Bus Reform: Further down the road
A follow-on examination into competition reform of Transperth bus services

Report No. 6 June 2000
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Bus Reform: Further down the road

A follow-on examination into competition
reform of Transperth bus services

Report No. 6 June 2000
PERFORMANCE EXAMINATION: Bus Reform - Further down the road
A follow-on examination into competition reform of Transperth bus services.

This report has been prepared consequent to an examination conducted under section 80 of the Financial Administration and Audit Act 1985 for submission to Parliament under the provisions of section 95 of the Act.

Performance examinations are an integral part of my overall Performance Auditing Program and seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision-making to the benefit of all Western Australians.

D D R PEARSON
AUDITOR GENERAL
June 28, 2000
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Executive Summary

Background

The Department of Transport (Transport) manages Perth’s public transport system known as Transperth, which comprises buses, passenger trains and a small ferry service. The objectives of the Government’s bus reform program of 1993 (Bus Reform) were to:

◆ improve transport access for those in the community with no other choice and to encourage more car users to travel by public transport; and

◆ achieve service improvement in the most cost efficient way through implementing a competitive operating environment.

As part of Bus Reform, responsibility for the daily operation and maintenance of buses was contracted out to four private sector companies through a process of competitive tender. This occurred in two stages – about half being contracted out in 1996 and the remainder in 1998. A previous 1997 report¹ found that the initial stage of Bus Reform had been successfully completed as significant cost savings had been realised, and service quality maintained, through the transfer of service delivery to the private sector. This follow-on examination was undertaken to assess developments since 1997.

Bus Reform – key results

Cost efficiency and effectiveness

The examination undertook a 20-year analysis of total bus management and operating expenditure, excluding interest and depreciation costs. This analysis shows that Bus Reform halted a long-term trend of increasing annual bus expenditure. Transperth provided more bus services, for less cost, in financial year 1998-99 than it did prior to Bus Reform in financial year 1992-93:

◆ An additional 5.5 million bus service kilometres² were provided in financial year 1998-99. This represents a 15 per cent increase in annual outputs since financial year 1992-93. The annual output is projected to be 47.8 million bus service kilometres (a 34 per cent increase on 1992-93) by financial year 2000-01.

◆ Total annual bus expenditure has been reduced.

¹ ‘Bus Reform – Competition Reform of Transperth Bus Services’ Report No 3 - June 1997, Office of the Auditor General, Western Australia.

² A bus service kilometre is an output measure obtained by multiplying the number of bus trips by the distance travelled ‘in-service’ during each trip.
Cost efficiency, as measured by cost per bus service kilometre, improved substantially after the contracting out of bus services to the private sector. Gains in cost effectiveness, as measured by cost per passenger boarding, were not so large.

**Patronage**

Transperth total boardings (boardings on buses, trains and ferries, including transfers) increased by 18 per cent from financial year 1992-93 to 1998-99. Transperth initial boardings (excluding transfers) showed a lesser increase of just under 8 per cent over the same period.\(^3\)

Buses carry the majority (currently about 60 per cent) of Transperth passengers and Transport expects this to continue for the foreseeable future. Transport’s proposed long-term patronage objective for buses is to increase initial boardings from their present level of about 35 million to over 75 million by 2007 (since revised to 2010) and to 165 million by 2029.

However, bus public transport in Perth has experienced declining per capita boardings since the 1950s, as private car ownership became more common. Bus boardings (including transfers) per capita have nearly halved in the 20-year period from financial year 1979-80 to 1998-99. Actual bus boardings (including transfers) have fallen from 49.7 million in financial year 1992-93 to 46.3 million in financial year 1998-99, a fall of about seven per cent.

It is difficult to see how Transport’s ambitious bus patronage growth targets will be met through improvements in service quality and efficiency alone. To move Perth in such a fundamental way from its long-term preference for the car will require a broad and ongoing re-assessment of transport investment priorities, urban planning objectives and traffic management policies.

**Bus Reform – managing service**

**Fleet renewal and replacement**

The average age of the bus fleet was around nine years at the commencement of Bus Reform. As a result of a 1993 Government decision to postpone bus acquisition, the average fleet age had increased to about 15 years by 1999. The bus fleet is now being modernised and expanded and the average fleet age is expected to reduce to about 12 years by 2001. With ongoing bus replacement, the average fleet age is planned to progressively fall to about eight years by 2010.

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\(^3\) The growth in initial boardings occurred in financial years 1993-94 and 1994-95 following the electrification of all metropolitan passenger rail lines and the opening of the northern suburbs rail line. Since financial year 1994-95, the number of Transperth initial boardings has remained static – with trains recording a rise and buses a fall.
An estimate of the difference between the short-term savings from, and long-term costs of, the near six-year postponement of bus procurement cannot be reliably made for the purposes of this examination.

**Contract payments and variations**

The bus contract prices comprise a fixed management payment and provision for variable costs (for example fuel and labour). The contracts provide Transport with mechanisms to manage these variable costs by linking their price adjustment to indexes or benchmarks.

The contracts also provide an incentive to increase patronage. The first year of each contract has been used by Transport to set a baseline patronage figure on which future incentive payments are based. Because of a ticketing software problem, Transport has been unable to calculate an amended patronage payment for contracts that commenced in July 1998. Transport has continued to pay the bus companies the baseline rate from July 1999 until the problem is resolved and any over or under patronage payments can be identified and adjusted. This ticketing software problem has also limited Transport’s ability to effectively monitor patronage changes within these contract areas.

**Service standards**

Transport has set some of the most exacting timetable reliability standards in the world for a metropolitan bus service. However, Transport’s records indicate that only the Swan Transit’s Midland contract area has met these standards, on the occasion when its timetable reliability was inspected during August 1999. Transperth’s 1999 Customer Service Charter commits Transport to publishing the results of its reliability inspections but it has yet to do so.

Transport inspections show that bus presentation is of a consistently high standard across all contract areas.

Transport’s methods of bus fleet monitoring show that all bus companies are meeting their contractual maintenance requirements. However, these methods are not yet sufficiently developed to reliably compare contract area maintenance performance.

