacts on the economy, environment and the quality of life of people. A large percentage of national water resource infrastructures is approaching the end of its useful life and requires rehabilitation/refurbishment to extend the useful life.

Apart from ensuring water availability for growth purposes, the DWA is very mindful of water use behaviour that impacts negatively on both water resource quantity and quality. It is currently exploring a potential mix of mechanisms to change this behaviour, which include regulatory instruments, market-based instruments, self-regulation, and awareness and education, and it will match appropriate mechanisms to mitigate offending behaviour. The DWA is satisfied that it is taking the required course of action to ensure that it has the right kind of information at its disposal to make better informed and calculated decisions and trade-offs with respect to water in support of cross-sectoral planning and development initiatives.

4.1 New augmentation schemes implemented

The new schemes are to ensure the availability of sufficient supplies of water to support the growing economy and increased water demand for social needs. Seven (7) new bulk water augmentation projects are to be implemented. These projects will make additional water available to the energy,

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industrial, agricultural and domestic sectors in various parts of the country. These projects include three projects to augment water supply to existing and new coal-fired power plants of Eskom i.e. Medupi, Kusile, Duvha and Matla. Additional water for domestic use in the supply area of Umgeni Water will be provided by the construction of a new dam and conveyance infrastructure and by the raising of the wall of an existing dam on another river. A storage dam, bulk raw water distribution system and regional bulk infrastructure in the Sekhukhune District will make much needed water available to domestic users and new mining development in this resource rich part of the Limpopo Province. An old dam on the Olifants River (Western Cape) requires remedial work to ensure it is structurally safe and at the same time a 13 meter raising of the wall offers a financially viable solution for providing additional water for the development of irrigation farming by resource-poor farmers.

LEAD DEPARTMENT	DEPARTMENT OF WATER AFFAIRS
OTHER DEPARTMENTS	NT
OTHER STAKEHOLDERS	WATER SERVICES AUTHORITIES, WATER BOARDS

4.2 New regional bulk water infrastructure systems developed

This output is aimed at improving the availability and supply of bulk potable water for socio-economic and development initiatives and therefore Regional bulk infrastructure schemes need to be implemented. A total of R 4.4 billion over the Medium Term Expenditure Framework (MTEF) will be invested.

LEAD DEPARTMENT	DEPARTMENT OF WATER AFFAIRS
OTHER DEPARTMENTS	NT
OTHER STAKEHOLDERS	WATER SERVICES AUTHORITIES, WATER BOARDS

4.3 Existing water resources infrastructure maintained

Ensuring the security of water supply requires maintenance and periodic rehabilitation of existing water infrastructure. A survey completed in 2008 on the condition of 264 schemes, with a replacement value of R 123 billion, identified that a R10 billion backlog with respect to maintenance and rehabilitation on national water resource infrastructure had developed. This backlog is currently posing an unacceptably high risk to sustained water supply to strategic installations like Eskom and other domestic and industrial users. For the years up to 2014 an amount of R 4 billion will be spent on renewal programmes designed

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to reinstate the service potential of assets at the end of their service life. Whilst this work is undertaken the provision of water will only be interrupted with the concurrence of the users.

LEAD DEPARTMENT	DEPARTMENT OF WATER AFFAIRS
OTHER DEPARTMENTS	NT, DAFF, DPE
OTHER STAKEHOLDERS	SOEs, MINING COMPANIES

4.4 Regulation of water sector improved

The establishment of an independent economic regulator will ensure efficient pricing in the total water value chain. This means that water tariffs should be sufficient to cover full operation and maintenance cost of infrastructure and at the same time it would be the responsibility of the regulator to ensure that inefficiencies in the water supply sector are not passed on to the consumers.

LEAD DEPARTMENT	DEPARTMENT OF WATER AFFAIRS
OTHER DEPARTMENTS	DED, NT, PRESIDENCY
OTHER STAKEHOLDERS	WATER BOARDS

4.5 Backlogs in the issuing of licences removed

The aim is to improve efficiencies in processing licenses that would create an enabling environment to meet the economic growth and development imperatives of the country. An amount of R 8 million has been allocated to address the backlog in 2010/11.

LEAD DEPARTMENT	DEPARTMENT OF WATER AFFAIRS
OTHER DEPARTMENTS	ENVIRONMENTAL AFFAIRS
OTHER STAKEHOLDERS	WATER SERVICES PROVIDERS

4.6 Raw water pricing strategy and funding model reviewed

The current raw water pricing strategy does not allow recovery of sufficient income to ensure that the water infrastructure is adequately maintained. The revision of the raw water pricing strategy should ensure that tariffs are sufficient to cover the costs of water infrastructure maintenance, renewal programmes designed to reinstate the service potential of assets at the end of their service life and development of new projects for meeting social needs.

