OVERVIEW OF THE BUS AND COACH INDUSTRY

Presentation to the SABOA Annual Conference
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Overview of the presentation

- Nature of subsidised commuter operations in S A
- Characteristics of the commuter bus industry
- Subsidised commuter bus operations are directed by government
- Impact of DORA
- SABOA initiatives regarding DORA
- An overview of available funding for public transport
- Policy progress
- General overview of other SABOA activities
  - Road safety initiatives
  - Coach operator's sub-committee activities
  - Operational committee activities
  - Technical committee activities
  - Cross border road passenger transport
  - Training activities
  - E-tolling
  - AARTO: Demerit Points System
  - Progress with SMME initiatives

Nature of subsidised commuter operations in S A

- The second largest mass transit mode in S A
  - Urban services
  - Rural - urban services
  - About 23% market share, but larger in the peaks and over longer distances

Characteristics of the commuter bus industry

- Flexibility – more flexible than heavy rail, light rail and BRT
- Much cheaper to operate than heavy rail, light rail or BRT systems
  - Conventional commuter bus services about 4 -7 times cheaper to operate than BRTs
- Can offer network-type services between rural and urban areas as well as within urban areas
- Often the only mode in rural areas due to operating circumstances
- The industry is vulnerable to volatile exchange rates, it's labour intensive and very sensitive toward diesel price increases
- Operators are unionised
- All services are on short term renewals of existing contracts - most since 2001
- All services are negatively impacted by the Division of Revenue Act

Subsidised commuter bus operations are directed by government

Tendered contract services

- Time tables are prescribed
- Headways are prescribed
- Passenger fares are prescribed
- Vehicle ages are prescribed
- Services are monitored by a monitoring company – penalties for non-compliance
- Route km-based funding
- Approval needed for fare increases, route amendments

Interim contracts

- Passenger fares are prescribed
- Timetables are agreed
- Provincial oversight of services rendered
- Route km-based funding
- Approval needed for fare increases, route amendments

Negotiated contract services

- Time tables are prescribed
- Headways are prescribed
- Passenger fares are prescribed
- Vehicle ages are prescribed
- Services are monitored by a monitoring company- – penalties for non-compliance
- Route km-based funding
- Approval needed for fare increases, route amendments

Impact of DORA

- The 2009 DORA intervention has had major consequences over the last 5 years:
  - Serious under-funding compared to the agreed contractual escalation formulas
  - Commuters have had to face significant fares increases due to the lack of funding
  - Companies have had to review bus replacement programmes, bus services and other areas of operations
  - The industry is in danger of collapse due to underfunding as a result of DORA

Actual vs. contract escalation (Operators in Gauteng)

YEAR	ACTUAL SUBSIDY INCREASES 'WHAT WE ACTUALLY RECEIVED'
2009/10	-6%
2010/11	5.10%
2011/12	5.0%
2012/13	3.05%
Avg	**1.78%**

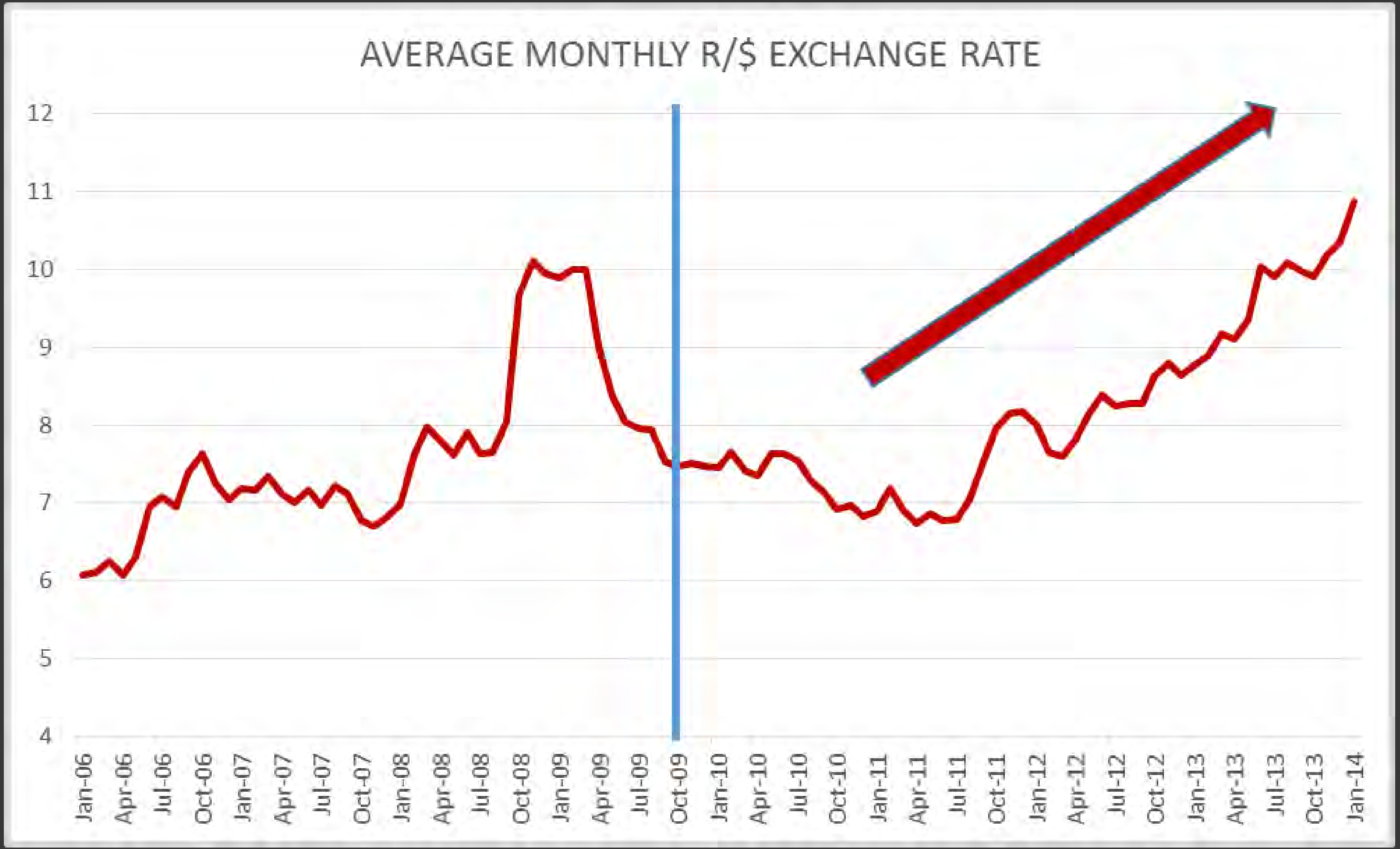
The difference in subsidy received versus what should have been received

