



PAC-R-166

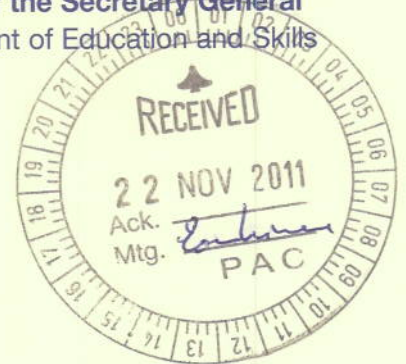
**Correspondence 4.10
Meeting – 24/11/2011**

Oifig an Ard-Rúnaí
An Roinn Oideachais agus Scileanna



Office of the Secretary General
Department of Education and Skills

Ms Eimear Lavelle,
Committee Secretariat
Committee of Public Accounts,
Leinster House,
Dublin 2



18 November 2011

Our Ref: S1109203

Dear Ms Lavelle,

I refer to your letter of 19th September and attached correspondence dated 8th August to the Committee from Mr Gerry Mullins, Chief Executive Officer, Coach Tourism and Transport Council.

I enclose as requested a note on the issues raised, including details of the procurement process carried out. I hope this clarifies the position. I am happy to deal with any further queries you may have.

Yours sincerely,

Brigid McManus
Secretary General.

School Transport – Subhead B2 Department of Education and Skills Vote

2011 allocation: €179,974,000

ISSUE 1: The School Transport Contract (worth around €180m a year) is awarded to Bus Éireann without a tender process. This appears to be in breach of EU directive 2004/17 which say that public procurement exceeding specific values must be subject to tendering procedures. Also, because there is no tender process, the State is deprived of offering the contract to a lower bidder. We believe this costs the State in excess of €15m a year.

Each year the Department of Education and Skills makes direct school transport grant, and school bus escort, payments. These grant payments enable parents to make private transport arrangements and enable schools to procure school bus escorts at local level to meet the needs of individual children/groups of children. In 2010, these payments amounted to some €19 million of the total expenditure of some €181million.

The independently audited school transport accounts for the years 1999 to 2010 are now available on the Department website. The 2010 accounts show that this Department made payments totalling some €162.8 million to Bus Éireann of which some €105 million was in turn paid to private contractors to deliver school transport services. These private contractors are secured following tendering processes conducted by Bus Éireann.

While the scheme has evolved since 1975 it continues to be operated under the original agreement and there is no obligation upon the Department under the EU Directive to terminate this arrangement.

Issues in relation to arrangements for the provision of school transport are the subject of a recently initiated legal action against the Department.

ISSUE 2: Bus Éireann operates the School Transport Scheme on a cost recovery basis. However, we have identified around €18 m profit that it yields each year from School transport to Bus Éireann on delivery of the STS. Payment of this profit is, therefore, improper.

It is not the case that around €18 million profit is made by Bus Eireann.

In order to ensure transparency in relation to the administration charge payable to Bus Éireann for direct and indirect costs, a detailed breakdown of this charge was made available on this Department's website in July. This is set out below.

This categorisation and treatment in the independently audited school transport accounts is a legacy from the original 1970's agreement. Originally it was a charge of 13% on certain defined direct costs.

This charge has been reduced from €18.7m in 2009 to €16.7m (10.7%) in 2011. Furthermore, Bus Éireann has committed to finding further cost reductions over the next three years.

In reality this administration charge covers

- 1) Some Direct costs
- 2) Indirect support costs
- 3) Indirect regional costs
- 4) Property
- 5) Contribution

It could more correctly be described as a **Transport Management Charge and Indirect Costs**.

An apportionment of the overall company total of these costs is allocated to the School Transport Scheme.

A detailed breakdown of 2010 costs is set out below:

		Actual 2010
		€m
1.	Direct Element	3.8
2.	Indirect Support	2.8
3.	Indirect Regional	4.5
4.	Property	2.5
5.	Bus Éireann Contribution	4.6
Total		18.2

1. Direct Element

This includes direct costs not included in the School Transport Account significant amount of which is for pension costs but also includes other direct costs such as insurance and support, security and development of Information Technology and Telecoms services. An apportionment of the company total is allocated to the School Transport Scheme.

