

RESPONSE TO ISSUE NOTIFICATION

COMPONENT: ADMINISTRATION

This Response is issued by the Public Transport Authority (Authority) in relation to the Issue Notification lodged by Transport Forum in its capacity as a Contractor Representative to the Composite Rate Component Review 2005.

Component

Administration

Issue Notification

The Transport Forum Issue Notification stated that the Administration component should recover all the costs associated with a contractor's office administration, other tasks of managing the contract and vehicle maintenance not addressed in the Repairs and Maintenance element. Transport Forum claimed that the current remuneration was insufficient to cover costs, and sought an increase in Administration as follows:

Contract Type	Existing		Proposed		Increase	
	Yearly	Daily*	Yearly	Daily*	Yearly	Daily*
Mainstream contracts	\$7,620	\$40.32	\$13,319	\$70.47	\$5,699	\$30.15
Education Support contracts	\$9,754	\$51.61	\$16,211	\$85.77	\$6,457	\$34.16

* Based on 189 school days

In addition to overall increases across almost all existing elements, Transport Forum has also proposed additional elements such as contract administration time, dedicated fax and computer lines, organisation fees, first aid fees and the cost of time to attend industry meetings.

Response

The Authority does not consider the Issue Notification discloses an issue.

Basis for Response

CRM Principles

Item 9(b) of Schedule 5 states, inter alia, that:

- (i) *the purpose of the Composite Rate Model...is to balance the interests of the Authority in procuring school bus services for a commercially fair value and the interests of Contractors in receiving a commercially fair income for provision of those services in the absence of a competitive tender process;*
- (ii) *the Composite Rate Model is an average cost model so that the starting point is to be the average actual costs incurred by Contractors in providing the services the subject of the School Bus Contracts;*

- (iii) *the cost elements set out in the Components will primarily be spread across the service life of each school bus rather than being paid in a lump sum or being varied across the service life of each school bus...*
- (v) ... A. *actual income earned by Contractors from sources other than the Authority from assets for which Contractors are compensated under School Bus Contracts...is a relevant consideration...*

Background to Component Methodology

PricewaterhouseCoopers (PwC) assessed the Administration rates submitted by industry as part of the industry proposed CRM model. The object of PwC's review was to assess the commerciality of the cost elements. PwC assessed the commerciality based, firstly, by assessing whether the costs incurred by contractors are covered in the CRM and, secondly, by assessing the assumptions on which the CRM cost elements were calculated and indexed. As part of this review, PwC revised and reduced the initial figures submitted by industry.

Discussions between DPI/PTA and the school bus industry on this component during the CRM negotiations identified differences of opinion in relation to the figures provided by PricewaterhouseCoopers (PwC) and also the discounting of Administration where a single contractor had multiple contracts.

From a review of the CRM Working Group meeting minutes, the main issues of contention noted in the minutes related to bus cleaning time, corporate filing fees and discounting for multiple contracts. The issue of economies of scale in multiple contracts held by a single contractor was first raised by industry. However, during negotiations industry stated that although they thought discounting was a reasonable position they had overlooked issues such as the fact that a number of multiple contractors work remotely and administration of these contracts accordingly costs more, and that a contractor therefore needs to have a number of contracts operating from a single depot before efficiencies can be realised, and, relatedly, that with larger numbers of contracts there is an added expense of employing people to manage and administer these contracts.

Refer to Attachment 3, which summarises the PwC proposal, the Contract offer, the current remuneration paid for this component and the Contractor Representative's proposal.