CONTRACTUAL SUBSIDY INCREASES 'WHAT WE SHOULD HAVE RECEIVED'
10.99%
2.15%
6.81%
9.86%
7.45%

Actual vs. contract escalation (GABS in the Western Cape)

YEAR	ACTUAL SUBSIDY INCREASES (What GABS actually received)	Difference in subsidy received versus actually received	CONTRACTUAL SUBSIDY INCREASES (What GABS should have received)
2009/10	-6.80%		10.97%
2010/11	6.50%		6.67%
2011/12	5.35%		9.65%
2012/13	4.50%		7.41%
Average	**2.39%**		**8.68%**

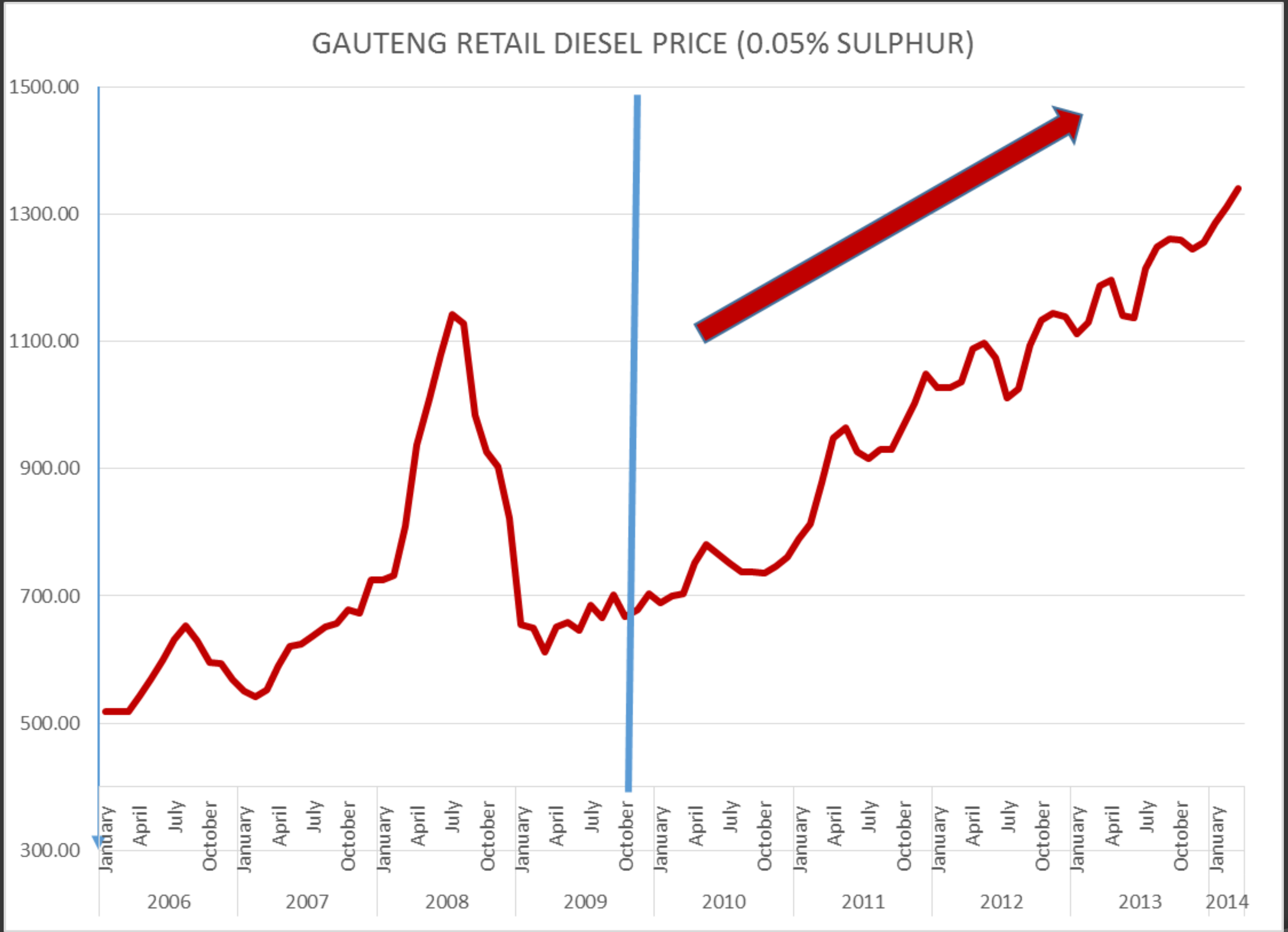
Average monthly R/$ exchange rate



Source: SA Reserve Bank

- Imported chassis
- Imported engines, gearboxes and rear axles
- Imported electronics
- Spare parts
- Diesel costs based on exchange rate and international crude oil price

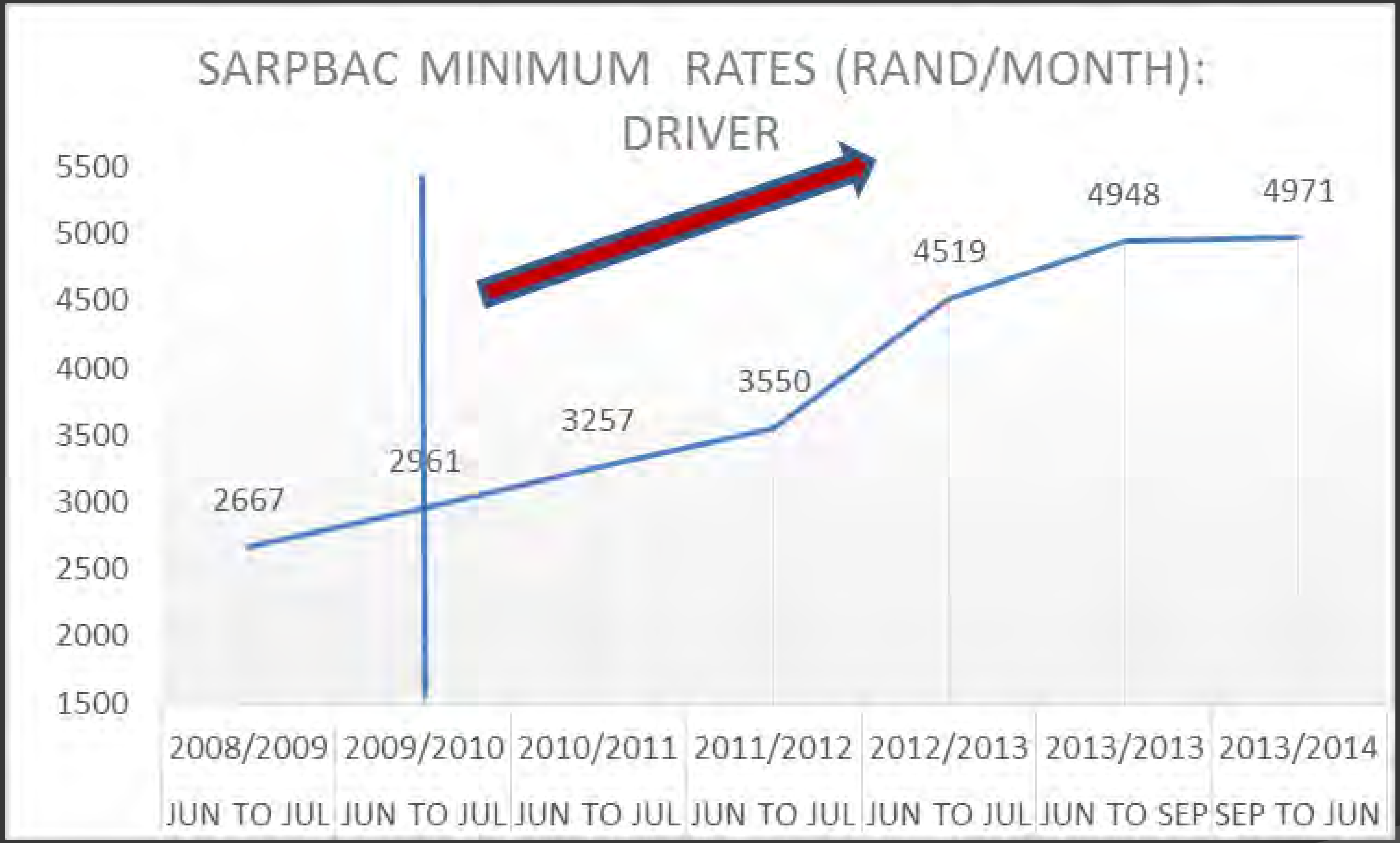
Diesel price increase since 2006 (Retail price)



- Diesel represents about 30% of the total operating costs of the average bus company

