COUNCIL OF THE CITY OF CAPE TOWN **25 MARCH 2015**

ITEM NUMBER: **C 57/03/15**

RECOMMENDATION FROM THE EXECUTIVE MAYOR: 19 MARCH 2015

MC 50/03/15 2015 MyCiTi BUSINESS PLAN UPDATE: PHASE 1 AND N2 EXPRESS

It is **RECOMMENDED** that:

(a) the Council resolution of 31 October 2012 (C 54/10/12) entitled *2012 MyCiTi Business Plan: Phases 1A, 18 and N2 Express of Cape Town's MyCiTi Integrated Rapid Transit System* (see Annexure 1), remains in place, subject to the following minor amendments

(i) paragraph (c) is amended to read:

all MyCiTi capital costs, as well as MyCiTi operating costs related to the design, planning and implementation of the MyCiTi system be subsidised through the Public Transport Network Grant (PTNG) (previously the Public Transport Infrastructure and Systems Grant (PTISG)), in compliance with the PTNG framework as set out in the still to be adopted 2015 Division of Revenue Act (DORA);

(ii) paragraph (d) is amended to read:

MyCiTi recurrent costs, as recorded in the 2015 MyCiTi Business Plan Update for Phase 1 and the N2 Express ('the Business Plan'), shall be planned to be covered by:

1. Fare revenue and other system revenue;

2. The Network Operating component of the PTNG (previously the Public Transport Network Operating Grant (PTNOG)), as provided for and to the extent permitted by the terms of the PTNG framework as set out in the 2015 DORA or by way of an exemption granted in terms of the relevant DORA;

3. The relevant portion of the Public Transport Operating Grant (PTOG), once the administration of this grant is assigned to the City, as set out in the Business Plan;

4. Council's own funds, subject to the City's commitment to funding MyCiTi recurrent costs not exceeding an amount up to and including the equivalent of 4% of property rates income (as approved by Council in its decision of 31 October 2012 (item C 54/10/12).

(iii) Paragraphs (g) and (i) be amended by replacing reference to the "Executive Director: Transport, Roads, and Stormwater" with the "Commissioner: Transport for Cape Town".

(b) the 2015 MyCiTi Business Plan Update ('the Update') for Phase 1 and the N2 Express, attached as Annexure 2 to the report on the agenda, be approved by Council and that this Update therefore shall be the basis for continued implementation of the Phase 1 and N2 Express MyCiTi services, read with the 2012 MyCiTi Business Plan in as far as it is not amended by the Update.

CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

REPORT TO MAYORAL COMMITTEE DATE 2015 -03- 19

1. ITEM NUMBER : MC 50/03/15

2. SUBJECT

2015 MyCiTi BUSINESS PLAN UPDATE: PHASE 1 AND N2 EXPRESS

ONDERWERP

VORDERINGVERSLAG OOR DIE 2015-SAKEPLAN VIR MyCiTi: FASE 1 EN N2-SNELDIENS

ISIHLOKO

UKUHLAZIYWA INGXELO EMALUNGA NESICWANGCISO SENDLELA YOKUQHUTYWA KOMSEBENZI SANGO-2015 SE-MyCiTi: ISIGABA SO-1 NE-N2 EXPRESS

LSUE5013/F1046/F1135/F1240

3. STRATEGIC INTENT

☒ - Opportunity City

Strategic Objective

Objective 1.4: To ensure mobility through the implementation of an effective public transport system

Programme 1.4(c): Bus rapid transit (BRT) programme

4. PURPOSE

The purpose of this report is to obtain the approval of the 2015 MyCiTi Business Plan Update, covering Phase 1 and the N2 Express.

5. FOR DECISION BY

Making progress possible. Together.

☒ This report is for consideration by the Executive Mayor together with the Mayoral Committee, and for decision by Council.

6. EXECUTIVE SUMMARY

The approved MyCiTi Business Plan for Phase 1A, 1B and the N2 Express in 2012 is currently in operation and will remain, subject to minor amendments. This 2015 Business Plan serves as an update and will function in tandem to the former.

The purpose of this report is to seek approval for the attached 2015 Business Plan for Cape Town's MyCiTi Integrated Rapid Transit (IRT) system, covering Phase 1 and the N2 Express (referred to as the 2015 MyCiTi Business Plan Update). The 2015 Business Plan reviews the implementation of MyCiTi indicating what has been achieved and what is still to be implemented in respect of Phase 1 and the N2 Express, reviewing performance with particular attention to identifying assumptions made in the MyCiTi methodology as originally stipulated in the 2010 Business Plan and reiterated in the 2012 Business Plan which have not materialized, as originally stipulated and, in the light of the lessons learned and emerging best practices, setting out what needs to change going forward and how the 2012 Business Plan needs to be amended.

The rollout of MyCiTi has now progressed sufficiently to enable a MyCiTi Business Plan Update as a review of actual operational expenditure and revenue, and to revise initial projections based on the operations of Phase 1 and the N2 Express service, as rolled out to date.

The City has committed to contribute up to 4% of rates income to the subsidisation of transport services for Phase 1A, 1B and N2 Express, as approved in the 2012 Business Plan. This recommendation remains in the 2015 Business Plan and has been taken forward in the financial management of these phases.

The evaluation of the MyCiTi service highlights a number of financial challenges. Apart from receiving lower National funding than anticipated, fare revenue is currently significantly lower than modelled results contained in the 2012 Business Plan. This is further elaborated on in the body of the Business Plan, with the focus on the changes that have been made and adaptation of the business logic of the MyCiTi system.

As is normal with responsible management of new transport services in countries around the world, the City of Cape Town undertook a comprehensive review and moderation of the MyCiTi service once there was sufficient experience of actual roll-out, to evaluate and recalibrate the service. This Business Plan has accordingly been updated according to these processes, as elaborated in the body of the report. Such an exercise is always necessary after an initial period of new implementation, during which the actual realisation of the service should be assessed against the business plan, adjusted, and then stabilised with due regard to passenger demand to ensure the long-term sustainability of the service. This moderation exercise was done a few months after extensive expansion of services which commenced in November 2013, following the conclusion of the long-term contract with Vehicle Operator Companies (VOCs), after demand would have stabilised. This was also necessary to inform the regular review of the MyCiTi Business Plan.

