



The Hon Andrew Constance MP
Minister for Transport and Roads

Your ref: D19/44783

Our ref: PI19/00005

Ms Helen Minnican
Clerk of the Legislative Assembly
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Ms Minnican

I write in response to your letter of 22 November 2019, on behalf of the Legislative Assembly, Public Accounts Committee, regarding Examination of Auditor-General's Performance Audit Reports May 2017 – December 2017.

In 2017, the Auditor-General conducted a performance audit of Transport for NSW's management of the maintenance contracts for both the south and west zones. The audit focused on the reasons for embracing the Stewardship Maintenance Contract model, quality of data, contract management approach, benefit realisation, incentives and sanctions, and key performance indicators.

In 2019, The Public Accounts Committee inquired into the audit and Transport for NSW's response. The attached Transport for NSW response addresses the three Transport related items (Recommendations 2, 3 and 4) in the Public Accounts Committee inquiry report.

Yours sincerely

25/05/2020

THE HON ANDREW CONSTANCE MP



Transport
for NSW

TfNSW response

Public Accounts Committee inquiry - Examination of
the Auditor-General's Performance Audit Reports
May 2017 - December 2017

Sydney Region Road Maintenance Contracts

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1 Context

The Sydney region's State roads network comprises more than 2,800 kilometres of roads and road corridor infrastructure. Transport for NSW's Sydney Maintenance section is responsible for the management and maintenance of these roads, which is shared amongst the south, west and north zones.

Stewardship Maintenance Contracts have been in place since November 2013.

In 2017, the Auditor-General conducted a performance audit of Transport for NSW's management of the maintenance contracts for both the south and west zones. The audit focused on the reasons for embracing the Stewardship Maintenance Contract model, quality of data, contract management approach, benefit realisation, incentives and sanctions, and key performance indicators.

In 2019, The Public Accounts Committee (PAC) inquired into the audit and Transport for NSW's response. This Transport for NSW response addresses the recommendations in the PAC inquiry report.

2 Recommendation 2

That Transport for NSW clarifies the type of road maintenance contract currently operating in the north region, and explains how it differs from other contracts in place prior to the Department's review.

Response

Noted

The northern contract zone is operating as a Performance Specified Maintenance Contract. This contract consists of a single contract for the provision of all products and services in the specified network maintenance boundary. The scope of services across the 699 kilometres of State roads in the north zone does not cover all Transport for NSW assets in the region, but includes maintenance of road, corridor and bridge assets.

Services provided in the northern region differ to other regions in the following aspects:

- Asset improvement works are not included in the lump sum, but the contractor may recommend improvement works in the area.
- Major traffic incident support is not included, but the contractor may be instructed to provide these services, including special event management in their region.
- The contractor prepares an annual treatment plan, to address the needs of these services in that area, as opposed to a Forward Works program.
- The network is measured annually, to achieve the treatment plan objectives.
- The annual plan is fixed and assets are maintained under a lump sum.
- Performance framework is based on a minimum standard to be maintained and a Network Compliance Score calculated on non-compliance to intervention standards.
- Payment type is a lump sum over the full contract duration (in this case 10 years).

The Performance Specified Maintenance Contract performance framework (including pricing arrangement) and contract performance criteria focuses on areas such as quality, safety, community consultation, road surface condition, and operational performance.

The contractor's performance is measured using the following three criteria:

- Management Performance Measures: Monitoring the inspection, planning, management, and implementation aspects of the contract.
- Pavement Performance Measures: A long-term measure relating to the overall condition of pavement assets.
- Operational Performance Measures: A short-term measure applying daily to the serviceability of assets.

For this contract, the contractor must meet the monthly network compliance score target to attain the monthly Maintenance Fee Performance Component.

This is a different performance regime than the other zones, where contractors are scored to determine if monetary penalties are to be implemented, if performance is less than satisfactory.

3 Recommendation 3

That Transport for NSW implements a program to regularly audit the self-reported data provided by contractors to ensure its quality and validity.

Response

Supported

The Sydney Maintenance governance framework provides an overview of the governance, assurance, and delegations for Transport for NSW's Sydney Maintenance section.

This framework has been developed at a point in time. It will be monitored and reviewed on a yearly basis, to ensure it is fit for purpose and remains both relevant and consistent with divisional objectives. This framework will be continuously enhanced, to support Sydney division moving to a higher level of maturity.

An annual audit and assurance schedule is defined, to provide a targeted independent approach to all aspects, including financial, quality, safety, environmental and maintenance.

4 Recommendation 4

That Transport for NSW regularly monitors the cost-saving benefit of the road maintenance contracts throughout the life of the contracts.

Response

Supported

Assurance activities carried out for contractor's cost claims include:

- Process and procedures reviews, as part of each an initial open-book examinations, to identify potential control weaknesses in the their systems
- Open-book examination of transactions, to determine that commercial aspects of the maintenance contracts have been administered as outlined in and payments have been made in line with the maintenance contracts
- Project financial close-out audits, to reconcile project actual costs with claimed costs, review the close out calculations and to determine payments have been made in line with the maintenance contracts
- Annual cost reconciliations against their claimed costs, to determine payments have been made in line with the maintenance contracts
- Analysis of project design and supervision cost, to determine actual design and supervision costs versus target costs and against expected proportional costs, as determined in the maintenance contracts.

Additionally, the Performance Specified Maintenance Contract is required to report on the annual savings for asphalt work and asset management planning.

The Stewardship Maintenance Contract Service Provider has committed to reduce the cost of providing the services in real dollars by a tendered percentage, which will apply to services performed in each Works Period after the Initial Works Period (the Efficiency Commitment).

The Service Provider must provide pricing for Services to account for this Efficiency Commitment and must demonstrate to Transport for NSW how the Efficiency Commitment is accounted for in its pricing.

Furthermore, Sydney Maintenance is carrying out a Benchmarking Estimation Tool project, to allow it to monitor the cost-saving benefit of the road maintenance contracts, by accessing a more accurate estimation of the cost of works to benchmark against Stewardship Maintenance Contract estimated and actual costs.