LEAD DEPARTMENT	DEPARTMENT OF WATER AFFAIRS
OTHER DEPARTMENTS	NT, DAFF, CoGTA, PRESIDENCY, ECONOMIC DEVELOPMENT
OTHER STAKEHOLDERS	ESKOM

Project Details

Major Capital Projects	Total Costs (est.) (R'bn)	Funding secured (Y/N)	Funding Source	Completion Date
Olifants River Water Development	3, 1	Y	Fiscus	2013
• De Hoop Dam	13	N	Fiscus/debt	2014
• Bulk distribution System				
Mokolo-Crocodile River Augmentation	16	Y(fiscus) N(debt)	Fiscus/debt	2016
Mooi –Mgeni Transfer Scheme	1, 7	Y	Debt	2013
Komati River Water Augmentation	1, 4	N	Debt	2013
Raising of Clan William Dam	2	Y	Fiscus	2016
Various Bulk water services infrastructure systems(excl Water Boards)	9, 7	Y	Fiscus	2014
Bulk water services infrastructure for Water Boards	11	Y	Budget allocation	2014
Rehabilitation of existing water resource infrastructure	10	Y	Fiscus/ revenue	2014

OUTPUT 5: COMMUNICATION AND INFORMATION TECHNOLOGY

5.1. Increase Broadband Penetration

Acknowledging that modern ICT networks are based on broadband technologies and the need to ensure that infrastructure in South Africa remains responsive to the requirements of a growing economy, in this output the aim is to expand the current ICT networks operated by the various licensees to increase the broadband penetration in South Africa. The increase in demand for broadband services will in itself be a driver for more competitive offerings in the market. The intention is to also realise the socio-economic benefits of broadband by improving and increasing the efficiency of health, education and other government services. This will be driven by a Broadband Intergovernmental Implementation Committee to co-ordinate and oversee all Broadband interventions throughout the three spheres of Government.

LEAD DEPARTMENT	DEPARTMENT OF COMMUNICATIONS
OTHER DEPARTMENTS	DPE, PRESIDENCY, DPSA
OTHER STAKEHOLDERS	NFRACO, SENTECH, USAASA, SITA

JSN

28

5.2. 2010 FIFA WORLD CUP LEGACY PROJECTS

The legacy of broadband infrastructure and services deployed for and during the 2010 FIFA World Cup requires harnessing and redeployment of these resources to provide increased bandwidth capacities to the host cities, which will contribute to a more responsive infrastructure network and access including rural areas. The increased bandwidth capacities on the submarine cable infrastructure also contribute to the wholesale bandwidth capacities. The resultant increase in bandwidth capacities and access will contribute to economic growth as it will result in increased broadband connectivity for businesses, residential and rural schools etc.

LEAD DEPARTMENT	DEPARTMENT OF COMMUNICATIONS
OTHER DEPARTMENTS	NT, PRESIDENCY
OTHER STAKEHOLDERS	TELKOM, SETECH, RELEVANT CITIES

5.3. Digital Terrestrial Television (DTT) Infrastructure Rollout

This output addresses the availability of spectrum for other applications including broadband due to the fact that DTT is more spectrum efficient than analogue television, less spectrum will be required for DTT. This will result in spectrum becoming available for other applications including broadband. New applications, such as broadband, have the potential to support economic growth. Fewer DTT transmitters will be required at each transmitting station resulting in lower operational costs, lower power consumption and a reduced carbon footprint thereby making a positive contribution to climate change. The establishment of digital television broadcasting transmitters at Sentech transmitting stations and the acquisition of appropriate set top boxes that enable viewers to view the digital signals on their existing analogue television receivers will allow analogue television signals to be switched off within agreed timescales.

LEAD DEPARTMENT	DEPARTMENT OF COMMUNICATIONS
OTHER DEPARTMENTS	NT, PRESIDENCY
OTHER STAKEHOLDERS	SENTECH, SABC, OTHER TELEVISION STATIONS



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Project Details

Major Capital Projects		Total Costs (est.) (R'bn)	Funding secured (Y/N)	Funding Source	Completion Date
2010 Legacy Capital projects					
Telkom		1,0	Y	fiscus	Mar 2011
Sentech		0, 2	Y	fiscus	Mar 2011
Other Major Projects					
SABC Technical		1,2	Y	fiscus	MTEF
Sentech Digitalization		2,3	y	Own/fiscus	MTEF
South African Post Office		2,7	Y	own	MTEF
Universal Services Agency Fund STB Ownership Scheme		3,6	Y Part	fiscus	MTEF
Infraco	National Long distance	2,0	Y	fiscus	2013
	West African Cable System	0, 6	Y	Own/ fiscus	2011

4. ACTIONS NEEDED TO ACHIEVE EACH OUPUT

OUTPUT 2: ENSURE RELIABLE GENERATIO, DISTRIBUTION AND TRANSMISSION OF ELECTRICITY

What will need to be done differently?

