Department of Transport and Main Roads

Vehicle Policy

for timetabled *qconnect* regional urban bus services

October 2014

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Queensland Government

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Purpose

The purpose of this document is to outline the policy related to the ownership, acquisition, replacement and payment for vehicles used in the provision of *qconnect* services under service contracts (subsequent to the signing of the 3G contracts).

Background

The Department of Transport and Main Roads is responsible for the development and provision of high quality, responsive public transport services for Queenslanders.

This is achieved in partnership with operators of public transport services through a regime of service contracts.

The department wishes to ensure that services provided under a contract are as attractive as possible to the travelling public. This is to increase the usage of public transport and to decrease reliance on private motor vehicles where possible.

In order to support the ongoing provision of high quality public passenger bus services, the department provides funding to operators of contracted services. Bus utilisation costs are included in this funding support. This is done in recognition of the need to develop and maintain a high quality fleet which accommodates changing demographics, environmental and regulatory demands.

Scope

This document outlines the department's position in relation to the acquisition, usage, replacement and funding of fleet vehicles used to provide timetabled *qconnect* regional urban bus services.

Relevant legislation

The *Transport Operations (Passenger Transport) Act 1994* provides for the entering into of service contracts with bus operators.

The Act and its subordinate legislation limits the age of buses used to carry passengers. Broadly, it allows the use of heavy buses for a maximum period of 25 years (unless an extension is approved by the Chief Executive).

General principles

The following general principles apply to the *qconnect* bus fleet funded through the *qconnect* Service Contract:

- Vehicles remain the operator's asset.
- The operator is responsible for keeping the asset well maintained.
- It is the operator's responsibility to plan and manage its fleet to ensure conformance with contractual and legislative requirements.
- The vehicles must be insured at all times for an amount that would enable the replacement of the vehicle (if necessary) with a vehicle of comparable standard and capacity.

Vehicle Age

The maximum age of a bus vehicle used for *qconnect* urban services is outlines in the *Transport Operations (Passenger Transport) Standard 2010 (TOPTS Schedule 1, part 2)*. TOPTS prescribes the maximum age for bus vehicles as either:

- *25 years, or*
- *30 years (if a 5 year service life extension has been granted under schedule 2 of the TOPTS standard)*

However, it is the department's intention to target a maximum age of 18 years for a vehicle used for these services.

When calculating the age of the vehicle for any purpose in relation to this policy, the age shall be calculated in accordance with Section 5, Schedule 1 of the *Transport Operations (Passenger Transport) Standard 2010.*

Unless otherwise stated, when determining the starting point for the calculation of any payment, depreciation schedule or any other purpose in this policy that requires determining the date that the bus was first registered, used, manufactured or constructed (the **'vehicle commencement''**) the date will be determined in accordance with Section 5, Schedule 1 of the *Transport Operations (Passenger Transport) Standard 2010.*

Vehicle Replacement Program

The service contract provides funding for vehicles over an 18 year period and it is expected that, on average, vehicles will be replaced around 18 years from vehicle commencement in line with the following principles:

- Operators are required to submit an indicative vehicle replacement schedule which, once agreed to by the state, will form the basis of an agreed replacement program over the life of the contract.
- The replacement program should be based on each standard rigid bus reaching at least a target replacement age of 18 years from the date of manufacture.
- As a general principle, the replacement program should provide for older buses to be replaced before younger buses.
- The replacement program will be used to determine the maximum replacement funding made available for the replacement of vehicles each year of the contract.
- While the vehicle replacement program is an indicative plan, it is expected that some vehicles that reach 18 years of age will remain mechanically and structurally sound, safe and economic to use. In these instances, vehicles that remain fit for use may be required to continue in operational service.
- Any bus which replaces an existing bus must not be older than the bus being replaced.
- The bus should have the same, or substantially the same, seating capacity as the replaced bus and be comparable in all other respects, unless otherwise agreed by the department.
- Replacement vehicles will, at a minimum, also be required to comply with any vehicle specifications issued by the department and applying at the time of purchase.
- Replacement vehicles will be required to meet vehicle standards applying in any policy, law, regulation or standard applying to bus vehicles at the time of purchase.
- The operator must, however, replace a bus before that bus exceeds the maximum age specified for buses in the relevant bus category in the *Transport Operations (Passenger Transport) Standard 2010.*

It is recognised that, in some cases, the safe and effective provision of the contracted services may require the agreement of a replacement program that departs from these principles and amendment of the replacement program from time to time. The department will review any submission made by the operator in relation to amendment of the replacement program.