The moderation exercise which was conducted on each of the routes rolled out entailed various operational efficiency improvements as well as vehicle rescheduling – in some cases increasing supply, but also curtailing services where demand was lower than projected. The MyCiTi system moderation exercise has identified significant planned cost savings, as well as measures to improve system revenue, which are in the process of being implemented, without substantially reducing service levels.

The main emphasis of the 2015 Business Plan Update is to address the projected deficit actively through implementing a five-pronged approach, which is elaborated on in the 2015 Business Plan, with the aim of completely removing the projected deficit (after applying the 4% rates contribution within the current national funding framework) in a manner that improves cost recovery. This will preserve some national funding for both capital and operating subsidy for future roll-outs.

To reduce the projected operating deficit in the 2016/17 financial year the following are the recommended targets regarding potential cost savings and system revenue improvements, over and above the moderation which will have been executed by the middle of 2015:

1. Evaluating which components of operating costs can be considered to be ancillary in terms of the grant funding framework conditions (R4m).
2. Increasing fare income including travel demand management interventions (R20m).
3. Reducing vehicle operator rates (R15m).
4. Further moderation, without compromising service quality (R8m).
5. Improving the passenger demand profile (R5m).

A secondary strategy is to engage with National Government to change the PTNG framework formula to widen the definition of ancillary operating costs, or to provide an exemption from the formula's constraints to increase the contribution to ancillary operating costs, noting that this will reduce the amount of capital available for Phase 2 rollout and operational subsidy. In terms of the Division of Revenue Bill 2015, the amounts provided for by National government under the Network Operations Component of the PTNG are currently almost sufficient already to permit funding to continue at a 70% level. However, as this option is not under TCT's control, it should only be pursued as a safety net in-as-far as the above 5-pronged strategy does not deliver the required operational cost reductions and revenue improvements.

7. RECOMMENDATIONS

Not delegated: for decision by Council:

It is recommended that:

(a) The Council resolution of 31 October 2012 (C 54/10/12) entitled *2012 MyCiTi Business Plan: Phases 1A, 1B and N2 Express of Cape Town's MyCiTi Integrated Rapid Transit System* (see Annexure 1), remains in place, subject to the following minor amendments

(i) paragraph (c) is amended to read:

all MyCiTi capital costs, as well as MyCiTi operating costs related to the design, planning and implementation of the MyCiTi system be subsidised through the Public Transport Network Grant (PTNG) (previously the Public Transport Infrastructure and Systems Grant (PTISG)), in compliance with the PTNG framework as set out in the still to be adopted 2015 Division of Revenue Act (DORA);

(ii) paragraph (d) is amended to read:

MyCiTi recurrent costs, as recorded in the 2015 MyCiTi Business Plan Update for Phase 1 and the N2 Express ('the Business Plan'), shall be planned to be covered by:

1. Fare revenue and other system revenue;
2. The Network Operating component of the PTNG (previously the Public Transport Network Operating Grant (PTNOG)), as provided for and to the extent permitted by the terms of the PTNG framework as set out in the 2015 DORA or by way of an exemption granted in terms of the relevant DORA;
3. The relevant portion of the Public Transport Operating Grant (PTOG), once the administration of this grant is assigned to the City, as set out in the Business Plan;
4. Council's own funds, subject to the City's commitment to funding MyCiTi recurrent costs not exceeding an amount up to and including the equivalent of 4% of property rates income (as approved by Council's in its decision of 31 October 2012 (item C 54/10/12).

(iii) Paragraphs (g) and (i) are amended by replacing reference to the "Executive Director: Transport, Roads, and Stormwater" with the "Commissioner: Transport for Cape Town".

(b) the 2015 MyCiTi Business Plan Update ('the Update') for Phase 1 and the N2 Express, attached as Annexure 2, be approved by Council and that this Update therefore shall be the basis for continued implementation of the Phase 1 and N2 Express MyCiTi services, read with the 2012 MyCiTi Business Plan in as far as it is not amended by the Update.

AANBEVELINGS

Nie gedelegeer nie: vir besluitneming deur die Raad:

Daar word aanbeveel dat:

(a) Die Raadsresolusie van 31 Oktober 2012 (C 54/10/12) getiteld *MyCiTi-sakeplan vir 2012: fase 1A, 1B en die N2-sneldiens ("Express") van Kaapstad se MyCiTi- geïntegreerde snelvervoerstelsel* (sien bylae 1), van krag bly, onderworpe aan die volgende geringe veranderinge:

(i) paragraaf (c) gewysig word om te lui:

alle MyCiTi-kapitaalkoste, asook MyCiTi-bedryfskoste met betrekking tot die ontwerp, beplanning en implementering van die MyCiTi-stelsel, gesubsidieer word deur die openbarevervoernetwerk-toelae (PTNG) (voorheen die openbarevervoerinfrastruktuur-en-stelseltoelae, of PTISG), ter nakoming van die PTNG-raamwerk soos uiteengesit in die Wet op Verdeling van Inkomste, 2015 (DORA) wat nog aangeneem moet word;

(ii) paragraaf (d) gewysig word om te lui:

herhalende MyCiTi-koste, soos aangeteken in die vorderingsverslag oor die MyCiTi-sakeplan vir 2015: fase 1 en die N2-snelweg ('die sakeplan'), volgens beplanning gedek word deur:

1. Reisgeldinkomste en ander stelselinkomste;
2. Die netwerkbedryfskomponent van die PTNG (voorheen die openbarevervoernetwerk-bedryfstoelae, of PTNOG), soos voorsien deur en dermate toegelaat deur die bepalings van die PTNG-raamwerk soos uiteengesit in die DORB van 2015, of deur middel van 'n vrystelling verleen ingevolge die betrokke Wet op Verdeling van Inkomste;
3. Die betrokke gedeelte van die openbarevervoer-bedryfstoelae (PTOG), sodra die administrasie van hierdie toelae aan die Stad toegeken is, soos uiteengesit in die sakeplan;
4. Die Raad se eie fondse, onderworpe aan die Stad se verbintenis tot die befondsing van die herhalende MyCiTi-koste van nie meer nie as 'n bedrag tot en gelykstaande aan 4% van

eiendomsbelastinginkomste (soos goedgekeur deur die Raad met sy besluit van 31 Oktober 2012 (item C 54/10/12).

