

COJ : MAYORAL COMMITTEE 2019-03-06

## **METROPOLITAN BUS SERVICES**

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### **99 A PROPOSAL TO AMEND THE PASSENGER FARE STRUCTURE OF METROPOLITAN BUS SERVICES (PTY) LTD FOR THE PERIOD BEGINNING 1 JULY 2019 TO 30 JUNE 2020**

#### **1 STRATEGIC THRUSTS**

Pro-poor development  
Enabling economic growth

#### **2 OBJECTIVE**

The purpose of this report is to seek approval to amend the tariff charges for bus services. Council approval is thus sought for the bus fare increases proposed under item 5 below for the 2019/20 Financial Year that takes effect as from the 1<sup>st</sup> of July 2019.

#### **3 SUMMARY**

Fares Adjustment Background

Metrobus adjusts its passenger fares annually, which is implemented with the commencement of the financial year on the 1st of July together with other tariffs levied by the City of Johannesburg.

#### **4 PRINCIPLES USED FOR 2018-2019 FARES INCREASE**

The following principles or tariff guidelines were applied to determine the 2019/20 fare increase for Metrobus:-

- City of Johannesburg Treasury has assumed a forecasted CPI of 7% for the 2019/20 financial year.
- Tariffs must reflect the cost reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- Tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources.
- The economical, efficient and effective use of resources.
- The extent of subsidisation of tariffs on learners, pensioners and persons with disabilities.
- Alignment with the GDS and City revenue optimisation imperatives

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Notwithstanding the above, the dynamics of elasticity when setting fares is always an important consideration especially in the Metrobus environment where we are competing with many other transport operators. We can therefore say that the demand for our services is very elastic implying that our commuters are only prepared to pay a certain price or will only pay a narrow range of prices for our service. Anything other than that may result in a modal shift.

**5 PROPOSED FARE INCREASE****Cash Fare Increase**

The proposed increase for the casual passenger who pays cash on the bus will be seven percent (7 %). Cash fares are currently market related and the increase of 7% is the CPI assumed by Treasury.

**Coupon Trip or Multi Journey Tag Fares**

Almost eighty percent (80%) of our commuters are using tags whereby trips are bought in advance at a discount of 25% which makes them way cheaper than cash fares. The entity proposes that trips prepaid for, increase by seven percent. Private hire and contracts are to be increased by (7%). Pricing as per table C below is determined by the number of buses and kilometers travelled per month.

Arising from the guiding principles, Metrobus' new passenger fare structure appears in Tables A, B and private hire and contracts appear in Table C

Table A - Comparative Adult Cash Trip Tariffs

STAGES	METROBUS (R) CURRENT	METROBUS (R) PROPOSED
1	11.60	R 12.40
2	13.60	R 14.60
3	16.40	R 17.50
4	19.70	R 21.10
5	22.80	R 24.40
6	24.60	R 26.30
7	26.90	R 28.80
8	28.90	R 30.90

The fares reflected for Metrobus above are based on market related cash fares although an acceptable competitive advantage has been retained in most instances.

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Table B – MULTI JOURNEY TAG FARES:

CLASS OF PASSENGER	FARE BASE
Stored Value	8.0% Discount
Adult Commuters – multi journey tags	25% Discount
Scholars	7 % on cash and further 25% discount for multi journey fares
SAPD, JMPD and SANDF members in uniform	Free travel on non-dedicated trips
Pensioners	8.6% on cash and 50% on multi journey trips. Pensioners must be restricted to only use buses during off-peak or pay the normal adult fare.
Metrobus staff	Free travel. But to present staff ID card at all times

Table C- LEVEL OF DISCOUNTS:

Description	% of Passengers travelling	Discount Applicable	Effective Discount off cash
Adult	62.88%	-	25%
People With Disability	1.68%	50% off adult price tag	63%
Pensioners	9.57%	86% off adult price tag	90%
Scholars	25.87%	30% off adult tag price	48%

The levels of discounts which are currently provided by Metrobus are way above the average of the industry. This then creates a pricing challenge within the organisation. A comparison with other operators shows that some operators provide various discounts to the different classes of travellers however, up to a maximum of 10%, this shows that the discounts which are being provided by Metrobus are way too much.

A comparison with Rea Vaya shows that they charge on a distance basis and they do not offer any discounts regardless of the person who is travelling i.e. student will pay the same price as an adult with the only relief offered to customers when they travel off peak (10% discount). This can be an alternative approach which Metrobus wants to take once there is a city wide fare policy in place and there is a system which has the capacity to be able to charge on a distance basis. In order for Metrobus to be a sustainable business these discounts which are being provided should be reduced to be in line with other industry players and the organisation should also make use of dynamic pricing. However, since the current system is old and is not able to support

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such a change, the current discount levels will be maintained. However, commencing the in the coming years these discounts should be in line with the other industry players once an effective fare collection system is in place. Furthermore Metrobus is currently undergoing a study on the operating market conditions to obtain objective information on the status of passenger travel in the City. The study will also seek to answer objectively questions on the price elasticity of the services which we currently provide. It is also important that with the age of the fleet which the organisation has and the amounts of monies being spent on the repairs and maintenance a significant adjustment in the fare from 2019/20 financial year is warranted. The tables below illustrate the age of the fleet and the amount of expenditure incurred on some of the buses;

