

# ***Social Procurement, Social Transit and Social Capital in the Australian Bus Environment: A Recommendation for COAG.***

*Chris Lowe*

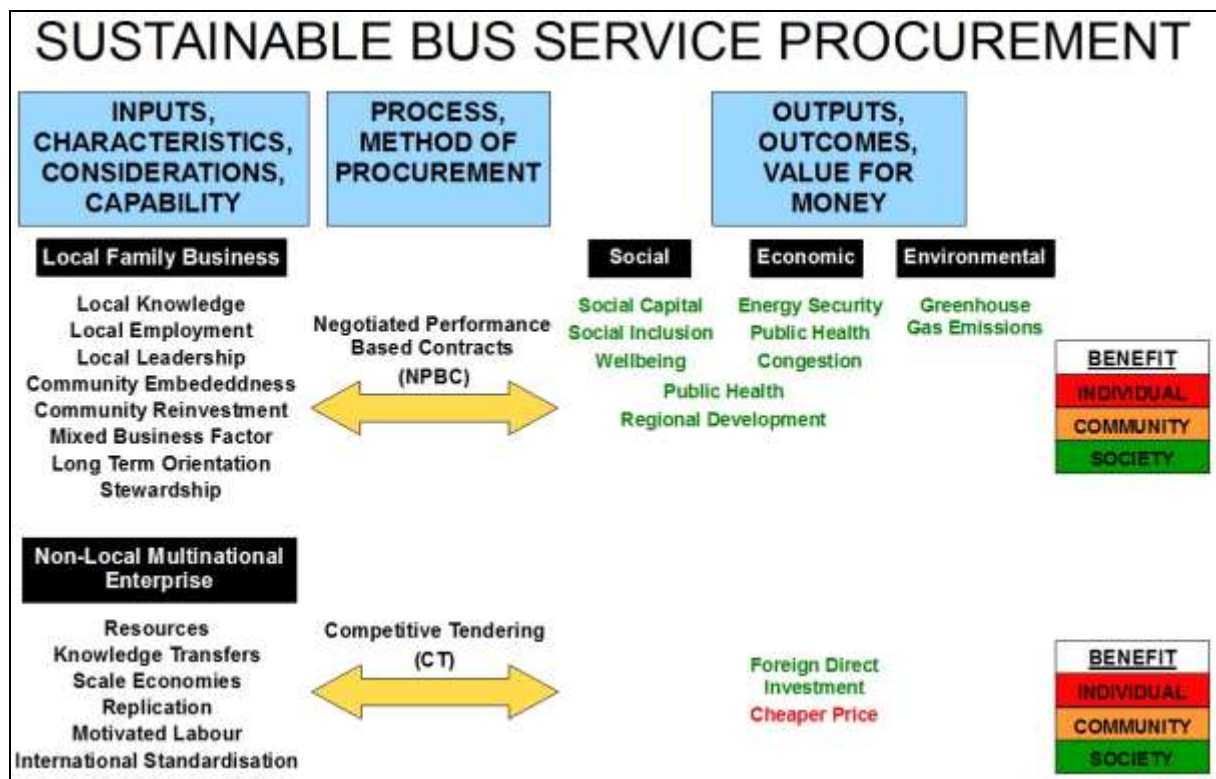
*January 2013*

*'...our bid laws create ... a value system which rewards budget savings from one government pocket but does not recognise that it may be offset by a similar expense from another government pocket in the form of an externality cost.' (Berglund 2011)*

*Chris Lowe is Executive Director of Bus Association Victoria Inc and a Doctoral Candidate at Monash University, Melbourne, Victoria, Australia. [clowe@busvic.asn.au](mailto:clowe@busvic.asn.au)*

## Executive Summary

In Melbourne in 2011, the National Institute of Economic and Industry Research (NIEIR) concluded that switching from local to non-local bus operators in pursuit of a margin reduction on a major metropolitan bus service contract would result in a headline net welfare loss to the state of between 5 and 7 per cent of the contract value if the margin was reduced by 2 per cent, and, that the loss would increase as the margin decreases. This profound conclusion gives rise to the need for a discussion about how such an outcome can be avoided because procuring to realise an economic efficiency but incur social costs is counter-productive. This Paper looks at social procurement; its objectives; the extent of its proliferation in Australia; the characteristics and value of the community level social capital of Victorian bus operators, and; the possible implications this new knowledge may have for government procurement regimes. The paper demonstrates that the contracting of social imperatives via the Strategic/Tactical/Operational (STO) model, where negotiated performance based contracts may facilitate the achievement of strategic objectives in the bus procurement environment is well developed, indeed proven, but not universally adopted. The paper demonstrates that the divergence of understanding of the concept of 'value for money' does not help endeavours to improve economic and social wellbeing. Due to inconsistent approaches to the valuing of social procurement amongst jurisdictions and the need for further research to be undertaken, this paper calls for on COAG look at social procurement, more specifically, that it consider the notion of a harmonised, legislated requirement to consider economic, social and environmental factors when procuring and whether it might or might not prevent the outcomes foreshadowed in the NIEIR Report (2011).



## Introduction

This paper takes the eventuality that the NIEIR Report (2011) contemplates and applies that thinking to a wider context in so far as what social utility might be foregone in pursuit of an economic saving. The NIEIR Report (2011) concludes that switching from local to non-local bus operators in pursuit of a margin reduction on a major metropolitan bus service contract would result in a headline net welfare loss to the state of between 5 and 7 per cent of the contract value if the margin was reduced by 2 per cent, and, that the loss would increase as the margin decreases. This paper looks at the nature and extent of social procurement in Australia and its application in the bus contracting environment. To assist understanding of contracting social value, this paper looks at the characteristics of the bus industry's social capital as it is likely these characteristics have a social impact. We outline how the contracting of social imperatives such as social inclusion and urban congestion (just to name two) using the STO model, where negotiated performance based contracts facilitate the achievement of strategic objectives is well developed, indeed proven, but not universally adopted. The paper suggests that current government social procurement principles are inconsistent because they are largely discretionary and that this may contribute to the continued foregoing of utility. We also find that a divergence of understanding of the concept of 'value for money' hampers endeavours to improve economic and social wellbeing. We call on COAG to look at the concept of sustainable procurement, more specifically, whether adopting a harmonised (or consistent) legislative agenda for bus procurement regimes as a means to prevent jurisdictions realising social costs in the face of an economic benefit would be beneficial or not. By invoking this recommendation, the writer hypothesizes that governments would be: strategically, continuing to encourage the growth of social justice thinking; tactically, be endeavouring to foster the economic and social sustainability of not just regional economies, but family bus businesses also, which may realise a more holistic governmental approach to bus service contracting which has been shown to assist with achieving social outcomes.

## The NIEIR Report (2011)

In June 2011, the Victorian State Government, via its agency Public Transport Victoria (PTV), announced a competitive tendering project called The Melbourne Metropolitan Bus Franchise (project) which purportedly accounts for 30 per cent of Melbourne's route bus network. The franchise consists of the following services, all of which are presently contracted to local family business bus operators:

- ◆ National Bus Company (which includes the Doncaster Area Rapid Transit (DART) services)
- ◆ Melbourne Bus Link
- ◆ The Green, Red and Yellow Orbital services (high frequency, broad span circumferential 'smart bus' services).

Earlier in 2011, the voluntary professional association for Victoria's bus and coach operators, Bus Association Victoria Inc (BAV) commissioned the National Institute of Economics and Industry Research (NIEIR) to formally quantify any impact of change associated with taking the service contracts from local operators and awarding them to non-local operators. NIEIR's Report, entitled 'Melbourne's Route Bus Contracts: the impact of change from local to non-local ownership' (the Report) concluded that a switch from local to non-local operators in pursuit of a margin reduction would see potential costs incurred which are 'all too often ignored'. The Report concluded that there would be a headline net welfare loss to Victoria of between 5 and 7 per cent of the contract value if the margin (profit) was reduced by 2 per cent, and, the loss increases as the margin decreases.

The Report suggests that locally owned businesses tend to be positive for regional development because of their greater capacity to retain income within a region. This comes from:

- (a) the owners/managers living within the region which means all net surplus from their region activity goes into regional household income;
- (b) the local firms are, from necessity or because of membership of local networks, more likely to outsource to local firms rather than import goods and service from other regions; and
- (c) community involvement by the owner/managers could well mean \$/hour employee rates are higher for locally owned enterprises than for similar non-locally owned enterprises.

Further, the Report suggests that the benefits from this direct community involvement by owner/managers can improve productivity and product spill-overs (consequential costs or benefits experienced by unrelated third parties) because of:

- (a) short distances between owners and customers enabling rapid response to developing business opportunities;
- (b) an incentive to run the businesses in the best interests of the local community;
- (c) more flexibility in working decisions which substitute short run bottom line outcomes for wider community benefits and, therefore, better able to maximise the long run profitability of the enterprise to the long run benefit of the community; and
- (d) greater commitment of employees which reduces labour turnover costs and increases institutional knowledge and commitment to the enterprise.

The Report asserts that with a non-local operator, there would be a decline in service quality, declining patronage, a decline in suppliers' commitment to the operator which in the long run could well offset the benefits to Victorian residents, if not the government.

This suggests that by government appointing a non local operator to these services at a reduced margin, by ignoring the externalities associated with such a decision, government would start incurring unforeseen social costs. In other words, by reducing the financial burden (or subsidy) to the Victorian taxpayer for the provision of these services, the Government is actually increasing the social burden on the Victorian taxpayer because it failed to consider what would be foregone as a result of changing operators.

Such a conclusion is as profound as it is revealing. Realising such outcomes would be counter to the endeavours of the procurement project and therefore may ultimately see the project not realise its objectives. This paradigm would come as quite a shock to any government undertaking bus procurement projects.

This forecasted eventuality gives rise to the need to review the current government bus procurement processes, more specifically, the extent to which social factors are considered in the evaluation process governments adhere to when awarding bus service contracts to operators.

We begin by discussing the concept of social procurement; its importance, its purpose and potential benefits.

## **What is Social Procurement?**

Social procurement (Newman & Burkett 2012) refers to the generation of social value through purchasing and procurement processes. It's another way governments can achieve their social objectives. Social procurement should ensure that government purchasing decisions incorporate consideration of social value and, in doing so, ensure that government purchasing power maximises opportunities to achieve outcomes and benefits for the people and communities they serve.

