

The cost of commuting

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Authors and contributors



Ayabonga Cawe

THE IMPACT OF TRANSPORT COSTS ON EMPLOYEES

Travel costs in context

Unless employees are able to work from home, or live a stone's throw from where they work, they have to commute some form of transport. In South Africa, largely owing to the country's history of forced geographical segregation, this commute confronts us with a cruel irony: in most cases, the people faced with long commutes are those in low-wage, low-productivity jobs.

We've arrived at this state of affairs not by coincidence or providence, but by historical design. Under colonial and apartheid rule, the majority of citizens were restricted to living in townships, compounds and ghettos on the fringes of large metropolises, or in secondary cities and small towns. This necessitated long commutes, often using multiple, yet fragmented, travel modes. Coupled with restrictive 'pass laws' and other measures, this situation shaped the context many workers needed to navigate daily – and it continues to do so.

The National Development Plan boldly commits to addressing the cost drivers of poor households as a means to achieve the growth rates required to eradicate poverty, unemployment and inequality.

“In the earlier years, as the country expands access to employment on a mass scale, a large proportion of working people will receive low pay. It is essential to reduce the cost of living in relation to food, transport, education, health and other basic services¹.”

What is meant by 'low pay', and what is the current pay structure in South Africa from which these transport costs are drawn?

Low-income earners support more people on less pay

Arden Finn found the median wage of South Africans who work an average of 40 hours a week stood at R3 640 (adjusted for zero-wage earners as a result of high unemployment). Half the people at the bottom of the income distribution in South Africa earn less than R3 640².

If we then overlay the household dependency ratio for poor households in the lowest income decile, many of which earn much less than R3 640, an interesting story emerges. Workers living in poor households had average dependency ratios of 1:2.65 (meaning one worker supported 2.65 others from their income).

Finn explores these numbers further: “Almost 10% of poor wage earners support themselves and four other people; 6% support five others; 4% support six others, and some poor wage earners support up to ten dependants³.”

These figures are far from surprising, given that many workers in metropolitan and urban areas have non-nuclear spheres of responsibility. In many instances, they are expected to support families in rural areas and former homelands in addition to their families in urban areas.

The National Household Travel Survey (NHTS) of 2013⁴ calculated the percentage of workers paying, on average, more than R200 a month on transport. This amount might be the lower bound, but for households below the median of R3 640 (especially those in the lowest 10% of the income distribution) with higher dependency ratios, R200 is the difference between surviving at the end of the month or being plunged into regular financial distress. These figures are presented in Table 1.

Table 1: Mean monthly cost of travel

Mode of transport	People paying more than R200 a month for transport (%)
Bus	92.9
Train	56.4
Minibus taxi	95.9
Private car	91

Source: National Household Travel Survey (2013)

