Inquiry on School Bus Operators' Charter Bus Operations

Submission

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Executive Summary

Transport Forum WA Inc (TFWA) is the peak industry body for road transport in Western Australia representing, amongst others, school bus and freight contractors and we welcome the opportunity to put a submission in to this enquiry.

In general terms, TFWA members undertake four types of charters:

- school based curriculum
- extra-curricula
- community, and
- commercial charters.

A large number of members are involved in extra curricula transport while only a very small portion undertakes regular commercial charters. Any change to the arrangement of orange school buses undertaking curriculum and extra curricula trips would be detrimental to the education of WA school children. Community based charters are viewed as a civic duty and remuneration is generally minimal.

School bus contractors provide a service to the Government of Western Australia and the Government pays for that service. Remuneration is based on the Composite Rate Model which is an average cost model. Under this model, many operators are seriously disadvantaged and require additional income to meet financing repayments.

Not all cost areas are captured under the CRM and not all elements have been bench marked therefore the CRM does not adequately remunerate all school bus contractors.

The orange school bus is paid for and owned by the contractor. The Government does provide straight line depreciation and partial costs however many items are not included in the cost recovery provided by Government.

The Return on Investment (ROI), the only profit within the school bus contract, is based on the Class Bus Price and set at 10.5% (set in mid 2003). The Government determined this rate due to the perceived minimal risk in the industry. The industry disputes this assumption. Most vehicles are under finance and a current competitive interest rate is 8 %. The financing of the bus is not recognised in the contract and, as a result, a ROI of 10.5% whilst financing can have serious cash flow implications.

The impact of school buses doing commercial charters is minimal due of the small number of contractors undertaking significant charter work. Charters by school buses would generally be at the lower end of the scale because of the standard vehicle being used devoid of the usual amenities and comfort expected in coaches. They also face significant competition from buses of a much lower standard.

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Background

School Bus Contractors provide transport to and from school for eligible students in Western Australia. For the provision of service, contractors are remunerated by the State Government under the Composite Rate Model (CRM). The CRM provides an average of some of the costs incurred by contractors and at best provides only partial remuneration. After many years of protracted negotiations, numerous reports and many reviews the CRM and new contract were implemented in 2004.

Towards the end of the nineties, TFWA and the Department of Transport started negotiations to change the Standard Rate Model (SRM) as this model of remuneration was flawed both from a Government and Industry point of view. TFWA developed the Minimum Rate Model (MRM) where minimum rates across the board would be paid with the addition of loadings for specific items. These included a Responsibility and Productivity Allowance as well as a loading for transporting children with special needs. The Industry believed that the MRM was appropriate as it rewarded productivity and recognized some efficiency. Booze Allen Hamilton was then commissioned by the Department of Transport to report on the whole school bus industry. Following this report, Tim Shanahan was contracted to look at the TFWA model as well as previous reports and to recommend a way forward. Mr. Shanahan coined the phrase Composite Rate Model (CRM). The Shanahan Report was about to be acted upon when a state election was called resulting in the Opposition coming to power. Then followed the Ernst and Young Report which was most favourable to the Industry and rejected by the Government, the PricewaterhouseCoopers Review and the formation of the Guise Task Force. The current CRM bears little resemblance to the MRM put forward by TFWA.

Under the CRM, a number of fixed and variable costs (elements) have been identified and an average of these costs is paid to the contractors. Not all elements have been identified and not all of those identified have been bench marked. The identified fixed element costs are compensated using an average figure and the variable elements, which are not benchmarked, are compensated on the average costs based on information provided by relevant sources.

CRM Elements are indexed each July (up and down) in accordance with a relevant index i.e. Transportation Group of CPI (Perth), Average Weekly Earnings, States and Territories (provided by ABS). In addition, each Element is reviewed on a three year cycle and if a decision cannot be reached between Government and the Industry, the Issues are referred to a Review Panel. This procedure was implemented in the beginning of 2005 and unfortunately, only three determinations have been handed down so far. There is still one Element from the 2005 review process to be examined and a decision is not likely in the near future. The process is extremely slow.

