

PUBLIC ACCOUNTS COMMITTEE

**EXAMINATION OF AUDITOR-GENERAL'S PERFORMANCE AUDIT REPORTS
MAY 2017 - DECEMBER 2017**

Response to Question on Notice

Hearing – 23 September 2019

Mr RYAN PARK: Can you explain to me or do you think that the outsourcing of maintenance from Roads and Maritime Services [RMS] works better than doing the work through RMS workers maintenance crews?

Mr HARDWICK: I cannot comment because at the time I was not here when the contracts were first put out. What I do know for certain is that we have had more than 5 per cent improvement in the financial outcomes from an RMS perspective. But also I have seen a really good work relationship between the two sides commercially, trying to work together for the best outcome. I think the type of contract we have picked—which is very much a stewardship contract so they feel that they have the risk of the community looking over their shoulder and trying to work in the best interest of the community and not just financials—has really given the right balance. I think driving the safety into there has also been quite beneficial to us. So I have found that quite useful.

Mr RYAN PARK: I just wondered if you do not think you could do those things in-house still? An improvement of 5 per cent is decent but it is not a huge amount and I am sure there are additional costs and things like that. You just wonder whether we could get a better outcome if we did it in-house using some of the things you have learned in reforms et cetera to drive the maintenance, that is all.

Mr HARDWICK: I think one of the key components of this is as Sydney continues to grow and evolve it is really important for us to have flexibility.

Mr RYAN PARK: Sure.

Mr HARDWICK: Western Sydney is a good example. We are looking at working very closely with local government and with the new contracts we are potentially having some new options in there for those contracts to also be doing other work. That is a huge benefit to us where the market can pick up that capability.

1. Mr ADAM CROUCH: Just a follow-up to Mr Park's question. You can take this on notice. That 5 per cent saving you mentioned, Mr Hardwick, can you confirm in dollar terms how much that 5 per cent saving would equate to for the people of New South Wales? Obviously you may not have it at hand at the moment. Could you come back to the Committee and outline what that 5 per cent saving actually represents as a dollar value?

Mr HARDWICK: We could do that. I do not have the exact number, you are correct. I think it is important to understand that is not a one-off 5 per cent. That is year on year. We are finding that is starting to grow now as the efficiencies keep being driven in.

Mr ADAM CROUCH: Yes. So if you can come back to us with what those efficiencies are, that would be great.

Response:

Evans and Peck, an independent consultant, conducted a benchmark study, which confirmed a 5.5 percent savings. Since the contracts were outsourced, savings of over \$156 million dollars have been achieved for the people of NSW.

The audit recommended that RMS should review its contract management framework for SMCs to ensure that all authorities and accountabilities of contract managers are clearly defined. This should encompass accountability for decision making; approval authority for interventions; regular auditing to validate performance and contractor financial data; compliance with contractor service plans; and compliance checks on monthly and annual reports.

The response to recommendation 2 states that RMS had modified the existing Performance Specific Maintenance Contract (PSMC), rather than adopting a Stewardship Maintenance Contract (SMC) model for the contract renewal for the Sydney Region North zone.

1. Can you provide more information on the contract management framework for the modified PSMC?

Response:

The Sydney Maintenance Governance Framework outlines the roles and responsibilities for both the management of SMC and PSMC contracts. The framework covers stakeholder engagement, financial control, risk and issues management.

The PSMC performance framework (including pricing arrangement) and contract performance criteria focus on various areas. These areas include quality, safety, community consultation, road surface condition and operational performance.

The PSMC required the establishment of a Contract Review Group (CRG). This group provides both leadership and strategic direction, to both ensure contractual outcomes are met and to resolve issues escalated to them.

RMS and its maintenance contractor for the North zone of Sydney, Downer EDI, meet for monthly management meetings, to formally review contractor performance and any issues.

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2. What sanctions are in place in the modified PSMC for incorrect information provided by the service provider and how do they differ from SMC? Are the sanctions stronger than the standard SMC?

Response:

The PSMC contract was not amended and the existing sanctions are still in place.

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