**Customer relations**

Annual passenger satisfaction surveys provide Transport with its most representative source of the views and experiences of regular users. They do not represent the views of occasional and non-users. However, these people are the ones that need to be won over if long-term patronage targets are to be met.
Overall levels of passenger satisfaction have fluctuated between 70 and 80 per cent during the period 1991 to 1999. The 1999 survey found a significant difference in ratings between bus companies. Swan Transit received the highest rating of 78 per cent overall customer satisfaction and Southern Coast Transit the lowest of 62 per cent. Southern Coast Transit has acted to address issues identified in the 1999 survey, including timetable reliability and driver behaviour.

The Internet Journey Planner provides customers with door-to-door journey options (routes and times by bus, ferry and/or train), including estimated walking distances from their departure point to the nearest bus stop(s). Customers can also call the 13 6213 Info Line for journey and other information. The number of calls registered on the Info Line has risen 50 per cent from over 92 000 in December 1996 to over 138 000 in December 1999.

**TravelSmart**

In addition to extending or improving services, there is a need for better strategies to improve the use of the public transport system. TravelSmart, which takes a local community-based approach to identifying the travelling habits of the public and the scope and means to achieve change, is one such initiative that appears to be showing some early success. Transport needs to vigorously pursue such initiatives if it is to achieve its long-term goals of improved patronage.

**Contract evaluation**

To date, Transport has focused its service quality monitoring on managing the transition, administering contracts and improving performance. With some modification of existing monitoring, Transport should also be able to reliably assess and report contract area performance, as well as the results of individual contract and system initiatives, using a range of performance indicators.

This extended review and analysis should also enable Transport to reliably compare contract area performance to price paid. The contract area price paid at June 30, 1999 varied from about $1.85 to around $2.75 per bus service kilometre, the upper price being nearly 50 per cent higher than the lower. These price differences reflect contract area operating conditions and competitive market forces at the time of tender.
Executive summary

Summary of recommendations

Transport should:

◆ continue to contain costs through effective contract management;
◆ publicly report yearly progress towards meeting bus patronage targets;
◆ quickly resolve ticketing system software problems to ensure the patronage component payable to bus companies is brought up to date;
◆ publicly report contract timetable reliability against published timetables;
◆ develop maintenance performance indicators to enable comparison of contract area performance;
◆ develop strategies to identify, measure and assess the views of occasional and non-users of public transport;
◆ further develop initiatives to provide for increasing customer demand for public transport information;
◆ vigorously pursue initiatives which result in greater patronage of the public transport system; and
◆ undertake rigorous and ongoing contract evaluation to reliably assess and compare value for money results.
Introduction

Perth’s public transport

The Department of Transport’s (Transport) purpose is to achieve the best transport system for all Western Australians. An important responsibility is the management of metropolitan Perth’s bus, train and ferry public transport system known as Transperth.

Perth’s dispersed population and car-friendly urban planning make it difficult for public transport to compete with private cars. Notwithstanding increasing traffic congestion, the car remains the most popular form of transport for the people of Perth.

Public transport’s share of the journey market has been in decline since the 1950s, as car ownership has become more common. Transport’s ten-year plan for Transperth 1998-2007, Better Public Transport, states that it is imperative to reverse this trend. The plan concludes that Perth’s present transport system, dominated as it is by single-occupant car travel, will not cope with the social, economic and environmental pressures resulting from the city’s future growth.

The plan sets ambitious targets to increase Transperth’s market share of total journeys made from an estimated 6.4 per cent in 1991, to at least eight per cent by 2007 and 12.5 per cent by 2029.

The plan calls for an $880 million investment in public transport infrastructure and vehicles (trains, buses and ferries) over the ten-year period 1998-2007 to improve and expand Transperth services. To run these extra services, Transperth’s annual operating costs are expected to rise by about $90 million by 2007. Funding for this growth will primarily come from taxpayer-funded subsidy, as Transperth’s cost recovery from fares is around 25 per cent of total expenditure. Buses currently carry about 60 per cent of Transperth’s passengers and Transport expects that they will also carry the bulk of this desired passenger growth.

Bus Reform

The 1993 report of the Commission to Review Public Sector Finances (the McCarrey report) concluded that the then monopoly public bus authority, the Metropolitan Transport Trust (MTT), was operating inefficiently and failing to meet changing commuter needs. It recommended that the Transperth bus system be split into contract franchise areas and put to competitive tender.

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4 The target date has since been revised by Transport to 2010.
In September 1993, Government endorsed a program of bus reform (Bus Reform) based on the model outlined in the McCarrey report. Bus Reform has the objectives of:

◆ improving transport access for those in the community with no other choice and encouraging more car users to travel by public transport; and

◆ achieving service improvement in the most cost efficient way through implementing a competitive operating environment.

As part of Bus Reform, all MTT’s policy, regulation and strategic planning functions were transferred to Transport. The MTT, trading as MetroBus, then prepared for private sector competition.

About half of Transperth’s bus services were put to competitive tender by Transport during 1995 and 1996. Three private sector bus companies won all but a few small contracts, the majority commencing in September 1996. The remaining Transperth bus services were subsequently contracted to the private sector in July 1998 (to the three existing bus companies and one new one). MetroBus ceased operations at June 30, 1998.

The private sector is now responsible for the daily operation and maintenance of buses. Government, through Transport, still controls Transperth and sets all fares, routes and service standards. Transport has also retained ownership of the buses and supporting infrastructure, thereby reducing the State’s exposure to service disruption in the event of contract default.

The contract areas and bus companies, at June 30, 1999, are shown in Figure 1. Key operating statistics for each contract area are listed in Table 1.

**Figure 1: Bus contract areas.**

Contract areas have differing physical and demographic characteristics. However the service standards defined in the contracts, such as punctuality, are the same for all contract areas.

Source: OAG
Table 1: Bus contracts: key operating statistics for financial year 1998-99.  
Transperth annually provides nearly 43 million bus service kilometres\(^{(3)}\) delivering about 2.4 million trips\(^{(4)}\). These services attracted 46.3 million passenger boardings\(^{(5)}\).

