SBS Transit

Press Release

DOWNTOWN LINE TO TRANSITION TO NEW RAIL FINANCING FRAMEWORK (VERSION TWO) FOR LONG TERM SUSTAINABILITY

- ***Greater risk and profit sharing under NRFF Version Two to reduce commercial volatility.***
- ***Rail advertising rights to remain with SBS Transit till 31 December 2023. LTA may allow SBS Transit to continue to operate all or any part of the rail advertising business from 1 January 2024 till 31 December 2032 for a concession fee.***
- ***Tenure of five existing SBS Transit bus contracts to be extended by an average of three years at a rate that is benchmarked against recent bus tenders and is lower than the current service fee.***

11 November 2021 – SBS Transit's Downtown Line (DTL) will transition to New Rail Financing Framework Version 2 (NRFF (V2)) similar to that which the North East Line and Sengkang Punggol LRT Lines are already on.

The new framework will reduce commercial volatility for SBS Transit as it works at delivering a reliable and financially sustainable public rail service. Under NRFF (V2) which has been agreed upon with the Land Transport Authority (LTA), the Earnings Before Interest and Tax (EBIT) margin of rail operators is effectively capped at approximately 5%. In turn, provisions for risk sharing will be strengthened through a mechanism where the LTA will share, up to the payable licence charge each year, in fare revenue shortfalls and when the EBIT margin falls below the collar of 3.5%.[1]

The DTL currently operates under the first version of the New Rail Financing Framework where there is no mechanism for revenue risk sharing with the LTA of fare revenue shortfalls and when the EBIT margin falls below the collar of 3.5%.

As part of the latest agreement, the LTA will issue a consolidated rail licence to SBS Transit's wholly-owned subsidiary, SBST Rail Pte Ltd, to operate the DTL, NEL and SPLRT for a period of 11 years commencing 1 January 2022 and ending on 31 December 2032.

Under the new consolidated rail licence, SBS Transit will also continue to hold rights to lease out the advertising spaces of the DTL, NEL and SPLRT until 31 December 2023. Thereafter, LTA may allow SBS Transit to continue to operate all or any part of the rail advertising business from 1 January 2024 until 31 December 2032 at a concession fee to be set by LTA in consultation with SBS Transit.

In addition, the agreement also provides for an extension of five existing bus contracts which are currently operated by SBS Transit, by an average of three years. With effect from 1 September 2022, the service fee for these contracts will be at a rate that is benchmarked against recent bus tenders and is lower than the current service fee.

[1] The licence charge structure under the NRFF (Version 2) will provide for some risk sharing with the LTA under the Fare Revenue Shortfall Sharing ("**FRSS**") mechanism and the EBIT cap and collar mechanism.

Under the FRSS mechanism, the LTA shares in some of the shortfall in revenue. If the shortfall between the actual revenue and the target revenue is between 2% and 6% (inclusive), the LTA will share 50% of the shortfall. If the shortfall between the actual revenue and the target revenue exceeds 6%, the LTA will bear 75% of the incremental revenue shortfall beyond 6%.

Under the EBIT cap and collar mechanism, through a tiered EBIT cap starting at 5% (inclusive) and the collar at 3.5%, the LTA will recover 85% of the upside of the EBIT above 5% and 95% of the upside of the EBIT above 6%, and co-share 50% of the downside risk where EBIT is below 3.5%, subject to a limit of the amount of licence charge payable for the year.

SBS Transit CEO Cheng Siak Kian said: “The significant changes in our rail operating context, in particular the sharp plunge in rail ridership due to the COVID-19 pandemic has highlighted the pressing need to recalibrate the sharing of risks between the Government and rail operators and to reduce commercial volatility for the provision of public rail services. As the COVID-19 pandemic is still on-going, the timing of the recovery of travel and economic activities to pre-COVID-19 levels is uncertain and there could be significant shifts in ridership patterns in a post pandemic environment as more businesses adopt work from home practices. The new licence framework is certainly a more sustainable model for the Group’s rail operations and will enable us to focus on the operations and maintenance of the rail systems so that our rail operations can remain financially sustainable to continuously provide safe and reliable rail services to the public.”

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