



INFRASTRUCTURE DIALOGUES

A PRIVATE SECTOR VIEWPOINT ABOUT PUBLIC
TRANSPORT IN SOUTH AFRICA

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Introduction and brief policy overview



- Current PT policy development is mainly in line with a 1996 White Paper on transport policy
 - Focus on tendering for subsidised services
 - Negotiated contracts made provision for in the National Land Transport Transition Act of 2000
 - Interim contracts (as an interim measure) concluded with operators in 1997 as an interim measure in preparation for the tendering system
 - Subsidy based on ticket sales (each ticket carries a particular value and subsidy based on distance and ability of people in the area of operation to pay the economic fare)
 - Heads of Agreement signed in 1999 between the DoT, organised labour and the industry to make provision for labour concerns about potential job losses in the tender system, a 10% ROFR and a minimum job guarantee following the award of a contract to an operator
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Overview of progress made



Table 1 **Contract types in operation (2009)**

| Contract type | Number | Percentage of subsidy budget |
|----------------------|---------------|-------------------------------------|
| Interim contracts | 39 | 68 |
| Tender contracts | 66 | 28 |
| Negotiated contracts | 10 | 4 |
| TOTAL | 115 | 100 |

Source: Department of Transport

Overview of progress made



- Interim contracts (subsidy based on ticket sales) make out 68% of the subsidy budget
 - Over the last number of years, due to economic growth, increasing urbanisation, increased traffic congestion, improved safety and reliability of the bus fleet, escalating costs of using private cars etc. the bus industry has grown its passenger base significantly (about 12% per annum) resulting in a major increase in bus subsidies
 - Government has increasingly been unable to afford this escalation
 - For 8 years it has approved no new subsidised routes, nor has it increased the original baseline subsidy for 12 years
 - Also not been able to put services out to tender due to the expected higher costs due to operators operating services without subsidies (that will need to be included in new designs) and the correction of the original cost base (last confirmed in 1997)
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Funding issues over the last four years



Table 2 Subsidy shortfall over the last four financial years (‘000)

| | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|---|----------------|----------------|----------------|------------------|
| MTEF* request by DoT (Rand) | 3 908 040** | 4 028 523 | 3 553 431 | 3 635 997 |
| MTEF allocation by Treasury (Rand) | 2 278 523 | 2 415 235 | 2 535 997 | 2 829 596 |
| Adjustment request by DoT (Rand) | 166 560 | 300 000 | 845 000 | 1 342 000 |
| Adjustment allocation by Treasury (Rand) | 19 230 | 45 100 | 300 000 | 154 535 |
| Actual subsidy expenditure (Rand) | 2 383 660 | 2 695 573 | 3 109 951 | 3 576 444 |
| Accumulated subsidy shortfall (Rand) | 85 907 | 321 145 | 595 099 | 1 187 412 |

Source: DOT presentation to the Transport Portfolio Committee 3 February 2009

*MTEF – Medium Term Expenditure Framework of the South African government

**At the time of writing this paper R8 could purchase one US dollar

Funding issues over the last four years



- In late 2008 government indicated that it would not be in a position to fund the industry's contracts for the last four months of the financial year
 - This was unacceptable to industry
 - It was decided to enforce the contractual obligations of the state through high court cases in Cape Town and Pretoria.
 - The result was that the DoT was compelled, in a settlement agreement with the industry (made an order of the court), to make the necessary funds available (obtained from Treasury) to the respective provinces for the funding of the contracts.
 - This resulted in strained relations between government, provinces and industry. In the Gauteng province a settlement agreement was resisted to the very last minute,
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The Division of Revenue Act (DORA)



- Treasury felt that the DOT had no control over the subsidy budget (due to it being mostly passenger based (Interim contracts))
 - Decided to include the subsidy budget in the Division of Revenue Act (DORA) (a mechanism used by government to ensure that funds are spent where they are supposed to be spent but also to limit expenses by way of legislation)
 - Three years' budget included in the 2009 Act
 - Ticket subsidy system had to be converted to a km-based subsidy before the end of Sept 09 (so that expenses can be controlled through a limitation on kilometers operated)
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The Division of Revenue Act (DORA) – estimated shortfall as at about June '09



