



DEPARTMENT OF TRANSPORT
UMNYANGO WEZOKUTHUTHA

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TO: ALL HEADS OF DEPARTMENT
MEMBERS OF THE MOTOR TRANSPORT ADVISORY COMMITTEE
ALL DEPARTMENTAL TRANSPORT OFFICERS

PROVINCIAL TRANSPORT MANAGEMENT (PTM) CIRCULAR NO 32 OF 2005: PARTICIPATION BY KWAZULU-NATAL ON THE NATIONAL FLEET MANAGED MAINTENANCE CONTRACT: RT46

1. As you are aware, the existing Fleet Managed Maintenance contract ZNT1116/00T with Wesbank Auto has been extended until 31 March 2006. In preparation for a new managed maintenance contract for the Provincial fleet, specifications were compiled by Motor Transport Services (MTS) and draft documents in the form of the tender document and Service Level Agreement were accordingly prepared. These documents were handed to the Departmental Transport Officers (DTO's) for perusal, prior to the workshop scheduled for 6 July 2005, whereby pertinent aspects pertaining to the operational activities of the fleet were discussed. Comments and input were received from the members and where appropriate and agreed to, such was included in the draft specifications which were e-mailed to the MTAC members, requesting for comments.
2. At the MTAC Meeting held on 2 September 2005, final amendments to the draft specifications were agreed to. The members were also requested to consider this Province's participation on RT46 which is the National Fleet Managed Maintenance Contract. Subsequently, on suggestion from the CFO of this Department, officials from MTS met with representatives from National Treasury (NT) and National Department of Transport (NDOT) to discuss the possibility of this Province participating on RT46.
3. The RT46, which is a two year contract, commenced on 1 October 2005 and will expire at the end of September 2007. The contract procures a managed maintenance service for approximately 61 304 vehicles and does cater for the needs of this Province. Each Province may enter into separate Service Level Agreements with the Service Provider to ensure that their specific requirements are addressed.
4. Confirmation has also been received from all parties that this Province will still have a local call centre staffed with local people conversant in both English and Zulu, and for this call centre to be fully representative. Continued efforts will be made to promote BEE.
5. A summary of the service fees currently paid versus that on RT46 is provided hereunder. Table 1 is an illustration of the service fees should the Province retain the current billing periods and Table 2 illustrates service fees in the event of the Province choosing daily billing.

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Table 1: Service fees per billing period (monthly, weekly or daily)

		Total fees of current ZNT1116/00T contract		Proposed rates as offered by Wesbank First Auto during negotiations		Difference in transaction costs
User Departments	Number of cards	Current Monthly Service Fee	Total Current Monthly Service Fee	New Monthly Service Fee	Total New Monthly Service Fee	Increase in Monthly Service Fee
KZN (PMT DAILY BILLING)	4645	36.18	168,056.10	51.16	237,638.20	-69,582.10
MECHANICAL DIRECTORATE (FUEL ONLY)	216	27.31	5,898.96	33.92	7,326.72	-1,427.76
EMRS (DAILY BILLING)	764	32.57	24,883.48	45.53	34,784.92	-9,901.44
Total per month	5,625		198,838.54		279,749.84	-80,911.30
Total per annum			2,386,062.48		3,356,998.08	-970,935.60

Table 2: Service fees: Daily Billing

		Total fees of current ZNT1116/00T contract		Proposed rates as offered by Wesbank First Auto during negotiations		Difference in transaction costs
User Departments	Number of cards	Current Monthly Service Fee	Total Current Monthly Service Fee	New Monthly Service Fee	Total New Monthly Service Fee	Increase in Monthly Service Fee
KZN (PMT DAILY BILLING)	4645	36.18	168,056.10	45.53	211,486.85	-43,430.75
MECHANICAL DIRECTORATE (FUEL ONLY)	216	27.31	5,898.96	33.92	7326.72	-1,427.76
EMRS (DAILY BILLING)	764	32.57	24,883.48	45.53	34,784.92	-9,901.44
Total per month	5,625		198,838.54		R 253,598.49	-54,759.95
Total per annum			2,386,062.48		R 3,043,181.88	-657,119.40

6. ZNT1116/00T which came into effect on 1 August 2001 for a period of 3 years, had made provision for an annual escalation of CPI+2% on the service fee. In 2003, it was proposed that the service fee be increased by 5.1% from R33-94 to R35-67, however, this was not granted as it was argued that WA had failed to notify government of the proposed increase timeously.
7. The contract was extended for a period of 8 months with effect from 1 August 2004 to 31 March 2005, subject to a 0 % escalation of rates. In January 2005, discussions were held to negotiate a further extension of the current contract and it was agreed that the fee would increase at a rate of 6.6%, which was in line with the prevailing CPI rate for the Servicing sector, from R33-94 to R36-18 for the period 1 April 2005 to 31 March 2006 and a further increase with effect from 1 April 2006 to R38-57. Notwithstanding the aforementioned escalations, and given the terms originally agreed to with WA, the annual escalation in service fees is illustrated in Table 3 below.

