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FOCUS

A UITP POSITION PAPER

The Financing of Public Transport Operations

Financing Public Transport may be considered under two broad headings: on one hand the financing of the infrastructure and on the other hand, the financing of the operation. This paper focuses primarily on the financing of Public Transport operations.

Introduction

The financing of Public Transport operations is based, in general, on a combination of:
- the fares collected
- other commercial revenue (advertising, property rentals etc.)
- specific compensation for concessionary fares and social/regional obligations, and
- any further remuneration required from the public authority to enable the required levels of service to be achieved.

In general, the financing of the operation (still less of investment) of Public Transport cannot be fully covered by the revenue from fares. The amount of public transport expenditure covered by fares may differ greatly from one situation to another. The same applies to the content of the expenditure that is charged to the operating companies, depending e.g. on whether or not the operator owns the infrastructure, the treatment of depreciation, the allocation of financing costs, whether charges are applied for the use of such assets as bus stations. As a result there are wide differences in the requirements for and shape of public funding.

The fact that outside financial support is required to fill the gap between income from passenger fares and costs of operation does not in itself mean that a company is inefficient or non-viable. It only reflects the fact that fares and service levels are set with specific policy objectives in mind. Governments, local authorities and other bodies, including the private sector, thus make finance available to public transport for economic, social, transport and environmental reasons.

The purpose of this Focus Paper is to outline the different forms which external funding may take, to consider the measures required to ensure that the maximum benefit is obtained from such funding, and to make recommendations about future funding policy.

Reasons for supplementary Financing of Operations

Operational Support may be designed to allow higher levels of service or specific additional services (night services, services for handicapped persons, rural services, etc.) and/or lower fares than would otherwise be possible

This is an official position of UITP, the International Association of Public Transport. UITP has over 2000 members in 80 countries throughout the world and represents the interests of key players in this sector. Its membership includes transport authorities, operators, both private and public, in all modes of collective passenger transport, and the industry. UITP addresses the economic, technical, organisation and management aspects of passenger transport, as well as, the development of policy for mobility and public transport world-wide.

Such measures may be intended to:

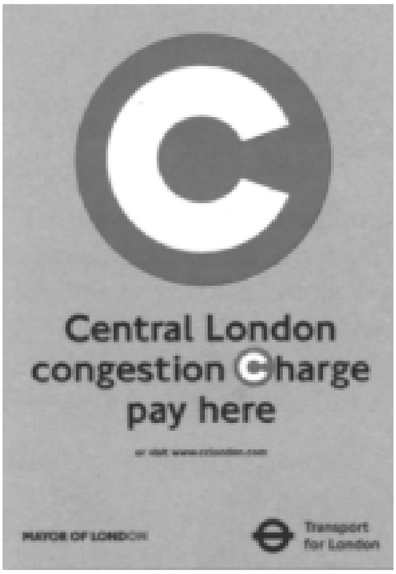
(a) redress the competitive balance between public transport and private motoring (the free use of the road network, external costs, etc.) and thus to encourage a shift of demand away from the private car;
(b) facilitate access to essential services (shopping, education, health, etc.) by those who do not have access to a car. This includes concessionary travel, either free or discounted, for deserving groups of people such as the elderly, people with physical disabilities or learning difficulties and children.

Alternative Sources of Funding

The alternatives to direct funding by the user can be considered under three main headings:

- Polluter Pays: those who cause a problem compensate for the cost imposed on the community. The compensation paid may then be used to fund alternative, less polluting forms of transport - e.g. use of the proceeds of the German Mineral Oil Tax (Mineraloelsteuer) to fund public transport, environmental taxes on the use and ownership of cars and parking charges (if they are used to fund public transport).
- Beneficiary Pays: those who gain benefit from a service meet its costs. Thus employers and retailers both gain from the provision of public transport services which give them access to a wider labour-markets and retail markets respectively. The French Transport Tax (Versement Transport) requires employers with more than nine staff to contribute towards the cost of public transport investment and operation (and in addition, in the Paris area, they also reimburse to their employees half the cost of the public transport season tickets). In Hong-Kong, the construction of new metro infrastructure is partly funded from the rents and sale values of property erected adjacent to metro stations
- General Public Pays: through national and local taxation, whether or not they are public transport users. This is normally the principal source of external funding.

Within these general mechanisms, a wide variety of possible sources of funding can be identified. Central, regional and local governments may each be involved in financing public transport. Each country tends to have its specific grants and funds.



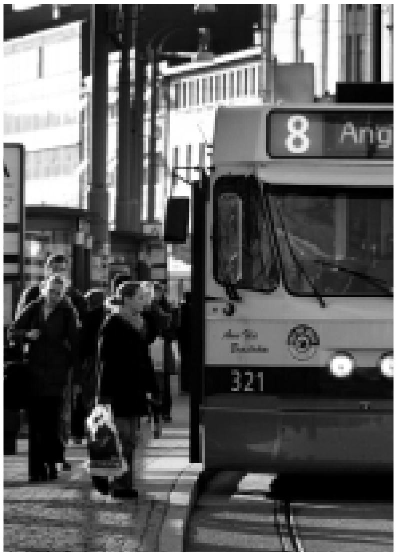
In practice, funding of public transport may involve a combination of mechanisms. Thus it may only be possible to "capture" the benefits to other parties through tax measures (for example the Versement Transport). Road Pricing schemes may contain elements of both the Polluter Pays and Beneficiary Pays principles. The vehicles that cause congestion pay a fee to use the roads. They also benefit from less congested roads. The proceeds of road pricing may increasingly provide a source of income for investment in transport. They also offer the benefit of providing a "push" measure helping to encourage modal shift to public transport and thus increasing public transport fares income.

