



Fare Evasion on Public Transport



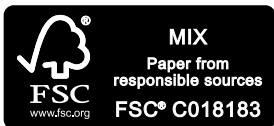
VICTORIA

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Auditor-General

Fare Evasion on Public Transport

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The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Fare Evasion on Public Transport*.

Yours faithfully



D D R PEARSON
Auditor-General
29 August 2012

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Audit summary

Background

Public transport is important for the efficient movement of people and goods around Victoria and plays a critical role in relieving urban traffic congestion. Services are heavily subsidised and the cost to government has risen as more services are provided. In 2010–11 the cost of operating public transport services was \$2.2 billion, with 30 per cent coming from fares and 70 per cent from government subsidy.

Patronage is expected to grow significantly over the next 20 to 30 years. Expanding services to meet these demands represents a significant funding challenge. It is therefore essential that passengers pay the correct fare to meet their share of costs.

Fare evasion is travelling on public transport without an appropriate, validated ticket. This includes travelling without a ticket, purchasing but not validating a ticket, or using a concession ticket without proof of entitlement.

Effectively protecting revenue and controlling fare evasion requires:

- a well-designed, understandable, accessible and user-friendly ticketing system
- education and marketing—to help passengers understand how to use the system correctly and persuade them to do this
- revenue protection measures—ticket barriers and station staff
- enforcement—to detect and address passengers travelling without a valid ticket.

Since 2004 the responsibility for revenue protection has been shared. The Department of Transport (the department) is responsible for providing a sound ticketing system including transitioning from Metcards to myki smartcards.

This audit assessed whether the department's oversight has been effective in controlling fare evasion, by examining whether it:

- adequately understood the scale, nature and drivers of fare evasion
- put in place contractual arrangements and other measures that provide an effective framework for monitoring and controlling fare evasion
- responded to adverse fare revenue trends in a timely and effective way.

This report addresses these issues by examining:

- in Part 2, fare evasion outcomes and the adequacy of the department's oversight
- in Part 3, the drivers of these outcomes and the oversight lessons.

From 2 April 2012, Public Transport Victoria (PTV) assumed the department's responsibilities for public transport. Accordingly, this report's conclusions are directed at the department and its recommendations to PTV.

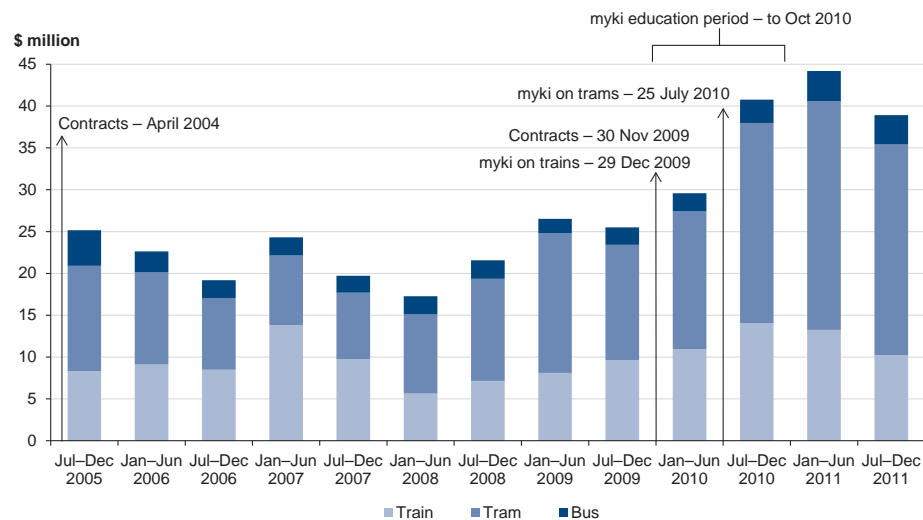
Conclusions

The department's oversight framework was effective in controlling fare evasion between 2005 and 2008, but failed to cope with the transition to myki and the new tram and metro train contracts that commenced in November 2009.

The overall fare evasion rate for Melbourne has come full circle over the past six years. Between 2005 and mid-2008, the percentage of passengers without a valid ticket fell from 13.5 per cent to a low of 7.8 per cent. However, these gains were lost, with a return to an overall evasion rate of 13.5 per cent for the first half of 2011. Since this time overall fare evasion has fallen to 11.6 per cent in the first half of 2012.

In 2010–11 the department estimated that metropolitan fare evasion cost \$85 million. Figure A shows estimated revenue impacts of fare evasion by mode of transport.

Figure A
Fare evasion revenue losses (exclusive of GST)



Source: Victorian Auditor-General's Office based on Metlink fare evasion surveys.

The department's six-monthly surveys found that the amount lost:

- fell by 31 per cent, from \$25.2 million to \$17.3 million, between the second half of 2005 and the first half of 2008, when overall evasion was lowest
- rose by 155 per cent, from \$17.3 million to \$44.2 million, between the first half of 2008 and the first half of 2011, before falling to \$38.9 million in late 2011.

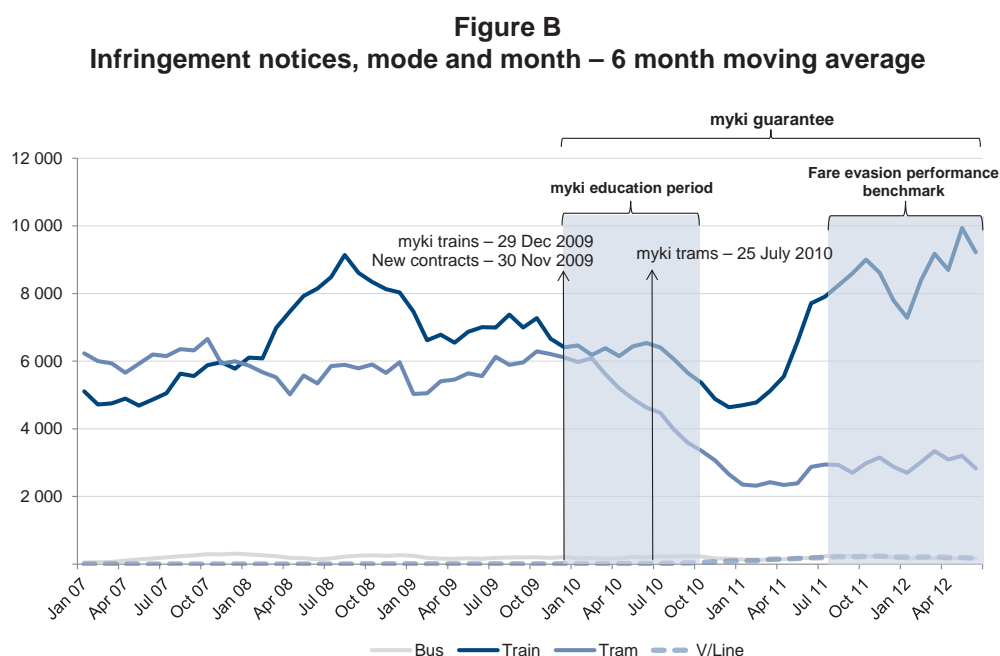
Two-thirds of this increase, or \$18.7 million, happened in an 18-month period between January 2010 and June 2011. This period immediately followed the start of new train and tram contracts in November 2009 and the introduction of myki in December 2009.

