

**TAXI FARES FOR  
2000-2001**

**FINAL PRICE DIRECTION**

**JUNE 2000**



**INDEPENDENT COMPETITION AND REGULATORY  
COMMISSION**

## FOREWORD

The Independent Competition and Regulatory Commission has been issued with terms of reference requiring an investigation into:

- the maximum taxi fares for taxi services provided within the ACT for a period of between three to five years; and
- the recommended method or formula as appropriate which may be used.

The Commission is now releasing its Final Price Determination for the year 2000/01.

In making this Determination, the Commission has raised a number of concerns regarding the future regulation of the taxi industry in the ACT and the way that this impacts upon the determination of taxi fares. The Commission is not convinced that the taxi industry price index which has been used in the past is the appropriate model to use. There are a number of limitations with this model, and the Commission has decided that rather than set a five year price path using this model, it will set a one year price path and in the coming year will undertake a major study into the most appropriate method for determining prices in this industry.

The Commission's consideration of an appropriate pricing methodology for the future will largely depend upon the Government's decision on its competition policy review of legislation relating to the regulation of taxis in the ACT. Should the Government decide to deregulate the taxi industry, there will be no further need for price regulation (although some form of price monitoring may be required). However, if the Government decides to continue with some form of regulation, then a pricing model and methodology will need to be agreed. Thus, the Commission proposes to announce a further review into this methodology as soon as Government policy decision is announced.

The price increases determined by this report represent a significant shift in prices for taxi usage. The Commission has expressed some concern about the likely impact of such increases on taxi patronage. The taxi industry may find that, while prices have been increased to reflect cost increases, overall revenue may decline as patronage falls. In these circumstances, the industry may decide not to proceed with the full price increases allowed by the Commission. The industry has the opportunity to price its services below the fares set by the Commission, but can not exceed the rates approved by the Commission.

Paul Baxter  
Senior Commissioner  
9 June 2000

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## 1. INTRODUCTION

The Independent Competition and Regulatory Commission (ICRC) has undertaken an inquiry into taxi fares to apply in the ACT for the 12 month period from 1 July 2000 until 31 June 2001. The terms of reference for this inquiry are included in Attachment 1.

The terms of references establish the tasks to be undertaken by the Commission for this current investigation and the various matters that the Commission is to consider in making this pricing direction. Under the terms of reference issued by the Minister for Urban Services, the Commission is required to consider:

- maximum taxi fares for taxi services provided within the ACT for a period of between three to five years; and
- a recommended method or formula as appropriate which may be used to set these prices.

The Commission has considered each of these issues and has made a number of observations and comments upon how prices should be set and what should be the new fares to take effect from 1 July 2000. The Commission has also had to consider the net impact of the GST on fares and to determine an appropriate price adjustment after allowing for any cost savings that might come from the removal of Wholesale Sales Tax and other indirect taxes as part of the proposed tax reform program.

This Report represents the first formal report by the Commission on taxi fares in the ACT. As such, the Report seeks to raise a number of issues which pertain to the way in which prices should be set for the taxi industry. The Commission has decided not to set a three to five year price path at this time. The Commission is of the view that determination of a longer term price path for the taxi industry in the ACT should await a Government decision on the future regulation of the industry. As part of its Competition Legislative Review program, the ACT Government is currently considering a report into the future regulation of the taxi industry. The policy outcomes from this review will ultimately determine whether there is a need for future regulation of taxi fares in the ACT, and if so the broad parameters of that price setting system. As a decision has yet to be announced by the Government on this review, the Commission has opted to set prices for a further one year period and propose a major review of the price setting methodology to be used in future taxi fare cases, once the Government's policy on the future regulation of the taxi industry is announced.

## 2. INVESTIGATION PROCESS

The release of this Report represents the final stage in a process which is established under the provisions of the *Independent Competition and Regulatory Commission Act 1997*. The Report now represents the Final Price Determination and sets fares for the taxi industry in the ACT to take effect from 1 July 2000.

The process under which the Final Determination has been prepared has involved the following stages:

	<b>Date</b>
Draft Direction	5 May
Deadline for comments on Draft Direction	2 June
Final Direction	9 June

### 3. SUMMARY OF PRICE DIRECTION

The Price Direction sets taxi fares to apply in the ACT for a period of 12 months from 1 July 2000. These fares incorporate:

- a) a 7.71 percent increase in average taxi charges based on cost increases over the last 12 months;
- b) a net 7.85 percent GST adjustment after allowing for cost savings from the ANTS package;
- c) flag fall, radio fees and waiting time charges to be adjusted to reflect these cost changes with the new rates to be:

Flag fall	\$3.20 (Rates 1 and 2)
	\$2.40 (Rates 3 and 4)
	\$4.80 (Rates 5 and 6)
Waiting time	\$27.00 per hour (\$0.45 per minute)
Radio fee	\$0.65

- d) changes in the variable kilometre rates, such that the new rates will be:

Rate 1	\$1.193 per kilometre
Rate 2	\$1.372 per kilometre
Rate 3	\$0.863 per kilometre
Rate 4	\$0.998 per kilometre
Rate 5	\$1.852 per kilometre
Rate 6	\$2.121 per kilometre

- e) the above rates include the net GST adjustment after allowing for cost savings from ANTS.

#### **4. STATUTORY REQUIREMENTS AND REGULATED SERVICES**

Under the ICRC Act 1997, the Commission is required to have regard to a number of issues in making a price direction. These include:

- the protection of consumers from the abuse of monopoly power...
- standards of quality, reliability and safety...
- the need for greater efficiency...
- an appropriate rate of return...
- the cost of providing the regulated services...
- the principles of ecological sustainable development...
- the social impacts of the decision...
- considerations of demand management and least cost planning...
- the borrowing, capital and cashflow requirements...
- the effect on general price inflation over the medium term; and
- any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person<sup>1</sup>.

The terms of reference issued by the Minister for Urban Services has identified ‘taxi fares in the ACT’ as the specified regulated service. Previously taxi fares have been set by the Minister with the taxi industry making submissions to the Minister for fare changes. A form of ‘cost index’ has been used to assess variations in taxi operating costs over time. This index has been used for more than 10 years, and fares have been adjusted on a regular basis using this index. In this report, the Commission has raised a number of questions about the continued use of the index in its present form.

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<sup>1</sup> Australian Capital Territory, *Independent Competition and Regulatory Commission Act, 1997*, S20(2).

## 5. ISSUES CONSIDERED BY THE COMMISSION

Under Part IV of the ICRC Act, the Commission in completing a Determination is required to consider a number of factors and indicate what regard it has had to each factor. The Commission's assessment of each of the Part IV factors is detailed below.

### 5.1 Costs and Efficiencies

Under Part IV of the ICRC Act, the Commission in completing a determination is required to consider the cost and efficiency factors, as detailed below:

- *the cost of providing the regulated services (Part IV 20.(2e));*
- *the need for greater efficiency in the supply of regulated services to reduce costs to consumers and producers (Part IV 20.(2c));*
- *any arrangements that a person providing the regulated services has entered into for the exercise of its functions by some other person (Part IV 20.(2k)).*

#### 5.1.1 Operating Costs

The setting of taxi fares in the ACT has relied upon the use of a 'taxi cost' index. The index was initially developed by the Taxi Industry Advisory Council, an advisory body to the ACT Government. The index is comprised of a number of cost items associated with the operation of a taxi. It is not intended to provide an estimate of the **actual** cost of operating a taxi in the ACT, but rather seeks to **measure the movement in these operating costs over time**. To the extent that a taxi operator covers more or less distance than that assumed in the construction of the index, the overall operating costs will differ from those represented in the index. Similarly, the revenue generated by an individual operator will vary depending on the number of hours the taxi is on the road, the ability of the taxi driver to obtain work, the wider economic conditions, and the influence of external factors such as general weather conditions on the demand for taxis.