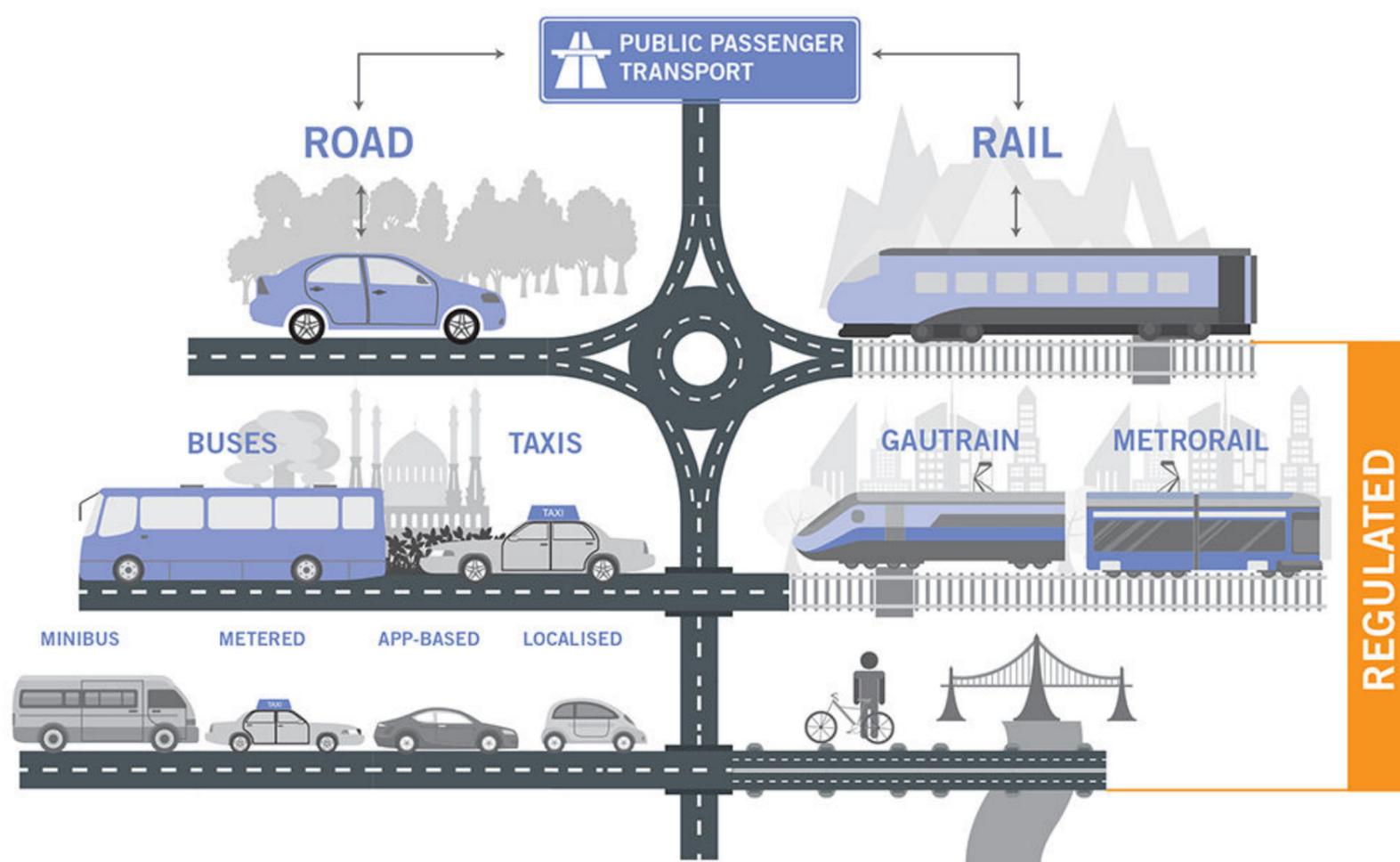
Transport costs a challenge for work seekers

The costs of transport are a challenge not only to those who are employed but also those in search of work. South Africa has a 27.7% unemployment rate, with 2.4 million discouraged work seekers in the first quarter of 2017. The influence of transport costs on the search for work may partially account for this figure.

In addition to productivity and other challenges, the other economy-wide cost of geographical inequality and poor public transport is that of new labour-market entrants seeking work. A study by the Abdul Latif Jameel Poverty Action Lab (J-PAL) and the African Microeconomic Research Unit (AMERU)⁵, looking at a sample of 1 200 job seekers in Johannesburg between 2013 and 2014, found they spent an average of R105.75 a week travelling to search for work – 25% of the weekly salary of a full-time employee earning minimum wage at that time.

In addition to ‘eating into’ household disposable incomes, high transport costs may also discourage or prevent people from searching for jobs – with disastrous consequences for the fight against unemployment, poverty and inequality.

Figure 3: How people get to work and back – public transport options



Source: Competition Commission (2017)

Figure 3 shows the different forms of public transport used by commuters in the South African economy. **While all modes of passenger transport are regulated, there are marked differences in the operating structure and extent of regulation of each.** For example, both the Gautrain and Metrorail are subsidised, but fare or price controls are applied only to Metrorail.