The consideration of social values as a 'pillar' of procurement is one of the three pillars of the 'triple bottom line' theory. Whilst definitions of social value are broad, suffice to say it refers to wider non-financial impacts of programmes, organisations and interventions, including the wellbeing of individuals and communities, social capital and the environment. Being able to demonstrate social value can be hugely beneficial especially during current times of spending cuts and increased competition over scarce financial resources (Eurodaconia 2011).

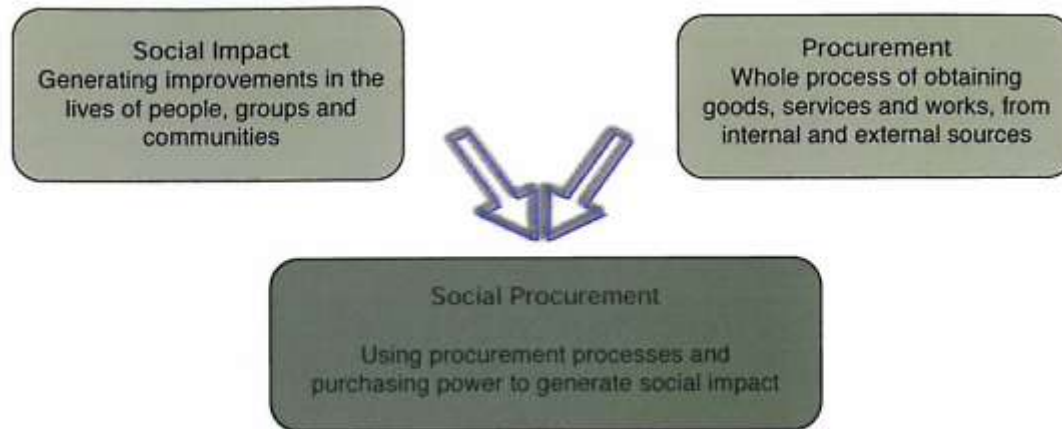


Figure 2: The Two Parts of 'Social Procurement'

Figure taken from *Social Procurement in Australia*, The Centre For Social Impact, University of NSW. 2010.

## The Extent of Social Procurement in Australia

A succinct summary of the current social procurement processes prevalent in Australia features in Addendum 4 and is taken from Burkett (2010). A discussion on the adequacy of the present arrangements in light of the NIEIR Report is worthwhile. While the aforementioned summary of current social procurement regimes in Australia is possibly not exhaustive, it provides a sufficient basis to assess the various programs' adequacy in light of the NIEIR Report.

Burkett (2010) states currently social procurement occurs most frequently around purchases that do not exceed thresholds over which public sector organisations must either apply for approval or undertake a competitive procurement process.

Based on the aforementioned summary, there is an inconsistency, ad-hoc application of social procurement around Australia:

- Some jurisdictions have social procurements in the form of positive discrimination to assist the endeavours of some groups;
- Other jurisdictions have some non legislated, administrative guidelines which are discretionary and voluntary;
- Some jurisdictions have no social procurement considerations at all.

This raises some questions about the governance around existing government social procurement regimes and why it is not taken up more broadly, given the result of the NIEIR Report.

- What is the effect of social procurement on the extent of social welfare utility?
- Shouldn't social procurement best practice be shared and replicated?
- Should positive discrimination in social procurement be widened, given the evolution of knowledge associated with social procurement?

- If there were a harmonised legislated, or 'higher' requirement for social factors to be considered as part of government procurement regimes, especially in bus contracting, would eventualities like the one in the NIEIR Report be prevented?
- Is denying sectors (other than those currently legislated) the capacity for social value to be considered as part of government procurement regimes concurrent with improving social outcomes for all?
- Does continuing to exclude social factors in procurement in sectors where no explicit social considerations or outcomes associated with procurement exist give rise to a discussion on fairness or consistency of procurement?
- Does having administrative guidelines for social procurement imply the social imperatives, (and possibly other imperatives such as environmental imperatives) are deemed secondary to economic imperatives?

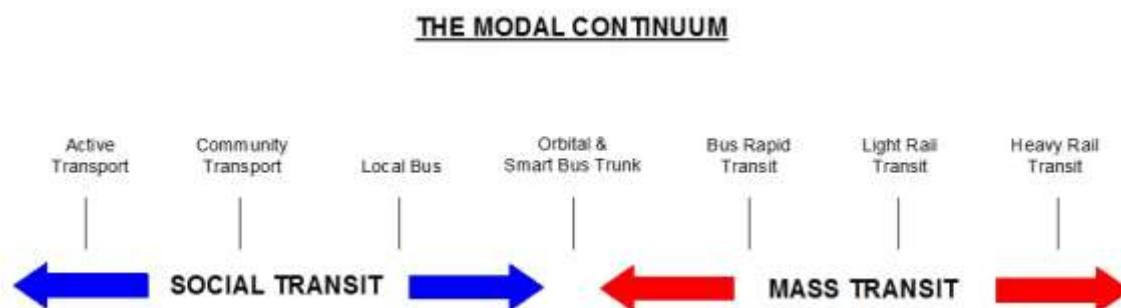
The writer does not suggest that a perceived or actual current paradigm of social considerations being secondary to economic imperatives is deliberate. Rather, it is probably just a case of the evolution of knowledge surrounding the relatively new topic of social procurement. This paper does not attempt to look at whether there is an inherent economic bias in the way governments currently procure, but it is worth noting as a future research piece.

To understand how the NIEIR Report concluded the Victorian government would incur an external cost as a result of appointing a non-local operator to a service contract with a reduced margin, we need to look at the social factors associated with bus service procurement.

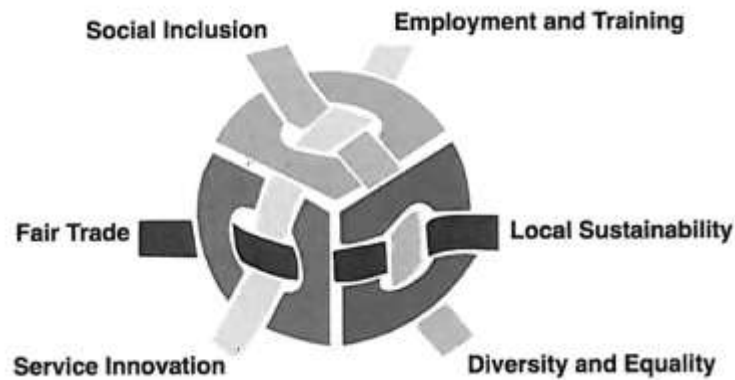
## Social Factors in Bus Service Procurement

Bus services are a means of social transit. Bus services provide people with access to affordable mobility and therefore acts to an extent as a social safety net. Buses exist to help people; this is a social endeavour. This help is facilitated by an economic means; the contracting of bus services. This in itself should suffice for the inclusion of the procurement of bus services as part of social procurement processes.

The following diagram demonstrates the modal continuum – the order of social and mass transit services.



There are many social benefits or impacts that could be included under the banner of social procurement, all of which are relevant to the bus procurement discussion. Burkett (2010) suggests there are a diversity of outcomes and foci that social procurement can generate, as the following diagram presents.



Applying this thinking to government procurement agendas means that sustainability should become a key tenet of government procurement regimes for bus services. If sustainability is to be holistic and meaningful, it is important for social impact to be considered alongside economic considerations and that all these facets are integrated within the sustainable procurement framework (Burkett 2010).

### **Social Contracting**

Unlike other industries or sectors, the contracting of social imperatives in the bus environment is well developed, indeed proven, but not universally adopted. But what sort of social variables or outcomes should be measured? Fortunately, most of the work around social contracting for bus services was pioneered in Australia and it is not unreasonable to suggest that Australia leads the world in this field, so access is relatively unencumbered.

When it comes to public transport services, the broad objective(s) of government should be to provide a good quality, integrated and continually improving service for a fair price, with reasonable return to operators that gives value for money under a regime of continuity and community obligation (Hensher and Stanley 2008).

It is well established that mobility is an important influence on people's ability to participate in society (Stanley and Barrett 2010). Further, transport disadvantage is a common problem for young people, particularly in regional areas, and for older Australians as the capacity to drive diminishes (Stanley and Barrett 2010). Ultimately, patronage levels can provide an insight into the level of the social wellbeing of a community because of its tested relationship with social inclusion and well being. Patronage (often referred to in other parts of the world as 'ridership') is the ultimate indicator that evidences the link between contract obligations and strategic objectives; increases in patronage reflect increased passenger trust and value in the services provided.

Social inclusion or exclusion looks at the barriers to full participation in society. Stanley et al. (2011) examined connection between trip making and the risk of social exclusion in Melbourne (and later included regional Victoria) and found that the average value of an additional trip at the average household income was approximately \$20. In other words, for a person at risk of social exclusion who has a lower income, enabling another trip is equivalent to giving that person \$20. This research confirmed a reliable link between increased mobility (trip making) and reduced risk of social exclusion in both metropolitan and regional studies. Given that social inclusion is closely associated with well being, increased patronage becomes a vehicle for potentially improving well-being.

There is a diverse generic range of tools available for measuring social value, although the variety of frameworks available may well cause confusion (Wood and Leighton 2010). Maas (2008) analyses



contemporary social impact measurement methods. Measuring social impact urges organisations not to focus on economic and financial value in an isolated way, but to assess their impact across the environmental, social and financial dimension.

Burkett (2010) suggests the following basic value measurements can assist in making assessments in relation to the social value for money that a supplier can deliver.