(iii) Paragraaf (g) en (i) gewysig word deur die vervanging van die verwysing na die "uitvoerende direkteur: vervoer, paaie en stormwater" met die "kommissaris: vervoer vir Kaapstad";

(b) die vorderingsverslag oor die MyCiTi-sakeplan vir 2015 vir fase 1 en die N2-sneldiens, aangeheg as bylae 2, deur die Raad goedgekeur word, en dat hierdie vorderingsverslag dus die grondslag is vir die voortgesette implementering van die MyCiTi-dienste se fase 1 en die N2-sneldiens, saamgelees met die MyCiTi-sakeplan vir 2012 dermate dit nie deur die vorderingsverslag gewysig is nie.

IZINDULULO

Azigunyaziswanga: isigqibo seseBhunga:

Kundululwe ukuba:

(a) Isigqibo seBhunga sangowama-31 Oktobha 2012 (C 54/10/12) esisihloko: iSicwangciso soMsebenzi seMyCiTi sango-*2012: iSigaba-1A, 1B nenkonzo i-N2 Express seNkqubo engezoThutho ngokuHlangeneyo olukhawulezileyo lwe-MyCiTi laseKapa* (jonga kwisihlomelo-1), masihlale sisebenza, ngokuxhomekeke kwezi zilungiso zingephi ezilandelayo:

(i) Umhlathi (c) ulungiswe ukuba afundeke ngolu hlobo:

Zonke iindleko ezingezimali ezinkulu ze-MyCiTi, kunye neendleko ezisebenzisekayo ze-MyCiti eziphathelene nezoyilo, ucwangciso nokumiselwa kwenkqubo ye-MyCiTi mazibonelelwe ngeSibonelelo-soncedo mali esingezoThungelwano lwezoThutho loLuntu (PTNG) (ebesifudula saziwa ngoku siSibonelelo-soncedo seNkqubo neZakhe-ko ezingundoqo zezoThutho loLuntu (PTISG), ngokuthobela isakheko sePTNG njengoko sikhankanyiwe kuMthetho osezakwamkelwa obizwa ngokuba yi- 2015 Division of Revenue Act (DORA);

(ii) Umhlathi (d) ulungiswe ukuba ufundeke ngolu hlobo:

Iindleko zakalokunje ze-MyCiTi, njengoko zirekhodishiwe kwiNgxelo esiSigaba-1 engeSicwangciso sokuQhutywa komsebenzi se-MyCiTi sango-2015 nenkonzo i-N2 Express ('iSicwangciso sokuqhutywa komsebenzi'), kufuneka zicwangciselwe ukuba zifumaneke ngale ndlela ilandelayo:

1. Ngokwendlela yemirhumo yengeniso engobulungisa nenkqubio engenye engengeniso;
2. Icandelo elingendlela yokusebenza kothungelwano le-PTNG (ebifudula isaziwa ngokuba soSibonelelo-soncedo sezimali ezi-Sebenzisekayo ezingoThungelwano lwezoThutho loLuntu (PTNOG), njengoko kubonelelwe nangokwendlela evumelekile-

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yo ngokungqinelana nesakheko se-PTNOG njengoko kuqulunqwe kwi- DORA yango-2015 okanye ngendlela yokukhululelwa evunyelwe ngoMthetho i-DORA ofanelekileyo;
3. Isiqephu esifanelekileyo seSibonelelo-soncedo sezimali eziSebenzisekayo sezoThutho loLuntu (PTOG), emva kokuba ezolawulo lwesi sibonelelo-soncedo luye lwanikezelwa kwiSixeko, njengoko kuqulunqwe kwiSicwangciso sokuQhutywa komsebebenzi;
4. Ngokwezimali ezingezalo iBhunga, ngokuxhomekeke ekuzimiseleni kweSixeko ekuxhaseni ngezimali ngokujoliswe kiindleko eziqhubekekkayo ze-MyCiTi ezingadlulanga kwaye ziquke i-4% yengeniso engeerhafu zepropati (njengoko kuphunyezwe liBhunga kwisigqibo salo sowama-31 Okthobha 2012 (umbandela-C 54/10/12);

(iii) Imihlathi (g) no (i) ilungiswe ngokuthi kutshintshwe isalathiso esijoliswe "kuMlawuli weSigqeba kwezoThutho, iiNdlela naManzi ezitshi" kufakwe "uMkhomishinala wezoThutho eKapa";

(b) UkuHlaziywa kwesiCwangciso soMsebenzi se-MyCiTi sango-2015 (uHlaziyo) kwiSigaba soku-1 kunye no-N2 Express eqhotyoshelwe kwisihlomelo-2; makuphunyezwe liBhunga, kwaye oluHlaziyo ngoko ke mayibe sisiseko sokumiselwa okuqhubekayo kweenkozo zeMyCiTi iSigaba soku-1 ne-N2 Expres, esifundeka neSicwangciso soMsebenzi seMyCiTi sango-2012 ngexesha singekalungiswa luHlaziyo.

8. DISCUSSION/CONTENTS

8.1. Introduction

The improvement of public transport is a key strategic focus area identified by the City of Cape Town (the City) in its Integrated Development Plan (IDP) for achieving its long-term vision and developmental goals. Public transport plays a vital role in providing all citizens and visitors with access to opportunities and facilities, whether for economic, education, health, recreation or social purposes. MyCiTi forms a key element in the City's public transport network.

In October 2012 Council approved the updated 2012 MyCiTi Business Plan for Phases 1A, 1B and N2 Express' ('2012 MyCiTi Business Plan'), which was an addition to the 2010 Business Plan and which carried over the methodology from the 2010 Business Plan. This 2015 Business Plan is considered to be an update, as the services are currently in play.

The purpose of this report is to seek approval for the 2015 MyCiTi Business Plan Update (referred to as 'the 2015 MyCiTi Business Plan Update'). The Business Plan Update is attached to this report (see Annexure 2).

8.2. Progress with roll-out of Phase 1 and N2 Express

Implementation of Phase 1 and the N2 Express has progressed significantly since the 2012 MyCiTi Business Plan. While this is explained in more detail below, key progress includes the signing of the 12 Year contracts with three Vehicle Operating Companies (VOCs) for Phase 1 and a three year interim contract with the N2 Express VOC serving Khayelitsha and Mitchells Plain, the implementation of world class automated fare collection system, and the procurement of station services by means of a tendered contract. The rollout of the Phase 1 Service since the signing of the 12 Year VOC contracts has included the City Centre, Gardens, Melkbosstrand, Salt River, Woodstock, Atlantis, Du Noon, Hout Bay, Hangberg, Imizama Yethu, Camps Bay and Sea Point.

