



NORTHWEST TRANSPORT INVESTMENTS (SOC) Ltd
Reg: 1975\071114\30

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NORTHWEST TRANSPORT INVESTMENTS (SOC) LTD

PRESENTATION TO THE COMPETITION COMMISSION

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Allocation of operational subsidies

The effectiveness of subsidized modes of public passenger transport on the provision of public passenger services to the poor and the majority of South Africans.

Subsidized Public Transport services caters mainly for daily commuters travelling from their homes to their workplaces in the morning and back in the afternoons when the demand for public transport is at its peak. Only mass transport modes like bus and train is currently subsidized and is mainly operating only during these peak times and over longer distances to cater for the high passenger demand during these peak times.

The subsidized public passenger transport modes currently caters for approximately 32% of the total market and mainly in the peak times. The off peak operations of these modes is very limited as a result of the vehicle capacity and cost of operation.

Allocation of operational subsidies

The subsidizing of Public Passenger Transport services is thus currently only benefitting passengers who travel during peak times to enable them to be employed and earn a living away from their places of residence. It is also mainly focused on the major cities and towns where there is more job opportunities and thus a higher demand to justify the operation of mass transportation modes.

Are subsidies benefitting the majority of the poor given that the subsidized services have limited accessibility compared to minibus taxis?

The majority of the currently subsidised routes was determined when the original Interim Contracts were concluded with bus operators. Very limited extensions and amendments to the scheduled services were allowed by the Department of Transport since 1997. There are thus areas that are not serviced through Subsidised modes of public transport. The finalization of the Integrated Public Transport Networks per province may to a certain extent make provision for the travel needs of the communities in these areas.

Allocation of operational subsidies

Minibus Taxi operations is mainly focused on the shorter distance routes due to the capacity of vehicles and the limited time of peak hour operation. The relative low cost of operation of a Minibus Taxi and shorter distances operated enables Taxi operators to keep the fares per trip relative low which is beneficial to the passengers. In areas where subsidised public transport operations are operated, the Minibus Taxi operators tend to keep their prices in line with the contracted operators which also benefit the passengers.

What is the impact of subsidies on competition between different modes of public transport?

The aim of subsidies for the public transport commuter bus sector is to provide affordable fares to passengers over the longer distances operated by bus operators. The high entry cost to the bus market, in terms of vehicle prices and the establishment of infrastructure to maintain the vehicles, as well as the high operating cost of a bigger vehicle and long distances operated renders the operation of a bus fleet expensive. Passengers from poor communities, who are

Allocation of operational subsidies

the beneficiaries of the subsidised services, would not be able to afford the fares that would be needed to operate the services without subsidies.

The lower entry cost for Minibus Taxi operators, shorter distances operated and lower operating cost makes it more affordable to operate a Minibus Taxi operation, which then requires a lower fares from passengers to operate the service.

Government Contracts for the operation of public transport services enables the formal commuter bus market to operate with affordable fares and has a further advantage to the passengers as the fares of the Minibus Taxi operations are kept in check by the competition from the bus market.

It should however be mentioned that the below inflation annual increase in the contracted rate per kilometer since the introduction of the Division of Revenue Act in 2009 placed a severe stain on the ability of the bus operators operating in Gauteng to maintain the level of affordable and reliable public passenger transport services that the passengers enjoyed previously.

Allocation of operational subsidies

What measures can be put in place to ensure that subsidies do not prevent or distort competition between different modes of public transport, in particular minibus taxis and buses

The different modes of transport all have a specific role in the provision of public transport for every area or region. Minibus taxis are most effective when operating short distances, typically feeder and distribution services to longer distance operators like buses and rail.

The design of the Integrated Public Transport Networks, whether for a Province, Metro or town should take cognizance of this and allocate these functions properly between the different modes.

The Provincial Regulating Entity responsible for the issuing of operating licenses must at all times adhere to the guidelines upon which the IPTN is designed and the allocation of routes and contracts should be done in the most cost effective and operationally effective way.



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How best can meaningful participation of historically disadvantaged individuals be achieved in the industry?

