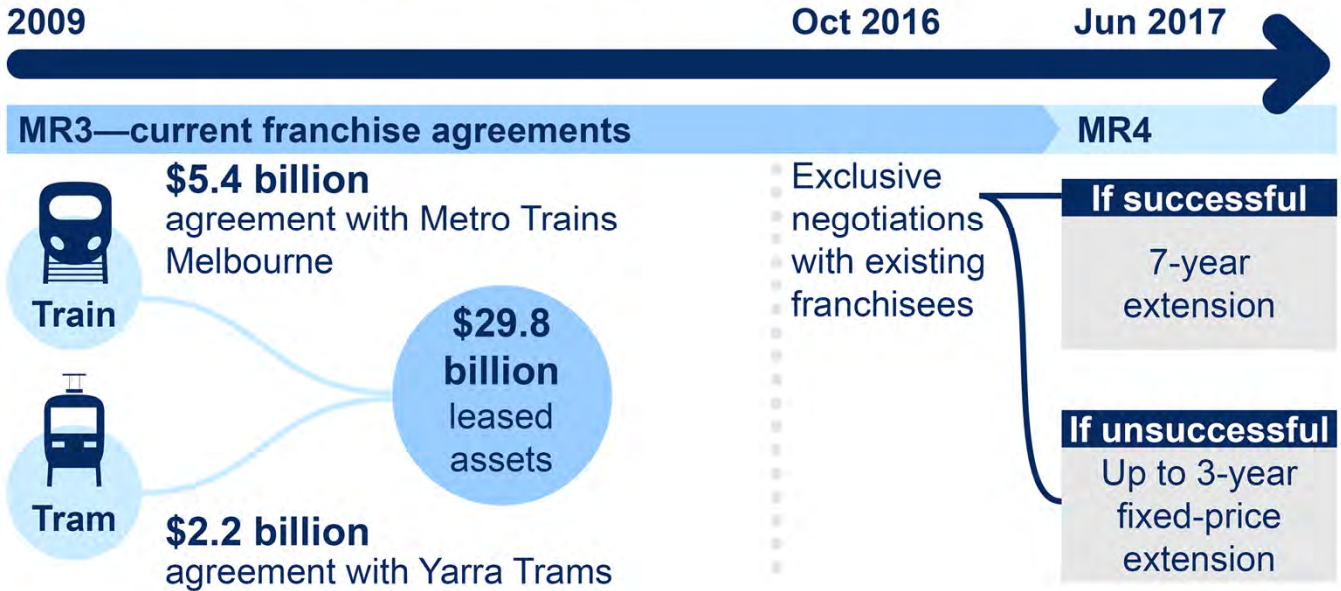


Managing the Performance of Rail Franchisees

Tabled 7 December 2016

This presentation provides an overview of the Victorian Auditor-General's report *Managing the Performance of Rail Franchisees*.

About Victoria's rail franchises



Public transport is an essential service for many Victorians, and is critical to the state's economic development.

Public Transport Victoria (PTV) manages the contracts with the operators that run the metropolitan passenger train and tram networks, known as franchise agreements. These commenced in 2009 after a competitive tender process. Since 2009 the state has paid over \$7.6 billion to the franchisees to run Victoria's train and tram networks—\$5.4 billion to Metro Trains Melbourne and \$2.2 billion to Yarra Trams, up to 30 June 2016.

PTV has commenced negotiations with the existing operators for a potential seven-year extension. This presents a significant opportunity to address weaknesses in the current agreements and seek improvements in the new franchise agreements, which will be known as MR4.

What we looked at

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How effectively Public Transport Victoria manages Victoria's train and tram franchisees



Whether PTV's management of the franchise agreements deliver value for money



Whether strategic planning for the extension of the franchise agreements is rigorous

We examined whether PTV's management of the franchise agreements is delivering value for money, including their oversight of maintenance and renewal of the train and tram assets leased to franchisees. We also examined PTV's planning for the extension of the franchise agreements.

What we found

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Managing train and tram franchisees

- ✓ Improved operational performance and customer satisfaction

But ...