Notes:
1. The annual gross value of the contract at June 30, 1999.
2. Other services are not shown in Figure 1.
3. The amount of bus service kilometres provided are at June 30, 1999.
4. A trip is a scheduled ’in-service’ bus journey.
5. A boarding is the entry made by a passenger onto a bus and includes transfers from other Transperth services.

Source: Transport
Follow-on examination focus and approach

In 1997, a performance examination of Bus Reform concluded that the public transport reform program was at a relatively early stage and that it would be some years before a full assessment could be made. However, the early signs were positive in that Transport had:

◆ achieved its initial aim of reducing the cost of providing the existing bus service;
and
◆ successfully managed the transfer of service delivery to the private sector.

The follow-on examination reviewed developments in Bus Reform since 1997 with a particular focus on cost efficiency and effectiveness, and the management of service. The examination included:

◆ review and analysis of financial and other records held by Transport;
◆ interviews and discussions with managers at Transport; and
◆ a meeting and follow-up discussions with each private bus company.

The follow-on examination did not include:

◆ a review of the competitive tendering process that led to the award of contracts to the private sector bus companies;
◆ a review of public transport fares policy or its impact on revenue and public access;
◆ an economic analysis of the financial impact of a near six-year postponement of bus acquisition; and
◆ consideration of alternative strategies of making car usage less attractive in order to help public transport increase its share of the journey market.
Bus Reform – Key Results

◆ A 20-year expenditure analysis shows that Bus Reform has halted a long-term trend of increasing annual bus expenditure. However, it has not succeeded in halting a long-term decline in bus patronage.

◆ The efficiency of delivering a bus service kilometre remained steady for the first four years of Bus Reform, but improved significantly when the services were contracted to the private sector.

◆ There has been a significant increase in the kilometres of bus services provided since the services were contracted out.

◆ The cost per passenger boarding has fallen since the services were contracted out, but the continuing fall in patronage has meant that fewer passengers board per kilometre of bus service.

Background

There are several important indicators that can be used to examine the performance of a bus service:

◆ input indicators, which show the costs of providing the service;

◆ output indicators, which show the amount of services made available;

◆ outcome indicators, which show the extent to which the service was used;

◆ cost efficiency indicators, which relate the costs to the amount of services made available;

◆ cost effectiveness indicators, which relate the costs to the level of use of the service;

◆ output effectiveness indicators, which relate the amount of services made available to their level of use; and

◆ impact indicators, which show achievement in relation to broader policy objectives.

Cost efficiency and effectiveness

Long-term bus expenditure trend

Government expenditure on the provision of bus services is an input indicator that shows the community resources the services consumed. An examination of the long-term trend in annual expenditure gives an indication of the impact of Bus Reform on resource consumption.
The total annual expenditure on bus services was affected by a 1993 Government decision to postpone bus acquisition. The decision reduced interest and depreciation costs, and had the potential to obscure underlying trends arising from the reform process itself. The examination therefore undertook an analysis of the more reliable information available on total bus management and operating expenditure, excluding interest and depreciation costs.

The results of this analysis show that Bus Reform halted a long-term trend of increasing annual bus expenditure (Figure 2), although expenditure is expected to rise again as services are increased.

**Figure 2: Annual bus expenditure** – financial years 1980-81 to 2000-01.

**Bus Reform,** commencing in 1993, halted a long-term trend of increasing annual bus expenditure. Input measures, such as expenditure, need to be interpreted with caution because they do not reflect the level of service provided.

**Notes:**
1. Transition costs, payments made for redeployment and redundancy of ex-MetroBus staff, are highlighted by shading for the financial years 1996-97 to 2000-01.
2. The 20-year bus expenditure data excludes interest and depreciation costs to enable a more reliable comparison over time. To this extent, the data do not reflect the full cost of running Transperth bus services.
3. Expenditure prior to financial year 1998-99 is shown in constant 1999 dollars by applying the Western Australian Government’s consumption implicit price deflator. Expenditure is estimated for financial years 1999-00 and 2000-01.

Source: MetroBus, Transport and OAG
Key Performance Indicators since Bus Reform

The output indicators used to assess bus service performance have evolved over time. Prior to 1993, ‘traffic kilometres’ recorded the total distance travelled by buses. Traffic kilometres overstate the service outputs provided to the public because ‘dead running’ (when the bus is not in service) is included. This can mask inefficient work practices.

Since Bus Reform, Transport has used ‘bus service kilometres’, recording the distance travelled while in service, as an output measure to calculate contract payments to the bus companies. Outputs (bus service kilometres) can therefore be reliably compared with inputs (bus expenditure, less interest and depreciation) and outcomes (bus boardings) from the commencement of Bus Reform. These comparisons are shown in Table 2 and Figure 3.

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Table 2: Key inputs, outputs and outcomes since Bus Reform.

Since Bus Reform, inputs have been reduced while outputs had increased by 5.5 million bus service kilometres (15 per cent) to financial year 1998-99. Outputs are projected to have increased by 12.2 million bus service kilometres (34 per cent) by financial year 2000-01. However, total bus boardings have fallen by 3.6 million, or about seven per cent, from financial year 1992-93 to 1998-99.

Notes:
1. Bus expenditure includes all Transperth bus costs, except the capital costs of interest and depreciation.
3. Transition (employee redeployment and redundancy) costs are shown as expensed and amortised. The expensed cost does not include interest on borrowings. The amortised transition cost assumes repayment of $57 million over 13 years at an interest rate of 6.0 per cent per annum.
4. Bus boarding includes transfers from other Transperth services.
5. The main patronage fall occurred in financial year 1993-94 following the opening of the northern suburbs passenger rail line and the replacement of some city direct bus services with train-feeder bus services.
6. Expenditure prior to financial year 1998-99 is shown in constant 1999 dollars by applying the Western Australian Government’s consumption implicit price deflator. Expenditure is estimated for financial years 1999-00 and 2000-01.