The creation of an independent institutional structure to undertake long-term planning and the buying of power from private sector participants in the electricity sector, and the creation of a conducive regulatory environment, will clarify the roles of Eskom and the private sector in a manner that balances the provision of infrastructure to meet our growth demands.

The improvement in the reliability of distribution infrastructure can be achieved through the reduction in maintenance and refurbishment backlogs. Critical infrastructure that needs urgent attention can be identified by mapping its geographical location, so that interventions can be targeted on a prioritised basis. A plan will be devised to fund the interventions through a combination of fiscal allocations and the electricity tariff.

Regulatory and legislative framework

Legislation creating ISO will have to be promulgated to ultimately separate the entity from Eskom. There is a need to align the proposed ISO legislation with the Electricity Regulation Act and regulations promulgated thereunder.

In addition to the creation of the ISO, it is critical to create a regulatory environment that facilitates the introduction of viable independent power producers (IPP) and to start the process for participation by IPPs during 2010. To achieve this, a framework for transparent and standardised risk allocation in the Power Purchase Agreement (PPA) that ISO enters into will be developed to ensure streamlined approval of PPAs.

Institutional and management arrangements

The proposed Independent System Operator will be established in phases to minimise disruption and create a controlled environment. The interim arrangements will enable the procurement of IPPs under a separate governance process that also protects Eskom from taking on liabilities outside its control. This will improve procurement from IPPs. The ring-fenced entity will have an independent board and management structure.

Funding framework

The creation of ISMO will require credit enhancement support from the State, in order to facilitate the execution of contracts to procure power from IPPs. The extent of the government support is dependent on the amount of power that will be procured through ISMO and this will be determined as part of the process to develop the funding model relating to the build programme.

The reduction of distribution infrastructure maintenance backlogs to R 15 bn by 2014 can be achieved through a tariff-funded programme, which would be earmarked for the purpose and without any fiscal support. Municipal distributors will access the funding subject to agreeing to use the funds on the conditions set out for them. As an illustration, a 1c/kWh refurbishment levy could provide about R600m annually.

OUTPUT 3: ENSURE MAINTENANCE AND STRATEGIC EXPANSION OF ROAD AND RAIL NETWORK, OPERATIONAL EFFICIENCY, CAPACITY AND COMPETITIVENESS OF SEA PORTS

What needs to be done differently?

1. The introduction of competition within ports and rail sectors will be implemented in phases, starting with ring fencing and concessioning of secondary rail network within Transnet over a 5 year period.
2. The establishment of an independent Economic Rail Regulator to oversee competition within the rail system.
3. Including targets and indicators for Outcome 6 in the performance agreements of state owned entities.
4. With regards to public transport, the Public Transport Infrastructure and Services Grant for the 2010 FIFA World Cup created an enabling environment for improving public transport operations and infrastructure development. As part of the 2010 FIFA World Cup legacy, the PTIS allocation will need to be used to extend service to the rest of the Integrated Public Transport Network.

31

Regulatory and legislative framework

The institutional and resource capacity of the regulators need to be strengthened to enhance their effectiveness as they deal with agencies that are well resourced and capacitated. A gap in the transport sector exists in the area of rail economic regulation where there are currently two main players i.e. Transnet and PRASA moving freight and passengers on the country's rail network. Economic regulation of the rail sector is required to ensure in part equitable access to the country's primary network by the different users. Accordingly, a new Rail Economic Regulator will be established. The long outstanding Rail Policy and Act would also have to be fast-tracked to give impetus to rail restructuring, investments and operations. There is a need for a policy decision to establish a transport sector regulator as opposed to sub-sectoral regulators.

Institutional and management arrangements

The Departments of Transport and Public Enterprises share roles and responsibilities for various aspect of transportation in the country. Whilst the Department of Transport develops policies, plans and strategies for transport; through its shareholding with State Owned Enterprises, the DPE is responsible for guiding implementation and operations.

The interventions to discuss and address existing institutional arrangements will be coordinated in the various governance structures of the Cluster, as proposed under the Governance and Reporting Arrangement of the Delivery Agreement. Cross cutting and policy issues will be dealt with in the same cluster. Linkages will also be made with the Economic Sector and Employment Cluster (Outcome 4) to deal with issues relating to social infrastructure.

Funding framework

Resources will be mobilized from both internal and external stakeholders (private sector and SOEs). This process is recommended to be led by the National Treasury of behalf of the Infrastructure Development Cluster. For the transport sector, there is limited funding with regards to the secondary road infrastructure from the fiscus and no ring-fenced funding allocation has been made for the secondary rail network, which Transnet currently fund from its balance sheet, and, through the concessioning of rail branch line process, will fund and sustain itself. Currently an amount of R54,6 billion over the next five years has been allocated for freight rail; R16,6 billion for passenger rail over the MTEF period; R67 billion for roads over MTEF period and R24,7 billion for ports. There is a R72 billion shortfall for secondary road maintenance and a R1,2 billion shortfall for the upgrading of the railway branch lines. In public passenger rail there is a backlog of R109 billion for rail passenger transport and a shortfall of approximately R 4 billion for BRT road based transport linked to the Integrated Rapid Public Transport Networks. In total, the funding available is approximately R162,9 billion for transport infrastructure respectively as indicated above, with a total shortfall of approximately R186,2 billion.