With regard to road transport, legislation makes provision for price controls in both bus and taxi services, yet only buses levy the regulated fares. In the taxi industry, app-based, localised and minibus taxis set their own fares. This has given rise to contentious (and often violent) confrontations between metered taxi drivers and app-based drivers. A market inquiry by the Competition Commission, launched on 7 June 2017, aims to grapple with these issues and probe fare-setting for all travel modes. This is a welcome development, as it would affect the 70% to 80% of South African commuters who rely on public transport.

Having looked at the overall cost of commuting as well as the different public transport modes and associated costs, we now take a look at the **proportion of commuters using different types of transport, the time they spend commuting and the reasons behind their choice of transport.**

Public transport choices

Looking at public transport options, The National Household Travel Survey in South Africa (NHTS) of 2013 found that workers living in metropolitan areas were more likely to use minibus taxis (29.6%) than trains (9.2%) or buses (6.3%). In rural areas, the use of minibus taxis was lower (21.9%) and people used buses more (13.8%).

What's surprising here is that the lion's share of subsidies is directed towards train and bus modes, with the only financial support to the minibus taxi industry coming in the form of taxi recapitalisation programmes. These have been relatively unsuccessful, mainly as a result of the nature and origins of the minibus taxi industry, and the limits it presents to developing an integrated transport system.

Former Deputy Minister of Transport and South African Communist Party leader, Jeremy Cronin, noted that the accumulation path of the minibus taxi industry rested largely on servicing the gaps left by the two publicly subsidised modes of transport, rail and bus: "The taxi industry's accumulation niche is, precisely, to provide mobility to the working class and the poor within under-serviced and inaccessible townships and especially between these displaced (peri-urban and rural) dormitory townships (the 'second' economy) and the centres of power (places of work, study and of public administrative and social welfare).⁶"

A major contradiction emerges here: most commuters either use multiple modes of transport (train users in particular are more likely to transfer to another mode of transport) or minibus taxis, despite the fact that taxis are not subsidised.

Time spent commuting

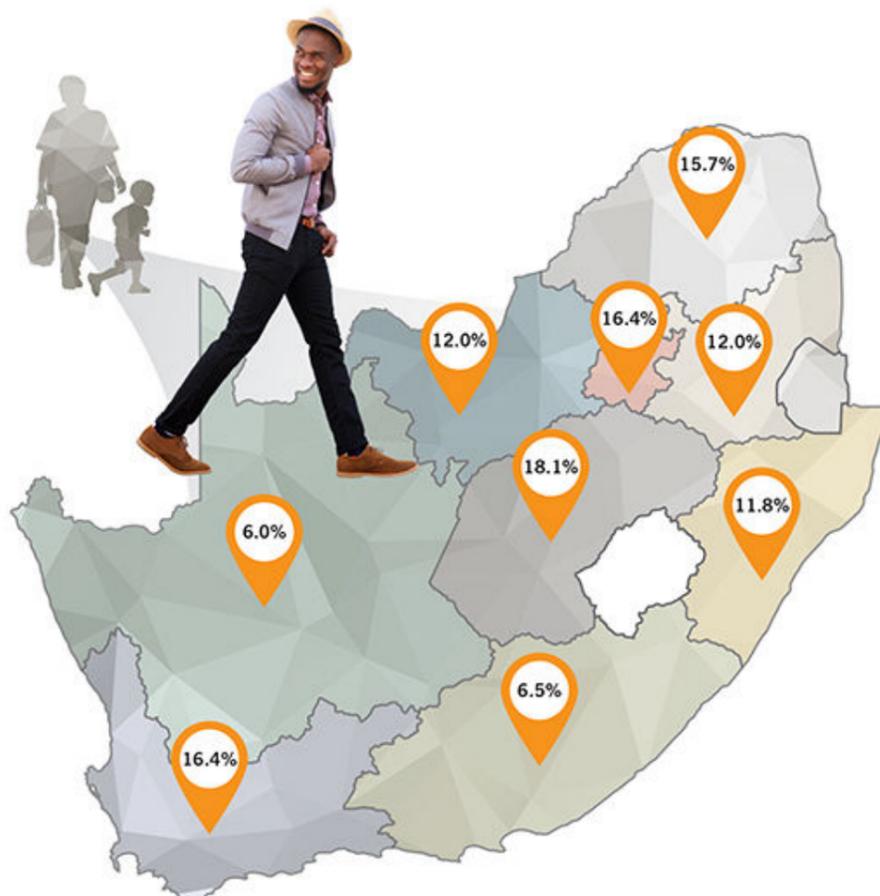
A significant number of South African employees spend a large part of their working day commuting. The NHTS found that more than one in five workers (22.1%) left home before 6:00 to travel to work, while 29.7% left between 7:00 and 8:00. In metropolitan areas, 58% of workers left before 7:00, compared with 65% in rural areas.