Source: Transport and OAG
Significant transition costs of Bus Reform are the redeployment and redundancy costs that resulted from closing down MetroBus. Redeployment and redundancy are estimated to be about $13 million for financial year 1999-00 and then fall to $2 million for financial year 2000-01, following the negotiation of a settlement agreement during December 1999 for the payment of severance packages to MetroBus drivers. Annual transition costs beyond financial year 2000-01 are expected to be significantly less than $2 million, as permanent employment is found for the remaining MetroBus staff (about 20 at April 2000). Total transition costs can therefore be estimated as $57 million over five financial years.

Figure 3 shows the data from Table 2 in the form of three key performance indicators:

- Cost per bus service kilometre – this cost efficiency indicator relates inputs to outputs.
- Cost per bus passenger boarding – this cost effectiveness indicator relates inputs to outcomes.
- Passenger boardings per bus service kilometre – this output effectiveness indicator relates outputs to outcomes.

Figure 3: Key performance indicators since Bus Reform.\(^{1}\)

Cost efficiency and effectiveness improved in financial years 1997-98 and 1998-99 \(^{2}\) following the contracting out of bus services to the private sector. However, bus boardings per service kilometre have fallen since the commencement of Bus Reform.

Notes:
1. Indicators derived from passenger boardings could not be reliably estimated beyond financial year 1998-99.
2. Amortising transition costs (as shown by the dotted lines) spreads their impact on unit costs over the life of the contracts. If these costs are expensed (solid lines) in the year in which they are incurred the initial impact is greater but of shorter duration.

Source: Transport and OAG

\(^{5}\) There are diverging views as to the most appropriate treatment of the transition costs incurred as a result of transferring bus operations to the private sector. The generally accepted accounting treatment of redeployment and redundancy costs is to expense them fully in the year that they were incurred, as they do not demonstrably provide future economic benefits. In performance analysis it is more common to spread (amortise) these costs over a longer period, such as the contract term. Both treatments are shown.
Cost efficiency, as measured by cost per bus service kilometre, remained steady for the first four years of Bus Reform prior to the contracting out of services to the private sector. MetroBus had responded to competitive pressures by arresting the pre-Bus Reform trend of increasing output costs (MTT output costs were increasing prior to Bus Reform, even when traffic kilometres were used as an output measure).

However, costs per bus service kilometre did not fall until the contracting out of about 50 per cent of bus services in September 1996 and then fell again following the contracting out of the remainder in July 1998. Having now contracted out all bus services, Transport faces the challenge of holding onto these cost efficiency gains.

The gains in cost effectiveness, as measured by cost per passenger boarding, are not so large. Cost per passenger boarding increased over the first four years of Bus Reform, before also reducing after the contracting out of bus services to the private sector.

Output effectiveness, as measured by passenger boardings per bus service kilometre, has deteriorated since the commencement of Bus Reform.

**Patronage**

Bus public transport in Perth has experienced declining per capita boardings since the 1950s, as private car ownership became more common (Figure 4). Bus Reform has not halted this long-term trend.6

![Figure 4: Bus boardings per capita for Perth 1979-80 to 1998-99.](image)

*Bus boardings (including transfers) per capita have nearly halved over the past 20 years. Bus Reform has not halted this long-term trend. Boardings have to exceed population growth for buses to gain market share.*

*Note:* Bus boardings are potentially affected by changes to passenger rail services.

Source: Transport and OAG

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6 Transperth total boardings (boardings on buses, trains and ferries, including transfers) increased by 18 per cent from financial year 1992-93 to 1998-99. However Transperth *initial* boardings (which exclude transfers and are therefore a better indicator of the number of passenger journeys) increased by less than 8 per cent over the same period. This growth in initial boardings occurred in financial years 1993-94 and 1994-95 following the electrification of all metropolitan passenger rail lines and the opening of the northern suburbs rail line. Since financial year 1994-95, the number of initial Transperth boardings has remained static – with trains recording a rise and buses a fall. Buses still carry the majority (currently about 60 per cent) of Transperth passengers and Transport expects this to continue for the foreseeable future.
Actual bus boardings (including transfers) have fallen from 49.7 million in financial year 1992-93 to 46.3 million in financial year 1998-99, a fall of about seven per cent since Bus Reform. Bus boardings needed to grow by about 10 per cent over this period to keep pace with population growth (about 1.6 per cent per annum) and maintain their existing share of the journey market.

Transport’s proposed long-term patronage objective for buses is to increase initial boardings (excluding transfers) from their present level, of about 35 million, to over 75 million by 2010 and to 165 million by 2029. These ambitious targets represent patronage increases of 114 per cent and 365 per cent respectively. Transport aims not only to increase bus patronage but also to gain market share at the expense of single occupant car travel.

The challenge faced by Transport and the bus companies, in meeting these long-term patronage objectives, is illustrated by the following case study.

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The Midland contract area was the first to be awarded to a private sector bus company and was known to need major revisions to routes and timetables (factors considered significant constraints on improving patronage). In December 1997, Swan Transit introduced sweeping route and timetable changes to improve services within the Midland contract area and better connect to, and from, trains. The company undertook community consultation in developing and promoting these changes.

The changes delivered greater service access to the community by providing a 25 per cent increase in bus trips and a 30 per cent increase in bus service kilometres for a 20 per cent increase in contact area expenditure. The changes were successful in reversing a decline in bus patronage within this contract area as shown by the following patronage results:

- Transport’s data shows a six per cent increase in initial passenger boardings, excluding transfers, from all services (Transport uses initial boardings data to calculate whether bus companies are entitled to patronage growth incentive payments).
- Swan Transit analysis of total boardings indicates a more substantial 14 per cent increase. Swan Transit arrived at this estimate by including increases in passenger transfers, as well as initial boardings, and excluding school bus services from its analysis.

Having outsourced responsibility for the daily operation and maintenance of buses to the private sector, Transport now faces the challenge of cost effectively reversing the decline in bus patronage.

