

# ***Operational Effectiveness of the myki Ticketing System***

Tabled 10 June 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector. The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 10 June 2015, the Auditor-General tabled his performance audit report, *Operational Effectiveness of the myki Ticketing System*.

## Overview

- An effective public transport ticketing system is crucial:
  - in 2005, the state committed almost \$1 billion to develop a smartcard ticketing system—myki
  - existing contract expected to end in 2016
- The audit found:
  - significant delays in implementation and cost increases
  - Public Transport Victoria's (PTV) establishment led to improvements in governance and contractual arrangements
  - significant risks to the state remain
- Urgent action needed to address these risks to avoid perpetuating past mistakes

An effective ticketing system is crucial for Victoria's public transport system.

In 2005, the state committed almost \$1 billion to develop the myki smartcard ticketing system by 2007 to replace the ageing Metcard system and operate myki for 10 years.

We found that myki experienced significant delays and cost increases due largely to deficiencies in the original governance and contractual arrangements.

This has resulted in a poor outcome for Victoria's public transport system and users, which has compromised achievement of myki's original business case objectives and related benefits.

Public Transport Victoria's establishment in April 2012 has improved myki's governance and contractual arrangements. However significant risks to the state remain.

PTV needs to urgently address these issues to avoid perpetuating past mistakes, and to optimise value from the state's significant ongoing expenditure.

## Focus of this audit

### Key areas examined

- Governance and contractual arrangements
- Monitoring of myki's performance
- Realisation of benefits and value for money
- Planning for the myki retender

### Audit scope

- PTV
- Department of Economic Development, Jobs, Transport & Resources (DEDJTR)
- Department of Treasury and Finance (DTF)

We assessed the operational effectiveness of the myki ticketing system by examining:

- myki's governance and contractual arrangements
- if myki's expected outcomes and benefits have been, or are on track to being, achieved.

We also examined the planning for the retender of myki's ongoing operation.

The audit focused on PTV. It also included the Department of Economic Development, Jobs, Transport and Resources (DEDJTR) and The Department of Treasury and Finance (DTF)

## Background

- myki's \$1 billion initial budget covered:
  - developing and operating the system for 10 years
  - Metcard and Transport Ticketing Authority (TTA) costs
- PTV has since assumed responsibility for TTA's functions
- Expected benefits: \$6.3 to \$10.8 million per year
- myki's objectives included:
  - enhancing the community's image of public transport
  - providing best value for money solution
  - being operational at, or shortly after, Metcard's expiry in 2007

Just over half of myki's almost \$1 billion initial budget—around \$520 million—was for establishing the system by 2007 and operating it for 10 years. The remainder was for operating Metcard during the transition, and to cover the former Transport Ticketing Authority's (TTA) related costs.

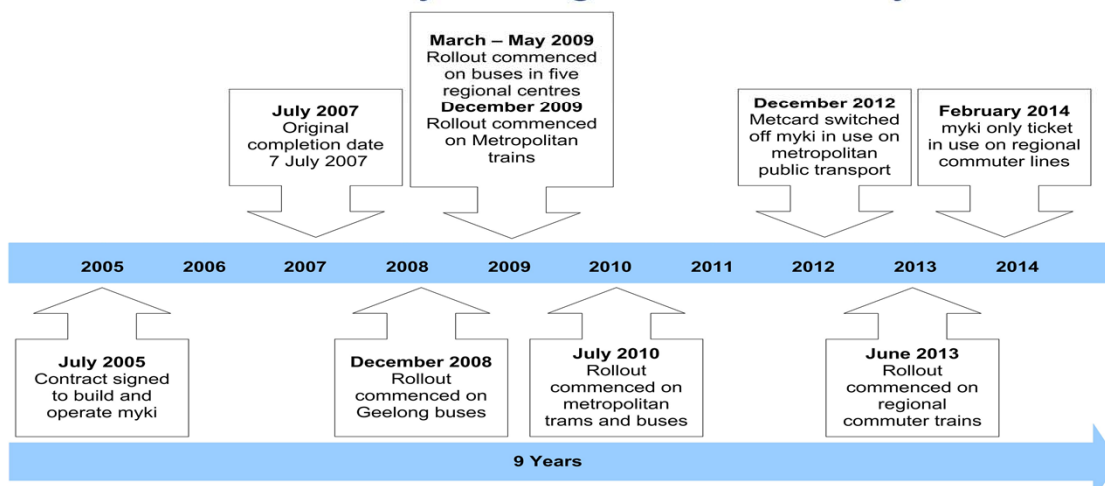
PTV has since assumed responsibility for all of TTA's related functions.

myki was expected to deliver around \$6.3 to \$10.8 million per year in economic benefits and its objectives included:

- enhancing the community's image of public transport
- providing the best 'value-for-money' solution at the lowest whole-of-life cost
- being operational at, or shortly after, Metcard's expiry in 2007.

