## Appendix J  Public transport financial incentive mechanisms

### Overview

The financial incentive mechanism (FIM) is the formula that specifies the parties’ share of the change in fare revenue. It ensures that the purchaser and supplier have a mutual financial interest in the positive performance of a public transport service unit, to incentivise them to collaborate to improve performance by growing patronage with less reliance on public subsidy.

All partnering contracts are required to include a FIM, with the exception of partnering contracts for commercial units, which can include a FIM by mutual agreement.

The FIM must comply with the requirements and principles outlined below, to be approved by the Transport Agency as a component of the procurement strategy.

### Requirements

FIMs must comply with the following requirements:

- apply to all subsidised partnering contracts; may apply to non-subsidised (commercial) partnering contracts by agreement
- be separate from cost indexation and KPI processes and payments.

### Principles

FIMs must be consistent with the following principles:

- incentivise both parties to collaborate to grow patronage and revenue
- take account of unit and regional market characteristics
- be simple to apply and administer
- contribute to value for money.

### Options

Each FIM will share changes in farebox revenue (and service cost if incorporated into the FIM formula) compared to a baseline, using one of two broad approaches:

- patronage-based sharing, which links the incentive directly to patronage change through a ‘per passenger’ payment
- revenue-based sharing, which allocates a share of revenue change, and cost change if desired, on a proportional basis.

### Further assistance

Contact the Transport Agency for further guidance on the development and application of the FIM.