Current Remuneration for the Component

Administration is currently paid in accordance with the CRM contract as follows (the amounts mentioned reflect the values as adjusted for indexation):

The annual amount below, depending on the number of School Bus Contracts to which the Contractor, or a Related Party of the Contractor, is a party ("Relevant Contracts") at that time:

where there are one or more Relevant Contracts which are not Minor Service Contracts:

- *\$7,620 for each Relevant Contract which is a Mainstream Contract*
- *\$9,754 for each Relevant Contract which is an Education Support Contract,*

but reduced by the following discounts:

- *where there are 3 Relevant Contracts, the amount payable for the third Relevant Contract is reduced by \$1,270; and*
- *where there are 4 or more Relevant Contracts, the amount payable for each Relevant Contract after the first, is reduced by \$2,540.*

Particulars of Response

The payments in respect of Administration which the Authority currently pays are based on the average cost model principle embodied in the CRM contract. The Authority has reviewed the current Administration component and has concluded that based on this average cost model principle the payments currently paid by the Authority are reasonable. The Administration amounts currently paid by the Authority are based on the average cost model principle. The Authority maintains that the Administration payments paid to contractors represents a commercially fair level of remuneration, with the exception that the discounting currently applied by the Authority underestimates the value of savings available to contractors with multiple contracts.

This opinion is based on three principles:

Firstly, the current amounts paid for elements comprising the Administration payment are reasonable.

Refer to attachment 1, which outlines what is covered under current remuneration levels.

Secondly, all contracts are paid a minimum of four hours each day, regardless of how many contracts may have short runs or whether the service is completed within the four hours. Where contractors are owner/drivers this excess time can be used by the contractors to undertake bus cleaning and contract administration duties.

Refer to Attachment 2 for a profile of CRM contracts.

Lastly, in that receiving a commercially fair income for the provision of these services the actual income earned by the contractors from charter work or other sources of income is a relevant consideration.

There are currently 702 CRM contracts held by 403 contractors. 507 of the 702 CRM contracts (72.22% of contracts) are held by contractors who hold 3 or fewer contracts. The current profile of CRM contractors is shown in the following table.

	Total Contracts Held	Contractors (Number)
Contractors with 1 contract	274	274
Contractors with 2 contracts	158	79
Contractors with 3 contracts	75	25
Contractors with 4 contracts	52	13
Contractors with 5 contracts	20	4
Contractors with 8 contracts	16	2
Contractors with 10 contracts	10	1
Contractors with 13 contracts	13	1
Contractors with 14 contracts	28	2
Contractors with 15 contracts	15	1
Contractors with 41 contracts	41	1
Total	702	403

A typical contractor accordingly is one holding 3 or fewer contracts. Based on this profile, the Authority considers that these businesses are operated predominately from a home office.

The current remuneration levels for Administration are considered to adequately remunerate contractors for the operation of their business from a home office.

Refer to attachment 1, which outlines what is covered under current remuneration levels.

With respect to some of the specific detail in the Transport Forum proposal, the Authority would like to highlight the following areas where it believes the administration calculations proposed are in excess of what would be incurred by a prudent and reasonable contractor:

Hourly Rate of \$24.50

The Administration rates proposed by Transport Forum use an hourly rate of \$24.50 for the undertaking of cleaning and administration duties.

With respect to accounting type functions, the current Department of Consumer and Employment Protection (DOCEP) Clerks (Accountant's Employees) Award based on a 38 hour week the casual rate for an adult worker over 25 years of age is \$17.10.

With respect to cleaning duties the current DOCEP Cleaners and Caretakers Award based on a 38 hr week the casual rate for an adult worker is \$15.24.

It is the Authority's position therefore that the hourly rate of \$24.50 is not appropriate in costing these types of duties.

Computer and Fax Line Rental

In addition to partial costs being claimed for telephone line rental, the current proposal claims full costs for two line rentals for a dedicated fax line and a dedicated computer line.

It is the Authority's position that full payment for the rental cost of a separate telephone line is sufficient to cater for the phone calls, fax and internet communication needs of the Contractor.

Organisation Fees and Time attending AGM and other Industry Meetings

The proposal claims a total of \$650 for organisation fees and time attending AGMs and other industry meetings.

