ICRC

independent competition and regulatory commission

Final Report

Determination of taxi fares for the period 1 July 2004 to 30 June 2007

May 2004

The Independent Competition and Regulatory Commission (the commission) was established by the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act) to determine prices for regulated industries, advise government about industry matters, advise on access to infrastructure and determine access disputes. The commission also has responsibilities under the Act for determining competitive neutrality complaints and providing advice about other government-regulated activities.

The commission has three commissioners:

Paul Baxter, Senior Commissioner
Robin Creyke, Commissioner
Peter McGhie, Commissioner.

Submissions, correspondence or other enquiries may be directed to the commission at the addresses below:

The Independent Competition and Regulatory Commission
PO Box 975
CIVIC SQUARE ACT 2608

Level 7 Eclipse House
197 London Circuit
CIVIC ACT

The secretariat may be contacted at the above addresses, by telephone on 6205 0799, or by fax on 6207 5887. The commission's website is at www.icrc.act.gov.au and its email address is icrc@act.gov.au or ian.primrose@act.gov.au.

For further information on this investigation or any other matters of concern to the commission please contact Ian Primrose, Chief Executive Officer, on 6205 0779.

Foreword

This is the final report of the Independent Competition and Regulatory Commission's inquiry into taxi fares in the Australian Capital Territory for the period 2004–2007. The commission has completed this review of taxi fares following a direction from the Minister for Urban Services in September 2003. This report sets out a revised approach, called a taxi cost composite index (TCCI), which the commission plans to use for adjusting taxi fares over the next three years.

In developing the revised approach, the commission released an issues paper (October 2003) and draft report (February 2004), and considered submissions from the taxi industry before making this final report. No submissions were received from the general public.

In its last taxi fare determination, the commission used a weighted cost index (WCI) method to revise taxi fares, but expressed concerns about the effectiveness of the WCI and foreshadowed the evaluation of alternative fare revision methods in the course of this inquiry. The commission's draft report proposed replacing the WCI with a TCCI. The commission has received valuable feedback on the draft report from the taxi industry and this has been used to refine the TCCI proposed in the draft report. The commission notes that, while there were no major objections to the use of a TCCI, the industry prefers to base taxi fare changes on actual cost movements. However, the commission believes the TCCI is easier to understand, significantly streamlines the fare revision process and provides better incentives for cost control. The commission will continue to monitor taxi service quality closely, and retains full scope to determine fare rises below the TCCI outcome in the event of unsatisfactory performance.

The commission has also made a number of recommendations about the operation of wheelchair accessible taxis (WATs) in the ACT. These recommendations will be followed up with the Department of Urban Services, which has prime policy responsibility for taxi licensing. The commission believes that these recommendations will help to improve the overall standard of service delivery by WATs.

The commission has drawn on a range of sources in its inquiry, including submissions received from interested parties following the publication of the issues paper and the draft report. The commission has also considered fare-setting mechanisms in other jurisdictions.

This final determination is also consistent with the commission's overall objective, which is to ensure that taxis provide a comfortable, reliable and safe service and offer reasonable fares for all Territorians.

Paul Baxter

Senior commissioner

May 2004

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Executive summary

Below is a summary of information considered by the commission, the analysis applied, and the commission's decision. This summary neither substitutes for, nor forms any part of, the commission's detailed determination.

This determination contains various acronyms and technical terms, which are explained in the Glossary and abbreviations section.

Reference for investigation

The reference for this inquiry (see Appendix 1) required the commission to assess the effectiveness of the weighted cost index (WCI) for maximum fares during the three years to June 2007. This determination evaluates the best methodology for revising taxi fares and presents specific taxi fare changes. The reference for this inquiry also required the commission to consider the labour cost weighting, any adjustments required to assumptions on average distance travelled, and the summation of the individual cost components to determine the percentage change in fares and the matters referred to in Section 20 of the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act).

Submissions to the draft determination

In February 2004, the commission released a draft determination, which focused on evaluating the best methodology for revising taxi fares and sought feedback on a proposal to supersede the WCI with a new taxi cost composite index (TCCI). In response to the draft determination, the commission received one submission from the Canberra Taxi Proprietors Association Ltd (CTPA) in conjunction with Canberra Cabs. Key issues raised by the submission were:

- Future fare changes should be based on the change in actual taxi operating costs.
- Customers should not bear the costs of demand fluctuations, but neither should existing operators bear the effects on demand per operator of increases in the number of operators.
- If a TCCI is to be utilised, it should be slightly refined so that the vehicle-related costs component is based on a cost weighted average of the three

relevant Australian Bureau of Statistics (ABS) indices and not a simple average of the three indices.

- ACT network fees are set at a higher level than other jurisdictions, which is necessary because:
  - Canberra Cabs carries various costs normally met by government departments or state-based taxi councils, such as costs for airport commissionaires and costs of interfacing with government.
  - The network capability is broadly equal to that of other major capital cities and this cost (as well as the costs listed above) is shared among a smaller number of taxis than in the typically larger fleets in other jurisdictions.
- In determining driver earnings, the cost of driving time should be valued at a rate established through industry–government negotiation and updated by the ABS ACT Wage Cost Index to maintain 'potential earnings at community levels'.
- Capital costs should be excluded from fare considerations. However, if the commission seeks to retain a component for capital costs, this should be based on the interest cost of the average price paid by current holders of a taxi plate and not on the plate rent level.
- The industry does not generally favour retention of the WCI in its current form. While the industry would prefer to use actual cost movements as the basis for taxi fare changes, it has no major objections to the use of a TCCI and has suggested some minor refinements to improve the accuracy and cost reflectivity of the TCCI.

Section 1.3.5 of this report contains more details on the industry submission and the commission's views on the key issues raised.

Effectiveness of the WCI

The commission has expressed concerns about the effectiveness of the WCI. Details of these concerns were outlined in the draft report. In summary, the commission does not consider the continued use of the WCI approach to be appropriate, because of:

- difficulties in defining the cost levels of an average taxi (and then measuring the annual change), arising from the number of operators and the substantial diversity in cost levels, which depend on the operational approaches used
- misinterpretation of the purpose of WCI calculations
- contention about the inclusion or exclusion of particular costs, and their definition
- the absence of incentives in fare revision arrangements to reduce cost, improve service quality or increase productivity.

The taxi industry opposes the use of the WCI, stating:

> For the most part the taxi industry believes that the WCI developed and used by the commission over the past two years is flawed in its construction and deleterious in its outcomes for both the public and the industry.

In evaluating the WCI, the commission examined interstate methods of revising taxi fares and alternative approaches, including minor changes to the WCI, use of a profit and loss approach and use of single or multiple ABS indexes.

The new taxi cost composite index

The new TCCI streamlines and simplifies the calculation of reasonable fare adjustments and supersedes the WCI. The TCCI retains significant parts of the WCI where costs are uniform across the industry and verifiable (e.g. LPG and registration costs).

The key changes in the move to a TCCI are as follows.

- **Labour.** The commission will retain the weighting of 50%, as this matches income-sharing arrangements between drivers and operators. A minor change to the escalation approach is proposed whereby the ABS Wage Cost Index is to be used instead of Average Weekly Earnings. The industry supports this weighting and escalation.
- **Motor vehicles, repairs and maintenance and tyres.** Instead of attempting to measure the change in the vehicle, maintenance and tyre cost level of an average taxi, the TCCI sets a weight for each of these components based on industry cost information and escalates each by the change in the relevant ABS index.

- **Insurances.** Instead of attempting to measure the change in the cost level of an average taxi with an assumed purchase of four different policies (demurrage, comprehensive, workers compensation and income protection), the TCCI uses a weighting of 8.7% for insurance (based on industry cost information) and escalates this component by the ABS CPI index for insurance services.
- **Network fees.** For some time, the commission has been concerned that network costs are not efficient and create a modest overweighting in the WCI. To mitigate this concern, the commission froze this cost item at 2001 cost levels of $12,454 (current network fees are $14,170). While the commission concurs that Canberra Cabs has some additional costs and has less scale than some large networks, on balance the commission views the 2001 cost level as being closer to an efficient cost, and the weighting for the TCCI is set on this basis. The commission had proposed to escalate this item by the Canberra CPI, which matches the outsourced contract cost escalation that Canberra Cab uses for bureau services. The industry submission instead suggested that a mix of 70% CPI and 30% wage cost index be used, as this hybrid recognises that Canberra Cabs has significant labour costs over and above the network outsourcing contract. The commission has accepted this refinement to network costs escalation.
- **Return on investment.** The commission proposes to rename this item 'interest costs'. In its draft report, the commission proposed to reduce the weighting for this component in line with the reduction in plate rental levels of the past 12 months. The commission also proposed to change the interest rate used from 10-year bonds to the 90-day bank bill rate to provide a rate that more closely follows rates applying to taxi plate loans. Changes in the bank bill rate should better match changes in interest costs incurred by taxi operators (e.g. overdrafts, secured floating rate loans or unsecured floating rate loans). The industry submission suggested that a better way to weight this component would be to use the average interest cost of a taxi owner-operator divided by total costs, which produces a lower weighting. The commission agrees that the use of average interest costs for setting a weighting is as broadly reasonable as using plate rental levels. Consequently, the commission has set a TCCI weighting of 7.2% for this component based on a combination of industry and Department of Urban Services (DUS) data on the average investment, funding method and interest rates.
- **Car washing, administration and other costs.** The commission will aggregate a large range of minor costs and set them to a cost-reflective

weighting based on information from the industry. The commission will escalate this component by the Canberra CPI.

The TCCI reduces the number of cost items to the more material components, avoiding the need for microanalysis of such things as maintenance cycles. Following the draft report, the commission has worked closely with industry to refine the TCCI weightings as well as the proposed escalation methods. The commission intends to use the TCCI for fare revisions at 1 July 2005 and 1 July 2006. Now that the TCCI is established, the commission and the industry will focus on evaluating service quality in the next two annual determinations.

The commission proposes to complete a major review of the weights and escalation methods every three years as part of a major fare determination with associated public processes. While there will naturally be some changes to actual cost proportions between now and July 2006 as costs change at different rates, the commission's preference is for a three-yearly reset of weightings. However, the commission also acknowledges that the material changes in costs or other unforeseeable events may create a need for TCCI weights and inclusions to be reset within the three-year period. Therefore, the commission will consider a submission from the industry seeking a weighting revision between three-yearly resets where a combination of cost changes occurs such that a reweighted index leads to a cost change differential of +/−1% from the change suggested by the existing weights. The commission will also consider changes to weighting or components where a change to regulations, legislation or taxation is viewed as material to the costs of taxi operators, or a major adverse event occurs that is viewed by the commission as being a *force majeure* event.

Using the new TCCI with revised weights and cost change and ABS index data for the period from March 2003 to March 2004, the fare rise from 1 July 2004 is 3.16%. This fare rise will raise the price of an average 8.4 km weekday daytime trip by 50 cents.

Merit of the TCCI

The main advantages of the TCCI are as follows.

- It is a more practical and more readily understandable method.
- It provides comparatively better incentives for cost control compared to methods based on actual cost movement. For example, the commission has been concerned about increases in fares due to growth in the ACT network fee. The network fee is set by the industry, and rises in this network cost improve the financial position of Canberra Cabs. This translates into higher share values for the shareholders, who are the ACT taxi industry participants.
- It reduces the subjectivity associated with attempting to measure changes in the costs of an average taxi when costs for individual operators vary substantially.
- It streamlines calculations and its use is far less resource intensive for industry and the commission.
- It removes the link between labour and other components. With the WCI, rises in interest rates led to rises in the implied dollar value of labour that was used for weighting. This caused confusion among taxi operators, as they did not necessarily see a corresponding increase in their actual labour payments and receipts.

On potential disadvantages, the industry submission argued that the TCCI is less able to measure accurately the change in cost levels because of its reliance on ABS indexes for most costs. As the estimation of average costs is problematic, the commission is comfortable that the accuracy of the TCCI will be more than adequate.

Changes to the TCCI since the draft determination

Following the release of the draft determination and consideration of the joint CTPA and Canberra Cabs submission by the commission, the following amendments to the TCCI model have been made.

- The network fee adjustment has been amended from 100% of CPI to 70% CPI plus 30% WCI, to reflect the portion of the fee that is attributable to labour-based cost items.
- The assessment of LPG costs is to be based on a monthly measurement and averaged over 12 months, instead of being based on the price change from March to March each year, in order to more fully account for changes in LPG costs over the year.
- A broad category, known as vehicle-related costs, has been separated into costs for vehicles, tyres and maintenance. Each of these items is escalated by the relevant ABS CPI transport index.
- Interest cost weightings are to be calculated as average debt costs divided by total costs.

Demand

Industry data illustrates that demand (measured by meter activations) has fallen 14.3% from 2.90 million in 1996 to 2.48 million in 2003. The increase in taxi fleet numbers has resulted in a larger fall of 21% in the number of jobs per ACT taxi. Conversely, as noted in the draft report, demand appears to be gradually recovering with 2004 year-to-date volumes up about 7% from the previous year. The commission hopes that this turn in demand signals the emergence of some stability.

However, the recovery in 2003 calendar year usage levels may have been boosted by growth in passenger numbers at Canberra Airport, as well as one-off events such as the Rugby World Cup and the Masters Games, and the longer term trend of weakening demand may still be present.

The commission is of the view that demand per taxi may continue to weaken because of continued growth in alternative forms of transport. The commission and the taxi industry agree that fares should not rise to compensate the industry for falling demand and that fare changes should be based on the efficient costs of providing the service.

Service quality

The industry, in conjunction with the DUS, has provided the commission with service quality information for the period up to the end of March 2004**.** The final determination provides an additional analysis of this information. The service quality information indicates that service quality for standard taxis is usually adequate. However, the commission continues to believe there is sizable scope to improve peak and off-peak response times, particularly for standard taxi customers in outer areas and for wheelchair accessible taxi (WAT) customers.

After assessing approaches to improve WAT service quality, the commission believes that withholding fare rises is not appropriate, as taxi travel by customers requiring wheelchair access is less than 0.7% of daily journeys. Consequently, the commission recommends that the DUS and the industry continue to work together to evaluate options to improve WAT service quality. Options may include:

- Changing the lift fee subsidy level and clarifying the times at which the meter should be activated and terminated, to ensure adequate compensation for drivers and operators servicing the WAT market.
- Simplifying interdepartmental arrangements to ensure a broader availability of the lift fee subsidy to all genuine wheelchair customers.
- Extending the permitted maximum vehicle life of WAT vehicles from six to eight years. This reform, operating in other states, will improve operator viability. The impact on service quality will be relatively low because of the lower mileage completed by WAT vehicles.
- Improving the capability of the network to direct WAT vehicles to wheelchair-related work. One potential approach could be to place a cap on the percentage of WAT jobs a driver can reject before some form of sanction (e.g. a period off-line from the network).

Fare structures

The commission sought views on any need to reform fare structures to ensure that the ACT structure is efficient, practical and equitable. The industry generally supported the status quo but argued that the following changes should be made.

- Waiting time rates should rise, given the 7.9% increase in average waiting times between October 2001 and February 2004 recorded in the fares survey.

- The night-time premium of 15% above the daytime rate should apply to the value of an average trip, not just to the distance rate.

In the absence of customers seeking changes to the fare structures, the commission has not reformed the structures significantly. The commission has agreed to the proposed greater increase in the waiting time rate, offset by a smaller rise in the distance rate than would otherwise apply, because:

- the waiting time rate has not been adjusted since July 2002

- there has been some growth in peak period congestion

- the waiting time rate was significantly below other jurisdictions (for example, the Queanbeyan rate at May 2004 is $40 per hour, which is 33% higher than the $30 per hour rate in the ACT).

The commission has concluded that a fare rise of 3.16% is reasonable. The fare rise reflects a combination of changed and unchanged rates for elements of an average fare. The distance rate increases 3.7% and the waiting time rate increases to $32.50 per hour from $30.00 per hour, but there will be no increase in either the radio booking fee or the flagfall charge. Over an 8.4 km average fare, the cost increase will be 3.16%.

Other potential impacts requiring consideration under Section 20 of the Act

Aside from service quality, efficiency and costs, Section 20 of the ICRC Act requires the commission to also consider:

- **Ecologically sustainable development.** The commission is of the view that a 3.16% rise in average taxi fares is not significantly inconsistent with the principles of ecologically sustainable development.

- **The social impacts of any decisions.** The commission understands the importance of taxi transport to specific community groups, such as people with disabilities who rely on taxi travel because buses are not always a viable alternative. The commission is committed to working with government and the industry to achieve acceptable WAT response times.

The ACT Government offers a taxi subsidy scheme that improves the affordability of taxis for people with permanent or temporary disabilities who need to use taxis. Overall, the commission has sought to ensure that the final taxi fare rise is contained to a level that does not materially change the affordability of fares for people who depend on taxi services.