Growing patronage and rising fares have meant that the value of fare evasion has grown rapidly. Between 2004–05 and 2008–09 both patronage and fare revenue grew. Fare increases of 14 per cent meant revenue exceeded patronage growth.

Since 2008–09 fare revenue growth has declined, despite continued patronage growth and fare rises, because of increased fare evasion and other factors, such as the abolition of zone 3, free travel to the city for early train travellers, and other promotional fares.

The significant increase in fare evasion between 2009 and 2011 happened because of the decline in effective enforcement. The department viewed the level of visible enforcement as crucial to controlling the level of fare evasion. Infringement notices are the critical lead indicator for assessing the effectiveness of enforcement.

Figure B shows trends in transport ticketing infringements issued by the department by mode as six month moving averages.



Source: Victorian Auditor-General's Office based on Department of Transport information.

Over this period the number of infringement notices fell as the operators reported fewer passengers for fare evasion for a number of reasons:

- The government required the operators to be lenient in dealing with people using myki and did not provide them with any financial disincentives for not enforcing fare evasion. The operators interpreted this leniency as extending to Metcard users as well.
- The department did not address the fall in effective enforcement on trams and metropolitan trains in a timely and purposeful manner.
- Operational problems with handheld myki readers hampered enforcement.

This increase in fare evasion has had financial consequences for the state. Under the transition arrangements for myki, the state bears all revenue risk by guaranteeing that the tram and metro train operators receive the revenues forecast in their bids.

The guarantee started with the new contracts on 30 November 2009 and is likely to run for 49 months until December 2013, one year after the last Metcard tickets have been sold. After this point the state and operators will share the fare revenue risks.

The myki guarantee is likely to result in payments exceeding \$350 million to cover the shortfall of actual fare revenue compared to the operators' forecasts comprising:

- \$98.5 million already paid for the 19 months up to June 2011
- \$108 million as PTV's provisional estimate for the 12 months from July 2011
- \$162 million between July 2012 and December 2013 applying the 2011–12 provisional payment to the final 18 months of the guarantee on a pro-rata basis.

Increased fare evasion has contributed to the gap between actual and forecast fare revenue. We estimate that increased fare evasion accounted for 38.6 per cent or \$38 million of the \$98.5 million gap between actual and forecast fare revenue for the first 19 months of the new train and tram contracts.

The main lesson from the past six years is that the level and intensity of oversight has to be flexible and tailored to address changing risks. The gradual rise in fare evasion before the end of 2009, the imminent introduction of myki and the suspension of revenue risk sharing, should have triggered greater departmental oversight. Instead of being proactive in mitigating these risks, the department reacted too slowly to the fall in enforcement that was apparent from the first half of 2010.

PTV needs to exercise strong oversight because the fare evasion risks remain high and are borne solely by the state until the end of 2013. PTV should take the lead in managing these risks and reducing fare evasion to match, or better, the lowest fare evasion rates achieved between 2007 and 2009.

Recommendations

Number	Recommendation	Page
	Public Transport Victoria should:	
1.	develop survey-based estimates of fare evasion across regional public transport	15
2.	review the cost-effectiveness of ticketing enforcement on Melbourne's trains, trams and buses and on regional public transport	15
3.	consider the economic case for allocating additional resources to this task	15
4.	develop and deliver a plan to: <ul style="list-style-type: none"> • complete the full rollout of myki without increasing fare evasion • reduce fare evasion to match, or better, the lowest fare evasion rates achieved between 2007 and 2009 	24
5.	publish the fare evasion survey results and provide the detailed data to the public transport operators when the results have been confirmed.	24

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Transport, Public Transport Victoria and V/Line with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix A.

1 Background

1.1 Introduction

Public transport is important for the efficient movement of people and goods around Victoria and plays a critical role in relieving urban traffic congestion. Services are heavily subsidised and the cost to government has risen as more services are provided. Effectively protecting fare revenue lessens the burden on taxpayers and allows for the expected expansion of services to meet future growth.

Government has significantly raised its contribution to accommodate growing patronage. Between 2005–06 and 2010–11, the subsidy grew by 65 per cent from \$0.95 to \$1.56 billion. In 2010–11, the cost of operating public transport services was \$2.2 billion, with 30 per cent coming from fares and 70 per cent from government subsidy.

The Department of Transport (the department) expects strong patronage growth over the next 20 to 30 years driven by a growing population, increased traffic congestion, higher fuel prices and changing lifestyles. Expanding services to meet this demand represents a significant funding challenge.

It is essential that passengers pay the correct fare and meet their intended share of service costs. Fare evasion is travelling on public transport without an appropriate validated ticket. This includes travelling without a ticket, purchasing but not validating a ticket, or using a concession ticket without proof of entitlement.

In 2010–11 the department estimated that metropolitan fare evasion cost \$85 million (exclusive of GST), or approximately 13.5 per cent of the fares collected.

1.2 Framework for protecting fare revenue

1.2.1 Introduction

Effectively protecting revenue and controlling fare evasion requires:

- a well-designed, understandable, accessible and user-friendly ticketing system
- education and marketing—to help passengers understand how to use the system correctly and persuade them to do this
- revenue protection measures—ticket barriers and station staff
- enforcement—detecting passengers travelling without a valid ticket and addressing this behaviour.

Doing these things effectively will help address fare evasion where it is:

- **unintentional**—when passengers don't understand the ticketing system or when machine failures mean they are unable to purchase or validate tickets
- **deliberate**—when passengers purposely travel without a valid ticket.

1.2.2 Overview of revenue protection responsibilities

Until early April 2012, the department had overall responsibility for delivering effective and efficient public transport services. This included protecting revenue. These responsibilities passed to Public Transport Victoria (PTV) on 2 April 2012.

The government has contracted all metropolitan services and regional buses to private operators, while V/Line, a public agency, operates regional train and long-distance coach services. In addition—Metlink, a company owned by the operators and funded by the department—researched fare evasion, delivered marketing campaigns and coordinated operators' revenue protection plans. PTV has taken over Metlink's role since April 2012.

These arrangements mean revenue protection is a shared responsibility because:

- the government has overall responsibility for the ticketing system including:
 - running the Metcard system until it ceases to operate in late 2012
 - transitioning to the myki smartcard ticketing system
 - funding ancillary infrastructure that helps protect revenue, for example by installing barrier gates at more metropolitan train stations
- the operators are responsible for enforcing the ticketing regulations and are funded to employ staff to detect and report on fare evasion
- education and marketing are a shared responsibility because:
 - the government approves and funds marketing campaigns and employs helpers to advise passengers about using myki
 - operators' staff educate passengers about fares and ticketing.

1.2.3 Tram and metropolitan train contracts

The 2004 and 2009 metropolitan train and tram contracts required:

- fare revenue losses and profits to be shared between the state and the operators, subject to agreed thresholds
- operators to prepare revenue protection plans, employ minimum numbers of revenue protection personnel, and staff ticket barriers at the busiest metropolitan stations between 7 am and 10 pm
- Metlink (and now PTV) to survey passengers' behaviour and deliver strategies for dealing with fare evasion.

Since July 2011 the operators have been subject to targets for reducing fare evasion. These are part of a larger suite of three flexible benchmarks that the department can specify each year to manage performance.

