

RESPONSE TO ISSUE NOTIFICATION

COMPONENT: REPAIRS & MAINTENANCE

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

Component

Repairs & Maintenance (R&M)

Issue Notification

The Issue Notification lodged by Transport Forum considered the following to be issues:

- Issue 1: A single rate across the board for each Class of bus should be used.
- Issue 2: Remuneration for the B and C Class buses is insufficient and should be increased in accordance with the spreadsheets attached to the Notice. Buses of Class A and D are satisfactorily compensated; however, the 400,000km figure should be used as the singular rate.
- Issue 3: Wheelchair vehicles (A, B and C) should have extra remuneration in accordance with figures provided.

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

Over the period 2001 to 2003, R&M was an issue of concern for both the Authority and the school bus industry. Both parties acknowledged that R&M was a key component of the proposed Composite Rate Model (CRM) contract; however, despite considerable discussion, common ground could not be established as to what was the most appropriate method of remunerating contractors for those costs associated with general servicing and on-going repairs sustained through typical service delivery.

Discussions were based on three alternative models for the recovery of R&M-related expenses that would reasonably result in a commercially acceptable result. These were:

- § Basing the CRM on manufacturers' recommended servicing and parts replacement
- § Using benchmarks obtained from suitable benchmarking partners
- § Using an average of 'real' costs established through data provided by an agreed representative sample of school bus contractors.

CRM Model

The initial CRM model was proposed by the school bus industry in response to the Sinclair Knight Merz Report (Shanahan Review). The elements considered relevant to R&M included servicing of buses and wheelchair hoist repairs and maintenance. Industry's evaluation of the cost element was based on a fixed rate per kilometre for bus of classes A, B and C (including Special Education Wheelchair buses). The rates suggested by industry were:

A Class Mainstream – 28.6198c/km

A Class Wheelchair Special Education – 30.4988c/km (inclusive of 1.87c/km for hoist repairs based on \$561/30,000 km)

B & C Mainstream – 31.31c/km

B Class Wheelchair Special Education – 37.8356c/km (inclusive of 1.87c/km for hoist repairs based on \$561/30,000 km – there were no C Class Wheelchair buses at this time.)

No costs were provided for D Class buses.

The Authority considered that the information provided by industry regarding repairs and maintenance to wheelchair hoists was unclear; however, it was understood that the amount of \$561/30,000km included both servicing and repairs.

The Authority's opinion was that recoupment of expenses should be based on manufacturers' recommendations as to the servicing and parts replacement requirements, which provided a verifiable and transparent base on which to establish what might be a fair commercial remuneration of the costs associated with R&M.

Individual servicing and repair costs were obtained from Hino and Mercedes. These, on average, reflected the 'known' costs as indicated in those companies' information systems. It was, however, the manufacturers' opinion that, although repairs are indicated at specific intervals, it would be unlikely that all contractors would undertake these repairs as their fleet data was essentially based on a fleet profile significantly more diverse than that of the school bus industry.

Through agreement with industry, servicing schedules and specific elements dealing with parts replacement were established, and agreed costings were obtained for each element. However, considerable difficulty was experienced in agreeing on the method of establishing precisely how costs should be applied to individual contracts. Initially, Industry sought agreement on a fixed kilometre approach: 400,000 for class A and 600,000km for classes B and C.

The Authority did not agree to this approach as it was considered inflexible and probably inequitable in terms of the range of types of service; specifically, that it 'ignored' those contractors who were required to travel in excess of the base figures whilst providing additional funding to those contractors who would not reach the baseline kilometres.

Benchmarking

A payment model based on benchmarking (using information from suitable benchmarking partners) would offer an accurate costing model provided benchmarking partners – if vehicles operating comparable route patterns in similar conditions could be found. From the Authority's inquiries, it appears it would be possible to benchmark against current operators in WA who have similar operating patterns; however, it was realised that the administration of such a system would be costly.

Sampling Method

It was realised that the most accurate method of establishing levels of reimbursement for R&M would be the use of a sampling methodology using actual servicing and repair costs in the various regions for each class of bus. As with benchmarking, this method was also considered likely to be costly to administer and the general belief was that information gathered may not achieve the quality of result necessary to ensure a commercially acceptable model.

Summary

The parties ultimately agreed that the most appropriate method was the recommended CRM method; however, there was still disagreement regarding the use of fixed kilometres as opposed to the recommended banding method. Agreement was eventually reached on the use of the CRM method, including the proposed banding solution as applied to 'whole of life' kilometres for each Class of bus. To ensure remuneration kept pace with expenses an annual indexation was applied using the Transportation Index for Perth of the Consumer Price Index (TIPCPI).

Current Remuneration for the Component

The current remuneration model is based on fleet profiling and manufacturers recommended servicing schedules and repair parts replacement obtained through warranty information. Evidence can be provided to show specific details of these costings. Costs for all associated elements are calculated in to a 'rate per Km' and applied in a sliding scale according to the projected 'whole of life' Km for each bus.

Attachment 1 shows the current Schedule of Rates for kilometre banding within each bus class. Note that where a buses 'whole of life' km are under the manufacturers recommended km based servicing intervals a fixed rate is applied to allow time based servicing i.e. two services per annum.