- **The effect on general price inflation over the medium term.** Given that the fare rise in this determination is relatively modest, and the small share of taxi fares in average household expenditure (0.3%), the commission is satisfied that the likely increase will not have significant inflationary effects on individuals or on overall inflation in the ACT.

- **The protection of consumers from abuses of monopoly power.** The commission closely monitors the ACT taxi industry and has not observed any material abuses of monopoly power. The commission will continue to ensure that the monopoly position of Canberra Cabs is not exploited to the disadvantage of consumers.

These issues are discussed in greater detail in Section 5 of this determination.

Other recommendations

In this review, industry and others have raised a range of matters other than prices. In response, the commission has made suggestions about these matters.

- **Service quality.** The commission's comments include the suggestions that Canberra Cabs continue to work closely with Canberra Airport to mitigate peak period delays and that Canberra Cabs pay greater attention to WAT service quality (see Section 2.2.1).

- **Occupational health and safety.** Obtaining a supply of drivers has been raised as an important issue for taxi owners. The commission sees merit in assessing whether driver occupational health and safety issues are significant in the ACT (see Section 2.2.2.2).

- **Cross-border movement of taxis.** The commission suggests that over the longer term, given the free cross-border movements of taxis, there may be merit in harmonising some elements of the ACT fare structure with the Queanbeyan / country NSW structure (see Section 5.1.2).

- **Signage.** The commission suggests that consideration be given to establishing some form of signage at Canberra Airport to explain passenger rights and fee arrangements for multi-hire fares. Signage at key demand points, such as the airport, could also explain the different fare structures of Canberra Cabs and Queanbeyan taxis (see sections 5.1.2 and 5.1.6).

1 Background

1.1 The commission

The commission is a statutory body established by the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act) to determine prices for regulated industries, advise government about industry matters, advise on access to infrastructure and determine access disputes. The commission also has responsibilities under the ICRC Act for determining competitive neutrality complaints and providing advice about other government-regulated activities.

The commission has the following objectives:

- to promote effective competition in the interests of consumers
- to facilitate an appropriate balance between efficiency and environmental and social considerations
- to ensure non-discriminatory access to monopoly and near-monopoly infrastructure.

For price regulation inquiries, the commission must also consider the following:

- the protection of consumers from abuses of monopoly power
- service quality, reliability and safety
- the need for greater efficiency in the provision of the services, including consideration of demand management and least-cost planning
- the cost of providing the service, including an appropriate rate of return on any investment, the borrowing, capital and cash flow requirements of the regulated entities and the need for the industry to renew or build assets
- ecologically sustainable development
- the social impacts of any decisions
- the effect on general price inflation over the medium term.

The commission operates in a way that is open to industry, members of the Legislative Assembly and the community at large. The commission's mandate is both to inquire into issues in a publicly accountable and transparent way, and to report its findings and advice publicly. To this end, the commission encourages public submissions to its inquiries.

1.2 Reference for investigation—determination of taxi prices

The ACT taxi industry has undergone a number of reviews, mainly reflecting the ACT Government's obligations under the National Competition Policy. Following consideration of the most recent review conducted by the commission, the government introduced the Road Transport (Public Passenger Services) Amendment Bill 2003. Against the background of taxi industry policy reform, the commission remains focused on its task of setting taxi fares.

The maximum taxi fares that can be charged in the ACT are determined by either:

- the Minister for Urban Services, under section 60 of the *Road Transport (Public Passenger Services) Act 2001*.
- the commission, as a result of a review reference and price-related direction from the minister.

In its determination of June 2002, the commission adopted a weighted cost index (WCI) to determine changes in taxi fares. In September 2003, the commission received a reference from the ACT Government to consider the effectiveness of the WCI and the need for any adjustments to it for future fare determinations. Subsequently, the government requested that the commission determine the change in the level of taxi fares for the three-year period from 1 July 2004 to 30 June 2007, having regard to the WCI. Without restricting the commission's determination or its use of the WCI, the commission was to take into account:

a) the effectiveness of the WCI and the need for any adjustment or change to the index

b) the assembly of the value of fixed costs, variable costs, return on investment and labour costs

c) the setting of labour cost weighting

d) the adjustment of the previous year's base cost components to take account of any change in the number of kilometres travelled on average by taxis

e) the summation of the individual components for the base year and the current year to determine the percentage change in these aggregates between the two years

f) the matters referred to in section 20 of the ICRC Act.

The commission's full terms of reference are set out Appendix 1.

1.3 Previous decisions by the commission on taxi fares

1.3.1 Fare decisions, 1989–90 to 2000–01

Historically, taxi fares in the ACT were set using a taxi cost index developed in 1989 by the Taxi Industry Advisory Council, an advisory body to the ACT Government. The index comprised a number of cost items associated with the operation of a taxi, but was not intended to provide an estimate of the actual cost of operating a taxi. Instead, it attempted to measure the movement in these operating costs over time. The commission was concerned that, because the taxi cost index only measured the cost movement of inputs, it did not account for efficiencies possible within the taxi industry, such as those arising through better radio and vehicle location technology. Further, the cost structure behind the index had become substantially outdated. As a result, the commission decided to reform the approach for calculating taxi fare changes.

1.3.2 2001–02 fare decision

For its price direction for the 2001–02 financial year, the commission developed a cost build-up pricing model that sought to provide an estimated 'profit and loss statement' for a typical taxi operation in the ACT, from the perspective of the taxi owner. A shortcoming of this approach is the inability to obtain accurate income estimates, given the significant variation in

incomes between operators. The June 2001 fare decision provided taxis with an increase of 5.5% (both in flagfalls and in distance rates).

In appraising how to revise fares from July 2002, the commission encountered complications caused by falling demand, which reduced revenue and created a significant fall in earnings under the profit and loss statement method. Under this approach, the labour cost component was estimated as 50% of average gross takings. If it had been used again in 2002–03, the profit and loss approach would have produced sizable fare increases to hold earnings constant against continuing decline in demand. However, the commission took the view that rises might deepen the decline in demand and were not justified, given the commission's role to protect consumers from abuses of monopoly power and minimise adverse social impacts while stimulating improvements in service and cost efficiency.

The commission took the view that customers should not be expected to pay for a fall in demand and that, if fares were to rise significantly, demand would decline further in a vicious cycle with serious underutilisation of the taxi fleet. In other regulated industries, the regulator would be likely to declare any excess capacity to be 'stranded' and therefore not entitled to earn a revenue stream. In the taxi industry, the regulator has no input to capacity and relies on market forces to encourage some operators to exit the industry.

Given the difficulties encountered in the 2002–03 review, the commission ceased using the profit and loss approach at June 2002.

1.3.3 Fare decisions, 2002–03 to 2003–04

For the fare adjustments in July 2002 and July 2003, the commission used the WCI. The June 2002 fare decision gave taxis an increase of 3% in flagfall and distance rates. In June 2003, the commission recalculated the WCI and recommended a rise to the distance rate of 7.1%, with the flagfall held constant. This equated to an average fare rise of approximately 5% (assuming an 8 km trip).

Construction of the WCI

The WCI was an index of cost movement based on the sum of changes in the costs of taxi operation. The index was current-period weighted to reflect relative changes in these costs, and included four components:

- **Fixed costs.** These costs (19% of the WCI) included vehicle capital, registration, drivers licence and medical, comprehensive insurance, demurrage insurance, network fees, uniforms, office and miscellaneous expenses, and administration labour.

- **Non-labour variable costs.** Components included fuel, tyres, car washing, repairs and maintenance, workers compensation insurance and income protection insurance. These costs formed about 19% of the WCI. Some components were calculated based on an assumed 160,855 km average annual kilometres travelled (this figure was used in 2002–03 and 2003–04).

- **Allowance for a return on investment in a taxi plate.** This cost represented 12% of the 2003 WCI and sought to reflect the movement in the 10-year Commonwealth bond rate as a proxy for any change in the required return on investment and the change in borrowing costs. To weight this item in the WCI, the commission assumed that the 2002 annual lease fee of $26,000 applied in the current year at the current bond rate. To reset the return on investment for the prior year, the commission took the difference between the current bond rate and the prevailing bond rate 12 months ago. Therefore, the movement in this item reflected only the annual change in the Commonwealth bond interest rate; the average lease fee was used only to set the weighting.

- **Labour**. Labour was treated in a similar way to return on investment. The commission set labour costs in the current year as the sum of the three other cost components (or 50% of total costs in the WCI). The change in the labour cost was then 'back-cast', based on the movement in the ABS ACT Full Time Adult Total Earnings series . This approach was favoured by the commission because it matched the 50:50 split of income between drivers and operators.

Concerns about the use of the WCI

The commission had the following concerns about the use of the WCI as a means of setting fares.

- **Lack of direct incentives to reduce cost, improve service quality or increase productivity.** The commission was keen to explore ways to establish better links between fare levels and service quality while acknowledging the trade-off between price, quality and waiting times that affects the service received by the customer.

- **Difficulties establishing an accurate 'average' taxi.** As the ACT taxi industry comprises over 160 operators managing 242 vehicles, the commission was keen to assess better ways to accommodate the substantial variation in revenue between different drivers, operators and owners and the similarly large variations in costs.

- **Improving the definition of specific cost items and resolving which costs should be included and excluded.** Of the four components identified above, the most contentious were the allowance for a return on investment and labour.

- **Whether or how to reflect reduced demand in fare changes as operator and driver viability issues become more pressing.**

Despite these concerns, the commission used the WCI for the 2002–03 and 2003–04 taxi fare determinations. At that time, the government was investigating full deregulation of the taxi industry. This would see the use of the WCI as a short-term solution before deregulation, after which fares would be set by market forces. However, the government subsequently decided on a much more gradual approach to deregulation and the commission therefore needed to reconsider the effectiveness of the WCI for ongoing use in taxi fare adjustments. As part of the current inquiry, the commission has evaluated the respective merits of developing a new approach and of refining the WCI to reduce its shortcomings.

1.3.4 The February 2004 draft determination

In its February 2004 draft determination, the commission sought views on:

- a proposed new approach, using a taxi cost composite index (TCCI), for annual fare revisions

- the appropriate level for the ACT booking fee

- whether there is merit in changing high-occupancy taxi fares from a 50% premium of the distance rate to a fixed surcharge

- the impact on customers and on driver availability of the current higher night fare rate (the distance charge is 15% higher between 9 pm and 6 am) and whether the premium level or duration should be refined

- how to encourage the ongoing pursuit of efficiency and productivity improvements in the ACT taxi industry
- the impact of different fare arrangements in the ACT and Queanbeyan when taxis undertake cross-border work.

1.3.5 The submission from the taxi industry

In response to its draft determination, the commission received a submission from the Canberra Taxi Proprietors Association Ltd (CTPA) in conjunction with Canberra Cabs. The views expressed in the submission were considered in detail as part of the determination process.

Table 1 summarises the major issues raised in the submission and the commission's views on each. These matters are discussed further in the body of this report.

Table 1 Summary of industry submission

TCCI model components	Industry position	ICRC view
Network fees	The industry proposed a weighting based on actual costs and that the network fee escalation mechanism comprise 70% CPI and 30% WCI.	The commission proposed retaining a weighting based on 2001 cost levels, which factors in additional costs incurred by Canberra Cabs but is also closer to other comparable networks. The commission accepted the industry's proposed escalation method, which adds only minor complexity.
LPG	The cost of LPG should be measured monthly and averaged over the year to remove short-term fluctuations.	The commission agreed that this method is reasonable.
Vehicle costs	The industry proposed that the TCCI model reflect a weighted average of the three relevant ABS indices rather than a simple average.	The commission agreed that this method is reasonable and adds only minor complexity.
Interest costs	The industry proposal to use average debt cost divided by total costs significantly reduced the weighting of this item from 10% to 4.4%.	The commission agreed that the industry's proposed method is broadly as reasonable as using plate rental levels. However, the commission has used a slightly different interest cost calculation method.
Fare structures		
Multi-hire and high-occupancy taxi (HOT) fares	The industry proposed that multi-hire and HOT fare structures remain unchanged.	In the absence of views from customers seeking reforms, the commission has left multi-hire and HOT fare structures unchanged.
Waiting time	The industry argued that there has been a 7.5% rise in waiting time.	The commission agreed to a greater rise in the waiting time rate, to be offset by a smaller than otherwise rise in the distance rate.
Flagfall	The industry proposed that there be no change to flagfall rates.	The commission agreed that freezing the flagfall has some benefits in retaining short-distance, non-business customers.
Telephone booking fee	The industry proposed that there be no change to the telephone booking charge.	The commission agreed.
Night and weekend distance rates	The industry supported a night-time premium at 15% above the daytime rate, based on the average trip.	The commission proposed no changes to night and weekend distance rate arrangements.

1.3.6 Public hearing

Under section 17 of the ICRC Act, the commission must invite public submissions and conduct public hearings. Public submissions were invited and the commission advertised the public hearing in *The Canberra Times* on 10 April 2004, but cancelled the hearing because of a lack of interested parties.

1.4 Alternative approaches to revising taxi fares

The draft report (see section 3.2) provided a summary of the approaches used in other Australian jurisdictions to adjust taxi fares. This research indicated that no Australian jurisdiction has found a completely effective way to measure changes in return on investment (ROI) and labour costs. For simplicity and to avoid contention, most other jurisdictions (except New South Wales) exclude both ROI and labour costs.

1.5 ACT Government taxi industry policy

The ACT Government announced its policy approach for the taxi industry in December 2002.[1] The policy included annual auctions of additional taxi licences, with assistance to existing drivers. A detailed summary of the policy is included in Appendix 2.

1.5.1 Report by the Assembly Standing Committee on Planning and Environment

On 19 December 2003, the Assembly Standing Committee on Planning and Environment published a report into the role of taxis in a sustainable public transport strategy and the appropriate licensing and transitional arrangements to support that role. The report proposed the establishment of a buy-back scheme for taxi licences. The detailed terms of reference and main findings of the committee's inquiry are included in Appendix 3.

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[1] See http://www.urbanservices.act.gov.au/transroads/taxiwhatsnew.html

The committee's report was tabled in the ACT Legislative Assembly on 10 February 2004, and the government is expected to provide a response by the end of May 2004.

2 Issues in the ACT taxi industry

The ACT faces a range of local issues that need to be evaluated in designing reforms to fare revision arrangements. These matters, outlined in the commission's draft report, include falling demand, rising competition and instances of poor peak-demand response times.

The ACT taxi fleet currently services 6,800 hirings per day and travels 39.6 million kilometres per year. Assuming 1.8 passengers per hiring, the ACT taxi fleet completes an average of 12,240 passenger journeys each day. Taxis complete fewer than 1% of total road trips in the ACT, with most journeys completed by private motor vehicles. By way of comparison, 363 ACTION buses carry an average of 44,660 passengers a day on 3,000 services, completing 5% of total road trips within the ACT and travelling 22.5 million kilometres per year.

The taxi fleet of 242 vehicles comprises a mixture of sedan and station wagon standard taxis, high occupancy taxis (HOTs) and 23 wheelchair access taxis (WATs). The ACT has a relatively smaller number of taxis in relation to its population than Sydney (approximately one taxi per 1,315 residents compared to Sydney's one per 900 residents). This 33% lower taxi fleet density is explained by ACT residents making 60% fewer taxi journeys than Sydney residents (eight hirings per resident per year, compared with the Sydney average of 20).[2]

Canberra Cabs operates the sole taxi network in the ACT, which is the source of about 60% of hirings. Operators of licensed taxis, who must be accredited by the Road Transport Authority, manage individual businesses on a self-drive basis and/or by engaging drivers as they see fit. Taxi drivers are licensed after being judged fit and proper, and satisfying requirements for character, medical fitness, driving ability and knowledge of Canberra.

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[2] Sydney taxi statistics from http://www.nswtaxi.org.au, based on an approximate population of 4.3 million and a NSW Taxi Council assumption of 1.8 passengers per hiring.

2.1 Falling demand for taxis

Between 1996 and 2003, the number of light motor vehicles per capita in the ACT has risen 19%, from 0.52 to 0.62. The ACT population over the same period has risen by only 4.4%. The growth in private motor vehicles has been largely driven by the greater affordability of new cars and the relatively good availability of free or low-cost car parking. Most ACT car owners are likely to use the vehicle as their main means of travel for work and leisure, in preference to public transport (including taxis).

Table 2 shows the increase in registered motor vehicles per 1,000 people between 1991 and 2002 for the states and territories. The ACT's 15.6% increase is 1.3 times the national average. The table also indicates that five of the eight jurisdictions have higher levels of motor vehicle registration than the ACT, which suggests ACT motor vehicle growth is likely to continue to exceed population growth. This may place further pressure on the demand for taxis and buses.

