

The challenge of second generation reforms: Making public transport affordable



Anumita Roychowdhury

Centre for Science and Environment

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Need big answer

Need second generation reforms

- Need transition to sustainable transport
- Need to build public transport
- Leapfrog vehicle technology and fuel quality

The key strategy of public transport presents affordability challenge...



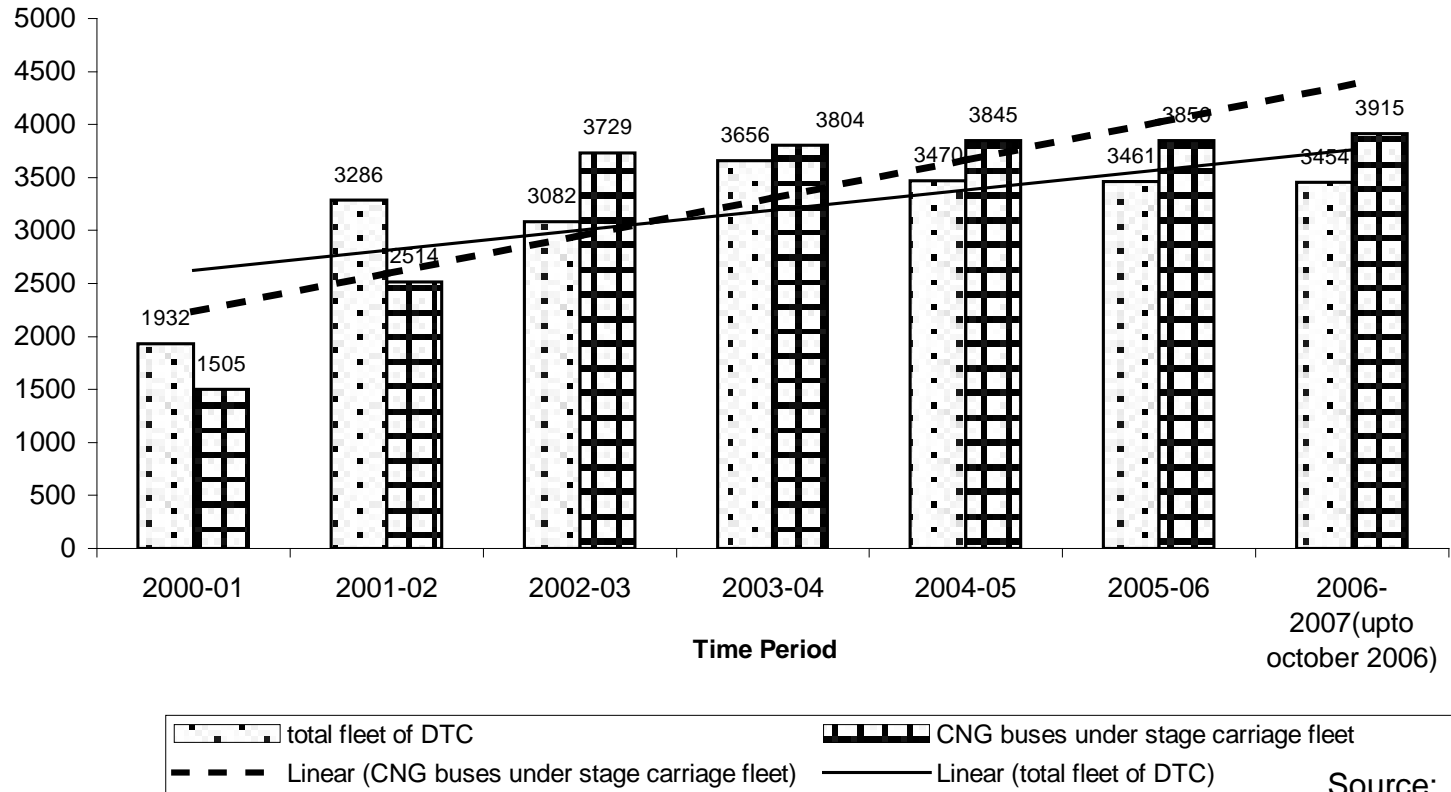
Delhi needs to build and modernise its bus fleet

