

1 Audit summary

1.1 Introduction

Buses are an important part of Melbourne's public transport system. They are especially important for travel within the city's middle and outer suburbs where they connect people to the radial train services and provide for local and cross-town travel. In 2008–09, bus services carried about 20 per cent of the 480 million passenger boardings, at a cost of \$441 million to government.

Bus services started in Melbourne in 1869. The operators developed as private, self-funded organisations, setting their own schedules and fares and owning the bus depots and vehicles. By 1997 bus companies were subsidised to operate exclusive routes within a regulated fare structure using their own depots and vehicles.

The *Victorian Transport Plan* aims to improve public transport and give Melburnians a practical alternative to car-based travel. In May 2006 \$1.4 billion was committed over 10 years to develop local and cross-town bus services. The plan for improving bus services included new bus contracts to improve the value derived from the growing investment in bus services.

The Department of Transport (the department) was responsible for the negotiation and the oversight of new metropolitan bus contracts. The previous contracts expired in 2007. The department had to prepare a reform strategy for the bus industry and then agree new bus contracts with the operators.

The procurement aims were to improve the quality and effectiveness of bus services, to improve value for money and to maintain a constructive relationship with the bus industry.

In June 2008 the Minister for Public Transport announced that 29 new metropolitan bus contracts would come into effect from 1 July 2008.

1.2 Audit objective

The audit assessed the effectiveness of the new metropolitan bus contracts by examining whether the department had:

- applied appropriate processes to negotiate the new contracts
- assessed the extent to which the contract requirements had been implemented
- established processes to evaluate and improve performance.

1.3 Conclusions

The department's performance has been mixed. It negotiated the new contracts effectively. However, it had not finished the work needed to manage contracts effectively by the time they became operational. This caused some shortcomings in implementing the contracts and evaluating operator performance.

Specifically, the department:

- had negotiated new contracts adequately, but its preparation for managing them was inadequate
- implemented most, but not all, aspects of the new contracts as intended
- had not established the critical components of the performance management and evaluation framework because it had not started planning in time.

The department has recognised that it needs to change its preparation for managing new bus contracts. The deputy director bus and regional services will oversee the negotiation of new regional and school bus contracts and is responsible for service delivery and contract management. This will renew the focus on contract management during these negotiations.

1.4 Findings

1.4.1 Contract negotiation

The department succeeded in negotiating new contracts that are likely to improve value for money. Specifically the department:

- understood the strengths and weaknesses of the previous arrangements and used this knowledge to improve the contracts
- followed the required policies and guidelines for the planning, tendering and awarding of public sector contracts, including those for assessing and improving value for money
- demonstrated that the contracts provided improved value for money by clearly presenting the costs, expected benefits and trade-offs. While the new contracts have not immediately cut service costs, they have set the framework for improved value for money by, for example, including provisions to competitively tender SmartBus orbital and new local bus services.

On a less positive note, the department did not adequately prepare for the management of the new contracts. It did not prepare the required contract management plan, setting out the processes, structure and resources for managing the new contracts before they started. This is a significant omission.

The department consulted operational staff in developing the new contracts. However, for future bus procurements, it needs to engage these staff more effectively before embarking on new arrangements.

1.4.2 Contract implementation

The obligations for performance reporting were only partially applied because the necessary documentation had not been completed. The operators' reports on performance did not fully comply with the contracts because the department had not finalised the documentation to guide their reporting. The operators continued to report against the old contracts' benchmarks and some operators had not provided all the required reports.

In May 2009 the department and the bus operators agreed on the form and content of updated reports on operational performance. These reports should address the contracts' reporting requirements when applied.

The new contracts also committed to developing improved performance management, and progress had clearly been made. However, developing the service quality regime is behind schedule because the department did not start the work in time to meet the contractual deadline.

In terms of contract implementation, the essential processes for the payment of bus services and the monitoring and handling of fare revenue are happening as intended.

1.4.3 Evaluating and improving performance

The department needs to improve how it collects and uses performance information. This area is critical to demonstrate that the expected increase in value for money is being realised.

Most of the indicators were relevant because they clearly related to the objective being assessed. However, the department did not have documents describing the analysis and rationale for setting performance benchmarks and this made it difficult to determine whether they were appropriate.

In reviewing the department's performance evaluation we found that the:

- patronage incentive regime was well designed to measure performance
- passenger information indicators and benchmarks were relevant and appropriate but not reported, thereby preventing a comprehensive review
- operational performance regime needs to be strengthened to provide greater assurance about the on-time running information.

The department had not used the performance information to evaluate and improve operators' performance, partly because the information had not been updated with the new contract benchmarks.

1.5 Recommendations

For new bus contracts the department should:

- engage more effectively with operational staff to complete the contract management documentation and plan for the transition to the new arrangements before the existing contracts expire (**Recommendation 4.1**).
- review its performance against the planned time frames so it can formulate more realistic estimates (**Recommendation 4.2**).
- provide early advice to government on the strategic options and constraints for future metropolitan bus contracts (**Recommendation 4.3**).

To improve the implementation of the new contracts the department should:

- create and maintain a record of performance against the Metlink performance indicators (**Recommendation 5.1**).
- document the contract payment processes and ask operators to submit a monthly record of missed or additional services as the basis for adjusting monthly contract payments (**Recommendation 5.2**).

To improve performance evaluation the department should:

- document the basis for its current performance indicators and benchmarks and update this document when the performance management system is amended (**Recommendation 6.1**).
 - strengthen the processes around the measurement of on-time running by verifying that the operators' approaches are adequate and periodically inspecting their operational records (**Recommendation 6.2**).
 - design processes so that information about service changes is effectively and quickly passed to the relevant organisations (**Recommendation 6.3**).
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