

PUBLIC TRANSPORT

# Expensive ride

## Operating subsidy is discussed as cities struggle to cover costs of bus system

**The cost of SA's** new bus rapid transport system has escalated sharply since the projects involved were first conceived. Cities are looking for new forms of revenue — such as fuel levies, a tax on business or additional grants from na-

tional treasury — to help pay for their new responsibilities.

Both capital and operating costs will be more than expected, and now the possibility of an operating subsidy has entered the discussion.

Philip van Ryneveld, a consultant to the city of Cape Town, says: "Public transport is a major additional responsibility for metro government, and national government has to put in place appropriate arrangements to pay for that. It can be done through grants or devolving taxes, or a combination of these."

In Cape Town, capital costs for the system have more than doubled, from the initial estimate of R1,4bn to R3,5bn. It is also anticipated that for the BRT to be attractive to operators, phase 1a — the route from the city up the west coast to the satellite town Atlantis — will need to be subsidised by about R115m/year.

Capital costs are higher than anticipated, says Van Ryneveld, firstly because the costs of engineering have risen, but also because "certain things weren't considered". These include the lighting of the system and the building of reinforced concrete bus lanes.

On the operating side, Van Ryneveld says the original conception was that fare revenue would cover the full cost of the service. The private providers who would run the system would buy their own buses. "But later it became clear that this was overoptimistic. [The conception] be-

gan to shift, and the idea developed that operators would be helped to purchase the buses," he says.

In Johannesburg, transport executive director Lisa Seftel says the city "underestimated the transitional and transformational costs" of introducing the system. "There are lots of complexities and there were many unanticipated things. We are in the process of doing the figures and of negotiating with national treasury, and looking for other revenue streams."

And while the Johannesburg council's official position is that the system will not need an operating subsidy, it is likely that in the initial phases a subsidy will be required that may decline over time.

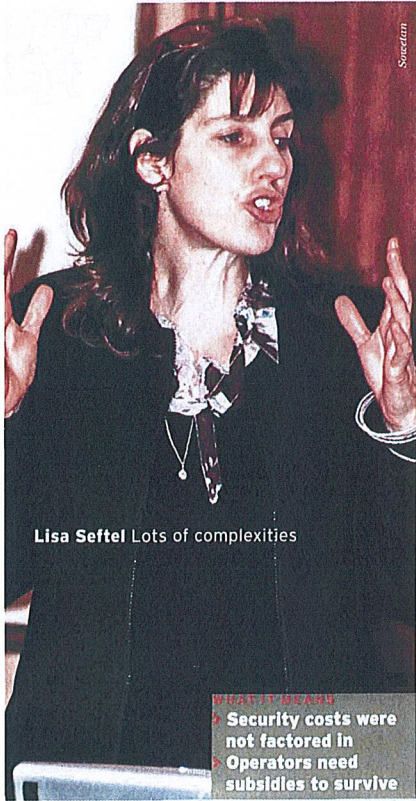
One of the big "ancillary costs", not factored in by either city, is for security at the stations, expected to be R30m-R40m/year in each city.

Says Ibrahim Seadat, director of public transport policy in national government: "Security shouldn't be regarded as a cost of BRT. Having security at stations will be a good opportunity to do visible policing. It shouldn't have to be paid for by cities."

It's vital, says Seadat, that the regulatory authority be "top notch" as it will be responsible for the management of the contracts with operators and for the monitoring of costs. The annual expense of a regulatory agency will be about R40m. "These are not direct operating costs and the rest of government will need to come to the party with funding."

At present, cities raise money through rates and electricity distribution. They also get grants earmarked for capital projects. One of metropolitan government's additional sources of revenue was previously the Regional Services Councils (RSC) levies, which taxed local business. These were scrapped in 2006 by then finance minister Trevor Manuel. In the interim, to make up for lost income, cities were given a portion of the fuel levy — though this did not make up for all their losses, says Van Ryneveld.

Local government finance experts have long been urging city authorities to look into additional sources of revenue. For-



**Lisa Seftel** Lots of complexities

**WHAT IT MEANS**  
▶ Security costs were not factored in  
▶ Operators need subsidies to survive

mer Johannesburg finance chief Ronald Hunter, now a consultant and partner to Van Ryneveld, says cities need to reclaim the tax space that existed during the charging of RSC levies. "Cities are really running into serious resource constraints. They need more resources, but it can't all come from grants; some of it should be tax money," says Hunter.

Other options, which are included in the National Land Transportation Act, include raising revenue from a variety of user fees, such as access to specified parts of a city by motor vehicles (similar to the "congestion charge" in London).

**Carol Paton**