Table 2 Registered motor vehicles per 1,000 people, 1991 and 2002

	1991	2002	% change
ACT	556	643	15.6
NSW	525	578	10.1
NT	507	520	2.6
Queensland	569	663	16.5
SA	637	699	9.7
Tasmania	643	708	10.1
Victoria	622	701	12.7
WA	653	731	11.9
Australia	582	652	12.0

Source: ABS.

Information provided to the commission by the CTPA and Canberra Cabs in their submission (Table 3) indicates that the trend in the number of taxi hirings has been downwards since 1996. This is one of the major pressures on the ongoing viability of the industry in its present form and composition.

Table 3 Meter activations, standard taxis and WATs, 1996–2003

Year	Meter activations	Activations per ACT taxi
1996	2,899,848	13,004
1997	2,783,663	12,483
1998	2,747,643	12,321
1999	2,777,242	12,454
2000	2,727,919	11,708
2001	2,481,302	10,021
2002	2,332,549	9,599
2003	2,484,468	10,274

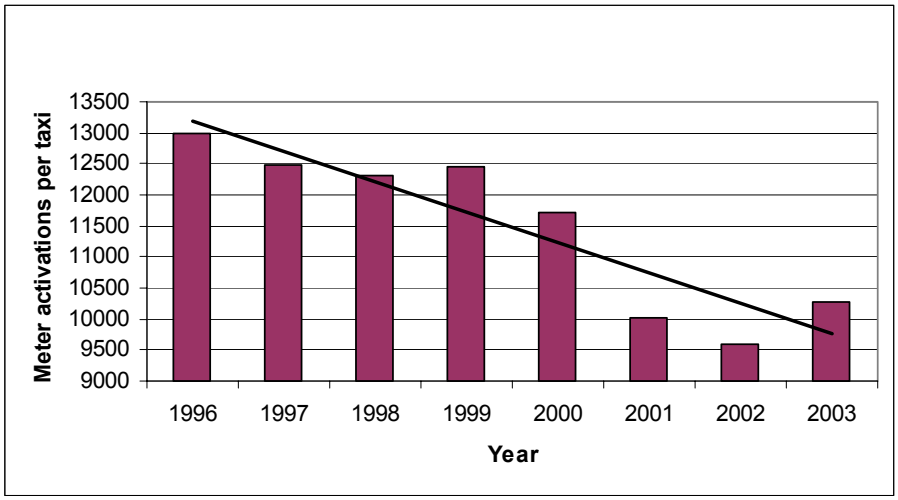
Note: These figures do not include hirings undertaken by Queanbeyan Cabs, which has operated in the market since 1 July 2001.
Source: Canberra Taxi Proprietors Association and Canberra Cabs..

The industry reports that demand (measured by meter activations) has fallen 14.3% over the past six years, from 2.90 million in 1996 to 2.48 million in 2003, while the increase in taxi numbers has resulted in a larger fall in the number of meter activations per ACT taxi of 21%.[3] Conversely, the 6.5% growth in total demand from 2002 to 2003 is hopefully a sign of demand stabilisation or recovery. This improvement in demand appears to be continuing into 2004, with March 2004 volumes 8% higher than March 2003 levels. However, the recovery in 2003 usage levels may have been boosted by higher demand from Canberra Airport and one-off events such as the Rugby World Cup and the Masters Games, and the longer term trend of weakening demand may still be present.

Figure 1 illustrates the sizable fall in the number of meter activations per ACT taxi.

[3] Caution is required in interpreting meter activation data because some job allocation systems give incentives to activate the meter (without a passenger) to avoid undesirable jobs.

Figure 1 Meter activations per ACT taxi, 1996–2003



The reasons for the decline in the demand for taxis include the following.

- A long term structural shift from public transport (buses and taxis) to private car use, with a growing proportion of households shifting from single to multi-car status. This shift is driven by rising household incomes, cheap and available parking,[4] the superior door-to-door flexibility and speed of private vehicle travel, and improved affordability because of the wider availability of salary packaging.
- Increased competition from the introduction of 16 Queanbeyan cabs[5] into the Canberra market since 1 July 2001.
- Increased competition from chauffeured hire cars. For example, CBD Transport provides a professional chauffeured hire car service from Canberra Airport to the CBD for as little as $20.[6] The typical price for a hire car for this route is $35, compared to an average taxi fare cost of about $18.

[4] Private car parking costs are relatively inexpensive; for example, airport long-stay parking costs $13 per day and parking at the Canberra Convention Centre costs $7.70 per day).
[5] Consisting of 15 standard vehicles and a 'taxi bus'.
[6] See http://www.chauffeursdirectory.com/canberra-limousines.html

- The introduction of GST in July 2000.[7]
- The increased ease of using rental cars (e.g. Hertz, Budget, Avis and EuropeCar), particularly from Canberra Airport, which can be attractive to the customer with a multi-leg journey in Canberra. At corporate rates it is possible to hire a Ford Falcon from a rental firm for about $50 per day. This rental car cost (fuel and parking costs aside) equates to less than three separate 10-kilometre daytime taxi fares (about $52).
- The relative cost of second-hand motor vehicles, which has dropped considerably in recent years.
- The introduction of 20 additional WAT licences (23 licences are now on issue). A concern from the industry is that WAT vehicles on average service only two wheelchair customers per day, indicating that over 90% of WAT taxi journeys are not wheelchair related and that WAT vehicles have diluted the earnings of standard taxis.
- Average taxi fares to outer ACT suburbs, which are less affordable for non-business travellers because of the longer distances involved. For example, taxi fares from the airport to Belconnen average $60, to Woden $52 and to Queanbeyan $34. Therefore, long-stay airport parking is often relatively more attractive for leisure travellers who live further from the airport, and the premium of hire car prices over taxi fares is generally smaller for longer trips.[8]
- Expansion of the ComCar fleet, with reduced availability of peak 'overflow' work, which was once more regularly shared by ComCar with the taxi industry.
- Competition from mini-bus operators (e.g. 'MO plates') and courtesy vehicles provided by hotels and tour operators.

Taxi industry officials in other jurisdictions indicate anecdotally that the ACT may well have experienced a larger fall in demand over the past five years than other regions of Australia. Most other jurisdictions described their demand over this period as slightly weaker or broadly stable.

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[7] A 15.56% fare rise occurred in July 2000 with 7.86% due to the introduction of GST and a normal annual rise of 7.71%. While, Commonwealth taxation and welfare payments were adjusted to broadly neutralise the impact of GST, the price rise may have deterred some demand and stimulated some switching to other transport modes.
[8] http://www.canberraairport.com.au/getting_here/car/comparison.html

2.1.1 The relationship between fare increases and patronage

The commission is keen to obtain an accurate estimate of the relationship between fare increases and patronage, which is known as price elasticity, on a market segment basis (e.g. leisure, business etc). Canberra Cabs generally argues that demand for taxis is not significantly affected by fare increases. In its draft report, to stimulate discussion, the commission provided a comparison of demand in June and July from 1996 to 2003, and matched the change in the fare rises (which normally occurred on 1 July) to any changes demand. However, as expected, this analysis was not overly useful because demand is routinely lower in July than June (typically, Parliament is not sitting during July).

The commission also considered a 2003 study by Booz Allen Hamilton (BAH), which estimated an own price elasticity for taxis of taxi users of –0.36, which implies that a 10% rise in fares would result in a 3.6% reduction in demand and a 6.4% increase in revenue. The BAH study also reported that taxi users are generally more price sensitive than bus users.[9] However, the industry submission expressed concerns that this estimate was not accurate because:

- it had a limited sample size
- the sample method of in-cab interviews may have seen a large percentage of potential interviewees reject an interview
- only those people not charging their fares to a third party were interviewed, which excluded business customers.

Overall, the commission suspects that taxi leisure travel has a reasonable level of price sensitivity and that significant fare rises would see a contraction in leisure usage. Additionally, business travel has less price sensitivity, but this segment is subject to strong marketing from hire car operators and if the price gap between taxis and hire cars narrows taxi demand would be likely to contract.

The commission notes that the government intends to expand the standard taxi fleet by 5% per year (about 12 plates). If this proceeds, and annual

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[9] BAH estimated the own price elasticity of bus users for a 10% price change at –0.2.

demand growth is less than 5%, demand per taxi will fall. The commission reiterates its position that, in the event of such an outcome, customers should not have to pay higher fare levels to compensate the industry for any decline in demand.

2.1.2 Seasonality and variability of taxi demand

During wet weather, demand can rise by 20–40% as people prefer taxis to using ACTION buses or walking (periods of wet weather are excluded from calculations of response times required under the industry service level agreement). Demand also varies strongly over the course of the year, on different days of the week and at certain times of the day.

Stronger demand is experienced during:

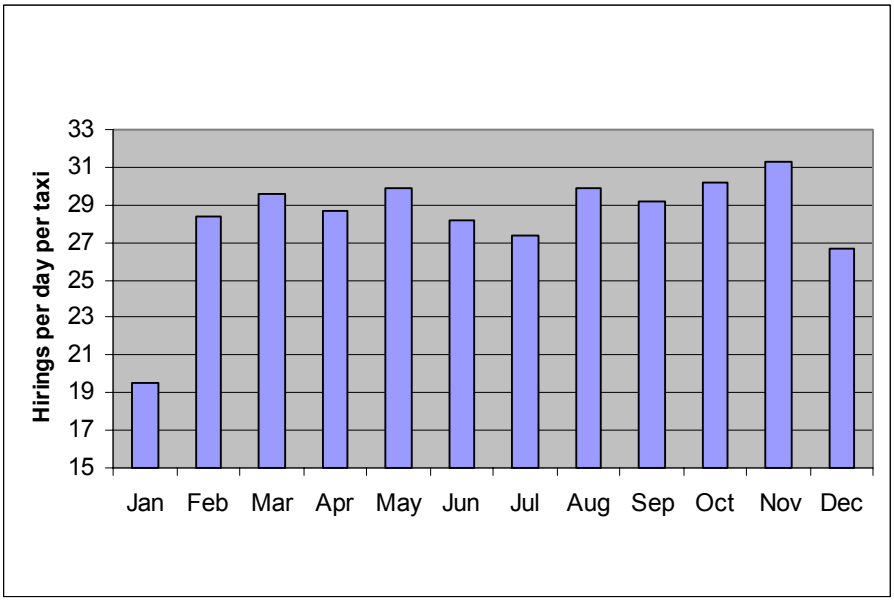
- Parliament sitting days
- Friday and Saturday evenings
- Monday mornings from the airport and Friday afternoon to the airport.

Weak demand periods include:

- substantial parts of January (and to a lesser extent December and July), because Parliament is not sitting and large parts of the public and private sectors take annual leave
- school and university holiday periods
- late evenings and early mornings (before 6 am) from Sunday to Thursday.

Figure 2 illustrates the average monthly variation in taxi demand.

Figure 2 Monthly taxi demand, 2003



2.2 Service quality and reliability

One of the commission's roles is to encourage improved service quality, reliability and safety of taxi services. Taxis, like a range of service industries (such as airlines and hotels), are required to manage a peak demand that can be several times larger than average demand. However, taxi demand appears to have a far shorter peak period (7–9 am and 4–6 pm) than buses. The BAH 2003 ACT Transport Demand Elasticity Study noted that ACTION buses complete 49% of their passenger weekday journeys in the peak period, whereas taxis complete only 11% of theirs in the peak.[10]

The Road Transport Authority (within DUS) determines performance measures and service standards (service level agreement requirements) for the network. These include maximum waiting times applicable to all taxis (including WATs), vehicle standards and other operating conditions.

[10] BAH 2003 ACT Transport Demand Elasticity Study, p. 6.

2.2.1 The 2003 DUS Taxi Satisfaction Survey

The DUS coordinates regular surveys of public transport satisfaction, which include the Taxi Satisfaction Survey. The fourth DUS survey of the ACT taxi industry's performance was completed in June 2003 using telephone surveys and direct observation of arrival times. It also included an on-board survey of WAT services.

The survey report gives satisfaction levels measured by eight criteria, including response times, accuracy of fare and cleanliness of vehicle.

Standard taxis

The satisfaction survey for standard taxis used a random telephone survey of ACT residents. The results indicate a high level of satisfaction with the service provided by standard taxis. However, the scores for 2003 are lower than for 2002 across all measures. There has been a noticeable decline in satisfaction with response times, with 81% of respondents 'satisfied' or 'very satisfied' in 2003 compared with 86% in the 2002 survey.

Average general passenger satisfaction levels were high across all criteria in 2003 and were similar to levels in 2002. The one exception was some decline in WAT customer satisfaction measures.

In the 2003 survey, a new question about overall satisfaction with the taxi service was included. The result for this measure (78% 'satisfied' or 'very satisfied') is the only result with a score lower than 80%. As all other criteria have results in the 81–93% range, the overall satisfaction rating is unusual and indicates that there may be other causes of dissatisfaction not accounted for in the survey questions. Overall, as most taxi journeys are completed by a relatively small group of frequent users (about 30% of the population typically account for over 80% of taxi journeys[11]) the satisfaction survey may produce more meaningful results if it is targeted at frequent taxi users.

In 2001, Canberra Cabs introduced a by-law to prohibit taxis from 'changing over' (changing drivers) during the peak period (3–5 pm on weekdays). This internal regulation has resulted in some improvements in peak period response times.

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[11] Some interstate estimates of usage frequency are provided in the 2002 National Taxi Users Survey Report. See http://www.transport.nsw.gov.au/pubs_legal/taxi-users-survey-2002.pdf

In some outer parts of Canberra, the response times of taxis during peak demand periods continue to be unsatisfactory. Response times can be poor because drivers estimate that the 'dead running' incurred to service outer suburbs is outweighed by the earnings achievable by focusing on more central locations. In this regard, the commission will continue to monitor response times, and if they worsen significantly the commission would consider either freezing fares or reducing the adjustment of fares to below the full cost movement.

The ACT has for several years had a system that does not provide the destination to drivers until they have accepted the hiring. This is seen as an effective means of ensuring that attractive and less attractive fares obtain similar response times. The NSW Government is now piloting this non-disclosure system, and has also sought to make the networks accountable for poor response times via a system of financial penalties or fines. The networks have responded by:

- implementing a system to penalise drivers who regularly reject less desirable jobs through warnings, counselling and withdrawal of network access.
- offering cash incentives ('paid dead running') to drivers to accept less desirable fares (a budget for these incentives is included in network fees, and the network is using this approach as a last resort).

The survey results also indicate that the general public is not sufficiently aware of the complaints mechanisms available for taxi services. The commission understands that availability of appropriate information for consumers about complaints will be addressed by DUS as part of Canberra Cabs' service provider accreditation compliance requirements. There is a need to educate the public about how complaints can be made and the processes used to investigate and remedy those complaints. The DUS has established independent complaints mechanisms, with telephone, fax, email and postal reception options.[12]

The commission also notes that Canberra Airport has on occasions made some public complaints about excessive waiting times during peak periods. While Canberra Cabs has to date put significant effort into servicing this

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[12] See http://www.urbanservices.act.gov.au/transroads/complaints.html

substantial demand generator, there will be an ongoing need to obtain productivity gains and to pursue innovations to ensure acceptable airport response times. The commission suggests that Canberra Cabs and the airport continue to work closely to mitigate peak period delays.

Surveyed peak and off-peak response times for WAT customers were slower in 2003 than in 2002:

- off-peak 85th percentile — 18:24 minutes (17:22 minutes in 2002),
- off-peak 95th percentile — 21:06 minutes (19:12 minutes in 2002),
- peak 85th percentile — 21:15 minutes (16:30 minutes in 2002),
- peak 95th percentile — 23:50 minutes (17:00 minutes in 2002).

Statistics provided to the DUS by the networks are included in the tables below.

Table 4 Waiting times for standard taxis, 2001 to April 2004

Measure	Target	2001–2002	2002–2003	January 2004 – March 2004
Peak period < 18 mins	85%	97%	97%	95.6%
Peak period < 30 mins	95%	100%	99%	99.0%
Off-peak period < 10 mins	85%	86%	86%	83.9%
Off-peak period < 20 mins	95%	99%	99%	98.5%

Observed waiting times for standard taxis have been stable in recent years and have been at or below requirements (that is, performance has met or bettered requirements). Response times in peak periods have typically bettered requirements by a substantial margin, but response times in off-peak periods have tended to only just meet the requirement that 85% of customers wait less than 10 minutes; in fact, this target has not been met over the financial year to date. In relation to more recent performance during 2004, the commission notes performance at better than target levels for three of the four measures, the exception being the proportion of off-peak bookings collected in under 10 minutes (the result of 83.9% is slightly below the target of 85%). Table 5 illustrates the monthly variation in waiting times.