Impact	Key Value Indicators
Employment and Training Impacts	<ul style="list-style-type: none"> <li>- Number of jobs / training opportunities created</li> <li>- Retention rates of employment over time</li> <li>- % of jobs for particular groups / localities</li> <li>- Types of jobs / training opportunities created</li> <li>- % of people moving into mainstream employment (from transitional employment opportunities)</li> <li>- % of people employed who are long-term unemployed or come from particular target demographics</li> </ul>
Social Inclusion Impacts	<ul style="list-style-type: none"> <li>- % of spend with non-profits, social enterprises or other entities who have social objectives</li> <li>- % of spend with businesses that are majority owned by particular target groups (eg. Indigenous businesses)</li> <li>- Qualitative reports of inclusion impacts from participants / constituents</li> </ul>
Diversity and Equality impacts	<ul style="list-style-type: none"> <li>- % and number of contracts held by diverse suppliers – for example social enterprises, Indigenous businesses, disability enterprise or social firms, enterprises owned by women.</li> <li>- Nature of contracts held by diverse suppliers – eg. How many social enterprises are suppliers of waste related services/products?</li> </ul>
Service innovation impacts	<ul style="list-style-type: none"> <li>- % shift in key indicators around focus issues (eg. Drop in crime rates) in target locality</li> <li>- Comparative impact data - \$ spend in relation to benefit between innovation approach vs. traditional approach</li> </ul>
Local Sustainability impacts	<ul style="list-style-type: none"> <li>- Number or % of contracts awarded to local businesses</li> <li>- \$ spent in local economy</li> <li>- Number of local jobs or training opportunities generated</li> <li>- Multiplier effect calculation of local spend.</li> </ul>
Fair Trade impacts	<ul style="list-style-type: none"> <li>- \$ spend on fair trade products</li> <li>- \$ impact in producer communities compared with non-fair trade purchasing</li> <li>- \$ spend in organisations that support fair labour standards</li> </ul>

### The Strategic, Tactical, Operational (STO) Model

Despite the absence of any legislated or mandatory requirement to consider social values when procuring for bus services in Australia, there is a model or method of procurement which accommodates the achievement of strategic objectives including those of a social nature, and this method is proven.

The Strategic, Tactical and Operational (STO) model was contextualised to the Victorian bus industry between 2003-2006 as part of the development and implementation of 'Meeting our Transport challenges' (MOTC). The STO model sees government continue to look at how it can remove structural barriers and address social



inequities through commerce. Further, it is a genuine attempt by government to combine its participation in the market as a purchaser while contemporaneously regulating it through the use of its purchasing power to advance notions of social justice. What's more, the model is portable and can be contextualised to other industries.

At present, several state governments in Australia are preparing strategies or 'vision statements' for land transport. The Victorian government is developing their Metropolitan Planning Strategy (MPS), an integrated land use and transport vision. Infrastructure NSW has recently released some of their vision for NSW Government and the Queensland government is looking to develop its strategy.

The STO model can be used for achieving strategic, or societal objectives. The strategic (S) level articulates the vision. Having researched strategic contracting objectives as part of the writer's research project, the writer has determined the BIC/UITP/ARA Report entitled 'Moving People' (2011) comprehensively articulates a set of economic, environmental and social land transport outcomes. Further, it is noted that despite this being a document primarily prepared to inform the federal and state public transport infrastructure and service debate, to date, only one state (Victoria) has explicitly adopted the rationale in its contracting regime.

The objectives are:

1. **Congestion Management.** To manage congestion costs, improving economic competitiveness and quality of life in our cities.
2. **Environmental Improvement.** To achieve sustainable cuts in transport greenhouse gas emissions.
3. **Social Inclusion.** To ensure adequate accessibility options are available to all.
4. **Health and Safety.** To make the transport system safe and encourage healthier transport choices.
5. **Energy Security.** To increase our energy security by reducing our reliance on imported fossil fuels.

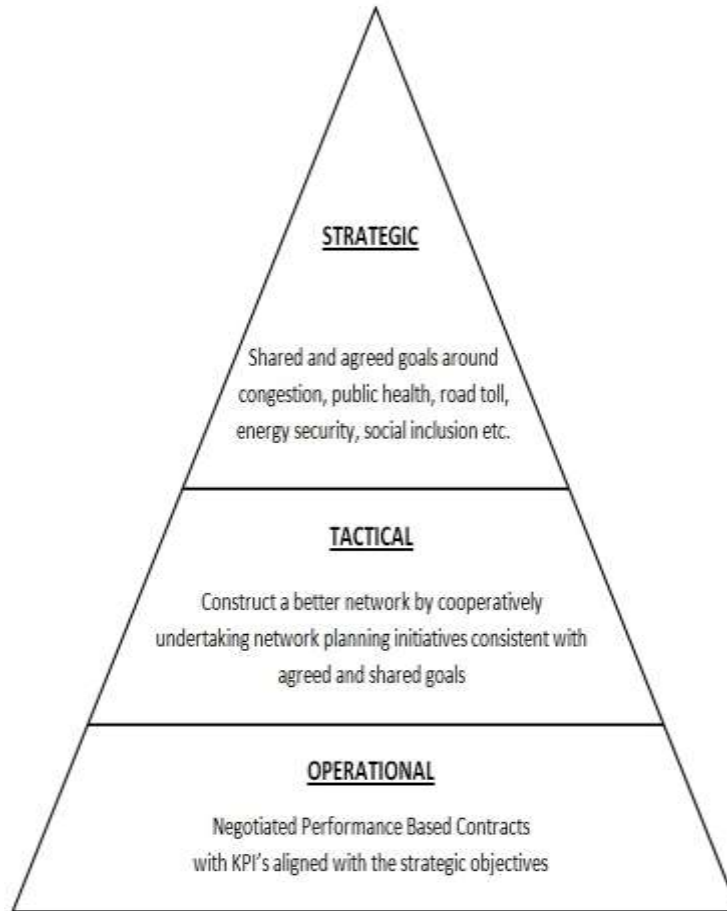
To achieve the aforementioned strategic outcomes, co-operative initiatives between Industry and State are necessary. This is the tactical (T) level. T level initiatives would include:

- measures to construct a better bus network, particularly on the urban fringe, by co-operatively designing services that will maximise value for the host community;
- demonstrate how a negotiated contract might see government reduce its transaction and service delivery costs;
- demonstrate how the voluntary professional association is uniquely placed to steward service changes and service improvements amongst operators in order for the government to realise strategic objectives.

Showing how the relationship between NPBCs and the growth in service kilometres between 2005 and 2012 resulted in a 70% growth in patronage in Victoria can be used as a performance measure to judge these initiatives.

The service contract becomes the operational (O) level means to facilitate the (T) and the (S). In essence, having agreed and shared goals around congestion, emissions, social inclusion, energy security, health and safety etc facilitated the execution of the (T) and the (O). Key to achieving the sort of outcomes that a negotiated performance based contract can aid in realising, is trust. An even-handed co-existence (or trusting partnership) between industry and state is fundamental to linking the contracted operational requirements with tactical level network planning and strategic objectives.

The writer suggests that the achievement of the strategic and tactical endeavours is more likely when a negotiated performance based contract (NPBC) with KPIs aligned to the strategic objectives is in place, as shown in the following diagram:



This approach is proven. The STO approach was adopted for the negotiated renewal of the following Victorian bus service contracts between 2006 and 2011:

- ◆ metropolitan bus service contracts
- ◆ country, regional and urban route bus service contracts (subsidised)
- ◆ country, regional and urban route bus service contract (non subsidised)
- ◆ school bus service contract
- ◆ V/Line marketed (coach) contract
- ◆ airport shuttle contract
- ◆ special school bus service contract

All of these service contracts were negotiated transparently and in good faith during this time. Although some route bus operators may have a unique legal predicament which may influence how the government procures some route services, it does not change the degree of unwavering commitment the voluntary professional association has to presenting the government with an exceptionally competitive value proposition prior to the expiry of the current service contracts in order to realise a negotiated renewal of these contracts; an endeavour that should include the setting of many strategic societal objectives, including the preservation and growth of the degree of community engagement and embeddedness local bus operators present. A negotiated

renewal of the existing performance based contracts, with performance-pressure through benchmarking, would most likely avoid an eventuality consistent with the NIEIR Report and deliver outcomes in line with strategic or societal goals.

### **Methods of Bus Service Procurement**

Procurement is shifting from a functional, administrative and relatively dispersed transaction in many private and public organisations, to a strategic position where a more holistic approach is managed. However, the discretionary or voluntary nature of the requirement for governments to consider social procurement suggests that government should focus more on strategic aspects of procurement and less on routine transactions.

Despite tendering being an European Union (EU) requirement and 'the norm' in many other parts of the world, there is sufficient research and evidence from around the globe that shows that negotiating performance based bus contracts (NPBCs) can be a very effective method of procurement of bus services. Importantly, tendering tends to ignore the social imperative of bus service contracting, as 'value for money' is heavily weighted toward cheapest price.

There have been several competitive tendering projects, both locally and overseas, which may not have been as successful as hoped for three prime reasons:

1. contractual reasons: the contract provided too little freedom and/or effective incentives for the operator;
2. market reasons: the development potential of the concession was too small for development;
3. organisational reasons: cultural differences between authorities and operators, and/or operator incompetence.

These failures deserve some attention because we have seen service contracts awarded to the largest qualified suppliers at the lowest cost which has not yielded best value. After giving some attention to these tender projects, we will further explore the concept of 'value for money'.

In South Australia in April 2012, reports emerged that an operator that was appointed in July 2011 to run about half of Adelaide's route bus network was 'bleeding', as a result of the competitive tendering process, because of unexpected costs. It has been claimed congestion and major CBD developments were not helping the on-time running of the services. The Minister came under attack and it was suggested by some that Government made a short-sighted decision in awarding the tender to the operator with the cheapest price. (Addendum 3)

In New South Wales, on the 1st May 2012, the government announced that private bus operators will be required to competitively tender for existing metropolitan bus contracts 'to drive service improvements to customers'. One outcome announced in November was that several trans-generational family business bus operators lost their right to deliver some of Sydney's metropolitan route services. (Addendum 5) Apparently the NSW government realised a cost reduction as a result of tendering the services. Commentators will be looking to see any reductions in service quality or patronage as a result of any change in operators. Ironically, the NSW government had produced what is an extremely thorough guide to social procurement. It begs the question, which, if any of the social procurement processes contained within the document entitled 'Social Procurement: A Guide to Activating Social Value Through Public Sector Procurement' (NSW Government) were adhered to when the NSW government awarded the metropolitan bus service contracts in November 2012.

In Victoria, the National Express withdrawal of 2003 showed what happens when companies aggressively bid for contracts, that is, when margins are set below minimum market acceptable commercial requirements. (Addendum 1)

Further abroad, the rights to the West Coast (UK) rail contract were taken from Virgin through tender. Virgin mounted a legal challenge and it would appear that they have forced a re-tender. In this instance, the franchisee pays a price and makes money purely from the farebox (ticket revenue). Virgin alleged the new operator would not be able to make money unless they cut services and quality. (Addendum 2)

This has all the hallmarks of the NIEIR Report, the South Australian scenario and the Victorian scenario; that there is a high chance that services and quality decline when the cheapest bidder is awarded a contract.