By not seeking to replicate the actual total costs and revenue outcomes that an average taxi can expect to face, the use of a taxi fare index of the type used in the ACT, avoids the complicated questions of asset value, the number of kilometres travelled in flag fall and non-flag fall mode, and the availability of individual drivers to compete for the available work at any particular time of the day. The composition of the index does seek to give some recognition to the actual breakdown of costs by a taxi travelling an average number of kilometres. It is important that the relative contribution of each of the operating cost components approximate that which is incurred by individual taxis. However, as the index seeks to measure movements on a year on year basis, it is important that the composition of the index remain the same

over time, with any major restructuring of the index requiring an appropriate linking adjustment procedure. There has not been any attempt to alter significantly the composition of the index since its inception over a decade ago.

The form of the taxi index as currently used is that it provides a current period weighted index. Thus, to the extent that there are changes in the relative contribution of individual cost components to the total index, these changes are reflected in the index results.

The submission from the ACT taxi industry through Aerial Taxi Cabs Co-operative Society Limited (Canberra Cabs) summarise the comparative ‘costs’ used in the taxi industry price index. These details are provided in Table 5.1. The index is based upon actual costs for the period 1999/2000, compared to actual costs for the period 1998/99. As noted above, the costs shown in Table 5.1 do not purport to be the actual costs incurred by any individual operator, but rather represent an indicative cost structure.

**Table 5.1: Taxi Industry Prices Index Comparative Cost Table 1999 and 2000**

Item	1999 Costs	2000 Costs	Percent Change
<b>1. Fixed Costs</b>			
1.1 Depreciation	6636	6811	2.64
1.2 Registration costs	5169	5804	12.28
1.3 Driver's licence	22	22	0.00
1.4 Comprehensive insurance	6539	6653	1.74
1.5 Illness and accident insurance	1803	1432	-20.58
1.6 Workers' compensation insurance	1190	843	-29.16
1.7 Superannuation	3528	3755	6.43
1.8 Base fees	<u>10524</u>	<u>11076</u>	<u>5.25</u>
<b>Sub Total</b>	<b>35411</b>	<b>36396</b>	<b>2.78</b>
<b>2. Variable Costs (Non-Labour)</b>			
2.1 Fuel	12204	16524	35.40
2.2 Tyres	1952	1800	-7.79
2.3 Repairs and Maintenance	14279	16439	15.12
2.4 Miscellaneous	<u>2618</u>	<u>2681</u>	<u>2.41</u>
<b>Sub Total</b>	<b>31053</b>	<b>37444</b>	<b>20.58</b>
<b>3. Variable Costs (Labour)</b>			
3.1 Labour	88884	94600	6.43
<b>Total Cost</b>	<b>155348</b>	<b>168440</b>	<b>8.42</b>

Source: Canberra Cabs Submission.

In its submission to the Commission, Canberra Cabs has noted the following changes in the cost components of the index:

- depreciation – increase in costs reflect increased vehicle costs;
- registration – increase reflects increase in Government related registration changes;

- comprehensive insurance – increase reflects the increase in the price of a new vehicle;
- illness and accident insurance – decrease due to a decrease in the average rate of the premium;
- workers' compensation insurance – decrease reflects a competitive move in the market to reduce rates;
- superannuation – increase reflects the increase in wages;
- Aerial Co-operative base fees – increase reflects the change in operating costs for the dispatch of radio controlled vehicles and reflects the increase in costs over two years since there was the last increase in base fees less elements of costs associated with the purchase of Cabcharge shares and the cost of GPS equipment which has already been included in previous flag fall charges;
- fuel – significant increase reflects increase in LPG prices;
- tyres – decrease reflects a reduction in the manufacturer's retail prices;
- repairs and maintenance – has increased in line with increases in the market for motor vehicle repairs and maintenance activities;
- miscellaneous costs – reflects the increase in the Canberra All Groups CPI;
- labour – increase reflects increase in the Average Weekly Earnings – Full Time Adults (Ordinary Time Earnings) for the ACT as published by the Australian Bureau of Statistics.

The Commission has examined each of the cost components included in the taxi price index. The sources of data have been cross checked to ascertain whether the proposal presented by Canberra Cabs represented a reasonable estimate of the index components.

The major cost increases have been recorded in:

- registration costs;
- fuel;
- repairs and maintenance;
- labour (including superannuation).

Registration cost increases primarily reflect increases in changes introduced by the ACT Government and under the provisions for third party personal insurance which are a compulsory component of registration costs. The proposed increases appear to be consistent with the cost increases that have occurred.

Fuel increases reflect changes in the retail price of LPG over the 12 months 1999/2000. There is evidence that fuel prices have increased considerably over the last 12 months and are likely to continue to increase in the short term. The 35.40 percent increase is consistent with movement in the retail price of LPG over the 12 month period. Over the same period, retail prices for non leaded petroleum in the ACT have increased by a similar amount. Thus, the Commission has accepted the cost increase that is proposed in this component in the index.

Repairs and maintenance costs are comprised of an extensive list of replacement parts and standard repairs that can be expected to be undertaken over time. The repair and maintenance expenses are based on information obtained from motor vehicle repairers and spare parts outlets around Canberra. Similar suppliers have been used for each year the index is prepared, and thus there is reasonable comparability in the data between years. These repairs and maintenance costs are calculated on the basis of replacement or repairs after a certain number of kilometres. Not all costs are annual, but a portion of these costs is included in the index where the expenditure is required after more than one year.

In checking the calculations prepared by Canberra Cabs, the Commission found some computational errors made in the calculation of the total cost. Essentially Canberra Cabs had incorrectly included twice the value of certain periodic repair costs in the index when in fact these costs would have only been incurred every two years (thus only 50 percent of the cost would have been included in the index for the year 2000).

After making an adjustment, for these computational errors, the total expenditure on repairs and maintenance was reduced from \$16,524 as shown in Table 5.1 to \$15,324. Thus, instead of this cost item increasing by over 15 percent as proposed by Canberra Cabs, this item grows by 7.32 percent.

Labour costs (including superannuation) have been increased based on the increase in Average Weekly Earnings – Full Time Adults (Ordinary Time Earnings – ACT)<sup>2</sup>. These costs changes have been accepted.

Table 5.2 provides a revised summary of the price index costs after the adjustments outlined above.

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<sup>2</sup> Australian Bureau of Statistics, No 6302.0, November 1999 on November 1998.

**Table 5.2: Taxi Industry Prices Index Amended Comparative Cost Table**

Item	1999 Costs	2000 Costs	Percent Change
<b>1. Fixed Costs</b>			
1.1 Depreciation	6636	6811	2.64
1.2 Registration costs	5169	5804	12.28
1.3 Driver's licence	22	22	0.00
1.4 Comprehensive insurance	6539	6653	1.74
1.5 Illness and accident insurance	1803	1432	-20.58
1.6 Workers' compensation insurance	1190	843	-29.16
1.7 Superannuation	3528	3755	6.43
1.8 Base fees	<u>10524</u>	<u>11076</u>	<u>5.25</u>
<b>Sub Total</b>	<b>35411</b>	<b>36396</b>	<b>2.78</b>
<b>2. Variable Costs (Non-Labour)</b>			
2.1 Fuel	12204	16524	35.40
2.2 Tyres	1952	1800	-7.79
2.3 Repairs and Maintenance	14279	15324	7.32
2.4 Miscellaneous	<u>2618</u>	<u>2681</u>	<u>2.41</u>
<b>Sub Total</b>	<b>31053</b>	<b>36329</b>	<b>16.99</b>
<b>3. Variable Costs (Labour)</b>			
3.1 Labour	88884	94600	6.43
<b>Total Cost</b>	<b>155348</b>	<b>167325</b>	<b>7.71</b>

Source: ICRC analysis.

