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**New South Wales Auditor-General's Report**  
Performance Audit

**Sydney metropolitan bus contracts**

Transport for NSW

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The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Sydney metropolitan bus contracts: Transport for NSW**.

A handwritten signature in black ink, appearing to read 'A. T. Whitfield'.

**A T Whitfield PSM**  
Acting Auditor-General  
9 September 2015

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# Executive Summary

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All scheduled bus services in the Sydney metropolitan area, including by public and private operators, are provided under contracts designed and managed by Transport for NSW (TfNSW). The contracts allow TfNSW to determine exactly what bus services are provided and to whom.

The contracts were first introduced in 2005, with services under a new round of contracts titled Sydney Metropolitan Bus Service Contracts (the Contracts) starting in January 2013. Under the Contracts, State Transit Authority (STA) operates services in four metropolitan regions, and private operators service the other ten Sydney metropolitan regions. Over 9.5 million scheduled bus trips are provided annually under the contracts, with STA accounting for around five million. Trips include express, limited stops, regular, school and free shuttle services.

This audit assessed the effectiveness of TfNSW's design and management of the Contracts, which commenced after our performance audit in 2010 on the first round of contracts.

## Conclusion

The provision of bus services under the Sydney Metropolitan Bus Service Contracts (the Contracts) has largely been effective and efficient, with the main exception being punctuality.

Operators are mostly meeting their Key Performance Indicators (KPIs). Customer satisfaction is better than under the previous contracts and improving, patronage is increasing, and the unit costs of providing services are now lower than under the previous contracts.

Punctuality remains a problem. Private operators are mostly starting their trips on time, but rarely meeting their mid and end-of-trip targets. STA's punctuality is improving, but is worse than private operators.

STA's overall performance on other indicators is also generally below that of private operators.

Notwithstanding, the current situation represents a substantial improvement over what we found in our 2010 audit on the previous contracts.

TfNSW's contracting approach is justified. It is consistent with the government's policy direction and practices in other like jurisdictions, and drew on expert advice, extensive research and TfNSW's past experiences.

The Contracts were developed through a robust process and contain performance indicators and incentives which promote efficiency and effectiveness. However, incentives for mid and end trip punctuality are limited.

The Contracts with STA do not, however, clearly separate purchaser from provider and do not offer the same financial incentive and risk transfer as those with private operators.

Information collected by TfNSW on most aspects of operator performance is largely valid and reliable, and will be more so once electronic bus tracking systems are fully operational. While TfNSW's framework for managing the Contracts has a number of positive elements, aspects of contract management need to improve particularly around punctuality and service reliability.

## The contracting approach is justified

A purchaser-provider approach for the provision of scheduled bus services is consistent with the government's broad policy direction and practices in many other jurisdictions. TfNSW adopted a robust process leading to its decisions about how best to implement the purchaser-provider model for Sydney metropolitan bus services.

There are diverse views on implementing a purchaser-provider model. Maintaining an effective model needs to take into account changes in the market place and contemporary experiences and expertise elsewhere. The Contracts with STA do not offer the full benefits of a pure purchaser-provider model because the performance risk remains with government, and there is no clear separation of accountabilities, with the Secretary of TfNSW, the purchaser, also having direct control over STA, the provider. Additionally, STA Contracts were not market tested through competitive tendering.

## The Contracts promote efficiency and effectiveness

The Contracts were developed through a robust process. They contain performance indicators and incentives which promote efficiency and effectiveness.

However, punctuality performance is generally better where financial penalties are available. Also, the KPI regarding passenger and driver security monitoring is inoperative because it is reliant on a regulatory change which has not occurred.

## Operator performance information is largely valid and reliable

Information collected on most aspects of operator performance is largely valid and reliable, and will be more so once electronic bus tracking systems are fully operational. TfNSW's framework for managing the Contracts also has a number of positive elements.

Data for service reliability and punctuality KPIs is being affected by driver data entry errors and technical problems with the electronic tracking system, but TfNSW is working with operators and increasing the incentives to achieve accurate data entry. TfNSW is currently manually identifying discrepancies between operator-provided data, and that generated by the electronic tracking system, but is working on the system generating automatic discrepancy reports.

## Controls and actions over punctuality penalties are inadequate

Controls over decisions to impose or waive penalties are not adequate. Action taken to rectify punctuality performance deficiencies in the early stages of the Contracts, including the application of contractually enforceable financial penalties, was inadequate, although TfNSW advises it will no longer be as lenient.

## Sydney metropolitan bus services are mostly being delivered efficiently and effectively except for punctuality

Operators are mostly meeting KPIs, with the exception of punctuality.

While private operators mostly meet on-time trip commencement KPIs, they rarely meet mid and end-of-trip KPIs. STA's punctuality is improving, but is worse than private operators' with STA not meeting any punctuality KPIs.

Payments to operators under the Contracts are lower per service kilometre than under the previous contracts. While STA's costs have fallen, further planned reductions need to be realised.

Patronage is increasing, although TfNSW is not measuring the specific contribution of buses to State Plan patronage targets.

Customer satisfaction has improved with the introduction of the Contracts.

## Recommendations

### TfNSW should:

#### Purchaser-provider

1. in its future decisions on determining a purchaser-provider approach for Sydney metropolitan bus services, refresh its review of academic literature and contemporary strategies adopted elsewhere to maximise value for money and assess their potential application
2. work towards a full purchaser-provider model for STA's contract regions, with clear separation of accountabilities and a similar incentive regime to private operators
3. continue to work with STA to reduce costs

#### Punctuality and reliability

4. impose penalties on private operators for failure to meet the start-of-trip punctuality target, except where there is a contractually defined Excused Performance Incident
5. introduce stronger incentives for operators to achieve mid-trip and end-of-trip punctuality targets
6. take further steps to generate improvements in STA punctuality
7. classify a trip as cancelled where the trip is not tracked for reasons other than technical reasons, unless operators can prove otherwise

#### Contract management

8. revise the current KPI on passenger and driver security monitoring to make it relevant and measurable
9. enhance its electronic information systems so they generate discrepancy reports automatically
10. improve its internal controls over decisions to waive penalties and acceptance of cure plans

# Introduction

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## 1.1 Background

### Buses are an essential element of public transport in metropolitan Sydney

Sydney's metropolitan bus services play an essential role in helping people to access work, education, shopping, health services, as well as social, cultural and recreational activities. They also help reduce traffic congestion and pollution. For example, more people come across the Sydney Harbour Bridge in the morning peak in the bus lane than all of the other city-bound lanes put together.

### Scheduled bus services in Sydney are provided under contracts managed by Transport for NSW

All scheduled regular passenger bus services in the Sydney metropolitan area – both publicly and privately operated – are provided under contracts managed by Transport for NSW (TfNSW). The contracts allow TfNSW to determine exactly what bus services are provided and to whom. The contracts were first introduced in 2005, with services under a new round of contracts starting in January 2013. Currently, State Transit Authority (STA) operates services in four metropolitan regions, and private operators service the other ten metropolitan regions.

### Several government objectives for public transport are relevant to buses

TfNSW is the lead agency for delivering the following NSW 2021 State Plan goals and measures for public transport relevant to Sydney metropolitan bus services:

#### ***Reduce travel times***

- Increase frequency of services on key corridors.
- Reduce difference between scheduled and actual travel times.

#### ***Grow patronage on public transport by making it a more attractive choice***

- Ninety-five per cent of timetabled bus services in the Sydney area commence their trip on time.
- Increase share of peak hour journeys by public transport between major metropolitan CBDs.
- Increase proportion of journeys to work by public transport in the Sydney metropolitan region.

#### ***Improve customer experience with public transport services***

- Improve customer satisfaction with transport services.
- Increase real time travel information to customers.

### Sydney bus contracts have evolved since recommended by the Unsworth review in 2004

The 2004 Review of Bus Services in NSW (Unsworth Review) found that the Sydney metropolitan area had two bus systems – government and privately operated, with widely varying levels of service and customer satisfaction that fell short of community expectations.

Government accepted the Unsworth Review recommendation that the existing 87 serviced areas be consolidated into 15 regions with seven-year contracts for provision of bus services, including 11 regions serviced by private operators. The contracts provided consistent fares, concessions and service standards for customers on both STA and

privately operated services. These contracts were negotiated with existing operators, including STA as recommended in the Unsworth Review, and services commenced in 2005.

A performance audit report tabled in 2010 examined how well the performance of metropolitan bus services under these contracts was being managed. It focused on the critical role of the then lead government agency – NSW Transport and Infrastructure. The audit concluded that the contracts provided for a performance management regime to hold operators accountable. However, this was still being developed four years after the contracts came into effect and it remained unproven as a basis for ensuring value for money from the contracts. For bus users, this meant that poor performance and poor service may go unnoticed. For taxpayers, this meant that bus services may be more costly than they need to be.

Following the completion of the initial seven-year contracts, and in line with the Unsworth Review recommendations, revised contracts for eight privately operated regions were put to competitive tendering. Contracts were negotiated for two other privately operated regions, where incumbents met preconditions regarding transferring control of their bus fleet and depots to TfNSW. These included a region amalgamated from two previous smaller regions. Most contracts were for five years with a three-year right of extension, subject to meeting pre-agreed performance standards, plus an additional one-year period at TfNSW's discretion. Contracts for the four STA serviced regions, where it is currently government policy to maintain STA operations, were also negotiated. These were for a five-year period with an additional two-year discretionary period. The second round contracts were titled Sydney Metropolitan Bus Service Contracts (the Contracts). See Exhibit 1 for contract regions and their operators.

