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Workshop 7 Report: Innovative finance for innovative public transport

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ABSTRACT

Workshop 7 discussed the existence of and opportunities for innovative finance to fund innovative public transport in developed and developing economies across the globe. Innovation was seen in the use of existing mechanisms as well as in the use of new approaches to financing both the capital and operational aspects of projects. The 'when and how' of innovative finance and funding highlighted the need to be sensitive to the context, the nature of the actors involved, the beneficiaries and importantly, the allocation of risk between the various parties. Case studies of different experiences emphasised the critical elements of risk and scale in determining the appropriate financing mechanism and the importance of taking the institutional framework and cultural aspects into account when trying to transfer experience across borders. Policy and research recommendations centre on risk and its allocation between parties for a successful outcome, defining and implementing supportive governance regimes and building an evidence base to reduce the risk management aspects of financing innovative projects.

1. Introduction

Responding to the sustainable transport agenda, new public transport infrastructure is seen as important in creating an environment where higher quality public transport encourages choice riders and leads a modal shift away from car use. Aspirations to develop high speed rail to connect urban centres, the development of a new generation of public transport and personal rapid transport are frustrated in this new era of austerity by public funds for public transport investment being in short supply and likely to be remaining so for the foreseeable future.

This workshop examined the scope for innovative financing to deliver innovative transport in this era of austerity and to investigate the way in which such innovation is affected by competition and ownership in land passenger transport. The workshop discussion distinguished carefully between financing and funding of innovative projects, with the former being the mechanism for providing the resources or funding for projects. The nature of the funding requirement was also identified as key with the different nature of capital and operational needs of public transport investments requiring different approaches.

Twenty workshop participants discussed the twelve presented papers which were divided into four key themes as follows:

1. Principles of innovative funding – when and how?
2. New funding for innovation: can it work? Examples in practice
3. Can PPPs be designed to provide funds for innovation?
4. Challenges for innovation in funding

Innovation means something 'new' and a key result, demonstrated by the wide diversity of papers, was that no 'one size fits all' and how important it is to ensure that funding and financing of any project takes care to consider the specificity of the scheme in question. In this context, the workshop identified many innovative aspects of financing.

This report first considers the evidence under the key themes identified above before moving to a synthesis of the discussion which ranged across the themes.

2. The evidence

2.1. Principles of innovative funding – when and how?

Motivated by the question posed by Olsen et al. (2011) as to whether the best selection of public transport schemes emerges from the contemporary Norwegian system of a series of locally raised taxes and national grants, the paper by Olsen and Fearnley

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(2013) provided a framework for examining innovative funding. This paper considered a number of different funding and financing practices around the world in the context of their transferability (to the case study country of Norway) and in terms of barriers to implementation. Broadly speaking, the paper identifies subsidy schemes for operation and investment, different forms of loan for financing and tax-based schemes. Subsidies in Norway were contrasted with the system in Sweden where the national grant system was in proportion to the 'amount' of public transport provided, thus providing a clear link between provision and funding. Hypothecated or earmarked taxes ranging from congestion taxes, road tolls and the French versement payroll tax, were identified as alternative forms of funding as was looking at ways of exploiting land value uplift from the improvements in accessibility provided by new infrastructure. Public Private Partnerships (PPPs) for investments were discussed alongside alternative forms of contracting. However, the central point of this paper was its consideration of the policy transfer issues and the implications for transferability between countries. Good ideas from one country do not transfer without an understanding of the institutional and governance arrangements and the geographic and demographic characteristics of the originating and receiving countries. In particular Olsen and Fearnley (2013) highlighted the role of understanding the inter-group dynamics of the group of actors involved in public transport funding and financing, drawing on the work of Wilson (1980) and Winter (1991). Identifying the benefits of a project and the burden of its financing as being scattered or focused, provided the basis for intense discussion in the workshop, identifying the potential benefits of creating 'policy packages' where the disadvantages of one funding mechanism can be balanced by the strengths of another.

PPPs come in different forms and Crozet (2013) provided a detailed discussion of the use of PPPs and concessions for the rail sector in France and internationally. As innovative finance, PPPs in this sector have failed, sometimes dramatically, almost as if there is a curse on PPPs for railways. The over-estimation of demand (forecast traffic volumes) is often to blame for these failures. Analysing the appropriateness of financing through PPP or concession, the analysis showed how the high political status of rail projects ("the lines must be built, trains must run and the price quality must be acceptable" p.9) leads to an asymmetry of power and risk between politicians and concessionaire holders/PPP consortia which underpinned the difficult history of PPPs in the rail sector, especially when the public sector funding is the funding of last resort.