Source: Department of Energy

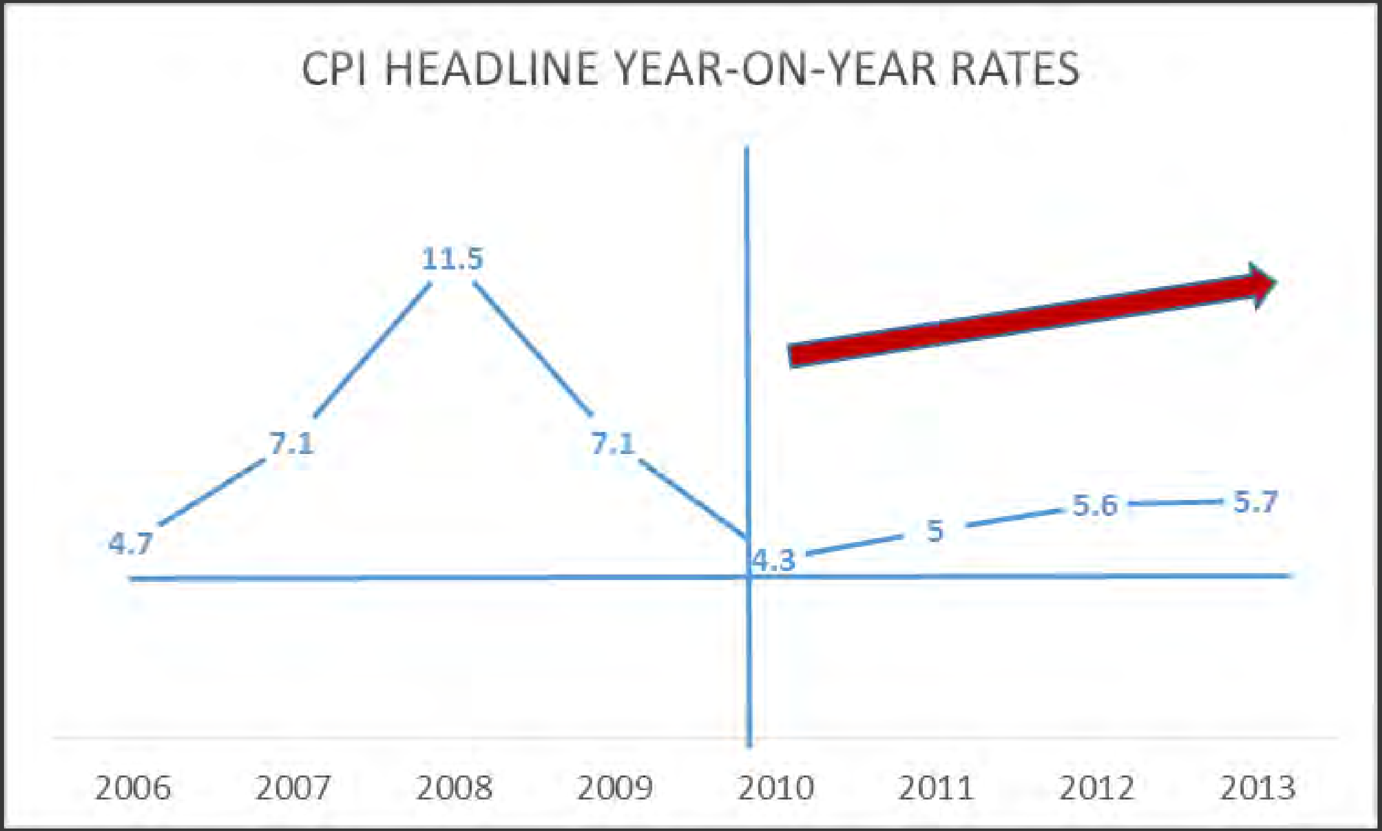
Employment costs



- Labour intensive - drivers (50% - 65% of workforce costs), technicians, administration, management - about 40% of total operating costs