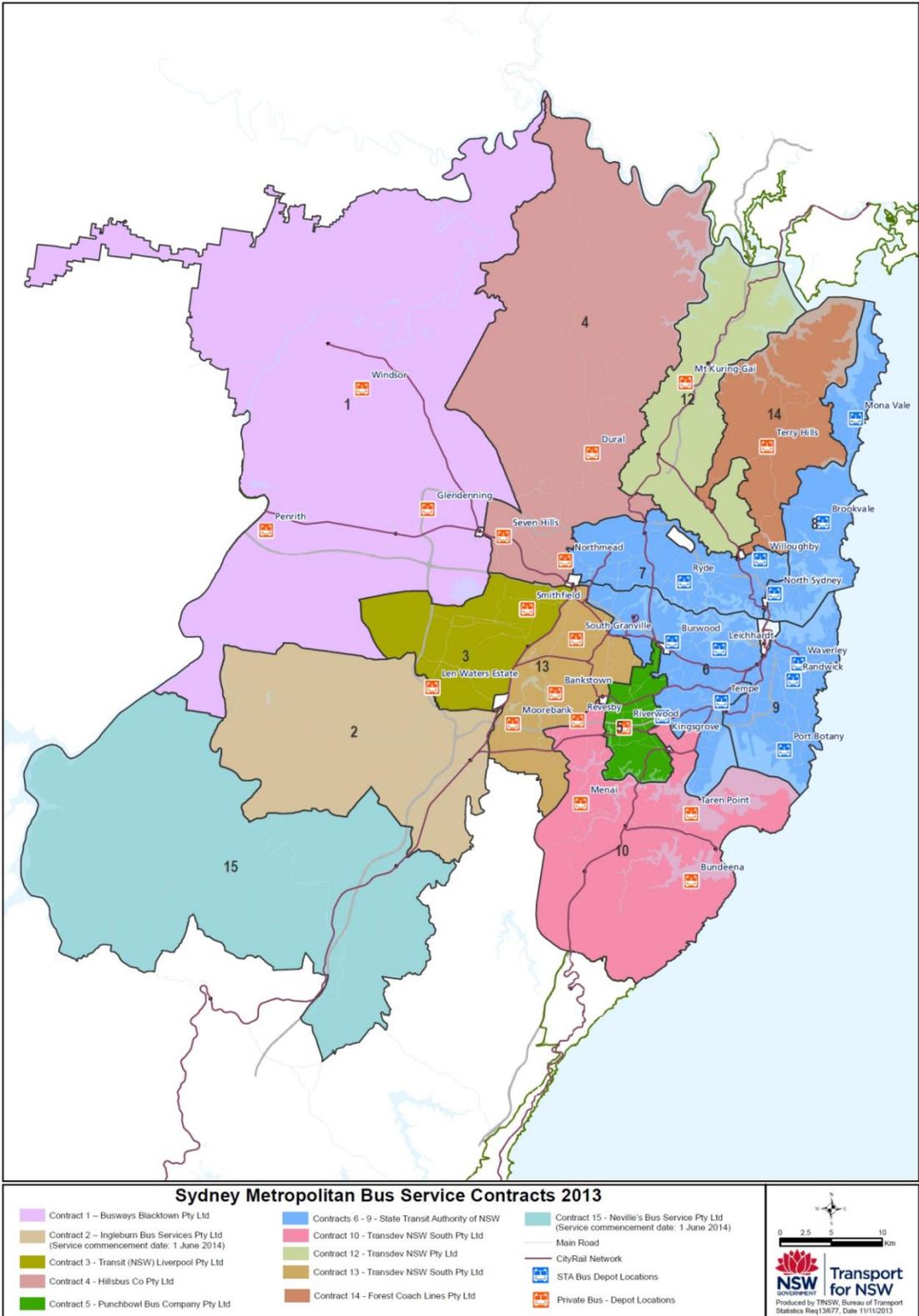
A first set of competitive tenders involved four contract regions. The successful tenderers in this round were announced in November 2012 with services starting mid to late-2013. In August 2013, contracts were awarded for the four remaining privately operated contract regions following a second set of tenders. These commenced around mid-2014.

Negotiated Contracts for the four STA contract regions commenced in July 2013, while those for the two private operator contract regions commenced in January 2013 and May 2013 respectively.

The total estimated annual payments under the Contracts are around \$1.02 billion, ranging from \$18.0 million to \$183 million per contract region. Private operators account for just over 40 per cent of these annual payments with STA accounting for the remainder.

Over 9.5 million scheduled trips are provided annually under the Contracts, with STA accounting for around five million. Trips include express, limited stops, regular, school and free shuttle services.

**Exhibit 1: Sydney Metropolitan Bus Service Contracts**



**Note:** Contract region 10 now incorporates what was contract region 11 under the previous contracts.

## 1.2 Audit scope and focus

This audit assessed the effectiveness of TfNSW's design and management of Sydney Metropolitan Bus Service Contracts (the Contracts). In doing so, we answered the following questions:

- Is the contracting approach adopted by TfNSW justified?
- Do the Contracts contain performance indicators and incentives which promote efficiency and effectiveness?
- Does TfNSW collect high quality information on operator performance and take action to correct performance deficiencies?
- Has TfNSW demonstrated that overall, Sydney metropolitan bus services are being delivered efficiently and effectively?

The focus of the audit was on the current (second) round of contracts which commenced after our performance audit in 2010 on the first round of contracts.

# Key Findings

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## 2. The contracting approach adopted by TfNSW

There are sound reasons why TfNSW implemented a purchaser-provider model for Sydney metropolitan bus services.

A purchaser-provider approach for providing scheduled bus services is consistent with the government's broad policy direction and practices in many other jurisdictions.

TfNSW adopted a robust process leading to its decisions about how best to implement the purchaser-provider model for Sydney metropolitan bus services. However, there are diverse views about the best way to implement a purchaser-provider model, with new evidence emerging over time.

The Contracts with STA do not clearly separate purchaser from provider and do not offer the same financial incentive and risk transfer as those with private operators.

### Recommendations

TfNSW should:

- in its future decisions on determining a purchaser-provider approach for Sydney metropolitan bus services, refresh its review of academic literature and contemporary strategies adopted elsewhere to maximise value for money and assess their potential application
- work towards a full purchaser-provider model for STA's regions, with clear separation of accountabilities and a similar incentive regime to private operators.

### **A purchaser-provider approach for providing scheduled bus services is consistent with the government's broad policy direction and practices in many other jurisdictions**

TfNSW contracts with public and private operators to provide scheduled bus services in the Sydney metropolitan area. The Contracts specify the quality and quantity of services TfNSW requires. This is a purchaser-provider model (see Exhibit 2).

### **Exhibit 2: Description of a purchaser-provider model**

The role of the purchaser is to determine the range of service needs (quality and quantity) and purchase services to meet these needs through agreements or contracts with providers (who may be public or private).

The role of providers is to ensure the purchaser is provided with the service in the manner specified in the agreement or contract.

The purchaser-provider approach, as adopted for the Contracts, is an objective of the *Transport Administration Act 1988* under which TfNSW is operating:

#### **2B Common objectives and service delivery priorities of public transport agencies**

(1) Public transport agencies are to exercise their functions in a manner that promotes the following objectives, which are the common objectives of public transport agencies ...

... (e) To focus on performance and service delivery, based on a strong purchaser-provider model with clear accountabilities for outcomes.

A purchaser-provider model is also consistent with the Unsworth Review recommendations and is reflected in the new services proposed in the NSW Long Term Transport Master Plan and Sydney's Bus Future document.

A purchaser-provider model for providing scheduled metropolitan bus services is a common approach across Australian and international jurisdictions. For example, Singapore is currently moving from a deregulated to a purchaser-provider model (see Exhibit 3).

### **Exhibit 3: Singapore bus contracting**

The Singapore Government announced in 2014 that it would adopt a new contracting model. This would enable the government to make public bus services more responsive to changes in commuter needs as well as inject more competition into the industry, leading to higher service levels for commuters over time.

The model being implemented is similar to the current NSW model. Singapore's Land Transport Authority determines the bus services to be provided and the service standards, and bus operators bid for the right to operate these services. They will be paid fees to operate the services, while fare revenue will be retained by the government. The government will also own all bus infrastructure such as depots, as well as operating assets such as buses and the fleet management system.

There is also a view among many academics that some form of purchaser-provider arrangement has been more successful than either full deregulation or monopoly provision (see Exhibit 4).

### **Exhibit 4: Example of research findings on the purchaser-provider model**

Nash and Bray (2014) identified that government authorities should set the context in the form of contracts, which would inevitably influence the tactical planning process. Operators – who have a better knowledge of the needs of their passengers and of the commercial possibilities of alternative ways of serving them should be in charge of operations.

Rivasplata (2008) found that the deterioration of system-wide service planning had occurred in some unregulated markets where private operators do not actively participate in co-ordinating with other bus or rail operators largely due to a lack of incentives.

