**C2 H2 Economics Time Assignment (TA) 2 Time: 1hr 8mins**

## Into the New Public Transportation Era

## Extract 1: Higher Profits for SBS Transit

Local bus and train operator SBS Transit posted that the core bus operation continued to suffer losses amounting to S$13.5 million in 2014 due to higher financing cost arising from increasing staff cost and the continued renewal and expansion of the bus fleet. SBS said its bus operation’s reduced losses was helped by increases in average daily ridership.

SBS Transit, however, was glad that better rental from retail space, higher advertising sales and a full year of Downtown Line non-core operations had helped the company to still report an overall net profits of $14.4million.

Source: Adapted from Channel News Asia 10 Feb 2015

**Table 1: Bus Fare Structures in 2014**

|  |  |
| --- | --- |
| Distance | Fare Per Ride (cents) |
| Adult | Students | Senior Citizen |
| Up to 3.2km | 77 | 38 | 56 |
| 3.3km - 4.2km | 87 | 43 | 64 |
| 4.3km – 5.2km | 98 | 48 | 71 |

Source: Land Transport Authority Website

**Extract 2: Transition for Singapore Bus Industry**

Transportation, communication, sewage, water and electric systems are all a part of infrastructure. These systems tend to be high-cost investments. In general, infrastructure is location-specific and cannot be moved from place to place. Transport infrastructure development, not only serves as a main form of transporting people from one place to another, but is also crucial for economic growth as it helps to boost productivity and reduce congestion too.

Under the current privatized industry model, the Public Transport Council (PTC) is tasked with the twin responsibility of safeguarding the interests of the public and ensuring the long-term viability of public transport operators. It is an independent body that regulates bus services, bus service operators, ticket payment services, and bus and rapid transit system fares. However, under this current system, it is more difficult for operators to increase capacity and improve service standards responsively, as they are expected to cover their own capital and operating expenses and yet earn their returns from fare revenue which is highly regulated by PTC, and so they may not run quality services if these are assessed not to be profitable. The privatized model has served Singapore well, but with the changes in the social and operating environment, a “Government contracting model” would serve us better going ahead.

Under this new plan, the government hopes to promote greater competition and efficiency among operators, since they now have to compete for the right to run the services, the government will have greater ability to maintain the affordability of public transportation fares for commuters. In addition, the government can expand bus routes based on demand from commuters and not on profit considerations. All this, over time, will result in the provision of better services at a lower cost and thereby benefiting commuters.

As part of the new bus industry model, the Government will own all bus infrastructure such as depots, as well as operating assets such as buses and the fleet management system. This will lower the barriers of entry to the market due to lower capital outlay, and thus attract more bus operators. This helps to facilitate the transition between operators, should the incumbent is not re-contracted for whatever reason. It is thus a hybrid model.

Nonetheless, some critics have commented that despite competing for the routes under the contracting model, the moment the company is engaged, they have again effectively become a monopoly in the bus services for that area for that contracted period of time. Also, others commented that it is unfair that the financing for the bus infrastructure should come from tax payers, while some agreed with the existing model for the industry, however, it should just be highly subsidized to benefit the people. Although Singapore will likely see more new bus operators coming into the industry,for the two major incumbents in the market – namely SMRT and SBS Transit – it will take a number of years before they face serious competition. Then, it will really mark the truly new era for the public transport industry in Singapore.

Adapted from Land Transport Authority New Release 21 May 2014

**Extract 3: Competitive Contracting of Bus Services: The Historical International Experience**

*Great Britain*: London has the largest public transportation bus system in the world, operating more than 6,000 buses. Between 1970 and 1985, real bus costs per vehicle kilometre rose 79 percent. In response, the British Parliament enacted legislation that ultimately led to the conversion of the entire system to competitive contracting. For the period from 1985 to 2001, real costs per vehicle kilometre for the bus system fell by 48 percent in real terms while the service was expanded by 26 percent and productivity went up by 91 percent. Ridership increased by 30 percent since the beginning of the competitive contracting program. Overall, it is estimated that in the absence of contracting, costs for London Transport would have been $15 billion higher.

*Finland*: In the early 1900s, the Helsinki Metropolitan Area Council competitively contracted its bus services in the city capital area. In 1994, the council put 20 percent of the regional services up for competitive bid. 23 companies responded to the request and the result was a 33.2 percent decrease in costs and for the first time, regional fares were reduced by an average of 3 percent. Encouraged by these results, the council contracted out the remaining regional services by 1996. The results was an annual cost savings of 29.2 percent and the price of the regional fare was reduced by 6 percent. In addition, the vehicle quality provided by the companies also improved after the implementation of competitive contracting, with the average age of buses dropping from 4.9 years to 3.2 years.

Adapted from *Allegheny Institute Report #06-02 April 2006*

**Extract 4: Worker’s Party on Overhauling Singapore’s Public Transport Model**

Worker’s Party has, since 2006, called for the MRT and public buses servicing major trunk routes to be brought under a National Transport Corporation (NTC), which will oversee and provide universal transport services. This refers to the nationalization of the public buses services. This is the process of taking a private industry or private assets into public ownership by a national government or state. As such, NTC should aim to provide safe, affordable, accessible, efficient and reliable universal public transportation services, on the basis of cost and depreciation recovery.  As a not-for-profit corporation owned by the government, NTC will serve the needs of the public and not that of listed company shareholders.

WP’s proposal recognizes public transport in Singapore as an inherent natural monopoly with high capital outlay.  The people would expect no less from NTC, in terms of efficiency and cost-effectiveness, compared to the way any other statutory board is managed by the government. To incentivize their performance, the bonuses and pay increases of NTC executives should be pegged to the achievement of key performances indicators such as containment of cost and on-time services of bus, and there could be negative consequences for not meeting them.

*Adapted from Overhauling Singapore Public Transport System July 2011*

**Questions**

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| --- | --- | --- |
| **(a)** | Using the data, explain why SBS has “non-core" businesses. | [2] |
| **(b)** | Explain using a diagram how the losses of SBS Transit’s core bus operation will change when there is an increase in average daily ridership.  | [3] |
| **(c)** | 1. Explain the types of cost found in the phrase “increasing staff cost and the continued renewal and expansion of the bus fleet” (Extract 1).
2. Explain when should SBS Transit decide to shut down its operations
 | [2][2] |
| **(d)** | Comment on whether it is a case of price discrimination for the difference in bus fare for the adults and children | [3] |
| **(e)** | Discuss if market dominance is the only reason for government to intervene in the bus services market.  | [8] |
| **(f)** | Assess whether the “Bus Contracting model” delivers better outcomes for bus commuters and existing bus operators. | [10] |