Since the approval of the 2012 Business Plan:

- To facilitate the full rollout and achievement of integrated, interoperable and intermodal transport across the city, as well as driving down the cost of the public transport users access priority cost of a strong governance structure was set up through the establishment of Transport for Cape Town (TCT), the City's transport authority. Linked to this:

  - The TCT Constitution Bylaw No 7208 was gazetted on 6 December 2013;
  - Application in terms of an approved business plan and related ten year budget was made for the assignment of the Contracting Authority function to the City under TCT and is awaiting the signoff of the Minister of Transport;
  - Application in terms of an approved business plan and related ten year budget has been made for the assignment of the Municipal Regulatory Entity (MRE) function to the City, under TCT and is awaiting the signoff of the Minister of Transport;
  - The TCT organogram was approved by Council on 30 May 2013 and has subsequently come into operation, becoming fully operational from 1 July 2014. The organisational structure follows function and is based on a matrix approach.

- TCT's Comprehensive Integrated Transport Plan (CITP) 2013 – 2018 was approved by Council in December 2013 and the mini review was approved in June 2014;
- The City's 2032 Integrated Public Transport Network (IPTN) was approved by Council on 25 June 2014. The purpose of the IPTN project is to develop an integrated public transport network and operational plan for the Cape Town metropolitan area, to improve mobility and access for all residents in Cape Town. The IPTN forms the basis for MyCiTi being rolled out to the rest of Cape Town, with the focus being on integrated, intermodal and interoperable public transport across the City;

- The interim automated fare collection system migrated to complete electronic card systems. The capabilities of the card system are being progressively enhanced as hardware and software are implemented;
- The stepped distance-based fare system (as per the 2012 Business Plan and the applicable Fare Policy) was implemented on 3 August 2013, permitting distance-based pricing capped at a defined maximum fare. It also allows discounts to be offered, depending on the time of travel (peak or off-peak) and whether the passenger has loaded money (on the EMV portion of the card) or a Mover package (a discounted City-based transit product) on the EMV smartcard. EMV stands for Europay Master Visa, and constitutes the banking standard applicable to the card;
- The six year station management contract commenced end April 2013, and became fully operational after the conclusion of the national SARPBAC strike in mid-May 2013;
- Long-term vehicle operator contracts for Phase 1 were negotiated with three VOCs in terms of section 41 of the NLTA, and these were concluded in August 2013 and took effect from November 2013. The following companies are conducting vehicle operations regarding Phase 1 in terms of 12 year contracts:

  - Transpeninsula Investments Pty Ltd, which was formed by members of taxi associations operating mainly in the Inner City area;
  - Kidrogen Pty Ltd, which was formed by taxi associations operating mainly in the Maitland-Du Noon-Table View-Atlantis area;
  - Table Bay Area Rapid Transit Proprietary Ltd (TBRT for short) which was formed by Golden Arrow Bus Services (GABS) and Sibanye Bus Services.

- Regarding the N2 Express a three-year VOC contract was concluded with a Joint Venture company formed by CODETA, the Regional Body for taxi operators in Khayelitsha, Route 6 Taxi Association in Mitchells Plain and GABS;

- The Advertising Management contractor was appointed on a three year contract with effect from November 2012. The contractor pays the City for advertising spaces in the system, and is also responsible for the maintenance cleaning of stops at no cost to the City;
- Two tenders have been awarded for retail. These include retail sites at Civic Centre station and vending machines in various MyCiTi stations.
- The removal of the non-performing Control Centre Contract and retendering, which is expected to be awarded by the end of March.

8.3. Summary of key achievements

- Since the start of operations until January 2015, MyCiTi has provided over 23.3 million passenger journeys. By January 2015 the roll-out of Phase 1 and the N2 Express was 68% complete. When the Phase 1 and N2 Express rollouts are fully complete the system is projected to carry 75 000 passengers per day.
- The dedicated roadway on trunk routes has led to substantial travel time improvements, especially in peak hours, where, on many routes MyCiTi outperforms private motor vehicles.
- TCT which now incorporates MyCiTi has been a crucial catalyst for fundamentally new, emerging institutional arrangements for the provision of public transport in Cape Town. Further, TCT has driven the shift from being largely a planning authority only to an authority responsible for and capable of ensuring the delivery of public transport services, managed under the governance structure of a transport authority.
- The creation of fare system and control centre platforms with the ability to support metropolitan wide integrated public transport services;
- The MyCiTi project has been the vehicle for a substantial amount of broad based black economic empowerment in Cape Town since the end of Apartheid, especially in relation to the VOCs;
- There is overwhelming user satisfaction and appreciation for the quality of the service experienced on MyCiTi based on the feedback received directly from the public as well as the many media reports.

8.4. Outputs of MyCiTi moderation exercise

As is normal with responsible management of new transport services in countries around the world, the City of Cape Town undertook a comprehensive review and moderation of the MyCiTi service once there was sufficient experience of actual roll-out to evaluate and recalibrate the operations. Such an exercise is always necessary after an initial period of new implementation, during which the actual realisation of the service should be assessed against the business plan, adjusted, and then stabilised in order adjust the system with due regard to passenger demand to ensure the long-term sustainability of the service. This moderation exercise was done a few months after extensive expansion of services which commenced in November 2013, following the conclusion of the long-term contract with vehicle operator companies (VOCs). This was necessary to inform the bi-annual review of the MyCiTi Business Plan.

Following on from the financial modelling exercise which determined the need to amend some of the original assumptions of MyCiTi, the moderation was undertaken. The outcome of the moderation exercise guided the City in relation to a number of changes and modifications that needed to be made to better match the supply of services with passenger demand and to ensure the long-term sustainability of the MyCiTi service. The process entailed various operational efficiency improvements as well as vehicle rescheduling – in some cases increasing supply, but also curtailing services where demand was particularly low, and did not meet the original projections. The moderation had four implementation stages, the first two which have been effected already and the second, which will be done by the middle of 2015.