When contracts designed in terms of the IPTN are put on tender or negotiated with operators in terms of sections 41 to 46 of the National Land Transport Act of 2009, a provision should be included in the contract that will enforce the inclusion of historically disadvantaged individuals as subcontractors or partners in the operation. This will enable these individuals or companies to gain experience in the operation of public transport and to build operational capacity.

The current situation where the existing contracts were extended for only short periods of time since the expiry of the contracts was not conducive for the introduction of new entrants into the public transport market. The current operators of the services could not offer new entrants extended contracts beyond the short lifespan of the contract extensions, which made it difficult for the new entrants to obtain finance required for the acquisition of buses.



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Government contribution for the funding of tender or negotiated contracts should also be increased to an economically viable rate to ensure that historically disadvantaged operators will be attracted to the market and that the introduction of these operators into the formalized transport sector will be a success.

Long term contracting

What are the impediments to the competitive bidding process by government?

The very little progress that was made with the design and completion of the Integrated Transport Networks resulted in insufficient public transport planning within the Gauteng province.

Expansion of the areas to be serviced will increase the funding required to finance the implementation of public transport services to these areas.

A competitive bidding process will increase the funding required to operate an efficient public transport service on the existing contracted routes.

The readiness of the Tshwane Metro to take over the public transport function from the Gauteng Provincial Government, as prescribed in the National Transport Act of 2009, delayed the process for the finalization of the transport network for the Tshwane area.



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Long term contracting

The impact of the lack of competitive bidding on entry and expansion of bus operators

Northwest Transport Investments is currently operating four interim and three tender contracts with the Gauteng Department of Roads and Transport. These contracts were concluded in 1996, 1997 and 1998 respectively.

The interim contracts were intended to serve as an interim measure to ensure the uninterrupted provision of public passenger transport services whilst the Integrated Public Transport Networks were designed and implemented. It was envisaged at the time that the interim contracts would be converted to negotiated contracts within a period of not more than three years. Negotiated contracts would be concluded for a period of seven years where-after the services would be put to tender.

The tender contracts were concluded in 1996 and operations started in 1997. The tender contracts were awarded for a period of five years. Upon expiry of the contracts it was extended on a month to month basis, later for a period of one year and in 2015 for a period of three years.

Long term contracting

No invitation for tenders for the provision of public transport services was published since 2002 when a moratorium was placed on the awarding of further contracts.

New entrant into the market could there-for not compete for the rendering of public transport services since 1997.

What measures can be put in place to ensure that government's contracting system is effective and promotes competition between bus operators.

The Integrated Transport Plans for the Gauteng Province need to be finalized to allow for the re-design of the current contracts.

A competitive tender process should be implemented for the awarding of the re-designed contracts.

Additional funding is needed from government to ensure that economically viable and effective operations will be maintained throughout the contract period and that passengers enjoy the financial benefit of government subsidies.

Long term contracts

Awarded contracts should be put to tender upon expiry. The competition between the operators of public transport services will ensure that the contracted rates remain market related, but economically viable for the contracted period.

Provision should be made for subcontracting of SMME's in contracts to allow for new entrants into the market to gain experience and build operational capacity.

Licensing

Northwest Star and Atteridgeville Bus Services are registered as operators of public transport services and the contracted routes are registered with the Gauteng Provincial Regulatory Entity. Operating Licenses are renewed upon expiry once all the necessary process are completed.

Price setting mechanisms

What is the impact of price setting on competition between the different modes of public transport on routes where these modes of transport compete?

Commuter fare increases in the formalized bus industry are consulted with passengers and implemented on an annual basis. The annual increase is approved by the contracting authority. The increase is based on the expected inflationary operating cost and the increase in the contracted kilometer rate allocated by the contracting authority.

Minibus taxi operators are more flexible to increase or decrease fares when the fuel price is adjusted and do not have to absorb abnormal operating cost increases for long periods of time.

Rail operations is also regularized and fares are adjusted annually.

Passengers historically use the most affordable means of public transport option available to them that will suit their travelling patterns.



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Thank you