Gulibon (2006) suggested the successful international competitive contracting programs have generally maintained separation of policy from operations, meaning that government retains control of the services to be provided, but does not operate the transit system itself. Additionally, one of the primary objectives of many government transportation agencies was system integration, the desire for common, coordinated fares and services. Competitive contracting allows government to keep control of these factors.

Sources: C Nash and D Bray, 'The roles and responsibilities of government and operators', *Research in Transport Economics*, 2014, vol. 48, October, p. 286

C Rivasplata, *'Public Transport Integration in a privatised market: Recent Policy Lessons from abroad'*, Sustainable Development Challenges of Transport in Cities of the Developing World. Hô Chi Minh City (Vietnam), Cooperation for Urban Mobility in the Developing World (CODATU), 2008, p.2

G Gulibon, *'Competitive contracting of bus services: The international experience'* Pittsburgh (USA), Allegheny Institute for Public Policy, 2006, p. 2-4

Metropolitan bus services in England offer an example of successful outcomes from a purchaser-provider model (see Exhibit 5).

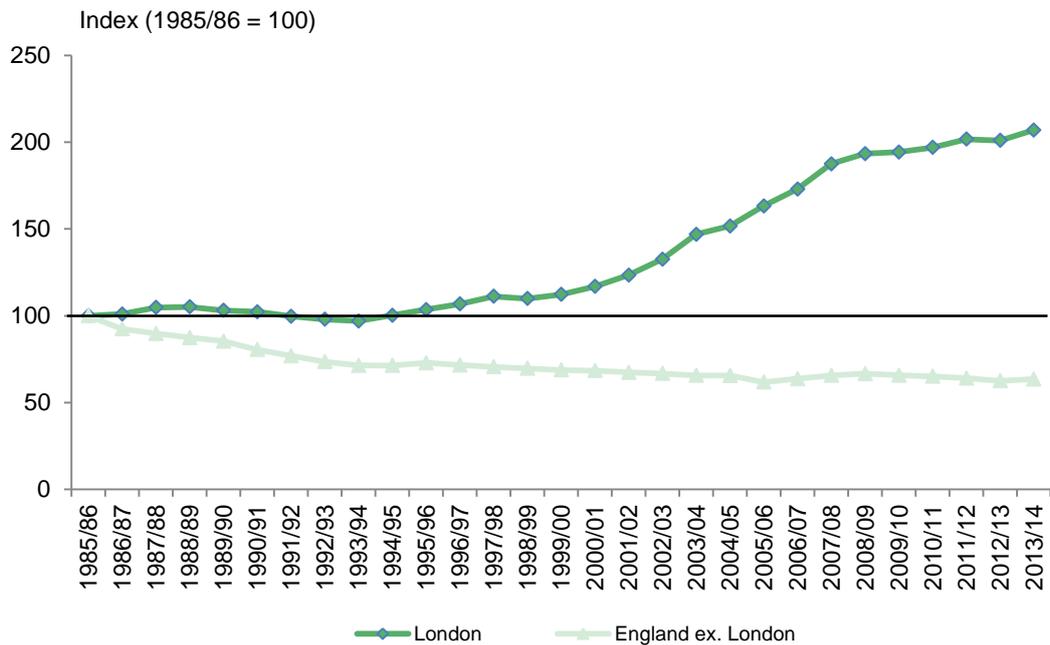
**Exhibit 5: Metropolitan bus services in England – case study**

London Buses manages bus services in London. It plans routes, specifies service levels and ensures service quality. It is also responsible for bus stations, bus stops and other support services.

The bus services are operated by privately owned operating companies who compete for contracts to provide specified services for up to seven years.

Research indicates that following the move in 1985 from a deregulated to a regulated competitively tendered market in London, the annual growth in passenger journeys per head of population lifted strongly. At the same time, it fell elsewhere in England where metropolitan services are deregulated.

**Annual growth in passenger journeys on local bus services by region per head of population**



Source: UK Department of Transport.

Discussion in academic literature tends to focus on how best to implement a purchaser-provider model rather than whether it is the best approach for scheduled passenger bus services.

The Unsworth Review recommended a purchaser-provider approach. The review found the previous system where private operators were largely responsible for determining bus routes, timetables and fares, had delivered poor results. This included wide disparity in fares, service quality and frequency compared to government bus services. Essentially, there was a two-tiered system in place, with those commuters covered by STA well serviced and those by private operators not so.

An integrated transport network in Sydney is a key objective for the NSW Government. The Contracts allow TfNSW to specify bus services from operators to facilitate integration and minimise duplication between transport modes and across transport networks.

## **TfNSW adopted a robust process leading to its decisions about how best to implement the purchaser-provider model for Sydney metropolitan bus services**

Under the Contracts, TfNSW determines bus frequency and routes and contracts for delivery of bus services from public and private operators. In establishing the Contracts, TfNSW decided to:

- market test eight contract regions operated by private operators through competitive tendering
- negotiate with existing private operators in two contract regions, where these operators had met a pre-condition to transfer control of bus fleet and depot assets to TfNSW
- negotiate the four existing publicly-operated contract regions with STA
- keep, to a large extent, the existing contract boundaries.

In making these decisions, TfNSW:

- undertook extensive research into effective practices elsewhere
- commissioned benchmarking studies to assess relative performance and the scope for improvement
- obtained expert advice
- consulted with private and public operators
- drew on its experience of the previous round of bus service contracts
- followed government policy directions, including that STA should remain in public ownership and retain its contract regions.

The process adopted by TfNSW was robust, and its decisions were justified.

There is a relatively common view in academic literature and among jurisdictions that purchaser-provider is a good model for scheduled metropolitan bus services. However, there are diverse views about the best way to implement such a model and new evidence is emerging over time. To illustrate:

- there are various ways to package and offer routes to the market, including the approach in London where small groups of routes are offered and operators can bid for individual routes or packages of routes (so that the market decides the most efficient packages)
- there is ongoing debate about the benefits of competitive tendering versus negotiation, particularly in situations where the market has already been tested and existing contracts are expiring.

Further, there may be changes in the market which could impact on the best way to award contracts, including changes to the number of potential operators and changes in ownership of strategic assets such as depots.

It is therefore important that TfNSW adopts robust processes to help it make future decisions about Sydney metropolitan bus services so that it continuously maximises value for money.

**The Contracts with STA do not offer the full benefits of a pure purchaser-provider model because the performance risk remains with government**

STA's Contracts have the same Key Performance Indicators (KPIs) as private operators. STA, however, is operating under a very limited purchaser-provider model.

While STA and TfNSW have agreed on efficiency savings to be achieved based on benchmarking conducted on behalf of TfNSW and STA which have been reflected in the negotiated price:

- the governance arrangements in place do not provide a clear separation of purchaser and provider, with the CEO STA (the provider) subject to the control and direction of the Secretary of TfNSW who also controls TfNSW (the purchaser)
- STA's four contract regions were not market-tested through competitive tendering, so the price may not be a true market rate
- STA is not subjected to penalties for poor performance on critical KPIs on the basis that it would be a transfer payment between parts of government, in contrast to the private operators
- STA does not receive the Patronage Incentive Payment received by private operators
- STA is government-funded, so any losses due to failure to perform efficiently and to the agreed price are borne by the taxpayer, whereas losses incurred by a private operator are borne by that operator.

### 3. Performance indicators and incentives in the Contracts

The Contracts were developed through a robust process and contain performance indicators and incentives which promote efficiency and effectiveness.

However, incentives for punctuality are limited, with financial penalties only applicable to private operators, and only for lateness at start of trip. The KPI regarding passenger and driver security monitoring cannot be measured as it is reliant on a regulatory change which has not occurred.

#### Recommendations

TfNSW should:

- introduce stronger incentives for operators to achieve mid-trip and end-of-trip punctuality targets
- revise the current KPI on passenger and driver security monitoring to make it relevant and measurable.

#### The Contracts were developed through a robust process and contain performance indicators and incentives which promote efficiency and effectiveness

TfNSW undertook extensive research, obtained expert advice and consulted with operators in developing the performance regime. TfNSW also drew on its experience of the previous round of bus service contracts.

KPI development was driven by the customer value proposition that customer needs are paramount. Customer values were determined by research. Key values included timeliness and passenger safety/security. KPIs are classified to reflect their level of importance to TfNSW, with those considered critical making private operators subject to monetary penalties if breached (see Exhibits 6 and 7). Failure to meet any KPI requires an operator to submit a cure plan to address the causes.

#### Exhibit 6: KPI class description

Class	Class description
1	Critical KPI under the effective control of the operator – Penalties for non-performance apply up to a cumulative maximum of 12.5 per cent of a monthly payment
2	KPI under the effective control of the operator but penalties mostly do not apply for non-performance. However penalties for non-performance do apply (cumulative with Class 1 KPIs) for designated Class 2 KPIs. Changes to Class 2 KPIs subject to penalties or redesignating Class 2 KPIs to Class 1 at discretion of TfNSW with 30 days' notice
3	KPIs to which penalties for non-performance do not apply due to influence on performance not under the control of the Operator or managed under different regime (such as pricing). Changes of Class 3 KPIs to Class 2 (not subject to penalties) at discretion of TfNSW with 30 days' notice
4	Applies to Customer Satisfaction Survey only. Penalty for non-performance of 0.3 per cent of annual payment

A key underlying principle adopted was that critical KPIs needed to be under the direct influence of the operator. This also helped to identify the critical KPIs. However, unlike private operators, STA is not subject to the penalty regime.

