



ICRC
INDEPENDENT COMPETITION AND REGULATORY COMMISSION

DRAFT REPORT

Review of the future direction of the ACT taxi and
hire car industry, and
determination of prices for taxi services



**INDEPENDENT COMPETITION AND REGULATORY
COMMISSION**

Draft Report

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determination of prices for taxi services**

April 2002

The Commission is established by the *Independent Competition and Regulatory Commission Act 1997* to determine prices for regulated industries, approve access arrangements and arbitrate disputes on access to infrastructure, as well as providing advice on competitive neutrality complaints and government regulated activities.

Under the *Utilities Act 2000* the Commission also has responsibilities to licence utility services in the Territory. It ensures compliance with the legislation, Codes and licence conditions, approves industry codes of practice and the form of standard customer contracts.

The Commission has three standing commissioners:

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

Submissions

Public involvement is an important element of the Commission's processes. The Commission therefore invites submissions from interested parties. Submissions should have regard to the specific issues that have been raised, although additional issues that you feel are relevant may also be canvassed. Submissions should be in writing and delivered by mail, in person or by e-mail. If possible, an electronic version should also be provided in word processor, PDF or spreadsheet format.

Submissions on this Draft Report should be received no later than 22 May 2002.

Confidentiality

Special reference must be made to any issues in submissions for which confidential treatment is sought and all confidential parts of submissions must be clearly marked. *However, it is important to note that confidentiality cannot be guaranteed as the Freedom of Information Act and section 44 of the Independent Competition and Regulatory Commission Act provide measures for possible public access to certain documents.*

Public access to submissions

All submissions that are not subject to confidentiality will be made available for public inspection at the Commission's offices immediately after registration by the Commission and also where possible via the Commission's website.

Inquiries should be directed to:

Ian Primrose (02) 6205 0799
Nicholas Hague (02) 9290 8494

Submissions should be directed to:

In Person: Level 7, 197 London Circuit (FAI House), Canberra ACT2600
By Mail: PO Box 975, Civic Square, ACT 2608
By E-mail: icrc@act.gov.au
By Fax: (02) 6207 5887

FOREWORD

On the 6 September 2001 the then Minister for Urban Services, Brendan Smyth MLA, issued a reference to the Commission for the an investigation into taxi fares for the period 1 July 2002 – 30 June 2004. The Commission was to further develop and refine the new costing and pricing model. In carrying out the investigation the Commission was to consider the degree of competition within the industry and matters referred to in section 20 of the *Independent Competition and Regulatory Commission Act 1997*.

Following receipt of this reference and a change in the ACT Government, on 30 January 2002 the Minister for Urban Services, Bill Wood MLA, issued a reference to the Commission for an investigation into the ACT taxi and hire car industry made under the *Independent Competition and Regulatory Commission Act 1997*, sections 19C, 19E and 19H. The Commission is to investigate and provide advice to the Government on a range of issues relating to the reform of the taxi and hire car industry. Many of the terms of reference arise from recommendations contained in the National Competition Policy review of the taxi and hire car industry and the impact of the implementation of the recent *Road Transport (Public Passenger Services) Act 2001*.

In carrying out the investigation the Commission is to consider the level of competition in the industry, the general standards of performance and safety, service levels and whether community expectations are being met. The Commission is also to consider how the industry in the ACT compares with other jurisdictions, particularly NSW. The Government is seeking a range of options for reform of the industry and advice on the costs and benefits of those options. The needs of people with a disability are to be given special attention, to ensure that they have access to a level of service that is equivalent to that enjoyed by the general community.

Due to the close links between the two investigations, the Commission has decided to release a combined draft report. The Commission anticipates holding public hearings on the investigations, and will consider submissions it receives on the draft report before finalising its decision.

As this draft report indicates, the scope of the inquiry is broad, and the Commission looks forward to receiving wide ranging and innovative submissions.

Timetable for the reviews

The schedule for the inquiry is shown in the table below. The inquiry is to be finished by the end of May 2002, with the final report to be delivered to the Minister as soon as possible thereafter.

Item	Due date
Submissions closed on the Issues Papers	4 March 2002 – taxi fare review 15 March 2002 – future directions review
Draft Report released	19 April 2002
Public hearing	13 May 2002
Submissions close on the Draft Report	22 May 2002
Final Report	31 May 2002 (or as soon as possible thereafter)

The Commission wishes to encourage debate and invites all people interested in the future of the taxi and hire car industry to make a submission to the inquiries. Submissions have been sought at the issues paper and draft report stages of the process. Information about how to make submissions is available by contacting the Commission's office on (02) 6205 0799.

Submissions to the Commission's inquiries are public documents and will be made available on the Commission's website where possible. Submissions may also be viewed during business hours at the Commission's offices on level 7 FAI House 197 London Circuit Civic. People making submissions which contain information they consider confidential may apply to the Commission to provide protection for it. The Commission will consider all applications on their merits. Please contact Ian Primrose, Chief Executive Officer on (02) 6205 0779 to discuss the confidentiality obligations in the *Independent Competition and Regulatory Commission Act 1997*.

Paul Baxter
Senior Commissioner

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EXECUTIVE SUMMARY

Introduction

The Australian Capital Territory (ACT) is a party to the *Competition Principles Agreement* (CPA) which was signed in 1995 by the Council of Australian Governments (CoAG). The CPA is one of three agreements to give effect to National Competition Policy (NCP). A key aspect of national competition policy is a review of all legislation that restricts competition. Currently the ACT Government restricts entry to both the taxi and hire car markets while taxi fares are determined by this Commission.

On the 6 September 2001 the then Minister for Urban Services requested that the Commission conduct an investigation into taxi fares for the period 1 July 2002 – 30 June 2004. The Commission was later requested to also conduct an investigation into options for reforming taxi and hire car services within the Australian Capital Territory (ACT). Aspects of this latter request relate directly to requirements under NCP. The terms of reference for each of these reviews establish the tasks to be undertaken by the Commission, and the matters to which it is to give consideration.

Competition policy

Market/licence categories and cross border restrictions

Licence categories – taxis and hire cars

The Commission has carefully reviewed all the submissions and material available to it. It broadly agrees with the Freehills review which recommended 3 licence categories: standard taxis, WATs, and hire cars. However, the Commission considers the most logical and administratively efficient approach to licensing is to have the following licence categories:

- standard taxis
- WATs
- other public passenger vehicles seating up to 9 adults, including the driver – this category would include hire cars, restricted hire vehicles (RHVs) and vehicles used for such activities as eco/bush tours and other tourism services.

Taxis would be distinguished by having taxi meters installed, and displaying their fare schedule on the inside and outside of the vehicle. Further, only taxis would be permitted to operate in the rank and hail market, other than at Canberra Airport where, at present, hire cars and in the future all other public passenger vehicles, would be permitted to operate.

The Commission also considers that the distinction between unrestricted and restricted hire cars unnecessarily restricts trade and limits the consumer choice.

Licence fees – taxis and hire cars

The Commission considers that licence fees should be set at a level that ensures they make an appropriate contribution to the functions that the ACT Government must administer in relation to the taxi and hire care industries. This suggests that full cost recovery, or at least some movement towards full cost recovery, should be considered. For deregulation to work properly, it is important that the ACT Government has sufficient resources to administer the

relevant sections of the new Act, eg to ensure accreditation of those operating in the industry and safety inspections are carried out appropriately.

The Commission considers that there should be differential licence fees between standard taxis and WATs. There are a number of key reasons for this position. The different capital costs between standard taxis and WATs support varying fees. Canberra Cabs suggests WAT capital costs are around \$6,000 higher than those for a standard taxi. This provides a guide as to the potential differential that may be warranted. Further, it is important that incentives be in place for people to operate WATs. A differential licence fee will assist in this regard. The Commission is also recommending a WAT lift fee – see chapter 8.

Licence term and transferability – taxi and hire car

Freehills recommended that licences should be issued for limited periods and should not be transferable. Freehills noted that if controls on supply of licences remained in place, licences should remain transferable subject to the appropriate transfer eligibility requirements.

The Commission agrees with these recommendations of the Freehills review. Specifically, the Commission recommends that licences be issued for 12 months. Licences would be renewed assuming that the applicant continues to satisfy the relevant licence requirements and pays the relevant fee. Deregulation of licence quotas removes the capital value currently on taxi plates, thus licences should not be transferable.

Cross border restrictions - taxi

By removing cross border restrictions, a competitor to Canberra Cabs' network monopoly is introduced and greater consumer choice is provided to ACT (and Queanbeyan) residents. This is an important consideration given the present difficulties in establishing a second network operator in the ACT.

The Commission acknowledges that some issues such as differing maximum age of vehicles permitted in the two jurisdictions, should be resolved if there is to be permanent removal of cross border restrictions between the ACT and Queanbeyan. In regard to cross border restrictions between the ACT and Murrumbateman, and similar issues raised by Bungendore Taxi Services, the Commission sees these matters in the same context as ACT/Queanbeyan and looks forward to an early resolution by the ACT Government.

Recommendation 1 – general issues and cross border restrictions

The Commission recommends that:

- the distinction between restricted hire vehicles (RHVs), unrestricted hire cars and other public passenger vehicles seating up to 9 adults including the driver, should be removed
- licence fees be set at a level that ensures they make an appropriate contribution to the functions that the ACT Government must administer in relation to the taxi and hire car industries. Full cost recovery or some movement towards full cost recovery should be considered
- operator licences be issued for a period of 12 months and not be transferable
- the removal of cross border restrictions between the ACT and Queanbeyan should be extended or removed permanently.