The explicit use of cross-subsidy from other sectors to support public transport has become rare - only in Germany is it still common. It is principally achieved by the internal transfer of profits from other public services, such as electricity, gas and water, where these and public transport are provided by a single City Public Services undertaking (Stadtwerke). Cross-subsidy within public transport networks is however commonplace. It may indeed be essential in order to allow an integrated network to be maintained. Contributory revenue and 'commercial' cross-subsidy are essential components of a public transport network – and indeed of operations in many major industries. Public Transport operators should be allowed to maintain such activities.

Public Transport operators should also be allowed to benefit from profitable supplementary activities, such as tourist transport, real estate, advertising, etc. In Taipei, 10% of the Taipei Rapid Transit Corporation income come from supplementary commercial activities.

Contributions from Employers may include the Versement Transport (see above), assistance to employees for the purchase of season tickets (in France, Belgium and elsewhere) and the development of Green Travel Plans, under which companies sponsor inter alia developments such as service increases, publicity campaigns, and improved public transport access.

Private sector financial support for public transport operation is most likely to be attracted in respect of a specific benefit received, e.g. to sponsor stops or services or to extend a service to an employer's or retailer's premises.



Public-private partnerships, under which construction and/or operation risks are shared between public authorities and the private sector, are becoming an accepted way of sharing the commercial risks of public transport and of raising project capital in many countries. Such deals however require the debt borne by the private sector to be funded, typically through an annual service charge, whose size will be determined by the private undertaking's cost of capital and assessment of the risk. Such deals will only be beneficial if the additional costs thus incurred by the private sector are outweighed by e.g. construction cost savings, performance gains or improvements in productivity.

In general terms, there are major advantages in sources of income which are not subject to large variations with changes in the political climate or national budget considerations (e.g. dedicated taxes).

Maximising Value from external Funding

A prime concern of authorities and operators must be to ensure that any external funding is to be used to maximum effect.
Clearly defined and understood structures must be put in place for the payment and receipt of financial support.

The main basic principles are:

- Where costs are incurred for policy reasons, such as higher service levels or lower fares than would be justified on exclusively commercial grounds, those responsible for them must assume responsibility for their payment.
- So-called subsidies should therefore be considered and calculated as payments for services rendered, for which the operator should be fully remunerated in order to meet the policy objectives established, to the extent that they involve expenditure and risk over and above that which can be funded from fares income. This includes the remuneration required to incentivise the service provider and to allow facilitate appropriate investment.
- Funding levels must be agreed in advance between authorities and operators. This is greatly preferable to the situation where deficits are incurred on an unplanned basis and occasionally written off.
- The use of service contracts, which define clearly the responsibilities of each party. They should allow for inflation and specify that operators may be compensated for justified price rises - for example increases in fuel or wage costs that could not reasonably have been anticipated and other major unforeseeable cost increases on which the operator has no influence. This will help to avoid unplanned fare rises or deficits, or reductions in quality of service.
- Such contracts should include financial incentives, in the form of a bonus/penalty system, in order to provide an inducement to increase the number of passengers and the quality of service provided. In this way operators are encouraged to offer the best service at the lowest cost and authorities to ensure better conditions for the operation of public transport.
- A good understanding is required of where profits are earned and losses incurred, although the separation of profitable from loss-making services must not be to the detriment of policy or commercial objectives .
- Measures should be taken to demonstrate clearly that the authority is receiving value for money. These may include benchmarking, tendering or outsourcing.

CONCLUSION AND RECOMMENDATIONS

UITP does not recommend a specific ratio of financial support to fare revenue. It does however draw attention to the fact that, in most cases public transport requires external finance in order to provide a level and quality of service at a price which could not otherwise be achieved, for two principal reasons:

- Encourage a shift in demand from the private car to public transport, thus reducing congestion and environmental damage caused by the former.
- Assist in avoiding the exclusion from normal social and economic life of those without access to a car.

In order to allow public transport to fulfil its potential to facilitate movement, to improve the urban environment, and to avoid social exclusion, UITP makes the following recommendations:

- The need for public funding in most cases should be clearly recognised. Public transport should not be regarded as an inefficient activity on that account.
- The full potential of public transport to contribute to mobility, to the functioning of urban economies, to the urban environment, and to combating social exclusion, should be recognised in the objectives set for providers of public transport.
- Public transport should be funded in order to meet those policy objectives. The funding required is not a subsidy, but a payment for a service rendered to the community.
- The payment should be sufficient to fund the provision of those services, to the extent that they involve expenditure over and above that which can be funded from fares income. It should include the remuneration required to incentivise the service provider and to facilitate appropriate investment.
- The full range of possible funding sources should be considered.
- Sources of funding such as congestion charging which also help to discourage use of the private car are particularly to be recommended.
- For supporting operating expenditure, dedicated taxes such as the Versement Transport are also to be favoured because of their relative stability.

Measures should be taken to ensure that maximum value for money is obtained from the external funding provided. These include:

- the contractualisation/formalisation of relations between operators and authorities,
- provisions for incentivising operators and for adjustments to contracts to meet changes in costs outside the control of the operator,
- measures (e.g. benchmarking) to demonstrate that value for money is being obtained.

This UITP Focus Paper has been prepared by the General Commission on Transport Economics.

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