Travel time includes the time spent walking to transport hubs, waiting for transport, time in transit, and the time taken to walk from the last drop-off point to the place of work. In 2003, 11% of workers walked for more than 15 minutes to their first public transport mode. This figure rose to 14.7% in 2013.

Geographically, the highest percentage of workers who had to wait for more than 15 minutes for their first mode of public transport to arrive were in Gauteng (13%), followed by KwaZulu-Natal (11.8%). After being dropped off, most workers walked to reach their places of work.

Figure 4 shows a breakdown of this 'last-mile' commute, by province.

Figure 4: Percentage of workers walking – more than 15 minutes on the 'last mile' to get to work, by province (2013)



Source: National Household Travel Survey South Africa 2013, Stats SA (2014)

Factors influencing transport choices

Time, then cost, the most important factor

It is helpful to understand the factors that influence the choice of travel mode. The NHTS showed that **travel time was the biggest determinant of choice** for 32.6% of households, while 26.1% said it was **the cost of travel**. This isn't surprising, as Kerr⁷ found that bus and train users spend a

much longer time commuting, on average, than users of other types of transport, holding a number of other factors constant (these happen to be the two modes of transport that are heavily subsidised, and relatively cheaper than minibus taxis).

Just under 10% of households highlighted flexibility as the reason for their choices, and 8.7% said it was to ensure their safety.

Insights from this section:

- > Low-paid workers tend to have high dependency ratios, yet pay the same transport costs as those in higher-paid employment, leading to disproportionate financial stress on poor households.
- > The costs of commuting are also an issue for unemployed people in search of work, a factor that contributes to the 2.4 million discouraged work seekers in South Africa and the challenge of under-employment.
- > Most commuters use minibus taxis.
- > Workers who use public transport leave their homes early, with many having to walk to, and wait for, transport to and from work.

In the next section, we make the case for employers providing transport solutions.

THE CASE FOR EMPLOYERS PROVIDING TRANSPORT SOLUTIONS

Case study/lesson

Here, we make the case for involving employers in providing transport solutions for their employees. This would contribute to employee well-being as well as to the overall productivity of the employer's labour force, and that of the economy as a whole. We consider the tax implications of providing such solutions as a fringe benefit, in light of recent announcements by the South African Revenue Service (SARS) clarifying the tax treatment of such arrangements.

From the perspective of the employee

A range of employers currently provide transport to their employees as a result of sectoral dynamics and collective arrangements that result in working hours falling outside regular public transport hours (for example, in the retail, farming and security sectors).

The NHTS found that the proportion of workers who received a travel allowance from their employer dropped from 3.4% in 2003 to 2.3% in 2013. The only exception is in Limpopo, where the percentage who received travel allowances increased from 2.7% to 3.0%.