Market deregulation

The number of taxis required to service the Canberra market is determined by the Department of Urban Services with input from the incumbent taxi company, Canberra Cabs. However, as other Australian states have found, there are no reliable criteria by which to calculate the number of taxis appropriate to a particular market. Partly as a consequence, no new standard taxi licences have been released by the ACT Government since 1995.

Deregulation of the taxi and hire car industries is being considered following the introduction of national competition policy. State and national government's and/or their bodies have all conducted reviews of the taxi industry over recent years. This includes the ACT, where Freehills conducted a review for the ACT Government.

All of the reviews identified significant costs associated with regulation. In addition, many of the reviews noted that the aims of legislation were often not being achieved by limiting market entry. The reviews also noted that the costs of regulation were generally borne by consumers who had reduced choice in terms of service quality and price, and also service options.

The Commission also considered the international experience of taxi deregulation. This indicated that the success of deregulation is dependent on a number of market factors, and the degree of deregulation introduced (see chapter 6 for detailed discussion). The experience of deregulation in NZ and selected US cities illustrates the benefits that can accrue from deregulation. Importantly, the Commission's recommendations consider in detail the experience of other jurisdictions.

The above indicates that regulation imposes costs on consumers, limits service innovation and that deregulation can be successfully introduced. Experience with deregulation has shown that the market itself can best determine the appropriate number of taxis required.

The Commission recommends that market entry be deregulated, and that minimum/enforceable standards be used to ensure only suitably qualified people are able to operate in the taxi industry, and similarly that only suitably safe vehicles be able to operate. The stringent requirements under the *Road Transport (Public Passenger Services) Act 2001* and related legislation provide those minimum/enforceable requirements. Market entry deregulation should be phased in over a 3 year period. During this period, an additional 15 taxi licences should be issued per year. Where demand for licences exceeds supply during this interim period, licences would be issued via a ballot.

Because entry to the industry will not be restricted, the right to operate a taxi will no longer have a value, and a taxi 'plate' will no longer be a tradeable asset. Therefore, for existing operators wishing to exit the industry, the Commission is recommending a safety net scheme. (details of the scheme are given in section 6.2.3).

Recommendation 2 – taxi market deregulation

The Commission recommends that entry to the ACT taxi industry be deregulated, ie that licence quota restrictions be removed after a 3 year phase in period.

The majority of the literature focuses on the experience of deregulation of the taxi industry, perhaps because this industry is relatively large compared to the hire car industry. However, the same issues are relevant to both industries. Where artificial barriers to industry entry exist, we can expect there to be costs to consumers and society as a whole.

For this reason, the Commission considers that the hire car industry should also be deregulated. Currently, market entry to the hire car industry is restricted by the ACT Government. Again a phased approach is considered appropriate to allow the industry time to adjust to these changes. As the Commission's approach is likely to encourage greater competition between the current taxi, hire car and other/tourist markets, it would be appropriate for the phase in period for hire cars to be the same as for that taxis.

Similar to taxis, a safety net package is recommended for operators in the unrestricted hire car market. Further, accreditation and safety standards will ensure that appropriate minimum/enforceable standards are maintained in the industry.

Recommendation 3 – hire car market deregulation

The Commission recommends that entry to the ACT hire car industry be deregulated, ie that licence quota restrictions be removed after a 3 year phase in period.

To ensure the safety net scheme is not abused, the Commission is recommending that those existing licence holders that utilise the scheme, cannot re-enter the ACT taxi or hire car industry (whichever is relevant) as a licence holder for a period of 5 years.

Recommendation 4 – participants in the safety net scheme

Existing licence holders that utilise the safety net scheme, cannot re-enter the ACT taxi or hire car industry (whichever is relevant) as a licence holder for a period of 5 years.

The Commission sees value in further encouraging hire car operators to compete directly in the telephone/pre-booking market. This competition from the hire car industry is particularly important given the monopoly Canberra Cabs has as the ACT taxi network operator.

The Commission is also concerned at the implications of the new *Road Transport (Public Passenger Services) Act 2001* for operators of vehicles seating 6 to 9 adults including the driver. The existing legislation does not properly account for these operators, and following transitional arrangements, operators of such vehicles would be required to take out a hire car licence. This would add significantly to the licence costs of these operators.

The Commission sees this as an unintended consequence of the new Act, and one that is not desirable. There are two broad options to rectify this situation. The Commission considers that there should be a broad 'other public passenger vehicle' category that would cover hire cars and other/tourist vehicles (these other vehicles having a seating capacity of up to 9 seats). This will simplify the administration of public passenger vehicles, and will facilitate the emergence of competition between the current different licence categories. This is important in terms of creating competition between service providers and providing greater choice to consumers. Further, the environment is one that will foster the development of

innovative and new services. The existing disaggregation of licence categories makes it virtually impossible for competition between the markets to eventuate. The option of an 'other public passenger vehicle' category is also consistent with deregulation of market entry.

Due to the importance of WATs to certain members of the community, WAT licences would continue to be licensed separately to other public vehicle licences.

Recommendation 5 – market/licence categories

The Commission recommends that licence categories be amended to establish a taxi licence, a WAT licence, and an 'all other public passenger vehicle' licence which would cover those public vehicles that can seat up to 9 adults, including the driver.

Currently the Commission regulates maximum fares for taxi services. The question is what regulation of fares should exist as licence quota restrictions are removed. The Commission considers that during the phase in period, regulation of maximum fares should continue. With increasing competition through this period, it is possible that some operators may offer new, innovative services and/or charge fares below the maximum fare. In the current regulated environment, the maximum fare has come to be the only fare charged.

Following the three year phase in period, the Commission considers that maximum fare regulation should be removed, ie that fares should be deregulated. A process should be implemented that requires operators to notify in advance changes to their maximum fares, say a month in advance. Similar to the system operating in NZ, there is some worth in restricting fare schedule changes to two per year.

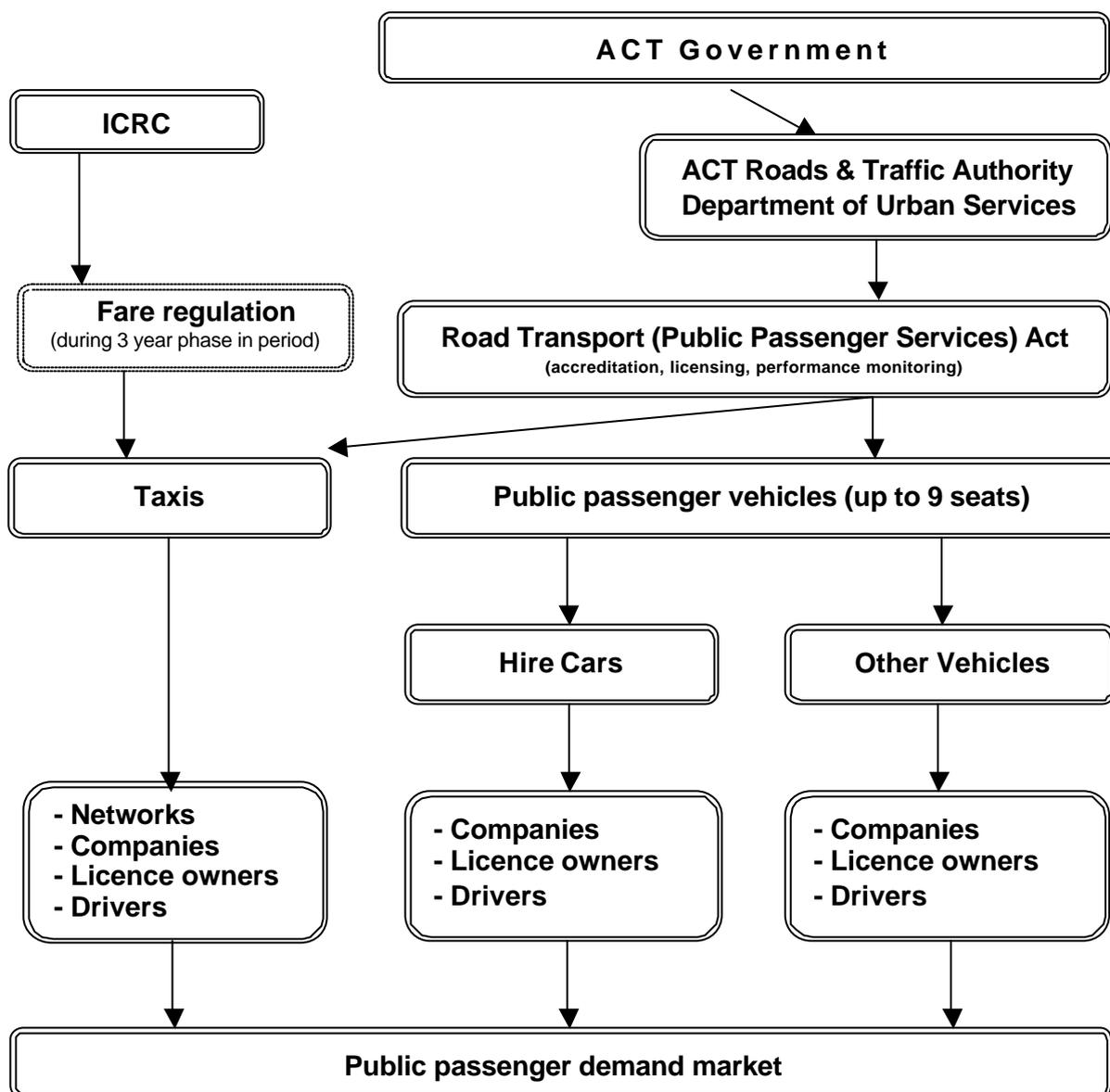
Fares for hire cars and other public passenger vehicles are not currently regulated. The Commission recommends that there be no change to this current situation.