Table 5 Waiting times, standard taxis, monthly results for 2003

Measure	Target	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Peak period <18 mins	85%	99%	97%	96%	98%	96%	96%	98%	97%	97%	97%	94%	95%
Peak period < 30 mins	95%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
Off-peak period < 10 mins	85%	87%	85%	85%	86%	86%	85%	86%	85%	86%	85%	83%	82%
Off-peak period < 20 mins	95%	99%	98%	98%	99%	99%	99%	99%	99%	99%	97%	98%	98%

The monthly statistics show that requirements were also bettered in most cases during 2003. The monthly data does not highlight any particular month as having deficient service quality. Overall, the target of collecting 85% of off-peak bookings in under 10 minutes appears the most challenging for Canberra Cabs. The monthly data indicates most off-peak booking collections are near the target, but one in four months fell below the 85% target.

WATs

The customer satisfaction results for WATs show some improvements from 2003, but the WAT service remains less highly regarded than the general taxi service. The cleanliness of WATs, the routes taken by WATs and WAT drivers' knowledge of Canberra are rated higher than for standard cabs, but satisfaction with response times is much lower for WATs, with only 60% of wheelchair passengers 'satisfied' or 'very satisfied'.

The issues raised by WAT users generally relate to the late arrival of their taxi and to the apparent lack of help from base staff when customers enquire about the whereabouts of the taxi. However, this is an improvement on last year's result (56% satisfied or very satisfied). The survey identified further areas of concern in relation to WAT hirings, including the following.

- In over 10% of hirings, wheelchairs are not fully secured.
- Driving ability has a lower level of satisfaction than in 2002.
- Over 52% of wheelchair passengers are unable to sight the taximeter.
- In 100% of hirings, passengers in scooters are not required to relocate to a seating position in the taxi.

Although the numbers are very small (for example, only three respondents use a scooter), the results indicate that the new regulations on the transport of scooters in taxis, and the new standard for taximeter display in WATs, are not being met.

Given the number of vehicles operating as WATs in the ACT. there is no reason why the requirements set out in the taxi network performance standards could not be met. A key concern raised in the Canberra Cabs submission is the fact that fewer than 7% of WAT hirings involved a customer with a wheelchair, which may imply an inadequate focus on serving the intended primary market.

The service level agreement requirements for response times have recently been amended. Previously, requirements were the same for WAT and non-WAT customers:

- 85% of response times to be no more than 10 minutes (18 minutes between 3 pm and 6 pm Monday to Friday)
- 95% of response times to be no more than 20 minutes (30 minutes between 3 pm and 6 pm Monday to Friday).

From the December 2003 survey period, a morning peak period has been included for WAT performance measurement. Additionally, a 10 minute allowance has been added to response times for WAT customers in recognition of the average loading time required before activation of the meter. Figures provided to the DUS by the networks are included in the tables below:

Table 6 Waiting times, wheelchair accessible taxis, 2001–2 to April 2004

Measure	Target	2001–2002	2002–2003	January–March 2004
Peak period <18 mins	85%	86%	74%	81.6%
Peak period < 30 mins	95%	95%	91%	91.5%
Off-peak period < 10 mins	85%	72%	66%	76.7%
Off-peak period < 20 mins	95%	92%	89%	91.8%

As noted in the survey results discussed above, waiting times for WAT users have consistently been below targets in recent years. Performance improved

in the year to June 2002 but has fallen substantially since. WAT waiting time performance during the first three months of 2004 continues to be below target, and the commission is keen to see this situation corrected.

Table 7 Waiting times, wheelchair accessible taxis, monthly results for 2003

Measure	Target	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Peak period < 18 mins	85%	77%	68%	69%	74%	61%	60%	65%	66%	65%	66%	56%	83%
Peak period < 30 mins	95%	92%	89%	88%	87%	83%	84%	89%	88%	88%	87%	82%	93%
Off-peak period < 10 mins	85%	66%	64%	60%	61%	55%	58%	56%	49%	51%	52%	43%	76%
Off-peak period < 20 mins	95%	88%	90%	86%	87%	83%	82%	86%	82%	80%	84%	75%	91%

The waiting time targets for WAT passengers were not met in any month of 2003. The best result was recorded in December, which is a month of quieter demand. The commission wants greater attention paid by all stakeholders to improving this situation. Consequently, the commission suggests that the DUS and the industry continue to work together to evaluate options to improve WAT service quality. Options may include:

- changing the lift fee subsidy level and clarifying the time when the meter should be activated and terminated, to ensure that compensation to drivers and operators for servicing the WAT market is adequate
- simplifying interdepartmental arrangements to ensure a broader availability of the lift fee subsidy to all genuine wheelchair customers
- extending the permitted maximum life of WAT vehicles from six to eight years (this reform is operating in other states, it will improve operator viability, and the impact on service quality will be relatively low because of the smaller mileage completed by WAT vehicles)
- improving the capability of the network to direct WAT vehicles to wheelchair-related work via mechanisms such as a cap on the percentage of WAT fares a driver can reject before some form of sanction (e.g. a period off-line from the network).

2.2.2 Safety

In assessing the adequacy of safety, the commission has considered the 2003 DUS Taxi Industry Survey results. A key measure of passenger safety is the number of complaints about unsafe driving, unsafe vehicles or assaults by drivers on passengers. According to the survey, 83% of respondents were either satisfied or highly satisfied with driver ability, which implies a safe approach to vehicle operation. In the same survey, 89% of respondents were either satisfied or highly satisfied with vehicle condition, implying a safe operating condition.

Accident statistics from the RTA for 2002 indicate that taxis and hire cars are involved in 0.59% of ACT motor accidents (92 accidents out of a total of 15,493).[13] As taxis account for an estimated 0.8% to 0.9% of kilometres travelled, this indicates an accident rate less than that of the general population of ACT motor vehicles.

Vehicle safety and the taxi inspection program

A robust formal vehicle inspection regime is necessary to exclude unsafe vehicles and enforce regulations such as maximum age limits. Supporting this formal regime, the ACT has a peer enforcement culture whereby taxi drivers regularly notifying the network of other vehicles they deem to be in poor condition or non-compliant.

Inspectors from the Road Transport Authority began a regular taxi inspection program from August 2002. The program applies to all taxis operating in the ACT. On-road inspections are conducted at Canberra Airport and ACT taxi ranks. To ensure that there is no interference with paying taxi customers, inspectors do not stop taxis at other roadside locations unless a taxi poses an immediate threat to public safety. The inspections cover:

- compliance with driver licensing, information display, equipment and vehicle registration requirements (e.g. taximeters are sealed)
- roadworthiness
- comfort and cleanliness.

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[13] See http://www.transport.act.gov.au/roadtransportroadsafety/crash/crash.html

Driver and passenger safety

A key aspect of taxi safety is minimising the risk that passengers and drivers will be involved in incidents that compromise their safety. Over the past few years, initiatives have included the following.

- **GPS-based alarms.** These can be activated by drivers to seek assistance from police or other drivers in the event of theft or assault by passengers. GPS is used to accurately locate the vehicle and to direct support to it. While GPS does not have the deterrent value of other mechanisms, such as security cameras, it has prevented a number of potential assaults. Police, but more particularly other taxi drivers, respond rapidly when the alarm is raised and are able to converge on the location to assist the driver.

- **Security cameras.** These provide a further means of improving safety and security in taxis. The T8030 network system used by Canberra Cabs incorporates GPS dispatch methods and includes security surveillance cameras in all vehicles, which transmit live digital images to base control in the event of a driver emergency. While there is little empirical evidence available in this area, the security cameras appear to have significant deterrent value against assault and fare evasion. While cameras do not protect the driver, they aid the prosecution of the offender after the event. Anecdotally, disputes over fares lead to a large proportion of assaults. Successful fare evasion prosecutions encourage the reporting of the offences and provide an additional deterrent.

In an industry that seeks to provide a quality service, drivers need to be healthy physically and psychologically to improve quality. To date, it is not clear that driver health has received enough attention. The regulations place obligations on both drivers and operators to manage of fatigue, but enforcement is difficult. A culture may exist where drivers are allocated shifts according to their fare-earning abilities. The best earners work the weekend shifts, when the pressure to earn high takings is greatest. Here, the length of shifts is often a cause for concern. The most frequent shift arrangement is five 12-hour shifts, although six 12-hour shifts are quite common and create a higher risk of fatigue-related accidents. Of more concern is that some drivers under financial pressure complete shifts longer than 12 hours. Network systems are able to monitor and control driver fatigue, but are generally not used for this purpose.

A Queensland Government survey (2001) of 98 taxi drivers seeking to identify their main health and safety concerns found that the four key concerns were long hours of work (52%), driver risk of assault (33%), inadequate training (27%) and abuse from the public (25%).[14] Secondary concerns included adequacy of vehicle maintenance (8%), insurance against personal injury (7%), poor seating (4%), wearing of seatbelts (3%) and air pollution (3%). Minor concerns included infection control, personal health, education of the public, access to toilets, and dirty cars. The commission would expect similar concerns to be present in the ACT. The NSW Taxi Council provides drivers with basic occupational health and safety advice, which is also relevant to ACT drivers.[15] As adequate driver numbers is becoming an industry viability issue in the ACT, the commission sees merit in assessing whether occupational health and safety problems are significant in the territory.

Conclusion 1

Overall, the commission is satisfied that service quality for standard taxis is adequate. However, the commission believes there is a need to improve peak and off-peak response times for WAT customers and for standard taxi customers in outer areas. The commission suggests that the government and industry evaluate options for improving WAT response times to acceptable levels.

The commission also suggests that the satisfaction survey for standard taxis be refined to include some interviews or phone surveys with regular taxi users.

2.3 Network fees

Since 2000, the commission has expressed an ongoing concern at the level of the network fees that operators are charged by Canberra Cabs. In its July 2002 decision, the commission noted that network fees in the ACT were

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[14] Review of Taxi Driver Remuneration and Conditions, Queensland Department of Industrial Relations and Queensland Transport, August 2001. See www.transport.qld.gov.au/qt/PubTrans.nsf/files/taxidriverconditions.pdf/$file/taxidriverconditions.pdf

[15] See http://www.nswtaxi.org.au/drivers_working_as_a_driver_oh&s.htm

significantly higher than in much of NSW and took the decision to freeze this cost component at the 2001 cost of $12,454 (13% below the February 2004 cost), on the basis that the cost was higher than for other jurisdictions. Canberra Cabs network fee levels at May 2004 are now $14,170 per year. In its submission, Canberra Cabs put the view that any model the commission implements must include the full cost of the network fees to the plate owner or lessee, as these are real costs to the plate operator. Canberra Cabs believes that it is unreasonable and unfair to compare network fees in the ACT with other jurisdictions because, with only 242 plate owners, there are insufficient economies of scale to reduce costs in line with other jurisdictions. Canberra Cabs also argues that it provides a greater range of government advocacy services than the NSW taxi networks because the ACT does not have a separate taxi council.

The average NSW urban network fee, as estimated by the NSW Independent Pricing and Regulatory Tribunal (IPART) in June 2003, is $6,500. The commission acknowledges that because of better economies of scale in Sydney the NSW urban network fee level may not be achievable in Canberra (assuming similar technology). IPART's June 2003 NSW country average network fee estimate of $10,667 may be more relevant. This figure is calculated as the plate weighted average network fee cost of Albury, Armidale, Bathurst, Coffs Harbour, Tamworth and Wagga Wagga. However, these six towns use simpler (voice-only dispatch) trunk radio based technologies, not the computerised dispatch system used in the ACT, and all have taxi fleets much smaller than the ACT fleet.[16]

Newcastle (158 taxis) and Wollongong (128 taxis), regional cities that are more similar in size to Canberra, currently charge network fees of approximately $10,100 and $6,600 respectively.

Table 8 provides further benchmarking information on average 2003 taxi network fees in other jurisdictions, illustrating that the ACT cost is 33% to 195% more expensive, along with comparative fares and lease fees.

The greater consolidation of networks occurs because network costs are mainly fixed and are shared among more vehicles. An exception to this trend is the decision by Manly Cabs (180 cars) to leave the Taxis Combined

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[16] The six NSW country towns used by IPART have between 17 and 29 plates per town.

network in Sydney (around 3,100 taxis). This move was driven by a desire to provide a better service to a local community, which was not seen as achievable as part of a Sydney-wide pool. Following the move from the Taxis Combined network, the commission understands that the Manly network fee is about 10% above the Combined Network fee of $6,363. This demonstrates that it is possible for a small fleet to use a high degree of network technology (supplied by Raywood) at a cost similar to best practice. However, the commission does not have access to the necessary information to compare Manly and Canberra technology quality, or to evaluate the cost recovery and sustainability of the Manly network fee level.

Table 8 Average network fees fares and plate lease rents in different jurisdictions

Jurisdictions	Network fee	Extent ACT network fee higher	Estimated fares (10 km trip at weekday day rate inc. flagfall)	Estimated average annual lease fees[a]
ACT	$14,170	n.a.	$16.35	$19,000
NSW urban average	$6,500[b]	118%	$17.95	$21,913[b]
NSW country average	$10,670[c]	33%	$17.25	$11,884[c]
Queanbeyan	$10,220	39%	$17.25	$19,760
Northern Territory	$10,300	38%	$17.00	$16,000
South Australia	$5,360	164%	$14.60	$12,000
Victoria	$5,670	150%	$15.90	$23,000
Western Australia	$6,240	127%	$14.60	$18,000
Tasmania	$4,800	195%	$15.80	$9,000

a Lease fees are market based.
b urban areas
c country areas
Source: IPART and ACT Department of Urban Services Submission to Assembly Standing Committee on Planning and Environment, December 2003.

Based on the network fee information above, the ACT network fee is probably the highest such fee in Australia. It also appears that most other networks select a technology type and cost structure to provide their customers with a fit-for-purpose service quality while limiting the total cost incurred per taxi to a more affordable level (typically between $6,000 and $10,700 per year).

The ACT taxi network currently has a monopoly, and the fee is a cost level set by the ACT industry. Rises in this network cost improve the financial position of Canberra Cabs, which translates into higher share values for the

shareholders (the ACT taxi industry participants). Consequently, the commission views as unreasonable the industry's request to automatically pass through cost rises from a cost base well above most comparable networks.

2.3.1 The costs of operating the ACT taxi network

During August 2002, Canberra Cabs entered a 50:50 joint venture with Sigtec to form iDispatch (ACT) Pty Ltd.[17] Fifty per cent of any profit earned by iDispatch is retained by Canberra Cabs. iDispatch provides Canberra Cabs with bureau services, which involve staffing the call centre to process bookings and providing information technology to enable allocation of bookings to individual taxis. The contract is for seven years, with two separate three-year options for extension. As part of the joint venture, Sigtec made an investment of $2.8 million in new software and a new radio system that operates across five channels, providing excellent coverage throughout Canberra city and surrounding areas. A call centre staff of approximately 40 was transferred to iDispatch. The previous Motorola network system had a life of nine years.

To better understand the cost structure of the network, the commission has analysed the audited financial statements of Canberra Cabs for 2001–02 (before bureau services were outsourced to iDispatch) and for 2002–03 (including iDispatch).

Some key features of the financial statement and balance sheet are:

- growth in total costs of 11.3% from 2001–02 to 2002–03, which was only partially offset by base fee revenue growth of 5.7%
- the largest single network cost is for iDispatch ($7,780 per taxi in 2002–03), with other key network costs being salaries ($2,440 per taxi), accident losses ($690), director's fees and honoraria ($600), superannuation ($510) and airport commissionaire ($510)

[17] Sigtec Australia limited is a Melbourne-based IT company was established in 1982. Sigtec has a range of taxi network joint ventures and contracts in Sydney, Edinburgh and Christchurch. For further information on Sigtec, see www.sigtec.com.au.

- a 2002–03 pre-tax profit margin of 16%, down from 19.7% in 2001–02, and a pre-tax profit of $3,050 per taxi in 2002–03 ($3,550 in 2001–02)

- progressively accumulated assets mainly in the form of investment-related interests (e.g. shares), which comprise 89% of total assets of $8.32 million.

Further analysis of the treatment of network costs is provided in Section 3.2.3 of this determination.

Conclusion 2

The commission believes that the size of the Canberra network fee remains an area of significant concern. The commission notes the industry's comments on its additional costs and on economies of scale. Nevertheless, given that there is no alternative network in Canberra to benchmark against, the commission in calculating fare changes will permit only efficient levels of cost growth from a reasonable network cost level.

2.4 Return on investment

Before the June 2002 price determination, plate ownership and plate leasing costs were not included when calculating fare changes. In June 2002, the average market plate lease fee was $26,000 per year, and this amount was used to weight the return on investment (ROI) component of the WCI.

