

# ***Tendering of Metropolitan Bus Contracts***

Tabled 6 May 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector. The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 6 May 2015, the Auditor-General tabled his performance audit report, Tendering of metropolitan bus contracts.

## Key messages

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- Buses are critical to Melbourne's public transport network.
- Bus services cost \$1 billion a year.
  - Melbourne Metro Bus Franchise (MMBF) covers 30% of services.
  - Existing arrangements for the remaining 70% will expire in 2018.
- The audit found:
  - the state has not yet secured full value for money from the MMBF
  - progress in reforming bus contracts has been slow.
- Urgent action needed to:
  - strengthen performance data and contract management
  - develop strategies for future bus reform.

The state currently spends around one billion dollars each year on bus services. In 2013, Public Transport Victoria (PTV) established the Melbourne Metropolitan Bus Franchise (MMBF) covering 30 per cent of these services following a competitive tender.

The MMBF agreement is fundamentally different to any other contracting arrangement within Melbourne's bus network as it contains strengthened incentives and penalties designed to improve bus services.

We found that the state has not yet secured full value for money from the MMBF agreement despite achieving savings of around \$33 million in 2013-14. The contract's potential is not being realised due to PTV's failure to resolve longstanding data issues impacting the contract's performance regime.

Of particular concern, is that progress in reforming the state's remaining metropolitan bus contracts expiring in 2018 has been slow. The MMBF project – a single contract covering 30 per cent of metropolitan services– took three years from the first approach to government to when services commenced. Just over three years remain until the 27 contracts for the remaining 70 per cent of services expire. Slow progress in reforming these contracts risks limiting the state's procurement options, and compromising the opportunity to leverage better value from these services.

Urgent action is needed to strengthen performance data and to develop options and strategies for future bus reform.

## Background – MMBF expected benefits

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- MMBF signed in April 2013.
- Commenced services in August 2013.
- Based on train/tram franchise contracts.
- Expected to:
  - improve public transport coordination
  - evolve timetables to better suit customer needs
  - improve communication with customers.
- Value for money achieved if:
  - cost to the state is reduced
  - improved services for more customers
  - progressed reform of the bus industry.

The key benefits expected from the MMBF are:

Improved public transport coordination

- enhanced bus timetables and routes
- better information for customers about bus services.

When approving the tender, the state determined it would consider MMBF as having achieved value if it reduced costs, delivered improved services for more customers, and if it progressed bus industry reform.

## Focus of this audit

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### Key areas examined:

- tender planning and conduct
- MMBF performance
- Public Transport Victoria's (PTV) management of MMBF contract
- progress of future reform.

### Audit scope:

- PTV
- Department of Economic Development, Jobs, Transport & Resources (DEDJTR)
- Department of Treasury and Finance (DTF)

We assessed if the state has effectively secured value for money from the MMBF by examining:

- If the tender was effectively planned and conducted
- PTV's management of the agreement is delivering improved performance.

We also examined if appropriate planning to optimise value from future bus contracts is underway.

The audit focused mainly on PTV. It also included the Department of Economic Development, Jobs, Transport and Resources (DEDJTR) due to its role in working with PTV on future bus reform. The Department of Treasury and Finance, or DTF, was also included as it oversaw the MMBF tender.

## PTV cannot yet demonstrate MMBF is achieving value

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- Costs decreased—around \$33 million saved in 2013–14.
- Performance regime not effectively implemented:
  - longstanding data reliability issues
  - failed to withhold payments for instances of non-performance
  - delay in reaching agreement with the operator on key standard.

**PTV needs to address deficiencies in performance monitoring as they are compromising MMBF's benefits.**

PTV cannot yet reliably demonstrate MMBF is achieving value for money due to shortcomings with performance data.

MMBF has been less expensive than previous arrangements. However, as it also sought to improve services and progress reform, cost savings alone are not sufficient for demonstrating achievement of value for money.

PTV has yet to effectively implement the contract's performance regime, which is critical if the MMBF is to deliver value for money. In particular, PTV has failed to:

- resolve longstanding performance data collection and reliability issues
- withhold payments for non-performance, and
- reach a timely agreement with the operator on bus

patronage benchmarks.

PTV needs to urgently address these deficiencies as they are compromising MMBF's benefits.

## Slow progress in reforming bus industry

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- Project will be complex and challenging:
  - current operators dispute state's right to tender
  - no clear access to assets.
  - our 2009 audit highlighted need for early advice to government.
- However, substantive planning has only recently begun.
- Contracts due to expire July 2018.
  - MMBF took three years from first approach to government.

**DEDJTR and PTV need to urgently advise government on actions needed to progress bus reform.**

The department's and PTV's slow progress in planning to reform remaining bus contracts risks limiting the state's procurement options in 2018.

