Financing public transport
PRESS KIT
The challenge of financing public transport

Public transport operation and capital investment costs have grown significantly in the last decade due to increased demand, increased quality expectations from customers, and growing cost of production factors (chiefly labour and energy).

Local or regional governments usually support most of the gap between commercial revenue and operating costs. In developed economies, this represents on average about 50% of public transport operating costs. In general, funding from local or regional governments for public transport operation comes from their general budget.

In the context of slow economic growth and public debt crisis, there is increasing pressure on the resources that public authorities may allocate, notably, to public transport. In the long term, population aging and the related increase in pension and healthcare costs will constitute additional funding challenges.

Existing urban public transport services need sufficient funding just to maintain current service levels and quality. Meanwhile, large-scale investments will be required in the future to upgrade and modernise existing infrastructure and fund new infrastructure projects.

A new revenue strategy for the public transport sector

This situation prompts a reflection on the modernisation of the business model (see i-move 2.0 press kit) of public transport, which should include, in addition to its reliance on public budgets, the earmarking of charges and levies for public transport, the development of partnerships with private investors and the development of a revenue strategy. In particular, fare regulation and adjustment should be an integral part of any reflection on the development of a revenue strategy.

1. EARMARKING LOCAL CHARGES TO FUND PUBLIC TRANSPORT

One innovative way of funding public transport operations and investment is to use the proceeds from certain local taxes and charges.

One option could be to levy a charge on those who benefit most from public transport supply, such as employers, retailers and real-estate owners. Meanwhile, charges can also be levied on those whose mobility habits are most harmful to society. These charges can include urban tolls, congestion and or/pollution charges, parking charges and fuel taxes. These two concepts are commonly known as the ‘polluter pays’ and ‘beneficiary pays’ principles.

2. BUILDING NEW PARTNERSHIPS WITH PRIVATE INVESTORS

There is scope for public transport to develop new financial partnerships with long-term investors, such as banks, private investors, urban developers and the business community. Relevant frameworks need to be in place and risks must be clearly allocated for these partnerships to be a success.
Working with property developers to share the value created by transport systems is one path that is worth exploring. Carbon finance could also help support public transport projects, mainly in developing economies.

Public-private partnerships (PPP)
Public transport is generally a sound investment and one that is as least as profitable as other sectors with a similar risk profile. It benefits from a stable revenue and cash flow, presents strong growth potential and is a provider of essential services.

PPPs are characterised by the relatively long duration of the relationship, involving cooperation between the public partner and the private partner on different aspects of a planned project, which can include design, completion, implementation and funding. The public partner concentrates primarily on defining the desired outcomes in terms of public interest, quality of services provided and pricing policy, and it takes responsibility for monitoring compliance with these objectives.

PPPs are complex structures, so the decision to enter into such a partnership must not be taken lightly. The PPP needs to be a real partnership that distributes risks and rewards in such a way that the aspirations of both parties are met.

Optimising debt financing
In the current economic climate, recourse to the financial markets can be complicated and obtaining credit is increasingly difficult. Nevertheless, debt financing can be considered as a source of funding for capital investment in public transport. Various options are available to public transport companies in order to reduce the cost of debt financing, although a sound and thorough understanding of the financial markets and instruments is essential.

There are several ways to optimise debt financing, including:
- Rating procedures;
- Debt notes;
- Fiscal leases;
- Options and derivative instruments.

3. DEVELOPING A STRONG REVENUE STRATEGY

By taking a more commercial approach to their fares and products, public transport companies can better cover their costs. Developing a successful revenue strategy will also involve exploring new sources of income by tapping into non-fare revenue streams. It is important to have an appropriate business and regulatory framework in place that leaves room for business entrepreneurship in the public transport sector, whilst still ensuring the provision of essential public transport services.

Enhancing revenue management
By adopting a more commercial approach to service provision, public transport companies will be able to boost their fare revenues. Currently, public transport operators tend to provide a single type of service, charging a flat fare for that service. Smart fare and product strategies offer a wealth of untapped potential. This could involve applying time-of-day pricing or distance-based pricing, or charging passengers more to use premium services. Meanwhile, targeted discounts such as loyalty schemes can increase the annual revenue per passenger and improve customer satisfaction.