There is also sufficient evidence available that savings from competitive tendering diminish beyond first round tenders, together with dissatisfaction with what competitive tendering has delivered for service improvements in some jurisdictions, this has encouraged the search for alternative awarding mechanisms that can sustain performance pressure (Wallis and Hensher 2005). This evidence is a result of the Thredbo Series Conferences.

The Thredbo Conference Series was established in 1989 and provides an international forum to examine passenger transport competition and ownership issues, reporting on recent research and experience and developing conclusions on key issues. The focus is on determining the effects of different forms of competition, ownership and organisation for land-based passenger transport on operators, users, governments / funders and society as a whole. The conference series is directed towards a broad audience of policy makers, planners, decision makers on infrastructure and service operators, consultants, researchers, academics and students, and is recognised as one of the most important international forums for analysis and debate of competition and ownership issues in land passenger transport. BAV has been a supporter of the Conference Series for twenty years.

An important development over recent Thredbo Conferences has been the focus on the theory and practice of Negotiated Performance Based Contracts (NPBCs), particularly as an alternative to competitive tendering, as a means to award the right to provide service. At Thredbo 10 in 2007 Dutch authorities and operators were concerned about a lack of innovation under their emerging competitive tendering regimes, partly attributing this to a lack of suitable incentives for operators but also fundamentally linked to insufficient attention being paid to relational contracting. They pointed out that this had become a priority. The representatives from Overijssel Province (in The Netherlands), reflecting the Dutch dissatisfaction with progress being achieved under competitive tendering regimes in promoting service innovation, presented a creative paper to the Thredbo 11 conference in Delft in 2009, outlining how a new alliancing approach was being pursued in that Province to better harness the separate and joint capacities of authority and service provider. The Overijssel approach relies on two joint project teams, one with a marketing focus and the other with a technical focus, both comprised of staff from each of the authority and the service provider. These teams work together to improve service quality and lift patronage growth. They identify development proposals, which are funded through a joint development budget. A negotiation process is used to agree incentive regimes that apply in service delivery contracts.

European law constrains how an authority can negotiate with potential PT service providers. This has been a problem in revealing contractual expectations. The Copenhagen Public Transport Authority has tackled this problem in competitive tendering by implementing three rounds of negotiation after the initial tender responses have been submitted, allowing submitters to refine their proposals. Hensher and Stanley have pointed out how competitive tendering is hampered by the difficulty posed by incomplete contracts. The three rounds of negotiation are an attempt to reduce this level of uncertainty but also to build a relationship between possible providers and the purchaser.

In April 2011, the writer and Prof John Stanley from the Institute of Transport and Logistics Studies at Sydney University recorded some conclusions arising from a study tour undertaken to refresh our understanding of

developments in bus service planning and contracting, particularly in Europe, and to contribute to such understanding by presentation of papers at the UITP World Congress in Dubai in 2011. All the systems with whom discussions were held emphasised the importance of co-operation or partnership between the authority and PT service provider, to improve service quality (promote innovation) and grow patronage. Dissatisfaction with the constricting environment posed by competitive tendering, where there has been a significant tendency for risk averse authorities to tightly specify service expectations and then be surprised at a lack of operator innovation, has been the major driver of this change in emphasis in Europe, which represents a shift from the old master-servant model. However, there is still a suggestion of the master-servant model lingering in the wings. The success, or otherwise, of the new co-operation/partnering approach will be important in determining how far the master-servant approach can be replaced.

In assessing a sample of both local and international bus service procurement regimes, it is fair to state the competitive tendering environment is probably a more difficult environment within which to promote co-operation/partnering than an environment of negotiated contracts. Operators under a competitive tendering framework can be expected to guard their intellectual property more tightly than in an environment where contractual rollover is more likely. It will be interesting to monitor European progress in authority-provider co-operation, to see how much it delivers in terms of innovation and patronage growth.

A common rationale for NPBCs is to deal with the inevitable uncertainty that creates difficulty for ex ante contract specification and tender bidding, by adopting an awarding mechanism that can be adaptive and sustain performance pressure during the course of the contract. These areas of uncertainty relate, in particular, to questions that relate to service quality, which have proven to be much more difficult to specify in tender requirements than price but are increasingly recognised as the key to desired policy outcomes. By focusing on performance pressure during the contract, NPBCs reflect alliance contracting as used in such areas as building and construction and infrastructure Public Private Partnerships more broadly. Competitive tendering remains a fall-back mechanism in the event that service providers operating under NPBCs do not measure up adequately against their key performance indicators.

A further important rationale supporting NPBCs is that we believe this contract form is most likely to support a trusting partnership between purchaser and provider, particularly for system planning, and that, given scarce skills on both sides, such a relationship is more likely to maximise goal achievement through service provision than an awarding mechanism based on competitive tendering (Stanley 2007). Australian bus contracts have been pioneers in the development of NPBCs, founded on trusting partnerships, whereby contracts are re-negotiated with existing operators, subject to meeting certain conditions.

To address complex economic, environmental and social issues, new strategies and approaches by government, and to some extent industry, are needed. The aforementioned procurement method is a pathway for economic and social inclusion and provides an important component to reducing social exclusion.

But how might a NPBC see the local family bus operator contribute to the achievement of these economic and social objectives? To understand this, we need to look at the cultural characteristics, capability and nature of bus industry: its social capital.

## **The Social Capital of the Victorian Bus Industry**

According to the NIEIR Report, one of the reasons why a headline net welfare loss would be incurred by the state of Victoria if it awarded bus service contracts to non-local operators at a reduced margin was the declining or mitigating ability of the local operator to reinvest into the economic and social well being of their immediate local community.

The propensity for local operators to invest in their local community is part of their social capital, and the nature of the Victorian bus and coach industry's social capital is unique. As it will be shown that the industry has a genuine focus on the development of one's community, a discussion on regional development will follow.

Social capital is primarily a metaphor about advantage. Social capital can add value to the individual, the community (including the firm) and society. Community level social capital is a term that describes a phenomenon whereby firms invest in social capital through norms of behaviour and access to resources such as mutuality, trust, and respect for one another. In this regard, the social capital that is captured at a community level is one that yields corporate well-being. These benefits accrue from knowledge sharing, lower transaction costs due to improved communication, and coherence of action. The level of civic engagement is also a key indicator of the health of the community.

Victoria's bus and coach operators are mostly small, trans-generational family firms which are deeply embedded in their local communities and through those communities, and often via their voluntary professional association, are able to weave common interests and shared values into their specific environments.

The writer is undertaking a research project to understand the role and extent of social capital in the family business governance model and whether this governance model has any competitive advantages over other governance models (multi-national businesses for instance) in order to deliver on public transport outcomes.

In order to ascertain the role and extent of social capital within the industry, a series of focus groups, interviews are currently being undertaken, and later, a formal survey will assist draw a conclusion. Although the writer is only in the early stages of this research project, based on discussions held to date, it can be stated that anecdotally the following are some preliminary characteristics of the Victorian bus and coach industry's social capital:

### **Geographically bound social capital**

This transmits knowledge spill overs within geographically constrained areas which have a positive impact on other externalities in the form of ideas (innovations) that are taken up by others and combined with suggestions of their own. As it is possible that some of the knowledge shared and exchanged through some businesses will be tacit, this knowledge is difficult to transfer and requires the parties to it to openly trust each other. Many bus operators serve on civic and community boards, and invest family wealth in the local areas where the family resides. These activities increase the likelihood of meeting and working with other family business executives in the local area, or via their voluntary professional association, providing shared experiences and the development of trust, and leading to an important source of outside directors for family businesses.

### **Entrepreneurship & Long Term Orientation**

The operators create value through product, process, and service innovations that fuel growth and lead to prosperity. The long term or trans-generational nature of family bus business ownership allows operators to dedicate the resources required to innovation and risk-taking thereby fostering entrepreneurship. Some operators have strategic controls in place which reflect a long-term orientation, an understanding of the task at hand and the risks involved. An important feature of the family bus business is that there appears less opportunistic behaviour by operators because they often focus on family non-economic goals. Survival and longevity are beyond any doubt the most significant manifestation of success for a firm, especially for a family firm (Colli 2011). All but a handful of Victorian bus operators are family businesses. The persistence of family

control during the various stages of the growth of the firm is considered to be an extremely relevant measure of nonfinancial performance.

### **Stewardship**

Bus business owners and managers often tend to have lengthy tenures and anticipate long careers, not only for themselves but for their offspring. The trans-generational nature of the family bus operator shows them to be stewards – careful to ensure that today's actions do not jeopardise the longer term prospects, or that an obsession with futuristic ambitions does not rob the firm of resilience or sustainability.

### **Structure**

Many family bus firms employ flat, informal, "organic" organisational structures. Flat structures allow organisations to be more responsive to immediate and unexpected challenges and opportunities than taller more hierarchical and bureaucratic designs. However, because family bus businesses are often 'mixed businesses', they also make necessary wider spans of control and therefore, require employees to adopt broader roles and job definitions – jobs that demand significant individual initiative and a wide array of skills.

### **Memberships**

Having a voluntary professional association that invests in research and development and coordinates systems, not necessarily in the immediate geographic community, but on behalf of a 'community of interest', or collective of like-minded family businesses are but two centrally co-ordinated tasks which bring benefit to the members of BAV. Carney (2005) asserts transactions stemming from membership in social networks tend to rest upon one of several "axes of solidarity", such as kinship, ethnicity, and community and political affiliation which formed the basis for interpersonal trust.

There is a bus and coach industry association in each Australian state and territory, as well as a federal industry body, to which most industry stakeholders belong.

Bus Association Victoria Inc (BAV) is the voluntary professional association for Victoria's accredited route, school, tour and charter and non-accredited (registered) bus and coach operators. BAV represents Victorian bus operators' best interests in a variety of ways, most importantly in respect of their relationship with government, including contract negotiation and legislative and regulatory compliance.

BAV is part of the Victorian bus and coach industry's social capital. BAV's role as the voluntary professional association is to form, spread and legitimize the adoption of guiding family business values as a specific type of governance practice. Since the 1940's, BAV has played a central role as carriers and promoters of desired government practices, values and organising principles. Importantly, BAV are agents of change and as such are able to exert influence on the governance practice of family businesses within the bus and coach industry. Because BAV is owned and controlled by its members and it applies co-operative principles and values in its day-to-day operation, it is seen as a co-operative by members and the public alike. Although it is classified as an incorporated association, its remit is very much aligned to that of a co-operative. Because of this, BAV can be considered a social enterprise.

