

RESPONSE TO ISSUE NOTIFICATION

COMPONENT: GARAGING

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

Garaging

Issue Notification

The Issue Notification lodged by Transport Forum sought continuation of, and increases to, the existing Garaging allowance.

- For 'Home' garaging the increase was from \$430 to \$1,965 pa (\$2.27 per school day to \$10.40) based on a the average cost for a fully enclosed Colourbond shed (13 x 4 x 4.5) with reinforced concrete floor, power and water.
- Depot storage was to be paid based on figures supplied by the contractor – example provided indicated \$3,774 pa per bus.
- Offsite storage was to be based on being paid the \$1,965 pa plus any excess to meet actual costs.

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

The Garaging component is currently paid on contracts where it is indicated that the vehicle is garaged in a partial or fully enclosed structure, a depot, or offsite from the contractor's property in a compound.

Prior to the introduction of the new remuneration model a Working Party (responsible for addressing the various composite rate components) initially agreed on values to be reimbursed to contractors for Garaging, but subsequently reached a point of impasse after discussion on how improved resale values as a result of garaging could affect residual values for Depreciation.

With the introduction of the Composite Rate Model (CRM) the Minister advised that, as the contract did not specify that garaging was a requirement, the allowance for this component was no longer valid. However, so as not to disadvantage any contractor who may have made an investment in a garage for the purpose of storing the school bus, the Minister advised that the existing Garaging allowance would continue for a further 5 years – based on an assumption that the continuance for this period would achieve this.

It was the Minister's intention that any change to the Garaging allowance would be dealt with as part of the 2005 review.

Current Remuneration for the Component

The current (indexed) remuneration values for Garaging are:

- Partial or Fully Enclosed Garage \$430 (includes Depot)
- Offsite \$430
- No Garage \$0

Particulars of Response

The provision of a garage is not required by the contract and is not relevant to the provision of a school bus service. The Garaging Component was preserved in the contract on the basis that the continuance of its existence would be reviewed in 2005.

The Authority has not changed its view that garaging is not a required specification for the performance of a school bus service and, as the Contract Principal, does not want to pay for an item which is not required, not desired, and not specified.

However, it may be appropriate to consider those cases where a contractor is required to lease some land space (but not garaging) in order to park their bus, where they either do not have sufficient space on their own property or where such an arrangement is required by Local Government regulations. The Authority considers that any payment for a piece of land to park the bus, on a lease type basis, would require some evidence that the school bus contractor was definitely making such payment and the land was owned by a genuine third party.

In the situation where a contractor is reimbursed for leasing a piece of land for storing the vehicle, other income earned such as charter work must be taken into account when considering this option.