In its submission on the Commission's Draft Price Determination, Canberra Cabs has argued that in assessing the overall increase in prices, the Commission should be prepared to accept information on anticipated price increases to take effect from 1 July 2000. Canberra Cabs argues that this would be consistent with the treatment of anticipated cost savings from the Federal Government's *A New Tax System (ANTS)* tax package to take effect from 1 July 2000.

Use of the taxi industry price index in setting future fare levels is premised on the assumption that fare levels will be adjusted to take account of the actual cost increases that have been incurred in the current period over the previous period. The index is not a forward looking price indication, but rather a measure of actual prices in one period over another.

In this process, the adequacy of the current fare levels to allow the taxi industry to cover all its costs and make an appropriate return on its investment is not considered as part of the process of using a simple price index such as the taxi industry price index.

Measuring movements in costs using a price index requires clear and precise definition of just what is the period over which price movements are to be measured. To incorporate more than 12 months worth of price movement into the price index would clearly create confusion over just what the price index is intended to represent. Alternatively, the price index could be based upon known prices as at 1 July 1999 and those known for 1 July 2000. However, the industry has not provided information on

such prices. Furthermore, as this would represent a discontinuity of the index from previous years, the Commission would be concerned to ensure that such a change did not introduce some form of bias into the results.

The comments made by the industry serve to highlight the problems associated with the use of a price index to set taxi fares. The Commission also has its own concerns with the continued use of this index, and discusses further below possible adoption of a new approach.

The industry's comments are also made in the context of the Commission's deliberations on the net impact of the GST on costs and final prices. This issue is discussed under Section 5.2.2 below. However, it is important to note that in making adjustments for the anticipated cost savings from the ANTS/GST package, the Commission has been careful to differentiate between the underlying cost increases as identified by the taxi industry price index, and the projected cost savings from the ANTS/GST package. These latter cost reductions, as for all other regulated businesses, have to be estimated using various modelling techniques. This approach is not unique to the taxi industry and reflects expecting cost savings likely to flow throughout the economy from the removal of Wholesale Sales Tax, changes to various excise taxes, and removal and modification to a range of other State and Federal indirect taxes.

### **5.1.2 Efficiency Gains**

Efficiency gains are included in the taxi industry price index to the extent that there are efficiency savings in the individual cost components. Thus, for example, there are some components of the repairs and maintenance cost category where there have been cost savings since 1999. To the extent that efficiencies occur in suppliers to the taxi industry, these efficiencies are reflected in the index.

However, to the extent that efficiencies arise in the operation of the taxis themselves, these efficiencies are not reflected in the taxi cost index. For example, efficiencies in the location of taxis through better radio and vehicle location technology is not reflected in the index in its present form. Rather, the additional cost of such technology is included in the taxi cost index through the radio costs and taxi base changes which incorporate these new technology costs. To the extent that taxis are more readily able to respond to calls from the general public, there is a benefit that is transferred to taxi users. However, to the extent that taxi operators are able to improve their general profitability through greater operating efficiency such as through less non flag fall travel and associated operating costs between fares, there is no opportunity for these efficiency gains to be passed through to taxi users. In a competitive market in which prices were set by direct competition between taxi operators, these cost saving benefits would ultimately flow through to taxi users.

The Commission is not convinced that the use of a taxi cost index is necessarily the best mechanism for determining prices which reflect efficient operating costs. The

Commission recognises the reasons why a cost index of the type used has been adopted to date. However, the Commission intends to explore further other alternatives or variations to the cost index with the objective of encouraging greater efficiency in the operation of taxis in Canberra and the pass through of efficiency savings to consumers by way of lower taxi fares.

The National Competition Council (NCC), in a Discussion Paper issued on 29 May 2000<sup>3</sup> has questioned the continuation of the existing regulation of taxis, and in particular the regulation of the number of taxi plates on issue. The NCC has argued that ‘the massive cost of licences adds around one third to an average taxi fare’<sup>4</sup>.

Canberra Cabs has challenged the conclusions drawn by the NCC. Canberra Cabs has argued that where price deregulation has occurred and prices are set by direct competition between taxi operators, taxi users have not benefited from efficiency gains. Rather it is argued that taxi fares have increased and service levels have fallen<sup>5</sup>.

It is not the purpose of this Price Direction to argue the pros and cons of the deregulation of the taxi industry. However, the Commission notes that the ACT Government currently has before it a report under its National Competition Legislative Review program which considers various options regarding the future regulation of the taxi and hire car industry in the ACT. A decision on this report will ultimately determine the likely structure and future direction of the taxi and hire car industry in the ACT over the next decade.

While the Commission has not been privy to the findings of this as yet unreleased report, it seems reasonable to assume that the range of options considered by the report range between maintaining the status quo through to complete deregulation of the industry. The Government has already shown a propensity to increase the number of taxi plates on issue and this could be seen not to be inconsistent with the NCC observation that one option would be a staged reform program involving the gradual introduction of increasing competition through the progressive release of more taxi licences.

Aside from a complete deregulation of the industry which would remove the need for future price determinations by the Commission, any other option adopted by the Government will require some form of pricing regulation, at least in the short to medium term. The form of this price regulation, however, may need to be modified to suit the nature of the particular reform package (if any) the Government ultimately approves. Thus, for future price determinations, the Commission needs to be prepared with a price setting methodology that suits the particular form of regulation adopted across the taxi industry as a whole, and that meets the objectives contained in the

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<sup>3</sup> *Improving our Taxis*, National Competition Council, Autumn 2000.

<sup>4</sup> Press Statement, Mr Graeme Samuel, President, NCC, 29 May 2000.

<sup>5</sup> Submission from Canberra Cabs, 16 May 2000.

pricing guidelines set in legislation for the Commission, not the least of which is to ensure greater efficiency in the supply of taxi services.

To this end, the Commission proposes to initiate an inquiry into the appropriate price setting methodology that should be used in future price determinations. Details will be announced later in the current year after the Government has announced its decision on the future regulation of taxis.

## **5.2 Consumer Protection**

Under Part IV of the Act, the Commission in completing a determination is required to consider the consumer protection factors as detailed below:

- *the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of regulated services (Part IV 20.(2a));*
- *standards of quality, reliability and safety of the regulated services (Part IV 20.(2b));*
- *the social impacts of the decision (Part IV 20.(2g));*
- *the effect on general price inflation over the medium term (Part IV 20.(2j)).*

### **5.2.1 Pricing**

In determining fares to take effect from 1 July 2000, the Commission has to give consideration to the break up of fares between the various components. These components are:

- flag fall;
- distance related charge;
- booking fee;
- waiting time.

Taxi mileage rates in Canberra are currently structured such that a higher rate applies to travel undertaken after 9pm and prior to 6am. The objective is to encourage taxis to be available at these ‘after hour’ times when there is potentially less demand for taxis. Different mileage rates also apply to multiple hiring of a vehicle, and for passengers using maxi cabs having six or more passengers.

Current changes are summarised in Table 5.3.

**Table 5.3: Current Taxi Charges**

Flag fall	\$2.90
Flag fall (multiple hiring)	\$2.25
Booking fee	60 cents
Waiting time	\$24 per hour (40 cents per minute)
Ordinary hiring	
Rate 1 (6.00am to 9.00pm)	\$1.005 per km
Rate 2 (9.00pm to 6.00am)	\$1.16 per km (15% premium on Rate 1)
Multiple hiring	
Rate 3 (6.00am to 9.00pm)	75% of ordinary mileage rate { 75.1 cents per km
Rate 4 (9.00pm to 6.00am)	86.3 cents per km
Maxi cab hiring (6 passengers or more)	
Rate 5 (6.00am to 9.00pm)	150% of ordinary mileage rate { \$1.5075 per km
Rate 5 (9.00pm to 6.00am)	\$1.74 per km

Source: Canberra Cabs.