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7 The main patronage fall occurred in financial year 1993-94 following the opening of the northern suburbs passenger rail line and the replacement of some city direct bus services with train-feeder bus services.
However, it is difficult to see how Transport’s ambitious bus patronage growth targets will be met through improvements in bus service quality and efficiency alone. To move Perth in such a fundamental way from its long-term preference for the car will require a broad and ongoing reassessment of transport investment priorities, urban planning objectives and traffic management policies.

**Recommendations**

Transport should:

- continue to contain costs through effective contract management; and
- publicly report yearly progress towards meeting bus patronage targets.
Bus Reform – Managing Service

◆ The average age of the bus fleet had increased from around 9 years in 1993 to about 15 years by 1999. The bus fleet is now being modernised and expanded.

◆ Transport’s monitoring of service standards shows that:
  ▲ Exacting timetable reliability standards have been met in only one of the contract areas.
  ▲ Bus presentation is of a consistently high standard across all contract areas.
  ▲ Bus companies are meeting their contractual maintenance requirements, although Transport’s monitoring is not sufficiently developed to reliably compare contract area performance.

◆ Overall levels of customer satisfaction have fluctuated between 70 and 80 per cent from 1991 to 1999. The 1999 survey showed that levels of customer satisfaction varied significantly between contract areas.

◆ With some modification of existing monitoring and analysis, Transport should be able to undertake contract evaluation and reliably compare contract area performance to price paid.

Background

Transport manages the delivery of Transperth bus services, and the provision of customer information, through contracts. Transport itself owns and manages the bus fleet although the bus companies are responsible for fleet maintenance.

The contracts with the bus companies are for terms of up to 13 years. They contain provisions to manage price and service changes over time. The contracts also specify service quality standards that can be categorised as: timetable reliability, bus presentation, bus maintenance, and customer relations. Maintaining or improving service standards is vital if Transport is to arrest and reverse current declining patronage trends.

Transport and the bus companies also keep in touch with customers to better understand and meet their needs, particularly for service expectations that are difficult to define and measure, such as being treated courteously and receiving adequate assistance. Transport also monitors bus passenger satisfaction.

The monitoring of service standards and customer feedback can also provide Transport with the information required for comparing and reporting contract area performance.
Fleet renewal and replacement

The average age of the bus fleet was around 9 years at the commencement of Bus Reform in 1993. As a result of a 1993 Government decision to postpone bus acquisition, the average fleet age had increased to about 15 years by 1999. On April 6, 1998 Cabinet approved the acquisition of 848 refrigerated air-conditioned, aluminium, low-floor buses over a 12-year period. After exploring other financing and fleet management options, Transport’s current intention is to remain as fleet manager and to purchase the new vehicles.

The first new buses were put into service during 1999. About 270 buses are scheduled for delivery in the first two years to meet the most urgent replacement needs. As a result, the average fleet age is expected to reduce to about 12 years by 2001. With ongoing bus replacement, the average fleet age is planned to progressively fall to about 8 years by 2010.

The program also provides for expanding the fleet size to around 1,200 buses by 2010, by retaining some of the existing fleet. Fleet expansion is required in order to provide the additional services outlined in Better Public Transport, Transport’s current 10-year plan for Transperth.

An estimate of the difference between the short-term savings from, and long-term costs of, the near six-year postponement of bus procurement cannot be reliably made for the purposes of this examination. It would require many assumptions about asset-related costs incurred over an extended period of time. The absence of a regular pattern of bus acquisition and replacement to serve as a basis for comparison, and no precedent for such a lengthy postponement, makes estimation even more difficult.

Accordingly, an economic analysis of the financial impact of postponing asset replacement for six years, and then implementing an accelerated replacement program to return the asset base to its previous age and condition, has not been undertaken as part of this examination.

Contract payments and variations

The bus contract prices comprise a fixed management payment and provision for variable costs as shown at Figure 5. Monthly payments also include agreed price adjustments.
Figure 5: Calculating monthly payments for a typical bus contract.\(^{(1)}\)

Bus companies are paid monthly one twelfth of the annual contract price, less adjustments. The contract price comprises a management and bus service kilometre payment. The bus service kilometre payment comprises the sum of the variable costs for the contracted kilometres, and a patronage component for passengers carried.

Note: 1. The breakdown in component costs is not the same for all contracts. The percentage shown is an average for all contract areas.

Source: Transport and OAG

**Adjustments to costs**

The contracts have clauses governing the frequency, procedure and scope for price adjustments for operating costs such as fuel and labour. The contracts provide Transport with mechanisms to manage these price adjustments by linking them to indexes or benchmarks. For example, increases in fuel prices are governed by the Singapore Spot Price for diesel, as measured in United States dollars.

The contracts limit Transport’s liability to reimburse companies for employee wage increases by linking them to a relevant wage cost index. For bus drivers, the relevant index is currently the Transport Workers (Passenger Vehicles) Award 1984 (Part III Victoria). The bus companies can negotiate employee wages through any other means (including enterprise bargaining, workplace agreements and arbitrated determinations) but the contracts do not oblige Transport to pay any more than the movement in the relevant index.
Contract variations

Contract variations result from additions and alterations to existing bus services and routes. Proposals from bus companies to introduce new services, or change the services specified by the contracts, are reviewed by Transport to ensure that they meet public transport objectives and funding priorities, and comply with Transperth service and accessibility standards. Transport also develops service initiatives in consultation with the companies. New or improved services have been introduced to provide:

- services to 19 additional suburbs since 1996;
- significant upgrades to 37 suburbs; and
- additional travel options, weekend and late night services.

The most significant new service to date is the high frequency Circle Route. The route circles the inner metropolitan suburbs linking major shopping centres and universities. The service carries around 60,000 passengers each week and is expected to be extended to Sundays. Transport has negotiated a separate contract with the bus companies to jointly operate the Circle Route.