The replacement program is indicative only. Prior to replacing a vehicle under the service contract, the operator shall submit an application for bus replacement in the manner and form required by the department as amended from time to time.

Requirement to purchase vehicles that meet specifications

Vehicles purchased as a replacement vehicle or a growth vehicle (that is, vehicles that are not replacing a vehicle that is proposed to be retired) are required to meet the specifications included in this policy that applies at the time the vehicle is ordered by the operator.

In addition to the specifications outlined in this policy, it is expected that growth vehicles should not be any older than 12 months old. Despite this principle, the department reserves the right to approve, on application, the acquisition of second hand buses. The funding for these vehicles will be calculated using the principles applied to existing vehicles at commencement of the contract.

Unless the department specifically outlines prohibited additional features (for example, seatbelts on urban buses may be a prohibited additional feature), an operator will be able to purchase a new vehicle at a higher specification than issued by the department at the operator's own cost.

Specification

Buses must be low-floor single deck vehicles, unless otherwise approved by the department. Buses must comply with:

- All Australian Design Rules applicable at the date of the vehicle's manufacture
- *Transport Operations (Passenger Transport) Act 1994*
- *Transport Operations (Passenger Transport) Regulation 2005*
- *Transport Operations (Passenger Transport) Standard 2010*, and
- Disability Standards for Accessible Public Transport Specified by the *Disability Discrimination Act 1992*.

In addition to these minimum requirements, buses purchased for use in these services should meet the specifications outlined in Table 1.

Ticketing equipment

A ticketing machine is to be provided in the bus. This ticketing machine must be able to record ticket sales and other relevant data required by the department in line with the requirements specified in the operator's service contract.

The ticketing machine and associated equipment is not included in the price cap of the bus. The value of depreciation of an **additional** ticketing machine installed on an additional vehicle (that is, not a replacement vehicle) will be included as an expense under bus overheads. The depreciation value will be determined by dividing the value of the additional ticketing machine by nine years to arrive at an annual depreciation expense amount. This value will be paid once annually on or after 1 January of each year following the purchase of the additional ticketing machine, to a maximum of the value of the purchase. This timing coincides with the annual indexation of operating costs on Schedule 4.

The cost of ticketing machines for **replacement** vehicles will be borne by the operator as the operating costs of a ticketing machine are assumed to be included in the bus overheads cost on Schedule 4 of the Urban bus contracts.

Livery

a) It is expected that all new vehicles will display partial branding as specified in the department's style guide, as a minimum. The cost of livery for a new vehicle should be included in the purchase price of the vehicle and, for the removal of doubt, included in the vehicle price cap.

b) If a vehicle:

    1. is not new at the time of introduction into the operator's fleet; and
    2. is not painted in livery; and
    3. was not in the operator's fleet at the date of first signing of the contract

    the operator is required to make the vehicle consistent with the style guide. The cost of livery, subject to the department's approval, is at the operator's expense.

c) The cost of complying with livery for a bus being refurbished or repaired is at the operator's expense.