Table 3 DORA allocation for 2009/10

| Province | Expenditure for 2008/09 (Rand) | Projection for 2009/10 (Rand) | DORA allocation for 2009/10 (Rand) | Projected shortfall 2009/10 (Rand) |
|----------------------|---------------------------------------|--------------------------------------|---|---|
| Limpopo | 172,703,916 | 189,974,308 | 174,506,000 | -15,468,308 |
| Gauteng | 1,466,324,063 | 1,612,956,469 | 1,403,825,000 | -209,131,469 |
| Mpumalanga | 383,868,686 | 422,255,555 | 370,650,000 | -51,605,555 |
| KwaZulu-Natal | 691,883,547 | 761,071,902 | 647,396,000 | -113,675,902 |
| Free State | 158,012,036 | 173,813,240 | 151,805,000 | -22,008,240 |
| Eastern Cape | 122,268,439 | 134,495,283 | 126,540,000 | -7,955,283 |
| Western Cape | 628,391,377 | 691,230,515 | 593,744,000 | -97,486,515 |
| Northern Cape | 23,735,623 | 26,109,185 | 22,159,000 | -3,950,185 |
| North West | 41,594,237 | 45,753,661 | 41,252,000 | -4,501,661 |
| TOTAL | 3,688,781,927 | 4,057,660,118 | 3,531,877,000 | -525,783,118 |

Source: DoT

The Division of Revenue Act (DORA)



- Provinces had to agree with bus operators to convert ICs to km-based contracts as well as to cap their overall subsidy claims in terms of DORA
 - Tendered and negotiated contracts also adjusted
 - Various approaches being followed by the provinces, despite guidelines provided by DOT
 - After more than 7 months of major issues between operators and certain provinces sanity prevailed and agreements reached (in some cases not yet signed off)
 - The smaller budget will have impacts on levels of service to communities
 - This gives rise to tension between government and industry as government
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Taxi industry issues



- Promises about participation in formal systems without proper planning and well thought through implications - promises that are and will be difficult to fulfill in the “real world”
 - A taxi recap programme that is having difficulty in getting off the ground
 - Promises about subsidies (in whatever form) with an already major shortage in PT funding
 - Intra-industry rivalry that is difficult to contend with from a policy viewpoint
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So what are the issues?



- Funding of bus contracts— especially over the last four years.
 - Interaction between Treasury and DOT – who calls the policy and funding shots?
 - Lack of well-thought through policy initiatives – what are the intended and unintended consequences?
 - Lack of policy implementation and monitoring at all levels
 - Policy adjustments without proper motivation
 - Competency issues at all levels
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So what are the issues?

- Interaction between DOT and Provinces – and then we have not even addressed the relationship between DOT/Provinces and Metros/Local government!
 - Provincial versus national agendas, especially over the last number of years (Funding/DORA implementation issues)
 - BRTs
 - Promises about subsidy free BRTs??
 - Introduction of BRTs without sign-off on the business models
 - Over hasty implementation agenda
 - IPTNs and IRPTNs (with stakeholder buy-in?)
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Are there solutions?



- Additional funding sources have to be found at the local and provincial spheres of government
 - The PT function should be devolved to the Metro/Local govt levels – the relationship with provinces need to be clarified (what will their roles be?)
 - The skills shortage across the PT arena need to be addressed systematically
 - Consultant reports have to be peer reviewed, this is good governance
 - There is a need for a new collaboration framework for the management of PT, the current framework is unclear and results in major issues between the respective spheres of government
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Are there solutions?



- Consideration should be given to the establishment of a Centre of Excellence to assist national/provincial and local government with policy issues
 - There is a major need to ensure policy implementation, monitoring, there is just too little formalisation in this area
 - Public transport policy research should be institutionalized and policy amendments based on thorough research findings and the dissemination thereof in wider forums
 - Proper planning should precede implementation - the JHB BRT is an example where the business model is not yet finalised which results in stress and negative publicity
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