

## ISSUE NOTIFICATION FORM

<p><b>Reviewable Component</b></p>	<p><b>Use of School Buses to Earn Outside Income – Ancillary Issues relevant to the following reviewable Components:</b></p> <ul style="list-style-type: none"> <li>• <b>Administration;</b></li> <li>• <b>Airconditioning;</b></li> <li>• <b>Depreciation;</b></li> <li>• <b>Garaging;</b></li> <li>• <b>Repairs and Maintenance and Unsealed Road Running;</b></li> <li>• <b>Vehicle Registration and Third Party.</b></li> </ul>
<p><b>Party Making Notification</b></p>	<p>Public Transport Authority (Authority)</p>
<p><b>Nature/Description of Issue*</b></p>	<p>The Authority is concerned that the manner of calculation of the Service Charge for the reviewable Components listed above, 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 where they compete in the general bus charter industry.</p>
<p><b>Evidence to Support Claim*</b></p>	<p>The Authority is concerned that the allowance of charter work under the terms of the existing Contract may constitute a breach of an agreement between the State of Western Australia and the Commonwealth Government in relation to competition policy, failure to comply with which could result in adverse consequences for the State.</p> <p>The State Government has received complaints in relation to this issue from non school bus contractors operating within the charter industry. A number of commercial charter bus operators have complained that School Bus Contractors have successfully submitted very low charter prices for various bus charters, denying the normal commercial operators work. They have raised concerns with the Authority and other Government Departments that school bus contractors are having their fixed costs met by their school bus contract payments, and that this allows the School Bus Contractors to submit low prices to win work, given that they only need to cover their variable costs (e.g. fuel and labour).</p> <p>The Authority considers that outside income earned by contractors from assets for which they are compensated under school bus contracts is a relevant consideration for the Review (per item 9(b)(v) of Schedule 5) and an essential consideration with respect to a number of reviewable Components.</p> <p>The Authority submits that in principle the calculation of the Service Charge ought to take into account the kilometres incurred by a contractor earning income for charter services as a proportion of the total kilometres incurred and that the reimbursement for fixed costs – in the first instance, those cited above – ought to be discounted so that the proportion reimbursed equates to the proportion of the kilometres incurred which do not earn outside income. It is worth noting that similar principles are applied to commercial bus service contract arrangements that the Authority has with contractors in the Transperth bus system and bus systems in various regional centres (i.e. their service payment is reduced by an amount for charter work they undertake on a per kilometre basis). This is designed to ensure competitive neutrality in the wider commercial charter bus industry.</p> <p>The Authority further submits that for the school bus contractors, recognition and consideration of their outside income might be achieved by introducing a new element that fixes a rate per chartered kilometre, based upon the contractor's previous year's charter history, by which the payments in the</p>

	<p>Service Charge will be discounted, with necessary adjustments made each year to allow for deviations in the contractor's patterns of chartering.</p> <p>Alternatively, the calculation of each fixed cost component could be discounted for charter activity.</p> <p>The Authority also notes that there are other fixed costs for which contractors are reimbursed by the Service Charge and which are not scheduled for consideration during this review period, but to which the same issues apply.</p>
<b>Proposed Contract Variation</b>	
<i>Schedule 3*</i>	The introduction of a new element that fixes a rate per chartered kilometre, based upon the contractor's previous year's charter history, by which the payments in the Service Charge will be discounted, with necessary adjustments made each year to allow for deviations in the contractor's patterns of chartering.
<i>Schedule 4*</i>	Depending on the variations required with respect to Schedule 3, there may be consequential variations to Schedule 4.
<i>Contract*</i>	The possible introduction of necessary definitions relating to outside income.

***The following extract from the Contract does not form part of the Issue Notification Form and is provided as information for the Authority, Contractor Representatives and the Review Panel.***

**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	<p>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:</p> <p>A) it is administratively practical to do so;</p> <p>B) there is no material increase in the administrative costs to the Authority; and</p> <p>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,</p> <p>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.</p>
5	<p>Each of:</p> <p>A) actual income earned by Contractors from sources other than the Authority from assets for which Contractors are compensated under School Bus Contracts; and</p> <p>B) the fact that there is potential to make savings across School Bus Contracts through bulk purchasing of inputs, is a relevant consideration.</p>
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	<p>Evidence must be based on:</p> <p>A) benchmarks that are directly relevant to the particular Reviewable Component; or</p> <p>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.</p>
8	<p>Each of:</p> <p>A) the Return on Investment Component; and</p> <p>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.</p>