Recommendation 6 – maximum fare regulation

The Commission recommends that maximum taxi fare regulation be maintained during the three year phased approach to the removal of licence quota restrictions. Fares should then be deregulated. The actual process of implementing fare changes in a deregulated environment needs to be finalised, eg advanced notification of fare changes and limits on number of fare changes per year.

The following diagram illustrates the regulatory model the Commission is recommending. Overall, the ACT Government would maintain its role as the ultimate regulator of the industry. This would essentially be through the *Road Transport (Public Passenger Services) Act 2001* (the Act), and would relate to accreditation of networks, operators and drivers, the safety standards for vehicles, and the monitoring of, and where necessary, the imposition of penalties for poor, performance. The ACT Roads and Traffic Authority and the Department of Urban Services would have key roles in this regard. During the phase in period, the Commission would maintain its role as the regulator of maximum taxi fares.

Participants in the industry – the deregulated model



Under the Act and the Commission’s recommendations, there would be two broad license categories, taxis (which itself is separated into standard taxis and wheelchair accessible taxis) and all other public passenger vehicles seating up to 9 adults, including the driver. Each of these industries would have their participants, eg network operators, companies, drivers. These participants would serve the market demanding public passenger services.

Service quality and WAT services

The Commission has reviewed the nature of taxi demand in the ACT and aspects of service quality supplied by Canberra Cabs. For standard taxis, peak period targets are easily achieved. Interestingly, the 85 per cent of customers experiencing a waiting time of no more than 10 minutes target during off peak periods is only just achieved.

Canberra Cabs generally **does not** meet its waiting time requirements in regard to WATs. The Commission is particularly concerned at this outcome given disabled users of this service often have limited alternatives. The ACT Government's issuing of an additional 10 WAT licences in 2001 and more stringent enforcement of licence requirements is supported in this regard.

The Commission has been asked to provide advice on the measures that may be necessary to ensure that people with a disability receive equivalent access to taxi services to that enjoyed by the general community. The Commission considers that a lift fee for WAT services is appropriate. The provisions of the new Act should also assist in improving WAT services. Further, the re-introduction of micro-management by Canberra Cabs appears to have improved WAT waiting times.

Recommendation 7 – service quality

The Commission recommends that:

- service quality indicators be reviewed, with particular attention paid to tightening peak period waiting time requirements
- WAT service quality be closely monitored, this includes the success of Canberra Cabs' micro-management of WAT bookings
- the ACT Government actively apply the relevant provisions of the *Road Transport (Public Passenger Services) Act 2001* to ensure WAT licence conditions are being met
- a lift fee for WAT hirings of \$3.00 be introduced. This should be funded by the ACT Government.

Maximum taxi fares from 1 July 2002

At present the Commission is responsible for setting maximum taxi fares. In fulfilling this role the Commission considers information presented by Canberra Cabs. The Commission has serious concerns with the financial information presented by Canberra Cabs. This information essentially precludes consideration of a fare setting methodology that takes into account both costs and revenues of an average taxi. The information provided by Canberra Cabs suggests that operators are making significant losses.

However, at the same time, the value of taxi plates has been relatively stable over recent years at around \$260,000, and plates can be leased out at around \$26,000 per annum. Obviously the outcome of significant operational losses and healthy plate values are not consistent. This information would also suggest that consumers of taxi services, ie the passengers, are being charge excessively high fares.

In light of these problems with Canberra Cabs' information, the Commission has considered alternative ways of setting taxi fares. It has also been important to ensure that any methodology is consistent with the Commission's recommendation to deregulate market entry.

The Commission has determined that the Canberra CPI produced by the Australian Bureau of Statistics is an appropriate mechanism to adjust maximum taxi fares. The latest 12 month figure for the Canberra CPI suggests that maximum taxi fares be adjusted by 2.9 per cent from 1 July 2002.

A detailed discussion on the above issues is contained in chapters 11 and 12.

Determination – maximum taxi fares

The Commission determines that average maximum taxi fares be increased by 2.9 per cent from 1 July 2002.

1 INTRODUCTION

1.1 The Commission

The Independent Competition and Regulatory Commission (the Commission) is a statutory body set up to regulate prices, access to infrastructure and other matters in relation to regulated industries and to investigate competitive neutrality complaints and government-regulated activities. The Commission also has a number of functions in relation to electricity, gas, water and sewerage utilities in the ACT.

The Commission's objectives are to:

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

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 The reviews

On the 6 September 2001 the then Minister for Urban Services requested that the Commission conduct an investigation into taxi fares for the period 1 July 2002 – 30 June 2004. The Commission was later requested to also conduct an investigation into options for reforming taxi and hire car services within the Australian Capital Territory (ACT).

The terms of reference for each of these reviews establish the tasks to be undertaken by the Commission, and the matters to which it is to give consideration. For the taxi fare review, the Commission is required:

- to further develop and refine the new costing and pricing model constructed by the Commission, and to recommend maximum taxi fares for a 2 year period from 1 July 2002
- to consider matters referred to in section 20 of the *Independent Competition and Regulatory Commission Act 1997*.

For the taxi and hire car industry review, the Commission is required to address:

- the state of competition within the ACT taxi and hire car industry compared to other jurisdictions, including a review of service quality levels and costs of service provision
- the likely implications for the ACT taxi and hire car industry of changes recently introduced or proposed by the NSW Government
- the community benefits for any proposed reforms
- measures to facilitate the establishment of a second taxi network in the ACT

Independent Competition and Regulatory Commission

- measures to ensure that people with disabilities receive similar standards of taxi service as the general community.

Attachment 1 shows the full terms of reference for the taxi fare review. Attachment 2 shows the terms of reference for the future directions of the taxi and hire car review.

This draft report has been separated into two broad parts:

- part A covers the key competition issues relating to the taxi and hire car industry review, plus service quality which is relevant for both the competition and taxi fare reviews
- part B covers matter specific to the determination of maximum taxi fares.

2 BACKGROUND TO THE REVIEWS

The Australian Capital Territory (ACT) is a party to the *Competition Principles Agreement* (CPA) which was signed in 1995 by the Council of Australian Governments (CoAG). The CPA is one of three agreements to give effect to National Competition Policy (NCP). Under the CPA, Australian Governments agreed to adopt the guiding legislative principle that:

Legislation (including Acts, enactments, Ordinance or regulations) should not restrict competition unless it can be demonstrated that:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

The ACT Government engaged independent consultants Freehills Regulatory Group (Freehills) to review the ACT's taxi and hire car legislation as part of its CPA obligations. Freehills' final report was completed and provided to the Government in March 2000.¹

The ACT Government accepted a range of Freehills' recommendations (as noted in chapter 5) but proposed further community consultation prior to considering those recommendations that, if agreed, were likely to have a significant impact on the community. The Government also promised a further review (before June 2002) to consider additional reforms to increase competition in the ACT taxi and hire car industry and the potential impact on the community of these changes.

Following Freehills' review and the Government's response to it, there have been a number of additional issues that have arisen including:

- ongoing problems meeting service standards for Wheelchair Accessible Taxis (WATs)
- introduction of the Road Transport (Public Passenger Services) Amendment Bill 2001
- the tender for a second network operator
- changes in the NSW industry that may impact on the ACT taxi and hire car industry.

The ACT Government, following the Freehills review, made a commitment to review the state of competition in the ACT taxi and hire car industries before June 2002. In framing the terms of reference, the Government has asked the Commission to also consider the additional issues noted above.

2.1 Statutory requirements and regulated services

The terms of reference for this review require the Commission to take into account matters referred to in section 20 of the Act. The following reproduces section 20(2) of the *Independent Competition and Regulatory Commission Act 1997*:

- a) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies (including policies relating to the level or structure of prices for services) and standard of regulated services;
- b) standards of quality, reliability and safety of the regulated services;

¹ Freehills Regulatory Group, *National competition policy review of ACT taxi and hire care legislation*, Final Report, Prepared for ACT Department of Urban Services, March 2000.

- c) the need for greater efficiency in the supply of regulated services to reduce costs to consumers and taxpayers;
- d) an appropriate rate of return on any investment in the regulated industry;
- e) the cost of providing the regulated services;
- f) the principles of ecologically sustainable development referred to in subsection 7(2) of the Territory Owned Corporations Act 1990 as modified by virtue of subsection 4(1) that Act;
- g) the social impacts of the decision;
- h) considerations of demand management and least cost planning;
- i) the borrowing, capital and cash flow requirements of persons providing regulated services and the need to renew or increase relevant assets in the regulated industry;
- j) the effect on general price inflation over the medium term; and
- k) any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person.

The Commission is required to take into account a wide range of matters in making its price direction. This approach ensures that an appropriate balance of interests is considered, in particular returns to the service provider and protection of consumers from excessive prices. These matters have been considered by the Commission in making its draft decision.

The terms of reference issued by the Minister for Urban Services identify 'prices for taxi services within the Territory' as the specified regulated service. Before the Commission's first review into taxi fares, the Minister set fares and the industry made submissions to the Minister for fare changes.

2.2 Industry structure

Prior to 1956 the ACT had no taxi services. Only private hire cars operated in the area and these were unmetered, without centralised co-ordination or radio communication. By the early 1970s the Canberra taxi fleet had increased to 73 cars. Fleet size increased to 96 in 1974 and 105 in 1975. Fleet numbers then remained static for nearly a decade. However, by the end of the 1980s, taxi numbers had increased to 167.

In the 1990s, the first public auction of taxi licences commenced. There are now 243 taxi licences in the ACT, 26 of these being WATs.² WATs were first introduced in the 1980s.