## Significant delays and unanticipated costs

- Time taken to deliver more than quadrupled
- Additional costs – myki budget increased by \$550 million



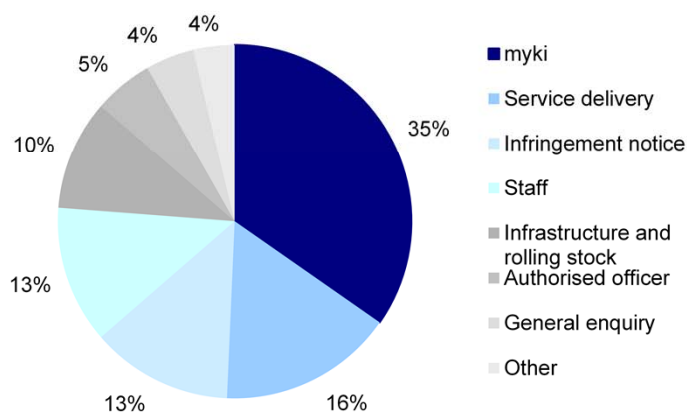
However, there have been significant implementation issues with the system.

Specifically, the time taken to develop and implement myki more than quadrupled from the initial expectation of just two years to in excess of nine years.

Consequently, the state has incurred significant additional unanticipated costs with myki's whole-of-project budget increasing by- around \$550 million or 55 per cent.

## Significant complaints from users

### Public transport complaints and enquiries, 2013–14



- Overcharging most common complaint from users

myki's operational performance has also attracted significant criticism from users.

Complaints about myki represented the highest percentage of public transport complaints in 2013–14.

Overcharging has been by far the single most common complaint.



## Initial governance and contractual arrangements deficient

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- Governance structure poorly defined and implemented
- Deficiencies in the initial contract compromised implementation due to:
  - poorly defined functional requirements
  - lack of flexibility to address underperformance
  - unrealistic delivery
- Contractual amendments significantly curtailed myki's scope, increased its cost and delayed its delivery

**Shortcomings in the initial governance and contractual arrangements compromised myki's intended benefits.**

myki's significant delays and cost increases were largely due to deficiencies in the original governance and contractual arrangements.

Specifically, the roles and responsibilities of key agencies initially charged with myki's development were neither well defined nor effectively implemented.

Additionally, critical deficiencies in myki's original contract impacted initial implementation due to:

- poorly defined functional performance requirements
- lack of flexibility to address contractor underperformance
- unrealistic delivery time frames

These issues led to six contractual amendments that significantly curtailed myki's scope, increased its cost and delayed its delivery.

## PTV does not have a reliable picture of myki's performance

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- Current metrics do not address key aspects of performance
- No framework for assessing myki's overall effectiveness, efficiency and benefits
- PTV does not adequately assure reliability of results reported by the contractor

**PTV needs to strengthen its monitoring of myki prior to awarding the new contract.**

PTV does not yet possess a complete and reliable picture of myki's operational performance because:

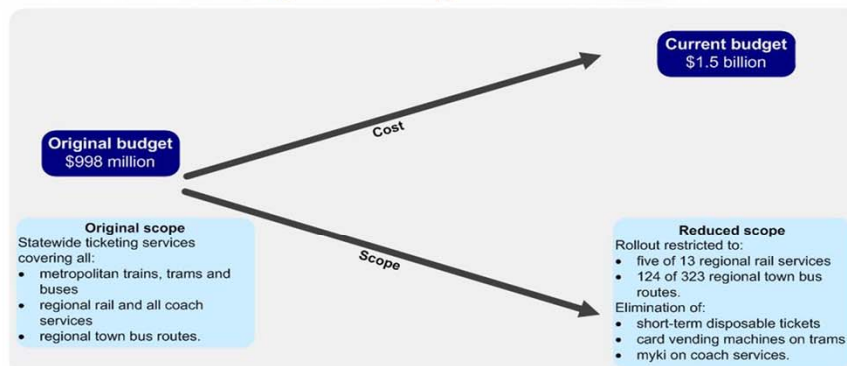
- current metrics in the contract's new performance regime do not address key aspects of performance
- there is no framework for assessing myki's overall effectiveness, efficiency and benefits
- PTV does not adequately assure the reliability of results reported by the contractor underpinning incentive payments.