A key finding of academic literature is that outcomes, such as improved access, mobility and service, are what any contract should aim for. This is the aim of the Contracts.

## Exhibit 7: Sydney metropolitan bus service contract KPIs (effectiveness)

KPI	Class <sup>1</sup>	Measurement responsibility
<b>Patronage growth and revenue protection</b>		
Increased boardings per scheduled service kilometre	3	Operator
Passenger or passenger kilometre growth	3	Operator
Contract bus revenue collection rate	1	Operator
<b>Service reliability</b>		
Punctuality rate – published timetable trips		Operator
• Trip commencement	1	
• Trip midpoint	3	
• Trip end	3	
Cancelled and incomplete trips	1	Operator
<b>Customer satisfaction</b>		
Customer complaint per boarding	1	Operator
Customer complaint resolution	2	Operator
Response to customer complaint	2	Operator
Customer complaint/enquiry database	2*	Operator
Customer satisfaction (survey)	4	TfNSW
<b>Passenger safety/comfort</b>		
Passenger crowding	2	Operator
CCTV and duress alarm reliability	1	Operator
Wheelchair accessible bus services	2	Operator
Bus presentation	2	TfNSW
Passenger information on delayed services	2	TfNSW
<b>Bus reliability/safety</b>		
Incidents due to failure to conduct contract bus maintenance	2	Operator
Contract bus maintenance – major defects	1	Operator
Preventable accidents	2	Operator
Major incident resolution	2	Operator
<b>Contract management</b>		
Reporting to TfNSW	2*	Operator
Provision of information to TfNSW	2	Operator
Data maintenance	1	Operator
Project on time delivery	2	Operator

<sup>1</sup>All Class 1 and Class 2\* KPIs are subject to monetary penalties for non-performance by private operators.

The KPIs and incentives are consistent with and promote the government's objectives for public transport, as outlined in the NSW 2021 State Plan. Relevant objectives include increased patronage, reduced difference between actual and scheduled travel times, 95 per cent on-time-running, improved customer satisfaction, and increased real time travel information.

The State Plan also has targets for increasing passenger growth (see Exhibit 8). The Contracts have a Class 3 KPI for this purpose, recognising that there are a range of factors outside the control of operators that impact on passenger growth. Having said this, the Contract KPI is generic in that it focuses on passenger growth in total, rather than during peak commuting times which are the focus of State Plan targets (see Exhibit 8).

#### **Exhibit 8: NSW 2021 State Plan targets for passenger growth**

State Plan patronage targets focus on journeys to work :

- Increase the share of commuter trips made by public transport to and from:
  - Sydney CBD during peak hours to 80 per cent by 2016
  - Parramatta CBD during peak hours to 50 per cent by 2016
  - Liverpool CBD during peak hours to 20 per cent by 2016
  - Penrith CBD during peak hours to 25 per cent by 2016.
- Increase the proportion of total journeys to work by public transport in the Sydney Metropolitan Region to 28 per cent by 2016.

The Contract performance regime is comparable with other like jurisdictions, and is consistent with research findings on what constitutes an effective performance regime for contracted bus services.

TfNSW is also able to amend the regime if elements are not working. For example, TfNSW amended the measurement definition of one KPI where the original wording was ambiguous and did not allow performance to be measured as intended. This dealt with bus trips cancelled or not completed due to defects not identified during regular maintenance.

#### **Punctuality performance is much lower where there is no threat of financial penalty**

There are three KPIs for on-time-running. The only one of these subject to financial penalty for private operators is for the start of a trip. A financial penalty is not imposed on STA for failing to meet this KPI.

A financial penalty is not imposed on private operators or STA for failing to meet mid or end-of-trip KPI's, despite these arguably being more important to passengers. TfNSW can, however, require operators to develop punctuality improvement (cure) plans.

Since the Contracts began:

- private operators have mostly met the trip-start KPI for which there is a potential financial penalty
- STA has not met any punctuality KPIs and private operators have almost never met the mid or end-of-trip KPIs, for which there are no potential financial penalties.

London Buses attaches financial penalties on punctuality KPIs for all timetabled stops. TfNSW points out that the targets for London Buses punctuality are less stringent. However, as the Contracts were tendered on the basis of punctuality KPIs being 95 per cent on time at trip start and mid-trip, and five per cent of end-of-trip being late, it is expected that bidders would have factored in the potential consequences of non-compliance when pricing their tender.

TfNSW argues that it has been concentrating on improving STA punctuality, particularly at start of trip, and it intends to undertake deeper analysis on the private operators soon for mid-trip and end-of-trip punctuality. This needs to be documented as part of a forward strategy.

**The indicator regarding passenger and driver security monitoring is inoperative because it is reliant on a regulatory change which has not occurred**

TfNSW advised that when the indicator regarding CCTV images and duress alarms was included, the enactment of an order requiring all new buses to have security systems was expected.

TfNSW also classified this KPI as critical and made it subject to monetary penalties.

However, such an order has not been enacted, rendering the KPI inoperative as it cannot be measured. It should therefore either be modified or removed.

TfNSW advises that the intent of the indicator has worked because TfNSW can now retrieve CCTV and other footage as a result of new bus specifications and this KPI being created.

TfNSW has indicated it will modify the wording or refresh and enact the order.

## 4. Quality of information and action to address performance deficiencies

Information collected on most aspects of operator performance is largely valid and reliable, and will be more so once electronic bus tracking systems are fully operational following resolution of outstanding technical issues. The present exception is data for punctuality and service reliability, where TfNSW advises that a major cause is driver error in entering route or shift information into the electronic bus tracking system.

TfNSW's framework for managing the Contracts has a number of positive elements. These include individual management plans for each Contract, monthly reporting, senior level meetings with operators, detailed and explicit descriptions of how the KPIs operate, procedures for managing variations to routes and timetables, and a comprehensive set of delegations.

Action taken to rectify punctuality performance deficiencies in the early stages of the Contracts was inadequate, although TfNSW advises it will no longer be as lenient.

### Recommendations

TfNSW should:

- classify a trip as cancelled where the trip is not tracked for reasons other than technical reasons, unless operators can prove otherwise
- enhance its electronic information systems so they generate discrepancy reports automatically
- impose penalties on private operators for failure to meet the start-of-trip punctuality target except where there is a contractually defined Excused Performance Incident
- improve its internal controls over decisions to waive penalties and acceptance of cure plans.

### **Information collected on most aspects of operator performance is largely valid and reliable, and will be more so once electronic tracking systems are fully operational**

For the most part, the methods used to assess performance provide a reasonable assessment of what they purport to measure (valid), and the data produced is relatively stable and consistent (reliable). To a large extent, the performance regime incentivises accurate reporting of data by operators.

In developing the KPIs, TfNSW set out to have them fully defined, including the data source and calculation method, and supported by accurate data.

KPIs were also required to operate effectively from contract commencement.

Data measurement and reporting rested with the operator for 26 of the 30 KPIs (and sub KPIs) adopted.

TfNSW uses a mix of strategies to validate operator-supplied data, such as an ongoing audit program using independent external resources and TfNSW spot audits, customer complaints, and electronic information systems controlled by TfNSW.

These systems include:

- OPAL and bus electronic ticketing systems for validating patronage based KPIs
- Public Transport Information and Priority System (PTIPS) which can locate and record all buses across the network in real time (see Exhibit 9)
- Operational and Spatial Database (OSD), which contains the bus routes and timetables for validating punctuality and reliability-based KPIs.

## Exhibit 9: Public Transport Information and Priority System (PTIPS)

PTIPS uses satellite technology to identify late-running buses and communicate with the traffic management system to direct traffic signal priority to late-running buses, where possible. PTIPS has been rolled out across the whole Sydney metropolitan bus fleet.

These electronic systems will shortly phase out the manual sample observation surveys conducted by TfNSW to date.

### **Data for service reliability and punctuality KPIs is being affected by driver data entry errors, but TfNSW is increasing incentives for accurate data entry**

Driver error in entering route information and, to some extent, technical issues are undermining the potential benefits of PTIPS for measuring on-time-running and service reliability (cancelled services/incomplete trips). There is insufficient incentive for operators to ensure drivers enter routes accurately.

While operators provide monthly reports on their performance on these KPIs, TfNSW can validate the reports through the PTIPS and OSD systems, as well as by limited manual observation.

However, TfNSW advised that due to a number of factors, between 90 per cent and 95 per cent of trips only are tracked via the automated tracking system, which could mean buses which are claimed to be operating are not being tracked and recorded.

TfNSW also advised one of the major causes of this is driver error in entering route or shift information into the bus display console which interacts with PTIPS for each scheduled bus service. Technical problems with the consoles and PTIPS system are also responsible for a small number of trips not being recorded.

To date the missing trips are excluded from the measurement for the on time running and cancelled or incomplete trip KPIs. The current approach by TfNSW to missing trips from PTIPS exposes it to the risk of having the system subverted. For example, trips which are late starting could be deliberately not recorded or improperly entered. This would make those trips invisible and unverifiable and they are therefore not included in the measured KPIs for on-time running and cancelled or incomplete trips.