In the hire car industry, the first six unrestricted hire car licences were issued in 1965. Two more were issued in 1976, followed by 14 in 1977. There are currently 3 licences from NSW that are allowed to operate in the ACT. There are also 30 restricted hire car licences in the ACT. The restricted hire cars mainly service the market for special occasions, such as weddings and school formals, although they may also compete with standard hire cars for a variety of luxury vehicle transport services.

² There are also 15 standard taxi licences and 1 WAT licence in Queanbeyan which are currently able to operate in the ACT on a trial basis.

Part A
Competition policy

3 REGULATION AND DEREGULATION – THE THEORY AND THE EXPERIENCE

Economic theory suggests that market failure can justify the regulation of firms. Generally, this market failure is associated with the particular good/service being provided by a single entity, a monopoly service provider. In these instances, the fear is that unchecked, the monopoly service provider will increase prices above what would normally be charged in a competitive environment. Regulation may also be justified in situations of asymmetric information and externalities. However, the existence of each of these situations does not automatically justify government intervention to regulate the particular market in question.

In a competitive environment the interaction between firms and consumers is likely to produce efficient levels of service (eg fares, frequency, service quality). If the cost of offering a service is greater than the amount consumers are willing to pay, the service will not be offered, or will be withdrawn to avoid the providers of the service making a loss. Resources are then freed to be used in more productive ways. Furthermore, if a producer is charging excessive prices, another producer may enter the market, charge a lower price, and win consumers from the previous supplier.

In fact, it is not even necessary to have individual service providers directly competing with each other for competition to work. The threat of entry can provide incentives for the existing operator to provide services that are efficient and meet consumer needs. This threat of entry is lost when service providers are given monopoly rights.

Of course, competition does not work perfectly and may not always be feasible. However, it provides a process whereby misjudgements by producers regarding the cost of production, price or quality of service, may be corrected. If a producer seriously misjudges what the market wants, it will be worthwhile for another producer to enter the market. Sooner or later, such an entry will take place.

Whether regulation is justified will depend on the degree of the market failure. That is, it will depend on the overall benefits and costs of regulation, and importantly, the prospects for regulation to yield better outcomes than the market. Where there are net benefits from regulation, government intervention can provide benefits to consumers through, for example, lower prices and improved service quality. However, regulation involves costs, and it is not always certain that direct intervention produces a more reasonable outcome than competition. Under a regulated environment, some decisions are in the hands of government/regulators, rather than in the hands of service providers, who have a strong and immediate incentive to respond to the demand of users.

3.1 Forms of regulation/deregulation

The above discussion focussed generally on the theory of regulation and competition. This section will look specifically at the forms of, and degree of, regulation that can be applied to the taxi industry.

Most commonly, regulation of the taxi industry is thought of in terms of restrictions on market entry and fare regulation (market entry restrictions have also been applied to the hire car industry, although fare regulation is not usually applied). However, the degree of government involvement and regulation of the industry can also include the setting of

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service standards and the accreditation of those who operate in the industry, eg taxi networks, taxi companies, operators and drivers.

The following matrix illustrates the varying degrees that regulation may take in respect of market entry mechanisms and fare setting mechanisms. This illustration is not meant to suggest that other aspects of regulation such as service standards and accreditation are not important. Rather, these aspects are often considered under the market entry heading. For example, consideration of accreditation requirements could form part of the 'minimum/enforceable standards' approach to market entry.

Market entry mechanisms	Fare setting mechanisms		
	Regulator defines all fares	Regulator defines minimum and/or maximum fares	Individual operators define fares
Quota ceiling	<p><i>In fact, regulation/deregulation can occupy a wide range of middle ground</i></p>		
Population ratio			
Convenience and necessity			
Franchise system			
Minimum/enforceable standards			
Open entry			

Fare setting mechanisms, shown across the top row, range from the most restrictive (regulator defines all fares) to least restrictive (individual operators define fares). Market entry mechanisms are shown in the left most column, range from most restrictive (quota ceiling) to least restrictive (open entry). Full regulation and deregulation then refer to opposite corners of the matrix. Between these two extremes lie hybrid approaches where government controls some aspects of the industry.

The varying market entry mechanisms are defined as:

- quota ceiling: the government/regulator directly limits the number of taxis in operation – there are no clear guidelines on the release of additional taxi plates. This is effectively a closed entry policy
- population ratio: the number of taxis in operation is set as a function of population, as population increases, additional taxi licences are released
- convenience and necessity: new licences are issued under certain conditions. A wide range of criteria could fall into this category, usually relevant to demand and the need for additional services
- franchise system: under this system new licences are granted to specific companies. Its effect could range from closed entry to open entry
- enforceable standards: taxis are able to operate as long as they satisfy certain minimum standards. These standards differ from convenience and necessity in that they are unrelated to demand. Such standards could include membership to a taxi company, accreditation requirements, vehicle standards, and driver knowledge and training

- open entry: almost anyone who owns an operable vehicle can obtain a taxi licence. Certain requirements would still exist such as insurance and absence of a criminal record, but these requirements are less restrictive than under the enforceable standards approach.

The last two mechanisms are most closely associated with deregulation. They effectively remove the regulatory body from decisions regarding the supply of taxis, instead relying on market forces to establish an equilibrium. However, enforceable standards can be used to influence the type of new entrants to the industry, and therefore the quality and stability of services.

Fare setting mechanisms form the second dimension of the regulatory matrix. Definitions of these mechanisms are:

- regulator defines all fares: the relevant government or industry regulator sets taxi fares
- minimum and/or maximum fares: the relevant government or industry regulator sets either a maximum fare, or both maximum and minimum fare levels within which operators must charge
- industry set fares: fares are left to the discretion of each operator.

Of these, industry set fares is most commonly associated with deregulation.

The current situation in the ACT may be best described as a quota ceiling operating on market entry, and the regulator setting maximum fares.

When the Commission talks of deregulation of the ACT taxi and hire car industries later in this draft report, it is referring to the removal of the quota ceiling.

3.2 International experience

The Australian market has limited experience in relation to deregulation of the taxi (and hire car) industries. For this reason, the Commission has considered the international experience with deregulation. The Commission has reviewed the experience of deregulation in New Zealand (NZ), the United States of America (US) and the United Kingdom (UK). The experience indicates that opening entry to the taxi industry can increase the number of taxis and the level of competition for passengers. However, the impact of deregulation of price and quality has been mixed.

3.2.1 New Zealand

In November 1989 the *Transport Services Licensing Act 1989* was introduced. The new Act removed the quantitative controls over entry and fares within the taxi-cab market. The Act defines taxis and limousines as small passenger service vehicles (carrying a maximum of 12 people) and requires owners of such vehicles to have a passenger service licence. Existing taxi licences were exchanged for new passenger service licences, in addition there is no restriction on the number of passenger service licences issued so that a licence holder may operate any number of vehicles.

Fares were also partially deregulated. Taxi companies may set their own fares, but one fare scale must be used by all vehicles in the taxi company and this may be adjusted only twice a year. All fare scales must be notified to the industry regulator and posted inside and outside each vehicle.

The Act provides quality controls on vehicles. Licence holders were still required to pass knowledge tests, as well as understand law and safety requirements. Licence holders were also required to belong to an approved taxi organisation which provides a 24-hour, seven-day-a week service with a radio booking and communications system. The authorised organisation is responsible for regulating service quality.

There are strong penalties (based on a demerit point system) where licence holders are convicted of criminal offences and illegal operating practices.

In addition to taxis, the Act covers limousines (including luxury and old cars) and shuttles. There are no signage requirements for these vehicles, nor is a meter required. Shuttles are used primarily for travel to and from airports and usually carry nine passengers. Limousines and shuttles may only be hired on booking and are not allowed to ply the streets for hire or to rank. Limousines and shuttles offer some competition for existing taxi services.

With deregulation of the taxi industry in NZ, an increase in the number of taxis and taxi companies was experienced, which resulted in improvements in waiting times and customer choice. In the Wellington region cab numbers more than doubled in the period from 1989 until 1994. The number of cabs per thousand people has gone from 1.49 to 2.43. Some of this increase in taxi numbers has been attributed to increasing demand associated with improved services following deregulation.

Deregulation also led to increased diversity of prices, quality and nature of taxi services offered by the various taxi companies. Some companies chose to provide cheaper, budget services using older vehicles. Others provided 'premium' taxi services with higher fares and higher quality vehicles.

Overall, fares generally declined in real terms (apart from premium cab services), although fare structures became more complex and varied. The New Zealand Transport Department, for example, found that taxi fares for the majority of companies decreased by as much as 10 per cent from 1989 to 1995.

In May 1996, seven years after the introduction of open entry to the NZ taxi industry, the Wellington Airport Authority limited the number of taxis which could service the airport. Airport permits were issued to only one thousand taxis. Prior to this, long queues at airport taxi ranks led drivers to refuse short fares.

The benefits of NZ deregulation

- increased demand for taxi services
- improvements in waiting times
- improvements in customer choice through increased diversity of prices, quality and nature of taxi services offered
- lower fares on average.

The literature reviewed by the Commission did not identify any major costs associated with deregulation in NZ.

Lessons learnt from NZ experience

- the high share of telephone and rank hirings encouraged competition. The NZ Taxi Federation and the NZ Land Transport Safety Authority both estimate the street hail market as less than 10 per cent of all hirings. It is much easier for consumers to 'price shop' over the phone and ranks, compared to street hailings
- the requirement that maximum fares advertised on the outside of taxis made price shopping at ranks easier
- service quality can be maintained through tighter regulations
- the requirement to belong to an authorised taxi company can assist in maintaining service quality if competition can be fostered between taxi companies and co-operatives. Each company is responsible for regulating service quality and has a brand name to protect, providing an incentive for maintaining or improving service quality.