The first preference in the industry submission is to remove any ROI or interest cost component from the fare adjustment mechanism. This view is based on a position that any return on investment in the plates will be achieved through capital gains (or losses) when the plates are sold. Therefore, the industry believes that a return on investment should not be part of a taxi cost model. The latest available information indicates that lease fees have now fallen to a level of about $19,000 per year (in May 2004), a reduction of 27% from the levels of May 2003. The commission understands that the trend in plate values has been similar, but this is harder to identify because there are relatively few sales. Also, some sales include the vehicle as well as the plate.

The commission believes that the reduction in lease fees is generally attributable to:

- weakening demand and rising competition from MO plates, ComCars, hire cars, rental cars and private cars
- general uncertainty over the impacts on the value of plates of the government's announced intention to auction additional plates
- the addition of 20 new WAT plates since December 2000, with less than 7% of fares serviced by these vehicles being for customers with wheelchairs or poor mobility
- the liberalisation of the ACT and Queanbeyan markets, permitting the entry of 16 Queanbeyan taxis into the Canberra market.

As summarised in Appendix 2 of this determination, the ACT Government announced a taxi reform package in December 2002 that provides for taxi licences to continue to be perpetual and tradable, but also for 5% more perpetual licences to be issued each year. The likely impact of this gradual expansion of the fleet on supply and demand will be a progressive reduction in plate values.

With this change in government policy, any implied guarantee that the value of taxi plates would continue to rise because of restrictions on new entries has now gone. The experience in recent years of both a decline in demand and an increase in numbers of new entrants is reflected in falling lease fees for plates. Taxi plate owners cannot avoid the reality faced by investors in other businesses — that an investment only remains viable when it generates an adequate rate of return.

As for other businesses, the cost of capital for taxi plate owners is made up of the weighted average cost of debt and cost of equity. A taxi plate owner, from a cash flow perspective, may be prepared to delay a recovery of the cost of equity in the hope of a capital gain at some future time, but faces the reality of having to meet the cost of debt on a monthly basis.

The industry has conducted a survey of all ACT taxi plate owners to determine the cost of debt (or average interest cost) and current debt size involved in the purchase a taxi plate. A total of 58 responses (from about 20% of the industry) were received. The results of that survey indicate that financial arrangements vary dramatically, from outright ownership to owners

who have borrowed 100% of the cost of the plate to buy at or near to the top of the market (using their home as security) only to see their plates decline in value in recent years. The average purchase price was $217,104 (range $12,500 to $300,000), the average current loan balance was $107,367, and the average interest rate was 8.02% (range 6% to 14.25%). The interest rates paid depend on the level of security provided (a lower rate will prevail for loans secured against residential property) and the degree of gearing (the bank debt as a percentage of the plate value). The average loan balance indicates a gearing of about 50%.

Overall, the survey and market yields for taxi plates indicate that the costs of debt and equity capital are significantly above the 10-year Commonwealth bond rate.

2.5 Labour

The WCI used by the commission sets labour costs in the current year as the sum of the other cost components (fixed costs, variable costs and ROI) and so labour becomes 50% of total costs in the WCI. Within the WCI, the change in the labour cost is then 'back-cast', based on the movement in the ABS ACT Full Time Adult Total Earnings series. This approach was favoured by the commission because it matches the longstanding 50:50 split of income between drivers and operators. The commission notes that while the notional size of the WCI's labour cost changes because of changes in items such as vehicle lease costs, LPG fuel, tyres, insurance etc, this linkage is only active in the weighting process. The structure of the WCI means that half the size of the fare rise is driven by half the change in the ABS Full Time Adult Total Average Earnings (AWE) series. The commission recognises that the labour adjustment in the WCI has shortcomings, which were detailed in the draft report, with the key problem being a perception issue which implied that driver earnings were well below estimates of average actual earnings.

While the industry understands this issue, it would still prefer to refine the WCI so that the labour cost amount is more reasonable and realistic, as well as allowing the labour cost quantum to move independently of other costs.

In its March 2004 submission, the industry proposed two ways to treat the labour component.

Its first preference was a model based on a viable taxi business, which reflects the cost of the amount of time that a driver spends driving the taxi. The cost would be valued at the rate established through industry–government negotiations, escalated by the ABS Wage Cost Index.

The industry considered that, if the commission proceeded with a TCCI approach, a 50% weighting escalated by the ABS Wage Cost Index was reasonable.

Overall, the feedback from the draft report indicated that the commission's proposed TCCI labour approach of a 50% weighting and escalation by the ABS Wage Cost Index is acceptable.

2.5.1 Escalation of the labour cost component

In the current WCI, the commission has used changes in the ABS AWE as a proxy for labour cost changes in the taxi industry. As acknowledged by IPART,[18] the ABS has advised that its Wage Cost Index series provides a superior measure of the change in wages on a constant quality basis, as it avoids labour-type and productivity changes that are captured in the AWE series and may result understated wages growth.

The industry submission supports a change to use the ABS Wage Cost Index. Based on the ABS advice, and the submission from the industry, the commission will adopt a labour cost escalation methodology that uses the ABS Wage Cost Index.

Conclusion 3

If escalation of a labour cost is required, the commission will use the ABS Wage Cost Index.

[18] Independent Pricing and Regulatory Tribunal of NSW, *Review of fares for taxis in New South Wales in 2003 from 31 August 2003*, Report to the NSW Minister for Transport Services, August 2003, p 17.

2.6 Distance travelled

The terms of reference require the commission to consider how to take into account any change in the average number of kilometres travelled by taxis. The industry submission reported an average distance travelled of 174,259 km based on network data for meter activations and survey data on the average distance per fare. This latest estimate represents an 8.3% rise from the estimate provided by the industry and used by the commission in the May 2003 fare adjustment (160,885 km) using the WCI. This growth in distance travelled is consistent with the rise in meter activations per taxi of 7% between 2002 and 2003 (see Table 3). A key problem in average cost estimation is the widespread variation in distances travelled by individual taxis.

The terms of reference required the commission to consider how to take account of changes in average distance travelled because some fare change methods (such as the WCI and profit and loss statement approaches) need to adjust some prior year cost levels (such as LPG costs) to a 'common distance' in order to more accurately measure the change in costs. This adjustment was necessary, as the underlying cost change could be distorted by the change in distance travelled. The commission's TCCI approach substantially overcomes the need to adjust for changes in distance travelled because weights are determined for key cost categories that vary by distance travelled, and the adjustment for each category is linked to a transparent measure of cost change (such as the ABS Motor Vehicle Repair and Servicing Index).

In the event that distance travelled changes significantly over the period of the price determination, the TCCI has a weighting reset process (specified below) that can be used to change the weighting of costs driven by distance travelled to contemporary levels.

2.7 Price path duration

The minister's reference for investigation requires a determination of taxi fare levels for the three years from July 2004. Such a three-year price path is desirable to improve industry certainty and to reduce regulatory costs for industry and the commission. In practice, the commission would establish a three-year price path by defining a methodology to be used for the July 2004 price change and use the same method for any price changes in July 2005

and July 2006 without the need for a full price investigation. A three-year path also arguably encourages efficiency in the industry because the benefits of any cost reductions by operators are retained by them as additional profits until the next price direction.

Because of the nature of the industry and the impact that government decision-making processes can have on it, the industry has agreed that, as far as possible, fare changes should be limited to once a year with an announcement in late May[19] and an effective date from 1 July, in line with the government financial year. However, if cost items change substantially as a result of factors over which the industry has no control, the impact of such a shift in costs should be reflected in fares as soon as possible. In these exceptional circumstances, the commission would consider the need for an additional fare adjustment outside the normal annual July cycle.

The commission has noted above that the government's planned expansion of the taxi fleet is likely to progressively reduce plate values. Depending on how any ROI / interest cost component of taxi fares is calculated, a sizable reduction in plate values may create a need to revise the weighting of this component.

Overall, the commission recognises that any fare adjustment mechanism needs to be flexible to accommodate significant changes to costs over which the industry has no control. While the commission would like to commit to using the same methodology for 2005 and 2006 as part of a three-year price path, it recognises that the industry is undergoing a period of change. The commission needs to reserve the right to modify the fare change calculation methodology over this three-year period if necessary, to ensure that outcomes are consistent with the commission's objectives and fully consider issues as required under section 20 of the ICRC Act.

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[19] To enable sufficient time to manufacture new meter chips and to print new fare information material.

Conclusion 4

The commission proposes to establish a three-year price path for taxi fares with a fixed weighting for various cost components. However, the commission also acknowledges that material changes in costs or other unforeseeable events may create a need for TCCI weights and inclusions to be reset within the three year-period. To this end, the commission will consider a submission from the industry seeking a weighting revision (between three-yearly resets) where a combination of cost changes occurs such that a reweighted index leads to a difference of 1% from the change suggested by the existing weights. The commission will also consider changes to weighting or components where a change to regulations, legislation or taxation is seen to be material to the costs of taxi operators, or a major adverse event occurs that is viewed by the commission as being a *force majeure* event .

3 Establishing a new taxi fare revision methodology

3.1 Options assessed

In the issues paper and the draft report, the commission examined approaches used in other jurisdictions and a variety of potential options for establishing a new taxi fare revision method, as shown in Table 9.

Table 9 Options for fare revision methods

Taxi fare revision options	Commission view
• **A single ABS index:** possible indices range from Canberra CPI or components of the CPI such as the Transportation Index or the Private Motoring Index. As an example, the Western Australian Government has decided to use the ABS Private Motoring Index to adjust taxi fares in that state. The Private Motoring Index represents 19% of the CPI and costs include new motor vehicle costs, fuel, repairs, servicing, parts, accessories and other motoring charges.	• A single ABS index would not provide an adequately accurate measurement of cost changes for taxis.
• **A composite index (a formula of ABS indices):** use of a combination of indices to approximate change in the costs of operating a taxi (e.g. 50% AWE and 50% Private Motoring Index)	• While a composite index is superior to using a single ABS index, as some sizable costs are taxi specific and cost estimates can be obtained with minimal subjectivity (e.g. compulsory third party personal insurance premium and LPG), a more accurate measurement of cost changes for taxis can be achieved by using a mix of ABS indices and taxi-specific costs where these are not subjective.
• Refinements of the weighted cost index to form a **taxi composite cost index**	• As proposed in the draft report, overhauling and streamlining the weighted cost index to form a taxi composite cost index has the most merit.

3.2 Refinement of the TCCI

The commission favours the establishment of a taxi composite cost index (TCCI) as proposed in the draft report, but with a number of minor refinements. A key reason for favouring the TCCI is the substantial complexity of determining an average cost per item for an industry consisting of over 160 operators (controlling 242 vehicles) each with different approaches to cost management. For example, part of the fleet utilises relatively cheaper retread tyres, while other operators prefer the additional comfort, safety and performance of more expensive new tyres. Some operators wash and maintain their own vehicles (with a major cost saving), while others outsource such functions.

These differences in the cost structure of effectively 160 separate 'businesses' create difficulties in developing an average cost structure across the total industry. Thus a cost building-block approach of the type used to regulate the gas or electricity sections does not readily apply to the taxi industry. However, all taxi operators face cost changes and under an 'efficient cost recovery' model would seek to adjust their fares to reflect these changes in efficient costs. The WCI approach sought to address this issue but created some confusion about its operation. The TCCI model attempts to overcome these price changes while still reflecting underlying movement in costs faced by each of the many individual businesses.

From July 2004, the commission therefore proposes to use the TCCI and aggregate items into the following ten components:

- labour
- interest
- network fees
- insurances
- LPG
- vehicle costs
- vehicle repairs and servicing
- tyres
- registration and third party personal insurance
- administration and other costs

Each of these proposed cost components of the TCCI is discussed below.

3.2.1 Labour costs

The 'labour costs' line item is intended to cover both driver and operator labour costs, including entitlements and superannuation. The suggested weighting is 50%, which makes this weight consistent with income-sharing arrangements. The commission will change escalation methods as recommended by the ABS and endorsed by the industry. The commission will utilise the ABS ACT Wage Cost Index (hourly rates of pay—excluding bonuses, public and private sectors; ABS Series 6345.0 Table 2B). The TCCI proposed by the industry used the same approach. The wage cost index has typically had growth in excess of CPI, with levels varying between 3% and 4.5% since 2000.

The change in the Wage Cost Index between March 2003 and March 2004 was 4.23%.

3.2.2 Interest cost

The commission considers that the cost of owning or leasing plates is a legitimate cost of taxi operation and changes in this cost should be captured as a component of fare adjustment calculations.

The industry has completed an internal survey of all ACT taxi plate owners on cost of capital within the industry, and received 58 responses (or about 20% of the industry). The key results were an average purchase price of $217,100 (range $12,500 to $300,000), average initial debt of $152,000, average current loan balance $107,367 and average interest rate of 8.02% (range 6% to 14.25%).

More complete information on investments in taxi plates was provided recently by the DUS (as presented in its December 2003 submission to the Assembly Standing Committee on Planning and Environment). The DUS information indicates that the average price paid by the current holders of taxi plates is likely to be between $160,000 and $170,000.

The March 2004 industry submission proposed an interest cost of $8,032 per year based on a total debt amount of $170,000, an 8% interest rate with the loan extending over 15 years, and total interest paid over 15 years of $120,493. This total interest bill is then divided by the 15 years to calculate a cost of $8,032. The industry approach did not consider the time value of money.

The commission recognises that interest costs vary substantially between operators, which makes setting a weighting more complex. For the purpose of estimating a reasonable average interest cost to calculate a fair weighting, based on the DUS data and the industry survey, the commission proposes to assume an average investment cost of $170,000, full debt funding of this investment (typically secured against other assets) and an average assumed interest cost of 8% per year. These assumptions produce an estimated interest cost of $13,600 per year, which results in a weighting of 7.2%. This is a significant change from the commission's draft report, which proposed using used plate rental costs as a proxy for interest costs and suggested a weighting of 10%.

Based on draft report feedback, the commission will escalate the TCCI interest cost component by the change in the 90-day bank bill rate from March to March. While the bank bill rate is generally lower than rates paid by taxi owners, the changes in the bill rate should broadly follow the interest rate changes experienced by taxi plate owners, and the bill rate has advantages of low subjectivity and high currency.

Following adjustments to monetary policy by the Reserve Bank of Australia, the 90-day bank bill yield has risen by 73 basis points between March 2003 and March 2004. The average bank bill yield has risen from 4.77% (20-day average prior to 31 March 2003) to 5.50% (20-day average prior to 31 March 2004), which represents a rise in interest costs of 15.25%.

3.2.3 Network fees

The draft report provided analysis of the efficient cost of a network fee for the ACT. The current Canberra Cabs network fee is $14,170. The draft report estimated additional costs incurred by Canberra Cabs, being mainly the complaints line, monthly reporting, airport staff and inspection requirements (which would not normally be incurred by networks in other jurisdictions), of about $1,500 per year per taxi. The Queanbeyan network uses the same equipment, call centre and service provider as Canberra Cabs for a network fee of $10,220. However, there maybe further costs above this level, reflecting the four activities identified above.

The draft report proposed a weighting of 5% for network fees in the TCCI, based on an estimated efficient cost of $10,000 to $11,000 per year per taxi. The commission has further considered this matter, including the extent of

the additional costs incurred by Canberra Cabs (as identified above) offset against a view that the actual current cost is significantly above the efficient cost with the Queanbeyan cost providing a low-end reference point. For the purpose of setting a TCCI weight, the commission will assume a cost level equal to the Canberra Cabs 2001 cost level of $12,451, which equates to a weighting of 6.6%—an increase from the 5% proposed in the draft report.

The key component of the network cost is the cost associated with the outsourced network provider. This contract has a CPI cost escalation clause and the commission therefore proposed to escalate the network component by CPI. The industry submission proposed that a mix of 70% CPI and 30% Wage Cost Index be used, as this hybrid approach recognises that Canberra Cabs has significant labour costs over and above the network outsourcing contract. The commission has accepted this refinement to network costs escalation.

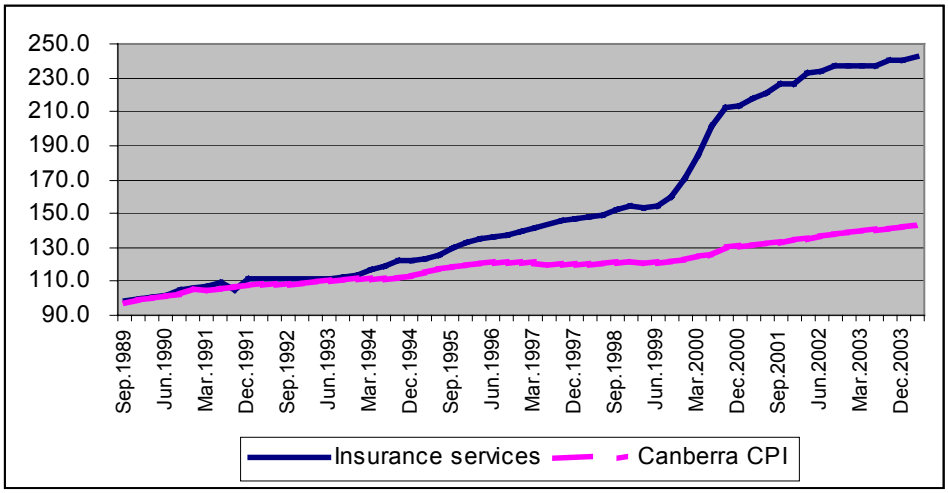
3.2.4 Insurances (excluding third party personal injury insurance)

The WCI assumed the use of four different insurance policies (workers compensation, demurrage insurance, comprehensive insurance and income protection insurance) and tracked the individual cost movements by way of an average purchase of each policy by a taxi operator. However, actual total insurance cost levels vary markedly depending on whether discretionary policies (e.g. income protection and demurrage) are purchased, different vehicle capital costs and different driving records (giving rise to different no-claim bonuses).