2. Indirect Support

This includes indirect support costs such as Finance, Human Resources, non payroll costs of School Transport Head Office, PR support and communications, advertising and community sponsorship measures, internal and external audit, corporate governance, legal and regulatory affairs, vetting, training, planning, implementation of plans and review, development of cost saving measures, central industrial relations, disciplinary and grievance procedures, complaints handling, treasury planning, safety and risk planning / monitoring, accident investigation and follow up, strategic direction, severe weather planning and liaison, Irish language, data protection, Gardaí and emergency service liaison, quality of standards setting, ensuring implementation of International best practice, regional co-ordination, etc. An apportionment of the total charge to the company of these costs is allocated to the School Transport Scheme.

3. Indirect Regional

This includes indirect regional costs incurred at the eleven local offices throughout Ireland, which provide services for both road passenger and school transport services and administration which include costs as described above at a regional level and costs such as payroll and procurement, building maintenance, cleaning and security, rates, utilities, clothing, regional training, cash security, health and safety, postage, stationery and printing, telephone costs, Accident and Incident investigation and follow up, industrial relations, disciplinary and grievance procedures, complaints handling, fuel monitoring, severe weather planning and liaison, community liaison, local authority, Gardaí and emergency service liaison. An apportionment of the total charge to the company of these costs is allocated to the School Transport Scheme

4. Property

Property is required throughout the country in order to deliver the service required for the operation and management of the School Transport Scheme. A significant amount of CIÉ property is placed at the disposal of Bus Éireann for this purpose. An apportionment of these costs is allocated to the School Transport Scheme.

Properties used in the School Transport Scheme are in most cases shared locations used for both the School Transport services and administration and Road Passenger activities. In some locations the properties are also used by both Bus Éireann and Iarnród Éireann/Irish Rail.

In total there are 16 operational / administrative properties and 15 maintenance facilities throughout the country. School Transport is such a significant proportion of the activities of Bus Éireann that in the event that the company no longer operated the scheme, it is likely that all the company's property used for these purposes would have to be reviewed.

5. Bus Éireann Contribution

This provides funds for:

- Specific capital investment in School Transport services and administration for example IT to deliver future cost savings.
- Portion of general capital investment for example garage equipment that serves all three businesses – Commercial, PSO and School Transport.
- Reduction of cost base through voluntary severance for schools staff (direct and support).
- Return to risk associated with School Transport business.

Depreciation and Interest

This is the charge for Depreciation and interest on vehicles funded by the company. As at 31 December 2010, there were 578 vehicles in the School Transport fleet.

Issue 3: The €18m profit appears to be used to subsidise Expressway, which is a commercial operation (not a PSO service). Funding of such commercial entities is illegal under EU regulation No. 1370/2007.

It is illegal for Expressway to received direct subsidies from the State, or benefit from indirect subsidies through other Bus Éireann activities.

You will appreciate of course that the Department of Transport, Tourism and Sport is the parent Department in relation to Bus Éireann.

Bus Éireann has provided the following information to this Department on the specific issue raised.

The company has confirmed to this Department that there is no cross subsidisation from school transport scheme to commercial road passenger services in Bus Éireann (e.g. Expressway, private hire, day tours, special event management).

The accounts of Bus Éireann have been independently audited by the Department of Transport and the National Transport Authority, and in both cases there has been a clean bill of health in relation to transparency and the necessary separation of accounts. In line with good governance, all aspects of the Bus Éireann business have been subject to very high levels of independent scrutiny over the years.

It should be noted that prior to 2008 (i.e. the year that Fuel Duty Rebate was abolished) Expressway posted annual profits. These profits were utilised as follows:

- Ploughed back into Expressway services as a social dividend for the customer and the State
- Used to fund the shortfall in PSO funding between 2001 and 2007, (i.e. benign cross subsidisation). In that period, €43m of losses as a result of a PSO funding shortfall were absorbed by the company from its road passenger commercial services. This was noted in the Deloitte Report (2009) and the Booz Allen Hamilton report (2007).
- Retained profits for more difficult times, as being experienced at present.

The abolition of the Fuel Duty rebate in 2008 and other factors meant that Expressway lost income of approx €6m per annum. This, combined with the economic downturn and illegal/unlicensed services from some private operators, has meant that Expressway experienced losses between 2008 and 2010. The losses currently being experienced by Expressway are being covered through retained earnings from BE commercial services including Expressway.

Bus Éireann is currently implementing a cost recovery programme and Expressway revitalisation programme to address the losses brought about by the loss of fuel duty rebate. This programme is expected to bring Expressway back into profitability within the next 18 months.