

# **Appendix 13**

## **Analysis of School Bus Contracts**

# **Analysis of Current School Bus Contract Payments**

## **Background**

1. The Tasmanian Bus Association has made representations to Government on the inadequate funding levels of the existing school bus operator contracts. Their concerns have resulted in the development of the Bus Cost Model, which began in 2000/01.
2. As a starting point, the Review has assessed contracts against the existing Travis Morgan funding benchmark using data for 2004. A summary of the Travers Morgan benchmark components is provided in appendix 1 of this attachment.
3. This analysis highlighted that there are 225 operators using 461 buses to operate 486 contracts. The maximum number of contracts held by a single operator is 23 and 84% of operators have 3 or less contracts.
4. The 461 buses in the school bus fleet have an average age of 21.8 years. 73.5% of the fleet is in excess of the maximum age proposed by Travers Morgan (TM). Their benchmark is based around a small bus being purchased new and used for 10 years and medium, large and extra large buses being purchased at 10 years of age and used until they are 20 years old.
5. In the current school bus fleet 76% of the small buses exceed the TM maximum age. For medium, large and extra large buses the percentage of buses exceeding 20 years is 57%, 76% and 76% respectively.

## **Assessment of Current Contracts**

6. Payments to operators for 2004 were approximately \$20.3 million (GST incl). As the Department receives a rebate on GST payments, the cost of these contracts net of GST is \$19.3 million. Applying the TM benchmark to these 286 contracts would indicate that the payment should be \$23.5 million (GST incl).
7. This analysis masks the fact that there is a large variability in the individual payments to operators relative to the TM benchmark. Some operators receive payments well in excess of the TM rate, while others are well below the rate. The majority of operators are also receiving a contribution towards bus capital, but are using buses in excess of the TM benchmark maximum age.
8. There are 106 contracts that are paid above the TM benchmark. These contractors receive, in aggregate, \$754,000 above the TM benchmark.
9. There are 254 contracts that receive a contribution towards bus capital who use a bus which is in excess of the TM benchmark age. The aggregate payment to these operators as a contribution towards bus capital is \$1.815 million. Of the 106 contracts receiving above the TM benchmark, 78 use a bus in excess of the maximum TM benchmark age.

10. Of the remaining contracts there are 101 using a bus within the TM benchmark age but are not receiving the full TM capital contribution. The aggregate shortfall is \$754,000. There are also 144 contracts receive a payment that is below the TM benchmark rate, net of the capital contribution. 41 of these contracts use a bus within the TM benchmark age. The aggregate shortfall in payments to these operators relative the TM benchmark rate is \$1.12 million.
11. Adjusting the TM benchmark payment to take account of these factors indicates that the aggregate amount currently being paid to operators is approximately \$1.37 million below the level required under the TM benchmark rate for the services being provided.
12. The distribution of contract payments relative to the TM benchmark is shown in the table below.

**Table A13.1: Distribution of School Bus Contract Payments Relative to the Travers Morgan Cost Benchmark**

% of TM Benchmark Rate	No Adjustments for the Age of Bus Used		Adjusting Payments for the Age of Bus Used	
	Number of Contracts	% of Total	Number of Contracts	% of Total
<25%	3	0.6%	3	0.6
25% to 50%	22	4.5%	22	4.5
50% to 75%	93	19.1%	90	18.5%
75% to 90%	156	32.1%	109	22.4%
90% to 100%	106	21.8%	69	19.2%
100% to 110%	43	8.8%	43	8.8%
110% to 125%	40	8.2%	40	8.2%
125% to 150%	21	4.3%	72	14.8%
150%+	2	0.4%	38	7.8%
<b>Total Contracts</b>	<b>486</b>	<b>100.00%</b>	<b>486</b>	<b>100.00%</b>

13. This table clearly highlights the extensive range in operator payments under the current contracting system and the impact of bus age on the distribution of returns relative to the Travers Morgan benchmark.

## Issues to be Addressed

14. Three key issues fall out of this analysis.
  - The first is the need to remove the variability in operator payments and introduce improved equity between operators in terms of the payments they receive.
  - Secondly, there is a need to introduce incentives into the payment system that do not reward operators for using buses in excess of an agreed age range.
  - Thirdly, the aggregate level of contact payment is inadequate relative to the TM benchmark.

# Attachment 1: Explanatory Notes for the Travers Morgan cost benchmark

## TRAVERS MORGAN BENCHMARK COST CATEGORIES

### 1) Contract Variables

The Travers Morgan benchmark uses the following contract information in its calculations:

- Bus size
- Loaded kilometres
- Unloaded kilometres
- School Bus Index rate
- Number of school days

### 2) Cost Assumptions

The cost assumptions used by the Travers Morgan benchmark are:

- Drivers wage rate \$12.167 per hour
- Average travel speed 25 km per hour
- Driver positioning allowance \$627.36 per annum
- Minimum hours of engagement 2 hours per day
- Hours of work are rounded up to the nearest 15 minutes
- Bus running costs

Bus Size	Cost per Loaded Kilometre	Cost per Unloaded Kilometres
Small	37.5 cents	37.5 cents
Medium	55.1 cents	43.9 cents
Large	63.0 cents	43.9 cents
Extra Large	70.8 cents	43.9 cents

- Bus operating costs

Bus Size	Operating costs per annum
Small	\$3,951.10
Medium	\$4,691.39
Large	\$4,938.57
Extra Large	\$5,555.89

- Capital cost allowance

Bus Size	Capital Cost per annum
Small	\$7,082.88
Medium	\$6,365.18
Large	\$6,365.18
Extra Large	\$7,160.67

These figures are indexed using the School Bus Index.