In seeking an increase in taxi fares in recognition of an increase in operating costs, Canberra Cabs is proposing that the flag fall, radio fee and waiting time charge all remain unchanged<sup>6</sup>. Thus any increase in fares should apply to the distance rate. The way that this rate is determined is to calculate a total fare based on an average distance travelled and including a flag fall, radio fee and waiting time element, and to increase this fare by the proposed percentage cost increase. Essentially the formula works thus:

$$(A + (8.8 \times B) + C + D)r$$

where:

- A is the flag fall, currently \$2.90
- B is the Rate 1 distance fares, currently \$1.005
- C is the waiting time for one minute
- D is the radio fee
- r is the proposed fare increase

The 8.8 average trip kilometres used in the formula is based on observation of the average distance travelled by taxis in Canberra with their meters on. The final fare outcome could be highly sensitive to changes in the average distance travelled used in the fare formula. The 8.8 kilometre average has been used in previous years, and for purposes of adjusting fares from one year to another, the average distance travelled should remain constant whatever the value adopted. From observation the 8.8 kilometre average is not inconsistent with distances travelled by taxis in Canberra when engaged.

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<sup>6</sup> In its submission on the Draft Determination, Canberra Cabs proposed that the flag fall rate for Rates 3, 4, 5 and 6 should also be varied by the 75 percent or 150 percent adjustment mechanism used to determine the final mileage rates for these fare categories.

Table 5.4 provides a summary calculation of the fare structure assuming an increase of 7.71 percent as outlined in Table 5.2.

**Table 5.4: Possible Fare Structure**

<b>Current Fare Structure</b>	
Flag fall	\$2.90
Kilometre rate – Rate 1	\$1.005 per kilometre
Waiting time	\$24 per hour (40 cents per minute)
Phone booking charge	60 cents
Average distance travelled	8.8 kilometres
Average fare	$\$2.90 + 8.8 \times 1.005 + 40c + 60c = \$12.74$
<b>Proposed New Fare</b>	<b><math>\\$12.74 \times 1.0771 = \\$13.72</math></b>
<b>Fare composition</b>	
Flag fall	\$ 2.90
Waiting time	\$ 0.40
Radio fee	\$ 0.60
Kilometre rate – Rate 1	$\$ \underline{9.82} = \$1.12$ per kilometre
	\$13.72

Source: ICRC analysis.

Adoption of the formula producing a Rate 1 kilometre rate of \$1.12 equates to an increase in the Rate 1 per kilometre rate of 11.4 percent. Commensurate rate adjustments would apply to the other rates. However, the Commission must consider whether or not there should be some adjustment to the other components of the total fare rather than the increase fall totally on the distance component.

The flag fall rate is a fixed charge which theoretically should represent the fixed costs incurred in having taxis available for hire. While not wanting to test whether the current flag fall rate represents an appropriate charge in itself, it is relevant to note the relative flag fall rates as they apply in other States (see Table 5.5).

**Table 5.5: Flag Fall Rates in Other States**

ACT	\$2.90
NSW	\$2.20
Victoria	\$2.60
South Australia	\$2.10/\$4.00
Queensland	\$2.00/\$3.10
Tasmania	\$2.40
Western Australia	\$2.50/\$3.60

Source: Canberra Cabs.

The NSW rate represents a special example where the rate was reduced by \$1 reflecting concerns regarding service standards. In South Australia, Queensland and Western Australia a higher flag fall rate applies for after hours taxi hire. This usually applies between 9pm and 6am.

The flag fall rate in Canberra is already at the higher end of the spectrum by comparison with other States (excluding after hours fares). This does not suggest that the rate in Canberra is inappropriate, but rather serves to highlight the concern within the Canberra taxi industry that any increase in the flag fall rate could discourage future taxi patronage. With taxi hirings already showing signs of decline in the ACT, the industry’s concern is understandable.

The taxi price index does not provide a good indication of what adjustment should be made to the flag fall rate. However, if this was also increased by 2.78 percent which is equivalent to what is called the ‘fixed costs’ in the index, then in round terms, the flag fall rate could be increased to \$3.00. This would have the result of reducing the per kilometre rate (Rate 1) from \$1.12 per kilometre to \$1.105 per kilometre, or an increase of 9.9 percent on the current rate.

The radio fee is also an area where some change could be made in the charge. The base fees represent 6.6 percent of the total costs calculated by the taxi index and have increased by 5.25 percent in the current index (see Table 5.2). Table 5.6 below provides a comparison with radio fees charged in other States.

**Table 5.6: Radio Fees in Other States**

ACT	\$0.60
NSW	\$1.00
Victoria	\$1.00
South Australia	Nil
Queensland	\$0.80
Tasmania	Nil
Western Australia	Nil

Source: Canberra Cabs.

The radio fee in the ACT at 60 cents is around the average for the industry, but less than in some States where it is as high as \$1.00. If the base fee cost increase shown as 5.25 percent in Table 5.2 was to be adopted, the radio fee could be increased to 63 cents. Again, this would have the effect of making a small difference to the per kilometre rate, although the actual difference is insignificant. However, if the call fee was increased to \$1.00 as in NSW and Victoria, the per kilometre rate increase could be reduced to 6.5 percent.

Waiting time charges in the ACT are commensurate with rates in other States with the exception of NSW where the charge is \$34.80 per hour. Waiting time is a factor of both labour costs and lost productive time. If the labour cost in the taxi cost index is used as a proxy for this cost increase, waiting time could be increased by 6.43 percent (see Table 5.2) to \$25.50 per hour (or 42.5 cents per minute). Again, this would have a marginal impact on the per kilometre rate.

## 5.2.2 GST Impact

The price outcomes discussed in Section 5.2.1 are exclusive of the impact of the GST on taxi fares. From 1 July 2000, a GST at a rate of 10 percent will apply to the total taxi fare, and this will increase all components of the total fare. The Australian Competition and Consumer Commission (ACCC) has the powers under the *Trade Practices Act 1974* to ensure that any price increase attributed to the introduction of the GST concurs with the Federal Government's objective that the tax is calculated as 10 percent of the cost of the good or service, and that any cost saving achieved by the supplier of the good or service as a result of the removal of other indirect taxes (such as Wholesale Sales Tax) or changes to taxes such as fuel excise, be fully reflected in the net price adjustment. Under an agreement between the ACCC and State jurisdictional regulators including the Independent Competition and Regulatory Commission, the jurisdictional regulators have responsibility for ensuring that the net adjustment in regulated prices set by the jurisdictional regulator, meet the intent of the provisions of Section 75AU of the *Trade Practices Act*.

Queensland Transport has appointed PricewaterhouseCoopers to prepare a methodology for use by the taxi industry for calculating the likely cost savings from the proposed tax savings under the Federal Government's ANTS package and to calculate the net GST impact. In its submission to the Commission, Canberra Cabs has argued that the net GST inclusive increase, after allowing for cost savings, should be 8.21 percent. The Commission has sought to check these estimates to arrive at an appropriate net GST adjustment for fares. The Commission notes the cost savings estimated by Canberra Cabs are based on the taxi price index results presented in Table 5.1. As previously discussed these contained some arithmetic errors which were corrected in Table 5.2. Thus some modification to these results are warranted.