Technological innovations can facilitate the design of sophisticated fare structures. They can also help deliver tailor-made information and services, for which a higher price could be charged.
Setting and adjusting fares
In many countries, the process of setting and adjusting public transport fares is carried out on an ad-hoc basis.

A more **regular, systematic and sophisticated fare review mechanism** will make it possible to sustain public transport services and enhance quality, whilst still keeping services affordable. Good fare regulation needs to take many factors into account, such as affordability for passengers, changes in service production costs, and the resources needed to invest in capacity and service quality. In Germany, for example, there is a long history of cooperation between operators and authorities within fare associations.

Secondary revenue sources
Public transport is typically a low-margin business. But by developing secondary revenue streams, public transport companies can capitalise on their existing assets and know-how. This will help them increase both their revenues and their margins.

Public transport operators’ assets include **space for advertisement, retail, and property development, telecommunication systems, and their company’s brand**. By tapping into the potential of these various assets, public transport companies will not only generate income, they will also be able to enhance the journey experience for passengers.

Traditional public transport companies have developed **know-how** in many areas over the years and have applied this know-how for in-house purposes. This know-how ranges from technical expertise to planning and project management. Although often overlooked, this know-how could be an important source of revenue.

Getting the message across

In 2009, UITP launched the PTx2 strategy aimed at doubling the market share of public transport worldwide by 2025. The new campaign **Grow with Public Transport** supports this strategy and targets policy makers worldwide aiming to raise their awareness of the urgent need for more and better public transport, highlighting the benefits of sustainable mobility. It also offers guidance for decision makers, public transport authorities and transport companies on how to improve public transport and tools to help them implement sustainable mobility solutions in their city or region.

Find out more: [www.growpublictransport.org](http://www.growpublictransport.org)

#Don’t miss…

**Monday 27 May**

**-Session 3: Two to tango: partnering to access money – 11:00am**

Various types of Public Private Partnership have been implemented in urban public transport in the last decade with varying levels of success. This session will provide a critical assessment and highlight success and failure factors from experiences in Belgium, France and India. Projects cover infrastructure – including an automated metro line – vehicles and depots. They range from design and building to operation and maintenance.
This session will also show how an urban toll contributes to the funding of public transport investment and operation in Oslo.

Tuesday 28 May

**Press briefing: ‘The Financing of Public Transport’**
10:30-11:00am UITP press conference ‘The financing of public transport’ with UITP Secretary General, Alain Flausch

**Press lunch: lunchtime session on the financing of public transport**
12:30-14:00 : registration on a first come first served basis – maximum of 100 participants
The worldwide reference for public transport

The International Association of Public Transport (UITP) is a global network with **3,400 members** from some **92 countries**, including public transport authorities and operators, policy decision-makers, scientific institutes and the public transport supply and service industry. Headquartered in Brussels, UITP also has 11 regional offices.

**Boost your business**

UITP engages with political decision-makers, major international bodies and the media to advocate for sustainable mobility solutions

- UITP’s global network allows for the development of business partnerships and joint ventures, bringing together all stakeholders in the mobility chain.
- UITP is involved in shaping the sector’s future and plays a key role in major international research projects.
- UITP makes its members’ voices heard through its advocacy and awareness-raising initiatives. UITP defends members’ interests by engaging with policy makers, international institutions, the media and other key stakeholders.
- UITP has a range of advocacy tools that help to develop the businesses of its members.

**Knowledge and expertise**

UITP is a leading source of knowledge, tools and resources that helps its members make the right decisions to support the development of their business.

- UITP’s expert working bodies produce insightful reports, benchmarking studies, statistics, and guidelines and recommendations.
- UITP’s extensive electronic library features 40,000+ references, including all conference papers. Members are also supported by two expert librarians.
- UITP’s specialist congresses, conferences, seminars, exhibitions and other events, offer solutions to the problems, provide a forum to share ideas and exchange best practice with international peers.
- UITP’s range of training programmes enhance members’ professional knowledge.

**Global network of sustainable mobility stakeholders**

UITP organises and drives forward the global network of sustainable mobility stakeholders

- UITP provides networking opportunities with the leading players in the industry. Members can share ideas and insights with like-minded peers at UITP’s congresses, conferences, exhibitions and other events.
- UITP’s tailor-made events take place all around the world, attracting top industry professionals.