



FINANCIAL
AND FISCAL
COMMISSION

For an Equitable Sharing
of National Revenue

POLICY BRIEF 4

PUBLIC TRANSPORT AND MOBILITY





EXECUTIVE SUMMARY

Despite policy, the implementation and performance of the full set of transport functions by urban municipalities has been slow. Only four of the 13 cities that receive grants have an operational bus service in parts of their cities. South African urban municipalities are experiencing a funding gap that limits their ability to implement integrated public transport networks (IPTNs), and to take on the full set of public transport functions. This is due to the significant capital requirements, and

considerable operating shortfalls resulting from high costs and limited system revenues. The most promising potential sources of additional income to bridge this gap include the fuel levy, parking levies, parking tariffs and congestion charges. The Department of Transport should review the Public Transport Network Grant, investigate options to shift sources of funding towards retaining locally-earned fiscal revenue, and ring fence the local income sources for public transport use.

BACKGROUND

Despite policy, the implementation and performance of the full set of transport functions by urban municipalities has been relatively slow. Only four cities have an operational bus service covering part of the city, out of the 13 cities that have been receiving national grant funding for Integrated Public Transport Network (IPTN) implementation. The slow pace of cities acquiring assigned transport functions is likely to perpetuate the current status quo in urban transportation in which:

- (a) government is spending more on public transport;
- (b) the costs of transport fall disproportionately on poorer households;
- (c) poor people spend more time travelling than people in higher income brackets;
- (d) increased car use causes congestion on the roads; and
- (e) inefficient land use patterns obstruct economic access for the urban poor.

Urban municipalities face various challenges that prevent them from assuming all of the transport functions contained in the National Land Transport Act (NLTA). These include inadequate and unsustainable funding, a lack of capacity to implement policy, inadequate institutional structures and inadequate policy monitoring (Walters, 2014; GiZ and National Treasury, 2016). For public transport to achieve inclusive growth and improved access in cities these key constraints to implementing the NLTA and the National Public Transport Strategy (2007) should be addressed.

This policy brief examines whether alternative sources of own revenue for an urban municipality can play a role in supplementing existing funding streams and in doing so, support the uptake of public transport functions in urban municipalities.

RESEARCH FINDINGS

South African urban municipalities are experiencing a funding gap that limits their ability to implement IPTNs, and to take on the full set of public transport functions. Several additional funding sources that may help municipalities to take on the full set of public transport functions, and fund development of improved public transport systems, are considered. The potential funding sources include a fuel levy, parking levies, parking tariffs, congestion charging, advertising, land value capture, development charges, donor sources, carbon funding, the private sector and the Sector Education and Training Authority.

The sources of funding were prioritised in the research according to revenue-raising potential, alignment with

policy objectives, whether it was recurring or a once-off source of income, and the complexity of implementation. With this prioritisation, the fuel levy, parking levies, municipal parking tariffs, congestion charging, and advertising emerged as the most promising options to pursue. Development charges are also highlighted as an important source of once-off funding.

These sources are summarised in Table 1. Given that the fuel levy and parking levies have a similar impact, and target a similar market, the concurrent implementation of these levies should be carefully considered. It should also be noted that ring-fencing of these sources for public transport might be difficult, due to the many service delivery focus areas in municipalities.

Table 1. Priority alternative sources of funding

Source	Revenue raising potential	Alignment with policy objectives	Recurring vs once-off	Complexity of implementation
Fuel levy	High	Medium	Recurring	Medium / High
Parking levy	Medium	Strong	Recurring	Medium
Municipal parking tariffs	Medium	Strong	Recurring	Medium
Congestion charging	High	Strong	Recurring	High
Advertising	Low	Not applicable	Recurring	Low
Development charges	Medium	Medium	Once-off	Medium