Bus availability going down

1980-81: 57 buses/lakh population

2007-08: 34 buses/lakh population

Source: DIMTS



Source: CSE

Plans to buy and operate 5000 new modern buses. Huge costs

**Only increasing numbers will not help
Need reform in the bus sector**



- **Revitalise** the public bus agency
- **Restructure.....** Implement new model for private operations...All city bus routes have been bunched into 17 clusters. Private bus agencies will bid and operate these clusters within defined performance parameters.
- **But unaffordable.....**



Affordability challenge of public transport...

- The bid for the first cluster shows cost at Rs 47/km with low floor buses. This can cost Rs 85 crore per annum per cluster. This can be even higher for other clusters – Rs 50-60/km while the operating revenue will be half of this.
- The financial gap is estimated to be Rs 600 - Rs 1000 crore annually..... Government's contribution will be enormous....Need strategy to address this.
- **How do we reduce the costs of capital and operations?**
- Negotiate bids to reduce both capital and operational costs.....
- Should we move from low floor buses to semi low floor buses to reduce capital costs ...? Renegotiate operational costs and make operators fully responsible for meeting that cost.
- **Create dedicated fund**

- How can we build public transport fund?

Cities already have the mandate



JNNURM mandates dedicated urban transport fund

Identifies the following as the possible sources of funds

Waive off/reimburse all its taxes on urban buses and city bus service

Need advertisement policy to tap newer source of revenues

Need parking policy as a car restraint measure

Additional cess on automotive fuels

Additional registration fees on cars especially diesel cars and two-wheelers

Annual renewal fee on driving license, vehicle registration

Congestion tax

Next steps: Rationalise existing taxes and remove hidden subsidies to cars



Correct distortions...

Buses bear high tax burden than cars and two-wheelers. If lifetime tax is amortised then car pays roughly Rs 300 per year. But buses pay about Rs 13,000 per year – 43 times more than cars. Thus, penalised for carrying more passengers

If bus fares are raised, a substantial public transport ridership can be lost to two wheelers with running cost of just Re 1/km

Delhi with nearly the highest per capita income and car ownership pays the lowest taxes.

Action needed for the fiscal roadmap

- Review existing taxes
- Identify taxes on buses that can be minimised or eliminated.
- Phase in increased taxes on personal vehicle purchase, ownership and usage and identify other revenue heads to offset revenue losses and also augment revenues

Review global approaches to tax reforms



Annual registration or road fees on personal vehicles.

What principles can we follow:

US – Cars pay more taxes and also differentiates the tax according to engine size – fuel inefficient bigger cars pay more. This is enforced by a sticker on vehicle plate

Singapore – Road tax differentiated by engine size, fuel type

Germany – Cars complying with older emissions standards pay more than the current standards.

China has a range of taxes on vehicles –

On purchase- Excise, VAT, Tariff, Vehicle acquisition tax

On ownership – New car check out fee, License plate fee, Vehicle usage fee,

Vehicle use – Insurance fee, Road maintenance fee, Consumption tax

Parking levy: Sydney and Perth -- this also checks uncontrolled increase in parking spaces. Good revenue potential. Sydney earns USD 31 million per annum

These taxes will be easier to collect within the available administrative set up

Next steps : Price roads and congested areas



Direct fees for using roads and for adding to congestion has enormous potential to generate revenue

London: 8 sq mile in central London – 8 pounds per entry – has reduced congestion by 26%. Increased in public transport ridership. Revenue used for public transport.

Norway: Toll cordon in Oslo, Norway – nearly 250,000 vehicles (nearly 50% of Oslo's population) entering central areas pay toll. 20% of this is spent on public transport. High acceptability.