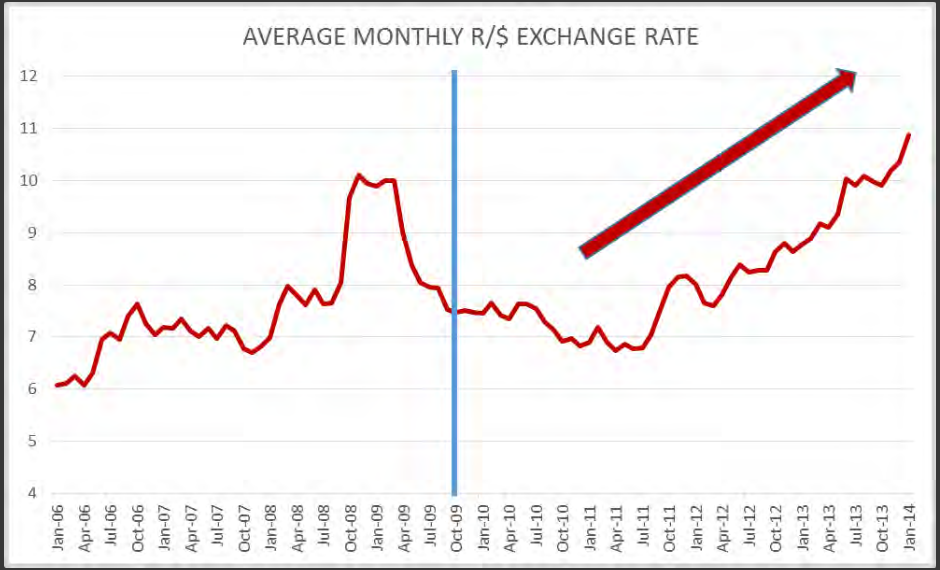
Source: SARPBAC

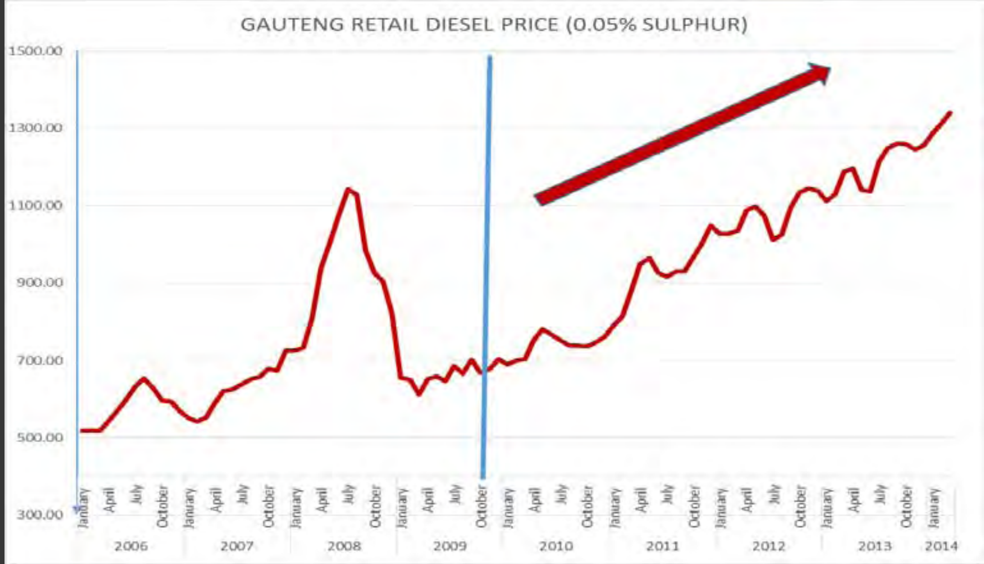
CPI Headline Inflation

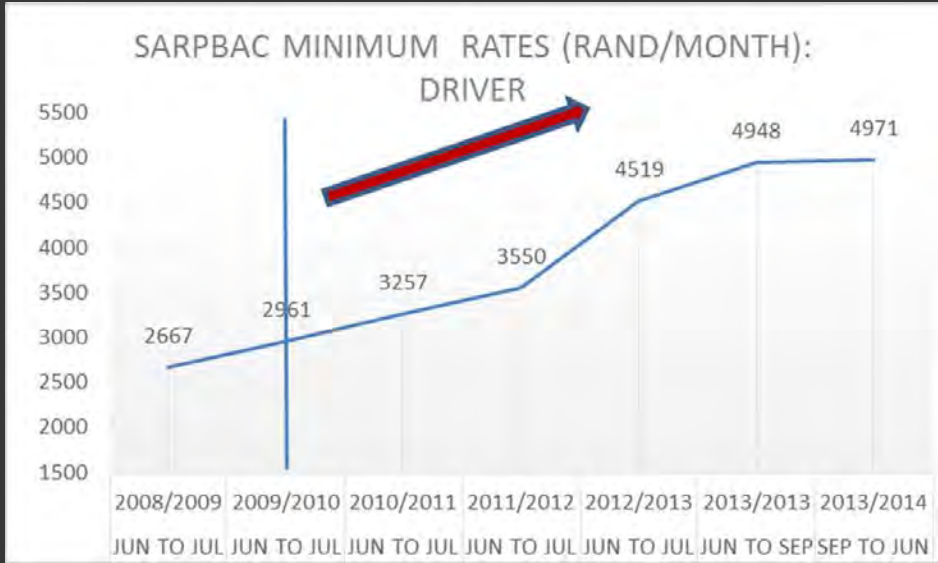


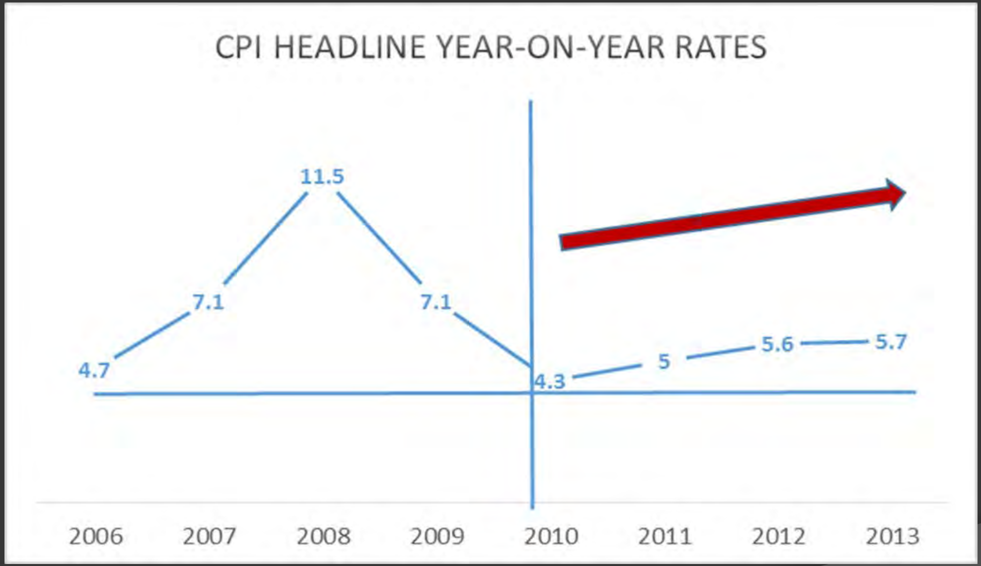
Source: Statistics SA

- Despite major cost pressures…
  - R/$ exchange
  - Employment costs
  - Diesel costs
- The increases in DORA has been kept well below the (increasing) CPI headline inflation over the period 2009 - 2013
- There is no relation between these increases and the cost pressures faced by the industry









Over the period 2009 to 2013 the average DORA increase in Gauteng was 1.78% vs 7.45% based on the escalation formula, and in the Western Cape 2.39% vs 8.68% of the escalation formula

SABOA initiatives regarding DORA

- Presentations on the impact of DORA to the following role players:
  - Department of Transport – 7 Dec 2012
  - SABOA Conference 28 Feb 2013 – Thys Heyns
  - Western Cape MEC and senior staff – 26 March 2013
  - Meeting btwn DOT, Treasury and SABOA at the DOT – 22 April 2013
  - Minister of Transport, Ben Martins – 17 May 2013
  - COSATU – 24 July 2013
  - SARPBAC – 30 July 2013
  - Portfolio Committee on Transport – 30 July 2013
  - Gauteng MEC for Transport – 1 August 2013
  - Special SABOA meeting on 22 August 2013 to consider actions taken
  - Advisor to Minister of Finance and Treasury – 26 August 2013
- Requested meetings with the Minister of Transport and Minister of Finance

An overview of available funding for public transport

- Funds are made available for:
  - Bus and commuter rail operational subsidies
  - Capital investment programmes in commuter rail and taxi industries

Available funds for public transport

Table 1: Different funding sources (2012/13)

Funding source	Amount (Rand)