3.2.2 United States of America

Prior to the 1970s the US taxi industry was regulated under municipal or state regulation. Regulations were not uniform among cities, generally encompassing entry, price and service regulation. From the mid-60s to early 1980s, 21 cities across the US, to varying degrees, deregulated their taxi industries.

The deregulation approach often varied between cities. For example, some cities combined open entry with market determined fares. Others maintained fare regulation but allowed open entry. Overall, in deregulating market entry, cities chose either convenience and necessity, the franchise system, enforceable standards or open entry as their market entry mechanism. Some cities maintained regulation over all fares under their deregulation approach, while others either regulated a minimum and/or maximum fare, or deregulated the fare setting process completely.

The experience of deregulation varied greatly between cities. Cities that had a relatively large population, a high level of airport activity and conditions conducive to low cost market entry tended to experience negative outcomes with deregulation.

Fare changes post deregulation was only documented for 6 cities. For each of these cities, fares rose in the short term. However, over the longer term, price changes were similar between regulated, deregulated and re-regulated cities. Three of these cities later re-regulated market entry and aspects of fares.

Increases in taxi numbers, and the tendency for operators to congregate at already well-served locations, reduced already short waiting times at these locations. The available information suggests that response times for telephone bookings did not change significantly. In some cases, the number of no-shows and trip cancellations increased.

Cities that re-regulated their taxi industry had generally deregulated market entry through the open entry option, and tended to be large cities with intensive airport activity. Some of these cities chose only to regulate taxi services from the airport, while maintaining open entry for all other taxi services.

Cities that deregulated fares only reported no significant issues and have not made ensuing regulatory changes. These cities did not move to open entry as a market entry mechanism, but rather applied an intermediate approach between a quota ceiling and open entry.

Similarly, cities that applied an enforceable standards approach to market entry had no significant issues with deregulation and accordingly have maintained this structure.

The benefits of US deregulation

- an increase in the number of taxis
- some improvements in taxi availability.

The costs of US deregulation

- reductions in some aspects of service quality
- price increases in some cities – although some of these may have been reasonable given previous regulatory decisions.

Lessons learnt from the US experience

- the extent of deregulation can have a significant influence on its success
- increasing taxi numbers does not in itself result in improved service quality or lower prices
- tight service quality regulation is important.

3.2.3 United Kingdom

In 1985/86 the UK Government introduced changes to legislation governing taxis and hire cars. One of the reasons for the change was to gain consistency in approach in regulating the taxi and hire car industries. Up till then there were no entry restrictions into the hire car industry and fares were determined by market forces. Local authorities did, however, have the discretion to restrict the number of taxis operating in their jurisdiction.

One of the key changes to the legislation was the removal of entry restrictions to the taxi industry. This also included allowing minicabs entry into the telephone booking market. The intention was to promote the role of market forces in determining the number of vehicles available for hire by the public. The expectation being that there would be an increase in the supply of vehicles and hence improvements in quality of services provided to passengers. Most local authorities maintained control on taxi fares. The new Act did not change the laws governing issues such as the establishment of taxi ranks, regulating the appearance of taxis and drivers, and the physical/mechanical characteristics of taxis.

Opening entry in the taxi cruising market resulted in increased fares and increased congestion at taxi ranks. Lower standards of service quality and severe shortages of rank

capacity were experienced. The telephone market has been more successfully opened to competition, where there is greater ability to differentiate service.

Increasing the number of taxis through deregulation did not necessarily result in increased competition. However, competition was increased by allowing close substitutes (eg hire cars) to compete in the phone booking segment of the taxi industry

In 1994 the UK industry adopted a range of other measures to maintain quality in the industry. The main change was to introduce a two-tiered system:

- introducing strong quality based barriers (for drivers and vehicles) in the rank and hail market and providing incentives for owner-operators. This encouraged self enforcement
- maintaining open entry in the telephone market where there was an ability for customers to differentiate service which allows active competition.³

The benefits of UK deregulation

- the telephone market was successfully opened to competition, where there was greater ability to differentiate service.

The costs of UK deregulation

- increased fares
- congestion at taxi ranks
- lower standards of service.

Lessons learnt from the UK experience

- competition can be increased by allowing close substitutes (eg hire cars) to compete
- the cruising market is more likely to suffer service quality problems. Barriers to entry in the cruising market and/or tight service quality regulation may be needed
- encouraging owner-drivers into the industry can be used as a way of encouraging improved service quality.

³ London Taxis are regulated to make it unprofitable to operate a taxi business other than as an owner-driver. While leasing is allowed, the lessee driver must also have a taxi licence. In effect, this creates an incentive for the lessee to become an owner-driver. Taxi licences must be renewed annually, and vehicle condition is a precondition to reissue. Licences are not transferable, other than to next of kin who must then meet the ongoing requirements of a licence owner.

4 ROAD TRANSPORT (PUBLIC PASSENGER SERVICES) ACT 2001

The *Road Transport (Public Passenger Services) Act 2001* (the Act) provides overarching legislation for bus, taxi and hire car services. The Act has introduced the concept of 'public passenger services' and the accreditation of bus and taxi service (but not hire car) operators, and taxi network providers. The purpose of accreditation is to improve the performance and standards of the public passenger services industry as a whole.

The Act is intended to strengthen public safety, service quality and consumer protection by increasing the responsibilities of taxi networks and taxi operators. It attempts to do this by expanding both accreditation provisions for performance and action that may be taken in the event of breaches by taxi networks. The introduction of accreditation for operators aims to ensure that operators of taxi services will be required to comply with, and maintain, service standards.

Key elements of the Act in relation to the taxi industry are:

- the insertion of provisions that allow for the making of regulations for the granting and refusal of network accreditation, the application procedure, operation of taxi networks, and revocation, suspension and penalties that may be incurred by an accredited network
- provisions on the licensing requirements for taxis and restricted licences, and the determination of maximum taxi fares
- regulation making powers covering the accreditation of taxi service operators and other matters associated with the operation of taxi services including the conduct of taxi drivers and passengers
- a range of technical, consequential and other amendments including transitional arrangements for existing taxi networks and taxi licence holders to allow for continued operation prior to attaining accreditation.

4.1 Key provisions of the Act

4.1.1 Provisions for taxi network providers

Part 5 of the Act relates to taxi network providers and accreditation of such providers to enable operation within the ACT. Previously, regulation 57 of the *Road Transport (Taxi Services) Regulations 2000* limited the matters that network accreditation applied to. They provided minimal enforcement provisions as accreditation could only be suspended or cancelled for a serious or persistent contravention of the standards.

The Act now makes networks responsible for overall performance and management of taxi services. The intent is to ensure that the obligations of networks are clearly set out. Examples of matters that may be included in the regulations are standards about the off-load of hirings to another network, the management and control of certain types of taxi services such as wheelchair accessible taxis, and the supervision and monitoring of affiliated operators and drivers.

Section 29B sets out the purposes of network accreditation, including the tests used in assessing accreditation applications including the suitability of the applicant; the applicant's capacity to meet standards; and financial viability. This will allow the Road Transport Authority to apply a 'fit and proper' test to applicants for network accreditation. This concept ensures consistency with other public passenger service legislation for bus services.

Section 29C provides that the components of the accreditation scheme for networks are to be set out in regulations. The components would include the application assessment elements, the granting of accreditation, the actions that may be taken in relation to accreditation, and the kinds of services the accredited network may provide.

Section 29D sets out the matters that may be covered in regulations concerning the operation of networks by accredited people. These include the supervision and monitoring of affiliated operators and drivers of taxis operated by affiliated operators to ensure compliance with network service standards, and the responsibilities of networks regarding failure to comply with the standards.

Section 29I provides for regulations to set out the obligations of accredited networks in ensuring affiliated operators and drivers comply with the service standards and other requirements about driver and passenger safety, the training of operators and drivers, the operation of equipment and the maintenance and cleaning of taxis.

4.1.2 Licensing of taxis

Part 4 of the Act contains the provisions for licensing of taxis. These provisions basically mirror the current requirements contained within the *Road Transport (General) Act 1999*. The Act provides the power for the making of regulations regarding the system for the licensing of taxis and restricted taxis, and action that may be undertaken for breaching the licence conditions.

Consistent with the recommendations of the National Competition Policy Review of ACT Taxis and Hire Car Legislation, the existing provisions that limit the number of licences that may be held by a particular person have not been included as part of these amendments. Similarly, requirements for the Minister to decide a reserve price for a taxi licence under the existing provisions have not been retained.

4.1.3 Taxi service operators

Part 5 of the Act provides for the concept of accrediting taxi service operators. The amendments have been designed to reflect current interstate industry requirements and practices. Only accredited operators will be able to operate a taxi service within the ACT.

Accreditation of taxi service operators aims to enhance taxi industry performance and the way taxi services are provided to the ACT community. This is to be achieved through the regulation making powers provided for by new section 31K. For the first time, the legislation will require operators to comply with network arrangements, procedures and affiliation requirements. To maintain accreditation individual operators will be obliged to take a closer day to day management role especially in relation to taxi drivers and compliance with specific taxi licence conditions.

Consistent with the network accreditation scheme, the Bill also allows for regulations to include the tests that will be used in assessing accreditation applications including the suitability of the applicant; the applicant's capacity to meet standards; and financial viability.

The financial viability tests aim to enhance the objects of the Act in relation to encouraging public passenger services that meet the community's expectations for safe, reliable and efficient services. Operators therefore will have to demonstrate that they have the financial capacity to effectively maintain equipment and the number of taxis for which they are applying to be accredited for.