Adjusting for changes in patronage

The contracts provide a financial incentive for the bus companies to increase patronage. The first year of each contract has been used by Transport to set the baseline patronage component, which comprises about 20 per cent of the total contract payment (Figure 4). Monthly payments for the second and subsequent years vary according to the number of initial passenger boardings per bus service kilometre. In a typical contract, a five per cent fluctuation in patronage per bus service kilometre results in about a one per cent variation in contract payments, depending upon the mix of full-fare, concession and section passengers.

Transport uses the Wayfarer computerised ticketing system to determine the number of ticket sales made by bus drivers and the number of prepaid tickets validated by automatic validation machines for each contract. Ticket sales and validation information are initially collected by a driver’s module, which is then downloaded at the end of each driver’s shift into a computer.

Towards the end of 1998, Transport upgraded its Wayfarer (Option 3) system with Wayfarer (Inform) to ensure Year 2000 compliance. Inform has been found to be sensitive to the correctness of data. If one small data error is detected in the driver module, the new system rejects all passenger data by writing it to a series of error files.
This has meant that Transport has not been able to use Inform to determine changes in contract area patronage, although Transport advises that it can still reliably measure system-wide patronage by capturing the patronage data written to the error files. Transport is continuing to use Option 3 patronage data to calculate the patronage component payable to the companies with contracts in operation prior to July 1998. This has not been possible for those contracts that commenced in July 1998 using Inform. As a consequence, Transport has been unable to determine the patronage component payable to these companies from July 1999, and has continued paying the baseline rates.

Transport is working to achieve a solution. Until this work is complete, Transport cannot identify and adjust any over or under patronage component payments that have been made since July 1999.\(^8\) The companies remain uncertain as to whether they are owed an incentive payment or will have to make a repayment. As well as having cash-flow implications, some company employee pay bonuses are linked to patronage incentive payments.

It is of further concern that this ticketing software problem\(^9\) has limited Transport’s ability to assess contract area performance and each area’s contribution towards meeting system-wide patronage goals.

**Fare Evasion**

Fares paid by passengers contribute about 25 per cent of the running costs of Transperth. Widespread fare evasion would result in a significant loss of revenue and further increase the cost of running these services. Transport has a team of seven inspectors who travel on buses in order to:

- deter and monitor the incidence of fare evasion (although inspectors do not yet have the legislative authority to issue infringement notices pending consideration of the *Transport Coordination Amendment Bill (1998)* by Parliament); and
- assist in service quality monitoring and provide feedback about ticketing and other issues.

The frequency of passengers travelling on buses without valid tickets has been found to be about 3 per cent, since inspections commenced in July 1999. The majority of these observed infringements were for travelling as a concession fare with an invalid or no concession card.

\(^8\) Although Transport is not yet able to determine the value of any over or under payments, they are unlikely to be material relative to total contract payments. Transport advises that it expects to complete its reconciliation of patronage data by June 30, 2000.

\(^9\) The need for an updated and more technologically advanced Transperth ticketing system is stated by Transport in *Better Public Transport*. 

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Service standards

Timetable reliability

With over 9,400 trips scheduled on a typical school weekday, and each passenger concerned whether their bus is on time at their stop and at their destination, monitoring reliability is a difficult and potentially costly task. At present, Transport inspectors undertake up to four inspections per year of all services in each contract area. In time, technologies such as global positioning may provide more comprehensive and real-time timetable reliability data.

Transport has contractually specified some of the most exacting timetable reliability standards in the world, for a metropolitan bus service. The contracts allow Transport to seek damages from the companies if these standards are not met. However, Transport may exercise discretion when claiming damages and must take into account any circumstances beyond the company’s control. For example, late running caused by traffic accidents or roadworks. Transport can seek damages if buses:

◆ leave early from termini or selected timing points along a route;
◆ run more than three minutes late from termini or timing points;
◆ do not perform a scheduled trip (ie are cancelled); or
◆ do not meet scheduled connections with other Transperth buses, trains or ferries.

Initially, Transport’s reliability monitoring focused on successfully managing the transition from MetroBus to the private sector bus companies in 1996 and 1998. Since then, Transport has further developed monitoring to better identify and correct areas of poor performance. However, Transport’s records indicate that only the Swan Transit’s Midland contract area has met Transport’s exacting timetable reliability standards, on the occasion when its performance was inspected during August 1999 (Table 3).
Table 3: Results of Transport’s reliability inspections.

Transport’s inspections indicate that only one contract area has met Transport’s exacting timetable reliability standards.\(^{(2)}\)

Notes:
1. Reliability shown in the table is the percentage of bus trips that are not more than two minutes early, nor more than four minutes late, nor cancelled. This is not quite as strict as Transport’s contract standards of neither early, nor more than three minutes late, nor cancelled.
2. Each bus trip within the relevant contract area is checked once during the period of inspection.
3. The inspections were conducted over an eight-month period and seasonal factors may account for some of the observed differences in performance. The performance shown is as measured by the most recent inspection (at February 2000) for each contract area.

Source: Transport

Traffic conditions vary between contract areas and punctuality is harder to achieve in some areas than others. However all contract areas are required to meet the same service standards. The main reason for poor performance is late running of buses. Nearly 90 per cent of late buses anywhere in the system, are less than 10 minutes late.

Transperth’s 1999 Customer Service Charter commits Transport to ensuring that all Transperth services “operate strictly to published timetables” and to publish the quarterly results of its reliability inspections. Transport is not yet publishing the results of its timetable reliability inspections but advises that it will, by the end of July 2000.

Transport has introduced three levels of reporting, to assist with gauging system effectiveness:

- per cent of on-time running from incidents detected;
per cent of on-time running from incidents referred to the bus companies for explanation; and
per cent of on-time running after contract penalties are applied.

The first category represents the raw number of incidents and reflects the passenger’s experience waiting at a bus stop. The second category represents the raw number of incidents modified for circumstances beyond the bus companies’ control. The third category represents the penalties applied after Transport has considered the bus companies’ explanations for observed incidents.

Transport advises that, in accordance with this system of reporting, the February 2000 inspection results listed in Table 3 would show reliability of 99 per cent, 98 per cent and 97 per cent for Marmion-Wanneroo, Morley and Claremont-Belmont respectively.