The Return on Investment (ROI) is the only fixed cost not reviewed annually. This is the only profit area of the contract and is on the capital cost of the school bus only. The ROI was set at 10.5% in mid 2003. The Contract allows Industry and the Public Transport Authority (PTA) to discuss whether the ROI should be altered, every second year commencing in December 2005. The first of these meetings was held in January 2006 resulting in the Government rapidly rejecting Industry claims for an increase.

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School Bus Charters

There are four types of charters undertaken by school bus operators

- Curriculum Charters – these relate to compulsory aspects of the curriculum such as senior school geography excursions.
- Extra Curricula Charters – including vacation and in – term swimming, education and field trips.
- Community Charters – such as blue light discos and Red Cross.
- Commercial Charters.

A recent email poll found that most TFWA members are not involved in frequent commercial charters. Some 80% are however, involved in curriculum based and extra curricula school transport. This has been the case for many years and in the past, schools were encouraged by the Education Department and district inspectors to use the orange school buses. Enclosure 1 details information from Mr. Frank Okely, Manager of the School Bus Division: Department of Transport -1996/97, about curriculum based charters and the exemption from TC plates. This position has not been rescinded. The school bus system is preferred to be used for curriculum based transport because:

- the orange school buses belong to a strict regime of inspections (twice per year) by authorized departmental inspectors
- the driver has all the qualifications and requirements (working with children clearance, fit and proper person, first aid, OSH training) which is actively policed by state authorities
- the buses are quite new in comparison to some commercial operators (the oldest school bus is 15 years old) and they are extremely well kept
- the children know the driver as he/she drives them to and from school twice a day
- the driver knows the children and any particular behavioural or health issues with students
- the school staff know the driver and are familiar with the orange bus system
- the driver usually comes from the community
- the bus is easily accessible, generally being garaged in close proximity to the education facility, and
- in the near future all school buses will be fitted with seat belts.

Any dilution to the above standards may put the safety of children at risk – a risk that cannot afford to be taken. These transport standards should be adopted by all government schools requiring children to be transported.

The orange school bus system provides transport for children with special needs and this includes children in wheelchairs. These vehicles also carry a bus aide who has special skills including senior first aid. School outings for special needs children in wheelchairs require buses fitted with hoists with the required strapping and anchor points and the only bus that can provide multiple carriages is the orange school bus. These buses transport up to 11 wheelchairs and can carry a mix of special needs children. There are no other buses in the community (including charter companies) that have this ability and therefore, curriculum based activities for children with special needs can only be carried out by an orange school bus. If an orange bus cannot be used, these children will miss out on activities that able bodied children take for granted. This would be a travesty of justice and run counter to the rights of students with disabilities.

The school bus system has been providing schools with an efficient, safe, flexible and affordable transport requirement for many years and this should continue. Any attempt to change this would result in many operators refusing to undertake school based curriculum activities which would have serious ramifications for education facilities and in some cases detrimental as some schools may abandon extra curricula activities because of cost and inefficiencies. Therefore, extra curricula activities undertaken by the orange school bus system must be quarantined from this enquiry. Furthermore, schools should be strongly encouraged to use the orange school bus system for any of their curriculum based transport needs.

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Service Provision

A school bus contractor provides a service to the Government and the Government pays for that service. The bus is owned and operated by the contractor and not by the Government. The cost of the bus is not fully remunerated. It is based on an average of known and estimated costs. There may be some winners but there are certainly losers as well. Elements such as insurance and ROI are based on an average class bus price. This immediately disadvantages those who wish to purchase a more expensive vehicle or go to a more expensive body builder which is the most expensive item in purchasing a medium to large bus. The business of a contractor is the provision of service where the asset, the bus, is provided at a cost of anywhere up to $400,000 up front by the contractor. This is different from other government contracts for the provision of public transport where the government owns the bus and the contractor operates the service.

CRM Cost Components and Adequate Remuneration

The CRM is an average cost model and clearly one figure does not fit all circumstances. Some of the Elements such as license third party, superannuation and workers compensation are fully compensated however the other sixteen items are averaged out. An average system will advantage some operators and greatly disadvantage others.