The cost of insurance to individual taxi operators can vary significantly. The 2003 weighting of the sum of the insurance products was 10.7%, and the commission proposes to retain a similar weighting for 2004 (subject to minor adjustment following a review of industry cost data). The commission also proposes to adjust this insurance component by the change in the ABS Insurance Cost Index (rather than adjusting by the estimated insurance cost change for an average taxi driver). The commission is of the view that outcomes under the new approach should be broadly similar to the previous approach over the medium to long term but with the advantage of less data verification and analysis cost.

The commission acknowledges that insurance costs for taxi operators have grown significantly over the past eight years. This sizable growth is reflected in the ABS Insurance Service Index within the CPI, which the commission believes will provide a reliable benchmark for use in the TCCI. Figure 3 illustrates the higher growth rates for the ABS Insurance Service Index compared to the Canberra CPI since the Insurance Service Index commenced in 1989.

Figure 3 Comparison of the ABS Insurance Services Index and the Canberra CPI



3.2.5 LPG

The commission proposes to use an appropriate weighting level for LPG as a proportion of total costs in the TCCI. In 2003, the weight for LPG in the WCI was 6.5%. In the draft report, the commission proposed a weight of 6%, and proposed to continue to adjust this component by the change in the prevailing average Canberra price of LPG over the 12 months previous to the next fare adjustment, using the price of 40.3 cpl at March 2004 compared to the price of 54.6 cpl at March 2003. Under this approach, the LPG price decrease for the year to March 2004 is 26.19%.

The industry submission proposed the use of a monthly average basis over the previous 12 months so that mid-year price peaks are captured within the

measurement. The industry approach is to use the price applying on the first of the month at the Canberra Cabs head office in Lyons. The industry data and calculation (amended to a March-to-March basis) is detailed in Table 10. This data indicates that LPG has had a price reduction of 10.84%.

Table 10 Monthly changes in LPG prices, 2002–03 and 2003–04, cents per litre

	2002–03	2003–04
1 Apr	39.9	54.6
1 May	39.9	49.1
1 Jun	40.5	43.1
1 Jul	39.2	37.6
1 Aug	40.4	37.1
1 Sep	46.0	37.2
1 Oct	46.0	38.1
1 Nov	49.6	38.1
1 Dec	52.8	38.6
1 Jan	52.8	40.3
1 Feb	52.8	40.3
1 Mar	54.6	40.3
Average (inc GST)	46.2	41.2
Change		–10.84%

The commission has determined to accept the Canberra Cabs Lyons data and the industry proposal, and will use an annual average monthly price series for LPG to determine the change in LPG costs for use in the TCCI. In future, the commission will verify movement in the Canberra Cabs Lyons price against prices from external suppliers. If inconsistencies occur, the commission will revert to using external suppliers, data in future fare adjustment decisions.

3.2.6 Vehicle-related costs

The commission's draft report proposed an item known as 'vehicle-related costs', which was intended to cover eight items from the 2003 WCI (car washing, vehicle capital costs, repairs and maintenance, tyres, registration, accreditation, drivers' licence and medical, and the gas leak certificate). The

industry proposes that the commission more finely segment this item as follows:

- **Vehicle costs**. This would cover vehicle purchase costs. The index would be adjusted using the ABS Motor Vehicles Index, which measures changes in the costs of purchasing motor vehicles.

- **Repairs and servicing**. This covers all maintenance and associate work (other than tyres), and is to be adjusted within the TCCI using the ABS Motor Vehicle Repair and Servicing Index, which reflects cost changes in mainly routine servicing activities.

- **Tyres**. This item is to be escalated in the TCCI by the ABS Motor Vehicle Parts and Accessories Index.

- **Other motoring charges**. This item includes car washing, accreditation, drivers licence/medical and the gas leak certificate, and is to be adjusted using the ABS Other Motoring Charges Index.

The commission has evaluated this proposal and is prepared to accept most changes proposed.

This approach is similar to the methodology used by the NSW Independent Pricing and Regulatory Tribunal (IPART), which adjusts the vehicle parts and panels cost by the CPI motor vehicle parts and accessories subcomponent. However, the ABS Other Motoring Charges Index proposed by the industry incorporates registration fees, parking fees, driving lessons and tollway charges, which may not adequately reflect the cost changes that taxi operators in the ACT may face. Consequently, the commission proposes instead to incorporate these items into the administration and other costs component and adjust them separately.

The commission has used industry cost information to calculate weights for vehicle costs (3.7%), repairs and maintenance (8.4%) and tyres (1.4%).

3.2.7 Registration and third party personal injury insurance

As registration and third party personal injury insurance costs are mandatory, with prices set by the ACT Government at uniform levels across all ACT taxi operators (aside from rebates available to operators with sound third party personal injury insurance records), the commission is proposing to

keep these items separate in the TCCI and adjust for changes based on the actual costs in the ACT. The commission has used the industry submission cost level of $6,716 as the basis for the weighting of 3.5%.

The industry's proposed adjustment to the TCCI is consistent with the commission's proposed approach. The commission has used industry cost information to calculate a weight of 3.5% for registration and third party personal injury insurance. The industry submission reports cost growth of 2.3% in these government charges over the past 12 months, which has been confirmed by the commission.

3.2.8 Administration and other costs

The commission proposes that the administration and other costs item be linked to the Canberra CPI and be weighted at a level to cover all remaining minor costs. Costs incorporated within this item would include telephone (land line and mobile), electricity, heating, bank charges, accountants' fees, home computer and software, NRMA membership, uniforms, office and miscellaneous expenses, car washing, accreditation, drivers licence/medical and the gas leak certificate. Based on industry cost data, the total weighting of the above items in 2004 was 3.7%. The commission notes that this list of inclusions is not exhaustive, but views it as a reasonable capture of all other material costs; therefore, the commission does not intend to review these cost inclusions during the three-year price path.

The Canberra CPI has risen by 2.27% in the year from March 2003 to March 2004.

3.3 Proposed weightings

Table 11 compares the commission's final weightings to those suggested in the industry submission.

Table 11 Finalised TCCI weightings

Cost component	Industry proposal	Final TCCI weight	Estimated cost	Basis of final weighting
Labour costs	50.0%	50.0%		50% is the conventional income-sharing arrangement between drivers and operators.
Interest rates	4.4%	7.2%	$13,600	Assumes a debt of $170,000 and an interest rate of 8%. To calculate the weighting, this cost level is divided by total non-labour costs and then divided by two (to retain a 50% labour weighting).
Network costs	7.8%	6.6%	$12,454	Assumes the cost level that prevailed in 2001. To calculate the weighting, this cost level is divided by total non-labour costs and then divided by two.
Insurances	9.1%	8.7%	$16,580	Cost level proposed in the industry submission, with the weight based on insurance costs divided by total non-labour costs, divided by two.
LPG	7.1%	6.8%	$12,810	Cost level proposed in the industry submission, with the weight based on this cost divided by total non-labour costs, divided by two.
Vehicle costs	3.8%	3.7%	$6,941	Cost level proposed in the industry submission, with the weight based on this cost divided by total non-labour costs, divided by two.
Repairs and servicing	8.8%	8.4%	$15,948	Cost level proposed in the industry submission, with the weight based on this cost divided by total non-labour costs, divided by two.
Tyres	1.5%	1.4%	$2,742	Cost level proposed in the industry submission, with the weight based on this cost divided by total non-labour costs, divided by two.
Registration and third party personal injury	3.7%	3.5%	$6,716	Cost level proposed in the industry submission, with the weight based on this cost divided by total non-labour costs, divided by two.
Administration and other	2.6%	3.7%	$6,993	Cost level proposed in the industry submission, with the weight based on this cost divided by total non-labour costs, divided by two.

To assess the reasonableness of the proposed weights, the commission has compared these final weights to the taxi cost indexes used by IPART. This process is complicated by category inclusion differences as well as different jurisdictional cost levels, so a direct comparison of all TCCI line items is not feasible. Overall, the commission is satisfied that differences are understandable and are not material.

3.4 Synchronising the timings of TCCI adjustment data

Following input from industry, the commission has agreed to synchronise the measurement timing of all the TCCI adjustment factors to a March-to-March basis. This approach should achieve more consistent outcomes and streamline the calculation of the index.

The industry had proposed a December-to-December period, as data to March for the ABS Wage Cost Index is unavailable until the third week in May. However, the commission is prepared to wait for this data to become available to ensure optimal currency of the adjustment factors and thereby minimise lags between cost growth and fare adjustments. This timing will still allow sufficient time for taxi operators to make any necessary changes to their meters before a 1 July start date for new fares.

3.5 Potential for further efficiency gain and use of an X factor

In other industries, the commission encourages the monopoly service provider to achieve productivity and efficiency gains by applying an efficiency gain factor (or 'X factor').[20] Historically, the commission has not used this approach for taxis, but has frozen certain cost items and disregarded reported cost increases (e.g. network fees) where the commission viewed a cost item as being above efficient levels.

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[20] For example, see the commission's November 2003 Draft Electricity Distribution Decision (p 96), where a five-year CPI minus X price path was set for ActewAGL with an X factor of –5.4%.

The idea supporting the application of an X factor is that efficient cost is a dynamic concept and that all businesses can continually achieve modest improvements in their productivity and efficiency via innovations or further use of technology. The draft report provided some possible examples of where efficiency or productivity gains may exist in the taxi industry.

The commission sought views on ways to encourage the ongoing pursuit of efficiency and productivity improvements in the industry. The submission from the taxi industry opposed the use of an X factor, stating that taxi operators do not have control or influence over their costs and so the existence of incentives to reduce those costs (such as use of an X factor) would be irrelevant.

The commission has assessed the merit of an X factor for taxis and has decided that its use is not necessary at this time. The commission reserves the right to reassess this matter at the next taxi fare reset in three years time. The basis of this decision is that large parts of the TCCI are based on ABS price indexes such as CPI, and such price indexes already contain an element of productivity gain (that is, businesses often do not raise prices by the extent of cost growth, because they have achieved productivity gains). As a result of its use of other cost change indicators such as ABS indexes, the commission has effectively incorporated into the TCCI some of the productivity improvements that are occurring nationally across all sectors.

4 Fare change from 1 July 2004

This section of the determination provides guidance on how the new TCCI approach to fare change calculations will work in practice, and on the fare change from 1 July 2004.

For the calculation of the six ABS adjustment factors in the TCCI (Wage Cost Index, Canberra CPI, Insurance Services Index, Motor Vehicles Index, Motor Vehicle Parts and Accessories Index, and Motor Vehicle Repair and Servicing Index), the percentage change in each index between March in the prior year and March in the current year is used.

Based on the new TCCI, and using adjustment factors from March 2003 to March 2004, the required fare change suggested by the TCCI is 3.16%. Table 12 summarises the TCCI approach, incorporating the weightings discussed in Chapter 3.

The commission has benefited from detailed submission feedback from industry on the TCCI proposed in the draft report and has incorporated a number of industry suggestions to ensure that the TCCI is fully reflective of taxi costs.

The TCCI significantly streamlines the calculation of the taxi fare adjustment, and this should improve the transparency and clarity of the fare adjustment process. The TCCI will produce results which differ from the actual cost change experienced by each of the more than 162 ACT taxi operators. However, over the longer term the differences will not be significant and, as no taxi operator has a cost structure matching the nominal average taxi operator, this is not a significant issue. The commission recognises that the TCCI will need a three-yearly reset of weights and a re-evaluation of the most appropriate adjustment approaches, but such refinements are viewed as less resource intensive than attempting to track the change in the costs of an average taxi each year.

The TCCI achieves significant simplifications to a number of cost elements but retains actual taxi cost movements (e.g. LPG, registration and third party personal injury insurance) where the degree of cost estimation subjectivity is low. Overall, the TCCI adopted by the commission should provide a reasonably strong proxy measure for the movement in taxi operator costs over the next three years. The commission will monitor the effectiveness of

the TCCI and can undertake refinements as required, particularly in the event of specific trigger events as outlined in Section 2.7 of this determination.

Table 12 July 2004 fare change using the taxi composite cost index

TCCI cost item	2004 final weight	Future adjustment	Change	Weighted change
Labour	50%	ABS Wage Cost Index for Canberra[a]	4.23%	2.12%
Interest	7.2%	Change based on the change in 90-day bank bill rate from March to March. This rate rose from 4.77% in March 2003 to 5.50% in March 2004 (using 20 day average prior to 31 March).	15.25%	1.09%
Network fees	6.6%	Change based on 70% of the change in the Canberra CPI[b] (2.27% year to March) and 30% of the change in Wage Cost Index (4.23% year to March).	2.86%	0.19%
Insurances	8.7%	Change in ABS CPI Insurance Services Cost Index[c]	2.23%	0.19%
LPG	6.8%	Change in monthly average LPG prices (measured at first day of each month) from current year to March compared to year to March of the prior year (as per Table 10 in this determination).	–10.84%	–0.73%
Vehicle costs	3.7%	Change in ABS CPI component Motor Vehicles Index[d]	–3.96%	–0.15%
Repairs and servicing	8.4%	Change in ABS Motor Vehicle Repair and Servicing Index.	2.95%	0.25%
Tyres	1.4%	Change in ABS Motor Vehicle Parts and Accessories Index.	2.06%	0.03%
Registration and third party personal injury	3.5%	Change in actual costs from ACT Motor Registry.	2.3%	0.08%
Administration and other	3.7%	Change in Canberra CPI from March to March.	2.27%	0.08%
Total	100%			3.16%

a ABS Series 6345.0 Wage Cost Index, TABLE 2B. Wage Cost Index — Total Hourly Rates of Pay Excluding Bonuses, Private and Public Sector — ACT (Quarterly Index Numbers)(a).
b ABS Series 6401.0 Consumer Price Index, TABLE 1B. CPI: All Groups, Index Numbers.
c ABS Series 6401.0 Consumer Price Index, TABLE 7K. CPI: Miscellaneous, Weighted Average of Eight Capital Cities.
d ABS Series 6401.0 Consumer Price Index, TABLE 7G. CPI: Transport, Weighted Average of Eight Capital Cities.

5 Other matters specified in the terms of reference

5.1 Fare structures

5.1.1 Current ACT taxi fare structure

Table 13 shows the fare structure for Canberra Cabs as from 1 July 2003. The fare structure, with six different distance rates, appears relatively complex. However, most hirings are at rates 1 and 2, and the public has not commented adversely on the fare structure in submissions to the commission.

Table 13 Taxi fares for 2003–04, ACT

Item	Rate
Flagfall:	
• Ordinary hiring	$3.20
• Multiple hiring	$2.40
• Maxi-cab hiring	$4.80
Radio fee	$0.80
Waiting time	$30.00 per hour
Distance rates:	
• Rate 1 (Ordinary hiring; for a journey commencing between 6 am and 9 pm other than on a Saturday, Sunday or public holiday)	$1.409 per kilometre
• Rate 2 (Ordinary hiring; from 9 pm to 6 am and all day on a Saturday, Sunday or public holiday)	$1.620 per kilometre
• Rate 3 (Multiple hiring; 6 am to 9 pm on a day other than a Saturday, Sunday or public holiday)	$1.011 per kilometre
• Rate 4 (Multiple hiring; 9 pm to 6 am Monday to Friday and all day on a Saturday, Sunday or public holiday)	$1.164 per kilometre
• Rate 5 (High-occupancy taxi hiring; 6 am to 9 pm on *a* day other than a Saturday, Sunday or public holiday)	$2.201 per kilometre
• Rate 6 (High-occupancy taxi hiring; for a journey commencing before 6 am or after 9 pm Monday to Friday and all day on a Saturday, Sunday or public holiday)	$2.531 per kilometre

For additional terms and conditions see: http://www.urbanservices.act.gov.au/transroads/taxifares.html

A comparison of the ACT fare structure and levels with those of Queanbeyan, and a discussion of the various components of the fare structure, is provided in the following sections.