Upon examining the estimates prepared by Canberra Cabs, the Commission has ascertained that while direct WST savings have been identified, other embedded cost savings from suppliers have not been recognised. Thus the cost savings estimated by the industry require further consideration in order to meet the ACCC guidelines and legislative requirements. The Commission also notes that the main cost savings have been derived from estimates prepared by PricewaterhouseCoopers. The Commission has examined these estimates and is prepared to accept them as the direct WST related cost savings. However, the Commission believes that the PricewaterhouseCoopers model as provided to the taxi industry has not been fully implemented in the submissions from Canberra Cabs. Accordingly the Commission has prepared its own estimates of the additional cost savings which it believes should be included to capture in particular, the embedded cost savings that should be realised in 2000/01.

Table 5.7 provides a summary of the submission on cost savings provided by Canberra Cabs and the adjustments made by the Commission in arriving at an estimate of the likely cost saving. The cost estimates presented in Table 5.7 are based on the taxi cost index as outlined above. They represent projected cost savings that will arise from the introduction of ANTS. It is important to note that these projected

cost savings do not attempt to take account of any other changes in costs as a result of other factors impacting on prices in the economy, for example interest rate rises, exchange rate changes and underlying inflation levels. These other factors are effectively provided for through the use of the taxi industry price index.

**Table 5.7: Estimated Savings from ANTS Tax Reforms**

Cost Items	2000 Costs <sup>(a)</sup> Estimate	Canberra Cabs Submission		Commission's Revised Estimates	
		% Cost Saving	Estimated Cost	% Cost Saving	Estimated Cost
Depreciation	6,811	-8.5%	6,231	-8.5%	6,231
Registration costs	5,804	-	5,804	-0.9%	5,754
Driver's licence	22	-	22	-	22
Comprehensive insurance	6,653	-	6,653	-1.0%	6,586
Illness and accident insurance	1,432	-	1,432	-1.0%	1,418
Workers' compensation insurance	843	-	843	-1.0%	835
Superannuation	3,755	-	3,755	-	3,755
Base fees	11,076	-	11,076	-0.8%	10,987
Fuel (LPG)	16,524	-	16,524	-2.5%	16,111
Tyres	1,800	-17.0%	1,494	-17.0%	1,494
Repairs and Maintenance	15,324 <sup>(b)</sup>	-11.2%	13,605 <sup>(b)</sup>	-11.2%	13,605
Miscellaneous	2,681	-	2,681	-1.0%	2,654
Labour	94,600	-	94,600	-	94,600
<b>Total</b>	<b>167,325</b>	<b>-1.56%</b>	<b>164,720</b>	<b>-1.96%</b>	<b>164,052</b>

(a) From Table 5.2

(b) Adjusted to reflect arithmetic error in original submission from Canberra Cabs.

Source: Commission analysis.

Adjustments made by the Commission after consideration of modelled cost saving information available to the Commission and to the ACCC have been:

- an allowance of one percent cost saving on Third Party Personal Insurance costs (under registration costs);
- an allowance of one percent cost saving on Comprehensive Insurance costs, Illness and Accident Insurance costs, and Workers' Compensation costs;
- an allowance of 0.8 percent cost saving on Base Fees (equivalent to a reduction of around 1.6 percent on base costs exclusive of labour);
- an allowance of 2.5 percent cost saving on LPG representing underlying projected cost savings for the petroleum and LPG industry; and
- an allowance of one percent cost saving on miscellaneous charges which are primarily vehicle cleaning and various administrative costs.

The cost saving calculated in Table 5.7 represents a 1.96 percent saving on the taxi industry price index based on the index cost estimates for 2000. This is equivalent to a

net GST price increase of 7.85 percent by comparison to the industry's proposal for a 8.21 percent net increase.

### **5.2.3 Quality, Reliability and Safety**

The Commission notes that under an existing Services Agreement with the ACT Government, the taxi industry in the ACT is required to meet certain minimum standards as regards quality, reliability and safety. The industry has been particularly proud of its performance under this contract, in particular its achievement in meeting response times to telephone bookings for taxis. The Commission notes that there has been some conjecture regarding the actual performance of the industry in terms of this performance indicator. As part of its next review of the industry, the Commission will be inviting further comments on this issue. However, at this time the Commission notes that it has no evidence to suggest that these performance criteria have not been met, notwithstanding anecdotal evidence of difficulties in obtaining taxis late at night from Civic and other central areas, and concerns about the availability of taxis from the airport at certain peak times. These issues to the extent that hard evidence exists, should more appropriately be considered by the Government as part of its response to the Legislative Review on taxis that it currently has before it.

### **5.2.4 Social Impacts**

In submissions made on the Draft Determination, the Commission has been reminded of the importance of taxi transport to certain groups within the community. The ACT Disability Advisory Council has noted the particular impact steep price rises in taxi fares will have upon people with disabilities, particularly those that are dependent upon public transport and for whom buses are not a satisfactory alternative.

The Commission has also been reminded of the difficulties faced by less affluent members of the community (including pensioners) and those for whom taxi travel is a necessity but not able to be reimbursed as a business related expense. Price increases of the order of 7.71 percent on top of a net GST increase of 7.85 percent will clearly be seen as being possible deterrents to their future use of taxis.

The Commission is conscious of the significance of the price increases being contemplated. Not only might these price increases create difficulties for certain groups in the community, but they may also result in an overall reduction in fare revenue collected by the taxi industry as consumers are encouraged to use other forms of transport. These other options can include buses or private car travel.

The GST represents a significant proportion of the fare increases being considered by the Commission. Cost savings have been estimated, and the net GST increase of 7.85 percent is not significantly different from the net eight percent GST increase that has been approved by the Commission for ACTION buses. This proposed net GST increase is less than the full 10 percent which will apply across most goods and

services throughout the economy from 1 July 2000. Thus, in a relative sense, the increase for GST is not likely to change the relative cost position.

However, the Commission is conscious of the possible relative price advantage that might now be given to private car transport, with new car prices set to record some relative price reduction (although the motor vehicle industry is claiming that most of these cost savings have already been passed through) and petrol prices arguably to remain unchanged after adjustments by the Federal Government to the excise rate. In these circumstances, the taxi industry may wish to consider whether its best interests are served by combining a large underlying cost based price rise with a significant price rise as a result of the GST.

Both the Federal and ACT Government's have various income support and special category concession arrangements in place which are designed to assist groups within the community who have special transport or income support needs. The Federal Government's income tax and pension/welfare scheme adjustments after 1 July 2000 are designed to compensate for the GST effect. However, for price increases beyond the projected 2.5-3 percent CPI increase (exclusive of GST) that is factored into the Federal Government's welfare payments program, there is no ready funding support.

At the ACT Government level, the Taxi Subsidy Scheme (TSS) which is designed to assist people with permanent or temporary disabilities who need to use taxis, is currently under review. Any final decision upon the form that this Scheme might take in the future will need to consider the new fares that are to apply beyond 1 July 2000.

In reaching a final decision upon the level of these new fares, the Commission is mindful of the impact of these fares upon special groups within the community. While seeking to ensure that any approved price rises are justifiable in terms of efficient pricing principles, the Commission is also wary of setting prices at an artificially low level as a means of ensuring that certain special groups can continue to afford access to the service involved. It is more appropriate that, where hardship cases exist, that the ACT Government provide special support programs such as the TSS, and that these programs be reviewed in the context of changes in prices that are endorsed by the Commission.

### **5.2.5 Price Inflation Effects**

The effects of the proposed taxi fare price increases upon inflation in the ACT will be a combination of the GST effect, and the underlying price changes. The ACT Government has already indicated that it expects the underlying inflation level in the ACT over the next 12 months to be of the order of 2.5 to three percent. This is after netting out the impact of the GST adjustment. A proposed average increase in taxi fares of the order of 7.71 percent is more than double the average anticipated rate of inflation within the Territory. It is also significantly higher than the price increase in ACTION fares approved by the Commission.