A co-operative is a social enterprise which aims to generate profits necessary to sustain or grow the business while also providing low prices and improved services to members, which in turn engenders high levels of loyalty and commitment. BAV also offers several purchasing programs that enable small firms to access scale economies.



Social Business Australia (2012) suggests social enterprises are proven, sustainable business models. Contrary to the trend among private corporations, social businesses have survived and many have prospered in the Global Financial Crisis - they continue to take care of business, to serve members, to protect their workforces and the environment, and to benefit the community. Social businesses trade for the purpose of creating social value whether it is to serve members better, to generate community benefit, or to trade more ethically. Social businesses share prosperity with all of their stakeholders - members, customers, employees, and the community. They make profit (often known as margin or surplus) and reinvest that profit in the service of their social goals. To meet the challenges ... we need businesses that can deliver on the bottom line, and also on social outcomes, job security, environmental sustainability, and community empowerment - only social forms of business deliver on all these fronts.

### **Community Embeddedness and Regional Development**

Given the revealing conclusion of the NIEIR report, that social costs arise as a result of awarding a bus service contract to a non-local operator at a reduced margin, measures ought to be taken to ensure that net welfare losses are not incurred by communities and governments because such an outcome runs counter to the endeavours of regional development authorities and a government's social goals.

Ninety five per cent of businesses in Victoria employ less than 20 people (Victorian Government 2011). Eighty per cent of Victorian bus operators employ less than 20 people. Eighty five per cent of Victoria's accredited bus operators operate outside of metropolitan Melbourne. This demographic sees both government and industry attribute an important and large degree of resources to regional and rural economic and social development programs. We now discuss the extent of that attribution.

On the industry side, the voluntary professional association has started to capture, profile and promoted the nature of the 'non bus' endeavours, or extra curricula community activity that bus operators undertake which contributes to the economic and social fabric of their communities. The last two Annual Reports of the voluntary professional association evidence, and to an extent, celebrate the fact that some regional communities would be very different if it weren't for the diversity and volume of community contribution some bus operators make. The Annual Reports go so far as to suggest that government bus service contract payments assist the operators make this community commitment, which is often trans-generational by nature. There is also evidence that confirms that the commitment some operators have to their community is above and beyond what they are contracted to do. There is evidence that some bus operators provide various services and products to their communities for no fee.

Based on the research the writer has undertaken to date, it appears this economic and social contribution by regional bus operators to their community is that family firms enjoy a deep embeddedness with their local community. Operators develop and grow in that community; the community is the seedbed in which the founder finds the support to create his or her activity but is quite often the place in which he or she and his or her family lives and educated (Colli 2011). Embeddedness is also attributed to unity or cohesion. Value creation can in fact be seen as the ability of the family to preserve its unity, and the unity of its members (which includes the 'enlarged family' also within the local community. This can stimulate efficiencies derived from successful embeddedness, including low absenteeism, commitment, loyalty on the part of their employees, a low rate of workforce turnover, the presence of family members in local institutions such as municipalities, governments, local associations and clubs. Reputation is also a relevant factor in examining community social capital. Families build their own reputation not only inside the local community, but also outside it, often via their social enterprise, to strengthen the 'house's name'. The question then needs to be asked: given the often trans-generational nature of most family bus businesses, is there another governance model with a social capital that sees it better placed or more inclined to reinvest into its local community and have more of an

interest in ensuring social and environmental benefits are realised contemporaneously with economic outcomes?

The NIEIR Report (2011) confirms the social and economic sustainability of a community can be at risk if services in and around the community are not contracted to local businesses. If indeed the awarding of contracts to non-local operators at reduced margins was proliferated state-wide, it is reasonable to assume that the extent or nature of the community level social capital, including the level of civic welfare prevalent in many communities, would change for the worse. Further, it is unlikely an 'outsider' would understand the community's needs as intimately as the local operator. This implies that the community level social capital associated with local procurement has a direct effect on the sustainability and well being of a community. In fact, this is consistent with other case studies. Mills and Ulmer (1946) conclude that communities whose residents actively participated in the social ... life of the community manifested higher levels of well-being and welfare. Lyson's (2006) quantification confirms that small business cities are found to be the most favourable environment for the development and growth of civic spirit and that a more balanced economic life and greater industrial stability is provided in the small business cities. Critically, Lyson suggests sociologists and economists would be well served to revisit the core assumptions that underlie our understanding of both socio-economic attainment processes and approaches to regional and community development. Lyson concludes that the re-emergence of an economy organised around locally co-ordinated, smaller scale, technologically sophisticated, and globally competitive enterprises is both theoretically and practically possible and that a rethinking of conventional notions is in order.

On the government side, it is fair to say both federal and state governments have a steadfast commitment to fostering the economic and social development and sustainability of regional and rural communities. The Victorian government for instance states 'It is the people of regional Victoria who build strong regional communities, and the Victorian government seeks to support these communities through the provision of high-quality services and facilities. With liveability a major influence on Victorians' choice where to live, regional Victoria's lifestyle and job opportunities have meant it is a serious contender when people are planning their future. Connection to community and nature, access to local food, wine and entertainment, and ever-improving health, education and infrastructure facilities create an environment that people want to live, work and invest in. Regional Development Victoria and local municipalities are working together to develop social, recreational and cultural infrastructure to ensure regional locations continue to be attractive for metropolitan and interstate residents considering a change' (Regional Development Victoria 2012).

So, it appears that the endeavours of both industry and government are aligned when it comes to fostering the economic and social development of regional and rural communities. Ensuring a net welfare loss is mitigated as far as practicable as part of government bus service contracting regimes should therefore be a shared and agreed objective of industry and government.

But is it? The writer posits that fostering the social development of regional communities is not explicitly stated as a shared goal of bus service contracting. But it is implied in light of the fact that social inclusion has been a strategic objective of previous procurement regimes. Because of the current discretionary or voluntary nature of the requirement for government to consider the social factors associated with bus service procurement, it is most likely that some social benefits have historically been foregone, and will continue to be foregone, until such time a triple bottom line evaluation process is devised. Further, given the bus industry contracts its services with a different department to the department responsible for regional development, it is most likely that a whole of government approach to sustainable procurement is problematic.

## Value for Money

What ramifications might the conclusion of the NIEIR Report have on buyers and sellers understanding of the concept of value for money?

Value for money is, unfortunately, still largely seen through an economic 'lens'. Value for money is the utility derived from every purchase or every sum of money spent. Value for money is supposed to be based not only on the minimum purchase price, but also on the maximum efficiency and effectiveness of the purchase. This is reinforced in Burkett (2010) who states value is often conflated with monetary price and that efficiency is about minimising costs and maximising savings. Value should be understood universally that 'value' is the worth of a good or service as determined by its overall benefits and quality. The value of a product or service is determined over a period of time, and this considers 'whole of life' accounting, whereas the price of a product is determined at one moment in time.

The [Australian] *Commonwealth Procurement Guidelines* (2012) state that in assessing 'value for money', a whole-of-life 'value for money' assessment is required. This includes the consideration of factors such as:

- fitness for purpose
- the performance history of each prospective supplier
- the relative risk of each proposal
- the flexibility to adapt to possible change over the lifecycle of the property or service
- financial considerations including all relevant direct and indirect benefits and costs over the whole procurement cycle, and
- the evaluation of contract options.

'Value for money' is not defined in the Commonwealth Procurement Rules (2012), however it does discuss 'achieving value for money' and 'considering value for money'. It states the 'price of the goods and services is not the sole determining factor in assessing value for money. A comparative analysis of the relevant financial and non-financial costs and benefits of alternative solutions throughout the procurement will inform a value for money assessment.

Accordingly, 'value for money' is a comparative concept that requires an analysis of a wide range of factors including all relevant costs and benefits of a proposal against alternative options. Practically, however, 'value for money' evaluations for so called run of the mill purchases often give more weighting to fitness for purpose aspects having regard to the requirements specified in the request for tender. This means, in practical terms, that assessments of 'value for money' often tend against high quality goods and services and naturally tend towards the lowest price. As such, developing proper legal process and probity plans and effective evaluation criteria architectures, methodologies and processes will assist in achieving 'value for money' and demonstrating that all legal, process and probity obligations have been met (Norton Rose 2011).

Importantly, the word 'social' does not feature whatsoever in the Commonwealth Government Guidelines (2012); it is only implied by 'non-financial costs' which is probably inadequate given the eventuality that the NIEIR Report contemplates. When it comes to social procurement, just assessing the costs that might be incurred as a result of the inclusion of a social objective is not consistent with the whole of life dimension of value for money; the benefits that accrue with social outcomes need to be included.

Having assessed each Australian jurisdiction's procurement guidelines, there appears a slightly different understanding of 'value for money' amongst the jurisdictions. Further, the writer has seen evidence *within* jurisdictions where one government department's explanation of 'value for money' differs to another

departments' understanding of the concept. This does not lend itself to consistency of process and so it follows that this could cause the decision making process to be compromised.

Because of a perceived or actual divergence of understanding on what exactly value for money is, both buyers and sellers need to adopt a universal and shared understanding of 'value of money' because the continued absence of such a concept will not improve decision making and continue to see social utility foregone. A harmonized legislated requirement to consider social, economic and environmental value as part of government procurement regimes would probably see eventualities like the NIEIR Report (2011) avoided.

## **Recommendation**

This paper has shown how the extent of community level social capital which includes the remit of the voluntary professional association, being a social enterprise, can affect the economic and social well being of a community and how bus services should be contracted with local businesses in order to avoid the state incurring a headline net welfare loss as a result of government possibly appointing non local operators at a reduced margin. It has also been shown that despite quality reductions and cost increases still resulting from tendering projects both locally and around the world, tendering proves popular amongst governments. We have shown that administrative level and discretionary nature of guidelines that governments can use when undertaking social procurement probably won't prevent the conclusion that the NIEIR Report (2011) contemplates.

So what can be done to ensure that the community level social capital in the industry is preserved and local contracting of bus services is sustained? At a more strategic level, what can be done to ensure social (and environmental) value is considered as a matter of course when governments procure bus services?