5.1.2 Comparison with Queanbeyan fares

ACT and Queanbeyan taxi fares differ modestly, as shown in Table 14.

Table 14 Taxi fares for 2003–04, ACT and Queanbeyan

At January 2004	ACT	Queanbeyan	Difference
Flagfall	$3.20	$3.15	ACT $0.05 higher
Distance rates	$1.409	Tariff 1: $1.59 (first 12 km)	ACT $0.181 lower
		Tariff 2: $2.22 (> 12km)	n.a.
Night (and in ACT weekend) fee	A surcharge of 15% of the distance rate for journeys commencing between 9 pm and 6 am and all weekend	A surcharge of 20% of the distance rate for journeys commencing between. 10 pm and 6 am.	ACT premium is 5% lower. ACT premium starts one hour earlier and spans all weekend.
Booking fee	$0.80	$0.80	none
Waiting time per hour and cross-over point	$30.00	$40.00	ACT is $10.00 lower
	21.3 kph	25.2 kph	ACT is 3.9 kph lower
Average fare daytime 8 km	$14.50	$15.90	ACT is 8.8% or $1.40 lower
Average fare night 8 km	$16.15	$18.40	ACT is 13.9% or $2.25 lower
Average fare daytime 20 km	$31.40	$40.00 (for fares fully completed outside the ACT)	ACT is 21.5% or $8.60 lower
Average fare night 20 km	$35.60	$47.35 (for fares fully completed outside the ACT)	ACT is 24.8% or $11.75 lower

Notes: Cross-over point is calculated as the waiting time rate divided by the distance rate and marks the speed below which the fares become based on time the taxi is occupied rather than distance travelled. For simplicity, average fares provided assume nil waiting time and no booking fee.

Table 14 illustrates that Queanbeyan taxis are typically 8–14% more expensive than ACT taxis for an average 8 km fare, depending on the time of day and day of week. The exception is between 9 pm and 10 pm at night and during the day on weekends (about 22% of the week), when ACT taxis are about 1–2% more expensive.

For longer journeys involving travel over 12 km, Queanbeyan taxis apply a higher distance rate for the part of the journey over 12 km, which is almost 40% above the shorter distance rate. However, the agreement between the NSW and ACT governments is that the over-12 km component of fares is not to be applied for running within the ACT.

Queanbeyan uses the same methodology as the ACT for pricing for multi-hiring and HOT taxis, but different fare levels apply.

Overall, the free cross-border movement of ACT and Queanbeyan, which recognises that Canberra and Queanbeyan operate as one region which spans two jurisdictions, has provided significant net benefits in choice of service provider and greater travel flexibility. However, the fare levels and structures contain minor differences and these may cause some irritation to some customers. There may be merit in some signage at key demand points (such as the airport) to explain that fare rates for the two taxi groups are different. Given the free cross-border movements, over the longer term there may be merit in harmonising some elements of the ACT fare structure with the Queanbeyan / country NSW structure to reduce the extent of customer concerns. Possible areas where there may be merit in harmonisation include:

- a common flagfall.
- a common night distance rate premium and activation times.

The differences in the waiting time and distance rates are larger and may take longer to harmonise.

The commission sought views on the impacts of different fare arrangements in the ACT and Queanbeyan, as well as views on approaches to simplify existing arrangements. The ACT industry is keen to establish a more level competitive playing field; Queanbeyan operators have a lower cost for workers compensation and third party personal injury insurance.

The commission suggests that the DUS evaluate options to better harmonise ACT and Queanbeyan taxi fares. This will involve discussions with relevant NSW authorities. The commission notes that there is precedent in the gas sector, where ACT prices are determined by regulation to prevail in Queanbeyan.

5.1.3 Ordinary hire flagfall

In response to industry concerns about higher flagfall levels discouraging demand, the July 2003 fare rise of 7.14% was only applied to the distance rate. Consequently, the effective fare rise based on an 8 km journey was approximately 5%. Given the relatively higher flagfall rate in the ACT at that time compared with other states, the commission agreed that there was merit in any increase in fares being concentrated in the distance charge. Canberra Cabs had also stated that confining the rise to the distance charge would act as a further incentive for night drivers to operate.

For an average trip of 8 km, under the current fare structure the flagfall represents between 20% and 25% of the total fare, depending on the rate applied.

Industry submissions do not propose changes to the flagfall value. The commission has not received any views from the public on this issue. Consequently, the commission will leave the flagfall unchanged for the year from 1 July 2004. For 2005 and 2006, the commission will implement a fare change based on the change in the average fare (i.e. a flagfall, 8.39 km at the distance rate, 61% of a booking fee, and 2.05 minutes of waiting time) and Canberra Cabs will have the option of suggesting a change to the flagfall or again seeking to retain the current level.

5.1.4 Waiting time rates

The waiting time charge in the ACT is $0.50 per minute ($30.00 per hour). The time component becomes active where the taxi has stopped or traffic congestion sees the average speed reduced below the cross-over point, which is currently 21 kph at the standard rate or 18.5 kph at the night/weekend rate ($30 divided by the relevant distance rate).

The industry submission requested a rise in waiting time rates of 7.9% based on the increase in average waiting times between October 2001 and February 2004 as recorded in the fares survey.

The commission has agreed to the proposed greater increase in the waiting time rate, offset by a smaller rise in the distance rate than would otherwise apply, because:

- the waiting time rate has not been adjusted since July 2002

- there has been some growth in peak period congestion
- the waiting time rate was significantly below other jurisdictions (for example, the Queanbeyan waiting time rate at May 2004 is $40 per hour, which is 33% higher than the $30 per hour rate used in the ACT).

5.1.5 Taxi booking fee

The taxi booking fee ($0.80) can be applied to a hiring when a hirer rings a taxi booking organisation, or uses other forms of electronic communication to hire a taxi.

Booking fees do not apply to rank or hail hirings. However, hirers may book a taxi through a taxi booking organisation and, for convenience, quote a rank as the pick-up location; in such cases, a booking fee may apply. However, a vehicle already at a rank cannot be booked by a passenger at a rank.

Due to the low-density of building in much of the ACT, a larger proportion of hirings are booked by phone than in other capital cities. The booking fee is intended to partially compensate the driver for dead running to pick up the fare, which is typically a distance of 1–4 km. Some other Australian jurisdictions have slightly higher booking fees of $1.00 to $1.20. The size of the ACT booking fee is arguably modest, given the extra costs incurred. The fee does not provide much incentive for customers to move to a taxi rank or to try to hail a taxi on a main road.

The commission sought views from industry and customers on the appropriate level for the ACT booking fee. The commission did not receive any views from the public on this issue and the industry did not seek any change. Consequently, the commission has agreed to leave the booking fee unchanged for the year from 1 July 2004. The commission will consider industry views in 2005 and 2006 about whether the booking fee should change as part of any adjustment to the average taxi fare.

5.1.6 Multi-hire fares

Rates for multiple hirings (rates 3 and 4) are 75% of the standard distance rate, but the fare is charged to each individual customer. Most multi-hires occur in peak periods from the airport, where Canberra Cabs commissionaires encourage the practice to clear passenger queues quickly.

The practice at the airport is to maintain passenger comfort by having no more than three passengers in a multi-hire taxi. Additionally, the first passenger and each subsequent passenger entering the taxi have the regulatory right to decline a multi-hire arrangement. Theoretically, the $2.00 Canberra Airport toll is to be shared equally between each hirer, but this may be more challenging where three passengers are involved in a multi-hire. Very few trips are multi-hires (0.38% of total trips).

The same multi-fare hire rate (75% of the standard rate) is used in Queensland, Victoria and NSW.

The current multi-hire arrangements can provide occasional reasonable premium to drivers. For example, on a three-person multi-hire journey from Canberra Airport to the city, the total of the three fares would be likely to be between $37 and $45, compared to the typical standard daytime fare of about $19.

Survey results from the DUS indicate significant dissatisfaction with multi-hire fare arrangements. Potential issues which may give rise to complaints include the following.

- The multi-hire fare arrangements are often not well explained.
- The discount is far less than the savings from sharing a taxi. For example, passengers seeking nearby destinations could form a syndicate before entering the taxi and increase their discount from around 25% to up to 50% (for two people) or 66% for three people.
- The last person dropped off on a multi-ride fare obtains a discount of less than 25% because of the extra distance travelled to cater for other passengers.
- Multi-ride fares can result in significantly greater journey times, particularly if destinations are some distance apart.

The commission sought views from industry and customers on the appropriate level for multi-hire fares. The commission did not receive any views from the public on this issue and the industry did not seek any change. As the 75% multi-fare rate is used in most other states with no planned change, the commission is reluctant to change it in the ACT.

Consequently, the commission has agreed to leave multi-hire fare arrangements unchanged for the three-year period from 1 July 2004 to 30 June 2007. However, the commission will recommend to the DUS that the department establish some form of signage at the airport to explain passenger rights in relation to multi-hires and the subsequent fee arrangements, in order to reduce the level of related complaints.

5.1.7 High-occupancy taxi rates

A high-occupancy taxi (HOT) is a large taxi, such as a van or a mini-bus, that seats 5–11 adults in addition to the driver. The Canberra Cabs fleet has two HOTs operating on standard plates and 26 wheelchair accessible taxis (WATs) that are also available to operate as HOTs. Where a HOT carries four or fewer passengers the standard rates apply, and multi-hires are charged at 75% per customer.

HOT distance rates (rates 5 and 6) and flagfall are 150% of the standard distance rates and flagfall. However, HOT rates may not be applied for hirings from taxi ranks even if a passenger walks past other vehicles to hire the HOT. This applies regardless of the number of passengers carried or the amount of luggage carried.

Following a request in its July 2002 determination, the commission has had little information supplied to it about the frequency of HOT hirings, nor any detailed justification of the 50% distance charge premium. Canberra Cabs promotes HOTs 'as an economical way of transporting sporting teams, office party nights out, club socials or any other group with seating for up to 11 passengers'. [21]

While customers in groups of five or more obtain a saving of around 50% on the total fares incurred when hiring two taxis, the commission is not convinced that a 50% premium is reasonable, as the additional costs incurred would be considerably less than 50%.

NSW and Western Australia use the same 150% system as the ACT. An alternative approach in Queensland is to price bookings for HOTs at an $11

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[21] See http://www.cancabs.com.au/WheelChairAccessHighOcc.htm

surcharge to standard taxis.[22] This approach is arguably a fairer compensation for the additional dead running a HOT vehicle may incur to service a HOT booking request. It would also reduce the number of different distance rates.

The commission sought views on whether there is merit in changing HOT fares from a 50% premium to a fixed surcharge, as in Queensland. The commission did not receive any views from the public on this issue. The industry did not support any change, maintaining that changes would compromise the viability of the HOT service and, because WAT operators are the main providers of this service, could compromise the viability of services for wheelchair users. Consequently, the commission has agreed to leave HOT fare arrangements unchanged for the three years to June 2007.

5.1.8 Night (9 pm to 6 am) and weekend distance rates

The current fare structure contains a 15% premium on fares begun between 9 pm and 6 am, and all day on Saturdays, Sundays or public holidays (distance rates 2, 4 and 6), compared to the daytime distance rates (rates 1, 3 and 5). This premium was an attempt to improve response times and availability in the evening, the early hours of the morning and the weekend by rewarding drivers who work at these times with a higher average fare. The flagfall remains unchanged at the ordinary hiring rate. The ACT night rate charge starts earlier than the night rate in NSW and Victoria, but later than in Queensland. The passenger cost impact, assuming an 8 km average journey, is a fare about 12% higher.

In summary, night fares in other jurisdictions are as follows.

- **NSW:** uses a 20% premium on the distance rate from 10 pm to 6 am seven days a week.
- **Queensland:** uses an after-hours flagfall, which applies to public holidays, times outside 6 am – 8 pm weekdays and times outside 6 am – 1 pm Saturdays. This after-hours flagfall is $1.20 higher than the standard flagfall.

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[22] http://www.blackandwhitecabs.com.au/baw/quote.nsf/Quote?OpenForm

- **Victoria:** late-night extra flagfall fee of $1.10 applies from midnight to 6 am. Current government policy is that a 20% higher tariff will apply between 1 am and 6 am in the metropolitan taxi zone to help encourage more taxis to work during the late night and early morning periods.

- **Western Australia**: night and weekend extra flagfall fee of $1.30 applies Monday to Friday, 6 pm to 6 am, Friday 6 pm to Monday 6 am, and all public holidays.

In some jurisdictions (e.g. Sydney) where drivers generally make a fixed payment per shift (pay-in) to the operator to procure the taxi, the drivers retain 100% of the benefit of the night rate. By contrast, in the ACT drivers and operators typically share the gross takings 50:50, so the driver obtains only 50% of the benefit of the night fare. The operator, who typically does not work for much of the night, also obtains 50% of the benefit. As the ACT premium is lower than the NSW premium, the incentive to drivers is further diminished.

Table 15 assesses the extra cost for an 8 km fare at the relevant night rate (versus the standard rate) and the proportion of the week that the night rate is active.

Table 15 Night rate taxi fares, average extra cost and proportion of week covered, by jurisdiction

Jurisdiction	Approx. extra cost for 8 km fare	Part of week (without public holidays) that night rate operates
ACT	12%	55%
NSW urban	16%	33%
Queanbeyan (NSW country)	16%	33%
Victoria (current)	10%	21%
Victoria (planned)	16%	25%
WA	10%	64%
Queensland	10%	46%

Table 15 shows the diverse approaches used to try to improve late night/early morning (and for some jurisdictions weekend) fleet availability.

The commission sought views on the impact on customers and driver availability of the current night fare, and on whether the premium level or

duration should be refined. The industry responded with a request that the night-time premium of 15% above the daytime rate should apply to the value of an average trip, not merely to the distance rate. The commission was not presented with an adequate justification by the industry for this. The commission did not receive any views from the public on this issue. Consequently, the commission has retained the night-time rate premium unchanged at 15% on the distance rate for the period to June 2007.

5.2 Matters referred to in section 20 of the Act

Section 20 of the ICRC Act requires the commission to consider:

- service quality, reliability and safety (see Section 2.2)
- the need for greater efficiency in the provision of the services, including considerations of demand management and least-cost planning (for example, see Section 3.3.5)
- the cost of providing the service, including an appropriate rate of return on any investment, the borrowing, capital and cash flow requirements of the regulated entities, and the need for the industry to renew or build assets (for example, see Section 2.4)
- ecologically sustainable development.
- the social impacts of any decisions
- the effect on general price inflation over the medium term
- the protection of consumers from abuses of monopoly power.

A consideration of items not specifically addressed earlier in this report is provided below.

5.2.1 Ecologically sustainable development

Australia's National Strategy for Ecologically Sustainable Development defines ecologically sustainable development as:

> using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased.[23]

The impact on the environment from a modest taxi fare rise, as measured by any adverse change to pollution or congestion, is likely to be minimal for the following reasons.

- The ACT taxi fleet of 242 vehicles is only a very minor part (0.12%) of the total of over 197,000 vehicles operating in the territory.[24] While the average taxi travels an annual distance about seven times greater than the mileage of an average motor vehicle, taxis still only account for 0.8–0.9% of total motor vehicle kilometres in the ACT.

- The ACT taxi fleet is predominantly fuelled with LPG, which is generally considered to be less polluting than unleaded petrol. Therefore, travel by taxi typically results in less air pollution than travel by private car.

Overall, all forms of public transport have environmental benefits because they reduce private car ownership. However, the mass transit modes (such as buses) provide the greatest opportunity to reduce car travel, rather than largely single-person modes such as taxis. Because taxi demand is greatest on Fridays and Saturdays and after hours during the working week, the availability of taxis discourages private car use in crucial periods. The likely modest size of the upcoming fare rises is unlikely in itself to significantly change the demand for taxis, although the commission is concerned by the long-term decline in taxi use in the ACT and the role that fare increases may have had in this decline in use.

Currently, only 13.1% of journeys to work are by walking, cycling or public transport. The ACT Government's Sustainable Transport Plan sets a target of 30% by 2026. Reducing the number of car trips will benefit the environment, and making sustainable transport choices more attractive will make Canberra more liveable.

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[23] See http://www.deh.gov.au/esd/national/nsesd/index.html
[24] ABS Yearbook 2003 (2001 data) see www.abs.gov.au/ausstats/abs@.nsf/Lookup/359B802A46679C36CA256CAE00162681

Overall, the commission sees any rise in public transport patronage as environmentally positive because it serves to reduce the number of passenger motor vehicles on roads. However, it is the mass transit modes that provide the greatest opportunity to reduce car travel, rather than largely single-person modes such as taxis, motorcycles and bicycles. An effective public transport system, including a high quality taxi service, is a key factor in containing the private car dependency of the ACT and thereby potentially containing the growth in two, three and four car households.

