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.