

Aligning Public Transport Subsidies to Policy



EXECUTIVE SUMMARY

The current public transport subsidy framework is not aligned with the national transport policy that promotes an efficient and effective public transport system. South Africa's transport system is fragmented, subsidies are paid to rail and bus modes that have a limited coverage compared to minibus taxis, and public transport subsidies continue to rise without any proportionate benefits to the public. An integrated public transport network would make it easier to align the transport subsidy (where appropriate) to network objectives. Research by the Financial and Fiscal Commission (the Commission) found that a desirable subsidy framework should address social equity, encourage public transport operational productivity and incentivise a modal shift from private to public transport. A revised subsidy framework, which incorporates these three aspects, would cost government more than 2.6 times the current subsidy bill, but would be inclusive (unlike the current subsidy, which supports only a tiny proportion of the population). The Commission recommends that the Department of Transport (DoT) uses the research findings to formulate and implement a transport subsidy framework that explicitly incorporates these three aspects.

BACKGROUND

The current public transport subsidy framework is not aligned with the national transport policy that promotes an efficient and effective public transport system. Studies commissioned by the Department of Transport (DoT) have made many – largely unimplemented – recommendations, including:

- Devolve full responsibility for municipal public transport to the metropolitan and specified urban municipalities, together with the appropriate infrastructure grants for the new municipal public transport networks.
- Consolidate public transport funding streams.
- Allow entry as an operator only on the basis of tendered contracts.
- Support only existing (or planned) services that form part of approved transport plans and an integrated network.
- Use provincial and/or local funding to supplement (and partially replace national funding of) transport subsidies in the medium to longer term.
- Use conditions specified in rationalisation plans prepared as part of integrated transport plans as the subsidy qualification criteria.
- Subsidise minibus taxi services that are provided under contracts or similar agreements with government (or government agents) and where a minimum frequency or level of service is specified.

The Financial and Fiscal Commission (the Commission) evaluated the South African public transport system with the aim of recommending an appropriate public transport subsidy framework (and implementation plan) that aligns transport operations and subsidies with policy provisions.¹

Subsidies are paid only to specific modes (rail and bus), which have very limited network coverage compared to minibus taxis.



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¹ See Chapter 8: Improving public transport for better mobility. In FFC (Financial and Fiscal Commission). 2013. Submission for the Division of Revenue 2015/16. Midrand: FFC.



Metrorail is responsible for transporting up to 2 million passengers daily in Gauteng, the Western Cape, KwaZulu-Natal and the Eastern Cape.

FINDINGS

An integrated public transport network makes it easier to align the transport subsidy (where appropriate) to network objectives. However, in South Africa the total operational public transport subsidy amounts to over R17-billion per year and is allocated independently from the municipal integrated transport plans. This total transport subsidy amount is equivalent to about R30 per month for every person living in South Africa, or R690 per subsidy beneficiary per month – or about 1380 km of ‘free’ travel per month for the beneficiaries.

Expenditure on public transport subsidies continues to increase without any proportionate benefits to the public. Yet subsidies are paid only to specific modes (rail and bus), which have very limited network coverage compared to minibus taxis. The minibus taxi industry is making a case for extending transport subsidies to cover taxis, but the government has yet to respond clearly. The current subsidy framework is also becoming more fragmented, as new modes of public transport such as the Gautrain and Bus Rapid Transit are added to the network, each with their own subsidy requirements.

A desirable subsidy framework must be consistent with policy and easy to implement, while a sustainable transport policy should seek to balance social, economic and environmental goals. In other words, a desirable transport subsidy framework for South Africa must: (i) address social equity associated with structural poverty, (ii) encourage the productivity of public transport operations, and (iii) incentivise a modal shift from private to public transport (thereby reducing greenhouse gas emissions). The results of an economic model incorporating these three components indicate that to fully support such a framework would require over R45-billion in subsidies, which is more than 2.6 times the current subsidy bill. However, it should be noted that the current subsidy supports a tiny proportion of the population and is not strictly aligned to transport policy.

CONCLUSION

Despite numerous studies and recommendations, the current public transport subsidy framework is not aligned with the national transport policy that promotes an efficient and effective public transport system. An integrated public transport network would make it easier to align the transport subsidy to network objectives. However, South Africa's public transport subsidies are paid only to specific modes (rail and bus) and not to minibus taxis, which have the broadest network coverage. The current subsidy framework is also becoming more fragmented, as new modes of public transport such as the Gautrain and Bus Rapid Transit are added to the network, each with their own subsidy requirements. A desirable transport subsidy framework for South Africa that addresses social, economic (productivity) and environmental aspects would require over R45-billion in subsidies. Although this amount is more than 2.6 times the current subsidy bill, the current subsidy supports only a tiny proportion of the population and is not strictly aligned to transport policy. The Commission recommends that the DoT (the custodians of national transport policy):

- Formulate and implement a transport subsidy framework that explicitly incorporates the three components endorsed by national transport policy: social equity, productivity of public transport operations and a modal shift from private transport (for environmental reasons).
- Use these findings as input into the recommended policy implementation process.



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