**Bus presentation**

Transport checks twenty five per cent of each bus company’s fleet once per month to see whether they comply with presentation standards, including bus cleanliness and adherence to uniform requirements. Transport’s sample inspections indicate that fewer than five per cent of a fleet is likely to infringe bus presentation standards. Observed breaches include drivers not wearing name badges and incorrect route numbers being displayed.

Bus presentation has improved, particularly since MetroBus ceased operations in June 1998. In 1999, all four bus company fleets were observed to be closing in on full adherence with presentation standards (Figure 6).

![Figure 6: Results of fleet presentation monitoring November 1996 to December 1999.](image)

*Source: Transport*
**Bus maintenance**

Transport uses several methods to monitor the effectiveness of the bus companies’ maintenance programs including:

◆ the annual roadworthiness inspection undertaken by Transport’s Licensing Division;

◆ Transport’s separate program of contract spot-checks of bus maintenance, underpinned by the quality assured fleet maintenance systems (Australian Standard ISO 9002) implemented by the bus companies; and

◆ company self-reporting of missed trips due to mechanical failure.

The annual roadworthiness inspection assures Transport, and the public, of the roadworthiness of buses at a point in time. Transport keeps a record of the inspection history of each bus but does not aggregate this data to benchmark and compare contract maintenance performance. For example, records are not collated to determine the percentage of buses, by depot or contract area, that:

◆ fail the first test at annual inspection;

◆ fail a second test at annual inspection; or

◆ fail a test through having serious, as opposed to minor, mechanical defects.

Transport’s separate program of contract spot-checks of bus maintenance shows that all bus companies are meeting their contractual requirements and would alert Transport to any systemic maintenance problems. Transport gains further assurance from their monitoring of timetable reliability and the companies’ quality accredited bus maintenance systems.

All bus companies have provided Transport with monthly records of actual bus service kilometres performed, and number of breakdowns, since the start of financial year 1998-99. These records show that the average kilometres travelled between breakdowns was either maintained or improved in each contract area over the 12-month period to June 1999. This was achieved despite the then aging bus fleet.

However, this data cannot be used to reliably compare contract area maintenance performance because Transport did not provide the companies with a definition of a `breakdown’. As a result there was inconsistency between contract areas with some companies reporting all defects that occurred during a trip, whether or not they resulted in passenger delay. Transport is now looking to develop maintenance indicator(s) to better assess performance.

Overall, Transport’s methods of bus fleet monitoring are not yet sufficiently developed to reliably compare contract area maintenance performance.
Customer relations

Transport purchases and manages bus services on behalf of the public and it is therefore important that Transport communicates with passengers and potential passengers to ensure public transport meets their needs. Transport does this by providing information to customers, managing customer complaints and conducting customer satisfaction surveys. Transport’s 1999 Transperth Customer Service Charter affirms public consultation on changes to timetables and the ongoing surveys of customer needs.

Passenger Information Services

An important part of customer service is to ensure passengers and potential passengers can get the timetabling and route planning information they want. Information is provided by timetables, drivers, information booths, a new Internet service and by telephoning the Transperth 13 6213 Info Line. New ‘Infozones’ have also been introduced by Transport to provide electronic and static displayed journey-planning information at Midland, Morley, Fremantle, Warwick and Subiaco bus and train interchanges.

Transport consults with the companies regarding timetable review but has final responsibility for timetable content, uniformity and accuracy. Bus companies provide passengers with timetables and route information on the buses and, from time to time, through letterbox drops. City information booths, a new and innovative Internet journey planner service (Figure 7), and the telephone Info Line and Comment Line are managed under contract to Transport by the Serco Group.

![Number of internet hits](image)

*Figure 7: Internet journey planner use is growing.*

The Internet journey planner provides customers with door-to-door journey options. Usage is affected by seasonal factors, in particular the start of the school year.

Source: Transport
The Internet journey planner provides customers with door-to-door journey options (routes and times by bus, ferry and or train), including estimated walking distances from their home to the nearest bus stop(s). Ticketing information, and notices about temporary service changes, are provided by linked web pages. Customers are also provided with e-mail access to make comments about Transperth.

Customers can also call the Transperth Info Line for journey and other information. The number of calls registered has risen 50 per cent from over 92 000 in December 1996 to over 138 000 in December 1999.

The standard required for calls answered each month is 90 per cent. This standard has been achieved or exceeded in 27 of the 42 months to December 1999. Performance has only been significantly lower than the standard on one occasion, when it fell to 80 per cent in February 1999 with 85 000 out of 107 000 calls being answered. February is typically a high-demand month and Transport advised that February 1999 coincided with the introduction of new timetables, bus driver industrial action and temporary rail line closures.

**Transperth Comment Line**

Passengers have several options to make their complaints and comments known, including speaking with drivers and contacting the bus companies or Transport.

Transport also contracts with Serco to provide a Transperth 13 1608 Comment Line as a central point of contact for passengers. Serco refers comments for further action to the bus companies where necessary and also provides Transport with monthly reports listing complaints by company and category (there are up to 20 categories). The data does not establish whether the complaints are justified. The examination analysed the data for financial year 1998-99 and extracted those complaints that related to bus companies.

The most frequent single complaint concerned driver attitude (18 per cent of total) and the second most frequent concerned failure of services to run (16 per cent). After grouping similar complaint categories, the examination found that nearly 80 per cent of complaints concerned either reliability or driver attitude and skills (Table 4). The incidence of complaints concerning reliability was higher in the first few months of financial year 1998-99 following the start of new contracts.
Bus Reform
Further down the road

<table>
<thead>
<tr>
<th>Categories of Complaints</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability issues: service late, early, didn’t run, failed to stop</td>
<td>44</td>
</tr>
<tr>
<td>Driver attitude: inattention, lack of assistance and system knowledge, driving dangerously, driving skills</td>
<td>35</td>
</tr>
<tr>
<td>Service times, general</td>
<td>7</td>
</tr>
<tr>
<td>Safety and security</td>
<td>3</td>
</tr>
<tr>
<td>Fares/tickets</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 4: Complaints about bus companies received on the Transperth 13 1608 Comment Line 1998-99.