Key changes implemented as a result include:

- Optimising routes to increase load factors, including changing vehicle sizes where appropriate;
- Curtailing some routes and frequencies where demand is low, including removing some routes, increasing late night and weekend headways, and reducing late night services;
- Smoothing the peak to off-peak differential by investigating increased peak fares, capping services in the peak and by supplementing peak services on some routes, such as by permitting taxis to operate in the peak (subject to review). New fares have been proposed on this basis for implementation from 1 July 2015, for the 2015/16 financial year, as part of the budget planning process;
- Reducing cycle times with improved signalling and other infrastructure changes;
- Achieving staffing reductions regarding station management;
- Improving revenue protection measures;
- Improving bus-to-driver ratios;
- Improving law enforcement to reduce illegal minibus-taxi operators and encourage additional passengers, thereby increasing fare income;
- Investigating the possibility of retaining paratransit services in periods where the level of public transport demand and associated financial viability does not warrant a full MyCiTi service (the proposed hybrid minibus-taxi model is described below);
- The need to progressively implement Travel Demand Management measures to manage the demand for travel in support of the MyCiTi system and increases the cost efficiency of providing the public transport service; and
- The need to proactively promote Transit Oriented Development for longer term sustainability.

The MyCiTi system moderation exercise assisted in calibrating the service and has also identified significant planned cost savings which are in the process of being implemented, without substantially reducing service levels. The moderation undertaken thus far is giving TCT significant insights into the key drivers of costs. This will increasingly enable TCT to identify the trade-offs between cost saving and service levels and quality. Elements of the moderation exercise will continue to achieve better operational and financial performance by the system and will be factored into future rollouts and monitored accordingly.

8.5. Overview of hybrid minibus-taxi model

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As discussed in the attached 2015 MyCiTi Business Plan Update, the principle of completely replacing minibus-taxis on MyCiTi routes is no longer considered viable in light of challenges and inefficiencies experienced in Phase 1, as well as determined in the financial model, which is a result of putting in place a minimum headway of 90 seconds, thereby capping the peak supply.

The hybrid model which is currently being refined may include the following measures:

- Enabling a new economic model that ensures that remaining minibus taxi services are financially viable in their own right thereby being complimentary to the MyCiTi service as opposed to competing with it;
- Maximising capacity utilisation of the MyCiTi service at all times by removing illegal minibus-taxis and by effective enforcement;
- On routes where MyCiTi can provide a complete service cost-effectively, maximise capacity utilisation of the MyCiTi service by removing all minibus-taxi operators that still remain, in as far as this can be legally and financially achieved;
- If feasible, where the peak demand is so high that MyCiTi services cannot meet the high demand cost-effectively, with much lower off-peak demand, on routes where there are currently significant minibus-taxi services, regulating minibus-taxi competition by permitting a limited number of operators to operate *only in the peak* (while not permitting such taxis in the off-peak);
- Secure all off-peak demand on affected MyCiTi routes for MyCiTi by removing or limiting minibus-taxi operators, thereby permitting increasing MyCiTi cost-effectiveness, improving occupancy and related revenue;
- Encouraging a shift of minibus-taxi passengers to MyCiTi where sufficient capacity is available.

The management and control of the minibus-taxi services is essential to the implementation of a hybrid model, and to increase revenue to increase MyCiTi services in a cost-effective manner, and to achieve an appropriate balance between revenue and cost. This model's rollout will essentially only be fully viable once the assignment of the MRE has been effected.

Discussions have started with members of the taxi industry and MyCiTi vehicle operators, to investigate the development of a hybrid model whereby the minibus-taxi industry and MyCiTi could optimally co-exist and complement one another, or achieve the same outcomes in other ways. The attached Business Plan explores the concept of the proposed hybrid model by identifying appropriate hybrid categories, and investigating ways to regulate a potential hybrid model in such a manner that is supplementary to MyCiTi services. The final hybrid model, along with the mechanisms for implementation will be the subject of a further report. The aim is for this to be concluded by July 2015.

8.6 Funding approach

The finances of the MyCiTi project are discussed in Chapter 9 of the 2015 MyCiTi Business Plan Update.

Explanation of MyCiTi cost components

From a financial perspective, the broad cost components to Phase 1 and the N2 Express can be distinguished as follows:

- The costs arising from designing and planning, building and implementing the system, including compensation of existing operators as well as those elements of TCT responsible for managing the process of designing and implementing the system. These are grouped together since they are once-off costs, although in accounting terms they include both capital and operating costs.
- The cost of the key contracted service providers for running public transport operations, including VOCs, the station services contractor, the providers of the advanced public transport management system and the automated fare collection system. These are all recurrent operating costs paid to external service providers, due to the specialist nature of these components.
- The cost of managing MyCiTi operations within TCT, as well as the associated marketing costs. These are also operating costs, and directly related to MyCiTi operations, but are incurred within the municipality rather than paid out to an external service provider
- Further related City costs; these are also operating costs incurred internally, but not dedicated to MyCiTi alone. In chapter 9 of the 2015 Business Plan Update these costs have been separated into:

    - The cost of law enforcement and related network services. These services relate not only to security on the MyCiTi system, but also to the security and regulation of the environment within which MyCiTi operates, including the management of minibus-taxis within the area of MyCiTi operations. These costs are shown separately because of their increasing significance.
    - Other City costs - this includes costs that are related to improvement of general municipal services in areas serviced by MyCiTi, which have some benefit to the MyCiTi service. They have in the past included items such as additional street lighting, landscaping and cleansing along the route although increasingly they are absorbed under the budgets of other departments, where they are not considered as being limited to MyCiTi services.

Funding recurrent costs

The main sources of funding are:

- System revenue, including fares, advertising and retail-related revenues;
- National government's Public Transport Network Grant (PTNG[1]);
- A small portion of the National government's Public Transport Operating Grant (PTOG) once the assignment has been effected; and
- The City's own contribution.

A key funding source for MyCiTi has been the Public Transport Infrastructure and Systems Grant (PTISG), and its successors, which, according to the 2015 Division of Revenue Bill is from April 2015 to be referred to as the Public Transport Network Grant, with two components – one for capital costs and the other for operating costs. Initially the PTISG was intended to be used only for capital infrastructure and related implementation costs. However, as the scale of associated operating costs became evident in systems both in Cape Town and elsewhere the Grant's scope was widened by National Government to help address these costs.