4.1.4 Taxi drivers and passengers

Section 31M provides for regulation making powers regarding taxi drivers. This encompasses such matters as the minimum training requirements, powers, duties, appropriate dress standards and conduct of taxi drivers towards passengers. Regulations may also be made concerning the conduct of passengers thereby enhancing the safety of taxi drivers and operators while providing taxi services (new section 31N). The regulations for passengers may include such matters as prohibition on certain conduct and circumstances that will permit passengers to be removed from taxis.

4.1.5 Implication for WAT services

Operators must now apply for specific accreditation to become a WAT operator. A person may only operate a WAT service if accredited. As WAT licences are not transferable the licensee must be an accredited operator to perform a WAT service.

To receive accreditation for WAT services operators must satisfy the RTA that they have the competencies and processes to effectively manage WAT vehicles. The RTA will have the ability to issue infringement notices to operators and drivers for non-compliance. Further, WAT services will form part of the accreditation conditions and will therefore be subject to a range of disciplinary options such as reprimands, suspension and cancellation of accreditation.

While the previous legislation included penalties for non-compliance these infringements were treated as criminal in nature. Under the new legislation they are treated as administrative decisions. Therefore, under the new legislation it is easier to initiate, pursue and substantiate any infringements.

Further, under the previous regime, whilst there were WAT performance requirements specified in the Memorandum of Understanding (MoU – see chapter 8 for a more detailed discussion on performance requirements), the RTA had no effective remedy to ensure performance requirements were met. The new legislation has been designed to create obligations and responsibilities on both networks and operators. The RTA will now be in a position to impose sizeable penalties on networks (up to \$25,000).

Other initiatives in the new legislation that are intended to improve WAT services include:

- operators and networks being required to take responsibility for their drivers;
- minimum training requirements for WAT drivers, with obligations being placed on operators to ensure compliance;

- provision for the securing of wheelchairs within WATs (previously there was no remedy available to the RTA for failure to secure a wheelchair-bound passenger); and
- provision for WAT vehicles to pickup/set-down disabled passengers in street positions that would assist loading and unloading of passengers (eg next to footpath ramps).

4.1.6 Implications for 6 to 9 seat public vehicles

Under the *Road Transport (Public Passenger Services) Act 2001*, buses are defined as vehicles that seat over 9 adults including the driver whereas previously vehicles carrying from 6 to 9 adults including the driver were considered to be buses. Under current transitional arrangements, this change of maximum size from 6 to 9 adults will require operators with vehicles seating in that range to take out a hire car licence. A transitional arrangement of 18 months from 1 December 2001 allows existing vehicles to continue operation.

The ACT Department of Urban Services (DUS) has stated that once this transitional period ends, 6 to 9 seat vehicles will not be permitted to operate under the new Act, and that the standard hire car licence may not be appropriate.⁴

If these operators are required to take out a hire car licence at the end of the transitional period, this will increase their annual licence fees and change other regulatory requirements on them. This will impact on those groups that operate such services as eco/bush tours, other tourism operators and possibly community transport vehicles.

4.1.7 Performance measures and reporting

The *PPS Amendment Act 2001* commenced on 27 September 2001, and includes concepts previously detailed under the MoU between Canberra Cabs and the ACT Government. These include performance measures such as response times and maximum waiting times. More stringent reporting requirements will be required under the Act. Networks will be required to provide 24 hour waiting time response reports on a monthly basis. This will provide the Government with more information to determine trends, peak times and how future indicators should be set/measured. The standards will be directly linked to network accreditation.

⁴ ACT Department of Urban Services submission, 25 March 2002, p 1.

5 STATE OF COMPETITION IN THE ACT TAXI AND HIRE CAR INDUSTRY

5.1 Commission conclusions and recommendations

The following discusses the Commission's views on the key issues flowing from the Freehills review and related issues raised in submissions. The issue of deregulation, because of its importance, is dealt with separately. Chapter 3 discussed the international experience with deregulation. Chapter 6 applies this to the ACT, and includes the Commission's recommendations.

Licence categories – taxis and hire cars

The Commission has carefully reviewed all the submissions and material available to it. It broadly agrees with the Freehills review which recommended 3 licence categories: standard taxis, WATs, and hire cars. However, the Commission considers the most logical and administratively efficient approach to licensing is to have the following licence categories:

- standard taxis
- WATs
- other public passenger vehicles seating up to 9 adults, including the driver – this category would include hire cars, restricted hire vehicles (RHVs) and vehicles used for such activities as eco/bush tours and other tourism services.

Whether the vehicle is a new Ford or Holden or an early model Jaguar or Rolls Royce or a "people-mover", if it is for hire to carry passengers on public highways, it should be subject to the same required safety requirements as every other public passenger vehicle. Thus the broad safety requirements would not differ between the licence categories.

It will also be absolutely critical that full safety checks are carried out at the specified intervals and rigidly enforced. At issue are the lives of the public who are passengers in the vehicle. At issue also is the use of safety inspections to exclude 'cowboy' operators who will take risks with sub standard vehicles from carrying public passengers.

Similarly, the Commission can see no strong reason for the testing of the capability and knowledge of drivers of public passenger vehicles driven on public roads to differ as a result of the type of vehicle they are driving. While it could be argued that it is less important for drivers of unique vehicles used for weddings and school formals to have a sound knowledge of Canberra's road system, it is not a strong argument, nor is it an onerous requirement for a driver who is paid to carry passengers on Canberra's roads.

The Commission considers that the distinction between unrestricted hire cars, RHVs and up to 9 seat vehicles unnecessarily restricts trade and limits the choice of consumers. The Commission notes the submission by DUS, which states:⁵

Current hire car licensing arrangements appear to be restricting the ACT tourist industry and there is only one stretch limousine available on an unrestricted basis. This is not sustainable or in the interest of the tourist industry or wider community.

⁵ ACT Department of Urban Services submission, 25 March 2002, p 3.

The variation system for restricted hire cars has significant inadequacies. Although the system allows for up to 10 variations there is evidence that this reserve is being used quickly. This variation may only be granted when perpetual hire cars are unable to complete the work. This may leave the industry in the position where it can't respond to the demand. The system can also disadvantage consumers if a perpetual hire car licensee indicates that they can undertake the work, thereby compelling the consumer to alter their choice even if the vehicle doesn't meet the consumer's needs or wants.

Wheelchair accessible taxi licences - taxis

Freehills recommended that the regulator retain the power to set a minimum level of supply of WAT licences governed by minimum response times equivalent to standard taxis and that direct or explicit subsidies be given to WAT licence holders/operators or consumers to achieve those levels of supply.

Service quality continues to be an issue for WATs. The Commission recommends that a subsidy be paid to WAT drivers. Readers are referred to chapter 8 for detailed discussion on these issues.

Licence fees – taxis and hire cars

Freehills recommended that licence fees be set at full cost recovery to ensure proper administration and enforcement of the legislation. The Government agreed in principle, but it did not intend to aggressively pursue full cost recovery.

The Commission considers that licence fees should be set at a level that ensures they make an appropriate contribution to the functions that the ACT Government must administer in relation to the taxi and hire care industries. This suggests that full cost recovery, or at least some movement towards full cost recovery, should be considered. For deregulation to work properly, it is important that the ACT Government has sufficient resources to administer the relevant sections of the new Act, eg to ensure accreditation of those operating in the industry and safety inspections are carried out appropriately. The Commission therefore supports some movement towards full cost recovery.

The Commission considers that there should be differential licence fees between standard taxis and WATs. There are a number of key reasons for this position. The different capital costs between standard taxis and WATs support varying fees. Canberra Cabs suggests WAT capital costs are around \$6,000 higher than those for a standard taxi. This provides a guide as to the potential differential that may be warranted. Further, it is important that incentives be in place for people to operate WATs. A differential licence fee will assist in this regard. The Commission is also recommending a WAT lift fee – see chapter 8.

Licence term and transferability – taxi and hire car

Freehills recommended that licences should be issued for limited periods and should not be transferable. Freehills noted that if controls on supply of licences remained in place, licences should remain transferable subject to the appropriate transfer eligibility requirements.

The Commission agrees with these recommendations of the Freehills review. Specifically, the Commission recommends that licences be issued for 12 months. Licences would be renewed assuming that the applicant continues to satisfy the relevant licence requirements and pays the relevant fee. Deregulation of licence quotas removes the capital value currently on taxi plates, thus licences should not be transferable.

Reserve price – taxi and hire car

As discussed in section 5.4, the ACT Government has accepted the Freehills recommendations. The Commission sees no reasons to amend this position.

Limits on ownership – taxi and hire car

As discussed in section 5.4, the ACT Government has accepted the Freehills recommendations. The Commission sees no reasons to amend this position. Additional Commission discussion on this issue is contained in section 6.2.3.

Taxi network requirements - taxi

The issue of a second taxi network is dealt with in chapter 7.

Cross border restrictions - taxi

Freehills recommended that the ACT Department of Urban Services and the NSW Department of Transport enter discussions with a view to establishing a single taxi market and regulatory regime for the region. A 12 month trial began on 1 July 2001, whereby cross border restrictions between the ACT and Queanbeyan were removed. An evaluation of this trial is to take place in July 2002.

By removing cross border restrictions, a competitor to Canberra Cabs' network monopoly is introduced and greater consumer choice is provided to ACT (and Queanbeyan) residents. This is an important consideration given the present difficulties in establishing a second network operator in the ACT.

The Commission acknowledges that some issues such as differing maximum age of vehicles permitted in the two jurisdictions, should be resolved if there is to be permanent removal of cross border restrictions between the ACT and Queanbeyan.