Table 3: Service fee escalations as per ZNT1116/00T

ANNIVERSARY	SERVICE FEE	ESCALATION	ESCALATION %
	33.94	35.67	5.10%
01-Aug-02	35.67	37.49	5.10%
01-Aug-03	37.49	39.40	5.10%
01-Aug-04	39.40	41.41	5.10%
01-Apr-05	41.41	44.14	6.60%
01-Apr-06	44.14	47.05	6.60%

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8. Although the figures in Tables 1 and 2 indicate a substantial increase in the service fees, cognisance must be taken of the fact that the Province had agreed to the escalations illustrated in Table 3. In the event of the Province participating on RT46 with effect from 1 April 2006, the actual increase in service fees should have been R7-02 for weekly billing instead of the R14-98 that would be payable.
9. The service fee for daily billing on RT46 is R5-63 cheaper than the weekly billing. It would be necessary for MTS to liaise with Provincial Treasury to determine whether the daily billing is a feasible option, logistically, for this Province. Currently, EMRS are making use of this method of payment without any problems.
10. In the 2004/ 2005 financial year, the Province paid R4-44 per transaction on ZNT1116/00T. The Province had approximately 515,000 transactions and paid approximately R2,286,000-00 therefor. The transaction fee has increased to R4-59 since April 2005 and the Province has paid approximately R1,539,000-00 for approximately 335,000 transactions for the period April to October 2005. NT and NDOT have negotiated this figure on the RT46 to R3-46 per transaction, which is a saving of R1-13 per transaction. Based on this figure, the Province would have realised a saving of approximately R379,000-00 for this year. The expenditure on transaction fees is indicated in Tables 4 and 5 hereunder.

Table 4: Transaction fees for 2004/2005 financial year

Category	Number of Transactions	Current Cost per transaction	Total Current Transaction Cost per Category	New Cost per transaction	Total New Transaction Cost per Category	Decrease in transaction fees
Fuel	317,596	R 4.44	R 1,410,126.24	R 3.46	R 1,098,882.16	R 311,244.08
Oil	19,998	R 4.44	R 88,791.12	R 3.46	R 69,193.08	R 19,598.04
Maintenance	6,963	R 4.44	R 30,915.72	R 3.46	R 24,091.98	R 6,823.74
Repairs	17,256	R 4.44	R 76,616.64	R 3.46	R 59,705.76	R 16,910.88
Tyres	6,293	R 4.44	R 27,940.92	R 3.46	R 21,773.78	R 6,167.14
Accidents	800	R 4.44	R 3,552.00	R 3.46	R 2,768.00	R 784.00
Toll	146,121	R 4.44	R 648,777.24	R 3.46	R 505,578.66	R 143,198.58
TOTAL	515,027		R 2,286,719.88		R 1,781,993.42	R 504,726.46

Table 5: Transaction fees for April 2005 to October 2005

Category	Number of Transactions	Current Cost per transaction	Total Current Transaction Cost per Category	New Cost per transaction	Total New Transaction Cost per Category	Decrease in transaction fees
Fuel	208,587	R 4.59	R 957,414.33	R 3.46	R 721,711.02	R 235,703.31
Oil	12,935	R 4.59	R 59,371.65	R 3.46	R 44,755.10	R 14,616.55
Maintenance	4,739	R 4.59	R 21,752.01	R 3.46	R 16,396.94	R 5,355.07
Repairs	11,078	R 4.59	R 50,848.02	R 3.46	R 38,329.88	R 12,518.14
Tyres	4,352	R 4.59	R 19,975.68	R 3.46	R 15,057.92	R 4,917.76
Accidents	638	R 4.59	R 2,928.42	R 3.46	R 2,207.48	R 720.94
Toll	93,110	R 4.59	R 427,374.90	R 3.46	R 322,160.60	R 105,214.30
TOTAL	335,439		R 1,539,665.01		R 1,160,618.94	R 379,046.07

11. In summary, based on the assumptions that the Province will maintain its fleet size and procure services in the same quantities as the last financial year, the difference in the costs between the ZNT1116/00T and RT46 is illustrated in Table 6 below.

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Table 6: Summary of the differences between ZNT1116/00T and RT46

Financial Year 2004/2005	ZNT1116/00T	RT46	DIFFERENCE
Service Fees	2,386,062.48	3,356,998.08	-970,935.60
Transaction Fees	2,286,719.88	1,781,993.42	504,726.46
TOTAL	4,672,782.36	5,138,991.50	-466,209.14
CURRENT FINANCIAL YEAR APRIL TO OCT 05	ZNT1116/00T	RT46	DIFFERENCE
Service Fees	1,391,869.78	1,958,248.88	-566,379.10
Transaction Fees	1,539,665.01	1,160,618.94	379,046.07
TOTAL	2,931,534.79	3,118,867.82	-187,333.03

12. This Province has, since 1999 entered into a separate contract for fleet managed maintenance, the reasons for which are not clear. This has been contrary to the Department of Transport's mandate as it was mentioned in a Report to Cabinet on the Operation of Provincial Motor Transport in KwaZulu-Natal in November 1996 that the Provincial Department of Transport is tasked with managing and controlling, in liaison with the NDOT, a Fleet Management System for the operation of official vehicles in the Province and which is currently awarded on a national basis. It must be mentioned that KwaZulu-Natal is the only Province that owns its vehicle fleet and does not participate on RT46. In addition to the cost saving of participating on RT46 which has been detailed above, the cost of going to tender for the same service and managing a separate contract for the 5625 vehicles within this Province, as opposed to 61304 vehicles on the RT46, is not financially viable. This must be coupled with the possibility that the successful bidder may quote higher service and transaction fees to manage a much smaller fleet of vehicles, which comprises less than 10% of the fleet of government vehicles nationally. It is therefore considered that having a separate fleet managed maintenance contract defeats the principles of supply chain management in that it would not benefit from the economies of scale other Provinces enjoy.
13. In light of the above considerations, approval was sought and obtained from the Head: Transport for the Province of KwaZulu-Natal to participate on the National Fleet Managed Maintenance contract RT46 with effect from 1 April 2006. NT and NDOT have already been advised that approval has been obtained for this Province to participate on RT46 and for representations to be made to the Bid Evaluation Committee for the Province of KwaZulu-Natal to participate on RT46. I will keep you informed of developments as and when they occur.
14. Submitted for your information.


For Head: Transport

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