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Zondo Commission – unjustifiable increase in cost of Transnet locomotives project

Transnet's procurement plan for its 1 064 locomotives project in 2013 saw an unreasonable increase in estimated cost from R38.6-billion to R54.9-billion, which is unjustifiable. The estimated cost to company (ETC) included in the business case approved by the board around the middle of 2013, made allowance for a 41% increase, whereas an 11% increase would have done just fine.

This is the finding of actuarial scientist Alister Chabi, who on Wednesday provided expert testimony before the commission of inquiry into state capture on the subject. Chabi is one of the experts called upon by Mcedisi Ndlovu Sedumedi Attorneys (MNS), the legal firm commissioned by a later Transnet board in 2018 to investigate the procurement project for two batches of locomotives, for the 1 064 and one for 100 locomotives. The R54-billion was in respect of the 1 064 locomotives.

The increase, approved on the back of a memorandum signed off in May 2013 by then group CEO Brian Molefe and submitted to the board, appeared to have placed more emphasis on the ETC, according to Chabi, than on the profitability of the whole project. Transnet's rationale behind the number of locomotives was that it was responding to growing market demand, which it was failing to meet due to an ageing existing fleet. The acquisition process, confirmed Chabi, was projected over a period of seven years, from 2013 to the end of 2019. MNS's mandate for him, however, did not include testing the reason for the number of locomotives decided upon.

Chabi was not to look into the reasonability of the increase in ETC relating to the acquisition of the 100 locomotives, although in this instance too, there was an increase from the initial projections drawn up internally within Transnet.

Current acting CEO Mohammed Mahomedy told the commission in May this year that in drawing up its initial business case in 2012, the parastatal should have had a 95% level of confidence in its projections, so the later motivation for increase in ETC remains a cause for concern. More so, he said, because a contingency plan estimated to cost just over R2-billion had already been factored into the ETC.

"When we look at the complete business case that was submitted, we should have a 90% to 95% confidence level in the numbers that were proposed," he explained at the time. "If there was something that was extraneous, completely out of kilter with what we had projected… the R2.4-billion contingency would have given you that first room to manoeuvre."

The increase, added Mahomedy, occurred after the negotiation process with bidders in early 2014. He said it was explained to him by then CFO Anoj Singh as a consequence of the exchange rate between the rand and the US dollar, which had deteriorated since the initial ETC had been put on the table. Singh's role in the contract for the 1 064 locomotives is the subject of a disciplinary process convened by the South African Institute for Chartered Accountants. He is expected to face the regulatory body in 2020.

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