The commission is of the view that the planned 3.16% taxi fare rise will not be significantly inconsistent with the principles of ecologically sustainable development. The price rise is likely to result in a minor reduction in demand (potentially offset by current apparent growth in underlying demand), but estimating its size is difficult because of the limited accurate information available on the direct price elasticity of taxis. The commission is of the view that the demand reduction from the 3.16% price rise is likely to be between 0.5% and 1.3%.

5.2.2 The social impacts of any decisions

In the issues paper and draft report, the commission sought views on the likely social impacts of taxi fare rises. Submissions from the public did not comment on this issue.

The commission is aware of the importance of taxi transport to specific community groups. In particular, some people with disabilities rely on taxi travel because buses are not a viable alternative. The commission is also mindful that pensioners and low-income groups form a significant proportion of taxi customers. The commission notes that the ACT Government runs a taxi subsidy scheme designed to assist people with permanent or temporary disabilities who need to use taxis. The commission is keen to ensure that taxi fare rises are contained and do not materially affect the affordability of fares for people who depend on taxi services to maintain their mobility. The commission seeks to avoid deleterious social impacts caused by introducing fare increases that would materially impede the access to public transport of those most socially disadvantaged.

The commission believes that the planned 3.16% taxi fare rise will not cause any material adverse social impacts. Additionally, the taxi network is

supported by the ACTION bus network, which provides affordable public transport across the ACT for people with reasonable mobility levels.

5.2.3 The effect on general price inflation over the medium term

General price inflation is measured by the CPI, 1.28% of which is made up of urban transport fares (bus, train, ferry, tram and taxi fares, excluding fares mainly for holiday travel). Of this amount, taxis are estimated to comprise around 0.3% of an average Canberra household's weekly expenditure.[25]

The planned 3.16% taxi fare rise will not have any material inflationary impact, given the small contribution of taxi fares to average household expenditure.

5.2.4 The protection of consumers from abuses of monopoly power

Because Canberra Cabs provides a key public transport service and is currently the only taxi network accredited by the ACT Government[26], the commission seeks to ensure that fare levels, fare structures and conditions of use remain fair and reasonable for the quality of service provided. As taxis are open to some competition from other similar service providers, such as hire cars, market forces help to ensure that Canberra Cabs' monopoly position is not exploited to the detriment of consumers.

The protection of consumers from abuses of monopoly power remains a critical role for the commission, which will continue to monitor Canberra Cabs.

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[25] See ABS Household Expenditure Survey (ABS Cat No 6535.0) 1998–99.

[26] The cross-jurisdictional operating rights of the Queanbeyan taxi fleet are recognised. However, the Canberra Cabs fleet is some 15 times larger than the Queanbeyan fleet and has a significant work focus in NSW.

6 Final conclusion and determination

6.1 ACT taxi fares from 1 July 2004

The taxi composite cost index (TCCI) indicates that a cost rise of 3.16% has occurred and that therefore a fare rise of 3.16% is reasonable.

The three major cost factors influencing the size of the fare rise are:

- **Labour costs**. This is the largest factor. Half of the TCCI is the change in the ABS Canberra Wage Cost Index, which was 4.23% between March 2003 and March 2004.
- **Interest rates**. Bank bill rates rose by 73 basis points, which increased average debt costs by 15.25%. This rise in interest rates contributed 1.09% of the fare rise.
- **LPG**. Prices fell by 10.84%, reducing the size of the fare rise 0.73%.

As part of this fare review, the industry has requested that this fare rise be based on the rise in an average fare, which it describes as an 8.39 km journey that includes 2.05 minutes waiting time, with 61% of hirings attracting a radio booking fee. The industry has requested a rise in the waiting time rate to $32.50 per hour, but no change to the radio booking fee or the flagfall.

Based on the industry description of the average fare, the average cost at rate 1 (daytime distance rate) is currently $16.53. To achieve an average fare rise of 3.16%, this cost should increase to $17.06. With the radio booking fee and the flagfall held constant and a rise in the waiting time rate to $32.50 per hour, the required distance rate to increase this fare to $17.06 is $1.461 per km. The rise in distance rate 1 (3.70%) is higher than the rise in the average fare (3.16%) because parts of the total fare have been left unchanged.

The levels for distance rates 2 to 6 were originally set at a multiple of distance rate 1. However, in recent decisions, an average fare rise for distance rates 2 to 6 was calculated and this has led to the distance rates

being other than exact multiples of distance rate 1, as was originally intended. This approach is inconsistent with that of other jurisdictions, where using an exact multiple is conventional practice.[27] From 1 July 2004, the commission proposes to return to setting rates 2 to 6 based on a specific multiple from distance rate 1.

Table 16 shows the fare structure for Canberra Cabs from 1 July 2004.

Table 16 Recommended taxi fares for 2004–05

Item	Recommended rate: 1 July 2004 to 30 June 2005
Flagfall:	
Ordinary hiring	$3.20
Multiple hiring	$2.40
Maxi-cab hiring	$4.80
Radio fee	$0.80
Waiting time	$32.50 per hour
Distance rates:	
Rate 1 (Ordinary hiring; for a journey commencing between 6 am and 9 pm other than on a Saturday, Sunday or public holiday)	$1.461 per km
Rate 2 (Ordinary hiring; from 9 pm to 6 am and all day on a Saturday, Sunday or public holiday – set at 1.15 times rate 1)	$1.680 per km
Rate 3 (Multiple hiring; 6 am to 9 pm on a day other than a Saturday, Sunday or public holiday – set at 0.75 times rate 1)	$1.096 per km
Rate 4 (Multiple hiring; 9 pm to 6 am Monday to Friday and all day on a Saturday, Sunday or public holiday – set at 1.15 times rate 3)	$1.260 per km
Rate 5 (High-occupancy taxi hiring; 6 am to 9 pm on a day other than a Saturday, Sunday or public holiday – set at 1.5 times rate 1)	$2.192 per km
Rate 6 (High-occupancy taxi hiring; journey commencing before 6 am or after 9 pm Monday to Friday and all day on a Saturday, Sunday or public holiday – set at (1.15 times 1.5 times rate 1)	$2.520 per km

[27] For example see NSW and http://www.nswtaxi.org.au/news_news_farerise_oct2003.htm

6.2 Process to be adopted for the 2005 and 2006 taxi fare adjustments

The commission will seek to make the 2005 and 2006 taxi fare adjustments using the TCCI in the following process.

Following the release of the March quarter CPI results in late April, the industry is to provide a submission to the commission that includes:

- any request (with detailed justification) to amend the weights or TCCI components as permitted in certain circumstances detailed in Section 2.7 of this determination
- cost data and available index inputs required to calculate the TCCI (the commission will verify this material and update it for the March quarter ABS Wage Cost Index, available in the third week of May)
- detailed service quality information and commentary
- a proposal detailing how the industry would like to alter specific elements of taxi fares (e.g. flagfall, distance rate, booking fee etc).

It is possible that the TCCI method could result in a relatively small upwards or downwards change in taxi fares. In order to limit fare volatility, particularly where the cost of changing taxi meters exceeds the likely revenue effect, if the fare change required because of the TCCI is between –0.3% and +0.3%, fares will remain unchanged. In such a situation, the TCCI would run over a two-year period and be taken into account in the next fare adjustment.

The commission will notify Canberra Cabs and the DUS of the new approved fare levels by 31 May each year for implementation from 1 July, and publish this notification along with the industry submission on the commission's website.

If the commission is requested to determine taxi fare levels from July 2007, the commission proposes to undertake a detailed major review of taxi service quality and the taxi fare setting process. The review would evaluate the effectiveness of the TCCI and assess required changes to components, weighting and adjustment mechanisms.

Appendix 1 Reference for investigation

Independent Competition and Regulatory Commission (Reference for Investigation) 2003 (No 3)*

Disallowable Instrument DI2003–271 made under the *Independent Competition and Regulatory Commission Act 1997,* s 15 (Nature of industry references) and s 16 (Terms of industry references)

Pursuant to sub-section 15(1) of the Act, I direct the Independent Competition and Regulatory commission (the 'commission') to conduct an investigation into the determination of prices for Taxi services within the Territory from 1 July 2004 addressing the following:

1. To recommend maximum fares for regulated taxi services for a period of three years from 1 July 2004 having regard to the Weighted Cost Index model developed by the commission as set out at Attachment 5, Final Report 2002 '*Review of the future direction of the ACT taxi and hire car industry, and price direction for taxi services*'.

Without restricting the commission in reaching a determination on those matters listed in item 1 above or its used of the Weighted Cost Index model, the commission is to take into account:

a) the effectiveness of the Weighted Cost Index model and the need for any adjustment or change to the index;

b) the assembly of the value of Fixed Costs, Variable Costs, Return on Investment and Labour Costs;

c) the setting of Labour Cost weighting;

d) the adjustment of the previous year's base cost components to take account of any change in the number of kilometres travelled on average by taxis;

e) the summation of the individual components for the base year and the current year to determine the percentage change in these aggregates between the two years; and

f) the matters referred to in Section 20 of the Act.

Pursuant to sub-section 16(1) of the Act, I specify the following requirement in relation to the conduct of the investigation:

- The final report in relation to determined taxi fares for the period 1 July 2004 to 30 June 2005 is to be provided to the Minister of Urban Services by 30 May 2004.

Bill Wood
Minister for Urban Services

26 September 2003

Appendix 2 ACT Government taxi industry policy

The ACT Government announced its policy for the taxi industry in December 2002. The policy is summarised here.

- Each year, additional taxi licences, at the rate of 5% of existing standard licence numbers, will be released for sale by auction.
- An independent market valuation will be completed prior to the first auction based on the value of licences as at November 2001.
- A reserve price will be set at 90% of the market value. If bids do not reach the reserve price, no licences will be sold. If the average price at auction is more than 95% of the market value (i.e. demand for licences is high), then a further 5% release of licences is triggered. The maximum number of licences released in any year will be 10% of the current fleet.
- In the following years, market value will be the average sale price from the previous year's auction. If no licences were sold in the previous year, the reserve price will be 90% of the previous year's reserve. Again, it is possible that no licences will be sold.
- The new licences will be perpetual and transferable. Further to the safeguards in the release formula, the government will assist licence owners through a period of structural adjustment by returning to them the net revenue from the sale of new licences after allowing for costs associated with the reforms. The government has made a commitment to provide structural adjustment assistance for two years and may extend it for a further three years if justified. This assistance is linked to any increase in competition — that is, to the number of new licences sold (if any).
- At this stage, it is not proposed that the number of WAT licences be increased; rather, the Road Transport Authority will work in partnership with the industry to ensure that the services provided by the existing 26 WATs is improved. It is expected that the introduction of a lift fee will contribute to an improvement in the service.

- The government will implement as soon as possible a lift fee to compensate drivers for the time taken to pick up and set down wheelchair passengers. The fee will be $7.50 and will be automatically adjusted in line with changes to the determined taxi waiting time fee to ensure that drivers continue to be adequately compensated in the future.

The government will review the impact of the reform program in two years to ensure that it is working.

Appendix 3 Report by the Assembly Standing Committee on Planning and Environment

On 17 June 2003, the ACT Legislative Assembly referred the Road Transport (Public Passenger Services) Amendment Bill 2003, which contained the government's reforms, to the Standing Committee on Planning and Environment. The terms of reference for the committee were to:

(a) undertake an analysis of the Bill in the context of the draft *Sustainable Transport Plan*, and to have regard to:

- the role of taxis, hire cars and other small passenger vehicles in a sustainable public transport strategy
- appropriate licensing and accreditation strategies to support that role
- any transitional arrangements, such as compensation, that should accompany any recommended changes to industry regulation

(b) investigate community service requirements, including disability access and adequacy of services to parents of children under two.

The standing committee released its final report, containing recommendations, on 19 December 2003. For taxis, the committee recommended:

i that a buy-back scheme be implemented for taxi licences

ii that the compensation for taxi licence plates be based on the Australian Valuation Office figures for taxi licence plates current at 1 January 1997, and to include an amount equivalent to the membership fee paid by licence owners to the network

iii the establishment of a new dispatch network authority to be controlled by ACTION.

iv that any legislation include a framework for enforcement of an accreditation, licensing and registration regime with penalties for operators who breach the regulations, and that the Department of Urban

Services be properly resourced with appropriately trained personnel to undertake the enforcement regime

v that annual and short-term licences be made available to suitable and accredited persons

vi that the government develop a transparent framework for an assured orderly release of plates so that the industry does not suffer regular investor failure

vii that safety precautions for all types of passengers, including babies, young people and adults, be more seriously addressed.

viii that, to provide a better and more safe service for children under two, the number of drop-off points for baby capsules be increased and that more baby capsules be available at these extra drop-off points

ix that cross-border taxi arrangements, allowing ACT taxis and Queanbeyan taxis to operate in both jurisdictions, continue without imposing additional regulatory costs on the taxi services, subject to mutual recognition of accreditation systems in both jurisdictions.

For WATs, the committee recommended:

x that the wheelchair accessible fleet meets its obligation under the *Disability Discrimination Act* to provide equivalent services for all wheelchair users by 2007

xi that WATs be assigned to the ACTION network, which would control dispatch, and that the WATs be regularly used on low-patronage bus routes to be assigned by ACTION, as well as undertaking their normal services to wheelchair customers

xii that the government use the transfer of the WATs to the ACTION network to establish conditions that will attract a second network provider to the ACT for standard cabs.

Regarding proposed solutions and buy-back schemes, the committee recommended:

xiii that the government implement an off-budget buy-back scheme for taxi licences to provide adequate compensation, including a minimum no

capital loss provision, and implement at the same time a budget-funded buy-back scheme for the hire car industry

xiv that, to ensure the success of the buy-back scheme, current restrictions on the number of ACT taxi and hire car licences and licence quotas be removed immediately to revitalise sustainable integrated transport services for the travelling ACT public

xv that, at the same time the buy-back scheme for the taxi licences is implemented, the government facilitate the establishment of market incentive for the entry into the industry of an additional dispatch network

xvi that the taxi buy-back scheme be supported by an administrative framework that will:

- ensure that it does not unduly restrict supply and entry into the industry, and allows regular release of additional licences into the industry (the actual level of take-up of taxi licences would be a risk borne by the financiers)

- agree on a formula governing the release of new licences, with licence availability being linked to an appropriate measure such as the growth in passenger trips, population growth or growth in gross territory product

- ensure that the supply of substitute services is reviewed

- assure the private sector that the government would not impose policy that would have a material adverse effect on the market for taxis and hire cars

- ensure that licence fees are set at a level that is less than 80% of existing lease charges indexed to inflation and matching the revenue base of taxi and hire car operations, to enable the benefits of reform to be immediately realised (a fixed fee over the term would require a higher initial licence fee to limit the early benefit of deregulation, although over time the benefit would become clearer as the proportion of licence fees to revenue falls)

- ensure that it regulates minimum quality standards, such as roadworthiness requirements, vehicle standards and driver presentation and knowledge, to maintain consumer safety and

consumer confidence and protect the interests of a sustainable industry

- ensure that the Taxi Fund would finance the compensation payable for cancellation of perpetual licences, so that it will not have to fund any capital outlay (this will ensure that funding of the taxi plate buy-back scheme would be off the balance sheet for the territory).

- ensure that, at the expiry of the fixed-term Taxi Fund, it would establish a framework to continue to generate licence fee income for its own account at whatever level it chose.

- develop guidelines for the buy-back structure and subsequent legislation.

The committee report was tabled in the ACT Legislative Assembly on 10 February 2004, and the government is expected to provide a response by the end of May 2004.

Glossary and abbreviations

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AWE	Average Weekly Earnings — an ABS measure of labour cost growth
the commission	Independent Competition and Regulatory Commission
CPI	Consumer Price Index – an ABS series designed to measures changes in prices for a basket of consumer goods.
cpl	cents per litre
CTPA	Canberra Taxi Proprietors Association
DUS	Department of Urban Services
GPS	global positioning system
HOT	high-occupancy taxi — a large taxi, such as a van or a mini-bus, that seats five or more adults excluding the driver
ICRC Act	*Independent Competition and Regulatory Commission Act 1997*
the industry	the CTPA and Canberra Cabs
IPART	Independent Pricing and Regulatory Tribunal of New South Wales
LPG	liquid petroleum gas
MO licence	mini-bus operators licence
ROI	Return on Investment

TCCI	taxi cost composite index
WAT	wheelchair accessible taxi
WAT lift fee	a fee, payable by a passenger who requires wheelchair access to a taxi, to compensate WAT drivers for the additional embarkation and disembarkation time required; where the passenger is paying for the hiring with a government Taxi Subsidy Scheme voucher, the fee is paid directly to the taxi driver by the government
WCI	weighted cost index – the cost index developed by the commission for previous price directions

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