PTV needs to strengthen its monitoring of myki prior to awarding the new contract.



## myki has not met its original objectives

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- No assessment of benefits achieved
- Cabinet-in-Confidence conventions present barriers

**PTV needs to assess residual benefits achievable and central agencies need to advise government of the constraints posed by Cabinet conventions.**

myki's significant implementation delays, cost increases and reduction in scope mean that it has failed to satisfactorily achieve its original objectives.

None of the agencies responsible for myki have to-date assessed if it has achieved any of its expected benefits—despite previous commitments to the Public Accounts and Estimates Committee in 2012 that this would occur.

Current Cabinet-in-Confidence conventions prevent agencies from accessing the full business case for myki needed to conduct a benefits review.

PTV needs to assess the residual benefits achievable from myki going forward, and central agencies need to advise the government of the constraints posed by Cabinet conventions.

## ■ Ticketing services retender

- Retender occurring under significant time pressure:
  - PTV taking steps to mitigate risk
  - leveraging lessons from previous myki contract
  - absence of any contingency in retender schedule
- Benefits and outcomes not clearly defined

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**PTV needs to clarify the benefits and intended outcomes sought by the retender.**

The myki retender is occurring under significant time pressure.

This means the retender may be resolved after the current contract expires. If this occurs, it risks exposing the state to significant additional costs as the current contract provides no option for further extensions.

PTV is taking steps to mitigate this risk, but it's effective management of the retender will be critical to achieving this.

However, PTV has yet to clearly define the expected outcomes and benefits from the new myki contract.

PTV needs to urgently address this issue as it reduces the transparency of the new contract's impact, accountability for PTV's related performance, and because it may, yet again, compromise achievement of outcomes from this critical system.

## Recommendations

		Accept
That Public Transport Victoria:		
1.	strengthens its performance monitoring arrangements for myki prior to awarding the new contract.	✓
2.	uses its right under the contract to audit and verify the performance data provided by the contractor.	✓
3.	seeks access to the original myki business case in consultation with DPC and: <ul style="list-style-type: none"> <li>conduct a post-implementation review of the myki project against its original objectives and benefits</li> <li>incorporate relevant lessons into the new myki contract as soon as possible and in any future subsequent procurement of public transport ticketing services.</li> </ul>	✓

We have made five recommendations focused on strengthening PTV's monitoring of myki prior to awarding the new contract. We have also recommended that central agencies advise government on the impacts of current cabinet conventions.

## Recommendations

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		Accept
That Public Transport Victoria:		
5.	clarifies the retender benefits and intended outcomes and develops measurable associated indicators.	✓
That the Department of Treasury and Finance coordinates with the Department of Premier and Cabinet to:		
4.	advise the government on the impacts of current Cabinet conventions on the Gateway Review and High Value High Risk framework and related benefits reviews	✓

PTV and DTF have accepted the recommendations, and the Auditor-General will monitor their progress.

## Key messages

**Shortcomings in the initial governance and contractual arrangements compromised myki's intended benefits.**

**PTV needs to strengthen its monitoring of myki prior to awarding the new contract.**

**PTV needs to assess residual benefits achievable and central agencies need to advise government of the constraints posed by Cabinet conventions.**

**PTV needs to clarify the benefits and intended outcomes sought by the retender.**

In summary, shortcomings in the initial governance and contractual arrangements compromised myki's intended benefits

PTV needs to:

- strengthen its monitoring of myki prior to awarding the new contract
- assess the residual benefits achievable from myki, and central agencies need to advise the government of the constraints posed by Cabinet conventions
- PTV needs to clarify the benefits and intended outcomes sought by the retender.



## Overall message

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**PTV needs to urgently address these issues to maximise value from myki and to avoid perpetuating past mistakes**

Although PTV has improved oversight and management of the myki contractor, significant risks to the state remain.

PTV needs to urgently address these issues to maximise value from myki and avoid perpetuating past mistakes.

## Relevant audits

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- *Tendering metropolitan bus contracts (2015)*
- *Coordinating public transport (2014)*
- *Automating Fare Collection; a major initiative in public transport (1998)*
- *Met Card (1990)*

Relevant audits are listed on this slide.

## Contact details

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