The department will take account of the operators' performance against these benchmarks in determining whether an extension to the contracts should be negotiated before re-tendering them.

The department set the following targets for reducing fare evasion:

- **trams**—from 19 per cent in 2010–11 to 14.4 per cent in 2011–12. No benchmark has been set for 2012–13. The focus will be on input measures such as an increase in tickets checked.
- **metropolitan trains**—to maintain fare evasion at 8.8 per cent in 2011–12. This target will continue for 2012–13.

Risk sharing

The government recognised that the 1999 contracts involved an unsustainable transfer of the fare revenue risks to private operators of trams and metropolitan and regional trains. The 2004 and 2009 contracts included provisions to share fare revenue losses and gains, beyond agreed limits, and relieve operators of the revenue risks of myki.

In 2004 and 2009 the state wanted these risks allocated through revised contracts to the party best able to manage them. A sharing of risk was likely to represent the most cost-effective solution for both parties because:

- patronage and fare revenue are affected by factors beyond the operators' control, such as economic growth and road congestion
- the operators' ability to respond to revenue trends by changing fares or service levels is heavily constrained under their franchise agreements
- the operators are responsible for managing the staff and systems that protect fare revenue.

The 2009 contracts included two risk-sharing mechanisms to do this:

- monetary boundaries around the operators' forecasts of their share of fare revenue beyond which they share the gains and losses equally with the state
- resetting revenue every three years to bring the operators' fare revenue back to their forecasts.

The contracts also included special arrangements to cover the transition to the myki ticketing system. The department recognised that implementing myki involved commercial risks for operators because of uncertainty about its impact on fare revenue, and increased costs during its installation and initial operation.

The 2009 contracts sought to mitigate these risks so that the operators did not price these within their bids by:

- covering the start-up and transition costs of the new ticketing system
- suspending risk sharing by guaranteeing operators their forecast fare revenue from 30 November 2009 until one year after the expected closure of the Metcard system, which is expected to be December 2013.

Enforcing ticketing regulations

The operators are responsible for protecting fare revenue. The contracts focus on operators' planning and deployment of resources to control fare evasion.

PTV, and previously Metlink, prepares an annual Network Revenue Protection Plan describing the education, research and enforcement activities designed to achieve fare evasion targets. The operators prepare strategies consistent with this plan and deploy authorised officers who, as part of their duties, detect fare evaders, record their names and addresses, and forward reports of non-compliance (RONCs) to the department.

In 2011, public transport operators completed 168 000 RONCs. These related to offences including fare evasion, smoking in a carriage, having feet on seats and disorderly behaviour. The department issued more than 99 per cent of these reports as infringement notices that recipients could respond to by paying a fine, launching an appeal or electing to challenge in court.

Figure 1A shows the number of authorised officers funded within the contracts.

Figure 1A
Number of authorised officers for trams and metropolitan trains

Mode	Number	Duties
Trains	353	Wide range of duties including:
Trams	167	<ul style="list-style-type: none"> enforcing ticket regulations addressing anti-social behaviour, crime and vandalism customer service including on-the-ground management of service disruptions other specific modal duties such as asset protection for trains and coverage from first to last tram.

Source: Victorian Auditor-General's Office based on Department of Transport information.

1.2.4 Regional train contracts

V/Line is responsible for delivering regional rail services. There are significant operational differences between V/Line services and metropolitan train and tram services in terms of ticket checking and enforcement. Regional train conductors check the validity of all passengers' tickets except where trains are heavily loaded and they cannot reach all of the passengers on a train.

V/Line employs 11 authorised officers and their tasks include:

- addressing anti-social behaviour; mostly at station hotspots at night and on weekends
- detecting and reporting fare evasion
- assisting passengers.

1.2.5 Bus contracts

New metropolitan bus contracts started in July 2008 and require operators to use their best endeavours to ensure passengers have the correct tickets and that those tickets have been validated.

The operators' industry body, Bus Association Victoria, prepares an annual bus revenue protection plan and employs 12 authorised officers who:

- check that passengers have a valid ticket
- write RONCs on fare evaders
- are deployed to address anti-social behaviour, typically at bus stations
- assist with customer service enquiries including route and timetable information
- advise passengers of disruptions to services
- participate with 'mystery shoppers' to assist in the detection and deterrence of driver fraud activities.

1.3 Audit objective and scope

The audit assessed whether the department's oversight had been effective in controlling fare evasion by examining whether it:

- adequately understood the scale, nature and drivers of fare evasion
- put in place contractual arrangements and other measures that provide an effective framework for monitoring and controlling fare evasion
- responded to adverse fare revenue trends in a timely and effective way.

This audit included the department and V/Line, and focused on the effectiveness of the department's oversight of the public transport operators since 2005. The recommendations have been directed at PTV because it has assumed the department's public transport responsibilities.

The audit was conducted in accordance with section 15 of the *Audit Act 1994* and Australian Auditing and Assurance Standards.

The cost of the audit was \$310 000.

1.4 Structure of the report

Part 2 describes the fare evasion outcomes over the past seven years and examines what has driven these outcomes.

Part 3 assesses the department's oversight in light of these outcomes and draws out the recommendations that PTV needs, to better manage fare evasion.

2 Fare evasion outcomes

At a glance

Background

We examined how fare evasion had changed over the past six years and what these outcomes showed about the effectiveness of the Department of Transport's oversight.

Conclusion

The department's oversight framework was effective in controlling fare evasion between 2005 and 2008. However, it has failed to cope with the transition to myki and the new tram and metropolitan train contracts that commenced in November 2009. The department has not yet developed a good understanding of the extent of fare evasion on regional public transport.

Findings

- The department's six-monthly surveys provide a reliable measure of fare evasion and its revenue impacts for metropolitan public transport.
- The department did not know the full extent of fare evasion in regional Victoria because, prior to June 2012, there had been no fare evasion surveys.
- Fare evasion has come full circle since 2005, declining from 13.5 per cent to 7.8 per cent in the first half of 2008 before losing these gains by mid-2011. In May 2012, fare evasion was estimated at 11.6 per cent.
- Based on comparative survey data for Melbourne's trains and trams, average evasion rates are now significantly higher than other cities.
- Between July 2005 and December 2011, fare evasion is estimated to have cost \$355 million, or an average of \$55 million per year.
- Revenue lost due to fare evasion increased from \$17.3 million, for the first half of 2008, to \$44.2 million by the second half of 2011.
- Between December 2009 and July 2011 the department paid the operators \$98.5 million to cover the shortfall between the operators' forecast and actual revenue.

Recommendations

Public Transport Victoria should:

- develop survey-based estimates of fare evasion across regional public transport
- review the cost-effectiveness of ticketing enforcement on Melbourne's trains, trams and buses and on regional public transport
- consider the economic case for allocating additional resources to this task.

2.1 Introduction

We examined how fare evasion had changed over the past six years and what these outcomes showed about the effectiveness of the Department of Transport's (the department) oversight.

Since 2005 the department has commissioned surveys at six-monthly intervals. These surveys estimate actual fare evasion outcomes on metropolitan trains, trams and buses including:

- rates of fare evasion—the percentage of passengers without a valid ticket
- revenue lost because of fare evasion.