Type of Bus	Total	Fleet Ageing (years)					
		1 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 35
Mercedes Benz Open Top Double Deck	4						4
Mercedes Benz Double Deck-Old	12						12
E.R.F Single Deck	38					38	
single deck Mercedes	2					2	
Volvo B10M Single Deck	76					76	
B7TL Volvo Double Decker	148					148	
131087 - B7R Volvo Single Decker	49					49	
133898 - Mercedes Benz Luxury Coach	2			2			
133900 - Mercedes Benz	125			125			
Mercedes Benz Euro 3	25	25					
Mercedes Benz Euro 5	150	150					
	631	175	0	127	0	313	16

The above table illustrates the number of buses within the fleet even those which are due for disposal. From the analysis above it shows that there is a significant amount of fleet which has been in operation for a significantly long period of time.

Table E: BUSES WITH THE HIGHEST AMOUNT OF REPAIRS OVER THE PAST 6 YEARS

Description	No. of buses	Total cost	Average per bus
More than R3 million	3	11 245 864.42	3 748 621.47
More than R2.5 million but less than R3 million	10	27 044 080.92	2 704 408.09
More than R2.0 million but less than R2.5 million	36	78 669 339.58	2 185 259.43
More than R1.5 million but less than R2 million	86	146 922 366.32	1 708 399.61
More than R1 million but less than R1.5 million	120	149 572 126.78	1 246 434.39

The results shows that a total of 255 buses have had repairs and maintenance expenditure of more than R 1 million. This shows that an enormous amount of expenditure is being spent on the repairs and maintenance however; this is not yielding the desired results as the buses continue to breakdown even after such a huge investment of monies as stated above. In order for the organisation to have the necessary fleet to properly service its clients there is

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need for a higher cost recovery which means higher fares being charged to the passengers. The future increase in the fares should be done taking into account the pro-poor principles.

### **6 POLICY IMPLICATIONS**

The proposed fares increase is in line with the City of Johannesburg's guiding principles on the determination of tariffs and Tariff Policy in that tariff should be equitable and affordable.

### **7 LEGAL IMPLICATIONS**

This report has been finalised in conjunction with Legal to ensure compliance with all relevant Legislation including the Local Government: Municipal Systems Act and the Municipal Finance Management Act and the City's Tariff policy and By-laws. It should however be kept in mind that by virtue of Section 28 (6) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), once the new tariffs have been determined in respect of the 2019/20 Financial Year, it may not be further increased during that financial year, except when required in terms of a financial recovery plan as contemplated in the Act. For that reason it is essential to ensure that the proposed increases comply with the budgeted needs of the Council in respect of 2019/20 Financial Year.

### **8 FINANCIAL IMPLICATIONS**

The implementation of the proposed fare structure will generate an amount of ± R6.9 million more compared to the current financial year to the operating revenue of Metrobus.

The proposed fare structure will be included in the compilation of the revenue figures for the 2019/20 budget.

### **9 COMMUNICATION IMPLICATIONS**

The relevant information regarding the amended tariffs will be communicated to all the role players in the manner as prescribed by law.

The commuter forum will be consulted and a communication campaign will have to be embarked upon around May/June 2019 to properly inform passengers of the new fare structure and its implications. This campaign should be in addition to the public notice from Council as determined by the Municipal Systems Act.

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### **10 OTHER DEPARTMENTS/BODIES CONSULTED**

Legal Services  
Budget Office  
Transport Department  
Financial Compliance

### **IT IS RECOMMENDED**

**1That, in terms of Section 75A (1) of the Local Government: Municipal Systems Act 2000, (Act 32 of 2000) as amended, read with Section 16(2) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), Metrobus acting in accordance with its mandate from the City of Johannesburg declares its intention to amend with effect from 1 July 2019 its Tariff of Charges for Bus Fares as set out in Annexure "A".**

**2That, in terms of Sections 17(3)(a)(ii) and 22(a)(i) and (ii) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) and Sections 21, 21A(1) and 2 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) as amended, the City of Johannesburg:**

**(1)Display the notice and the documents in the manner prescribed;**

**(2)Seek to convey to the local community by means of radio broadcasts covering the area of the City, the information contemplated in Section 21A (1)(C) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) as amended; and**

**(3)Publish a notice in the manner prescribed and invites the local community to submit written comments or representations in respect of the City's declared intention to amend or determine Tariffs of Charges.**

**3That the Executive Director: Finance in conjunction with Director : Legal and Compliance, in consultation with the Council's relevant Departments and all interested parties, report on the comments received in terms of Paragraph 2 above with recommendations on the final draft of the Tariffs of Charges for approval.**

**4That the report be submitted to a relevant Section 79 Committee for comment.**

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(tc)

THE NEXT ITEM FOLLOWS THE ANNEXURE TO THIS ITEM