

ISSUE NOTIFICATION FORM

Reviewable Component	Administration
Party Making Notification	Public Transport Authority (Authority)
Nature/Description of Issue*	That there is an issue as to the appropriateness of the method used in the Contract to calculate the Administration Component of the Service Charge in that it does not reflect the actual net costs which would be incurred by a reasonable and prudent contractor with respect to the administration of Contracts.
Evidence to Support Claim*	<p>The Authority will support its assertion of the existence of an Issue in relation to Administration by reference to evidence that:</p> <ul style="list-style-type: none"> • Between 2001 and 2003 PricewaterhouseCoopers (PwC) conducted a comprehensive study of the reasonable costs of administering school bus contracts. The relevant extract from this Study will be provided to the Review Panel to demonstrate the benchmarks applied in the nature of the costings and consequent allowance made for administration. • If it becomes necessary to revisit the costs of administration on a line by line basis in order to redetermine individual administrative costs, then PTA reserves the right to argue for a lower figure for the total administrative cost provided in the contract where justified by evidence submitted before the Review Panel. • The discounts currently provided in the Contract to reflect the advantages available to prudent Contractors in relation to economies of scale underestimate the value of the savings available to contractors with multiple Contracts. • The manner by which the Service Charge is calculated generally, and specifically in relation to Administration, whereby an agency of the State Government reimburses the fixed costs of school bus contractors in their entirety, confers an unfair advantage upon school bus contractors who undertake private (ie non-school bus) work and compete in the general bus charter industry – and the Authority will provide relevant evidence regarding the anti-competitive policies of the State and Commonwealth Governments and the influence of charter work on a number of Components, including Administration.
Proposed Contract Variation	
<i>Schedule 3*</i>	<p>That the Description of the Component calculation methodology contained in Section A of Part 2 of Schedule 3 be deleted and replaced by the following:</p> <p>“The annual amount below, depending on the number of School Bus Contracts to which the Contractor, or a Related Party of the Contractor, is a party (‘Relevant Contracts’) at that time:</p> <p>where there are one or more Relevant Contracts which are not Minor Service Contracts:</p> <ul style="list-style-type: none"> • \$7,620 for each Relevant Contract which is a Mainstream Contract; • \$9,754 for each Relevant Contract which is an Education Support Contract, <p>but where there is more than one Relevant Contract, the amount payable for each Relevant Contract after the first is reduced by \$2,500.”</p>

<i>Schedule 4*</i>	Nil
<i>Contract*</i>	Nil

Information Only**Review Principles** [Item 9(b) of Schedule 5]:

1	The purpose of the Composite Rate Model, including the review procedure set out in Schedule 5, 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.
2	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.
3	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.
4	It may be determined that a payment for a Reviewable Component not be averaged across Contracts or spread over the service life of the school bus where: A) it is administratively practical to do so; B) there is no material increase in the administrative costs to the Authority; and C) the administrative obligations and commercial outcomes imposed by the Composite Rate Model on the Parties are reasonable when compared with contracts for school bus services awarded under a competitive tender process, and for the avoidance of doubt, this includes the application of regional uplifts where the considerations in (A) - (C) above apply and it can be clearly shown that material regional cost differences exist.
5	Each of: A) actual income earned by Contractors from sources other than the Authority from assets for which Contractors are compensated under School Bus Contracts; and B) the fact that there is potential to make savings across School Bus Contracts through bulk purchasing of inputs, is a relevant consideration.
6	The Party seeking to change a Reviewable Component must present sufficient evidence to reasonably prove that the current quantum paid to Contractors in respect of the Component is not appropriate.
7	Evidence must be based on: A) benchmarks that are directly relevant to the particular Reviewable Component; or B) detailed sampling of the Western Australian school bus fleet, provided that the data generated from such sampling is representative of the costs across the industry.
8	Each of: A) the Return on Investment Component; and B) the determination or meaning of the Approved Depot, insofar as it relates to the calculation of the Standard Daily Kilometres, is not a Reviewable Component and can only be varied by agreement of the Authority.