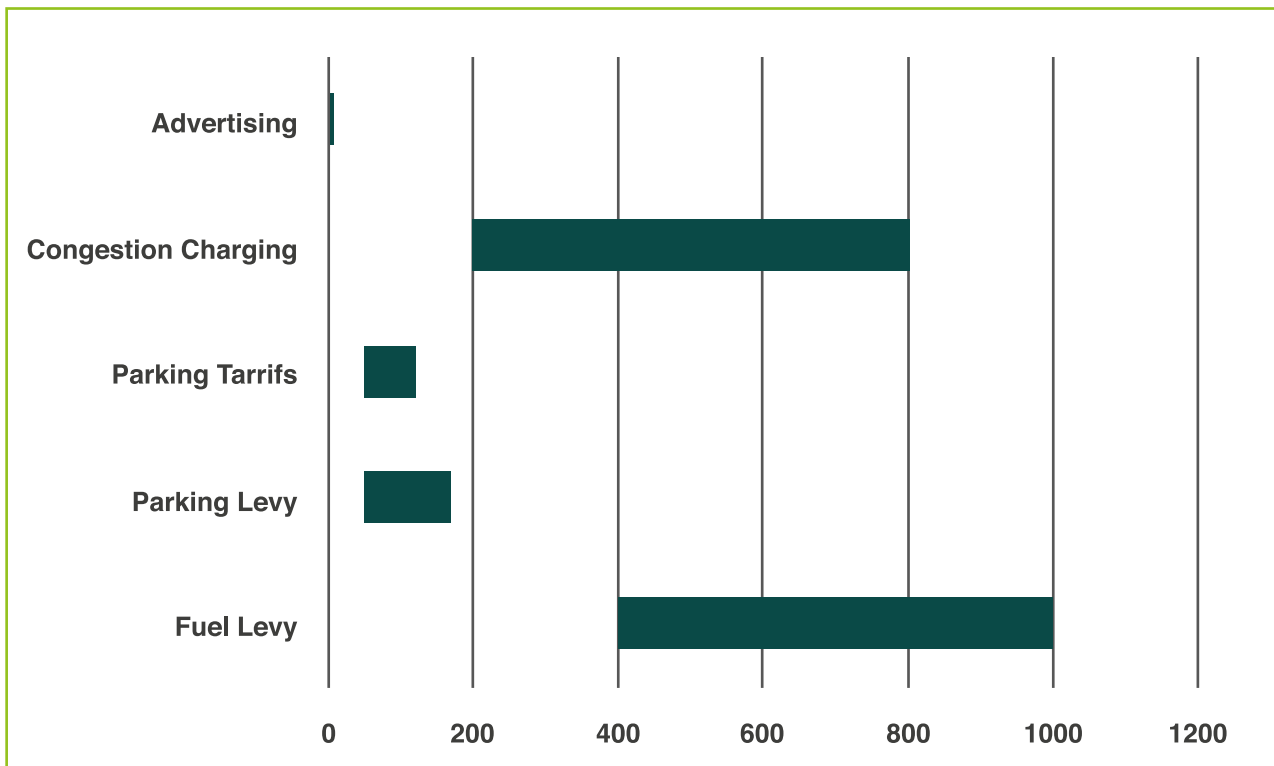
Source: Commission (2017).

The estimated potential income from the additional sources of recurring revenue for a South African metro area and a secondary city are shown in Figures 1 and 2. The potential for additional revenue is significantly greater in the metro context than in secondary cities, with the fuel levy, congestion charges and parking levies and tariffs offering the most significant potential sources of funding. In secondary cities, the fuel levy has the greatest revenue raising potential.

Development charges are not included as they are difficult to quantify. Additionally, they produce a once-off source of income that could offset capital costs. They would not provide a predictable and recurring source of funding. Importantly, the recurring sources of funding would accrue directly to the municipal sphere and therefore address current funding challenges related to the short-term nature of funding.