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OUTPUT 4: MAINTENANCE AND SUPPLY AVAILABILITY OF OUR BULK WATER INFRASTRUCTURE

What will need to be done differently?

In development corridors where there is recognized potential for economic development, funding should be made available for the establishment of new water resource infrastructure that could serve as a catalyst for development. The investment cost could be recovered from commercial users later by the levying of water tariffs that account for the unit cost of delivering the water.

There is a need to align the planning processes for water services and water resources to enhance the development of provincial regional bulk master plans. Also, the implementation delivery models for regional bulk water schemes have been revised to consider the use of water boards as implementing agents and also the build-operation-train -and-transfer (BOTT) approach.

The Water Pricing Strategy needs to be revised to secure funds for timeously undertaking maintenance and refurbishment of existing water resource infrastructure. Currently the water tariffs for the agriculture sector are too low and do not allow for full recovery of operation, maintenance and depreciated costs. This is the result of indirect subsidies introduced in the form of low tariffs to ensure food production.

The license processes need to be streamlined by having dedicated regional units with defined roles and responsibilities. This will improve the efficiency in processing licenses and thus creating an enabling environment for economic growth and development initiatives of the country. Also, there is a need to create a platform for cooperative governance in the evaluation of water use license applications to improve the turnaround times in decision making.

Evaluation of the legislative environment and the existing regulatory framework

The regulatory framework needs to be improved by the establishment of an economic water regulator. The existing water legislation and the Municipal Systems Act needs to be reviewed to clarify powers and functions of municipalities, and roles and responsibilities of regional bulk water utilities in the implementation process and management of regional bulk. Changes are required in the Division of Revenue Act (DoRA), to clarify ownership of infrastructure funded through Regional Bulk Infrastructure Grant (RBIG). The review of Municipal Financial Management Act (MFMA) and DoRA is also essential to allow municipalities borrowing powers and the use of grants to leverage private sector funding to ensure speedy service delivery.

Legislative review is required to address the equitable allocation of water. The regulation of water tariffs throughout the water value chain needs to be addressed. The provisions of the current water pricing strategy are impacting negatively on available funds for maintenance and refurbishment of existing infrastructure. Not enough revenue is collected. The shortcoming that needs to be fixed is the indirect subsidies for the agriculture sector in the form of low tariffs that are insufficient to even cover the operation and maintenance cost. The proposal is for transparent subsidies by the appropriate sector i.e. Agriculture which is responsible for food security. The Water Pricing Strategy is to be revised.



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More stringent regulations need to be promulgated through the Water Services Act compelling water services authorities to invest in water services infrastructure (i.e. asset management, operation and maintenance). In addition, regulations need to be promulgated through the Water Services Act and the Municipal Finance Management Act, regarding the financial efficiency of water services, particularly with regards to reducing Non-Revenue Water.

The existing institutional arrangements, management systems, processes and skills

The re-organising of the National Water Resource Infrastructure Branch within DWA into a properly structured trading entity or Government Component should be considered. This will enable the establishment of a financially viable unit to manage the water resources infrastructure assets of Government.

There is a disjuncture in the current institutional water services delivery structures. This is further complicated by the limited scope and areas of operation of existing regional water utilities / water boards as they do not cover the whole country. Therefore, a review of scope and operational area is required.

Create an independent economic institution for the regulation of the water sector. The powers delegated to the institution would include amongst others arbitrating on tariff disputes between users and suppliers of water.

The Project Implementation Methodology adopted for new water augmentation projects is based on Project Management Body of Knowledge (PMBOK). There is a shortage of staff for this function and capability of existing staff needs to be developed. The procurement systems and processes need to be enhanced to meet the requirements of a fast track build programme. This includes processes to improve capacity building of SMMEs in accordance with BBBEE requirements.

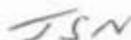
The current reporting systems for infrastructure funding need to be aligned for efficient reporting.

There is a need to enhance skills and capacity for efficient implementation of regional bulk water infrastructure schemes and asset management thereof. The skills required include but are not limited to planning, project management, engineering, operations and maintenance as well as water services management.

DWA will have to investigate the range of capabilities and resources required to establish an economic water regulator and budget for the required resources and build or acquire the necessary capacity over the medium term.

The support system for water revenue collection needs to be enhanced. Currently water users are registered on the WARMS system, the system registers the volumes allocated to each user and this information interfaces with the SAP system which generates invoices and statements. Debt collection has been a problem. The implementation of the billing agency policy should go a long way in enhancing debt recovery.