The membership of an organisation body and the time in attending industry meetings and organisation AGM is an election made by each contractor.

It is not a contractual requirement that contractors belong to a professional industry body and should not therefore be included in the remuneration of Administration paid by the Authority.

Summary of Response

It is the opinion of the Authority that the Administration component of the service charge remunerates a reasonable and prudent contractor more than the actual net costs incurred by such a contractor. This opinion is based on the principle that the CRM is an average cost model and the fact that the indicative contractor holds fewer than 3 contracts. To support this position the Authority has outlined under Attachment 1 what is covered by the Authority under current remuneration levels.

The Authority believes that economies of scale are available to contractors with more than one contract and these economies are currently underestimated because the current methodology does not discount Administration payments until a third contract is held by a contractor. In addition, other income earned by contractors (eg from charter work) must be taken into account when reviewing the proposed increases.

SUMMARY OF ADMINISTRATION COSTS

Attachment 1

Cost Element	Contract Offer \$	Description	Current Indexed amount \$	Basis
Office Expenses				
Electricity	\$32	20 c @ 4 hours per week @ 40 weeks pa (based on the ATO guidelines for home business)	\$33	Current amount allows for 20 cents per hour @ 4.125 hours at 40 weeks. 20 cents per hour is based on ATO Practice Statement PS LA 2001/6. "Based upon actual use or an established pattern of use the Commissioner will accept that a taxpayer has incurred 20 cents per hour for home office running expenses for heating, cooling, lighting and decline in value of furniture (desks, tables, chairs, cabinets and shelves). This rate is based on average energy costs and the value of common furniture items used in home offices."
Telephone Rental	\$320	Yearly rental charge for separate phone line	\$328	Current indexed rate is \$27.33 per month. Telstra HomeLine Complete monthly line rental is \$26.95 Telstra HomeLine Budget monthly line rental \$18.50.
Telephone Calls	\$115	10 calls per week @ 22 cents	\$118	Current indexed amount allows for: Telstra HomeLine Complete - 590 calls (11.3 per week) @ 22c Telstra HomeLine Budget - 393 calls (7.5 per week) @ 30c
Postage	\$50	1 stamp per week @ 95 cents	\$51	Current indexed amount allows for: 102 Small Letters @ \$0.50 51 Large Letters @ \$1.00
Stationery	\$50	With Internet usage stationery costs should be reduced	\$51	Initially PwC report was \$100 including computer consumables. This was split \$50, Stationery and \$50 Computer consumables. Current indexed amount is \$358.
Bank Fees	\$350	Based on PwC advice	\$358	Commonwealth Business Account - \$15 per month with 40 free transactions \$180 p.a , Commonwealth Standard Cheque Account - \$5 per month with no free transactions \$60 p.a. National Business Cheque Account - \$10 per month ATM and electronic transactions included in fee \$120 p.a, National Business Management Account - \$20 per month ATM and electronic transactions included in fee \$240 p.a. Westpac Business Cheque Account - \$5.50 per month with 16 free transactions \$66 p.a, Westpac Business Cheque Plus Account - \$11 per month with 40 free transactions \$132 p.a.
Computer	\$380	Based on average price of \$1900 over 5 years (includes printer, modem and office software)	\$389	Current indexed amount is \$389, over 5 years is \$1,945. Dell PC - equipment includes MS Works, MS Office, Printer and Modem \$1,868.90. Arrow Burner Special - includes MS Office, Viruscan and Internet Security, Printer and Modem \$1,755
