



International Association of Public Transport  
Union Internationale des Transports Publics  
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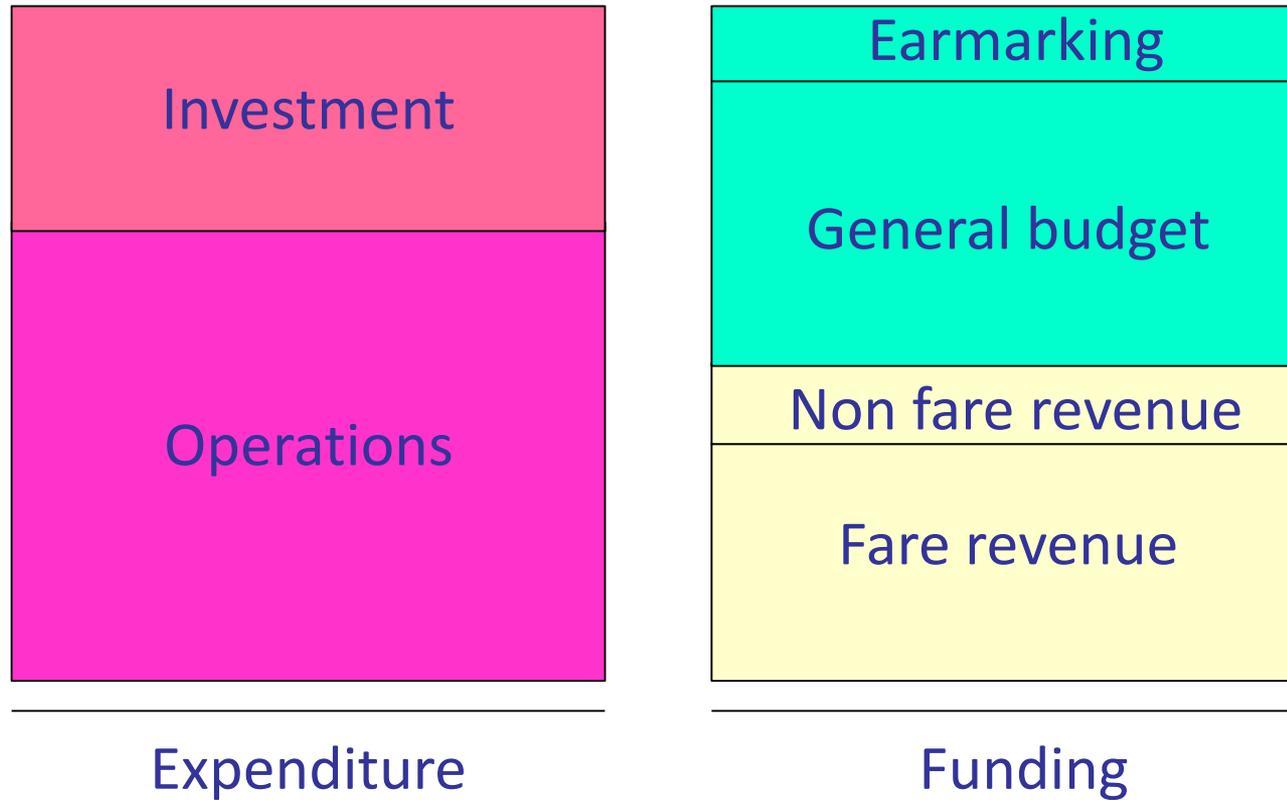
***Better fare regulation  
for public transport***

*Jerome Pourbaix*

A word cloud featuring the following terms in various sizes and orientations:

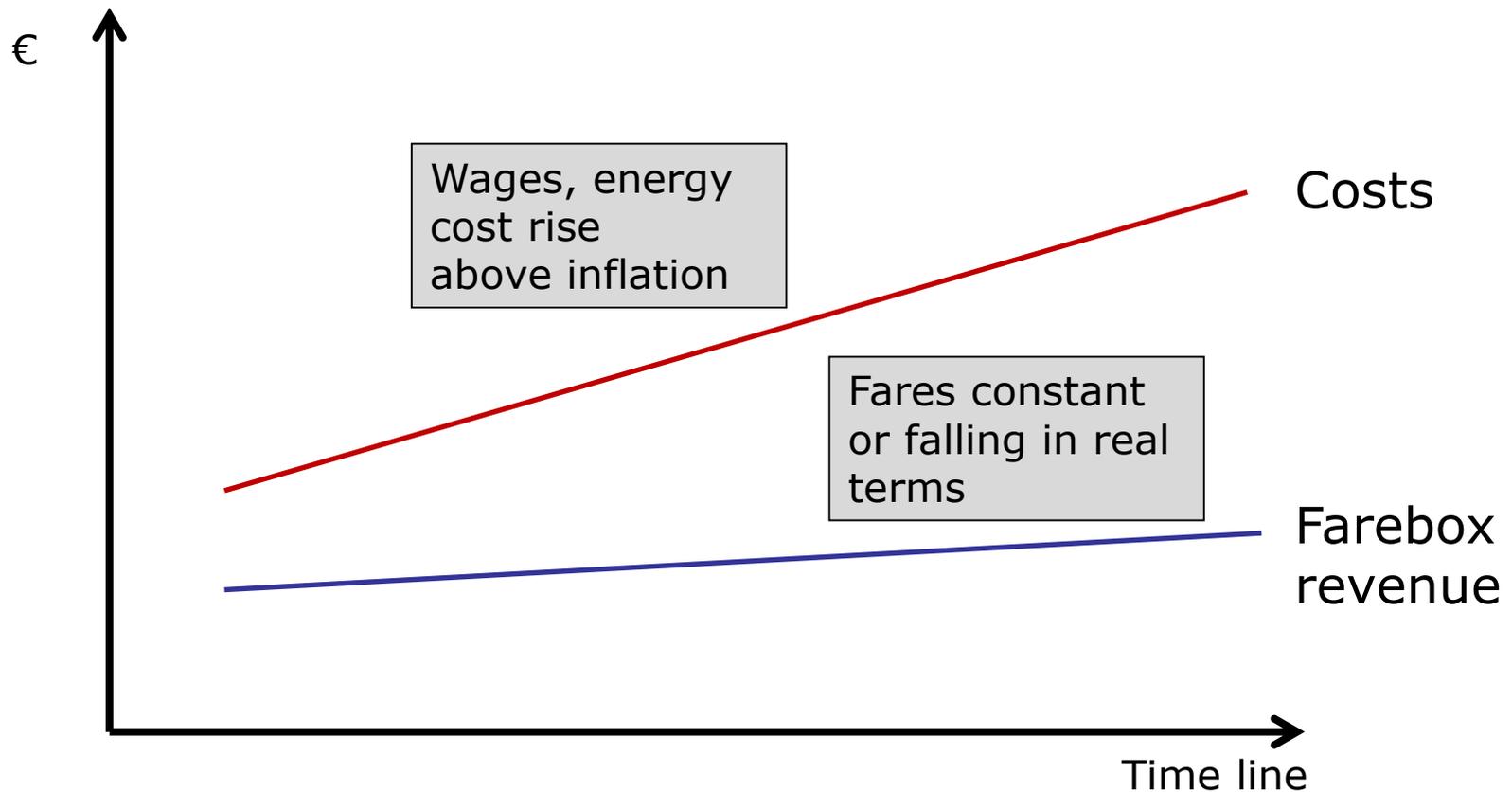
- Resilience (largest, top right)
- Regulation (large, center)
- Policy (large, bottom center)
- Fares (large, bottom center)
- Elasticity (medium, top left)
- Inflation (medium, top center)
- Earmarking (medium, top center)
- Affordability (medium, top center)
- Formula (medium, top left)
- Budgets (medium, top left)
- Revenue (medium, left of Regulation)
- Passengers (medium, left of Fares)
- Costs (medium, right of Fares)
- Timing (medium, left of Fares)
- Governance (medium, right of Fares)
- Increase (small, below Fares)
- Stability (small, bottom)