The work of Harvard economist Ricardo Hausmann⁸ shows us that the transport challenges outlined in the first section of this chapter are, for all intents and purposes, an 'effective tax' on employees. In South Africa, it is a regressive one at that, with a disproportionately greater impact on poor households.

Hausmann presents the following example:

Low-income formal-sector workers commute for three hours a day and spend the equivalent of two hours of work on transport costs, transforming an eight-hour work day into an 11-hour day. Their pay, after transport costs, is the equivalent of six hours of work.

This implies a 45% effective tax, and is one reason these workers may be inclined to take a lower-paying job in the informal sector nearer to where they live.

This regressive tax (in time and money spent) may also account for the discouraged workers referred to in the previous section. Kerr calculates this using the example of a worker earning R3 000 a month, which is not too far from the median wage:

Consider a full-time worker with a monthly income of R3 000, which amounts to an hourly wage of around R17.00. If they spend R300 a month on transport (not uncommon for someone taking a bus), their net monthly income would be 10% lower (at R2 700) and their hourly wage after transport costs would be R15.70.

If we add two hours spent commuting (a little more than the average in 2013) to an eight-hour work day, then the effective hourly wage would come down to R12.50 – 28% less than the wages of an individual who has no transport costs and spends no time commuting (for example, those who work from home or who work very near to home).

From the perspective of the employer

Tax implications of transport services as a fringe benefit

We have considered the significant costs and time spent commuting. Yet only 2.3% of employees provide transport allowances for their employees. This low figure is an indication of how much of the regressive tax associated with commuting is shouldered by employees.

Employers who wish to contribute to transport costs or provide transport for their employees must consider the tax implications of providing such a service. Any allowances for transport are fringe benefits that are included in an employee's total cost to company, and are therefore taxable – a situation which may serve to undermine the 'solution' in the first instance. There are, however, exceptions.

South African tax law makes provision for employers to provide transport solutions without adverse tax consequences for employees. In a recent binding general ruling, in line with section 89 of the *Tax Administration Act of 2011*, the South African Revenue Services (SARS) makes provision for no value to be placed on transport services:

Paragraph (10)(2)(b)

The taxable benefit will attract no value where any transport service is rendered by any employer to his employees in general for the conveyance of such employees from their homes to the place of their employment and vice versa.

What does the law say?

The binding general ruling goes further to limit the kind of arrangements that would be exempt from tax:

An employer may arrange for employees living within a certain radius to be collected from or dropped off at a common area or central point between the employees' homes and place of employment. An employer may also provide transport services for only part of the trip between the employees' homes and place of employment.

Before these general and private rulings clarifying the interpretation of transport as a taxable fringe benefit, many employees in sectors where such arrangements are common experienced declines in their disposable incomes as a result of the value attached to these arrangements in the cost to company calculation.

In light of the above rulings, **what impact will this clarity have for collective agreements** in sectors where such transport arrangements are prevalent?

In numerous collective agreements, the definition of 'remuneration' excludes transport allowances, as this definition from the National Bargaining Council of the Electrical Industry shows:

"Any cash payment or payment in kind provided to enable the employee to work (for example, an equipment, tool or similar allowance or the provision of a transport allowance to enable the employee to travel to and from work)⁹."

In some instances, transport allowances are explicitly referred to in collective agreements and form the basis of the total cost to company. Collective agreements in the auto sector, for instance, make provision for transport allowances in the form of an annual cash transport allowance, defined as follows:

"All hourly paid employees shall be paid a once-off annual cash transport allowance [...] all these payments will not be applicable to employers whose transport allowance/motor vehicle benefit is in excess of the respective transport allowance/benefit¹⁰."

In the auto sector collective agreement, this annual figure (set to be adjusted for the wage increase in 2016) was R1 200 in 2016 – an allowance from the employer of R100 a month. As welcome as this may be, if one looks at the figures in perspective (as presented in Table 1 on page 233), an overwhelming number of commuters spend more than R200 a month on transport. Most of the costs of commuting (and thus productivity costs) are carried by employers, even in sectors characterised by relatively highly paid and skilled workers, such as the auto sector. If one factors in challenges of affordability on the part of employers, it's clear that this isn't a simple matter.