Public Transport Operations Grant (PTOG)	4,317,269,000
Public Transport Integration Systems Grant (PTISG)	4,988,103,000
Taxi Recapitalisation Programme (TRP)	495,041,000
Scholar Subsidy	1,255,501,325
Municipal Bus Subsidy	769,155,390
Provincial Bus Subsidies	908,825,000
Total	12,733,894,715

Source: Department of Transport. Presentation to the SABOA AGM 30 May 2013

Table 2: Current and planned BRT **capital funding** (excluding operational funding requirements)

System	City/area	Distance/stations	Cost (R billion)	Completion status
Rea Vaya Phase 1A	Johannesburg	25.3km/30 stations	R 3.35 bn	Completed
IRTN	Cape Town	16km/13 stations	R 1.3 bn	Completed
Ethekwini	Durban	34 km/46 stations	R 8.4 bn	Planned
Rustenburg	West of Pretoria	34km/37 stations	R 5.4 bn	Planned
Tshwane	Pretoria	70km	R 4.779 bn	Planned
Total		179 km	R 23.229 bn	

Source: Department of Transport

Conclusions from tables 1 and 2

- **Table 1:**
  - From the table it can be seen that about R 12,7bn is spent on public transport in the country.
  - In addition to these funds, there are also funds dedicated to the Gautrain and its bus feeder system, as well as the various BRT systems that are in operation in Cape Town and Johannesburg.
  - The PRASA government subsidy was R 3,154,933 in 2011 (PRASA Annual report, 2011:79).
  - There is a PRASA recapitalisation programme worth R 123 billion
- **Table 2:**
  - This table excludes the City of Johannesburg (2013) Phase 1B of the Rea Vaya BRT. This phase consists of 13 stations over a distance of 18.5km and came into operation in October 2013. It is estimated that this phase cost R 1.2 bn.
  - The overall capital cost of the BRTs that are either operational or being planned therefore amounts to about R 24.429 bn.