The school bus fleet in WA consists of many different class vehicles (A, B, C and D) and depending on seating capacities buses are classified into these class types. Within the same class range there is a wide range of vehicles. For example within the C Class vehicles, which has the largest seating capacity in the fleet, there are major variations:

- Seating capacity ranges from 51 to 61 adult seats
- There is a wide range of class brands i.e. Mercedes, Scania, Hino and Iveco
- There are different bodies
- A huge range of horsepower (from 176 through to 300)
- Some are Euro 3 compliant

In addition, these vehicles operate in different geographical regions of WA from Kununurra in the far north, through the Goldfields to Esperance in the south, which makes averaging extremely difficult resulting in many operators being disadvantaged.

Currently, PTA remunerate contractors in the wages component using one average speed for all classes across the state and uses a single value per class of vehicle to remunerate the fuel costs. Over the past two years, PTA contracted an independent company Data Analysis Australia (DAA) to collect data to benchmark average speed and fuel consumption. DAA figures demonstrated a huge variation in average speeds and fuel consumption i.e. with the same class of bus, there was a variation of 64% between operators in the north of the state compared with those operating in the mid west. Average speed figures demonstrated the same variations. Such a diverse range of inputs, which reflects the diversity in the fleet, creates an almost impossible task of trying to find an average – an average, which is almost certain to disadvantage a lot of contractors.

Fuel prices are calculated by using the Fuel Pricewatch Perth figure. WA is broken into nine regions (Perth/Peel being one of the regions) and contractors in the different regions receive a regional uplift determined by the Regional Development Council. A cursory glance at the figures last week showed that the Kimberley price was nearly 15% more than the Perth price. The regional uplift in the Kimberley region is only 10.3% and this figure (Perth price plus 10.3%) is used for fuel calculation purposes in the Kimberley. Contractors can apply to PTA for a fuel top up if the price paid exceeds by more than three cents the rate that PTA pays. This requires an application with significant evidence and only at the end of the calendar year. This delay, when combined with the average fuel consumption, can cause serious cash flow implications and ultimately disadvantage contractors. Ultimately this means that some contractors are subsidizing the Government by up to three cents for every litre used in transporting school children.

As mentioned previously, PTA does not cover all cost elements. An important cost element is Public Liability (Products and General) Insurance. The Industry believes that this is important and most contractors take out at least $10,000,000 cover. However, PTA does not remunerate this as they accept the risk as being minimal citing the excellent safety record in the industry and therefore, any action is unlikely.

For remuneration purposes PTA use either the School Bus Price which is defined as the new purchase price of a standard vehicle of the same model as the school bus or the Class Bus price which is defined as the average of the School Bus Prices for each of the models of vehicles approved by PTA. Depreciation is remunerated on School bus price using the straight line method with a residual of either 10% or 5% depending on the size of the vehicle. In 1992, a TFWA member purchased a new Mercedes at a cost of $140,000. He has just purchased the current model at a cost of $327,000. Even if this member had saved the remuneration money, $187,000 would still have to be borrowed to cover the new cost of the vehicle.

Buses are, for a range of reasons, significantly more expensive for the contractor than is recognised within the contract.

- Most contractors include accessories, some essential while others are highly desirable, with their purchase. These items include bullbars, window tinting, blinds, rust proofing and mud flaps. PTA currently pay a small allowance towards these items but those contractors purchasing the larger buses can be up to $8,000 out of pocket.
- Air-conditioning in school buses is used for comfort in hot weather but it also has a primary role in defrosting the bus windows in winter which is a major safety issue that is not recognised by PTA. If an operator installs an air–conditioning unit in a “non-air-conditioning zone” then this cost of up to $35,000 is not recognized by PTA.
- The trend with the purchase of new buses is to purchase vehicles with automatic transmissions. This can cost up to $25,000 extra. PTA does not recognize automatic transmissions and therefore, the contractor is not recompensed for this item.

The contractor also then misses out on the depreciation of these items over the life of the bus. The Class Bus price is used to determine the insurance matrix. Over recent years, overseas bodies have been introduced into the fleet and these are considerably less than the Australian made body. This reduces the Class Bus Price forcing down the insurance payments and therefore this needs topping up by the contractor.