These surveys reliably measure fare evasion for metropolitan public transport services but, prior to June 2012, had not been extended to cover regional public transport.

2.2 Conclusion

The department's oversight framework was effective in controlling fare evasion between 2005 and 2008. However, it failed to cope with the transition to the myki ticketing system under the new tram and metropolitan train contracts that commenced in November 2009 and the existing bus contracts. After 2009, fare evasion on all modes of transport increased significantly.

Increased fare evasion has reduced revenue to the government. For the first half of 2008, this equated to some \$17.3 million, but had risen significantly to \$44.2 million by the second half of 2011.

The department does not have a good understanding of fare evasion on regional public transport because it has not routinely surveyed passengers. It has started to address this for V/Line trains but not for regional buses. The work to date confirms that there are clear performance issues in the management and oversight of fare evasion that merit investigation.

2.3 Measuring fare evasion

The department's six-monthly surveys provide a reliable measure of fare evasion and its revenue impacts for metropolitan public transport.

The survey is completed in May and October of each year and covers trams and metropolitan trains and buses. The sampling is stratified to accurately estimate fare evasion, taking account of patronage levels by mode and route, and by time of day and the day of the week.

Surveyors select sample passengers on a bus or in one section of the trains and trams they board, then authorised officers inspect their tickets. The surveyors record whether the ticket is valid and, if not, the reason why. The survey achieves complete coverage of the passengers chosen for inspection and discards data for a sample where a targeted passenger is missed.

Figure 2A shows that surveyed evasion rates are between four and 10 times the rates of fare evasion implied by the number of reports of non-compliance (RONCs) sent to the department as a percentage of the tickets checked.

Figure 2A
Alternative measures of fare evasion

Mode	Data year	RONCs/tickets checked (per cent)	Surveyed rate (per cent)
Metropolitan train	2010	1.8	10.4
Tram	2011	1.9	19.5
Metropolitan bus	2012	2.0	8.2

Source: Victorian Auditor-General's Office based on *Fare Evasion Final Report*, February 2012, Multi-modal Solutions for Metlink.

We found that the survey is a more reliable estimate of fare evasion because it is designed to achieve complete coverage for a sample of passengers.

Authorised officers enforcing ticketing regulations cannot achieve the type of coverage as the surveyors achieve for the passengers they select, because they:

- do not detect fare evaders who leave the vehicle without having their ticket inspected or who validate their tickets (on a tram) when authorised officers enter the vehicle
- do not always write a RONC for those found without a valid ticket because they may accept a person's reason and take no action, warn them, or direct them to immediately purchase a valid ticket. These actions are not consistently recorded or reported to the department
- will miss fare evaders who can escape detection while RONCs are being written for other fare evaders.

2.4 Metropolitan fare evasion

Fare evasion has come full circle since 2005, declining to a low point in the first half of 2008 before losing these gains by mid-2011. Since then overall fare evasion fell to 11.9 per cent in the second half of 2011 and to 11.6 per cent in the first half of 2012.

The current fare evasion rates for trains and trams are high compared to the levels achieved in 2007 and 2008 and the relevant international benchmarks.

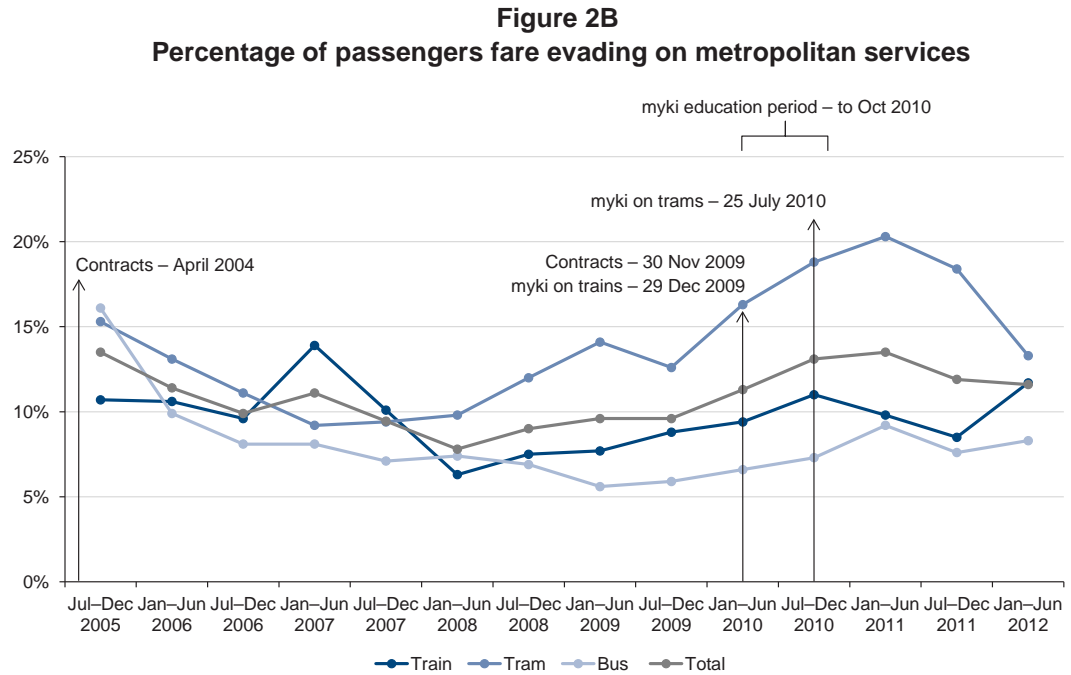
Revenue lost due to fare evasion increased from \$17.3 million for the first half of 2008 to \$44.2 million by the second half of 2011—a 155 per cent increase.

The lowest fare evasion rates achieved for trains (2008), for trams (2007) and for buses (first half of 2009) represent reasonable targets to work towards. Targets need to be set taking into account the deterrent effect, the revenue likely to be saved and the costs of achieving this.

2.4.1 Fare evasion rates

Trends between 2005 and 2012

Figure 2B shows the trends in fare evasion over this time period.



Source: Victorian Auditor-General's Office based on Metlink fare evasion surveys.

Figure 2B shows that overall metropolitan fare evasion:

- fell by over 40 per cent to a low point of 7.8 per cent in the first half of 2008
- increased steadily between mid-2008 and late 2009
- accelerated significantly to reach 13.5 per cent in the first half of 2011, following the start of new tram and train contracts and the introduction of myki
- fell to 11.6 per cent for the first half of 2012.

While there have been increases in fare evasion across all modes since 2008, there has been a more marked increased level of fare evasion on trams.

Rates of fare evasion on trams increased from a low point of 9.2 per cent in the first half of 2007 to 12.4 per cent in the second half of 2009 before increasing to 20 per cent in the first half of 2011. The latest fare evasion survey for May 2012 shows a reduction in fare evasion on trams to 13.3 per cent.

The steepest rise happened during the period when:

- myki was introduced for trains from December 2009 and for trams from July 2010
- the government required a myki 'educational' phase between December 2009 and October 2010 where passengers with invalid myki cards were not penalised
- the contracts suspended fare revenue risk sharing by guaranteeing that the train and tram operators would receive the revenue expected in their bids
- the operators experienced significant operational problems with the handheld devices used to check myki cards up to the end of 2011
- plain-clothes operations were withdrawn
- the operators focused on assistance rather than enforcement.