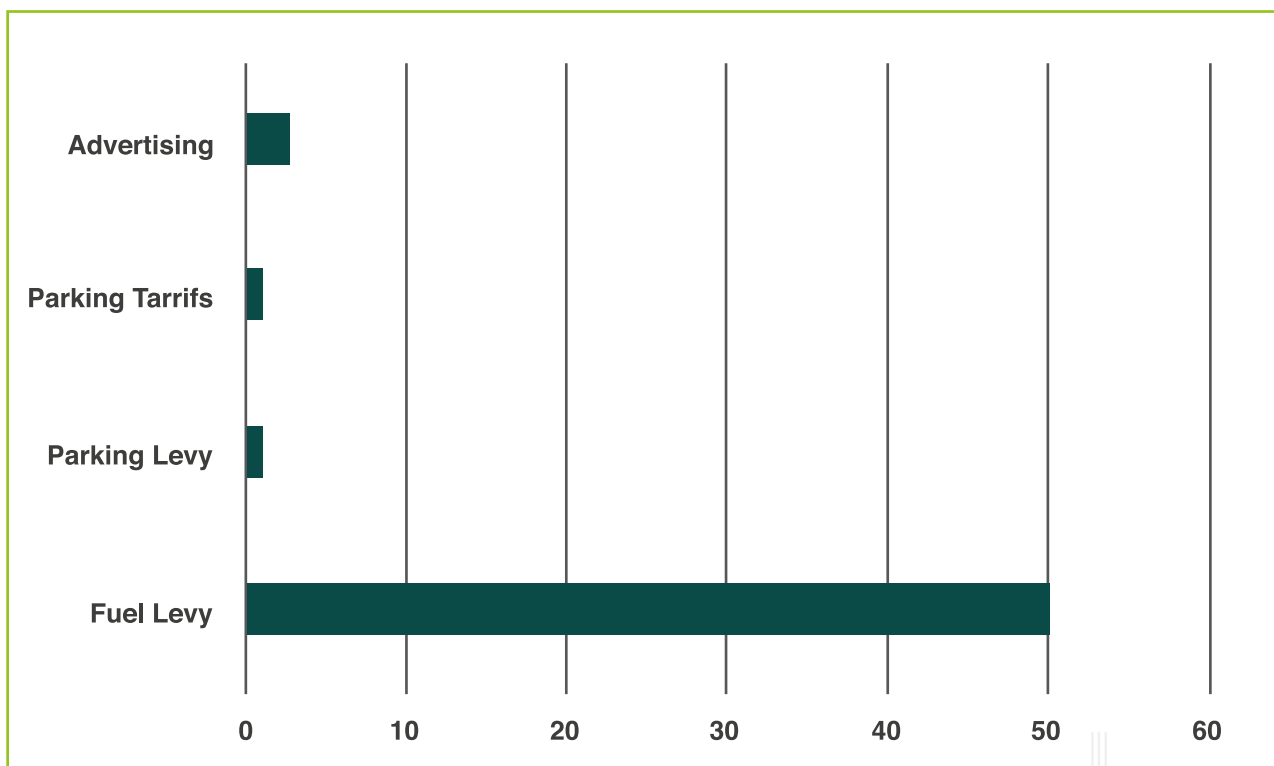
Revenue raising potential	Metropolitan municipality Pop. > 3 million	Secondary city Pop. > 0.1 million
Low	< R50 million	< R1 million
Medium	R50 million – R200 million	R 1 million – R50 million
High	> R200 million	> R50 million

Figure 1. Estimated potential income from additional sources of funding in a South African metro



Source: Financial and Fiscal Commission (2017)

Figure 2. Estimated potential income from additional sources of funding in a South African secondary city



Source: Financial and Fiscal Commission (2017)



CONCLUSION

A funding gap exists between what is required for urban municipalities to implement and manage public transport networks, and the funding that is available. This is due to significant capital requirements and significant operating shortfalls resulting from high costs and limited system revenues. The research has shown that if implemented efficiently, alternative sources of income in large urban municipalities could provide additional income for public transport functions. The most promising potential sources of income include the fuel levy, parking levies, parking tariffs and congestion charges. Advertising should also be pursued as a low complexity opportunity. Some of these income streams also promote public transport objectives, including incentivising a modal shift to public transport and contributing to the decongestion of urban roads. It is clear, however, that these sources do not solve the funding challenge by themselves, with the exception of the full retention of the fuel levy perhaps, noting

the fiscal impact of this. Hence national transfers to support public transport in large urban municipalities will still be required.

To enhance the funding sustainability of public transport in urban areas, the Commission recommends that the Department of Transport should review the Public Transport Network Grant, investigate options to shift sources of funding towards retaining locally-earned fiscal revenue, and ring-fence local income sources for public transport use. An example would be the retention of a larger portion of the fuel levy generated in the municipality.

The department should also develop case studies or support pilot projects in selected municipalities to develop key potential sources of funding, including funding related to parking, development charges and ring-fencing a portion of the fuel levy.



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