Taxi fares represent only a very small part of the basket of goods used to calculate the official CPI for the ACT. Advice from the Australian Bureau of Statistics is that taxi charges account for about 0.32 percent of the total basket of goods included in the CPI. Thus, the net effect upon inflation in the ACT of the price increases being proposed will be minimal. However, there will be a demonstration effect which may encourage other businesses to increase prices (aside from any GST induced increase) at a rate above the general inflation rate (excluding the GST).

The Commission has been mindful of this demonstration effect, but believes that market forces will generally act to restrict any flow on of this increase to other prices (other than prices likely to be charged by hire cars). Consumer resistance to the size of the price increase may also cause the taxi industry to re-evaluate their pricing arrangements within the cap set by the Commission, assuming that the pattern of falling patronage that has been evident over recent years is reinforced by a price increase of the magnitude under consideration.

### **5.2.6 Canberra Airport Charges**

Since the preparation of the Draft Report, Canberra Airport has instituted a \$2 per vehicle charge for taxis which use the feeder rank at the airport to pick up passengers. It is argued by Canberra Airport that this charge represents a recouping of costs associated with the construction of facilities for taxis to wait and pick up passengers from arriving aircraft. A charge currently does not apply to passengers being dropped off at the airport.

The \$2 charge is passed directly through to taxi passengers, and is treated for recovery purposes in the same way as a toll. No similar charge is made elsewhere in the ACT, although some other airports in Australia are making similar charges.

Canberra Cabs is also being 'charged' an additional fee by Canberra Airport for 'services' associated with having taxis pick up from the airport. This charge is subject to some dispute between Canberra Cabs and the airport owners.

Responsibility for charges made at the airport lies with the ACCC. The ACCC is currently treating the \$2 taxi charge as part of the 'aeronautical services charge' which is regulated in total by the ACCC but the individual components are not separately determined or examined by the ACCC. Significantly this means that whatever revenue Canberra Airport generates from the \$2 taxi charge, it effectively loses from other revenue it can collect at the airport. This arrangement is currently under review by the ACCC and may change in the future.

Although the Commission is not directly responsible for determining charges set by Canberra Airport, it is conscious of the impact that this additional charge will have on the total fare that travelers from the airport must pay. It is an interesting reflection of the market power that has been given to Canberra Airport that it can effectively place an additional cost impost upon passenger traffic that it is trying to attract to the airport

by use of this \$2 taxi fee. The Commission notes that the ACCC is contemplating removing its direct role in approving aeronautical charges (of which the taxi charge is presently part) and moving to a price monitoring arrangement. The Commission will continue to watch with interest to see how Canberra Airport will set the taxi charge in the future.

The Commission is also aware that Canberra Airport has been charging a separate fee to Canberra Cabs for its rank facilities at the airport, and that there is currently some dispute over the continuation of this fee. The Commission will examine closely any claim by Canberra Cabs for recovery of this additional charge in future price determinations and will not automatically allow the charge as an eligible cost to be borne by all taxi users.

### **5.3 Financial Viability**

Under Part IV of the ICRC Act, the Commission in completing a determination is required to consider the financial viability factors as detailed below:

- *an appropriate rate of return on any investment in the regulated industry (Part IV 20.(2d));*
- *the borrowing, capital and cash flow requirements of persons providing regulated services and the need to renew or increase relevant assets in the regulated industry (Part IV 20.(2i)).*

#### **5.3.1 Appropriate Rate of Return**

Use of the taxi industry price index does not require that an appropriate rate of return be calculated for this industry. Adoption of the price index approach has largely been dictated by the difficulty in assessing an appropriate regulated asset base for this industry. This has the disadvantage of:

- preventing the independent pricing regulator being able to assess the impact of prices decisions on the financial viability of persons providing taxi services taking into account their funding commitments in addition to their taxi running costs;
- limiting the ability of the pricing regulator to ensure there is an appropriate sharing of efficiency benefits between taxi owners/operators and consumers;
- limiting the ability of the prices regulator to adjust prices in accordance with the returns available from competing investment opportunities in the economy.

It is evident from the willingness of new entrants into the taxi industry to pay ever increasing higher prices for taxi plates, that taxi operators who have held plates for

many years are making a considerably high return on their initial investment. These high returns reflect the historical cost of the initial investment in the plates by these owners.

This is not necessarily inappropriate, although there has been considerable debate between regulators and more widely throughout the business community, as to whether regulators should assess appropriate financial returns upon the historical cost of the initial investment, or some current cost equivalent. This report is not the appropriate place to debate this issue. However, it is of some concern to the Commission that there is no information available at this time which allows the Commission to form a view on what should be an appropriate rate of return for this industry and what asset valuation should be used in applying this rate of return.

The Commission will be giving further consideration to this matter, and in particular whether it might not be more appropriate to consider a revised taxi industry prices index or some other price determination methodology which incorporates an estimate of the appropriate return on capital in addition to operating costs and return of capital (depreciation) as is included in the present index used in the ACT.

### **5.3.2 Borrowing, Capital and Cost Flow Requirements**

This issue has largely been addressed under 5.3.1 above.

The Commission invited submissions on the issue of borrowing, capital and cost flow requirements as part of the response to its Draft Direction on taxi fares. No submissions were received on this issue. However, the Commission intends to subject this matter to further investigation as part of a review of the price setting methodology to be undertaken after the Government announces its decision on the Legislative Review of the regulation of taxis in the ACT.

## **5.4 Environmental Issues**

Under Part IV of the ICRC Act, the Commission is also required to consider a number of environmental and demand management issues as detailed below:

- *the principles of ecologically sustainable development referred to in subsection 7(2) of the Territory Owned Corporations Act 1990 as modified by virtue of subsection 4(1) of that Act (Part IV 20.(2f));*
- *consideration of demand management and least cost planning (Part IV 20.(2h)).*

Public transport provides an alternative to the use of private motor vehicles. The Commission has in previous reports<sup>7</sup> highlighted the significant role public transport can play in reducing the number of private motor vehicles on the roads and contributing to improved air quality.

In a recent publication released by the Australian Bureau of Statistics<sup>8</sup> it is reported that almost a third of Canberra residents used public transport during October 1999. Primarily this usage was of ACTION's buses, with school aged children being the largest group to use buses. However, part of this public transport usage was also of taxis in the ACT. Taxis provide an alternative form of public transport, although they may be not as efficient as buses in their potential to reduce carbon emissions per passenger journey undertaken.

It has been argued in a submission to the Commission that taxis may in fact be less environmentally efficient than the use of private cars<sup>9</sup>. Empty travel by taxis combined with use of heavy six cylinder vehicles with automatic transmission and aggressive driving is argued to be a major negative against taxis as a potentially more environmentally friendly form of public transport than private motor vehicles.

Despite the results from the ABS survey suggesting that a third of Canberra residents use public transport, the fact remains that for both buses and taxis there has been a pattern of declining patronage over recent years. In more recent months, and since June 1999, the taxi industry in the ACT reports that this downward trend which has been evident since the end of 1995, has now shown signs of improving. The Commission also found that there was some improvement in the usage of ACTION buses in the ACT over the same period (and following the release of Network 99). However, the overall picture is not one of a significant move to public transport. Rather, as noted in the release from ABS on public transport usage, the transport of school children is predominant in these public transport usage statistics.