From the Council's perspective the key financial risk lies not in financing the once-off implementation costs (since these are nationally funded), but in the associated long-term recurrent costs. Regarding implementation costs, if grant funding is reduced, the City will have to slow its implementation program to match available resources. This is of concern as the need in Phase 2 is substantial.

However, there is much less flexibility to reduce recurrent costs once the system is in place. In addition, one of the ongoing grant conditions has been that even the operating component of the PTNG may not be used to cover the difference between system revenue (such as fares and advertising revenue) and the 'direct operational costs' defined as consisting of 'fuel, labour, operator administration and vehicle maintenance', which the Business Plan refers to as costs of the VOCs. This is mitigated by allowing a portion of the PTOG that has been negotiated in Phase 1, which provides operating subsidies to the current provincially contracted bus services to be used, but only once the contracting authority function has been assigned to the City.

In the 2012 proposal for future PTISG funding from National government the City resolved that it would contribute to associated recurrent costs up to a cap equivalent to 4% of Council rates income for Phase 1A, 1B and N2 Express,

[1] This grant was originally called the Public Transport Infrastructure and Systems Grant (PTISG). The PTISG was, for two years, separated into a Public Transport Infrastructure Grant (PTIG) and a Public Transport Network Operating Grant (PTNOG), but according to the 2015 Division of Revenue Bill, is to be amalgamated once again into a single grant known as the Public Transport Network Grant (PTNG), which has an Operations and an Infrastructure component as from the 2015/16 financial year.

recognising that in terms of grant conditions the difference between system revenue and direct VOC costs may not be grant funded.

The City pursued in parallel a proposal that National Government funds 50% of all costs of the system other than from the PTOG, once assigned to the City. Once assigned it may be used to the extent that the new system replaces the contracts previously funded by it.

However, in changes made subsequent to the 2012 Business Plan, National government did not agree to this arrangement, but only to an arrangement whereby it funded in the year of implementation of each sub-phase and for two years subsequently, up to 70% of what is regarded as 'ancillary costs', namely the costs of maintenance of fixed public transport assets, security, station management, ticketing services, control centre operations, information and marketing, network management, insurance; and thereafter only up to half of the ancillary costs. Interest payments for bus vehicles financed from the PTIG and compensation for the economic rights of existing operators may, however, be funded up to 100% by the grant. National Government's position crucially excludes the cost of vehicle operations, which are by far the largest portion, from the grant calculation.

Apart from receiving lower National funding than anticipated, fare revenue is also currently significantly lower than modelled results contained in the 2010 Business Plan, which was then followed through in the 2012 in terms of the predetermined methodology.

When National government embarked upon the IRT programme it incorrectly assumed that the improvements in efficiencies would obviate the need for vehicle operator subsidies. Already, in the 2010 and 2012 Business Plans, modelling done in the context of national assumptions showed that this was unlikely to be the case. However, from early in 2014 it became evident that actual fare revenue was substantially below even the modelled amounts. The reasons for this have been analysed, and differences are attributable to three key sets of factors including the need for improved data, assumptions regarding demand projections not materialising and difficulties in revenue collection. These factors and the input assumptions they were informed by are expanded upon in the 2015 Business Plan Update.

On the expenditure side, the number of vehicle kilometres provided was higher than originally anticipated. This was partly to attract more passengers through a more frequent service, but also because MyCiTi has faced a peculiarly high peak period demand within the peak hour. This has led to demands for additional buses to be run in the peak, which adds significantly to costs. In conclusion, the original assumptions from National that emanate from the South American model and primarily the Bogota model could not be realised due to the historical urban form that has manifested due to apartheid.

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Results of MyCiTi moderation process

The table provided below illustrates the differences in kilometres provided per month for Phase 1 for different scenarios, assuming full rollout.

In the 2012 MyCiTi Business Plan it was assumed that scheduled services for Phase 1 would involve services amounting to 1 229 402 kms per month. As it became evident that actual costs per kilometre would be higher than modelled the planned kilometres were reduced to 1 083 069 kms per month (as stated in the VOC contracts, and as quoted in the s33 report to Council) with 812 302 being contractually guaranteed to the vehicle operators, should the realised demand having been much lower than projected.

As can be seen from the table the total kilometres that would be operated in Phase 1 areas (used for illustrative purposes) if pre-moderation practices had continued, would have be 1 614 544 per month, which is significantly higher than any of these amounts. The kilometres were increased to this extent due to factors such as a higher demand than anticipated in the peak, longer cycle times than assumed, congestion and the absence of bus priority measures on some routes, and shorter headways in off-peak periods.

The figures provided under 'Moderated: Balanced' and 'Aggressive service reduction' in the table below show options TCT examined in its moderation process.

PHASE 1: MONTHLY KILOMETRES					
2012 MyCiTi Business Plan	Assumed kms for the VOC s33 report	Guaranteed as per contracts with VOCs	Projection based on current practice	Moderated: Balanced	Aggressive service reduction to remove unfunded deficit
1 229 402	1 083 069	812 302	1 614 544	1 263 479	762 119
% of Business Plan kms			131%	103%	62%
% of s33 kms			149%	117%	70%
% of guaranteed kms			199%	156%	94%
				Implemented	*Not recommended*

It was concluded that the 'Moderated: Balanced' scenario was the preferred scenario which was accordingly implemented. Limited further moderation may be possible without serious adverse impact on passenger experience, however, if aggressive service reduction measures (as shown in the last column above) wherever to be implemented, service levels could fall significantly and the integrity of the MyCiTi system would be severely compromised. This was therefore avoided.

The attached 2015 Business Plan Update is based on the moderated balanced scenario.

Projected unfunded deficit in future financial years (post-moderation)

In 2012 the Council resolved to contribute to the operating costs of MyCiTi up to an amount equivalent of 4% of rates.

The current Business Plan shows that based on implementing the measures identified in the moderation exercise, from 2016/17, when national funding for ancillary costs falls from 70% of costs to 50% for most routes, the funding requirement will be in excess of 4% of rates unless alternative measures can be implemented. The figures in the following table are all in 2014 Rands, with no escalation or growth included. The resultant deficit after funding is shown in the table below, indicating an amount required of R52m, over and above the 4% of rates.

