

**Asset Management & Maintenance
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Office of the Director

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25 May 2018

Your Reference: 2017MAY0001

**Principal Legal Counsel: Market Conduct Division
The Competition Commission of SA**

Via Email: ppt@compcom.co.za

Dear Sir / Madam

1. This submission, from the City of Cape Town, relates mainly to public transport for travel within cities in South Africa, such as Cape Town, but is of wider relevance.
2. The City of Cape Town has previously made a submission when the initial requests for information in relation to this enquiry were issued, and we do not repeat this here. This submission seeks to give brief responses to the STATEMENT OF ISSUES, as published on 25th April 2018.
3. We also request that you give the City the opportunity to make oral representations on all the issues raised in your invitation, and, in fact, to engage interactively with the Commission in this regard.
4. The key issue underlying many of the issues raised under the ToR's is that responsibility for urban public transport needs to be rationalized. Different demand patterns and customer needs are best served by a variety of modes. While there can and should be a degree of competition between modes, current fragmentation of responsibility between the various spheres of government works against giving primacy to the customer/user, and prevents efficient building of necessary government capacity.

Decision makers responsible for a mode tend to optimise the interests of the individual mode, rather than those of the passenger. Fragmentation of responsibility leads to inconsistent treatment across modes. An overarching authority is needed to co-ordinate amongst the various service providers, contain and manage competition amongst them and optimise the system in the interests of the users. To manage the network optimally the authority should, ideally, have limited vested interest in any one mode or service provider, but

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should manage all the providers through contracts, concessions, regulations and in some instances subsidies.

This governance of public transport should be integrated with governance of land use, since land use is the most important determinant of public transport demand. Public transport costs can be reduced through sound land use policies. Governance over transport and land use should extend broadly across the bulk of the city – as defined by daily movement patterns.

South Africa has widely drawn city government boundaries. In the case of Cape Town, it is clear that authority can be consolidated at metropolitan government level, with the relatively limited daily movement across boundaries able to be dealt with through special agreements with neighbouring municipalities. In Gauteng the challenge is more complex since there is substantial movement between adjacent metropolitan municipalities. This calls for more complex institutional arrangements.

Once the appropriate institutional arrangements are identified the right kinds of capacities need to be built within the relevant institutions. A shift in responsibility may need to be phased in line with capacity building; however, poor capacity should not be used as an excuse for maintaining sub-optimal arrangements in perpetuity.

Addressing this basic issue of allocation of responsibility – which has long been government policy but never implemented – lies at the heart of addressing many of the issues raised in the Statement of Issues. There should not be a need, for example, for provinces and municipalities to be separately determining routes for different service providers within the same city. (see 26.1; 26.2)

5. The discussion in the Statement of Issues, especially around subsidies, needs an understanding of peak versus off-peak demand. Subsidies are needed for redistribution (equity) and to address market failure (efficiency).

There is a common misconception that higher passenger volumes translate into greater profitability of the service provider. This is not true; the profitability of routes increase in relation to the extent to which there is even demand throughout the day, in both directions, with maximum seat turnover along a route.

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If left to itself, the market is unlikely to provide sufficient capacity to serve uni-directional peak demand, if that capacity is going to lie idle for most of the day. Even with current subsidisation of mass transport there are generally always long queues and crush loads in the peak, making it appear that there is room for additional service providers – while, in fact, the market is over-saturated from a financial viability point of view.

Subsidised contracts are therefore required for *efficiency* purposes to ensure that there is sufficient peak capacity. This is usually best done with large formal buses or rail *to reduce costs per seat and reduce congestion*.

In South Africa this subsidisation for efficiency purposes gets combined with equity based subsidies. Subsidies for redistribution (*equity*) should, ideally, be paid to the user for them to use the service that most suits them. However, this is extremely difficult to implement and administer and should not be implemented until those difficulties can be overcome.

6. Government can do various things to improve the comfort and affordability of public transport services apart from providing operating subsidies. It already provides a capital subsidy to minibus-taxis, although this is a small amount (not much more than the VAT payable on a new vehicle) and could / should be increased.

The provision of priority infrastructure for public transport can not only significantly improve travel speeds benefitting all public transport users, but also improve public transport profitability, especially if it allows a vehicle to return to origin and provide more trips in the same peak period.

Better ranking and interchange facilities can greatly enhance public transport users and service providers, although investments in this regard must take the long view, and must be designed with special care to facilitate integration of different modes to improve customer services and choice and to contribute to reduced operating costs of the modes and these facilities (if possible).

7. The implementation of BRT in South Africa has been challenging. It is a very good technology in the appropriate conditions, but it appears as though it has sometimes been implemented in inappropriate contexts. It is extremely difficult to implement well since it requires the penetration into highly contested urban road space, and new types of bus operations.

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Cape Town's MyCiTi BRT service has been relatively successful, carrying about 70 000 passengers per average workday at present (compared, for example, to 55 000 daily on Gautrain); however, the model that was used where minibus-taxis are fully replaced by BRT is not affordable for full rollout across the city and new approaches are now being attempted which are a 'hybrid' between BRT, improved traditional buses (referred to as "quality bus serves") and minibus-taxis.

8. There are a number of impediments to the tendering of new contracts for bus services.
 - a) Firstly, the intention of the NLTA has been that municipalities do this contracting. Provision was made in the NLTA for assignment of interim contracts to municipalities, while provinces were not designated as contracting authorities so could not retender themselves. But this devolution of authority has not occurred. The City of Cape Town applied in 2012 to the NDoT for the assignment, with the support of the provincial government and the Financial and Fiscal Commission (FFC), but it has not been granted as yet. There are now attempts to amend the NLTA in ways which will make it impossible for current interim contracts to be assigned to cities, and to significantly reduce the autonomy of cities (including metros) to contract. This is very problematic and is not supported by the City. On the other hand, many municipalities could struggle at this stage with managing the design and procurement of new contracts.
 - b) Secondly, labour unions have been uncomfortable with putting contracts out to tender. More than 50% of bus operations costs are constituted from labour. Many incumbent operators pay their workers above the minimum bargaining council wage, for various reasons, including that they have long service. A competitive process will tend to drive wages down to the bargaining council minimum.
 - c) Thirdly, there are significant incumbent advantages when contracting takes place. For example, where a private operator owns well located depots it is difficult for others to compete. Putting contracts out to tender under these circumstances could lead to higher contract prices than are currently being paid.
9. We look forward to engaging with the Commission regarding the above, and other issues related to the enquiry, during a future session.



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Yours Sincerely

Henry du Plessis
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