# 1. PT funding fundamentals



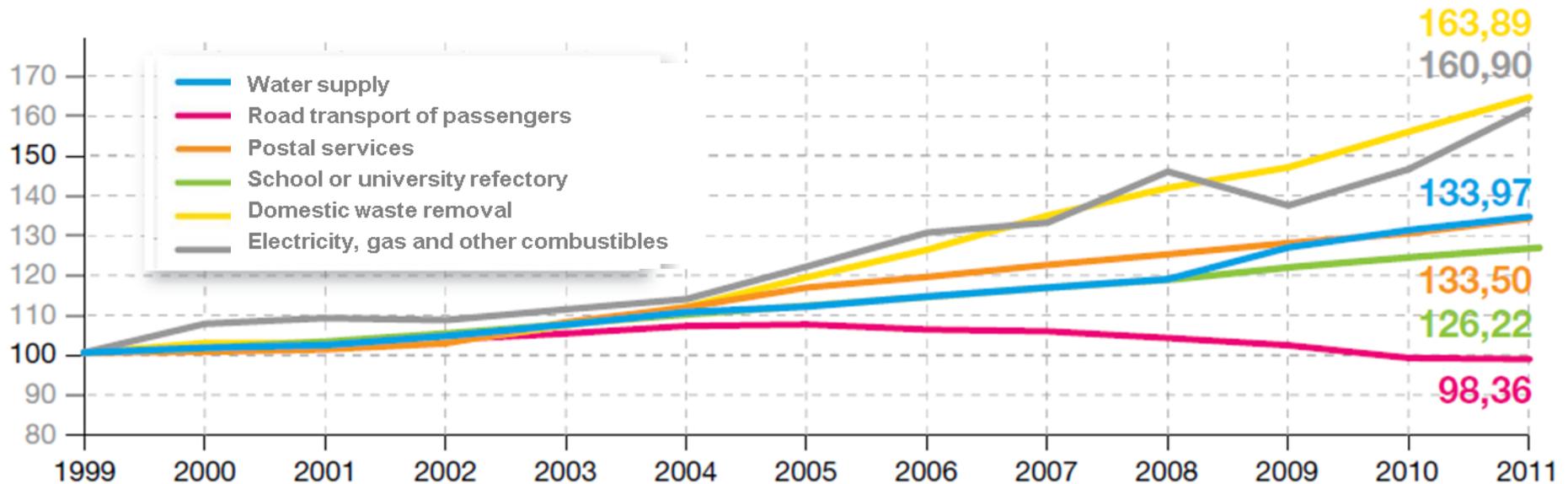
## 2. Funding trends

(1) Cost recovery from fares is **deteriorating** in a majority of networks



# Illustration from France

## User prices for public services



Source : INSEE

## 2. Funding trends

(2) The availability and stability of **public funding** is under threat.

### Consequences:

- « One shot » **steep fare increase** (e.g. Lisbon, Milan, Madrid, etc.) and/or
  - Reduction of supply volumes, maintenance, etc.
- > **Start of a vicious circle: fewer passengers, less revenue, etc.**



### 3. Fare policy basics

- The challenge is to reconcile expectations of authorities, operators and passengers.
- In Europe, fares are often fixed by organising authorities. Fares adjustments may be irregular and reflect « political » decisions.



## 4. The case for better fare regulation

### Message

« Better quality and higher fares = more customers, higher satisfaction, more revenue»

### Evidence

- Ridership tends to be one-third to two-third as responsive to a fare change as it is to an equivalent percentage change in service.
- Example: metro demand is more elastic to capacity (+0.5) than to price (-0.3)
- Quality scores higher than fares in decision to use public transport (stated preference surveys)

## 5. Benefits of better fare regulation

- Good fare regulation and adjustment help generate the necessary margins to invest in high quality services.
- Transparency and dependability of income are also key conditions to successfully engage with potential investors.

## 6. Implementing fare review

- **Governance:** consult stakeholders involved in funding mix – to match vision of mobility and effective delivery.
- **Timing of fare reviews:** annual review, small increment, combine with other changes in service provision.



## 6. Implementing fare review

- **Use of a mechanism/formula:** increases transparency and reduces uncertainty, but requires flexibility to take into account unforeseen circumstances
- **Possible parameters:**
  - A cost index (variation of unit prices of wages and energy),
  - A productivity factor,
  - A factor allowing to invest in enhancements and capacity (notably through innovation).

## *Illustration from Germany*

### Success factors

Governance

Timing of review

Adjustment  
mechanism

### Good practice case: Germany

Operators involved in decision  
making process

Annual review

Inflation + 1%

**Outcome (Germany):** increased revenue per passenger, increased number of passengers, significant improvement of cost coverage rate, higher flexibility for service improvement.

## *Illustration from Singapore*

**Singapore** has just set out new fare adjustment formula: fares adjustments will reflect change in fuel costs while not exceeding average national wage increase. In addition concessionary fares are established as safety net.



## 7. Getting this message across

- Raise awareness of political decision makers that higher quality is win win for all
- Further develop elasticity studies and communicate results to decision-makers
- Collect and present data on actual urban transport funding streams
- Show real cost of mobility to citizens



# 8. Resilient funding architecture

In addition to fare regulation:

1. Fare revenue management;
2. Development of other commercial revenue;
3. Increased reliance on earmarking from indirect beneficiaries (vs. general budget) as source of public funding.



## 8. Resilient funding architecture

The combination of these funding streams creates a virtuous circle where they reinforce each other:

- Higher service quality also increases the value to indirect beneficiaries, meaning that fare revenue and earmarking revenue grow together.
- Better exploitation of assets (e.g. retail) means revenue from renting of space but also attraction of new customers towards public transport.