

Summary:

Funding public transport in Norway

TØI Report 1176/2011

*Author(s): Silvia J. Olsen, Knut Sandberg Eriksen, Nils Fearnley and Frode Longva
Oslo 2011, 84 pages Norwegian language*

The report presents and discusses three alternative models for funding public transport - the State Model, the Local Model and the Project Model. This is done through a study of experiences with the current Norwegian model, as well as a review of international experiences and assessments on whether these experiences are transferable. The discussion concludes that all the alternative models encourage faster project realization and are thus more economically efficient than the current model

Challenges

Important funding solutions in the current Norwegian model includes public transfers in the form of state and county grants, user fees, and government grant schemes such as the Ministry's incentive scheme to improve public transport and reduce the use of cars in urban areas. In sum, these elements constitute a framework of formal and legal procedures for financing.

The study of national experiences shows that if the goals set for public transport are to be reached, the current level of funding is insufficient. It also questioned whether the current model ensures a good selection of public transport projects, and whether each city receives funding according to their individual needs. The division of responsibility between the various levels of government affects how each actor considers their responsibility to fund public transport, and the extent to which they desire control over the grants given.

A study on how the general funding solutions are applied in specific city transport packages is also carried out, including the cities of Oslo, Bergen, Trondheim, Stavanger and Grenland (Skien/Porsgrunn). The study shows that different cities have different challenges and different opportunities in the design of public transport. This obviously relates to the size of each city and thus the market and need for public transport, but also to different traditions of car and public transport use, different history of toll collection, and different perceptions of opportunities to bring in more funding for public transport. The city transport packages can generally be referred to as consensual solutions - a recognition that agreements and compromises are necessary in order to carry out the desired tasks.

Alternative forms of funding

Our review of international forms of funding addresses impacts of funding and policy mechanisms, as well as impacts of management methods. Schemes reviewed include, firstly, various subsidy schemes for operation and investment, including the "Huvudmanna" model in Sweden. Secondly, different solutions of

loaning - loans through public institutions such as the Swedish National Debt, and loans from international banks. Thirdly, various tax schemes, including regional petrol tax, corporate tax, tax on employer paid parking, and (local) personal taxation. We also do a review on property development as a way of funding, in the form of land value capture solutions. Finally, we look at PPPs and similar solutions, with the variants of private infrastructure and operations, private infrastructure and public operations, as well as public infrastructure and private operation.

Transferability

Transferring experiences from one country to another implies a process in which knowledge about policies, administrative arrangements, institutions and ideas in one political system (past or present) is used in the development of policies, administrative arrangements, institutions and ideas in another political system. Success factors and barriers are factors that respectively contribute to or inhibits/prevents the implementation of a measure or a package of measures.

Whether a funding scheme is transferable depends on whether it has sufficient acceptance; politically and culturally, and sufficient equality; including legal and institutional factors, previous practices, and geographic and demographic characteristics. It also requires sufficient resources, financially as well as cognitively.

We apply two sets of concepts to consider transferability of the various forms of funding methods found internationally. First, a categorization of different types of funding solutions is applied, expected to encounter different types of barriers. Second, we consider how the type of measure relates to the form of funding, and how advantages and disadvantages connected to each measure is distributed, and thus may affect the types of barriers that arise. The discussion shows that different funding schemes have different weaknesses. By putting measures together in packages, however, it is possible to find combinations that remedy the shortcomings of individual measures. Applying this method, various funding packages can be made more or less "new" and "acceptable".

Three alternative funding models

In this part of the report, various funding schemes are put together, constructing three suggested alternative models of funding. The three models do in various ways complement the current model. The construction of the three models is based on different principles for division of responsibility and project organization. Funding schemes included in the models are partly based on feedback from informants on the current Norwegian model, and partly on the review of international forms of finance. Furthermore, the packages are put together on the basis of transferability considerations. This means that we have tried to balance the weaknesses of one measure with the strengths of another measure.

The three models are referred to as the State Model, the Local Model and the Project Model. For each model, we provide a discussion on how and to what extent the model's strengths are balancing the weaknesses.

Schemes in all three models will provide increased funding for public transport, and contribute to long-term funding. Long-term funding for large projects implies that they can be planned without waiting for annual budget allocations, and thus be completed faster. This way, project benefits and income flows might be achieved at an earlier stage.

The State Model

The State Model defines the funding of public transport in (large) cities as a state responsibility. The responsibility for designing and administrating public transport services in each city will continue to be a county responsibility, but the state will have a greater responsibility in ensuring adequate and sustained funding. Schemes that can be included in the state model includes

- City grants to the county (fixed amount)
- Incentive scheme to improve public transport and reduce the use of cars in urban areas, expanded and extended (variable amount)
- Long-term funding for large projects by application (according to need)

The three funding schemes included in the state model are intended to respond to different types of considerations, and it is therefore a clear advantage if they are used in combination. The construction of the state model can raise institutional or legal barriers to implementation.

The Local Model

The Local Model maintains and strengthens the system of public transport being a regional or local concern. As a consequence, local authorities' ability to obtain funding is strengthened. Several local tax or fee arrangements from the international review can be applied in this model.

The model proposes a split responsibility between county and municipality in each city. In this way the funding of public transport is strengthened in two ways - partly because the county itself gets an increased ability to obtain funding, and partly because the municipality contributes, through enhanced municipal revenue opportunities. Schemes that can be included in the Local Model includes

- Earmarked county/ municipal income taxes
- Employer's fees
- Tax on employer paid parking
- Earmarked fuel surcharge
- Exploitation fees, i.e. property taxes connected to specific developments or projects

The construction of the Local Model can raise political or cultural barriers to implementation. To remedy this problem, one should specify what type of public transport project the fees collected are funding. One can also provide specific compensation for the taxes/ fees introduced. The concrete composition of funding schemes will be determined by each city.

The Project Model

The Project Model does not refer to a change of public transport responsibilities, but to an increased focus on the organization and funding of projects. The main idea is that when a public transport project is approved, there should be an institutional apparatus ensuring an effective implementation of the project. Schemes that can be included in the Project Model includes

- Public Private Partnership (PPP)
- Government loan scheme
- Establishment of resource unit
- State co-financing for PPP projects

PPP does not represent a "new" solution in the Norwegian context. The construction of the Project Model is however meant to make it easier for the counties to use PPP as a model for public transport projects. Key challenges in the project model will be whether counties are recognizing PPP as a useful and appropriate means to implement public transport projects, and whether the state administration holds institutional competence to form a sufficient procurement unit for PPP projects.

The project model can be considered a "narrower" alternative model of funding than the State and Local models. This implies, firstly, that the schemes included in this model contribute a smaller scale of increase in funding of than the other two models. Secondly, projects have to be large for PPP to be a suitable solution, narrowing the scope of the model. Given that the Project Model is a relatively narrow model, this model might be combined with either the State or the Local model.