Under the CRM, average figures are generally used for remuneration. In some cases this seriously disadvantages contractors. The cost components of the CRM only provide partial remuneration to the contractor.

The cost of the bus is partially remunerated as PTA only remunerate up to certain amount and only for a standard vehicle. Extra costs and depreciation of additional items are borne by the contractor. In addition, if a contractor sells a bus for more than the residual amount specified in the depreciation component at the time of the sale, the contractor must pay the PTA lesser of (a) 50 % of the difference, or (b) 5 or 10 per cent of the School Bus Price, even though that vehicle is owned by the contractor.

Return on Investment

The Minister directed in mid 2003 that an ROI of 10.5% be used and it applies only to the school bus. The ROI uses the Class Bus Price for calculation and as previously stated, overseas bodies tend to force this price down. Additional items such as automatic transmissions, air conditioning (if not in a relevant zone) and extras are not included in the calculation of ROI. At the time the ROI was set at 10.5%, the Industry argued strenuously for an increased margin. Unfortunately the Minister agreed with PwC arguments, in particular about the minimal risk involved in school bus operations and therefore rejected Industry arguments. The Minister did agree however, that there should be an ability to talk about the ROI. The Industry presented a submission at the end of 2005 but the arguments were again rejected.

Discussion with bus suppliers and our preferred financier suggests that most TFWA members who have purchased buses over the past few years have borrowed all or part of the cost of acquisition. Normally, finance is taken out for five years with a 40 – 50% balloon which is then refinanced for a further five years. Currently a competitive interest rate is 8% and over a ten year period on a loan of $325,000 the interest payments alone would amount to $132,340.75. This assumes that the interest rate will stay at 8% until 2012, which is highly unlikely given that interest rates have risen four times since 2003 by a total of 1%. Interest payments are not considered in the CRM or the ROI calculation and with a ROI of 10.5% and an interest rate of 8%, managing finances is a major issue.

In 2005, the Minister commissioned Dr Martin West from the Planning and Transport Research Centre through Curtin University to examine costs associated with running a larger school bus (Class C). One of his recommendations in part stated "The PTA considers the possibility of 'loading' the ROI payment, increasing it by 5% over the first five years of a bus's life, from 10.5% to 15.5% of the value of the new bus." This was not acted upon as Dr West could not guarantee the confidence level of his report due to the poor returns from operators. Whilst the Industry did not agree entirely with Dr West's report, there was general agreement that during the financing period of the bus a 10.5% ROI was insufficient.

The ROI is worked out only on the Class Bus Price, however many operators have garaging facilities and plant and equipment (compressors, tools and wash down facilities) and these are not taken into consideration as assets. No allowance is paid for water, electricity, repairs and maintenance and depreciation of this equipment. PTA pay an annual allowance (indexed each year in July) of $464 per annum for garaging. Additional costs for the provision of a garage, plant and equipment and depreciation of this equipment is borne by the contractor.

Adverse Impact on Charter Operations by School Buses

School bus operators live and provide services in such diverse rural towns in WA including (and not limited to) Lake King, Fitzroy Crossing, Bridgetown, Wangkatjunka and Yuna. There are no commercial operators in these places and none within reasonable range and therefore, the orange school bus is the only suitable vehicle to provide a service. In light of this, it is considered that the impact on charter operations by school buses would be minimal. Furthermore, Enclosure 1 details the exemption of school bus operators of having TC Number Plates.

A recent poll of TFWA Members indicates that:

- Up to 80% of members carry out curriculum based or extra curricula trips
- Up to 45% carry out community based charters
- Up to 40% undertake some commercial charters but this is generally limited to one or two per year
- It is estimated that up to 1% of members undertake frequent charters

Community Based Charters include trips for the Cancer Association, Blue Light Discos and community based sporting clubs. Remuneration is generally minimal and in most cases, the service is donated as a community service. Due to the isolation of some of the towns, these trips would not have been undertaken if commercial charter rates were charged. For those undertaking irregular charter work a temporary charter license is applied for and the relevant application fee paid.