Comparison with other cities' fare evasion rates

Figure 2C shows that average evasion rates for Melbourne's trains and trams reached levels by mid-2011 that were significantly higher when compared with Sydney for trains and 19 international cities for trams. We found no comparable published data for buses.

We compared surveyed fare evasion for Melbourne and Sydney's suburban train systems. The systems are similar because most but not all passengers use staffed and gated railway stations.

All but four of the international tram systems were 'open', with the enforcement of ticketing regulations relying on random inspections rather than the presence of conductors or gated entries and exits.

Figure 2C
Comparison of Melbourne with other cities

Mode	Metropolitan Melbourne July 2005 to July 2011		Comparator data from Metlink benchmarking		Commentary
	Average (per cent)	Range (per cent)	Average (per cent)	Range (per cent)	
Train	10	6.3 to 13.9	4	2.7 to 5.3	Sydney metropolitan rail system
Tram	14	9.2 to 20.3	9.9	2.0 to 25.0	For one North American and 18 European cities. Average evasion rate trams without conductors is 9.8 per cent
Bus	8	5.6 to 16.1	NA	NA	No comparable data

Source: Victorian Auditor-General's Office based on *Fare Evasion Final Report*, February 2012, Multi-modal Solutions for Metlink.

These benchmark averages are similar to the levels of fare evasion achieved in Melbourne in 2007 and 2008, which indicates these are appropriate targets to work towards provided that the costs of effective enforcement do not exceed the gains—both in terms of passengers complying with the ticketing regulations and reducing the revenue lost.

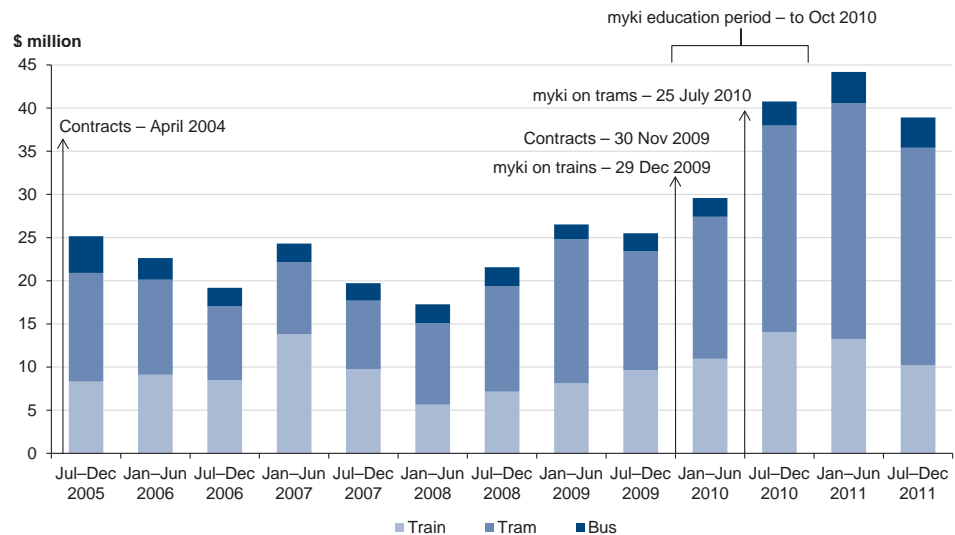
2.4.2 Revenue impacts

In the past three years, the revenue impacts of fare evasion have mirrored and amplified the trends in fare evasion rates. Fare rises have played their part in raising the absolute amount of lost fare revenue. For example, between June 2008 and June 2011 metropolitan fares increased on average by 8.3 per cent and this mirrored the rate of inflation.

The rise in fare evasion has been very costly and has deprived government of money that should have contributed to these services.

Figure 2D shows the estimated revenue impacts of fare evasion by mode of transport. These estimates are exclusive of GST.

Figure 2D
Fare evasion revenue losses



Source: Victorian Auditor-General's Office based on Metlink fare evasion surveys.

Although there will always be a level of fare evasion that may be uneconomic to reduce (where the additional cost of further enforcement is greater than the benefits of reduced fare evasion), fare evasion is estimated to have cost \$355 million, or an average of \$55 million per year, between July 2005 and December 2011.

Summarising the impacts of evasion on fare revenue:

- half-yearly revenue lost fell by 22 per cent between the second half of 2005 and the first half of 2008 from \$25.2 million to \$17.3 million
- since June 2008, half-yearly revenue lost has risen by \$26.9 million from \$17.3 million to \$44.2 million for the first half of 2011 before falling in the second half of 2011 to \$38.9 million.

Two thirds of this \$18.7 million increase to mid-2011 happened in an 18-month period between January 2010 and June 2011. This period was immediately after the start of new train and tram contracts in November 2009 and the introduction of myki in December 2009.

The growth in fare evasion on trams has been the major driver of the overall trend between July 2008 and June 2011:

- trams accounted for 72 per cent (\$13.5 million) of revenue lost due to fare evasion
- metropolitan trains accounted for a further 19 per cent (\$3.6 million)
- metropolitan buses explained the remaining 9 per cent of the total (\$1.6 million).

2.4.3 Financial impacts for government

The 2009 contracts guarantee that the operators will realise their forecasts of fare revenue from the start of myki until one year after Metcard tickets cease to be sold. The guarantee was activated on 30 November 2009, when the current contracts started. The department expects the guarantee to be in place for four years until the end of December 2013.

The myki guarantee is likely to result in payments exceeding \$350 million to cover the shortfall of actual fare revenue compared to the operators' forecasts comprising:

- \$98.5 million already paid for the 19 months up to June 2011
- \$108 million as Public Transport Victoria's (PTV) provisional estimate for the 12 months from July 2011
- \$162 million between July 2012 and December 2013 applying the 2011–12 provisional payment to the final 18 months of the guarantee on a pro-rata basis.

Between December 2009 and July 2011, the department paid the operators \$98.5 million to cover the shortfall between what the operators forecast and the actual fare revenue collected, as per the 2009 contracts. Approximately \$22 million of this payment was an adjustment because the operators based their forecasts on state estimates of the fare revenue for the 12-month period leading up to the contract that proved to be higher than the actual fare revenue collected.

This shortfall is not all attributable to increased fare evasion. The department estimated that revenue growth between 2006–07 and 2010–11 fell \$66.9 million short of that expected from the 11 per cent change in prices and 24 per cent growth in patronage. It attributed 43 per cent of the shortfall (\$28.6 million) to increased fare evasion.

We estimate that the gap between actual fare revenue and the revenue guarantee payments made by the state would have been 38.6 per cent (\$38 million) smaller if the revenue lost to fare evasion had remained at the same level as before the latest contracts started.

2.5 Regional fare evasion

The department knew less about fare evasion in regional Victoria because it had not commissioned fare evasion surveys prior to June 2012. From the available information we expect fare evasion rates to be:

- low for V/Line because of the presence of conductors
- higher for buses in regional Victoria because there are no regular inspections of tickets by authorised officers. The most common type of bus fare evasion is the use of concession tickets without proof of entitlement.

Revenue lost on regional public transport is likely to be small compared to the amounts lost on metropolitan public transport.

