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Zondo Commission – Gama's accelerated locomotive delivery plan a financial burden for Transnet

Transnet's alleged irregular management of its R54-billion locomotives contract in 2014 did not end at the bias displayed in the manufacturer contracts, or the inflated costs of supplier services, obtained from a monopoly of Gupta-related companies, but also extended to the delivery programme for the 1 064 locomotives being procured.

While the initial business case had a projected delivery schedule of seven years – at 230 locomotives per year – Transnet Freight Rail (TFR) CEO at the time, Siyabonga Gama, wanted the schedule to be halved to three or four years, effectively more than doubling the required number of locomotives to 480 per year. The instruction to "make it happen" was given to senior engineer and strategist Francis Callard, who returned to the witness seat before the commission of inquiry into state capture, on Monday.

Gama's aggressive acceleration objective, which had the blessing of then chief financial officer Anoj Singh, was a rushed effort, evident in the final negotiated contracts with manufacturers, which were signed about a month after Callard was first instructed to come up with a plan. TFR's commitment to accelerate the rate of delivery was incorporated in the final contracts signed, while the massive change was made in February.

Callard had to swiftly come up with a plan that would help Transnet achieve the seemingly insurmountable goal, while keeping the impact of possible added cost in check. Together with Pragasen Pillay and Rita Roper, general managers of logistics and capital programme respectively, Callard compiled a report in which he raised concerns over the risks of accelerating delivery at the rate suggested. Transnet had not tested the market for the additional tonnages, and would not test in time for the first batch of locomotives. There was also concern over the practical implications regarding space and storage for a larger number of locomotives than originally anticipated. The biggest concern, however, was cash flow, owing to the fact that Transnet would undoubtedly have to bump up its borrowing from foreign lenders. This would mean adding costs to an already expensive programme.

The report was then submitted to Gama, to which he further instructed that several adjustments be made and the modified version of the report be made available to Singh. A concern of the authors of the report, highlighted in it, was that the accelerated delivery would impact other projects, as money would be moved from other parts of the division's operation to make it work. Furthermore, even as the three were being tasked with this seemingly insurmountable task, no official reason was given for the acceleration in delivery.

"The nature of the reason given to us was that accelerating the delivery of locomotives would save project costs into the future." It was, however, never demonstrated by the executives how this would be achieved, Callard added.

A workshop was held later, in May, to go through the issues outlined by the report. This was followed by a presentation in July by the strategy and business planning unit, to members of the executive committee, to which Callard had added a conclusion, mentioning the budgetary and governance risks of the change in plans. He also recommended that at best, TFR could accelerate delivery to a rate of 300 per year, down from the 480 envisaged by the executives earlier in the year. Callard further recommended that the minister's office be approached to approve the plan to accelerate.

His recommendations were not taken.

The next few months would place pressure on the plans of executive management to accelerate to the point where later in the year, in October, Callard received a text message from an angry Gama. In the message, quoted by Callard in his testimony, Gama tells him that he and Pillay had agreed to the 480 locomotives previously, so he must "make it work." The message, added Callard, was indicative of the pressure in the organisation at the time. He refuted the claim that the pair of them had agreed to the number as claimed by Gama, saying that his position was always that the maximum number of locomotives that could be delivered per year was 300.

The accelerated delivery schedule had an impact on other aspects of the overall locomotives project, presumably including the pre-payments made to the companies contracted. Not only did Transnet have to increase its borrowing to pay for the project, affecting its corporate funding plan, but the advances paid also shot up significantly. The company made an advance payment of R7.37-billion by 1 April 2014, having finalised the contracts in March. Furthermore, spending in the initial year of the contracts, the 2014/15 financial year, increased from an initially projected R15-billion to R21-billion, and the trend would continue for the several years following.

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