BETTER PUBLIC TRANSPORT
FARE POLICY FOR MORE
RESILIENT FUNDING

High-quality public transport drives the competitiveness of cities, but delivering high quality critically relies on adequate funding mechanisms.

Public transport funding needs are increasing significantly due to growing demand, higher quality expectations from customers, and rising costs of production factors.

In recent years, in a majority of networks, the evolution of fare levels has not reflected that of production factors. Data from 27 metro networks worldwide has shown that fares were falling in real terms for 60% of these networks between 2005 and 2009, while unit costs of labour and energy were actually rising faster than inflation(1). In a number of countries, the increase in public transport prices is lower than for most other utilities. Consequently, cost recovery from fare income has decreased in a majority of networks, increasing the burden on governments for revenue support and necessary capital investment.

However, in a context of slow economic growth and public debt crisis, there is increasing pressure on the resources public authorities may allocate to public transport. In the longer term, population ageing and the related increase in pension and healthcare costs may further challenge the availability of funding. Inadequate funding may lead to lower service quality, which leads to fewer passengers, and in turn to reduced revenue.

In order to secure resilient funding for public transport, its funding mix needs to be strengthened and diversified. This entails optimising fare revenues, developing additional revenues through value-added services, and using the proceeds from charges levied on indirect beneficiaries (car users, businesses and employers, property owners) to fund public transport.
OPTIMISING FARE REVENUES

Evidence shows that the level of service improvements, rather than fare reductions, appears to be more effective at increasing public transport patronage and revenue. Investing in service provision and providing better quality through charging possibly higher fares brings more customers and more revenue to public transport, and helps reconcile the objectives of passengers, operators and authorities alike.

Analysis of demand elasticity for metro networks worldwide shows that an average 10% reduction in fare levels will result in a mere 3% increase in patronage, while a 10% increase in capacity on a fixed network, through frequency enhancements or larger trains, would increase demand by above 5% (1).

Similarly, analysis of traveller response to changes in bus systems shows that ridership tends to be one-third to two-thirds as responsive to a fare change as it is to an equivalent percentage change in service (2).

Fare-setting practices in Germany provide an example of good practice. Regular fare increases, at a rate slightly above inflation, allow for more flexibility for quality improvements.

Finally, establishing an adequate segmentation of public transport fares has the potential to reduce costs and increase revenues. Relevant strategies include the adoption of time-of-day pricing, service level pricing, flexible season ticket solutions, or airline-style loyalty schemes.

IMPLEMENTING FARE REVIEWS

All stakeholders involved in the funding mix should be consulted in the fare decision-making process so as to match the prevailing mobility vision with its actual implementation.

Fare reviews should be regular – ideally annual. Small regular variations obviously generate fewer reactions than large increments.

Explicit adjustment mechanisms or formulae reduce uncertainty. Success in the use of a fare adjustment formula lies in striking a balance between transparency and flexibility. Singapore has just set out a new formula where fares adjustments reflect changes in fuel costs while not exceeding the average national wage increase.

Finally, clarifying who pays how much for what transport service and raising citizens’ awareness of the actual cost of urban mobility would greatly support decision-making.

Good fare regulation and adjustment help generate the necessary margins to innovate and to invest in order to meet future needs, notably by providing high-quality services and achieving productivity improvements. Transparency and dependability of income are also key conditions to successfully engage with potential investors.

(1) Anderson R, et al, Metro fares and funding: Lessons learnt from around the world, September 2011 (Working Paper for the Nova and Comet groups of metros)
(2) Pratt R, Traveler Response to Transportation System Changes, TCRP report B12-A, 2004