We submit that COAG take up the issue and look at sustainable procurement. COAG need to look at whether the notion of implementing a harmonized (or consistent) legislative agenda across jurisdictions would be of benefit, and whether a government legislated obligation to give the strongest consideration possible (and/or an appropriate weighting) to the social value of local procurement would prevent any social externalities being incurred when governments realise a financial saving. The writer suggests that if there was a consistent and mandatory requirement to consider the social value of procurement, the conclusion the NIEIR reaches may have been avoided because the benefit cost analysis would have brought the eventuality to the attention of decision makers. It is difficult to think of a reason why utility should be foregone for any sector or industry. If a formal national forum were to be institutionalised consisting of social enterprises, community, industry representative bodies and government, we might see the topic advanced. As Wood and Leighton (2010) assert, we should not forget our ultimate goal is social impact - measurement is merely a tool to help us maximise this; second, the move to better measures of social return on investment is a journey. The important thing is to embark on that journey, get the benefit from the first steps, and not worry too much that nirvana is a long way off.

For the purposes of starting the discussion on the concept of improving the governance associated with government procurement and possible harmonisation of obligation, we offer a model that aims to create a new market based competitive philosophy that prices in the social value that this document talks about; in short, create a new competition philosophy for the public sector. If it is public money it should serve the public not the private good.

Such a philosophy was recently introduced in the UK that has had considerable success with much legislation including most notably the Localism Act of 2011 and the Public Services Social Value Act 2012. The writer believes there is considerable appetite in Australia for something similar. Such a philosophy would argue for a

new communitarian philosophy which might present an opportunity to create something akin to a 'Public Services Social Value Act'. Such a movement would empower local communities; give municipal councils and neighbourhoods more power to take decisions and shape their own area, rather than adhering to the old top-down planning system. Most importantly, quantifying the impact of social change, as the NIEIR Report does, may not prevent further social losses from being incurred, but in the very least, it would see governments informed of the forecasted outcome, which in turn would annul any claim by government that it was ignorant of the consequences of policy change.

What would be in this Act? Essentially, an obligation for tiers of government to be required to consider how the services they commission and procure might improve the economic, social and environmental well-being of the local community. Such an Act would obligate government to contract for the economic and social added value of localised provision; to help foster and generate a pro local and pro social civic service philosophy that can add real value to current best value legislation. Such a measure would be fostering not only the sustainability of Australian family bus businesses, but also the economic activity and social wellbeing that comes with local procurement.

This philosophy was recently supported by the 'Fixing the hole in Australia's Heartland: How Government needs to work in remote Australia' Report (Walker et al. 2012). The report outlines a blueprint for reform starting with pilot structure in the Pilbara and in central Australia. The report suggests that:

- ◆ the three-tiered governance structure does not work in remote communities and often serves to increase a sense of alienation and disempowerment;
- ◆ there is no strategy, no considered development framework and, despite many successive attempts, little coordination amongst the tiers of government, the various jurisdictions;
- ◆ current approaches are universally ad hoc and non-systemic;
- ◆ governance arrangements are a threshold cause of policy failure.

Two key recommendations of the Walker, Porter and Marsh report are: whole-of-government action at the local level; selective engagement with community organisations to deliver social services, small infrastructure and local justice. There are two aspects of Walker et al. Reports' recommendations which are similar to the recommendations of this paper; both embrace the concept of 'localism', that is, the empowering of local communities to potentially improve the social well-being of the community, and; that governance change is absolute necessary to bring this about.

It is worth noting at this point that the aforementioned recommendations have been embraced as part of the development of a new model for the delivery of community transport services in a regional setting. This social enterprise model is currently being trialled in Warrnambool Victoria.

The writer submits that if COAG looked closely at sustainability in procurement, including the consideration of the concept of realising a harmonised (consistent) legislative agenda that obligated governments to give the strongest consideration possible (or an appropriate weighting) to the social value of local procurement, it might enhance compliance with national or international compliance goals. Further, it might illustrate how social and economic considerations can be mutually reinforcing. Importantly, such a measure would demonstrate socially responsive governance as governments would be making sure that what is essentially a social service contract takes into account the needs of all the users, therefore the government is being seen to be better meeting the needs of the diverse community it serves. Most importantly, it is possible that such a measure would ensure more effective public expenditure as the consideration of the social opportunity cost would have been considered.

## Further Research

There are some significant hurdles to overcome in attempting to realise greater attention and public debate on sustainability in procurement, let alone endeavouring to realise a paradigm where social value is mandatorily considered as part of a harmonized procurement regime in order to avert government incurring social costs while contemporaneously incurring an economic saving. The topic also requires further research.

Inclusion of environmental factors in the discussion would see the framing of such a public debate be aligned with the triple bottom line methodology. The writer does not suggest that a perceived or actual current paradigm of social or environmental considerations being secondary to economic imperatives is deliberate. Rather, it is probably just a case of the evolution of knowledge surrounding the relatively new topic of social procurement. This paper does not attempt to look at whether there is an inherent economic bias in the way governments currently procure, but it is worth noting as a future research piece.

Harmonisation of jurisdictional law is no easy or quick endeavour, as has been evidenced recently. Brown et al. (2005) discuss improved consistency and productivity opportunities, but suggest there have been variable degrees of success in achieving a nationally consistent model as significant barriers were presented. Brown et al. discuss harmonisation as it relates to occupational health and safety in Australia and the utility of some emergent industry's initiatives. The authors conclude that if the objective of developing and implementing national standards was to share information across jurisdictions, then the project was successful, however if universal adoption of the standards was the desired objective, then the project failed as only legislation would achieve this. From a bus industry perspective, harmonisation of national heavy vehicle laws, consolidation of state awards and the commencement of a national award are two similar endeavours which have been enacted and research on whether the changes have been effective, increased productivity and consistency, or otherwise, should be undertaken to better understand the depth and breadth of realising harmonised legislation which considers social value.

This paper has also taken the STO model and contextualised it to bus service procurement. Research on examples of how the STO framework may have worked as a strategic model to bring about economic, social and environmental considerations in other procurement settings would be of benefit.

Penultimately, there appears a lack of research on social procurement of recurrent expenditure. Most papers reviewed for this article discussed social procurement of a capital nature and a wider discussion on recurrent expenditure would complement the social procurement discussion.

Finally, there lies an opportunity to assess various understandings of the concept of 'value for money'. The current divergence of understanding is unhelpful whereas a shared and agreed definition should assist the debate.

## Conclusion

This paper has considered the eventuality that the NIEIR Report (2011) forecasts, that switching from local to non-local bus operators in pursuit of a margin reduction on a major metropolitan bus service contract would result in a headline net welfare loss to the state of between 5 and 7 per cent of the contract value if the margin was reduced by 2 per cent, and, that the loss would increase as the margin decreases. Given this rather startling conclusion, the need arises for governments' to know what their jurisdictions forego socially in the pursuit of a financial saving, because realising an economic efficiency but social impost which exceeds the value of the economic efficiency is counter-productive. Having assessed the extent of and nature of social

procurement in Australia and the characteristics and value of the social capital in the bus industry, we recommend COAG closely look at the concept of sustainable procurement, including the concept of realising a harmonised legislative agenda for bus procurement regimes so jurisdictions can prevent realising social costs in the face of a financial (or economic) benefit. By introducing mandatory consideration of social factors as part of governmental procurement regimes for bus services, governments are, strategically, more closely adhering to triple bottom line accountability and continuing to encourage the growth of human rights thinking. Tactically, such a measure would see the fostering the economic and social sustainability of not just regional economies, but family businesses, and realise a more holistic governmental approach to bus and other social service contracting, which in turn has been shown to assist with achieving social outcomes.



## ADDENDUM 1

### National Express sells buses

Selma Milovanovic

The Age

Transport Reporter.

September 4, 2004



Ventura paid \$45 million for the National Express service.

Picture: *Michael Clayton-Jones*

Almost two years after National Express walked away from its Victorian tram and train contracts, the British company has sold the majority of its bus services in Australia.

National Bus Company - Melbourne's largest bus operator and a subsidiary of National Express - was yesterday sold to local family-owned bus operators Ventura Bus Lines.

The \$45 million deal delivered 44 new public bus routes and 70 new school bus services into the hands of the South Oakleigh-based company. National Express also pulled out of Brisbane and Perth, selling its bus businesses to Connex for an estimated \$30 million. The sale leaves National Express with ownership of its Sydney bus operations.

Victoria's public transport was thrown into turmoil in December 2002 when National Express abandoned its contracts to run M>Train, M>Tram and V/Line Passenger routes.

The company continued to run bus services in suburbs such as Clifton Hill, Northcote, Fairfield, Ringwood, as well as the CBD, Port Melbourne and the Docklands.

Ventura Bus Lines was established in 1924 and runs 24 routes in Melbourne's east and south, covering areas such as Croydon, Oakleigh, Knox, Mitcham and Brighton.

In 2000, the company introduced the first two Australian buses to run on ethanol and was among the first to begin rolling out low-floor buses.

Ventura managing director Andrew Cornwall said the company's passion for community service would deliver a smoother public transport experience for the former National Bus passengers. "We enjoy seeing buses having good loadings on them and seeing if we can improve on frequencies and the amount of hours and weekend services," Mr Cornwall said.

Ventura is installing global positioning systems on its entire fleet in order to adjust timetables to reflect road conditions. The company will roll out 24 more low-floor buses next year and will continue to replace older National Bus vehicles.

The sale... has come after National Express received approaches of interest.

- **Peter McKenzie**, of National Express

National Express Group's chief operating officer, Peter McKenzie, denied the company's pull-out from the Victorian bus industry was inevitable after the failed tram and train contracts.

"The sale of the bus companies has come after National Express received approaches of interest," Mr McKenzie said. "The interest shown in these businesses... is good testimony to the regard they are held in each state. I think it's been a pretty positive process," he said.

While there had been industrial unrest at National Bus earlier this year during negotiations over a new enterprise bargaining agreement, unions said drivers would have greater job security with Ventura.

Bill Noonan, Victorian secretary of the Transport Workers Union, said the acquisition would also make it easier for the bus industry to adopt a uniform approach in planning services for the Commonwealth Games.

## ADDENDUM 2

West coast mainline fiasco may claim further victims: Civil servants at transport department braced for more suspensions amid warnings

[Gwyn Topham](#) and [Dan Milmo](#). [The Guardian](#), Thursday 4 October 2012 19.56 BST



*As the west coast mainline crisis unfolds, more suspensions are possible. Photograph: Jeff J Mitchell/Getty Images*

Civil servants at the crisis-ridden Department for Transport (DfT) are bracing themselves for further suspensions as the investigation into the [west coast mainline](#) franchising fiasco unfolds, amid fresh warnings that the true cost of the reversal could make the £40m compensation bill so far look like "small change".