There is a significant risk that fare evasion will escalate with the rollout of myki on trains and buses in regional Victoria. For other transport modes, survey results have proven that RONCs written, and warnings issued, significantly understate evasion rates. Therefore the amount of V/Line fare evasion needs to be confirmed through a similar fare evasion survey.

PTV needs to work closely with the operators to manage these risks cost-effectively.

PTV completed the first survey of fare evasion for V/Line services in June 2012 and this indicated that fare evasion was higher than the rate derived from the RONCs written by authorised officers. No such survey has been completed for regional buses.

2.5.1 V/Line

V/Line reported fare revenue of \$77.5 million for 2010–11 and from inspections by its 11 authorised officers estimates fare evasion of between 2 and 3 per cent based on the RONCs it writes and the warnings issued to passengers. A fare evasion rate of 2.5 per cent equates to lost revenue of approximately \$2 million.

PTV is extending the fare evasion survey program to encompass V/Line. The first V/Line fare evasion survey in June 2012 estimated a fare evasion rate of 6.6 per cent equivalent to lost annual revenue of \$4.6 million.

The presence of conductors means the difference between V/Line and survey estimates is likely to be smaller than for trams and metropolitan buses and trains.

The continued rollout of myki presents a risk that fare evasion will rise because of the different challenges on V/Line trains. It is challenging for conductors to check all tickets on busy peak trains on shorter routes, such as between Geelong and Melbourne. It takes longer to check a myki smartcard using a handheld reader than visually checking the validity of a paper ticket.

V/Line currently has 11 authorised officers that have a range of responsibilities beyond revenue protection. Funding for six authorised officers has been provided by the department since 2008. Further funding was unsuccessfully sought in 2008 and 2009 for additional officers. Savings from within V/Line were used to engage an additional five authorised officers.

PTV needs to work with V/Line to determine whether there is a compelling business case for expanding these resources to better control fare evasion.

2.5.2 Regional buses

Regional, mostly town-based, bus services generate approximately \$15 million in annual fare revenue. Fare revenue is not adequately protected and the impacts of fare evasion are not well understood under the current arrangements.

Regional bus services are not included in the fare evasion survey and are rarely inspected by authorised officers. The 12 authorised officers managed by the Bus Association Victoria on behalf of the operators have to cover bus operations across the whole state. This allows only for the occasional visit to inspect regional services.

The results from authorised officer inspections illustrate the range of outcomes.

For Morwell during February 2010 the revenue lost on buses was running at 18 per cent of total revenue. The average fare revenue for two weeks in February with no inspections was \$3 910, compared to an average of \$4 608 for the remaining two weeks of February where authorised officers inspected tickets. The Morwell inspections were provoked because of reports of fare evasion problems.

In contrast, authorised officer inspections for Ballarat in February 2010 raised revenue by 1.3 per cent showing that the Morwell result cannot be taken as indicative of fare evasion on all regional buses. PTV needs to confirm the scale of fare evasion on regional buses and to work with the operators to identify a more cost-effective way of better protecting this revenue.

Recommendations

Public Transport Victoria should:

1. develop survey-based estimates of fare evasion across regional public transport
 2. review the cost-effectiveness of ticketing enforcement on Melbourne's trains, trams and buses and on regional public transport
 3. consider the economic case for allocating additional resources to this task.
-

3 Oversight lessons

At a glance

Background

We examined the reasons why fare evasion escalated over the past three years and distilled the lessons for effective future oversight.

Conclusion

The Department of Transport (the department) failed in its oversight role because it was too slow to react to lead indicators showing that fare evasion was escalating significantly after 2009.

The department needed to more consciously identify the risks and increase its oversight to address unintended consequences. It was slow and reactive in addressing these increased risks rather than proactive.

Findings

The significant decline in effective enforcement through the issue of infringement notices underpinned the escalation of fare evasion between 2008 and 2011.

We attributed the decline in effective enforcement from December 2009 to:

- the absence of a current revenue protection plan
- the government's requirement for leniency in dealing with people using myki, which the operators applied to Metcard users as well
- the absence of any direct financial consequences for the operators as fare evasion rose and then accelerated
- the lack of timely and purposeful oversight by the department
- a reduction in reports of non-compliance written by authorised officers owing to a change in focus from enforcement to customer service.

Recommendations

Public Transport Victoria (PTV) should develop and deliver a plan to:

- complete the full rollout of myki without increasing fare evasion
- reduce fare evasion to match, or better, the lowest fare evasion rates achieved between 2007 and 2009.

PTV should publish the fare evasion survey results and provide the detailed data to the public transport operators when the results have been confirmed.

3.1 Introduction

Between July 2008 and June 2011, growth in metropolitan fare revenue has not increased despite continuing strong patronage growth. Growing fare evasion has contributed to this trend. We have examined what has driven this trend and distilled the lessons for the effective future oversight of fare evasion management.

3.2 Conclusion

The Department of Transport's (the department) oversight failed because it was too slow to react to lead indicators showing that fare evasion was escalating significantly after 2009.

Several factors converged in late 2009 that meant the operators reduced the level of effective enforcement. The introduction of myki meant government took all revenue risk and required the operators to be more lenient with myki fare evaders. As a result the operators did not effectively enforce and manage fare evasion.

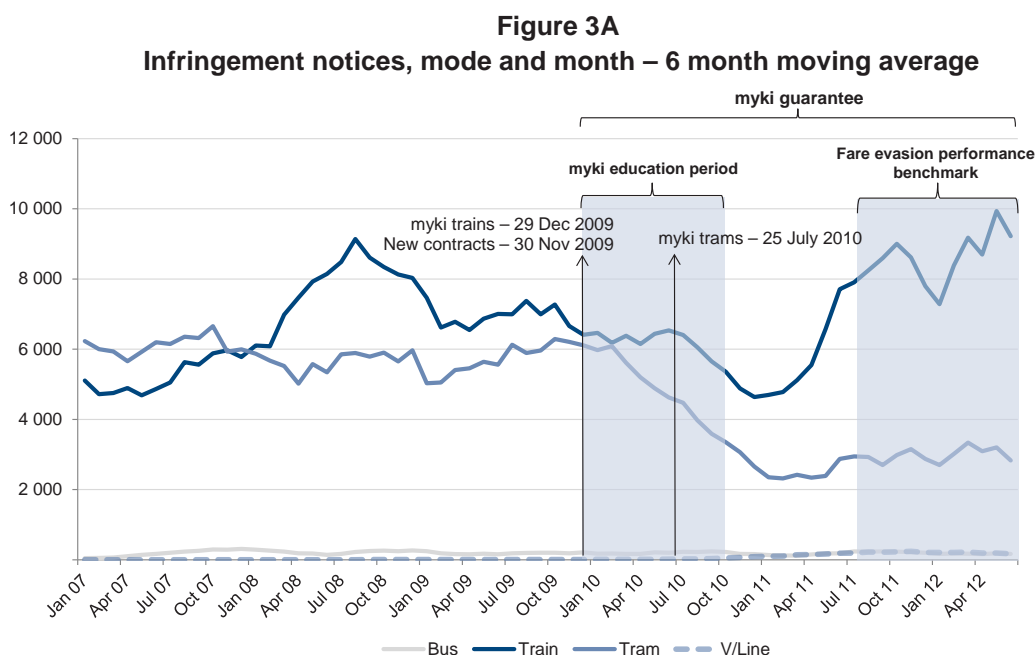
3.3 Drivers of fare evasion trends

The department viewed the level of visible enforcement as crucial to controlling the level of fare evasion. The number of reports of non-compliance (RONCs) and follow-on infringement notices are critical lead indicators for assessing the effectiveness of enforcement.