Congestion in most arteries of Delhi demands this kind of strategies

But need a strategy to phase this in. This will require new enforcement structures

Delhi has strong potential for congestion pricing



Develop a pilot project for selected commercial areas like Connaught Place (CP)

CP is extensively surveyed and mapped (RITES etc). Build on this survey data – eg, directional distribution of present peak hour passenger trips through the multiple entry points, vehicle composition, user profile, willingness to pay surveys etc. Also identify the data gaps.

Prepare a proposal to define the cordon and the charge

Strengthen public transport access to the area (leverage metro and improved bus service). Stockholm had expanded public transport services to the targeted area 6 months in advance of congestion tax. This got public support.

Decide the technology for enforcement. Sophistication of tax collection system and monitoring determines the performance efficiency of the carriageways. Throughput can vary between 300 vehicles per hour per lane to more than 1600 vehicles per hour per lane (if advanced electronics are used).

Public acceptability increases if told about the purpose of the fund.

Cost of the project can be recovered from the revenue of the scheme

Next steps: Advertisement funds



Advertisement policy:

A policy framework has been proposed under EPCA that sets the guiding principles for such a policy

This has enormous potential as evident from Bangalore. They have implemented either a full wrap outside the buses or on LCD inside the air conditioned buses.

Volvo buses earn at least Rs 25 lakh to Rs 18 lakh per annum (40 buses).

We need to estimate the revenue potential from this source in Delhi.

Nascent beginning...

Indian cities have begun to apply fiscal instruments



Delhi

Air Ambience Fund from environment cess on diesel fuel:

Air Ambience fee of 25 paise per litre on sale of diesel fuel has been implemented. Revenue from this cess is used to create Air Ambience fund to meet the cost of Delhi's clean air action plan.

The power that has been conferred on the state boards – Delhi Pollution Control Committee – under section 31 (A) section 17 (1) of the Air (Prevention and Control of Pollution), Act 1981. It states that “Notwithstanding anything contained in any other law subject to the provision of this Act, and to any direction that the Central government may give in this behalf a board may in the exercise of its power and performance of its functions under this Act issue any directions in writing to any person, officer or authority, and such person, officer or authority shall be bound to comply with such direction.”

Air Ambience Fund used to subsidise battery operated vehicles from the 15 per cent subsidy and 12.5 per cent VAT reimbursement. The registration charge and one-time road tax levied at the time of registration to be reimbursed. Also subsidise conversion of old commercial LCVs.

CNG fuel has been fully exempted from sales tax

Subsidized loan for conversion of auto rickshaws and taxis



More instances.....

Surat **Dedicated urban transport fund:** Its revenue components to include vehicle tax amounting to Rs 8 crore, pay and park charges of Rs. 2 crore and license fee for advertisement rights of all kinds amounting to Rs. 5 crore

Bangalore

Green tax: Bangalore has taken the lead to introduce Green tax that is imposed on the older vehicles.

Fiscal incentive for LPG conversion

Comprehensive **parking Policy** proposed

Hyderabad

Exemption of motor vehicles tax on vehicles running on CNG, battery and solar power

Action agenda



- Review and rationalise existing taxes on vehicles and fuels for additional revenue
- Enforce advertisement policy
- Parking levy
- Annual fee on vehicles. This can also be differentiated by engine size and emissions standards. Consider entry fee on vehicles from outside
- Initiate pilot project for congestion pricing in Connaught place. Subsequently identify other commercial areas.
- Demonstrate benefits of such measures – reduces loss of time in queue length of jams, reduces fuel loss from idling, free flow of traffic, improvement in public transport, even increases retail business in the targeted area (show how more people come by buses and alternatives to do business – This increases retail sales etc.
- Need framework for the administration of the fund
- Review the existing data and prepare specific schemes/proposals and implementation strategy