Funding framework



New water augmentation projects that are commercially viable are to be funded by the procurement of loans backed by secure water supply agreements. Full costs are to be recovered by levying water tariffs in accordance with the Water Pricing Strategy. New water augmentation projects that are to meet both social and commercial needs are to be funded partly from the fiscus (social portion) and loans (for the commercial portion). Full costs are to be recovered for the commercial portion by levying water tariffs in accordance with the Water Pricing Strategy. Social users to be charged in accordance with the Water Pricing Strategy which currently allows for recovery of operation and maintenance cost, depreciation and a 4 % Rate of Return on investment for some users.

For the implementation of new regional bulk infrastructure systems grant funding from the fiscus is made available for the cost associated with the social component; for the balance, considered as economic component, other sources of funding are employed which could be funds provided by Municipalities from own budget or from loans, or funding raised by Water Boards. When a grant is provided by one fund of the State, no further co-funding with another State grant could be used.

The R 4 billion reduction of the backlog on the maintenance and rehabilitation/ refurbishment of bulk national water resource infrastructure is to be partly funded from an allocation by the fiscus to DWA and the balance from revenue collected through the sale of raw water. It is anticipated that the review of the Water Pricing Strategy will in future provide sufficient funding to wipe out the current backlog.

The cost to establish the economic water regulator, to review the Water Pricing Strategy and to deal with the backlog on water licenses will be funded within the baseline allocation of DWA. The funding situation can be summarised as follows:

For 7 new Augmentation Projects	Amount in million Rands
Projected cost to completion	25 724
Projected funding required from 09/10 to 13/14	21 035
Loan funding	11 555
Vote 37 requirement	9480
Vote 37 funds spent up to 31 March 201	1360
Vote 37 funds allocated 2010 ENE	2306
Vote 37 fund to be allocated	5184

For new Regional bulk water infrastructure: The baseline allocation for the 2010/11 MTEF is tabulated below:

Region	Budget Allocation			Total budget Allocation	% of total
	2010/11	2011/12	2012/13		

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TOTAL	893,000,000	1,675,340,000	1,849,107,000	4,417,447,000	100.0%
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The budgets allocated and projected for 2013/14 are as follows:

	2010/2011 (R million)	2011/2012 (R million)	2012/2013 (R million)	2013/2014 (R million)
Funds required	884	1078	1188	1100
Funds allocated in 2010 ENE	636	715	915	1100
Funds allocated in 2009 ENE	320	363	273	-
Total allocation	956	1078	1188	1100

OUTPUT 5: COMMUNICATIONS AND INFORMATION TECHNOLOGY

What will need to be done differently?

The establishment of the Broadband Inter-Governmental Implementation Committee will ensure a coordinated approach by Government and SOE's to broadband implementation initiatives. The Committee will provide oversight over all broadband initiatives of government and SOE's including addressing all challenges associated with implementation of broadband initiatives.

Digital television transmitters and associated ancillary transmission equipment must be purchased by Sentech and installed at various transmitting stations in accordance with a pre-determined rollout plan. Viewers must purchase appropriate set top boxes to enable them to receive the digital transmissions on existing analogue television receivers.

Evaluation of the legislative and regulatory environment

The approved Broadband policy and the National Broadband Act will provide the necessary policy and legal framework to facilitate the development of requisite infrastructure to facilitate a positive impact on economic growth.

The Electronic Communications Act, digital broadcasting migration policy, radio frequency spectrum policy gazetted digital broadcasting regulations and published a digital broadcasting frequency plan for the rollout of digital terrestrial television broadcasting, support the introduction of digital technologies.

Evaluate the existing institutional arrangements

To ensure national coordination of all government broadband implementation initiatives, the Broadband Inter-Governmental Implementation Committee will need to be empowered to approve all government Broadband projects and resources associated therewith, including funding aspects. The

Committee needs to be capacitated accordingly to ensure delivery of this objective in line with its mandate.

The DoC has established a special 2010 Football World Cup unit in 2006 to oversee and implement appropriate projects related to World Cup guarantees. Sentech has prepared a digital television broadcasting rollout plan to achieve the specified targets. The implementation of this plan is monitored by the Department of Communications.

Evaluate the management systems, processes and skills

The Broadband Inter-Governmental Implementation Committee will inter alia develop the Broadband Implementation Plan. To this end, technical, financial and project management skills will be critical for the committee, provinces and local authorities. Where such expertise is lacking, capacity to second or redeploy must be available.

In implementing 2010 legacy projects and given the technical complexities involved, dedicated technical resources within the DoC will be utilized and where necessary relevant expertise will be engaged for specific tasks such as design, integration etc. The project management approach will be used to ensure that the project remains within scope and budget. The methodology will include close monitoring of implementation and expenditure. Existing management systems, processes and skills will be applied. However the project will adhere to project management principles.

