Appendix H   Calculating public transport commerciality ratios

Overview

The commerciality ratio is a financial calculation that measures performance by assessing the proportion of revenue generated by public transport users against the cost of providing the services.

Approved organisations providing public transport services must calculate a commerciality ratio for:

- the region as a whole, and

- each unit of public transport services identified in the RPTP and separated by mode.

The unit commerciality ratios should be published as part of a league table. Where an approved organisation has an endorsed procurement strategy enabling direct appointment of units other than commercial units or like-for-like units, a league table, which employs 'blended' commerciality ratios, will be used to determine which units should be directly appointed.

Calculating commerciality ratios

The formula for commerciality ratio is:

Commerciality ratio = fare revenue/cost

For the purpose of the commerciality ratio calculation:

- **Fare revenue** is defined as including all farebox revenue generated by a service, including the farebox revenue to be applied to financial incentive mechanism payments plus SuperGold payments. It excludes revenue generated through charter work using vehicles that are also used for public transport services, and other revenue like advertising.

- **Cost** is defined as including the annual gross price of a service, and payments, both positive or negative, related to indexation, the financial incentive mechanism and KPIs[1]. The cost reflects the price paid to deliver services by fare-paying passengers and regions. Concessionary fare payments, whether separately identified or not, are treated as a cost.

Regional commerciality ratio

The regional commerciality ratio is calculated using the same data as for the unit commerciality ratio, summed across all units both subsidised and commercial. The regional commerciality ratio is not an average of the individual unit commerciality ratios.

Regional commerciality ratios need to be calculated for each mode – bus, ferry and rail.

In regions where there is only one unit, the regional commerciality ratio is also the unit commerciality ratio.

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[1] Financial incentive mechanism and KPI payments are excluded from the calculation of the blended commerciality ratio. This point is discussed further below.

Appendix H Calculating public transport commerciality ratios
continued

Unit commerciality ratio	Unit commerciality ratios are to be calculated for each unit in a region at least annually.
	The commerciality ratio of a public transport unit that does not receive a subsidy has a default ratio of 100%.

Blended commerciality ratio

Approved organisations that intend to directly appoint suppliers (excluding like-for-like direct appointments) for public transport unit contracts must produce a blended commerciality ratio for each unit in the regions to help determine which public transport units should be directly appointed and which subject to open competition.

A separate league table based on the blended commerciality ratio will need to be produced to rank units from highest to lowest in commerciality.

The blended commerciality ratio will initially be calculated using the following two components:

- Unit commerciality ratio – for the previous year – but calculated **excluding** any financial incentive mechanism and KPI payments.

- Change in this commerciality ratio of a unit in comparison to the change of other units within the league table.

When the approved organisation has confidence that all data is accurate and reliable, a third component may be added:

- Change in passenger kilometres relative to other units.

The blended commerciality ratio is the weighted sum of its components and like its component parts is expressed as a percentage. Weights to be given to each component are as follows.

When the first two components only are available

Component	Weight
Unit commerciality ratio	0.8
Relative change in commerciality ratio	0.2

When all three components are available

Component	Weight
Unit commerciality ratio	0.8
Relative change in commerciality ratio	0.1
Relative change in passenger km	0.1

Appendix H   Calculating public transport commerciality ratios
continued

Blended commerciality ratio continued

For example, if the unit commerciality ratio was 60%, the relative change in commerciality ratio 80% and the relative change in passenger km 70%, the blended commerciality ratio would be:

$$(60 \times 0.8) + (80 \times 0.1) + (70 \times 0.1) = 63\%$$

Measuring relative change

The relative change value for a unit, in either commerciality ratio or passenger kilometres, is calculated as follows:

Relative change value for a unit = (change value for the unit – change value for the unit with the lowest value)/range of change values for all units in the region.

Both change values and relative change values are to be expressed as percentages. The unit that shows the greatest positive change will have a relative change value of 100% and the unit with the least change (possibly the greatest decline) will have a relative change value of 0%.

Financial incentive mechanism and KPI payments are excluded when calculating blended commerciality ratios to avoid creating a perverse incentive. Inclusion of a significant positive financial incentive payment, made in recognition of the supplier's efforts to grow patronage and commerciality, lowers the commerciality ratio and dampens the impact of the supplier's high performance, which could lower the unit's ranking in the league table. Inclusion of KPI payments, applied in terms of the contract, would also distort the outcome. The 'bottom line' of the blended commerciality ratio calculation is therefore equal to the annual gross price adjusted by indexation.