	Amounts in constant 2014 Rands ('000)		
	2015/16	**2016/17**	**2017/18**
Deficit before funding (System revenue - system costs)	-475 027	-477 137	-472 219
PTNG: Operations Component [assuming 70% - 50% of ancillary costs]	206 302	150 924	151 789
PTOG (re-assigned or funded from PTNG)	37 275	37 275	37 275
City rates contribution set at 4% of rates[2]	237 701	237 701	237 701
Remaining projected unfunded deficit	0	* -51 238	* -45 454

Funding based on grant framework conditions published in the 2015 Division of Revenue Bill (constant 2014 Rands).[3]

[2] Numbers calculated based on rates income projected by Corporate Finance. Note that budgetary provision is not being made through the 2015 Business Plan Update, but shall be addressed through the annual Council budget process.

[3] This is based on moving from a 70/30 ratio to a 50/50 ratio for ancillary costs. The City has already motivated to National Treasury and National Department of Transport for the inclusion of additional aspects into ancillary costs as well as for the ratio to remain consistent at 70/30 rather than dropping after three years to 50/50

On the one hand the City must do its utmost to drive out any inefficiencies, reduce costs further and increase revenues across the items identified in the Business Plan. On the other hand National government and the City must work together to clarify the long term fiscal envelope within which the system is to be developed further, and establish feasible standards and coverage in this context, such that the City's financial commitment is not extended beyond what is reasonable and fiscally sound and at the same time the rollout can proceed as determined in the IPTN.

Strategies to reduce operational costs

Strategies to reduce operational costs are described below, and explained in detail in the Business Plan:

Strategy 1: Implementing the five-pronged approach, utilising the mechanisms described below.

Strategy 2: Engaging with National government to change the PTNG framework formula to widen the definition of ancillary operating costs, or to provide an exemption from the formula's constraints to increase the contribution to ancillary operating costs, noting that this will reduce the amount of capital available for Phase 2 rollout and operational subsidy.

Strategy 3: Further more aggressive moderation.

The main emphasis of the 2015 Business Plan Update is to address the projected deficit actively through **Strategy 1**, with the aim of completely removing the deficit (after applying the 4% rates contribution within the current national funding framework) in a manner that improves cost recovery. This will preserve some national funding for both capital and operating subsidy for future roll-outs.

Strategy 2 is aimed at providing a safety net regarding a funding gap that may remain in-as-far as Strategy 1 is not completely successful, or where risks materialise that the City cannot in the short term anticipate or manage (eg unanticipated very substantial fuel price increases).

Strategy 3 is to be used only in a worst case scenario, where strategies 1 and 2 are not successful in resolving the projected unfunded deficit. It is not a preferred strategy since it will result in a significant reduction in the quality of the service and is likely to compromise the integrity of MyCiTi as a much improved service to current public transport users and as a realistic alternative mode to choice users (thereby resulting in increase in congestion etc). This will also result in a loss of passengers, with concomitant impacts on revenue collection.

The detail regarding **Strategy 1** is as follows:

- Mechanism 1: Evaluating which components of operating costs can be funded in terms of the grant funding framework;
- Mechanism 2: Increasing fare income;
- Mechanism 3: Reducing vehicle operator rates;
- Mechanism 4: Further moderation, without compromising service quality;
- Mechanism 5: Improving the passenger demand profile.

To reduce the projected deficit by approximately R52 million in the 2016/17 financial year the following are the recommended targets regarding potential cost savings and system revenue improvements, aligned to the strategy described above:

Mechanism	**Target**	**Description**
1: Evaluating ancillary operating costs in terms of the funding framework conditions.	R4m	Apply the PTNG framework in such a manner that the relevant cost elements which currently are treated as costs regarding direct vehicle operations are assessed strictly as against the wording of the PTNG framework. Where the wording of the framework permits it, consider these costs to be *ancillary costs* and thus capable of being subsidised through this grant. For example: maintenance of depots and security falls outside the PTNG framework's definition of *direct vehicle operations*, but have up to now been accounted to date as VOC costs.
2: Increase Fares	R20m	This is the first of two key mechanisms for addressing the deficit. New fares have been proposed on this basis to increase fare revenues in excess of inflation for the 2015/16 financial year, as part of the budget planning process. The target can be reached if additional fare increases are introduced in 2016/17. The recommended increases for 2015/16 are based on a general fare increase of 9.08% which applies the VOC escalation rate. In addition the boarding fare will increase by a further 5%, while there would be declining distance based increases as the trip length increases, to reduce the impact on commuters travelling longer distances. Peak fares are further increased, as per Mechanism 5 below. The increases for 2016/17 obviously need not be structured in the same way. The target takes into account that increasing fares will result in some loss in passengers taking into account assumed passenger elasticity.
3: VOC unit costs	R15m	A saving of R15 million represents close to 4% reduction in the unit costs of the service providers. This will require close attention to all possible mechanisms to bring costs down within the current VO contract terms. These mechanisms are contractually in place and

Mechanism	Target	Description
		include: 1. Making VOC's compete on price for new services; 2. Allocate kms to the VOCs with the lowest rates, in-as-far as the contracts allow; 3. Strictly apply the contractual provisions to review fuel consumption rate and reduce the rate for 9m vehicles; 4. Adjust the fuel consumption and maintenance costs of new fleet (ito clause 47 of VOC contract) – e.g. regarding the Volvo low floor buses and the Scania high floor buses; 5. Renegotiate maintenance costs after 5 years; 6. Improve management of penalties; 7. Interpret contract more restrictively from a cost point of view; 8. Improve the management of payment for services rendered.
4: Further moderation	R8m	The 1st round of moderation proposals are still in the process of being implemented. A relatively small additional amount through a 2nd and 3rd round of moderation is recommended as a contribution towards further deficit reduction. These additional measures are not anticipated to significantly reduce service quality and include further route optimisation, application of moderation to phase 1b routes, the proposed night service etc. etc.
5: Improving passenger demand profiles	R5m	This can be achieved through Travel Demand Management (TDM) measures based on smoothing of peak period travel demand, achieving more bi-directional flow and better seat renewal along routes (the latter two ultimately being driven by land use density/distribution). While an improved demand profile is the key to longer term financial viability, these changes are likely to take a long time to implement; thus only a small amount is assumed in terms of this mechanism. Measures to achieve this include: 1. Increasing the peak to off-peak fare differential, starting with the 2015/16 tariff; 2. Decreasing the duration of the peak periods from 2 hrs to 1 hr 15 mins, thereby to make it easier for those who can change the time they start their travel, to reduce their travel cost. 3. Application of moderate peak capping – i.e. providing a smooth service level, rather than accommodating the peak of the peak through continually increasing supply / capacity. 4. Actively marketing off-peak travel to align with the peak capping strategy. 5. Marketing the need for flexitime to employers and employees, to incentivise commuters to travel outside of the peak of the

Mechanism	Target	Description
		peak. 6. Transit Orientated Development (TOD) measures, which ultimately will result in shorter travel distances, improved bi-directional flow and better seat renewal, among others. While improvements through TOD is only achievable incrementally over the medium to long term, the right type of density along transport corridors, in the correct locations, will ultimately lead to a more cost effective transport service, and need to be treated as a priority to achieve longer term cost improvements.