The Commission notes that the slight improvement in usage of taxis from mid 1999 followed the Commission's decision to allow an increase in average fares of only 2.34 percent from 1 July 1999. For the period commencing 1 July 2000, the taxi industry is seeking an increase in fares of 8.42 percent. In addition, the impact of a 10 percent GST (notwithstanding that there will be some cost savings from the removal of WST and other State and indirect taxes) will result in a considerable increase in fares from 1 July. With inflation in the ACT currently running at around 2.9 percent per annum, the proposal by Canberra Cabs to increase taxi fares in real terms by around 4.7 percent prior to the net GST impact could result in a deterioration in use of this form of public transport. From an ecologically sustainable development perspective, this may not be in the best interest of the ACT and its population, although as noted

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<sup>7</sup> IPARC, *ACTION's Bus Fares for 2000/01, Price Direction*, March 2000.

<sup>8</sup> *Usage of Public Transport and Emergency Services*, ABS, Cat No 1303.8.

<sup>9</sup> Submission from Mr Ian A McAuley, School of Management and Policy, University of Canberra.

above, there is some debate as to the environmental benefits offered by taxi travel over private motor vehicle travel.

It is important to note however, that at the same time that operating costs for the taxi industry are rising (and thereby flowing into increased fare rates), many of the underlying operating costs for private motor vehicles are also increasing. This is reflected in increases in fuel costs and increases in motor vehicle repairs and maintenance costs. That these cost impacts may not be fully recognised by the general public (for example, new vehicles come with extended free maintenance warranties, and private vehicle owners can delay repair work on their vehicles whereas taxi owners are required to maintain vehicles at a high standard) could mean that the relative observable cost impact on private motor vehicle ownership of these price increases may not be as high as for the taxi industry.

The change in the relative cost of taxi fares by comparison to other forms of public transport and the likely environmental impact should be considered in the context of the likely diversion of passenger journeys from taxis to private motor vehicles. Taxis contribute to only a small proportion of the total passenger movements within the ACT. These passenger movements reflect business usage (for example, travel from office or home to the airport or to other business functions), day to day convenience travel (for example, transport between home and shopping centres), medical (for example, special transport facilities for people needing to travel between medical practices and home or transport for people with disabilities) and recreational use (for example, travel to and from hotels, bars and restaurants). Other factors beyond simply the level of fares will influence the decision to undertake some of this travel (for example, strong enforcement of drink/driving laws, need for special transport to move people requiring medical treatment from their homes to this treatment, and business travel convenience).

The Commission is therefore of the view that while an increase above the current rate of inflation will cause some potential taxi users to seek alternative forms of transport, the overall impact, while still possibly resulting in some further reduction in the number of taxi journeys undertaken, will not contribute to any significant increase in environmental and air quality problems. To the extent that the price increases are greater than those applying to buses, there may also be some movement of passenger traffic from taxis to buses, although issues such as convenience availability, and regularity of service in addition to relative price changes, will play a role in decisions to move from taxi to bus transport.

## **6. PROPOSED PRICE PATH AND MAXIMUM FARES**

The Commission has been asked to issue a Direction covering:

- the maximum taxi fares for taxi services provided within the ACT, for a period of between three to five years; and
- the method or formula as appropriate which may be used to set this price path.

### **6.1 Price Path**

It is generally agreed in Australian regulatory circles, that some form of incentive based regulation provides a better overall mechanism for setting prices for regulated businesses than an annual determination using a cost increase index or indicator. An incentive form of regulation such as a CPI-X price path gives the opportunity for the regulator to set a price path which challenges the regulated industry to achieve some targeted level of efficiency.

This ensures that consumers are able to benefit in the efficiency targets set by the regulator. If the regulated industry is able to do better in terms of its efficiency than the targets set by the regulator, then the industry is able to retain these benefits.

Incentive forms of regulation only work if price paths are set for more than one period. This allows the regulated industry to improve its efficiency over time and provides clear guidance as to what will be the price path over the period concerned.

An annual price determination using a cost index such as the taxi industry cost index, does not allow the regulator to set these forms of incentives for best practice performance in a way that the industry can achieve the targets and possibly better these targets.

Canberra Cabs has not expressed a preference to the Commission on what type of price setting arrangement it would prefer. Submissions from Canberra Cabs have been in the form of the annual cost index model. However, in discussions with Canberra Cabs executives, the Commission has been advised that Canberra Cabs would be willing to consider alternative approaches to price setting.

For the present inquiry, the Commission intends to use the existing taxi cost index to set prices for a 12 month period from 1 July 2000. This will allow time for the industry to consider possible alternative approaches. Also, with the likely impact of the GST and the cost savings arising from the ANTS packaging impacting upon the industry and the pricing model used, the Commission is of the view that it would be better to consider an alternative price determination formula as part of the price review required before 1 July 2001.

However, the Commission does not intend to use the present taxi cost index for prices to be set from 1 July 2001. There will be a need at least to adjust the index for the impact of the GST on prices so that a comparison can be made between costs which exclude the GST in the current index and estimates of costs excluding the GST effect in 2001. In order to achieve this objective, some modelling of GST impacts may be required.

The Commission also proposes exploring with the industry the use of an alternative methodology for price setting which incorporates a provision for assessing the impact of funding costs (as discussed under Section 5.3.1. above).

## **6.2 Maximum Prices for 2000/01**

The Commission proposes setting a maximum price path for the 12 month period commencing 1 July 2000 based upon the cost increases as calculated in Table 5.2, that is an increase of 7.71 percent. However, in recognition of the likely cost savings to be achieved from the ANTS package, and in order to meet the ACCC guidelines for the net GST impact to incorporate these cost savings, the percentage increase will be reduced from 7.71 percent to 5.60 percent reflecting the cost savings and revised index results identified in Table 5.7 above.

In applying this cost increase across the various components of a total fare, the Commission is conscious of the need for revised prices which reflect the underlying cost savings from the ANTS package and, after adjustment for cost increases, for prices which can be readily applied by the taxi industry using the metering technology that is currently available. The Commission believes that there is merit in rounding any changes in the radio fee and flag fall elements for the total change, for example, such that they are rounded to the nearest five cents. However, any rounding made in the final changes determined by the Commission should not preclude the application of the appropriate net GST impact (that is, the cost savings from the ANTS package should be seen to have been passed through for each component of the total fare) and that the total fare outcome reflects the price increase determined by the Commission.

Accordingly, the Commission has calculated the total fare package on the standard of an average trip of 8.8 kilometres as is normally applied, and then having ensured the pass through of the net GST impact, adjusted the individual components of the total fare such that the total fare increase is consistent with a 7.71 percent increase (prior to ANTS tax savings). The calculations of the revised fare using the formula as presented in Section 5.2.1 are as follows:

Average current fare (see Table 5.4) = \$12.74

Average fare after Commission endorsed price adjustments = \$12.74 x 1.0771  
= \$13.72

Average fare after net GST impact = \$13.72 x 1.0785 = \$14.80

Fare composition:

- ♦ Flag fall \$ 3.20
- ♦ Waiting time (per minute) \$ 0.45 (equivalent to \$27.00 per hour)
- ♦ Radio fee \$ 0.65
- ♦ Kilometre rate – Rate 1 \$10.50 = \$1.193 per kilometre  
\$14.80

Thus, the Rate 1 fare would be \$1.193 per kilometre and the Rate 1 flag fall would be \$3.20.

In calculating the rates to apply for Rate 2, the policy in the past has been to apply a 15 percent mark up on the Rate 1 kilometre rate. Thus, the Rate 2 would be \$1.372 per kilometre.

Canberra Cabs in their submission on the Draft Determination have proposed that Rates 3, 4, 5 and 6 be adjusted not on the basis of 75 percent (for Rates 3 and 4) and 150 percent (for Rates 5 and 6) of the respective kilometre charges for those Rates, but upon a 75 percent or 150 percent (as appropriate) adjustment to the total notional fare for an 8.8 kilometre journey for those rates. Canberra Cabs notes that:

*‘the legislation refers to R3 and R4 being 75% of the fare determined by the Minister. It is considered appropriate to apply the 75% factor to the fare and to adjust the flag fall by 75% resulting in a flag fall of \$2.40.’<sup>10</sup>*

Canberra Cabs proposes that a similar approach be adopted for the Rate 5 and Rate 6 calculations.