Computer Operating Costs	\$206	Average cost of cartridges/toners and purchase of accounting software package every 4 – 5 years	\$211	Current indexed amount is \$211, over 4 years is \$844. Harris Technology - MYOB Business Basics RRP \$99 would allow for \$186.25 p.a for toner, paper etc QuickBooks Lite - First Business RRP \$199 would allow for \$161.25 p.a for toner, paper etc.
Internet Access	\$207	Based on Iprimus rate of \$17.25/month for 15 hours access/month	\$212	Current indexed amount is \$212. Iprimus Casual Dialup Plans Family Select \$16.25 per month for 20 hours (\$195) Iprimus Prepaid Dialup \$17.25 for 15 hours or 2 months access (\$207). Telstra Internet Regular Plan \$15.95 per month for 7 hours (\$191.40).
Bookkeeping Fees	\$500	PwC Report - "Independent Analysis and Benchmarking of the Proposed Composite Rate Model as the Basis for Remuneration of School Bus Contractors - January 2002"	\$512	DOCEP Clerks (Accountants' Employees) Award 38 hr week - Casual Rate for Adult Worker over 25 years of age is \$17.10. Current indexed amount is \$512 which allows for 29.94 hours @ \$17.10 = \$511.97
Accounting Fees	\$2,500	Based on PwC report. Accounting Fees - (Accountant and GST Compliance). Assessment of 40 hours of professional time per year at average rate of \$60 to \$65/hr	\$2,560	Current indexed amount allows for 40 hours professional time at average rate of \$64 hr = \$2,560 Current indexed amount is \$766.
Clerical Wages	\$748	Based on PwC report. Payment of bills, banking, correspondence, staff appraisals. Based on 44 hours @ 17/hr	\$766	DOCEP Clerks (Accountants' Employees) Award 38 hr week - Casual Rate for Adult Worker over 25 years of age is \$17.10. Hence, the current indexed amount allows for 44.79 hours @ \$17.10 = \$765.90
Total Office Expenses	\$5,458		\$5,589	
Vehicle Maintenance				
Bus Cleaning Products	\$318	Cleaning products for mainstream: cleaning agents, brooms, buckets, chamois, polish, gloves	\$326	Covers cleaning products for mainstream: cleaning agents, brooms, buckets, chamois, polish, gloves
Bus Cleaning Time	\$1,360	2 hours per week @ \$17 (for 40 weeks)	\$1,392	Current indexed amount is \$1,392. DOCEP Cleaners and Caretakers Award 38 hr week - Casual Rate for Adult Worker \$15.24. Hence the current indexed amount allows for 2.28hrs @ \$15.24 at 40 weeks = \$1,390. If using DOCEP Clerks Award of \$17.10 the current indexed amount allows for 2.03hrs @ \$17.10 at 40 weeks = \$1,389
Bus Repairs & Maintenance	\$204	12 hours @ \$17	\$209	Current indexed amount is \$209. This allows for 12 hours @ \$17.10 = \$205.20
Bus Inspections	\$34	2 hours inspection time @ \$17	\$35	Current indexed amount is \$35. This allows for 2 hours inspection time at \$17.10 per hour = \$34.20.
Total Vehicle Maintenance	\$1,916		\$1,962	
Other Contract Duties				
Meetings	\$68	4 meetings @ \$17	\$69	Current indexed amount is \$69, This allows for 4 meetings @ \$17.10 = \$68.40
Total Other Contract Duties	\$68		\$69	
Total	\$7,500		\$7,620	
Education Support Duties				
Additional Cleaning Time	\$1,360	2 hours per week @ \$17 (for 40 weeks)	\$1,382	Current indexed amount is \$1,382. DOCEP Cleaners and Caretakers Award 38 hr week - Casual Rate for Adult Worker \$15.24. Hence the current amount allows for 2.26 hours @ \$15.24 hr at 40 weeks
Bus Hoist Services	\$255	3 hours waiting time plus 2 hours travel time for (3) services @ \$17	\$259	Current indexed amount is \$259. This allows for 3 services of 5 hours @ \$17.10 = \$256.50
Additional Meetings	\$170	10 meetings @ \$17	\$173	Current indexed amount is \$173. This allows for 10 meetings @ \$17.10 = \$171
Additional Cleaning Products	\$315	Additional cleaning products: disinfectant, deodorant, tissues, wet wipes, sick bags, kitty litter	\$320	Covers additional cleaning products: disinfectant, deodorant, tissues, wet wipes, sick bags, kitty litter
	\$2,100		\$2,134	
Total	\$9,600		\$9,754	