The evidence supports the view that a drop in RONCs and infringement notices underpinned the escalation of fare evasion between 2008 and 2011. This section examines why RONCs and notices fell and the reasons for this.

3.3.1 Trends for reports of non-compliance and infringement notices

Figure 3A shows trends in the number of transport ticketing infringements issued by the department. More than 99 per cent of RONCs become infringement notices, so the figure is largely consistent with trends in RONCs as well.



Source: Victorian Auditor-General's Office based on data from the Department of Transport.

Figure 3A shows that:

- when train evasion rates were lowest:
 - for trains in 2008, the operator wrote sufficient RONCs for the department to issue 8 000 or more monthly notices
 - for trams in 2007 and 2008, the operator wrote sufficient RONCs for the department to issue around 6 000 monthly notices
- in the year preceding the start of the new contracts, the number of train notices per month fell to 6 400 and the number of tram notices per month increased slightly to 6 100
- the introduction of myki and the start of the new contracts in late 2009 marked the start of a rapid fall in monthly notices. This continued throughout the 'myki education period', when RONCs were not written for invalid myki use:
 - monthly train notices fell by 28 per cent, from 6 400 to 4600
 - monthly tram notices fell by 62 per cent, from 6 100 to 2 350
- since the end of the myki education period and the introduction of flexible fare evasion performance benchmarks for trams and metropolitan trains:
 - train notices have recovered and now exceed 8 000 per month
 - tram notices have partially recovered but are still 30 per cent lower than they were when the new contracts started.

3.3.2 Explaining infringement trends

The decline in effective enforcement from December 2009 can be attributed to:

- the absence of a current revenue protection plan to assist operators during the myki transition
- the government's requirement for leniency in dealing with people using myki being perceived by operators as extending to Metcard users as well
- the absence of any direct financial consequences for the operators as fare evasion rose and then accelerated
- the lack of timely and purposeful oversight by the department to address the lack of effective enforcement on trams and metropolitan trains
- operational problems with the handheld devices used by officers to check mykis
- a reduction in RONCs written by authorised officers owing to a change in focus from enforcement to customer service with the new operators.

The Network Revenue Protection Plan

The annual Network Revenue Protection Plan for 2010 was approved in December 2009 on the condition it would be updated by March 2010 to incorporate the impact of myki and the revenue protection approaches of the new operators.

The transition to myki did not follow the expected path. As a result, the department relaxed this deadline, instead requesting that authorised officer deployment strategies and any new activities be incorporated into the 2011 plan. This did not occur.

The Network Revenue Protection Plan was subsequently revised and finalised in September 2011.

The myki education period

This ran from the introduction of myki in December 2009 to 11 October 2010.

Figure 3B shows excerpts from the Practice Note and Scripts for authorised officers issued by the department in 2009.

Figure 3B
Excerpts from a Practice Note and Scripts dated 29 December 2009

<p>Excerpts from Practice Note 2009:11A myki 'goes live' in Melbourne – for authorised officers</p> <ul style="list-style-type: none"> • 'During the initial stage of the transition to myki, authorised officers will focus on providing information to passengers to assist them in the correct use of the new ticketing system. In the first stage of myki transition, the primary compliance response from authorised officers to myki users will be to 'touch on' and 'touch off' at the beginning and end of their journeys to ensure they have a valid ticket. Myki users should also be advised to 'top up' at myki vending machines to ensure there is a positive balance on their card before they travel.' <p>Excerpts from Scripts for Authorised Officers – Stage One of the Revenue Protection Policy during myki Transition</p> <p>Negative balance and not touched on (on-vehicle)</p> <ul style="list-style-type: none"> • 'The hand held device indicates your myki is 'not valid' because it has not been touched on. You have committed an offence that would normally attract a penalty.' Ask passenger to either purchase a temporary product or top up and touch on using the tram's/bus's/next train station's Card Vending Machine and Fare Payment Device. • NB: If touch on and touch off occurred for the customer's last journey, the card may legitimately be in negative balance. <p>Positive balance, no valid product and not touched on</p> <ul style="list-style-type: none"> • 'The hand held device indicates your myki is 'not valid' because it has not been touched on and there is no valid travel entitlement. You have committed an offence that would normally attract a penalty.' On tram, bus, direct the customer to the Fare Payment Device and request they touch on correctly. Explain that you need to touch on every time you board a tram, train or bus to commence your trip. • 'Every time you touch on and touch off, myki will know how far you travelled and will therefore calculate the correct fare for your travel.'

Source: Department of Transport.

The department also verbally briefed operators' chief executive officers and personnel in charge of enforcement.

This material directed authorised officers to focus on providing myki passengers with information on how to use the system correctly. However, they were required to confiscate myki cards and complete a RONC where:

- the card was listed as stolen or lost
- a person was using a concession myki without proof of entitlement
- the card was damaged and may have been tampered with.

This meant authorised officers did not complete a RONC where someone had failed to touch on or touch off, or where they had insufficient credit to travel.

The Practice Note did not seek to change enforcement for passengers using Metcards.

The operators we interviewed:

- interpreted the department's verbal briefings as requiring a broader leniency in enforcement because of the difficulties around the delivery of myki
- raised the practical difficulties of applying different standards to myki and Metcard users travelling in close proximity.

The department's view is that operators went beyond what they were asked to do. We have reviewed documents sent to operators asking them to be lenient on passengers with invalid mykis but to continue enforcement as usual for passengers with Metcards.

It is clear that the tram and train operators took a lenient approach to both myki and Metcard users. They did not write any RONCs for myki users during this period and significantly cut the number of RONCs written for Metcard infringements.

Although the written instructions were clear, the operators interpreted written and verbal advice, and the absence of risk sharing, in a way that meant Metcard enforcement was relaxed.

The different interpretations by the department and operators suggest that particularly the verbal instructions to operators in the face of transitioning to myki were at best unclear and the implications for fare evasion were not appropriately considered.

The absence of risk sharing during the myki transition

While the department is transitioning to myki between December 2009 and December 2013, the metropolitan train and tram operators are not exposed to increases in fare evasion. Further, in January 2014, if fare revenue is below their forecasts, they will receive additional payments to cover the differences between their actual and forecast revenues.

As a result, there has been no immediate financial consequence of rising fare evasion for the operators and hence there is a diminished incentive to manage this effectively.

The absence of purposeful oversight by the department

The department did not act quickly and decisively to address this drop in enforcement before the trend accelerated in the second half of 2010.

The number of RONCs written provided a lead indicator by April 2010 that tram enforcement was in significant decline. The results of the May 2010 fare evasion survey confirmed the change. Train infringements went into serious decline about half way through the myki education period after July 2010.

We saw no evidence of the department acting to address these trends up to October 2010. Early action would have limited the scale of the revenue losses.