Conclusions from tables 1 and 2

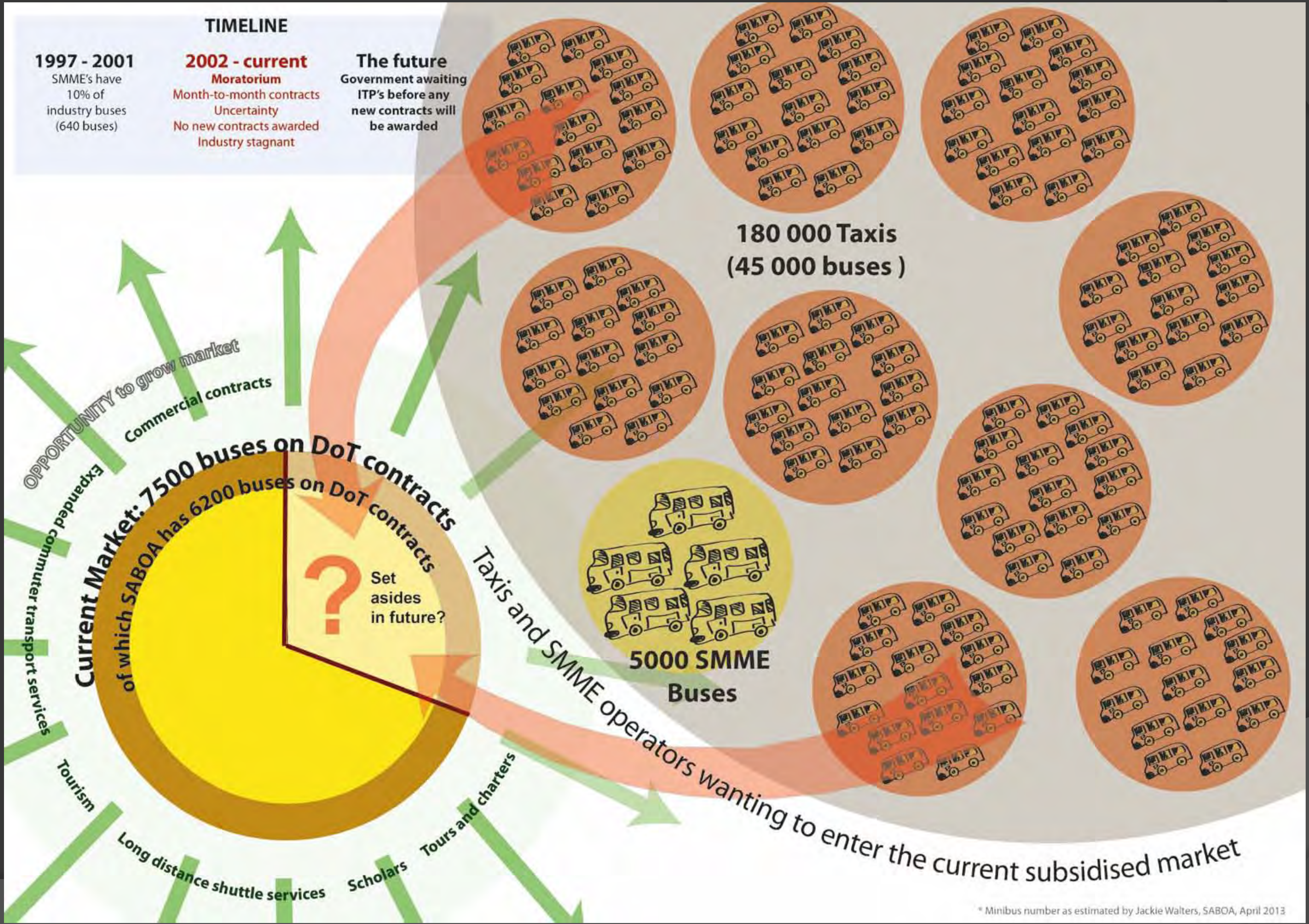
- This quantum excludes the operational subsidies for the BRT systems shown in table 2 which are substantial.
  - In the most recent DORA Bill (2014) R 744m is made available for BRTs (R 881m in 2013) to supplement operational funding to municipalities operating approved Integrated Rapid Public Transport Networks (BRTs)
- When combining the respective funding sources and requirements of tables 1 and 2 it is evident that about R 37b rand is available and/or earmarked for public transport in South Africa and if the PRASA subsidy is included this figure is close to R40b.
- This is significantly more than most analysts would estimate and points to the fact that there is no real shortage of funds for public transport, it is the uncoordinated manner in which the available funds are being spent which leads to modal sub-optimisation and the neglect of others

Conclusions from tables 1 and 2

- Large amounts of funds are being made available for BRTs and PRASA and significant amounts invested in Gautrain and its feeder services
- This is not wrong per sé as one has to encourage new developments, especially long term investments in public transport
- The traditional commuter bus industry is however being financially “strangled” which transports more passengers per day than PRASA, Gautrain and existing BRTs combined
- Its reach and scope and role in the economy is significant (an estimated 23% market share) and its impact on the lives of hundreds of thousands of daily commuters indisputable.

Conclusions from tables 1 and 2

- It is similar to urban transit systems in most countries in the world that depend on ordinary commuter bus systems for the provision of basic commuter services
- It is great that billions are being poured into PRASA, Gautrain and BRTs but…
  - It is equally important to ***“PROTECT AND INVEST IN WHAT WE HAVE”.***
  - Billions of Rands have been invested in bus operations in the country – equipment, infrastructure, people. This entire investment is under threat due to the consistent underfunding of the industry.
- We also dare not forget that there are many more role players that would like to be part of the commuter transport subsidy system that are at present excluded… SMME bus operators and taxis



TIMELINE
1997 - 2001
SMME's have 10% of industry buses (640 buses)
2002 - current
Moratorium
Month-to-month contracts
Uncertainty
No new contracts awarded
Industry stagnant
The future
Government awaiting ITP's before any new contracts will be awarded
180 000 Taxis (45 000 buses)
5000 SMME Buses
OPPORTUNITY to grow market
Commercial contracts
Expanded commuter transport services
Tourism
Long distance shuttle services
Scholars
Tours and charters
Current Market: 7500 buses on DoT contracts
of which SABOA has 6200 buses on DoT contracts
? Set asides in future?
Taxis and SMME operators wanting to enter the current subsidised market
* Minibus number as estimated by Jackie Walters, SABOA, April 2013