A stronger incentive appears to be needed to ensure operators assume full responsibility for their driver input errors. TfNSW advised that up until recently it was not feasible to separate technical issues from driver error, but this has improved over the past months and should be essentially resolved with further system updates. TfNSW has been working with operators to reduce the untracked trips. As a result, once technical issues are substantially resolved, TfNSW will be advising operators that unless they can provide adequate evidence that scheduled buses not recorded in PTIPS ran to schedule, they will be measured as cancelled trips and hence subject to the penalty regime. TfNSW is also working with operators to improve driver operation of bus display consoles as well as resolving discrepancies between PTIPS, and operator provided data.

We also found that discrepancies between PTIPS data and operator reports are presently being identified manually by TfNSW, rather than the PTIPS system generating discrepancy reports automatically. This exposes TfNSW to missing discrepancies and hence incorrectly measuring these KPIs. TfNSW advises it is now working on having the systems generate automatic discrepancy reports.

### **TfNSW's framework for managing the Contracts has a number of positive elements**

The framework for managing the Contracts implemented by TfNSW includes using individual contract management plans and a robust governance framework involving monthly reporting and meetings with senior management of both contracting parties. Individual contract officers are appointed for each Contract, with additional resources allocated to support them. This includes the fare inspection service.

The Contracts have a very detailed and explicit description of the operation of KPIs which clearly separate operator and TfNSW obligations and required actions. There are also detailed procedures for managing variations to routes and timetables, which are the primary source of variations and which include delegations of authority. There is also a comprehensive set of contract delegation authorities which cover all key decision making aspects.

In the case of private operators, performance is incentivised by the penalty regime for critical KPIs.

### **Action taken to rectify punctuality performance deficiencies during the early stages of the Contracts was inadequate**

The punctuality KPI with a potential financial penalty is for at least 95 per cent of scheduled trips each month to start on time (that is no more than one minute 59 seconds early or five minutes 59 seconds late).

Since the Contracts commenced, penalties have been imposed for failure to meet this KPI nine times, and penalties are pending on five other instances. However, over that time private operators from the ten contract regions self-reported not meeting that KPI 39 times. There were nine instances where penalties were waived due to operators demonstrating delays were due to incidents outside their reasonable control. These are termed Excused Performance Incidents, and their scope is defined in the Contract.

Furthermore, TfNSW agreed to waive KPI enforcement on a total of 16 occasions on the basis that the operator was implementing a documented and agreed cure plan.

TfNSW advises that this approach:

- was adopted during the early stages of the Contracts to provide operators an opportunity to determine the reasons for failure and implement improvements
- is unlikely to be adopted again for these Contracts.

Waiving of penalties where there is no Excused Performance Incident should, in general, be rare and in extenuating circumstances. Waiving penalties to give operators time to adjust was generous, given the contracts made clear that KPIs were to operate from contract commencement and did not foreshadow an 'adjustment period'. TfNSW did not show that it systematically weighed the benefits against the cost of waiving penalties. It is also open to question whether other operators may have bid lower prices if they realised that penalties would be waived.

Commuters, taxpayers and other operators have the right to expect that decisions to waive contract provisions are rare and subject to a thorough review process. That has not always been the case.

### **Controls over decisions to impose or waive penalties are inadequate**

The internal controls established by TfNSW over decisions such as whether to waive penalties for failure to meet certain KPIs, or the acceptance of cure plans, are not sufficient.

These decisions are delegated to the bus contract managers for each region. There are no detailed and documented procedures to guide the managers and no process to ensure a second officer reviews these decisions. This presents a risk that the contracts are not enforced adequately and consistently.

Whilst bus contract managers have the delegation to approve route changes up to \$10,000, there is no specific limit to the penalty amount they can waive without checks. While the highest monthly penalty waived to date has been around \$71,000, monthly penalties could range as high as \$182,625 for a series of consecutive defaults for a single KPI under the Contracts.

TfNSW advises that, in practice, decisions to waive penalties are always subject to senior officer review, although it did not provide evidence of this. TfNSW also advised that it intends to refine its internal controls and enhance its documentation of procedures, including the acceptance of cure plans.

## 5. Overall efficiency and effectiveness of Sydney metropolitan bus services

TfNSW was able to demonstrate that, for the most part, Sydney metropolitan bus services are being delivered relatively effectively and efficiently.

Data provided by TfNSW shows that:

- all operators are meeting most of their effectiveness KPIs
- customer satisfaction is better than under the previous contracts and improving
- the unit costs to government of providing services are now lower than under the previous contracts
- it has achieved the benefits it expected from the Contracts.

However:

- private operators are mostly starting their trips on time, but rarely meeting their mid and end-of-trip targets
- STA's punctuality is improving, but is below that of private operators and it is not yet meeting its targets
- while STA's costs have fallen, further planned reductions need to be realised
- STA's performance on other indicators is generally below that of private operators.

### Recommendations

TfNSW should:

- introduce stronger incentives for private operators to achieve mid-trip and end-of-trip punctuality targets
- take further steps to generate improvements in STA punctuality
- continue to work with STA to reduce costs.

### Overall, operators are mostly meeting KPIs with the exception of punctuality

The KPIs in the contracts are indicators of effectiveness.

Exhibit 10 shows that private operators generally performed better than STA, achieving compliance at 90 per cent or better in 19 of the 22 KPIs measured, while STA managed to achieve compliance at 90 per cent or better in 13 of the 21 KPIs measured.

In relation to revenue collection by STA, which had a compliance rate of 48.6 per cent, performance has improved over the six months to April 2015, with no instances of KPI failure reported in that period.

We noted that the KPI dealing with an annual increase in boardings per scheduled service kilometre was not measured for STA services as there was no mechanism to do so at the time.

## Exhibit 10: Operator performance on KPIs excluding punctuality

KPI <sup>1</sup>	Class	Measure frequency <sup>2</sup>	Compliance by private operators <sup>3</sup>	Compliance by STA <sup>3</sup>
<b>Patronage growth and revenue protection</b>				
1% annual increase in boarding per Scheduled Service Kilometre	3	Annually	29/31 (93.5%)	Not measured
Growth in passenger kilometres	3	Annually	20/20 (100%)	33/35 (94.3%) <sup>4</sup>
99.5% passengers inspected paid for trip	1	Monthly (as required)	49/49 (100%)	34/70 (48.6%)
<b>Service reliability</b>				
1% cancelled and incomplete trips	1	Monthly	170/170 (100%)	84/84 (100%)
<b>Customer satisfaction</b>				
22 customer complaint per 100,000 boardings	1	Annually	35/35 (100%)	2/4 (50%) <sup>4</sup>
<ul style="list-style-type: none"> <li>70% customer complaints resolved within 2 business days</li> <li>95% customer complaints resolved within 30 business days</li> </ul>	2	Monthly	168/170 (98.8%)	81/84 (96.4%)
100% customer complaints acknowledged within 2 business days	2	Monthly	162/170 (95.3%)	1/84 (1.2%)
100% customer complaints received by operator registered in 131500 database	2*	Monthly	170/170 (100%)	84/84 (100%)
85% satisfaction rating in annual customer survey	4	Annually	18/18 (100%)	8/12 (66.7%)
<b>Passenger safety/comfort</b>				
0% failure by operators to report bus crowding	2	Monthly	170/170 (100%)	84/84 (100%)
99% timetabled wheelchair access services provided	2	Monthly	169/170 (99.4%)	84/84 (100%)
95% passengers satisfied with bus presentation	2	Quarterly	4/6 (66.7%)	0/4 (0%)
95% buses inspected meet presentation requirements	2	Quarterly	4/7 (57.1%)	0/4 (0%)
95% of passengers on bus informed of delays	2	Quarterly	0/15 (0%)	0/8 (0%)
<b>Bus reliability/safety</b>				
No more than 5% cancelled or incomplete trips due to failure to conduct bus maintenance	2	Monthly	170/170 (100%)	84/84 (100%)
Nil major defects identified in RMS inspections	1	Monthly	165/170 (97.1%)	68/84 (81%)
Nil preventable accidents in reporting period	2	Monthly	161/170 (94.7%)	62/84 (73.8%)
95% of major incidents <ul style="list-style-type: none"> <li>Advised to TfNSW within 5 minutes</li> <li>Replacement buses and/or tow trucks despatched within 10 minutes</li> </ul>	2	Monthly (as required)	11/12 (91.7%)	11/11 (100%)
<b>Contract management</b>				
100% of monthly operator reports submitted on time	2*	Monthly	163/166 (98.2%)	76/80 (95%)
100% of other information submitted on time	2	Monthly (as required)	94/109 (86.2%)	16/16 (100%)
Nil errors in data entered into TfNSW systems	1	Monthly	170/170 (100%)	80/84 (95.2%)
100% on-time delivery of TfNSW projects	2	Monthly (as required)	10/10 (100%)	64/64 (100%)

<sup>1</sup>All Class 1 and Class 2\* KPIs are subject to monetary penalties for non-performance by private operators.

<sup>2</sup>The measure frequency is stated in the Contract. Measurement of the quarterly KPIs for bus presentation and passenger information only commenced in October 2014 as part of the annual customer survey.