Funding Framework

The establishment and operation of the Broadband Inter-Governmental Implementation Committee and its operations as well as the Development of the National Broadband Legislation are provided for under DoC funding in the current financial year.

Funding of broadband implementation initiatives will reside within Provincial and Local budgets. Allocation of funds to these broadband projects, shall be in line with the Broadband Inter-Governmental Implementation Committee's programme. This will ensure that coordination takes place at Local and Provincial levels, which will result in a more effective allocation of resources. Total budget required will only become available when the broadband implementation plan has been developed and costed.

With regard to the implementation of e-Connectivity projects, no funding is available for this project in the DoC budget. The e-Connectivity plan will outline the scope of projects and associated costs. Potential funding for e-connectivity could be through a combination of MTEF allocation and Universal Service Agency Fund (USAF).

In ensuring access to Digital Broadcasting Services by all South African TV owning households, Sentech has budgeted R 1 385 700 000.00.

Activity	Funding
Ensure 60% population coverage	R 414 800 000.00
Ensure 80% population coverage	R 456 200 000.00

Ensure 96% population coverage	R 514 700 000.00
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Funding for DTT rollout is sourced from the Department of Communications in accordance with the Sentech business plan for DTT.

OUTPUT 6: DEVELOP A SET OF OPERATION INDICATORS IN EACH SEGMENT

This Output is addressed in item 3.10, starting from page 23.

The Output however, goes further to indicate that for the enhancement of the quality of regulation across the infrastructure network, it is proposed that the Cluster study the idea of a Single Regulatory Coordinator under the Competition Commission, and bring proposals to Cabinet.

This Delivery Agreement will not go into exact details in terms of what needs to be done, how it will be done and the timeframes attached thereto. The Cluster has thus far discussed the problem of weak regulators, specifically when dealing with the ICASA Amendment Act, earlier in the year. There was also acknowledgement that some research work had been done by the Presidency in terms of Economic Regulators, which was presented to the Cluster with specific recommendations being given.

The Cluster will therefore further interrogate the matter and examine the possibility of recommending that information that emerged out of the study into the Framework for Economic Regulators be further interrogated to determine if there is sufficient data to develop proposals for Cabinet to consider. Where additional information is required, the Cluster would commission further work to be done within a specific timeframe, based on available resources, to enable the development of comprehensive proposals on the feasibility of a Single Regulatory Coordinator under the Competition Commission.

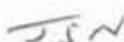
5, INDICATORS, BASELINES AND TARGETS FOR OUTCOME

See Matrix (Appendix A).

6. SYNOPSIS OF KEY ACTIVITIES

6.1. Improving Competition and Regulation

- 6.1.1. Review of transport industry structure to consistently drive the principle of separating policy from regulation and from operations.
- 6.1.2. Measures to implement the Ports Act and the introduction of competition within ports.
- 6.1.3. The completion of the Rail Policy.
- 6.1.4. The completion of the Rail Act which establishes the framework for economic and safety regulation as well as competitors within the rail sector.
- 6.1.5. Create regulatory and institutional structures for the introduction of viable Independent Power Producers (IPP) and start process for the participation of IPPs in 2010.



6.2. Ensure reliable generation, distribution and transmission of energy

- 6.2.1. Develop a funding and implementation plan to reduce the distribution infrastructure maintenance backlogs of R 27.4 bn to R 15 bn by 2014.
- 6.2.2. Household access to electricity should be 92% by 2014.
- 6.2.3. Develop a funding model for electricity generation/build programme to ensure security of supply.
- 6.2.4. Long-term energy mix diversification to address the Security of Energy supply and requirements for renewable energy.
- 6.2.5. Coal Haulage Logistics
- 6.2.6. Restructuring of the Electricity Distribution Industry (EDI).
- 6.2.7. Setting cost reflective tariffs while cushioning the poor from increasing electricity costs.

6.3. To ensure maintenance and strategic expansion of our road and rail network, and the operational efficiency, capacity and competitiveness of our sea ports and rail

- 6.3.1. Increase the market share of total freight to rail to an annualised 250mt from the current 177mt by 2014.
- 6.3.2. Investigate the feasibility of standardising and linking rail tariffs to inflation (note sub-output revised wording different in Performance Agreements).
- 6.3.3. Introduction of private sector investment in rail and secure adequate funding for Integrated Rapid Public Transport Networks.
- 6.3.4. Introduction of private operators at branchlines level.
- 6.3.5. Implement the National Ports Act and create transparent subsidies between ports and rail infrastructure.
- 6.3.6. Introduce competition for the management of container terminals.
- 6.3.7. Complete a long term national freight network plan.
- 6.3.8. Improve productivity at ports.