The department issued a Practice Note on 6 October 2010 directing authorised officers to treat myki users with less leniency and asked them to increase their enforcement effort across all ticket types. This marked a significant increase in the number of RONCs written for metropolitan trains and a small increase for trams.

Between late 2010 and mid-2011 the department acted to address this by:

- requiring the operators to lift their enforcement effort
- clarifying that pre-myki enforcement practices should have been applied to Metcard users
- setting performance benchmarks for reducing fare evasion applying for 2011–12.

Problems with handheld myki readers

Authorised officers faced a number of difficulties using the handheld readers including:

- running out of power before the end of a shift
- the reader repeatedly resetting while being used
- being unable to input the required locational information
- slow card reading times
- difficulties in using the readers in daylight conditions, for example at tram stops, because of screen glare.

Due to the low percentage of passengers using myki between 2010 and 2011, the difficulties with handheld myki readers had no significant impact on enforcement activities. By the end of 2011, the major problems had been addressed, except for the daylight glare.

3.4 Lessons for the oversight of fare evasion

The main lesson from the past six years is that the department needs to more consciously identify the risks and increase its oversight to address unintended consequences. The department was slow and reactive in addressing these increased risks rather than proactive. For example, the department had not adequately informed government of the financial risks of the myki guarantee when preferred tenderers and contractual obligations were submitted to government for endorsement in June 2009.

The oversight framework has remained fairly constant since 2004, with revenue risk sharing, the operators controlling enforcement, and an allowance built in for the introduction of a new ticketing system.

Since 2005, the department has estimated fare revenue every six months and monitored the volume of infringement notices it issued, driven by the number of RONCs written by the operators.

The oversight framework:

- succeeded in reducing fare evasion between 2005 and 2008 when the department managed established operators using a well tried ticketing system
- was not able to sustain the low levels of fare evasion of 2007 and 2008 as the metropolitan train and tram operators came to the end of their contracts and government dealt with the delayed implementation of myki
- did not adequately deal with the situation from December 2009 when new operators were implementing myki without bearing any fare revenue risk, while believing that the government wanted them to be more lenient with fare evaders.

The fare evasion risks increased during these three phases and should have triggered the department's oversight. Instead, it lagged behind.

In the first situation, with well-established operators bearing part of the revenue risk and fare evasion trending down, oversight could be more 'light touch'.

The steady increase in fare evasion in 2009, and the suspension of risk sharing from 30 November 2009, should have signalled a ramping up of departmental oversight. Being proactive about this would have meant:

- including a flexible performance benchmark for fare evasion from the start of the new contracts rather than 18 months later
- closely monitoring RONCs on a monthly basis and immediately understanding and addressing any significant downward trends.

The demand for proactive oversight will remain until the end of the guarantee period in December 2013 at least. Public Transport Victoria needs to drive the formulation and delivery of a plan to manage fare evasion risks and significantly reduce fare evasion over the next three to five years.

Public Transport Victoria should also improve how it communicates progress in addressing fare evasion by publishing the fare evasion surveys. The detailed information about evasion on specific public transport modes should be provided to the operators as soon as the results have been validated to better inform their enforcement.

Recommendations

Public Transport Victoria should:

4. develop and deliver a plan to:
 - complete the full rollout of myki without increasing fare evasion
 - reduce fare evasion to match, or better, the lowest fare evasion rates achieved between 2007 and 2009
 5. publish the fare evasion survey results and provide the detailed data to the public transport operators when the results have been confirmed.
-

Appendix A.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Transport, Public Transport Victoria and V/Line with a request for submissions or comments.

The submission and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Department of Transport	26
Public Transport Victoria	27
V/Line	28
Further audit comment:	
Auditor-General's response to V/Line	29

RESPONSE provided by the Secretary, Department of Transport



Department of Transport

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Mr D D R Pearson
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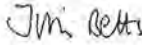
Our Ref: DOC/12/190522

Dear Mr Pearson ^{Des}

Proposed Audit Report *Fare Evasion on Public Transport*

I refer to your letter of 3 August 2012 enclosing the proposed report on the audit of *Fare Evasion on Public Transport* and note your conclusion and findings.

Yours Sincerely


Jim Betts
Secretary

9 / 8 / 12



RESPONSE provided by the Chair and Chief Executive, Public Transport Victoria



Ref: FOL/12/22521
Trim Ref: DOC/12/194697

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DX 210018

Dear Mr Pearson *Des*

PROPOSED AUDIT REPORT – FARE EVASION ON PUBLIC TRANSPORT

Thank you for your letter dated 3 August 2012 enclosing the proposed audit report on Fare Evasion on Public Transport.

Public Transport Victoria notes your conclusions, which are directed at the Department of Transport.

Public Transport Victoria accepts all of your recommendations, which are directed at Public Transport Victoria.

Yours sincerely

IAN DOBBS
Chair and Chief Executive

16 18 2012

RESPONSE provided by the Chief Executive Officer, V/Line

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9 August 2012

Mr D D R Pearson
Auditor-General
Victorian Auditor General's Office
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Melbourne, 3000



Dear Mr Pearson, *Des,*

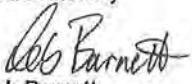
Draft Report Comments – Fare Evasion on Public Transport

I refer to your letter dated 3 August seeking comments on the VAGO draft report into Fare Evasion on Public Transport. I have reviewed the reports and generally speaking I found no significant issues except for the following:

- Page 8, Section 2.2, Conclusion:
 - I note the last sentence in the final paragraph of this section. This sentence seems to be out of context with the evidence presented in the report (sections 2.5-2.5.2). At this stage I don't believe that the evidence is strong enough to support any conclusion about whether there are 'performance issues in the management and oversight' of the regional fare evasion.
- Page 9, Section 2.3, Measuring Fare Evasion
 - I note the comment directly under Figure 2A. The table identifies the differences between the fare evasion rates according to data sourced from Authorised Officers compared to the surveyed rates. I find that the VAGO conclusion based on the data to have some potential merit but is probably anecdotal. There has been no attempt to get comments from the public transport operators as to why this difference exists. I would think that a more appropriate conclusion from this table is that the issue merits further investigation and that attempts should be made to better understand the reasons for the difference in the two rates with a goal to eliminate the difference.

Once again, thank you for the opportunity for involving us in this audit. The work completed by your team was of a very high standard.

Yours sincerely


Rob Barnett
Chief Executive Officer

cc: Ray Winn – ray.winn@audit.vic.gov.au

V/Line Pty Ltd ABN 29 087 425 269

Auditor-General's response to V/Line

V/Line's Chief Executive Officer commented that the evidence is not strong enough to conclude that there are performance issues in the management and oversight of regional fare evasion. However, section 2.5 of the report clearly sets out a number of performance issues that merit investigation.

V/Line's Chief Executive Officer queried the conclusion reached that the fare evasion survey estimates fare evasion more reliably than the rate derived from the number of records of non-compliance written by authorised officers as a percentage of the tickets checked.

I remain of the opinion that the conclusion is valid because the survey method and its application were robust and there are logical reasons why the survey achieved higher levels of coverage than the authorised officers' checks. Further, this issue was discussed with the public transport operators during the audit.

Auditor-General's reports

Reports tabled during 2012–13

Report title	Date tabled
Carer Support Programs (2012–13:1)	August 2012
Investment Attraction (2012–13:2)	August 2012

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