The Commission has examined the relevant legislation (Road Transport General Act) and can find no reference to a requirement that the fare be set by reference to the total average fare. Rather the legislation appears to allow some latitude for a decision on what should be the fare.

Adoption of the approach proposed by Canberra Cabs would have the effect of reducing the kilometre charge and flag fall charge for Rate 3 and 4 by comparison to that proposed in the Draft Determination and increasing the kilometre and flag fall charges for Rates 5 and 6 as proposed in the Draft Determination. Adjustments would be required to the taxi meters to allow not only for the change in the per kilometre rate, but also for a change in the flag fall rate.

The Commission is of the view that it would be more consistent with Government policy on differences between the various rates, that the percentage adjustment apply to the total fare (based on an average 8.8 kilometres per trip). Thus, the Commission

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<sup>10</sup> Submission on Draft Submission from Canberra Cabs, 16 May 2000.

has outlined below proposed flag fall and per kilometre charges that should apply for Rates 3, 4, 5 and 6 based on this approach.

Rate 3:

Flag fall	\$2.40
Kilometre rate	\$0.863 per kilometre

Rate 4:

Flag fall	\$2.40
Kilometre rate	\$0.998 per kilometre

Rate 5:

Flag fall	\$4.80
Kilometre rate	\$1.852 per kilometre

Rate 6:

Flag fall	\$4.80
Kilometre rate	\$2.121 per kilometre

The radio fee and waiting time fee would remain the same for all Rates, namely \$0.65 and \$0.45 per minute.

Full details of the pricing details are provided in the Determination provided in Schedule 1 to this report.

**- o O o -**

## SCHEDULE 1. PRICE DIRECTION FOR TAXI FARES

### **Methods for Ascertaining Maximum Prices to be Charged Under the Independent Competition and Regulatory Commission Act (1997)**

This Price Direction specifies the method for ascertaining maximum prices for taxi fares and charges to apply in the ACT from 1 July 2000 to 30 June 2001.

For the period commencing 1 July 2000, the Commission's Price Direction for taxi fares is that:

- the flag fall rate to apply will be as follows:
  - ♦ Rate 1 \$3.20
  - ♦ Rate 2 \$3.20
  - ♦ Rate 3 \$2.40
  - ♦ Rate 4 \$2.40
  - ♦ Rate 5 \$4.80
  - ♦ Rate 6 \$4.80
- the waiting time rate will be at a rate of \$0.45 per minute (equivalent to \$27.00 per hour);
- the radio fee will be a fixed rate of \$0.65;
- the kilometre rate will be set at:
  - ♦ Rate 1 \$1.193 per kilometre
  - ♦ Rate 2 \$1.372 per kilometre
  - ♦ Rate 3 \$0.863 per kilometre
  - ♦ Rate 4 \$0.998 per kilometre
  - ♦ Rate 5 \$1.852 per kilometre
  - ♦ Rate 6 \$2.121 per kilometre
- the above rates include the net GST adjustment allowing for cost savings from the Federal Government's tax reform package.

## **Attachment 1: Terms of Reference**

### **Australian Capital Territory**

#### **Independent Pricing and Regulatory Commission Act 1997**

#### **Reference for Investigation Under Section 15 and Specified Requirements in Relation to Investigation Under Section 16**

**No                      of 1998**

Pursuant to subsection 15(1) of the *Independent Pricing and Regulatory Commission Act 1997* (the Act), I refer to the Independent Pricing and Regulatory Commission (the Commission) the matter of:

- investigating maximum taxi fares for taxi services provided within the ACT, for a period of between three to five years; and
- recommending a method or formula as appropriate which may be used.

Pursuant to subsection 15(3) of the Act, the Commission's investigation will cover taxi fares determined by the Minister for Urban Services under subsection 36(1) of the *Motor Traffic Act 1936*.

Pursuant to subsection 16(1) of the Act, I specify the following requirements in relation to the investigation:

#### **Matters to be Considered**

The investigation should take into account those matters specified in subsection 20(2) of the Act.

The investigation should consider submissions from the public or any other specified person or body as required, including the submission for increased taxi fares prepared by Aerial Taxis.

#### **Outcome**

The outcome of the investigation will form the basis of a report and recommending to the Minister for Urban Services a method or formula, as appropriate, which will be used in the determination of maximum taxi fares under subsection 36(1) of the *Motor Traffic Act 1936*.

**Timeframe**

A final report is to be provided to the Minister for Urban Services by 30 March 1999.

**Brendan Michael Smyth MLA**  
Minister for Urban Services

Dated: 15 June 1998

**Australian Capital Territory**

**Independent Pricing and Regulatory Commission Act 1997**

**Variation to Specified Requirements Under Section 16  
in Relation to Investigation**

**No                      of 1998**

Pursuant to subsection 16(1) and to paragraph 16(2) of the *Independent Pricing and Regulatory Commission Act 1997*, I vary the requirements specified by me by instrument dated 15 June 1998, in relation to the conduct of the investigation referred to the Independent Pricing and Regulatory Commission by that instrument, as follows:

**Timeframe**

A final report is to be provided to the Minister for Urban Services by 30 March 2000.

**Brendan Michael Smyth**  
Minister for Urban Services

Dated: 22 December 1998

**Explanatory Statement**

**Independent Pricing and Regulatory Commission Act 1997**

**Variation to Specified Requirements Under Section 16  
Relating to Investigations**

**No                      of 2000**

Pursuant to subsection 16(1) and to paragraph 16(2) of the *Independent Pricing and Regulatory Commission Act 1997*, I vary the requirements specified by me by instrument dated 22 June 1998, in relation to the conduct of the investigation into taxi fares referred to the Independent Pricing and Regulatory Commission by that instrument, as follows:

**Timeframe**

A report is to be provided to the Minister for Urban Services by 28 April 2000.

**Brendan Michael Smyth**  
Minister for Urban Services

Dated:

## **Attachment 2: Summary of Submissions**

### **Canberra Cabs and the Canberra Taxi Proprietors Association**

- Proposes a revised method for calculating Rate 3, 4, 5 and 6 tariffs.
- Proposes that anticipated and known cost changes to take effect after 1 July 2000 be taken into account in the cost adjustment.
- Questions the anticipated cost savings on LPG after the introduction of the ANTS/GST package.
- Questions the extent to which greater efficiency gains would flow from deregulation of the taxi industry.

### **Mr Ross Burdon**

- Raises concerns about the availability of taxis after hours and the extent of the proposed price increases as announced in the Draft Price Determination.
- Proposes no change in taxi fares.

### **ACT Disability Advisory Council**

- Expresses concern over proposed taxi fare increases on use of taxis by people with disabilities.
- Proposes that the Commission recommend Government support for people with disabilities who have to use taxis.
- Highlights the necessity of access to taxis for many disabled people conducting their ordinary everyday activities.
- Argues that the Taxi Subsidy Scheme has limited value in practical and monetary terms.

### **ACT Department of Health and Community Care**

- Submission outlining the operation of the Taxi Subsidy Scheme and provision of a 6.7 percent discount to the Scheme by Canberra Cabs.
- Provides details of possible revisions to the Scheme being considered as part of a current review.

- Confirms the Government's continued commitment to the operation of the Scheme.

**Mr Ian A McAuley**

- Questions the environmental benefits of taxis over private car transport.
- Proposes that the price of taxi travel be significantly higher than the cost of private car transport.
- Proposes that the taxi fare increase should be greater than the increase in taxi fares, and that the increase in bus fares provide a floor for increases in taxi fares.