6.4. Maintenance and supply availability of our bulk water infrastructure

- 6.4.1. New augmentation schemes implemented.
- 6.4.2. New regional bulk water infrastructure systems developed.
- 6.4.3. Existing water resources infrastructure maintained.
- 6.4.4. Regulation of the water sector improved.
- 6.4.5. Backlog in the issuing of water licenses removed.
- 6.4.6. Raw water pricing strategy and funding model reviewed.

6.5. Information, Communication and Technology

- 6.5.1. Increase broadband penetration.



6.5.2. 2010 Legacy projects implemented.

6.5.3. DTT Rollout.

7. RISKS, CONSTRAINTS AND MITIGATION STRATEGIES

7.1. ENERGY

7.2.1. Supply and Demand Mismatch

- An affirmative and timely decision on Kusile supported by a sustainable funding plan is required to ensure an adequate system security. In the absence of an affirmative decision, an alternative to replace Kusile will be required or alternatively procure Kusile as IPP to remove the funding burden from Government, however this has implications for long lead time components.
- Facilitation of IPP introduction through a credible procurement function (Ring-fencing of procurement function within Eskom), and finalise buying arrangements for RE IPP's is another key requirement to ensure that there is enough capacity for the future.

7.2.2. Energy Mix

The following would be required to ensure Government's objectives for diversification and mitigation against the environmental impact of coal fired power stations:

- Determine and approve the IRP 2010.
- Decision on Solar Park RE kick-start.
- Possible decision and funding of nuclear.

7.2.3. Reduction of Maintenance and Refurbishment backlogs in the Electricity Distribution Industry

- Final decision on REDs – Cabinet re-affirmed the decision on six wall-to-wall REDs in 2006. Very little has happened however in terms of implementing that decision. Preliminary assessments indicate that now is not the ideal time to proceed with the decision until the refurbishment and maintenance backlogs are addressed.
- Closure or massive capitalisation of EDI Holdings and REDs.
- Decision on the funding of backlog reductions, which includes the following options: MIG, INEP and other grants, and electricity surcharges to fix distribution is needed even in the absence of REDs. This cannot wait for the implementation of REDs.

7.2. TRANSPORT (RAIL)

7.2.1. The implementation of the branch lines strategy is critical for the achievement of the road to rail migration in the secondary network. In consideration that the Rail Act will take some time to finalize, it is necessary to have some enabling legislation for regulatory oversight on access, infrastructure pricing and tariffs between TFR and new private operators on branch lines.

7.2.2. A level playing field for road and rail will have to be put in place.



- 7.2.3. For increased rail volumes as a result of the revitalisation of branch lines network as feeders to the core network, it has to be assumed that branch lines concessionaires are able to attract volumes back to rail; policy framework is conducive for the rail mode to compete.
- 7.2.4. For capacity expansion on bulk lines to deconstrain growth on mining exports, it is assumed that the projects will be attractive for private sector and that private sector funding would follow therefrom.

7.3. TRANSPORT (PORTS)

- 7.3.1. The creation of transparent cross-subsidies between ports and rail infrastructure will require amendments to the Ports Act.
- 7.3.2. Joint venture in Ngqura transshipment container terminal will require a global operator that can attract trans-shipment volumes.
- 7.3.3. Improvements in productivity in container handling operations and ship turnaround time (STAT) in ports will require the buy-in of labour to meet performance targets.

7.4. Water

- 7.4.1. The development of new augmentation projects for energy, domestic, agriculture & industrial sectors will depend on the availability of funding (fiscus) to meet completion timeframes, adequate professional staff to implement, timely environmental authorisations and cooperation of users in concluding Water Supply Agreements.
- 7.4.2. The implementation of Regional Bulk Water System might be delayed by escalation costs higher than budgeted, lack of capacity to implement by Water Services Authorities and high levels of water losses.
- 7.4.3. The reduction of the current R 10 billion backlog on rehabilitation of national dams and water conveyance projects will depend on the availability of skills (e.g. project management and design), timely environmental authorisations and approval to take infrastructure out of commission for long enough periods to do rehabilitation (water users do not have adequate storage to allow sufficient "dry" periods for extensive rehabilitation works).
- 7.4.4. The establishment of the Independent Economic Water Regulator to cost reflective tariffs, resulting in resistance from some of the stakeholders. Alternatively, the consumers might have to bear the brunt of increases, if the rates at which municipalities provide water to the consumers is not regulated.
- 7.4.5. The revision of the raw water pricing strategy and funding model might end result in increases in food prices, as the current water pricing strategy subsidises farmers from price increases.

8. GOVERNANCE AND REPORTING ARRANGEMENTS

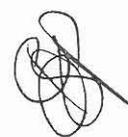
- 8.1 The Ministers in the Infrastructure Development Cluster will be a Delivery Forum for Outcome 6. Their focus will be on providing guidance and oversight on ensuring the integration and alignment



of economic infrastructure interventions, as well as noting constraints to implementation of commitments for Outcome 6 and either approving proposals to address those constraints or elevating them to Cabinet for further consideration and decisions.