In the current climate of austerity, Macário (2013) argued that scarcity of resources made it especially important to develop better evaluation of the benefits of new investments to enhance urban mobility. Evaluating investments in terms of their contribution to enhancing accessibility was a fundamental building block of examining the 'worth' of a project. In the discussion of different funding and financing approaches, the paper highlighted the use of cross subsidisation –frowned upon in many economic circles– as a way of addressing social inclusion by linking good accessibility standards as a public service obligation – as an innovative and currently ignored source of funding. The link between accessibility and funding was discussed at length in the workshop and became a recurring theme as will be seen below.

In summary, the 'when and how' of innovative finance and funding highlighted the need to be sensitive to the context, the nature of the actors involved, the beneficiaries and importantly, the allocation of risk between the various parties.

2.2. New funding for innovation: can it work? Examples in practice

Papers in this section covered a wide variety of practical settings of innovative funding. Dale, Frost, Ison, and Warren (2013) presented the case of a workplace parking levy with its revenue hypothecated to the extension of the tram system in Nottingham (UK). Morais, Aragao, Orrico, and de Freitas Dourado (2013) was more of a hypothetical case study to show how value uplift could have provided the funding for the Metropolitan Railway of Brasilia (and other city infrastructure projects) and how care would be needed in balancing the cash flow if this was to be successful. These large scale projects were contrasted with case studies on the funding of a bicycle rental scheme in Spain (Sastre, López, Alvarez, 2013; Sastre, Casanova, Brieba, Figueroa, 2013) and a co-operative car sharing schemes in small cities and rural areas in Austria (Shibayama, Lemmerer, Winder, and Pfaffenbchler, 2013)). In Spain, the short-term rental scheme was designed to complement the public transport network and the PPP provided for the development and operation of the scheme by allowing the concessionaire to add to revenues through the use of the service and the local area for advertising contracts. In contrast, the car sharing scheme in Austria, intended to complement public transport where it was scarce, was organised by the municipality as a semi-public service and the paper showed how this provided financial benefits both to the municipality in terms of savings in subsidy to public transport and to the car users in terms of removing the need for the purchase of an additional car.

Whilst not explicit, the case study examples of this section highlighted the need to take the scale of the project into account. In Nottingham and Brasilia, the innovative funding was for large scale public transport improvements in contrast to Spain and Austria where the scale was local and small. Each of the case studies echoed elements raised in the papers more devoted to principles (Section 2.1) in terms of being sensitive to context, the important role of risk allocation and the need to be aware of the building block of accessibility in driving the need for investment.

2.3. Can PPPs be designed to provide funds for innovation?

PPPs have been the subject of much discussion in the Thredbo series and three papers were presented to this workshop on the practical implementation of PPPs in the transport context. Discussions centred on the implications for the design of a PPP which were identified as fundamental to success. Olyslagers (2013) provided evidence from developing countries to show that a more 'commercial' approach to 'system managing' bus networks created by a partnership between the public and private sectors was more successful than relying on a regulatory framework to make public sector entities behave more like private firms. It was more successful because it provided more equal partnership and a fairer sharing of the risk. Moreover, focussing on the network as a whole allowed the benefits of accessibility and connectivity to be realised. Sastre, López, et al. (2013) and Sastre, Casanova, et al. (2013) provided an ex-ante study of putting in place an intelligent transport system for the Chilean railways, where partnerships between the public and private sectors took different forms at different stages of the project development. The final paper of this theme, and the paper that was presented to the Conference plenary, was about the M4 motorway tolling PPP in Sydney, Australia (Chung and Hensher, 2013). This was one of the early PPPs which was successfully seen through to completion in 2010. It was an 'incomplete' contract in the contractual sense but the paper highlighted how this incompleteness actually gave the flexibility for both sides to negotiate and resolve issues over the term of the contract. Managing the risk was key to this successful outcome as well as the willingness of the respective parties to cooperate in solving the unforseen matters that arose during the lifetime of the concession.

All three papers in this key theme highlighted the role of risk in determining actual or potential success. Important too was the