Questions were raised about the independence of the review, with fears that officials could be made scapegoats for mistakes that saw Virgin Trains block the award of Britain's most lucrative franchise to rival [FirstGroup](#) and leave rail policy in tatters. The UK's largest [civil service](#) union said blaming Whitehall staff for the debacle was deplorable.

Sam Laidlaw, the Centrica chief executive who sits on the DfT board, has been asked by the transport secretary, Patrick McLoughlin, to conduct an "urgent independent examination" of what went wrong in the franchising process.

Shadow transport secretary, Maria Eagle, said: "It is scandalous that this review of what is a huge failure of the government should be conducted by a senior figure in the department. We need a truly independent inquiry led by a figure unconnected to the DfT examining the role of officials from top to bottom – and including ministers. There must be no scapegoating."

A former senior figure in the department said Laidlaw was "absolutely inappropriate". He added: "Having an internal inquiry doesn't strike me as very independent. If you really wanted to get to the bottom of this, you'd have it done externally."

The Public and Commercial Services union, which represents one of the three suspended employees, said it would ensure that the DfT inquiry held ministers to account. "We will be ensuring the inquiries fully examine all the issues, including ministerial involvement and oversight of the bidding process," said Mark Serwotka, the PCS general secretary.

The most senior of the suspended civil servants has been identified as a former Goldman Sachs executive director, Kate Mingay, the corporate finance director at the DfT.

Investigations are likely to focus on a breakdown in procedure in the parallel conversations the DfT held with Virgin and FirstGroup towards the end of the bidding process. The rival train operators were led to interpret information differently about how risk would be assessed and calculated, modifying the sums both felt able to bid.

Virgin was aghast that FirstGroup had only put up a £190m bond against defaulting on larger premiums, but FirstGroup was confident Virgin was wrong to claim the figure should have been far larger. However, the problems have been traced back to the original invitations to tender that were templates for the whole current franchising process.

The former cabinet secretary Lord O'Donnell said government departments were suffering from "skills shortages", particularly in procurement and civil servants should be paid more to stem the Whitehall talent drain. According to estimates by the FDA union, one in four senior civil servants have left the DfT since 2010.

Rail insiders warned that the ultimate economic cost of the west coast reversal would far exceed the reimbursing of bidding companies because the compensation bill could reach £90m and the refranchising of Britain's railways could be delayed by a year. A senior industry source said: "The hit on the supply chain will be huge. The £40m is small change in terms of the overall impact."

FirstGroup had promised to order new trains immediately and similar investment would be expected from new winners of most franchises.

According to industry estimates, bidders for the three franchise contests that were put on hold by McLoughlin – Thameslink, Essex Thameside and Great Western – will have incurred total costs of about £50m and could seek to claw back that amount. The loss to taxpayers rises by a further £75m with the loss of franchise payments for the first years of delayed franchises.

The secretary of state and top officials consulted lawyers on Thursday over the immediate future of the line. One possible option being explored is that Virgin will continue to run the operation while technically under contract to Directly Operated Railways, the DfT's state arm, to minimise the risk of legal challenge from rival bidders.

### ADDENDUM 3



*Heather Kennett, Sunday Mail (SA), April 07, 2012 10:00PM*

**BUS operator Transfield Services is believed to be bleeding hundreds of thousands of dollars a month because of ballooning wages and unexpected costs.**

Sources have told the *Sunday Mail* the blowout in operating costs was detailed at an emergency meeting with drivers on Monday, which was called to discuss union concerns about proposed changes to overtime payments for drivers.

The meeting, which was attended by four Transfield executives, a Transport Workers Union representative and several drivers from the St Agnes and Morphettville depots, also heard Transfield had embarked on a management restructure last month.

Transfield Services SA general manager Adam Machon said higher costs were discussed at the meeting but denied the amounts reportedly disclosed at that meeting were correct.

"We confirm that additional costs in the business were discussed at this particular meeting, primarily due to the well publicised congestion on the bus network," he said in an emailed response to questions. "The management restructure of five positions was made to further improve accountably (sic) of staff."

Mr Machon blamed Adelaide's clogged roads and the lengthy Harris Scarfe site redevelopment at Grenfell St for its higher-than-budgeted costs.

He declined to respond to questions about whether the cost overruns were causing losses, stating "we never comment publicly on the profit and loss statements of our contracts".

Transfield won a \$567 million contract in July to run 43 per cent of Adelaide's bus network through its subsidiary Light-City Buses, but has come under attack for late services.

Transport Workers Union representative Ian Gonsalves said frequent late running of services was adding to staff overtime costs.

He said maintenance costs were far higher than anticipated, causing Transfield "massive grief and pretty expensive repair bills".

"They are also 40 full-time drivers over what was expected," he said. "Once they implemented the services and got it up and running they realised they needed 40 extra drivers."

Mr Gonsalves said Transfield's review of its rostering operations, previously carried out in NSW, would help lower overtime bills.

Opposition transport spokeswoman Vickie Chapman said public transport had become a farce since the appointment of Transport Services Minister Chloe Fox.

She wrote this week to Auditor-General Simon O'Neill asking him to undertake an inquiry into bus operations.

"We currently have people getting to work late, missing buses because they're overcrowded, and drivers who are under the pump and being threatened," Ms Chapman said.

"We need to look at what the Government is doing to ensure that future demand is met and we have a quality public transport service."

A spokeswoman for Ms Fox said the "the minister will not be commenting on Transfield".

<http://www.adelaidenow.com.au/news/south-australia/bus-operator-transfields-cost-stress/story-e6frea83-1226321121451>

## ADDENDUM 4

### Specific social procurement agendas in Australia

There are a diversity of social procurement examples and processes underway in Australia, stretching across all levels of government, into the corporate sector and increasingly the nonprofit sector. However three specific initiatives and agendas straddle these diverse examples and deserve particular mention in relation to social procurement. They are briefly explored below.

#### Procurement and addressing Indigenous disadvantage

In February 2010, an enhanced Indigenous Opportunities Policy (IOP) was announced by the Federal Government. This is intended to maximise indigenous employment, training and supplier opportunities by revising procurement and grant policies. It applies to Australian Government agencies undertaking projects in regions where there are significant Indigenous populations and which are valued at \$5 million or more (\$6 million or more for construction). When projects occur under these conditions then the lead agencies will be required to:

- Consult with the Department of Education, Employment and Workplace Relations (DEEWR), the Commonwealth Indigenous Coordination Centres or equivalent Commonwealth Office, and relevant community council or groups, in the planning stages of those projects; and
- Through the procurement process require each tenderer to submit as part of their tender a plan for providing training and employment opportunities to local Indigenous communities and for the use of local Indigenous suppliers that are small and medium enterprises.

The Council of Australian Governments (COAG) has also developed a National Partnership Agreement on Indigenous Economic Participation (signed in December, 2008), through which the Commonwealth and all States and Territories have committed to strengthening their procurement policies to maximize Indigenous employment.



The **Tasmanian Government** recognises the valuable role played by ADEs and has created a provision so that:

*"At the discretion of the Head of Agency, agencies may directly procure building and construction and roads and bridges from businesses that 'predominantly exist to provide the services of persons with a disability' without the need to undertake a full quotation or tender process".*

Interestingly, there is also provision made for 'social tendering' (see chapter three) if there is more than one ADE that could provide the goods/services, whereby agencies must seek quotes from the range of enterprises to ensure value for money. The enterprises must be approved ADEs, and the procurement process includes a pre-qualification for ADEs wishing to be considered for these contracts. They only apply to contracts involving building and construction, and roads and bridges (see [www.tenders.tas.gov.au](http://www.tenders.tas.gov.au) Treasurers Instruction no. 1231).

### Social Enterprise and Procurement

There has been a growing interest in creating pathways for social enterprise in relation to public procurement, some exploration of purchasing from social enterprise in the nonprofit sector and a growing recognition in the corporate sector that this may represent another option for CSR initiatives.

The **ACT government** has recently announced a revision of its procurement policies so that it will be mandatory for ACT Government Departments and agencies to "consider the social benefits of awarding contracts to organisations (who employ people with disabilities and long-term unemployed people) alongside some of the more competitive requirements." (Jon Stanhope, MLA Media Release, June 10, 2010).

**Housing NSW** has pioneered some important joint ventures with social enterprises to address disadvantage on housing estates – see for example, Fair Repairs in Campbelltown ([www.fairrepairs.org.au/](http://www.fairrepairs.org.au/))

The **Victorian government**, though it does not have a specific or state-wide policy about procurement from social enterprise has undertaken some important and innovative work exploring this arena – particularly in relation to Neighbourhood Renewal and Housing Services and urban land development (through VicUrban) (see Case Study Compendium). The Victorian Government has also recently released some guidelines for Social Procurement specifically designed for use by Local Governments, these guidelines refer to numbers of examples of social procurement that engages social enterprise (see [www.dpcd.vic.gov.au](http://www.dpcd.vic.gov.au)).

Social Procurement that focuses on social enterprise has also received academic attention (see particularly Barraket and Weismann, 2009), and has become a key focus of social enterprise intermediaries such as Social Traders ([www.socialtraders.com.au](http://www.socialtraders.com.au)) (who are looking to develop an e-portal for social enterprise procurement) and Social Ventures Australia ([www.socialventures.com.au](http://www.socialventures.com.au)) who have had an interest through their social enterprise hubs.

Numbers of **local governments** have explored social procurement using social enterprise as suppliers (see case studies of Brisbane City Council, Parramatta City Council and Yarra City Council in the compendium).

The aim of the agreement is to maximize Indigenous employment particularly in contracts related to large construction projects, maintenance, cleaning and infrastructure projects agreed through COAG. These contracts include clauses that mandate suppliers to deliver Indigenous training, employment and supplier strategies, with the aim being to build jobs, training opportunities and support for Indigenous businesses through the procurement process. In addition, the federal government has initiated a three-year pilot funding program to support the Australian Minority Supplier Council (AIMSC – see [www.aimsc.org.au](http://www.aimsc.org.au)) which is focused on supporting majority Indigenous owned, controlled and managed businesses to contract directly with both corporate and government purchasers.