8.7 Constitutional and Policy Implications

The 2015 MyCiTi Business Plan update is consistent with the realization of National legislative directives and City of Cape Town policy to provide high quality public transport to the residents of Cape Town. Applicable legislation and policies are listed below:

- National Land Transport Act (No 5 of 2009);
- Integrated Development Plan (2012 – 2017);
- City of Cape Town Comprehensive Integrated Transport Plan (2013-2018);
- City of Cape Town Spatial Development Framework (2012).
- Integrated Public Transport Network 2032.

8.8 Sustainability Implications

Does the activity in this report have any sustainability implications for the City? No ☒ Yes ☐

Compliant with IMEP (Integrated Metropolitan Environmental Policy) for achieving sustainability in Cape Town. In the medium to long term MyCiTi will increase the sustainability of the city, reduce the cost of living and running business in the city and facilitate higher levels of economic development.

8.9 Financial Implications

The financial implications of this report are set out above in some detail in para 8.6 of this report, and in Chapter 9 of the attached 2015 Business Plan Update.

8.10 Legal Implications

A number of contracts let under the MyCiTi project and various contracts needed to comply with legislation such as the Municipal Financial Management Act (MFMA), National Environments Management Act (NEMA) and the National Land Transport Act (NLTA). Professional legal services have been made available to the project team to assist with the legal process and ensure compliance where required. Where activities such as public participation and Environmental Impact Assessments were required appropriate specialist and professional assistance had been and will be obtained.

The earlier MyCiTi Business Plans proposed that assets be transferred to various contractors and other external entities. The procedures as set out in the Municipal Asset Transfer Regulations, issued in terms of the Local Government: Municipal Finance Management Act (Act No 56 of 2003), have been and are being followed in this regard, and further reports in this regard will be submitted to Council as and when necessary. Most of these assets have now been made available to the relevant City contractors to use in providing their services contributing to the MyCiTi service.

8.11 Staff Implications

Does your report impact on staff resources, budget, grading, remuneration, allowances, designation, job description, location or your organisational structure?

No ☒

Institutional and staffing is covered in chapter 8 of the 2015 Business Plan Update.

8.12 Risk Implications

A risk management plan is included in the 2015 MyCiTi Business Plan.

8.13 Other Services Consulted

Transport for Cape Town:

- Financial Management (Director: Craig Whittle)
- Contract Operations (Director: Sipho Afrika)
- Infrastructure (Director: Dave Hugo)
- Maintenance (Director: Henry Du Plessis)
- Network Management (Director: Peter Sole)
- Regulations (Director: Abdul Bassier)
- Performance and Coordination (Director: Toni van Niekerk)

Economic, Environmental and Spatial Development

- Spatial Planning and Urban Design (Manager: District Planning Riaan Van Eeden)

Interdepartmental Advisory Committee on MyCiTi where the following are represented:

- **Finance Directorate:** Stakeholder Management (Director: Louise Muller)
- **Legal Services:** Senior Legal Advisor (Robert Verwant)
- **TCT Financial Management and TCT Contract Operations**
- **TCT Business Development**
  See Annexure 3 for the resolution of this committee

ANNEXURES

- Annexure 1: Council resolution of 31 October 2012 (C 54/10/12) entitled *2012 MyCiTi Business Plan: Phases 1A, 1B and N2 Express of Cape Town's MyCiTi Integrated Rapid Transit System*
- Annexure 2: 2015 MyCiTi Business Plan – Full document on CD
- Annexure 3: Resolution of the Interdepartmental Advisory Committee on MyCiTi

- FOR FURTHER DETAILS CONTACT:

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DIRECTORATE	Transport for Cape Town (TCT)
FILE REF NO	MyCiTi BP: Phase 1 & N2 Express
SIGNATURE : DIRECTOR	Maddie Mazaza 5/3/2015

Melissa Whitehead
Commissioner : Transport for Cape Town

NAME

DATE 5/3/2015

COMMENT:

CHIEF FINANCIAL OFFICER (EXECUTIVE DIRECTOR: FINANCE)
Kevin Jacoby

NAME

DATE 06.03.2015

COMMENT:

Regular updates on the overall impact of the moderation exercise as well as the final outcome of the Control ~~Centre must be reported back to Finance~~ (and Council) and the modeling figures should be updated as new actual information is received, in order to monitor the effect of all the strategies adapted to curtail costs.

6/04/2015.

Making progress possible. Together.

☒ REPORT COMPLIANT WITH THE PROVISIONS OF COUNCIL'S DELEGATIONS, POLICIES, BY-LAWS AND ALL LEGISLATION RELATING TO THE MATTER UNDER CONSIDERATION.

☐ NON-COMPLIANT

LEGAL COMPLIANCE

NAME A.S. Dyansay

TEL (021) 400 4536

DATE 10-3-15

COMMENT:

Certified as legally compliant:
Based on the contents of the report,
TOGETHER WITH THE COMMENT OF I CFO. &

EXECUTIVE DIRECTOR: COMPLIANCE AND AUXILIARY SERVICES *(ED: CAS)*

DATE 11/3/15

☑ SUPPORTED FOR ONWARD SUBMISSION TO MAYOR ☐ / MAYCO ☑ / COUNCIL ☑

☐ NOT SUPPORTED

☐ REFERRED BACK

COMMENT:

MAYORAL COMMITTEE MEMBER : TRANSPORT FOR CAPE TOWN
Brett Herron

COMMENT:

NAME

DATE 13/3/2015

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NOTE: PAGE 26 OF 26 BLANK AND THEREFORE REMOVED. 16/3/15