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Attachment 1 shows the current Schedule of Rates for kilometre banding within each bus Class. Note that where a buses 'whole of life' km are lower than the manufacturers recommended km based servicing intervals, a fixed rate is applied to allow time based servicing (ie two services per annum).

Particulars of Response

The first two issues raised by Transport Forum were:

Issue 1: A single rate across the board for each Class of bus should be used.

Issue 2: Remuneration for the B and C Class buses is insufficient and should be increased in accordance with the spreadsheets attached to the Notice. Buses of Class A and D are satisfactorily compensated; however, the 400,000km figure should be used as the singular rate.

Attachments 2 and 3 are the proposed replacement repair schedules suggested by Transport Forum.

The Authority does not consider that Transport Forum's Notice reveals any valid issue.

The suggestion that using a fixed rate model, where a single rate applies to all buses over a distance of 400,000 and 600,000 km for classes A, D and B, C respectively, is inconsistent with the averaging model of the CRM contract. Evidence can be provided to show the disparity between the 'actual' average costs incurred by a contractor as compared with the Transport Forum's proposed levels of remuneration.

The Authority rejects the application of limiting bus life to 400,000 and 600,000 km for classes A, D and B, C respectively. Currently bus life is determined in years and the application of the suggested method would significantly increase fleet replacement costs.

It is the Authority's position that the current method and level of remuneration is appropriate. Currently, where deficiencies are identified action is taken to ensure remuneration is reviewed as to fairness and financial viability. For example, due to Transport Forum's recent claims that Class C bus operators were experiencing significant difficulties meeting expenses under current levels of service payments, the Authority initiated an independent review of service payments to establish suitability and quantum.

Transport Forum also stated in their Issue Notification that current remuneration for A and D Class buses is appropriate; however, the suggestion that a fixed 400,000 km life of bus should apply seems to be inconsistent with that position.

The Authority does not support any claims against expenses related to buses which exceed the required School Bus Specifications.

The Authority does not agree with Transport Forum's claim that remuneration should be provided for vehicles with automatic transmissions. Under the terms and conditions of the CRM contract it clearly states that the 'Class Bus Price' is based on a bus with minimum specifications (eg manual transmission). Any purchase of an 'above grade' vehicle or unspecified (ie additional) accessories is at the contractor's discretion and hence the additional cost and expense is their responsibility.

The Authority contests the inclusion of freight charges against vehicle operating costs as an element of R&M. There is no evidence to suggest that each contractor would incur 'actual' freight costs of \$3,000 over the life of the bus.

Transport Forum is also seeking to include additional charges for bus hire. The Authority rejects this claim as clause 5.2 of the contract states that a bus used as a replacement of an 'approved' school bus must be provided at the contractor's sole cost and expense.

The Authority does not agree that the addition of an engine overhaul valued at \$18,000 and \$22,000 for B and C Class buses is appropriate under the CRM. Evidence can be provided that on average, buses of this size do not ordinarily require major engine overhauls prior to the 400,000 km and 600,000 km suggested by Transport Forum. It is not appropriate that contractors should be reimbursed for possible major repairs to a vehicle when the likelihood of a contractor ever incurring this expense is remote.

The Authority disputes the inclusion of servicing charges under the R&M Component because the CRM currently remunerates contractors for this element. Such additional servicing costs are tantamount to 'double dipping' and on that basis are considered unreasonable.

It is not in contention that a large number of contractors conduct charter work and gain additional income as a result. The Authority contends that the practice of supplementing income through charter work has a material effect on the costs of repairs and maintenance and should be reviewed. The Authority is of the opinion that any distance travelled in excess of the approved standard daily kilometres under the contract (ie any travel not related to school bus activities) should be accounted for on a repayment basis.

Notwithstanding the above, the Authority agrees that there may be a requirement to review the reimbursement of costs associated with vehicle body maintenance – other than repainting and rust removal.

With regard to the third and final issue put forward by Transport Forum:

Issue 3: Wheelchair vehicles (A, B and C) should have extra remuneration in accordance with figures provided.

The figures suggested by Transport Forum were:

For Education Support (wheelchair only) B and C Class buses, add the following:

3 services/year @\$161/service	\$483
Cost of parts:	
Limit switch/yr	\$164
Hydraulic switch/yr	\$136
Opening and closing system/yr	\$205
Annual Total	\$988
Total for 15 years	\$14,820
Add one replacement hoist (every 8/9 years)	\$15,700
Total R&M for Special B and C	<u>\$30,520</u>

From these results, Transport Forum suggested that:

- 5.09 c/km should be added to the Special B and C R&M
- 6.39 c/km should be added to the A Education Support (wheel chair only)

The Authority considers the rates suggested by Transport Forum for wheelchair expenses to be inaccurate. Information received from manufacturers suggests that the current rates applied to servicing and minor repairs are sufficient. Recent comparisons by the Authority of contractor expenses against servicing and repair costs confirmed that reimbursement is adequate if not more than actual cost. The Authority suggests that if the cost of major repairs or hoist replacement has had an effect on contractors it has, to date, been paid by the Authority on an invoice basis.