MINIMUM HOURS PROFILE SUMMARY - MARCH 2005				
Contractors	Number	Total Contracts Held	Contracts where Service hours are < Min 4 hrs	%
with 1 contract	274	274	119	43.43%
with 2 contracts	79	158	60	37.97%
with 3 contracts	25	75	34	45.33%
with 4 contracts	13	52	25	48.08%
with 5 contracts	4	20	9	45.00%
with 8 contracts	2	16	6	37.50%
with 10 contracts	1	10	7	70.00%
with 13 contracts	1	13	10	76.92%
with 14 contracts	2	28	18	64.29%
with 15 contracts	1	15	7	46.67%
with 41 contracts	1	41	18	43.90%
	403	702	313	44.59%

Attachment 3

SUMMARY OF ADMINISTRATION COSTS

Cost Element	<u>PWC Report</u>	<u>Contract Offer</u> \$	<u>Current Indexed amount</u>	<u>Transport Forum Proposal</u> \$
<i>Office Expenses</i>				
Electricity	\$150	\$32	\$33	\$100
Telephone Rental	\$32	\$320	\$328	\$100
Telephone Calls	\$115	\$115	\$118	\$320
Postage	\$50	\$50	\$51	\$80
Stationery	\$100	\$50	\$51	\$100
Bank Fees	\$0	\$350	\$358	\$500
Computer Rental	\$700	\$380	\$389	\$902
Computer Operating Costs	\$306	\$206	\$211	\$240
Internet Access	\$240	\$207	\$212	\$350
Bookkeeping Fees	\$500	\$500	\$512	\$500
Accounting Fees	\$2,500	\$2,500	\$2,560	\$2,500
Clerical Wages	\$748	\$748	\$766	\$1,225
Fax line rental	\$0	\$0	\$0	\$420
Computer Line rental	\$0	\$0	\$0	\$420
Contract Administration	\$0	\$0	\$0	\$1,225
Total Office Expenses	\$5,441	\$5,458	\$5,589	\$8,982
<i>Vehicle Maintenance</i>				
Bus Cleaning Products	\$793	\$318	\$326	\$320
Bus Cleaning Time	\$1,020 / \$1,360	\$1,360	\$1,392	\$2,940
Bus Repairs & Maintenance	\$204	\$204	\$209	\$220
Bus Inspections	\$0	\$34	\$35	\$49
Organisation Fees	\$0	\$0	\$0	\$260
First Aid Fees	\$0	\$0	\$0	\$60
Attending AGM & Industry Meetings	\$0	\$0	\$0	\$390
Total Vehicle Maintenance	\$2,017 / \$2,357	\$1,916	\$1,962	\$4,239
<i>Other Contract Duties</i>				
Meetings	\$68	\$68	\$69	\$98
Total Other Contract Duties	\$68	\$68	\$69	\$98
	\$7,526 / \$7,866	\$7,442	\$7,620	\$13,319
TOTAL - MAINSTREAM	\$7,526 / \$7,866	\$7,500	\$7,620	\$13,319
<i>Education Support Duties</i>				
Additional Cleaning Time	\$0	\$1,360	\$1,382	\$1,960
Bus Hoist Services	\$255	\$255	\$259	\$367
Additional Meetings	\$170	\$170	\$173	\$245
Additional Cleaning Products	\$0	\$315	\$320	\$320
	\$425	\$2,100	\$2,134	\$2,892
	\$7,951 / \$8,291	\$9,542	\$9,754	\$16,211
TOTAL - EDUCATION SUPPORT	\$7,951 / \$8,291	\$9,600	\$9,754	\$16,211