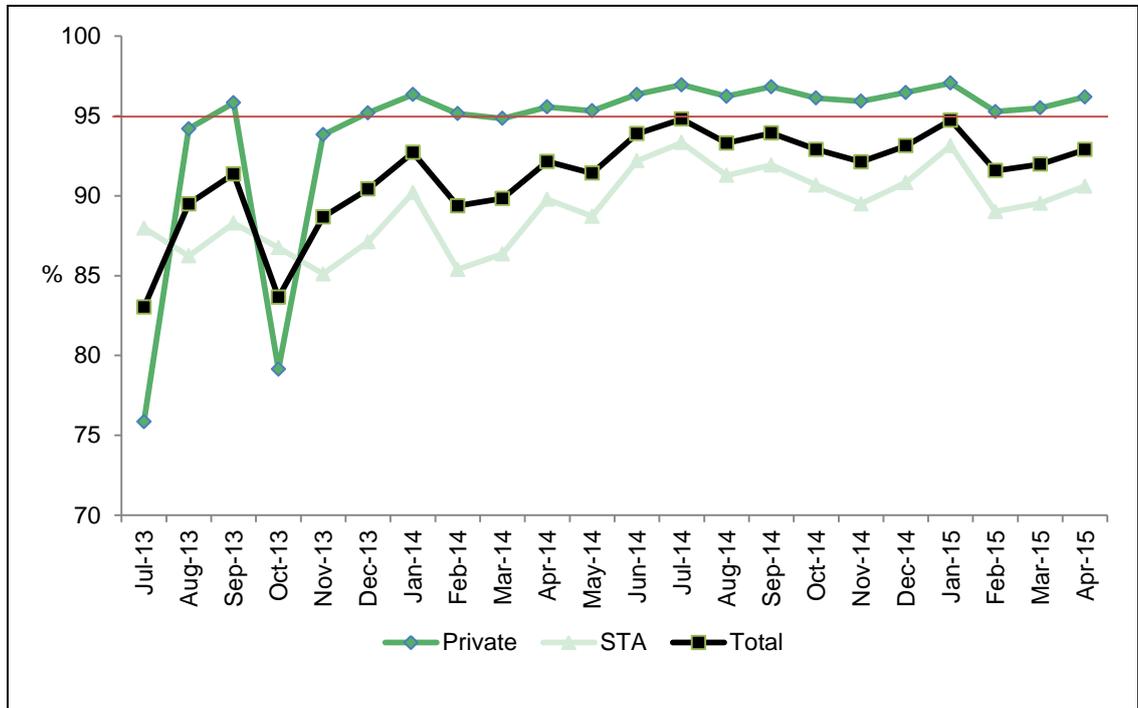
<sup>3</sup>Compliance is calculated by dividing the number of times a KPI has been measured since Contract start into the number of times it was achieved. This is done separately in aggregate for private operator and STA Contracts.

<sup>4</sup> A methodology agreed between STA and TfNSW was used to estimate boardings.

**Overall, punctuality performance at start of trip has improved and is often near the target, but is routinely below target for mid and end-of-trip**

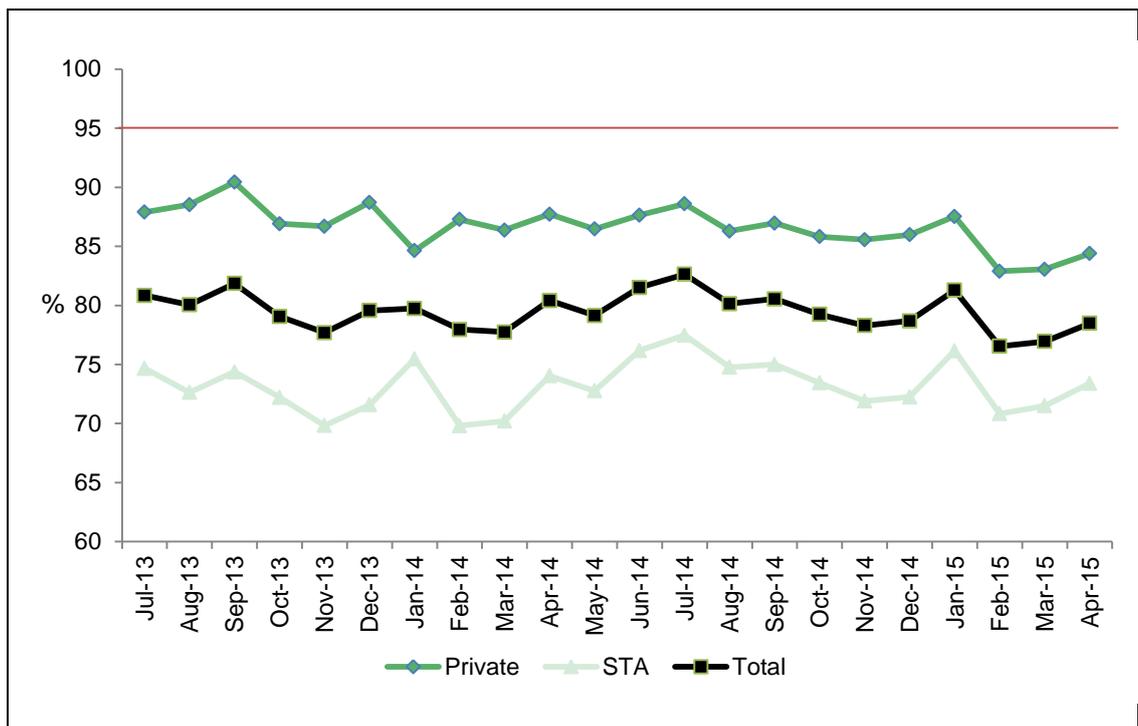
On-time-running, or punctuality, is a key effectiveness indicator. The target in the Contracts is 95 per cent on-time-running at commencement of trip and mid-trip, and five per cent late at end-of-trip.

**Exhibit 11: Punctuality of all operators – on-time-running at commencement of trip**



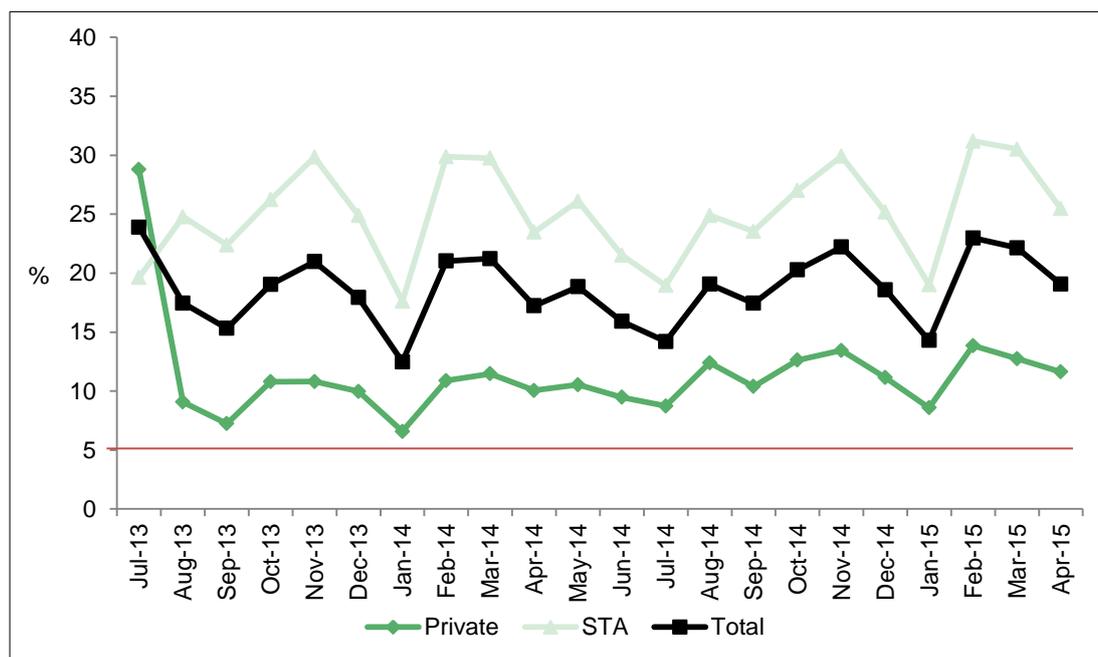
Source: TfNSW 2015.

**Exhibit 12: Punctuality of all operators – on-time-running at mid-trip**



Source: TfNSW 2015.

### Exhibit 13: Punctuality of all operators – late running at end-of-trip



Source: TfNSW 2015.

#### While on-time trip commencement KPIs are mostly being met by private operators, they are not meeting mid and end-of-trip KPIs

On-time commencement of bus trips by private operators mostly meets the KPI target of 95 per cent. There were 39 instances of underperformance recorded over 179 reporting periods, with most of these (18) in the initial six months of a Contract starting. The weighted average performance for this KPI since Contracts commenced is presently around 95 per cent.

However, KPI targets for mid-trip and end-of-trip are consistently not being achieved by private operators, with only eight and nine instances respectively of on-time performance recorded. At present, the weighted average performance for the mid-trip KPI is around 86.3 per cent against the target of 95 per cent. For the end-of-trip target, which requires no more than five per cent of trips being late, the weighted average performance is currently around 12 per cent.