Progressing reform will be difficult as the remaining contracts contain no clear right for the state to tender these services or access critical assets, such as buses and depots. Some industry members also claim the state cannot legally offer their routes to tender. Any change in the delivery arrangements for these services will require extensive planning and lead-time to assure the availability of critical assets and infrastructure.

Our 2009 audit *Melbourne's New Bus Contracts* highlighted the need for early advice to government on reform options. However, substantive planning has only recently begun.



DEDJTR and PTV need to urgently advise government on the key actions needed to finalise planning for reform.

## The tender produced a contract capable of delivering value

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- Guided by appropriate procurement and probity principles.
- No business case or strategic procurement plan.
- Tender well managed and focused on value for money.
- Probity mostly effectively managed.

**PTV should develop a business case, and separate the probity advisor and auditor roles in future procurements.**

The MMBF competitive tender resulted in a contract capable of delivering improved services and value.

Although the former Department of Transport did not develop a business case or strategic procurement plan for MMBF, we found that key costs, benefits, risks and options were adequately identified.

PTV also effectively managed most probity requirements. However, it did not separate the probity advisor and probity auditor roles, which weakened the auditor's independence.

Although the tender in this instance produced a good outcome, PTV needs to ensure for future procurements that it develops a business case, and separates the probity advisor and auditor roles.

## **PTV is not effectively managing the MMBF agreement**

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- Contract management policies and practices are inadequate.
- Provisions applied inconsistently.
- Knowledge management is inadequate.
- Contract variations not being assessed for value implications.

**PTV needs to strengthen its contract and knowledge management practices for MMBF.**

PTV's MMBF contract and knowledge management practices are inadequate. Contract and knowledge management procedures are not sufficiently documented, and a complete contract management plan for MMBF is not yet in place.

This situation, combined with PTV's reluctance to withhold payments for some delays, risks reducing the value of the contract.

Additionally, PTV has not assessed the value for money implications of approved contract variations. This also risks undermining MMBF's value, as the variations may not support MMBF's objectives.

PTV needs to strengthen its contract and knowledge management practices.

## Recommendations

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	Accept
That PTV:	
1. promptly rectifies all barriers to implementing the MMBF performance regime, including data reliability issues	✓
2. documents and assesses the rationale for all decisions to waive the withholding of payments for non-performance	✓
3. closely monitors delivery of key offer commitments and proactively address any slippage from contractual time lines	✓
4. systematically audits and verifies the reliability of performance data provided by the operator underpinning incentive payments	✓
5. with DEDJTR, advises government on all key risks, options and required actions for reforming the metropolitan bus contracts expiring in 2018.	✓

We have made 13 recommendations focused on securing better value from the MMBF, and on strengthening the state's preparedness to reform remaining bus contracts.

**Recommendations – *continued***

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		Accept
That PTV:		
6.	with DEDJTR, develops a business case assessing the cost and benefits of alternative reform options and related strategies for all future bus service procurements in accordance with Victorian Government Purchasing Board guidance	✓
7.	separates the role of probity auditor and advisor on future procurements.	✓
8.	with DTF, use the lessons from MMBF's Targeted Improvement Process to develop guidance on how it may be applied more broadly in future procurements	✓
9.	ensures that contract management processes are in place prior to commencement for any new service contracts.	✓

PTV, DTF and DEDJTR have accepted all recommendations.

**Recommendations – *continued***

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		Accept
That PTV:		
10.	establishes a contract management plan for MMBF in accordance with Victorian Government Purchasing Board guidance	✓
11.	establishes knowledge management and document control processes to ensure critical information and reasons for decisions are readily available to necessary staff	✓
12.	establishes a process for systematically monitoring and verifying the completion of required MMBF contract management tasks	✓
13.	consistently enforces the terms of the MMBF agreement in accordance with the contract.	✓

The Auditor-General will monitor progress of these recommendations over time.

## Key messages

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**DEDJTR and PTV need to urgently advise government on actions needed to progress bus industry reform.**

**PTV needs to address deficiencies in performance monitoring as they are compromising MMBF's benefits.**

**PTV needs to strengthen its contract and knowledge management practices for MMBF.**

In summary, DEDJTR and PTV need to urgently advise government on the key risks, options and actions needed to progress reform of Melbourne's remaining bus contracts expiring in 2018. PTV also needs to address deficiencies in its performance monitoring for the MMBF, and strengthen its contract and knowledge management practices.

## Key messages – *continued*

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**The state has not yet secured full value for money from MMBF.**

**Urgent action is needed to progress reform.**

Urgent action is required, as these issues are compromising MMBF's achievement of value for money and PTV's capacity to effectively manage the contract.



## Relevant audits

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- *Melbourne's New Bus Contracts* (June 2009)
- *Developing Transport Infrastructure and Services for Population Growth Areas* (August 2013)
- *Coordinating Public Transport* (August 2014)

Relevant audits are listed on this slide.

## Contact details

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