Reporting to the delivery Forum will be Workstreams build along specific sectors and distinct Cluster programmes that deal with other enablers to the implementation of Outcome 6. The Workstreams will be rolled out as follows:

- a) Workstream on Energy, whose focus will primarily be on Output 2: Ensure reliable generation, distribution and transmission of electricity. An Inter-Ministerial Committee on Energy dealing with exactly the same issues is already in place. To avoid duplication, this structure, together with its workstream, will therefore suffice for this particular workstream. The IMC is made up of the Departments of Public Enterprises, Energy, Presidency, Economic Development, Trade and Industry, Water and Environmental Affairs, Cooperative Governance and Eskom. The relevant teams will indicate to Ministers where additional members are required to implement projects relating to this Output.
- b) Workstream on Transport and Regional Intergration: This Workstream will focus primarily on Outcome 3 (To ensure the maintenance and strategic expansion of our road and rail network, and the operational and will be chaired by the Department of Transport. In addition to commitments outlined in this Output, focus will also be on regional integration as SADC countries are very crucial as trading partners for South Africa and our infrastructure considerations will require their involvement. Participating Departments will be the Departments of Public Enterprises, National Treasury, Agriculture, Forestry and Fisheries and representatives from Prvincial Transport departments. Representations from agencies like PRASA, SANRAL and Metros will be considered.
- c) Workstream on Water: This workstream will focus on Output 4 (Maintenance and supply availability of our bulk water infrastructure), and will be Chaired by the Department of Water Affairs. Other Departments that may be part of this Workstream will be Public Enterprises, Agriculture, Forestry and Fisheries, Cooperative Governance and National Treasury. Other stakeholders will be Water Boards and other major water service providers where applicable.
- d) Workstream on ICT: This Workstream will focus on Output 5 (Communication and Information Technology), and will be chaired by the Department of Communications. Members of this Workstreams will be Departments of Public Enterprises, Trade and Industry and presidency. The involvement of entities like Sentech and InfraCo might be considered.
- e) Workstream on Funding: Owing to the fact that funding is also a major issue in economic infrastructure, there is a need for focus attention on resolving funding constraints by looking at other innovative mechanisms to address issues of funding large infrastructure. National treasury will chair this Workstream, which will have members from the Departments of Public Enterprises, Communications, Water Affairs and Transport.



APPENDIX A: RESULTS CHAIN

The Results Chain is attached to this Delivery Agreement as Appendix A and contains outputs, suboutputs, indicators, baseline information and targets.

The Implementation Plan (**Appendix B**) will be finalised following the signing of the Delivery Agreement, to allow a process of milestone determination understood and agreed upon by all key stakeholders.



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- 8.2. It is expected that Departments in each Workstream will be responsible for ensuring the implementation of projects they lead on, while the Chairing Department will play a coordinating role as well as implementing their commitments as outline in the Output.
- 8.3. The Workstreams will be structured to ensure that participation is primarily by implementing parties and other parties who contribute to the implementation of specific projects in the Output. Other parties may therefore participate upon invitation or be requested to provide specific information as and when required.
- 8.4. The terms of reference for each Workstream will be to:
- a) Oversee progress on implementation of project activities as per output
 - b) Provide reports to the Implementation Forum on progress with achieving outcome
 - c) Recommend resolutions with regards to identified constraints
 - d) Take steps to resolve any blockages, and facilitate a discussion of blockages that require intervention by the Implementation Forum financial implications to the projects
- 8.5. Reporting
- a) Each Workstream will report to their Ministers on a bi-monthly basis
 - b) Workstreams will report to the Delivery Forum on a Quarterly basis.
 - c) The Cluster Secretariat will consolidate Workstream implementation reports into a single Cluster progress report on the implementation of Outcome 6.
- 8.6. The Role of the Performance Monitoring and Evaluation Department in respect of the Cluster will be to:
- a) To monitor and maintain reporting systems for the Cluster
 - b) To assist in training project managers in the usage of the reporting systems
 - c) To conduct an assessment of Cluster reporting against commitments and timeframes and identify gaps and deviations as feedback to the Cluster.
 - d) To update the POA with reports on the implementation of the Outcome.

9. SIGNATORIES TO THE DELIVERY AGREEMENT

Name:  Date: 29 October 2010

Minister of Transport.

Name:  Date: 29 October 2010

Minister of Public Enterprises

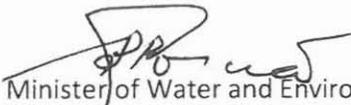
Name:  Date: 29 October 2010

Minister of Energy

Name:  Date: 29/10/ 2010

Minister of Communications

Name: _____ Date: _____ 2010


Minister of Water and Environmental Affairs

29. 10. 2010