Conclusions from tables 1 and 2

- In concluding the comments about these tables:
  - It is important that a more holistic view be taken of the public transport system, based on integrated transport plans.
  - In this regard a transport authority at a supra- local level could play a leading role in coordinating public transport planning and funding across modes of transport

Policy progress and implementation has been excruciatingly slow…

- Despite many strategies and policies there is a lack of policy progress and implementation in the commuter bus system
- No ITPS have been developed/updated sufficiently that can be used for integrated transport planning
- Subsidised bus operators have been on short term contracts ever since their contracts expired – some from as far back as 2003
- Since 2001 no expansion of the bus commuter system has been allowed, despite significant in-migration and major community needs
- The four model contract documents were Gazetted in 2013
  - Negotiated contracts – net cost (operator carries revenue risk)
  - Negotiated contracts - gross cost (authority carries revenue risk)
  - Tendered contracts – net cost (operator carries revenue risk)
  - Tendered contracts – gross cost (authority carries revenue risk)

Policy progress

- There has been no further discussion about escalation formulae
- The proposed TCs and NCs (tendered and negotiated) have an over-ride clause that the DORA escalation will be applied irrespective of any agreed escalation formula
  - Operators cannot enter into 7 + 5 year contracts under these circumstances
- There has been no discussion on how to implement S197 of the LRA, nor how the proposed model tender documents should be amended to cater for S197
- No clarity on how SMMEs will be empowered
- Complex compliance criteria that has not been discussed with the industry

Road safety initiatives

- The SABOA Council approved the adoption of the Road Traffic Management System (RTMS) which means an independent audit of facilities and practices of operators to improve road safety
- Voluntary
- A number of companies are in process of being audited - one has been certified so far
- Road safety campaign
  - Members were requested to again sign the SABOA Road Safety Code of Conduct
  - Press releases during November and early December – copies were sent to all members and are available on the SABOA website
    - Code of Conduct; RTMS; Road Safety Tips

COASA sub-committee activities

- Issues discussed during the year:
  - Gauteng Freeway Toll fees for coaches
  - National Public Transport Regulator
  - Permits/Operating licences
  - Extension of SARPBAC agreement
  - Road Traffic Regulation Amendments
  - Amendments to the DTI B-BBEE Codes of Good Practice

Operational committee activities

- Issues discussed during the year:
  - Driving hours
  - Bus safety campaign: RTMS
  - Employee absenteeism
  - Bus contracts
  - Conversion of permits to operating licences
  - Regulations relating to integrated fare systems
  - BRT systems

Technical committee activities

- Issues discussed during the year:
  - Directional stability control devices
  - Brake performance evaluations
  - Bus passenger mass per seat
  - Emergency exits
  - Waste-tyre management regulations
  - Vehicle license and COR
  - Road Traffic Regulation amendments
  - SANS 534(Microdots)
  - Local versus imported tyre prices
  - Uneven braking

Training activities

- The following training programmes were presented via Learncorp, on behalf of SABOA, with funding from the TETA:
  - Driver skills programme for small bus operators
  - Small coach operators skills programme
  - National Certificate: Professional Driving Learnership

- Road Passenger Transport Management Programme

  330 students enrolled for the UJ programme

E-tolling

- Came into being on 3 Dec 2013
- Commuters operators are exempted based on application for exemption
- Application with SANRAL for all other bus operators to be exempted – awaiting response

AARTO: Demerit Points System

- A number of meetings have been held with the RTMC and comments made on proposed legislation
- SABOA is concerned with the operator dimension, the points applicable to more than 2000 transgressions, the unequal awarding of "credits" which is dependent on fleet size, the number of transgressions etc.
- We are proposing a simplification of the PDS based on about 10-15 major transgressions – mainly focusing on the driver (responsible for 80% of accidents);
  - Speeding
  - Reckless driving
  - Driving under the influence etc.

Cross border road passenger transport

- Concern about the cross border bus services – taxi permits have been increasing sharply while the bus industry's permits have reduced
- Discussions with CBRTA to correct the situation
- CBRTA does not have a sound methodology to regulate cross border permits on an equitable basis
- Objected to abnormal increases in permit fees

Progress with SMME initiatives

- About 640 SMME buses are contracted to existing SABOA members
- SABOAs Empowerment Committee is now focusing on operators that are willing to sell businesses:
  - Lowveld Bus Service
- Learncorp - three approved new courses
- SABOA KZN Provincial Task Team – opportunities for SMMEs

Progress with SMME initiatives

- SABOA involved in Tshwane and Jhb BRTs
- Bargaining Council extension - SABOA is assisting members who are not affiliated to SABEA or COBEO who wish to establish their own employers association. Survey currently being conducted to determine whether they meet minimum requirements of 2000 employees
- Awaiting the DOT to convene a meeting to amend the existing charters and to bring these in line with the new BBBEE Codes

Thank you