In regard to cross border restrictions between the ACT and Murrumbateman, and similar issues raised by Bungendore Taxi Services, the Commission sees these matters in the same context as the ACT/Queanbeyan discussion above and looks forward to an early resolution by the ACT Government.

Recommendation 1 – general issues and cross border restrictions

The Commission recommends that:

- the distinction between restricted hire vehicles (RHVs), unrestricted hire cars and other public passenger vehicles seating up to 9 adults including the driver, should be removed
- licence fees be set at a level that ensures they make an appropriate contribution to the functions that the ACT Government must administer in relation to the taxi and hire car industries. Full cost recovery or some movement towards full cost recovery should be considered
- operator licences be issued for a period of 12 months and not be transferable
- the removal of cross border restrictions between the ACT and Queanbeyan should be extended or removed permanently.

5.2 Introduction

The terms of reference require the Commission to assess the state of competition within the ACT taxi and hire car industry. In theory, a competitive environment will encourage interaction between service providers and consumers leading to efficient outcomes (eg fare levels, service quality). If the cost of offering a service is greater than the amount consumers are willing to pay, the service will not be offered, or will be withdrawn to avoid the providers of the service making a loss. Furthermore, if a service provider is charging an excessive price, another provider may enter the market, charge a lower price, and win consumers from the first supplier. However the taxi and hire car industry is not fully subject to these competitive forces. The Government is seeking advice from the Commission on options for reforms that would assist in obtaining those beneficial outcomes.

This chapter examines the findings of the Freehills review in March 2000 which provided options to encourage competition and improve services in the ACT taxi and hire car industry. The chapter also considers reforms proposed by the ACT Government following the Freehills review and comments by the National Competition Council (NCC).

5.3 Freehills review

In the National Competition Policy reform package, the ACT Government agreed to review and, where necessary, reform all existing legislative restrictions on competition. Independent consultants Freehills Regulatory Group (Freehills) were appointed by the ACT Government to review the ACT's taxi and hire car legislation. A final report by Freehills was completed in March 2000.⁶ The report was publicly released on 15 November 2000.

Key findings of the review were that:

- licence quota restrictions did not address legislative objectives and impose substantial costs on consumers and potentially on other industry participants such as drivers
- the provisions create a transfer of wealth from consumers to licence owners and lessees. The quota restrictions inflate the value of licences and raise fare levels, which reduces potential total hirings. The transfer of wealth from consumers to taxi licence owners is estimated at \$5.6m per annum and \$286,000 to hire car licence owners
- regulations which directly address driver, operator and vehicle standards generally have significant benefits in the form of higher consumer, driver and public safety, and in improved quality of service.

Given those findings, Freehills considered the following options for licence quota reforms:

- removing taxi and hire car quota restrictions
- removing hire car quota restrictions and phasing in additional taxi licences
- removing hire car quota restrictions with no reform to current taxi licence numbers
- phased increase in taxi and hire car licences
- introducing an additional category of licences to operate during peak times only.

⁶ Freehills Regulatory Group, *National competition policy review of ACT taxi and hire care legislation*, Final Report, Prepared for ACT Department of Urban Services, March 2000.

Freehills recommended the removal of taxi and hire car quota restrictions as the preferred approach to licence quota reform.

The Freehills report noted that each of the above options had different implications for the issue of compensation. For instance, an immediate removal of all quota restrictions would create a strong case for compensation for the loss in licence value. Freehills concluded that for reasons of pragmatism and equity, compensation should be available where substantial losses occurred due to policy changes.

5.4 Freehills recommendations and ACT Government's response⁷

In December 2000, the ACT Government formally responded to the Freehills review. The Government's response on changes to the hire car sector was limited, in accordance with a resolution passed by the Legislative Assembly.

The following sections provide details on key recommendations of the Freehills review, and the ACT Government's formal response to the recommendations.⁸

Licence quota restrictions – taxi and hire car

Freehills stated a preference for removing taxi and hire car quota restrictions completely.

The Government preferred a transitional response to licensing. As a first step, the Government immediately released ten WAT licences. The Government did not see a need to release additional standard taxi licences. It proposed to review these arrangements, community needs and industry viability before June 2002.

The Government did not release additional perpetual hire car licences. However, the Government supported the proposal that annual hire car licences be made available to operators willing to provide services in addition to the wedding and school formal markets. This was intended to provide Restricted Hire Vehicles (hire cars that are restricted to certain markets such as weddings and school formals) and other operators opportunities to enter this market.

Licence categories – taxi and hire car

Freehills recommended that the number of licence categories should be limited to three:

- taxi licences for operators in the cruising and pre-booked market segments
- hire car vehicle operators in the pre-booked market segments only
- wheelchair accessible licences.

⁷ The National Competition Council provides an assessment of government's progress on implementing national competition policy. Attachment 2 provides detail on the council and its recent assessment of the ACT taxi and hire car markets.

⁸ Another recommendation not discussed in detail here, was to maintain fare regulation until adequate new entry had occurred. The Government agreed that maximum fares should still be regulated to reduce price exploitation and reduce haggling on prices at ranks or on the street.

Freehills also recommended amending the definition of ‘motor-omnibus’ to vehicles carrying nine or more passengers.

The Government supported establishing the three licence categories proposed but also proposed to maintain the additional Restricted Hire Vehicle category.

The Government noted that vehicles carrying up to 9 adults including the driver would have until 31 December 2002 to take up a hire car licence. Therefore amending the definition of “motor-omnibus” was not needed.

Wheelchair accessible taxi licences - taxi

Freehills recommended that the regulator retain the power to set a minimum level of supply of WAT licences governed by minimum response times equivalent to standard taxis and that direct or explicit subsidies be given to WAT licence holders/operators or consumers to achieve those levels of supply.

The Government agreed and made a commitment to ensure people in wheelchairs had access to a taxi service with a response time at least as good as for standard taxis. The Government also announced that:

- WAT operators are required under the conditions of their licence to give priority to people in wheelchairs;
- those operators who fail to comply with licence conditions may be fined or have their licence suspended or cancelled;
- response times will continue to be closely monitored; and
- options for providing direct or explicit subsidies for service will be examined as part of the further review to be completed by June 2002.

As noted above, the ACT Government released an additional 10 WAT licences. These became operational during 2001.

Issuing licences – taxi and hire car

Freehills recommended that the regulator (ie ACT Department of Urban Services) should cease to have the role of attempting to balance supply and demand. Instead, the regulator should issue licences on demand subject to the applicant satisfying the appropriate licence holder and operator accreditation provisions, vehicle safety requirements, and payment of an appropriately costed annual licence fee.

The Government agreed in principle but was not willing to remove licence quota restrictions at the time.

This review by the Commission will reconsider Freehills’ recommendation to remove licence quota restrictions.

Licence fees – taxi and hire car

Freehills recommended that licence fees be set at full cost recovery to ensure proper administration and enforcement of the legislation.

The Government agreed in principle and stated that it would examine the appropriate level for taxi fees but it did not intend to aggressively pursue full cost recovery. For the hire car industry, the Government proposed that annual licence fees would be structured to ensure that annual and perpetual hire car licence holders were able to provide services on an equivalent cost basis.

Licence term and transferability – taxi and hire car

Freehills recommended that licences should be issued for limited periods and should not be transferable. Freehills noted that if controls on supply of licences remained in place, licences should remain transferable subject to the appropriate transfer eligibility requirements.

The Government made no decision on licence terms, but proposed a review of the appropriateness of standard taxi licence arrangements.

Reserve price – taxi and hire car

Freehills recommended the repeal of the provisions establishing a reserve price for taxi licences and legislated payment of \$60,000 for hire car licences.

The Government agreed and noted that the removal of these provisions would reduce the competitive restrictions and result in a higher net benefit outcome to the community. Under the *Road Transport (Public Passenger Transport) Act 2001*, the provisions establishing a reserve price for taxi licences and legislated payment of \$60,000 for hire car licences is removed.

Limits on ownership – taxi and hire car

Freehills recommended that the limitations on the number of taxi and hire car licences that a person may own should be removed along with prohibition on cross-ownership between taxi and hire car licences.

The Government agreed to remove these restrictions, and the *Road Transport (Public Passenger Transport) Act 2001* makes these changes.

Taxi network requirements - taxi

Freehills recommended that for non-dominant networks, minimum response time standards should be removed or reduced (ie average waiting times be allowed to increase) sufficiently to permit new entry at the network level.

Freehills also recommended that consideration be given to proposals, such as that put by Queanbeyan Taxis, to establish a competing network in the ACT to enable competition for the Aerial (Canberra Cabs) network.

The Government proposed that experienced or otherwise qualified organisations be encouraged to establish an additional taxi network in the ACT. Until network accreditation arrangements had been settled, the introduction of an additional network would be invited on similar terms and conditions to those applying in the Government's agreement with Canberra Cabs.

The Government then called for tenders to operate a second taxi network in the ACT, and selected a preferred supplier. Operations by the second network are yet to commence, and this review by the Commission is to consider measures to facilitate the establishment of a

second network. The issue of a second network operator in the ACT is further discussed in chapter 7.

Cross border restrictions - taxi

Freehills recommended that the ACT Department of Urban Services and the NSW Department of Transport enter discussions with a view to establishing a single taxi market and regulatory regime for the region.

The Government agreed and noted that discussions had commenced between the respective government departments. Following these discussions, on 3 July 2001 the ACT Government and Director-General of the NSW Department of Transport announced a 1 year trial scheme allowing taxis registered in the ACT and Queanbeyan to operate in both regions.