Table 1: Bus Vehicle Standard Specifications and Requirements

Chassis	12.5m rigid unless the operator can demonstrate that the operating conditions and/or passenger demand warrants a different vehicle. Approval for an alternative vehicle is at the discretion of the Chief Executive.
Transmission	The transmission must be fully automatic, fitted with an integrated retarder.
Engine	The vehicle engine must be of sufficient capacity and power output to enable the bus to be driven in accordance with all legal speed limits and restrictions. Engine to meet current emission standard as defined by Australian Design Rules.
Fuel	Fuel system – Fuel type – Diesel to current emission standard as defined by Australian Design Rules.
Body	Body painted white with livery as per the *qconnect* style manual.
	Unless otherwise approved, buses must have two entry/exit doors.
	Each bus will be fitted with a heavy duty air conditioning unit that is designed to a heat/cool capacity allowing the maintenance of an internal temperature of 24° Celsius under normal operating bus conditions.
	Interior lighting – must be sufficient to ensure passenger comfort and safety at night.
	Exterior lighting – must be sufficient to illuminate doorways and access points at night.
	Floors – must be made of high quality rust and rot-resistant materials which are fire-resistant, non-slip and non-squeak.
	A minimum of two destination boards (one at the front of the vehicle and one at the side adjacent to the entry door of the bus), which are programmable and able to be illuminated, must be fitted to the bus.
	All buses will contain sufficient stanchions and/or handgrips appropriate to the vehicle's maximum carrying capacity. All items must be within easy passenger reach at all times.
	All buses will be fitted with an audible alarm to indicate that passengers wish to leave the bus at the next stop. An illuminated sign saying 'Bus Stopping' 'Next Stop' or similar wording is to be displayed at the interior front of the bus when the alarm functions. The system is not to activate again until it has been reset by the opening and closing of the door.
	All buses must be fitted with a two-way radio which enables the driver and the operator's base station to communicate.
	Closed Circuit Television – a CCTV system is to be provided in accordance with the Department of Transport and Main Road's Standard for General Route Services.
	When specified, an agreed Global Positioning System is to be fitted to the bus.
	Driver protection screen where deemed necessary will be designed to minimise passenger access but not restrict adjustment of the driver's seat or access to or escape from the vehicle.
	Unless otherwise approved, each vehicle must be fitted with an appropriate system to manage the vehicle's electronics.
Specialised requirement	Subject to the above guidelines, vehicles used for joint school/urban contracts or other specialised needs associated with the urban network are able to be negotiated. Some examples include: • one door buses to create extra seating capacity for school services • increased luggage racks where services are required to carry high levels of luggage.

Number of buses

The operator shall ensure that the number of buses used in the provision of the services is the minimum number required to provide the contracted services. In determining the minimum number of buses, the operator may include an allowance for spare buses subject to the following principles:

- A spares ratio of one spare for every 10 buses (i.e. 11 buses in total) is a target. The state is of the view that the spares ratio should be allowed to vary by between 7% to 11% (that is, 1 spare bus for between every 9 and 15 peak requirement buses).
- Where small operators have access to spare vehicles in their broader fleet, it is expected they will be used for back-up purposes at no additional cost to the department as it is deemed to be covered in their additional 1% small operator dividend.
- In the unlikely circumstance that an operator of a small urban fleet who does not reach the required quota for a spare bus to be issued, and can demonstrate that they do not have access to spare vehicles in their broader fleet, the department will, on application, meet the reasonable cost of access to a replacement vehicle for the impacted period.
- Where a small operator can demonstrate that they are unable to access a replacement vehicle for any impacted periods, a determination may be made by the Chief Executive to provide funding for the acquisition of a spare vehicle in line with the normal vehicle funding policy principles (as set out below) with the proviso that the total amount per annum payable under this regime will be capped at 9% of the operator's annual fleet utilisation payment.

Funding

Funding basis[1]

A component of the overall funding for the service contract will include the payment of an utilisation fee reflecting the economic use of the bus fleet vehicles used under the contract for the provision of services. The utilisation fee will be set as an annuity in accordance with this section of the policy.

The bus price cap

For the purposes of establishing the value of the vehicle for the purposes of determining the utilisation fee, the following principles will be followed:

- The department has established a 'bus price cap' that will be the maximum amount that it will ascribe to a standard bus used to provide services under a *qconnect* contract.
- Based on the specifications outlined in this policy, the price cap is set at $435,000 exclusive of GST.
- The bus price cap will be reviewed by the end of each financial year. The review will take the following matters into account:
  - the actual prices paid for vehicles by *qconnect* operators
  - the prices paid for vehicles in Australia in the previous year in arm's length transactions
  - any other matter that the chief executive believes may materially impact on the future price of buses.

[1] School bus funding will be in accordance with School Transport Assistance Scheme funding rules.