While penalties for the trip commencement KPI provides a strong incentive for operators to perform, the mid and end-of-trip KPIs do not have a penalty incentive. This aspect of performance needs improvement, as mid and end-of-trip punctuality is arguably more important than trip commencement for the majority of passengers, particularly those who are transiting to or from other services or join the service mid-trip.

The importance of punctuality to passengers is borne out by results from the annual customer surveys conducted by TfNSW. While the overall customer satisfaction level is currently averaging around 86 per cent (above the 85 per cent target), the satisfaction level for buses turning up on-time is averaging around 78 per cent.

### STA punctuality, while improving, is worse than that of private operators and is not meeting any of the punctuality KPIs

For STA Contracts, TfNSW reported that performance targets for punctuality have not been achieved for any one month of the 84 reporting periods for all three KPIs. The weighted average performance for the commencement of trip KPIs since Contracts commenced is around 89 per cent. The weighted average performance for the mid-trip KPI is 73.1 per cent, while the average weighted performance for end-of-trip is 25.1 per cent. All of these averages are worse than that for private operators. We noted earlier that a lack of penalties in STA contracts (including for trip commencement) limits the incentives available to drive better performance.

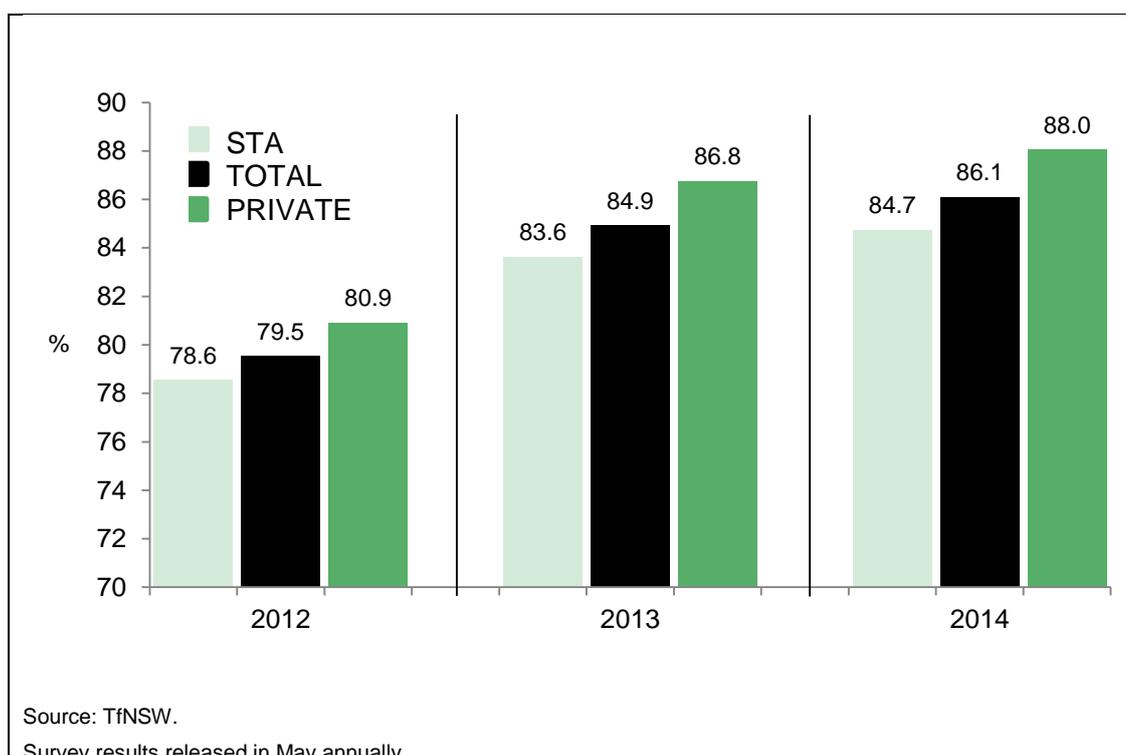
To address the underperformance of STA, in early 2013 TfNSW initiated a pilot program to improve on-time-running of buses from the Kingsgrove bus depot. On-time-running performance at the depot at the start of the program was 81.4 per cent, compared to the 95 per cent KPI for trip commencement in the Contracts, and below the 85 per cent average for STA across all depots. Within four months Kingsgrove depot reached the average for all depots (at that time around 85 per cent) and from there on was consistently outperforming the average. STA then commenced a weekly depot ranking report which benchmarks depot performance for trip commencement for first trips and follow-on trips.

Since the pilot at Kingsgrove and the benchmarking of all STA depots, trip commencement performance has improved, and now averages around 90 per cent for all depots. However, this is still short of the 95 per cent KPI performance target, which is mostly being met by private operators.

### Customer satisfaction has improved with the introduction of the Contracts

TfNSW publishes annual customer surveys to identify overall customer satisfaction with bus services, as well as subsets of services such as timeliness, safety and security, ticketing, comfort, accessibility, cleanliness, information, customer service and convenience on a contract region by region basis.

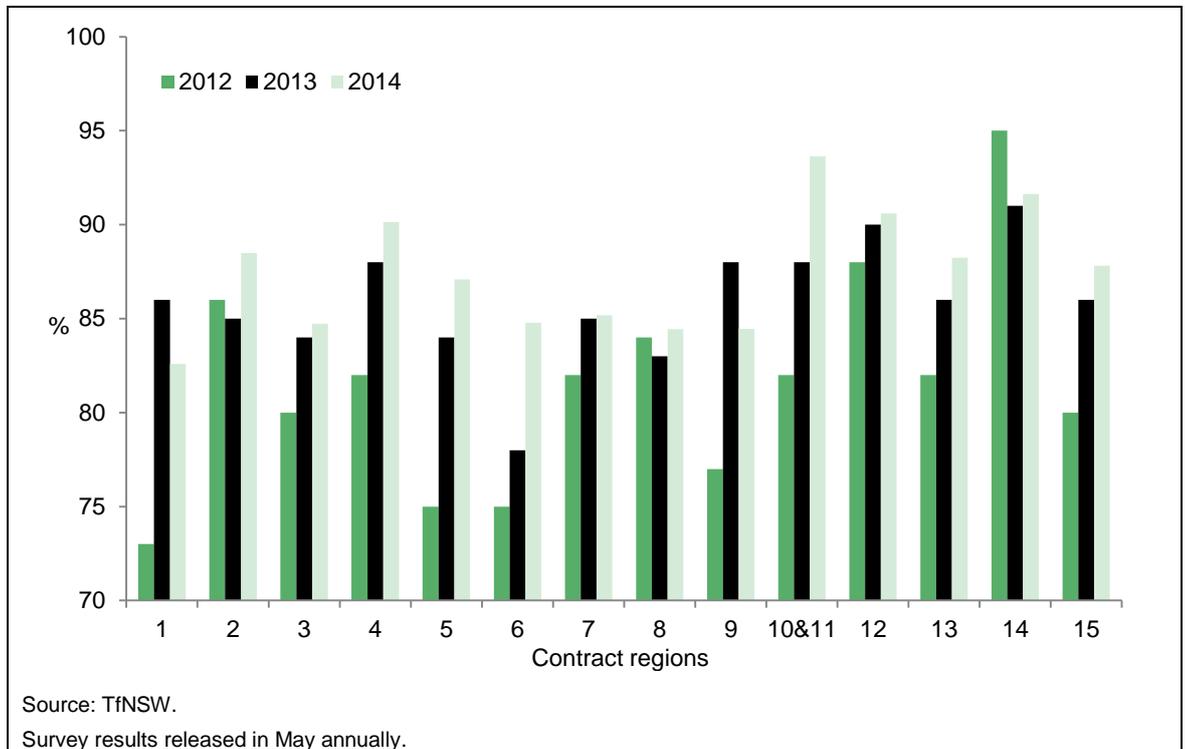
**Exhibit 14: Overall customer satisfaction by year (weighted)**



Overall customer satisfaction is a critical KPI in the Contracts. Annual surveys indicate that:

- for private operators, it has increased from an average of 80.9 per cent in 2012, to 86.8 per cent in 2013 and to 88.0 per cent in 2014
- for STA it has increased from 78.6 per cent in 2012, to 83.6 per cent 2013 and to 84.7 per cent in 2014.