Examples of how this policy agreement has resulted in procurement practices include the following:

The **Queensland Government** has introduced a "20% Indigenous Employment Policy" that "promotes, encourages and creates skills development, employment and business opportunities for Aboriginal people and Torres Strait Islanders in relation to (government) building and civil construction projects in specified Aboriginal and Torres Strait Island communities" ([www.employment.qld.gov.au/po/grants/sqw/indigenous/policy/index.htm](http://www.employment.qld.gov.au/po/grants/sqw/indigenous/policy/index.htm)).

The **Northern Territory Government** has initiated the Strategic Indigenous Housing Infrastructure Project (SIHIP) which has a 20% target of Indigenous employment and also supports subcontracting to local Indigenous companies ([www.housing.nt.gov.au/remotehousing/sihp](http://www.housing.nt.gov.au/remotehousing/sihp)).

The **National Inquiry into Developing Indigenous Enterprises** (2008) also recommended that:

- "the Australian Government establish a series of target levels of government procurement from Indigenous businesses, and require all Australian Government agencies and authorities to nominate a target level"
- "all Australian Government agencies and authorities be required to report in their annual report the procurement level from Indigenous businesses"
- "future consideration should be given to introducing an escalating series of mandated procurement levels over the next decade".

While the Agreement outlined above is not as strong as this recommendation argues for, it certainly creates a starting point for exploring greater use of procurement policies for addressing Indigenous disadvantage.

A number of large businesses in Australia have also started to explore procurement from Indigenous businesses (through AIMSC particularly) and have begun to outline further procurement initiatives through programs such as Reconciliation Action Plans (RAPs) (see Reconciliation Australia, [www.reconciliation.org.au](http://www.reconciliation.org.au)). Although the number of Indigenous businesses accredited by AIMSC is still relatively small, there is growing recognition of the importance and power of business-to-business relationships as a catalyst for addressing Indigenous disadvantage.

### Government Procurement and Disability Enterprises

In 2008 the federal government released revised Commonwealth Procurement Guidelines which included an exemption clause related to Disability Enterprises. This enables government departments purchasing under the Guidelines to purchase from Australian Disability Enterprises (ADEs) (ie. Businesses existing to provide employment to people with a disability – NOT businesses that provide a service to people with a disability) without first going to public tender when:

- the purchase involves a simple procurement process (low risk, low complexity, readily available goods/services);
- where the goods / services to be purchased represent value for money;
- where normal procurement principles and procedures are still followed (eg. Probity issues still apply).

There are over 600 Disability Enterprises across Australia and these enterprises provide employment for around 20,000 people.

A number of state governments have also announced or created exemptions for ADEs, including NSW, Victoria, Tasmania and Western Australia.

## ADDENDUM 5



### End of the road for family business after 58 years

Jacob Saulwick  
Published: November 10, 2012 - 3:00AM

JAMES PACKER might not have to sweat on a tender process to win a Sydney casino licence.

But the family of Giuseppe Oliveri - immigrants from Calabria, market gardeners and Sydney transport entrepreneurs - did, and this week they lost out.

Arriving in Sydney in the wave of postwar migration from southern Europe, Mr Oliveri and his sons, Giovanni, Francesco and Rocco, found work growing tomatoes and in odd jobs at service stations and in factories.

Pooling money, the family bought a bus route in 1954 - Route 41 - to transport workers from the market gardening area of Green Valley to Liverpool.

That grew into a business, Metro-Link. Today Metro-Link runs buses around Liverpool, Cabramatta, Mount Pritchard and Badgery's Creek.

But this week, the Transport Minister, Gladys Berejiklian, appeared to signal the end for family-owned transport businesses such as Metro-Link.

After the first competitive tendering of bus services in Sydney's history, the Oliveris lost their government contract.

The contract will be taken over in April by Transit Systems Australia, which runs ferries in Brisbane and Gladstone and buses in Perth and Adelaide.

For Ms Berejiklian, the results of the tenders for the first four of Sydney's 15 bus contract regions prove the benefits of taking them to the market. Another four regions will go to tender next year and the government is threatening to do the same for the state-owned State Transit.

"Simply renegotiating with the existing operators - as had been done in the past - would likely have resulted in contract cost increases," Ms Berejiklian said.

The government will save about \$18 million a year on the new deals signed this week.

But Giuseppe Oliveri, the grandson of the patriarch who started the business and chief executive of Metro-Link, was scathing of the process that will end his 58-year business.

"This is a major event in the history of our family ... 58 years and this is the way the government shows you the door, it is not respectful," Mr Oliveri said.

Of the company's 36 buses, Mr Oliveri said he was obliged to sell half of them to the new operator.

He is not sure what will happen to the other half, or the debt needed to buy them. Nor does he know what will happen to Metro-Link's depot, on which he has spent \$12 million.

John Lee, a former director-general of Transport and the chief executive of the Tourism and Transport Forum, said the Oliveris' story was an unfortunate byproduct of much-needed consolidation. "These are regional monopolies. Under competition policy it just makes sense that you would put these sorts of contracts to a market on a periodic basis," he said.

"The Oliveris have performed a good service to the community, especially to the settlement of western Sydney. But in a modern city like Sydney ... you need to have organised regional monopolies so you can run a network of services rather than a patchwork of services."

Reg Kermode's ComfortDelGro Cabcharge also lost its Westbus contract, but retains its lucrative Hillsbus contract, which will be tendered next year.

*This story was found at: <http://www.smh.com.au/nsw/end-of-the-road-for-family-business-after-58-years-20121109-293b5.html>*

## Reference List

Berglund, L (2011) Aussie 'rules': Achieving social benefits through procurement strategies. Summit. Pg 5.

Brown, K., Furneaux, C., Allan, D. (2008) Harmonisation of OHS Regulation in Australia: An evaluation of three initiatives. Queensland University of Technology.

Burkett, I. (2010) Social Procurement in Australia. Foresters Community Finance.

Carney, M. (2005) Corporate Governance and Competitive Advantage in Family – Controlled Firms. Entrepreneurship: Theory and Practice. Baylor University. USA

Collie, A. (2012) Contextualizing Performances of Family Firms: The Perspective of Business History. Family Business Review 25(3) pp 243 -247. Sage Publications.

Commonwealth of Australia (2012) Towards Agreed Expectations: Tender Strategies to improve Design and Construct infrastructure delivery outcomes. Department of Infrastructure and Transport. Australian Government and, Department of Treasury and Finance, State Government Victoria. Canberra.

Currie, G & Rose, J. Growing Patronage – Challenges and what has been found to work. Research in Transportation Economics 22. Institute of Transport Studies, Monash University, Melbourne Australia. 2008.

Dennis, R., Baker, D. (2012). Who knew Australians were so co-operative? The Australia Institute. Canberra, Australia.

Eurodiaconia (year unknown, probably 2011/2012) Measuring Social Value: What do we mean by measuring social value? Belgium.

European Commission (2010) Buying Social: A Guide to taking account of social considerations in public procurement. Directorate-General for Employment, Social Affairs and Equal Opportunities. Luxembourg.

Commonwealth Government. (2012) Dept of Finance and Regulation.  
[http://www.finance.gov.au/procurement/docs/cpr\\_commonwealth\\_procurement\\_rules\\_july\\_2012.pdf](http://www.finance.gov.au/procurement/docs/cpr_commonwealth_procurement_rules_july_2012.pdf)

Furneaux, C., Brown, K., Allan, D. (2010): Public Values Embedded in Australian Public Works Procurement, Public Money and Management, 28:3, 167-172.

Furneaux, C. (2011) Social Procurement: Promoting the sustainability of NPOs through the transformation of economic, social and cultural capital. In Oikos International Young Scholars Organisations Academy: Organisations and Cultural Sustainability. 4-9 Sept 2011. Switzerland. (Unpublished).

Hensher, D. & Wallis, I. Competitive tendering as a contracting mechanism for subsidising transport: the bus experience. Journal of Economic Transport and Policy. Volume 39, no 3. pp 295-321. Sept 2005.

Lyson, T. (2006). Big Business and Community Welfare: Revisiting a Classic Study by C. Wright Mills and Melville Ulmer. American Journal of Economics and Sociology. Vol. 65. No. 5. USA.



Maas, K. (2008). Social Impact Measurement: Towards a guideline for managers. Erasmus University Rotterdam, Netherlands.

Newman, C., Burkett, I. (2012) Social Procurement in NSW. A Guide to Achieving Social Value through Public Sector Procurement. NSW Government. Sydney, Australia.

<http://www.nortonrose.com/files/public-law-report-december-2011-59566.pdf>

Ryan, N., Furneaux, C., Lewis, D. (2006) Characteristics of successful government/non profit relations in Queensland, Australia. In proceedings Tenth International Research Symposium on Public Management. Glasgow Caledonian University, Scotland.

Stanley, J., Stanley, J., Vella-Brodrick, D., Currie, G. The place of transport in facilitating social inclusion via the mediating influence of social capital. Research in Transportation Economics 29. pp 280-286. Elsevier. 2010.

Stanley, J., Stanley, J., Public Transport and social policy goals, Road and Transport Research March 2007, Vol. 16, No. 1.

Stanley, J. Goal achievement with trusting partnerships at the tactical level. Research in Transportation Economics 29. Institute of Transport and Logistics Studies, The University of Sydney, Australia. 2010.

Stanley, J. Improved Information for better land transport in our cities. Contribution for COAG Reform Council Workshop on Performance Reporting and Accountability for National Reform, Melbourne, October 2011.

Stanley, J., Stanley, J., Hensher, D. (2012). Mobility, Social Capital and Sense of Community: What Value? Urban Studies. 7 June 2012

Victorian Government (2011). Good Practice Guidelines. Small to Medium Enterprise and Regional Purchasing. Strategy and Policy, Government Services Group. Department of Treasury and Finance. Victoria.

Vorosmarty, G., Tatrai, T., Dobos, I. (2008) Sustainability in Purchasing. Corvinus University of Budapest, Hungary.

Walker, B., Porter, D., Marsh, I. (2012). Fixing the Hotel in Australia's Heartland: How Government needs to work in Remote Australia. Desert Knowledge Australia. Alice Springs.

Wood, C., Leighton, D. (2010). Measuring Social Value: The Gap between policy and practice. Demons. London, UK.

Regional Development Victoria. Victorian Government Website. <http://www.rdv.vic.gov.au/community-programs>.