An agenda for action

Employee well-being, productivity and morale are a product of conditions in the workplace as well as the external spaces and experiences that are connected to work. One such experience is the long commute many employees in South Africa undertake to get to their places of work. The challenges related to this commute include cost, waiting times and the trade-offs associated with different modes of transport. These challenges are a legacy of segregationist policy and therefore need to be addressed by responses from multiple stakeholders. All stakeholders – employees, policymakers and employers – have a role to play in finding a solution.

Policy-makers should:

- > Review the existing allocation of subsidies in line with current usage patterns, not the current focus on bus and train, given that such a large number of employees use taxis.

Government should:

- > Collaborate with the private sector to undo the challenges of effective taxation of the poor.
- > Enable greater productivity by helping employees cut down on the rigmarole of commuting.

Employers should:

- > View providing transport services to employees as a major differentiator in attempting to attract the best human capital, instead of a benefit to be paid for by employees.
- > Offer them more flexibility in the location of workplaces and the allocation of travel allowances.

Employee well-being, productivity and morale are a product of conditions in the workplace as well as the external spaces and experiences that are connected to work.

ADVANCES TOWARDS A DIGITAL TRANSPORT SOLUTION

In line with the technological and digital changes outlined in *Benefits Barometer 2017: Changing world of work*, and the innovations impacting on the transport industry from the likes of Uber, Taxify and Lyft, it's worth stealing a look at what this future is beginning to look like.

In light of our discussion on the impact of **cost, time spent travelling and choice of travel mode**, would it not be useful to compare what certain travel modes and routes would cost, and which would have the shortest distances and travel time between our homes and places of work?

Technology and innovations in the transport sector give us a picture of what an optimal transport solution might encompass, and what role different stakeholders (employers, employees and policymakers) can play in this.

Here are some of the features this solution might provide:

- > **Route management:** The ability to plot out one's route to work is empowering. There are numerous variables that go into deciding on one's route of choice: the shortest time, shortest distance, lowest costs, or some combination of the three. The solution needs to be aware of congestion and, as many existing GPS applications allow for, it must be aware of traffic flows and alternative routes in order to make the best recommendation.
- > **Insights and analytics:** Once we know the route to be undertaken, it is important to be able to see our exact location along that route at any given point in time. Platforms such as Uber already provide such a service; however, this may require a different permutation of the same concept when it comes to the minibus taxi industry, for instance. Here, the movement of one vehicle doesn't follow a planned schedule, but one dictated by demand (how many people have chosen the particular route and whether the taxi is full).

In addition, the employee, their family and employer should have information about the particulars of the vehicle (owner name, association, registration plate). Having such a system allows for feedback loops between the travel mode operator and the consumer or customer, such as reporting on the quality of driving, the service of each component of the transport solution, and any problems that need to be addressed by the vehicle owner, driver or transport system.

- > **Mobile payment:** A mobile payment system, or similar kind of capability, would enable users to avoid the unnecessary risk of carrying cash, and allow them to budget for and track spending at an individual and enterprise level (Uber, for instance, has both a personal and enterprise payment capability). Either the government or employer, or both, could subsidise costs by contributing to the mobile payments account, within certain parameters.

This system would allow for two coincidental benefits:

- > It would provide real-time data and analytics to policymakers, employers and the transport industry on market conduct, travel mode use, service levels and the general commuting experience of employees.
- > Subject to some of the tax regulations discussed in this section, it would provide additional value to employers by contributing to both holistic employee wellness and firm-level productivity while enabling employees to understand the budgetary impacts of their transport and commuting choices.

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Article tags

TRANSPORT COSTS

TRANSPORTATION MODES

PUBLIC TRANSPORT

TIME SPENT COMMUTING