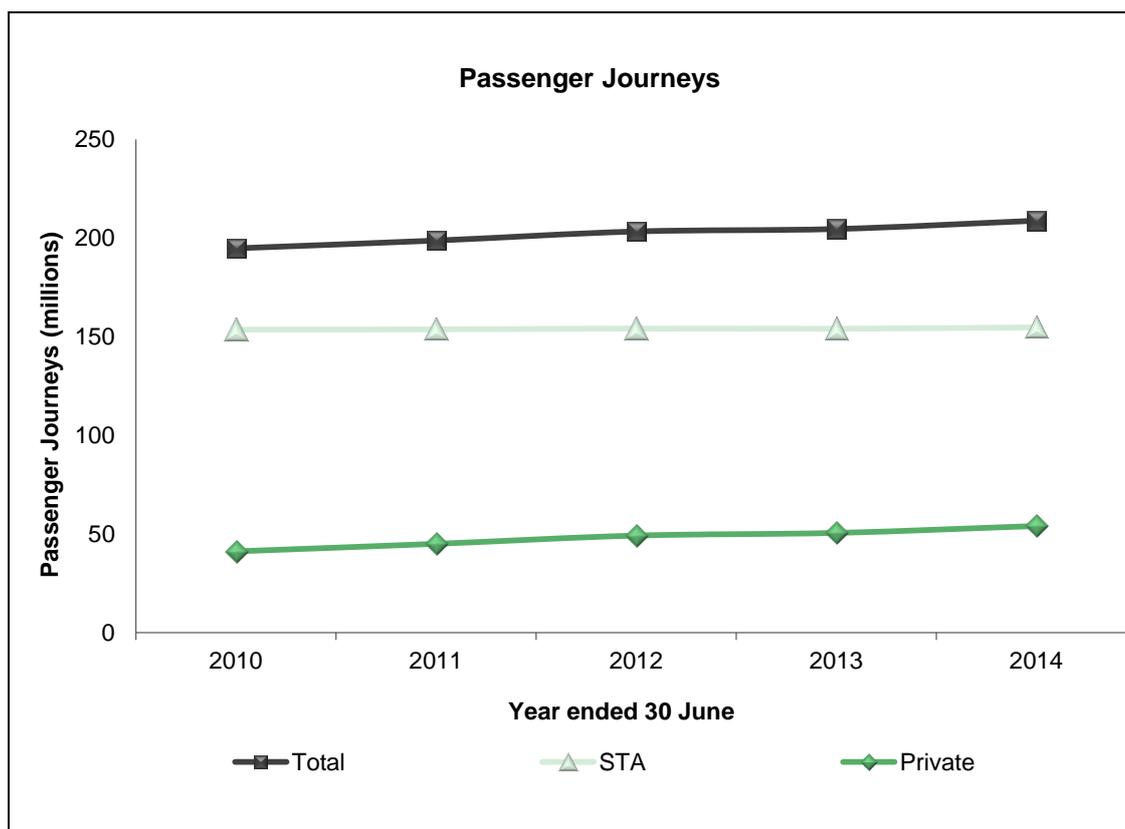
**Exhibit 15: Overall customer satisfaction by year and contract region**



**Patronage is increasing, but TfNSW is not measuring the specific contribution of buses to State Plan patronage targets**

In the four years from 2010 to 2014, patronage on Sydney metropolitan buses increased from around 195 million to around 209 million passenger trips, which equates to an average annual increase of 1.8 per cent. While this represents contributions from both the previous and current contracts, an increase from 204.6 to 208.9 million passenger trips, equivalent to an annual increase of 2.1 per cent, was recorded from 2013 to 2014, a period mostly serviced by the Contracts.

## Exhibit 16: Patronage on Sydney metropolitan bus services



Source: TfNSW.

An indicator of effectiveness is the contribution of buses to State Plan targets for public transport usage. TfNSW is collecting information on overall patronage under the Contracts. However, it is not monitoring the specific contribution of buses to State Plan patronage targets which focus on journeys to work, for instance:

- Increase the share of commuter trips made by public transport to and from:
  - Sydney CBD during peak hours to 80 per cent by 2016
  - Parramatta CBD during peak hours to 50 per cent by 2016
  - Liverpool CBD during peak hours to 20 per cent by 2016
  - Penrith CBD during peak hours to 25 per cent by 2016.
- Increase the proportion of total journeys to work by public transport in the Sydney Metropolitan Region to 28 per cent by 2016.

### **Payments to operators under the Contracts are lower per service kilometre than under the previous contracts**

Under the gross-cost contracting regime adopted for the Contracts, the cost of services to the Government is a key indicator of economy.

The cost of delivering bus services under the Contracts is less than under the previous contracts and savings to date have exceeded TfNSW's target.

Annual savings of \$90.0 million per annum were predicted by TfNSW at the time the decision was made to adopt the Contracts. Estimated actual annual savings in the first year of the Contracts are around \$97.0 million. This calculation is based on comparing the average cost per km in the last year of the previous round of contracts indexed up by 2.5 per cent to the average cost per km tendered under the Contracts.

Annual savings in all ten contract regions run by private operators are estimated at around \$64.0 million. This equates to a reduction from an average cost per km of \$6.25 to \$5.43 or around 16.2 per cent. Contractor operating payments have been market tested through the competitive tender process employed by TfNSW to select private operators for eight of the ten contract regions.

Two regions had contracts negotiated with incumbent private operators as they met preconditions for re-negotiation in their previous contracts. Both the tendered prices and negotiated prices were subjected to independent benchmarking to ensure value for money. However, the reductions in cost per kilometre were lower for the two negotiated private operator Contracts.

The STA Contracts were also negotiated rather than competitively tendered. An independent review, which benchmarked STA against like bus systems in Australia and overseas informed the negotiation process.

The resulting Contracts delivered savings of around \$33 million in the first year of operation. This equates to a reduction from an average cost per km of \$9.45 to \$8.94 or around 5.4 per cent. TfNSW and STA have recently negotiated further price reductions in STA's Contracts in the order of \$10 million per annum. These savings form part of an ongoing reform program to reduce STA's costs.

There are a range of reasons why STA's costs are higher than the private operators'. These include slower journeys due to the relatively higher congestion and passenger density in its regions, and some governance costs due to it being a government agency.

#### **TfNSW used benchmarking to assess efficiency and to support its contracting decisions**

Benchmarking can be an important tool for assessing relative efficiency. Benchmarking was used by TfNSW to:

- determine that competitive tendering for the Contracts could achieve savings
- support negotiation of the Contracts with STA and two private operators.

The data being collected by TfNSW should enable it to carry out a detailed benchmarking exercise as part of its consideration of whether to renegotiate contracts or go back to the market.

# Appendices

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## Appendix 1: Response from agency



BC15/16089

Mr Tony Whitfield  
Acting Auditor-General  
Audit Office of NSW  
Level 15, 1 Margaret Street  
SYDNEY NSW 2000

Dear Mr Whitfield

### **Performance Audit: TfNSW - Sydney Metropolitan Bus Contracts**

Thank you for the opportunity to respond to the *TfNSW – Sydney Metropolitan Bus Contract* dated 11 August 2015.

It is pleasing to note that the Performance Audit report acknowledges that TfNSW's contracting approach is justified and consistent with the Government's policy, direction and practices. In addition, I am pleased that the Performance Audit recognises that the new contracts were developed through a robust process that is demonstrative of a substantial improvement over the contractual arrangements in place during the previous audit in 2010, and achieved at a lower cost per unit. It is also acknowledged that customer satisfaction is significantly improved under the new contractual arrangements and that patronage is increased.

TfNSW will continue to work towards implementing the recommendations contained in the audit report. This will be implemented in line with the terms and conditions of the Sydney Metropolitan Bus Service Contracts.

Yours sincerely

A handwritten signature in black ink, appearing to read "TR", written over a light grey circular stamp.

**Tim Reardon**  
Secretary, Transport for NSW

8 SEP 2015

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PO Box K659 Haymarket NSW 1240  
T 8202 2200 F 8202 2209  
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ABN 18 804 239 602

## Appendix 2: About the audit

### Audit objective

The audit assessed the effectiveness of Transport for NSW's (TfNSW)'s design and management of Sydney metropolitan bus service contracts.

### Scope

In addressing the audit objective, we looked at contract design and contract management by TfNSW for both State Transit Authority (STA) and private bus operators for the contracts in place for Sydney metropolitan bus services. Under these contracts, operators provide bus services to timetables, locations and service levels as determined by TfNSW.

These contracts are the second iteration of TfNSW managed bus services contracts, and represent their latest thinking for the design and management of such contracts. The contracts have been in place long enough (since 2012) for us to make a valid assessment of their operation and impact on service delivery and costs to government. We also assessed differences in cost and performance levels between STA and private operators.

### Audit exclusions

We did not:

- examine the process of awarding the contracts
- examine the specific minimum service levels established by TfNSW
- question the merits of government policy objectives.

### Audit approach

We collected evidence through:

- interviews with key TfNSW staff
- interviews with key stakeholders, including Bus NSW (private operator representative body)
- interviews with relevant academics and experts
- examining TfNSW-provided documents including contracts, submissions, research, procedures, reports and performance data used for contract management purposes.

We also examined:

- documentation from other sources obtained throughout the audit such as research papers and studies, statistical data and analysis
- information from other jurisdictions for comparison.

### Audit selection

We used a strategic approach to selecting performance audits which balances our performance audit program to reflect issues of interest to parliament and the community. Details of our approach to selecting topics and our forward program are available on our website.

### Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

**Acknowledgements**

We gratefully acknowledge the co-operation and assistance provided by Transport for NSW and their staff who participated in interviews and provided material relevant to the audit.

**Audit team**

Ed Shestovsky and Andrew Gill conducted the performance audit. Kathrina Lo and Rod Longford provided direction and quality assurance.

**Audit cost**

Including staff costs, and overheads, the estimated cost of the audit is \$205,000.

# Performance Auditing

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## What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

## Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

## What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

## Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

## Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

## Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

## Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 9275 7100.

## Our vision

To make the people of New South Wales proud of the work we do.

## Our mission

To perform high quality independent audits of government in New South Wales.

## Our values

**Purpose** – we have an impact, are accountable, and work as a team.

**People** – we trust and respect others and have a balanced approach to work.

**Professionalism** – we are recognised for our independence and integrity and the value we deliver.

**Professional people with purpose**

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proud of the work we do.

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