Operators undertaking regular charter work pay an additional $5.70 per seat per annum to the Department of Planning and Infrastructure to have TC number plates. Discussion with some of these operators suggest that due to high repayments for the asset (interest rate of 8 % on up to $325,000), they have to undertake additional work to make the repayments as 10.5% ROI is woefully inadequate. They also point out that they have a high cost asset that is only being utilized for 190 days a year and therefore they are seeking a better return for their investment. As a school bus operator contractors cannot grow their business as PTA tell them the class of bus including specifications, the route, when they will operate, what children to pick up and the number of kilometers that they will drive in the performance of their contract. It does not matter how efficient they might be, they receive no recognition for this and no extra remuneration.

Competitive Disadvantages

In some of the urban fringes of Perth, charter bus companies have purchased a number of old buses (including old MTT buses) some being more than 25 years old. The cost of these units is between six and seven thousand dollars. These companies are providing bus services in different areas and indeed provide some schools with transport because they can do this at a much cheaper rate. In these cases, charter buses are impacting on the orange school bus charters.

Generally speaking, school bus charters cater to the lower end of the market. The vehicles are standard vehicles, painted ready-mix orange and green, standard bench seats suitable for children and short distances only and in some cases not air conditioned. Therefore, it is difficult for a school bus operator to compete in other markets. Added to this, a school bus is only available from 9.30am – 2.30 pm on 190 days of the year. Most people seeking a charter would find this most inconvenient and therefore would prefer a commercial coach operator. Opportunities for school bus operators are limited as customers often demand a more deluxe service.

Recommendations

1. In view of the service already being provided to schools for curriculum and extra curricula activities combined with the safety record of the industry, it is recommended that these school based activities be exempt from this enquiry.

2. The transport standards detailed on page 5 of this submission should be adopted as minimum standards for all government schools requiring transport for curriculum and extra curricula activities.

3. As school buses form an integral part of the rural community and the transportation requirements within the community, it is recommended that community based transport be considered separately from commercial charter operations.

4. It is further recommended that school buses are not discouraged from doing commercial charters as they provide transportation in cases where there is an overload, such as the Leeuwin Festival, or there is some distance from the nearest charter company.

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Enclosure 1.

September RoadRunner
A MESSAGE ABOUT CHARTER LICENCES AND TC PLATES

Frank Okely (Manager, Passenger Transport) has provided the following information (in italics) to assist school bus operators better understand their obligations in relation to charter licences.

1. School bus operators undertaking charter work must hold the appropriate licence.
"Any omnibus that is used to carry passengers for hire and reward is required to be licensed under the Transport Co-ordination Act (unless specifically exempted)."

2. School bus operators do not have an across the board exemption for charter work.
"A vehicle that is being used for the purpose of the carriage of children and supervisors on behalf of the Minister for Education is exempt from the provisions of the Act, only in relation to work involving taking children to and from school and on curriculum related excursions."

The Government Gazette, dated 9 August 1985, states that school buses are exempt under the Transport (Exemptions) Order 1985……
18. (1) A vehicle that is being used for the purposes of the carriage of children and supervisors for or on behalf of the Minister for Education of the State on routes or at times when there is no regular transport service available for such carriage.

Thus, if there is no regular transport services in your area, which a school can use as an alternative to hiring a bus, you do not need a charter licence. Note: this exemption would not apply to non-school groups such as the bowling club or the football club.

3. TC plates are not required
"It has not been the practice for contracted school buses (essentially the orange & green buses) to carry TC plates. If such vehicles are licensed under the provisions of the Transport Co-ordination Act for commercial work (i.e. undertaking charter work outside of the school curriculum) operators should obtain a charter licence available at a cost of $4.25 per adult seat per year. By way of example, an annual charter licence for a 20 adult seat bus costs 20 x $4.25 = $85.00. The licence is not displayed on the vehicle but is kept as part of your office records."

Conclusion
To sum up:
If school bus operators undertake commercial work where there already exists a regular transport service then they require, as a minimum, a charter licence, but they are not required to be TC plated.
If there is no regular transport service in your area you do not need a charter licence nor TC plates providing you are only carrying school groups on curriculum related matters.

For further information contact the Associations (08 9322 60770) or Frank Okely at Transport (08 9320 9754)