The most frequent passenger complaint concerned reliability and the second most frequent concerned driver attitude and skills. The overall level of complaints is low\(^1\) given the number of trips (about 2.4 million) undertaken.\(^2\)

Notes:
1. A total of 6018 complaints relating to the performance of bus companies were made to the Comment Line in financial year 1998-99.
2. Further analysis would be required to determine both the validity and cause of these complaints.

Source: Transport and OAG

Passenger satisfaction monitoring

Passenger satisfaction surveys of a sample of regular bus passengers have been conducted annually in Perth since 1991 (1995 excepted). These surveys identify which features of bus services are most important to passengers, and then collect satisfaction ratings for these features. Starting in 1996, Transport has arranged for the annual survey to provide results for each contract area and company, as well as the overall Transperth system.

Overall levels of passenger satisfaction have fluctuated between 70 and 80 per cent during the period 1991 to 1999 (Figure 8). The apparent fall in satisfaction observed in the past two years may not necessarily indicate a downward trend because it is within the sampling error of the survey methodology. However, a further fall in 2000 would suggest a declining trend in passenger satisfaction that could not reasonably be explained as sampling error.
Figure 8: Overall satisfaction with bus services – 1991 to 1999.\(^{(1)}\)

The annual passenger satisfaction surveys are Transport’s most representative source of the views and experiences of regular users. Overall levels of passenger satisfaction have fluctuated between 70 and 80 per cent during the eight-year period.\(^{(2)}\)

Notes:
1. Percentage figures do not add to 100 because some passengers were neither satisfied nor dissatisfied.
2. The sampling error between years is no greater than three per cent (at the 95 per cent confidence level).

Source: Transport

As well as monitoring overall levels of satisfaction, Transport uses the survey to improve services and to address issues of concern to passengers. The 1999 survey report shows that some aspects of services have improved since 1996 (night-time personal ratings of safety, satisfaction with bus frequency), while other aspects have declined (overall passenger satisfaction, waiting time for a connecting bus, satisfaction with automatic ticket vending machines).

Passenger satisfaction ratings obtained in the 1999 survey varied significantly between companies (Figure 9).
Figure 9: Passenger satisfaction ratings – 1999 survey results.

Passenger satisfaction ratings vary significantly between bus companies.

Note: Percentage figures do not add to 100 because some passengers were neither satisfied nor dissatisfied.

Source: Transport

Transport uses the survey to monitor and address performance issues where lower than expected satisfaction is identified. For example, the two companies with the lowest overall satisfaction ratings, Southern Coast Transit and Perth Bus, responded quickly to the findings of the satisfaction survey by developing action plans to address specific issues including driver behaviour and timetable reliability. Transport commissioned a follow-up passenger satisfaction survey in October 1999 to monitor progress in these contract areas. The survey found a statistically significant improvement in passenger satisfaction with aspects of driver behaviour and timetable reliability for both companies.

The annual passenger satisfaction surveys are Transport’s most representative source of the views and experiences of regular users. They do not represent the views of occasional and non-users. However these people are the ones that need to be won over if long-term patronage targets are to be met.

**TravelSmart**

Improving and extending services is important but the public’s attitudes to public transport also need to change if significant inroads are to be made into the continuing decline in patronage. Occasional and potential users have to be encouraged to try public transport and like it enough to stick with it. Transport has adopted the TravelSmart concept to address this objective.
TravelSmart takes a local community-based approach to identifying the travelling habits of the public and the scope and means to achieve change. In particular, it seeks to encourage people to select alternative modes to driver-only car journeys, such as public transport, walking, car-pooling, cycling or alternatives to travel.

Travel diaries of participants in the South Perth TravelSmart pilot study indicated that they made greater use of public transport and less use of cars. Transport intends to monitor actual public transport boardings during the implementation of the full program.

Vigorous pursuit of these and other initiatives which result in increased use of public transport will be essential if Transport’s long-term patronage objectives are to be met.

**Contract evaluation**

Rigorous and ongoing contract evaluation is required to:

- maximise the gains from, and minimise the risks of, the implementation of a competitive model of bus service delivery;
- support decision-making on contract development and the future re-tendering of contracts;
- assess the progress made towards achieving strategic and policy objectives for public transport; and
- provide greater accountability to Parliament for results.

Transport already collects key data needed for contract evaluation. This data includes: contract costs; bus service kilometres; patronage; customer satisfaction and service quality (reliability, bus presentation, and maintenance). To date, Transport has focused its service quality monitoring on successfully managing the transition, administering the contracts and improving performance.

With some modification of existing monitoring, Transport should be able to reliably assess and report contract area performance, as well as the results of individual contract and system initiatives, using a range of performance indicators. Modification would include implementing benchmarking to assist decision makers better understand the significance of results achieved over time.

Benchmarking includes comparing the performance of different contract areas, taking into account where appropriate their differing operating environments, to identify best practice and scope for improvement. Individual contract area performance can also be benchmarked against a starting point to provide, for example, the cost effectiveness (as measured by cost, service quantity and quality, and patronage) of funding new and revised bus routes.
This extended review and analysis should also enable Transport to reliably compare contract area performance to price paid. The contract area price paid at June 30, 1999 varied from about $1.85 to around $2.75 per bus service kilometre, the upper price being nearly 50 per cent higher than the lower. These price differences reflect contract area operating conditions and competitive market forces at the time of tender.

**Recommendations**

Transport should:

- quickly resolve ticketing system software problems to ensure the patronage component payable to bus companies is brought up to date;
- publicly report contract timetable reliability against published timetables;
- develop maintenance performance indicators to enable comparison of contract area performance;
- develop strategies to identify, measure and assess the views of occasional and non-users of public transport;
- further develop initiatives to provide for increasing customer demand for public transport information;
- vigorously pursue initiatives which result in greater patronage of the public transport system; and
- undertake rigorous and ongoing contract evaluation to reliably assess and compare value for money results.