Determining the relevant bus price for determining the utilisation fee

- Where the bus is less than 12 months old, the starting value of the vehicle will be the lesser of the invoice price or the bus price cap, less any applicable rebates or incentives paid to the operator or a related party of the operator.
- Where the bus is more than 12 months old, the starting value of the vehicle will be the lesser of:
  - the invoice price (less any rebates or incentives)
  - the written down value of the vehicle with the first year of depreciation calculated as 15% of the current value of a like vehicle with a further 6% depreciation applied on a straight line basis for second and subsequent years, up to the vehicle's age
  - the current price cap, reduced for the age of the vehicle calculated as a 15% reduction in the price cap for the first year of vehicle age and a further 6% reduction for each subsequent year, up to the vehicle's age.
- The invoiced amount paid by the operator shall not include any portion that is intended to be rebated back to the operator or a related third party.
- Any rebates that are received by the operator or a related third party are to be disclosed to the department.
- Any rebate received will be removed from the purchase price of the vehicle for the purposes of determining the utilisation payment.
- The department will not fund (even if within the ceiling price) any specifications above those required.
- Stamp duty payable on the bus will be added to the approved price of the bus for the calculation of the Bus Utilisation Payment (BUP).

  Note: the stamp duty payment is in addition to the bus cost and is not included in the price cap. If the bus cost is above the price cap, stamp duty included in the BUP will be calculated on the cap value, not the actual price paid.

Determining the annuity terms

The annuity terms will be as follows:

Option A	The funding for each vehicle will be calculated using a 15 year annuity for 90% of the relevant vehicle price and the 10% residual paid in equal payments over the last three years. The annuity will be calculated on principal and interest, with the interest rate determined by the 10 year swap rate plus a margin of 2.5%. The date of the 10 year swap rate will be the invoice date with respect to the bus.
Option B	The funding for each vehicle will be calculated using a 12 year annuity for 90% of the relevant vehicle price and the 10% residual paid in equal payments over the last six years. The annuity will be calculated on principal and interest, with the interest rate determined by the 10 year swap rate plus a margin of 2.5%. The date of the 10 year swap rate will be the invoice date with respect to the bus.

Operators with operating expenses in excess of $1 million per year (large operators) will receive payments under Option A. However, if a large operator can substantiate to the department that Option A will cause financial hardship and cash flow management issues then the department will consider making payments to the operator under Option B.

A small operator may elect Option A or Option B and must use this option for all vehicles funded in the contract.

Example - Option A:

A bus is purchased for $400,000 in March 2012. The swap rate at date of vehicle delivery is 6%.

Value of vehicle @ 90%	$360,000
Annuity period	15 years
Interest rate	8.5%
Annual Annuity Payment for first 15 years (paid monthly)	$42,540.75

Value of vehicle @ 10%	$40,000
Annuity period	3 years
Interest rate	8.5%
Annual Annuity Payment for final 3 years (paid monthly)	$15,152.42

In all cases, the residual period will remain the same (either three years under Option A or six years under Option B).

Funding of buses operating beyond 18 years

Any buses that are required by the department to be used beyond 18 years of age will be paid 50% of the payment received for the 18th year unless otherwise specified in the operator's service contract.

Disposal of vehicles other than under the replacement schedule

It is expected that the disposal and replacement of vehicles will be in accordance with the agreed replacement program. Where it becomes necessary to replace a contracted vehicle earlier than expected under the replacement program, the operator is required to inform the department as soon as possible about the proposed disposal and replacement of the vehicle, the reasons that make it necessary for the vehicle to be disposed of and the proposed course of action in relation to replacement of the vehicle.

Vehicles which are destroyed/written off or otherwise not available for revenue service under the contract will need to be replaced at the operator's expense.

Funding for replacement vehicles will be based on the funding provided for the original vehicle until the time at which the vehicle would have reached 18 years of age. At that time, the funding will be re-calculated based on the written down value of the bus (based on 15 years straight line depreciation from vehicle commencement) but using the interest rate that would have been applicable at the time the vehicle was acquired.

Once the operator has informed the department that a vehicle is not available for revenue service, the operator shall submit a revised replacement schedule for the department's consideration.