- Weaknesses in performance management and contract management
- Lack of focus on asset management

Strategic planning for franchise extensions

- ✓ Thorough assessment of current agreements
- ✓ Well positioned to seek improvements in new franchise agreements (MR4)

Train and tram services have become more reliable and punctual under the current franchise agreements, and customer satisfaction has improved.

However, weaknesses in the design and implementation of the performance regimes prevent PTV from maximising value from the current agreements.

There are significant weaknesses in how PTV oversees the maintenance and renewal of assets leased to its franchisees under the current agreements. In particular, PTV does not have adequate medium- to long-term asset strategies for its train and tram network assets and has poor knowledge of asset condition.

PTV has completed a thorough assessment of the performance regimes and reporting in preparation for the next agreements and has identified ways to address these weaknesses.

Operational performance



PTV measures the performance of its train and tram operators, or franchisees, in several ways. It measures and publicly reports on the reliability and punctuality of train and tram services, and surveys customer satisfaction with rail services.

We found there are no targets for the reliability and punctuality of trains and trams. These measures are not aligned to the operational performance regime, which measures the impact of service delays and includes financial incentives and penalties.

Customer experience performance

Performance regime

9 customer experience components + customer satisfaction survey



Incentive payments



Penalties

- Largely abandoned in 2012, but incentive payments continued
- Weaknesses in regime design → did not offer value for money
- PTV has reviewed the regime will implement a revised regime in the next agreements

PTV largely abandoned the customer experience performance regime in 2012, due to weaknesses in its design and cost associated with conducting inspections of the network. PTV has thoroughly reviewed the regime and plans to implement a revised regime in the next agreements.

Contract management

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**PTV needs to improve
its contract
management systems
and processes**

- Poor knowledge management and record keeping
- No tracking of benefits
- Inadequate risk management, quality assurance
- Unclear roles and responsibilities and governance

PTV needs to improve its contract management systems and processes. In particular, gaps were identified in knowledge management processes, tracking benefits of the contracts, risk management and governance.

PTV recognises these gaps and has started to address them.

Asset management

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Current agreements



No medium- or long-term asset strategies



Poor knowledge of asset condition

Fixing the problems

- Surveys, systems, resources and practices to capture asset data
- Asset management strategies
- Clearly defined responsibilities

The lack of medium- and long-term asset management strategies means that PTV can not provide assurance that assets are contributing effectively to service delivery, or that there is effective planning for maintenance, upgrade and disposal of assets.

PTV's lack of meaningful information about asset condition reduces its capacity to plan, budget and prioritise maintenance and renewal work.

It is positive that PTV and the Department of Economic Development, Jobs, Transport & Resources have begun to address these weaknesses.

Extending the franchise agreement

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Train and tram operators met performance benchmarks over six years

Earned right to negotiate extension of franchise agreements

But

- Unclear rationale for some benchmarks and how they were assessed
- Inadequate governance and quality assurance of process
- Fixed benchmarks not reset
→ did not drive improvement in performance

Train and tram franchisees met the required performance benchmarks to negotiate an extension to their agreements.

However, PTV could not provide evidence to support the rationale for some of the benchmarks or how they were assessed. Other benchmarks were set at levels that did not drive improvement in performance.

Preparing for the next agreements

- MR4 project well managed
- In-depth analysis of strengths and weaknesses of current agreements



Sound understanding of how to seek improvements in MR4 negotiations

PTV has prepared for future franchise agreements by thoroughly examining the strengths and weaknesses of its current agreements, including developing an in-depth understanding of operating costs. This puts PTV in a good position to negotiate important improvements with franchisees.

Summary of Recommendations

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More reliable performance data, improved performance regimes and reporting



Contract management framework



Asset management framework



Lessons from current agreements to improve MR4 agreements



Systems to analyse operating costs

We made five recommendations to PTV, focused on strengthening performance monitoring and public reporting, addressing weaknesses in contract management and asset management, using lessons learned to improve the negotiations of the next franchise agreements, and improving data collection.

Public Transport Victoria accepted all of the recommendations in the report and provided a detailed action plan on how it plans to address these recommendations.

For further information, please view the full report on
our website: www.audit.vic.gov.au

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