5.5 Standing Committee on Planning and Urban Services

On 30 November 2000 the Legislative Assembly passed a resolution to establish a Standing Committee to:

inquire into and report on the National Competition Policy Review of ACT Taxi and Hire Car legislation; [and that] this Assembly directs the government not to implement any changes to the hire car industry prior to the presentation of the committee's report to the Assembly.

In view of the resolution's focus on hire cars, the Committee decided to deal only with issues affecting the hire car industry. The Committee's final report was completed in August 2001.

Submissions to the Committee argued that a competitive market already exists in the ACT hire car industry.⁹ The Committee agreed that the hire care industry is facing serious financial pressure and a period of considerable uncertainty, reflecting the influence of factors such as the changes to Comcar and the operation of NSW-plated vehicles in the ACT.

There was also uncertainty about the potential impact of the Restricted Hire Vehicles (RHVs) on the unrestricted hire car market if the two forms of licences were amalgamated. The RHV industry believed that they operate in a niche market largely not serviced by the unrestricted operators (eg weddings, school formals). The unrestricted hire car operators, on the other hand, were concerned that the RHVs operate beyond their niche markets and significantly impact on the unrestricted hire car market.

Key recommendations of the Committee include that:

- the government give priority to providing a period of stability in which current licence holders have the opportunity to plan/consolidate their positions
- deregulation of the hire car industry not take place and that no new licences be issued at this time
- if deregulation takes place, the government should establish a fair/equitable transition process involving appropriate compensation to existing licence holders.

⁹ There are two major companies, Canberra Limousines (operating as a cooperative) and Hughes Limousines (operating as a franchise), as well as three independent operators.

5.6 Submissions to the review

Queanbeyan Taxi Co-operative Limited stated the following in regard to cross border restrictions between the ACT and Queanbeyan:¹⁰

Along with the ACT {Queanbeyan} forms part of a cohesive, vibrant and integrated regional community. Consequently, Queanbeyan Taxis believe that it is in the interest of our wider customer base for public transport services to be as effectively regionalised as possible...

The cross border arrangement, we believe, offers the following outcomes, all of which are beneficial to the general public:

- an improvement in the supply of taxis operating in the ACT and an improvement in overall service delivery of the taxi industry
- an introduction of competition within the local taxi industry at the network level and an enhancement of customer satisfaction through the effect of competitive practices
- the improvement of taxi service at specific high demand areas and in particular at the Canberra airport
- the offer of more efficient and cost effective taxi services to our regional community by the provision of taxi networks that provide seamless operations across the state border.

The ACT DUS stated the following in regard to the removal of cross border restrictions:¹¹

There are some issues that will need to be addressed if the arrangement is to continue on a long term basis:

- NSW taxis have an 8 year age limit, ACT 6 years. These standards may have to be aligned
- communication links between ACT and Queanbeyan Cabs could be established to ensure allocated hirings are not taken by alternative taxi providers, and
- fare differential between ACT and Queanbeyan needs to be examined.

The Murrumbateman Taxi Service also commented on cross border issues. Its key issue was that the issues that support the removal of cross border restrictions between the ACT and Queanbeyan, are also relevant for the ACT and Murrumbateman.¹² Similar statements were made by Bungendore Taxi Service.¹³

The Commission received a submission from the Limousine Industry Association of the ACT and Queanbeyan. The Association supports the findings of the Standing Committee on Planning and Urban Services, the key conclusions of which were discussed above.¹⁴

National Capital Limousines states that the restrictions limiting the markets restricted hire cars can operate in should be removed:¹⁵

It is our understanding that the removal of licensing restrictions in other Australian states and in New Zealand has not diminished the commercial viability of hire cars but

¹⁰ Queanbeyan Taxi Co-operative Ltd submission, 15 March 2002, pp 3 and 7-8.

¹¹ ACT Department of Urban Services submission, 25 March 2002, p 3.

¹² Murrumbateman Taxi Service submission, 15 March 2002.

¹³ Bungendore Taxi Service submission, 15 March 2002.

¹⁴ Limousine Industry Association of the ACT and Queanbeyan submission, 15 March 2002.

¹⁵ National Capital Limousines submission, 15 March 2002, p 2.

rather the number of hire car operators has increase to generate substantially increased demand, albeit with minimal decrease in charges but with greatly improved services and innovation in those communities.

We believe that to reassess/reduce restrictions on 'H' [hire vehicle] and 'RHV' [restricted hire vehicle] licences in the ACT to establish commercially viable regimes for both will benefit both operators and the consumer.

6 THE COMMISSION'S APPROACH TO DEREGULATION

6.1 Commission conclusions and recommendations

The Commission has considered the reviews of the taxi and hire car industries that have been carried out within Australia over the past few years. It has also considered the international experience of deregulation, and how deregulation may work in the ACT.

On balance, the Commission sees benefits in deregulating entry restrictions in the taxi and hire car industries in the ACT. Importantly, the Commission's approach will maintain enforceable standards for the industry. This was found to be a key success factor in the US deregulation experience. Further, the Commission is recommending a safety net for existing taxi and unrestricted hire car plate owners. To allow the taxi and hire car industries time to adjust to a deregulated environment, the removal of licence quota restrictions is to be phased in over a period of 3 years.

Recommendation 2 – taxi market deregulation

The Commission recommends that entry to the ACT taxi industry be deregulated, ie that entry restrictions be removed after a 3 year phase in period.

Recommendation 3 – hire car market deregulation

The Commission recommends that entry to the ACT hire car industry be deregulated, ie that entry restrictions be removed after a 3 year phase in period.

The Commission is recommending a safety net scheme for existing taxi and hire car licence holders who may wish to exit the deregulated industry. To ensure this scheme is not 'gamed', the Commission is recommending that those existing licence holders that utilise the safety net scheme, cannot re-enter the ACT taxi or hire car industry (whichever is relevant) as a licence holder for a period of 5 years.

Recommendation 4 – participants in the safety net scheme

Existing licence holders that utilise the safety net scheme, cannot re-enter the ACT taxi or hire car industry (whichever is relevant) as a licence holder for a period of 5 years.

The Commission has also considered the issue of 6 to 9 seat vehicles, which currently are not adequately considered under the new Act. The operating model the Commission is recommending for the ACT would see greater competition between taxis, hire cars, and other public passenger carrying vehicles. For this to be achieved, the Commission is recommending licence categories to cover standard taxis, WATs, and all other public passenger vehicles seating up to 9 adults, including the driver.

The Commission considers that significant flexibility should be given to operators to determine which markets they wish to operate in at any time. Thus, other public passenger vehicles will be permitted to compete with taxis in the telephone market and to ply for service at Canberra Airport as currently occurs. Only taxis would be able to operate in the traditional rank and hail market.

This operating environment will assist in providing greater competition to the current network monopoly in the ACT, and will increase consumer choice.

Recommendation 5 – market/licence categories

The Commission recommends that licence categories be amended to establish a taxi licence, a WAT licence, and an ‘all other public passenger vehicle’ licence which would cover those public vehicles that can seat up to 9 adults, including the driver.

The Commission considers that maximum fare regulation should be maintained during the 3 year phased approach to the removal of licence quota restrictions. Following the full removal of licence quota restrictions for taxis, operators should be able to set their own fares, ie the fare setting process should be deregulated. A process should be implemented that requires operators to notify in advance changes to their maximum fares, say a month in advance. Similar to the system operating in NZ, there is some worth in restricting fare schedule changes to 2 per year.

Recommendation 6 – maximum fare regulation

The Commission recommends that maximum taxi fare regulation be maintained during the three year phased approach to the removal of licence quota restrictions. Fares should then be deregulated. The actual process of implementing fare changes in a deregulated environment needs to be finalised, eg advanced notification of fare changes and limits on number of fare changes per year.

6.2 Deregulation for the ACT taxi industry

6.2.1 Why consider deregulation?

Deregulation of the taxi (and hire car) industry is being considered following the introduction of national competition policy. State and national government’s and/or their bodies have all conducted reviews of the taxi industry over recent years. This includes the ACT, where Freehills conducted a review for the ACT Government.

All of the reviews identified significant costs associated with regulation. Many of the reviews noted that the aims of legislation were often not being achieved by limiting market entry. The reviews also noted that the costs of regulation were generally borne by consumers who had reduced choice in terms of service quality and price, and also service options. The experience of deregulation in NZ and selected US cities illustrates the benefits that can accrue from deregulation.

In regard to the ACT, the taxi market has experienced falling demand for a number of years. A regulated environment of continual annual fare increases without compensating improvements in service quality will not assist the industry. Deregulation, competition, the introduction of new and innovative customer orientated services are required if the ACT industry wants to turn around the current movement away from taxi use.

In an analysis on the taxi industry in the ACT, it is argued that government control of price and entry has gradually reduced the number of taxis per head of population, resulting in reduced service levels, inflated fares and monopoly profits to licence holders capitalised in

the market value of the licence.¹⁶ Those who gain from restricting entry are generally owners of taxi plates while the losers are generally the consumers who pay higher fares for poorer services and taxi drivers who cannot afford the cost of a taxi licence.

6.2.2 Will deregulation work?

International experience with deregulation indicates the necessary requirements for deregulation to be successful. The issue is whether these factors can be applied to the ACT. The key factors impacting on the success of deregulation are:

- the share of telephone and rank hirings relative to street hails
- the ability to price shop at ranks
- regulation of service quality
- taxi relationship to an authorised taxi company
- the level of competition from close substitutes.

Each of these issues are dealt with in turn.

The share of telephone and rank hirings relative to street hails

The ability of consumers to price shop decreases as we move from telephone hirings, rank hirings, and finally to street hail hirings. In NZ, where deregulation worked well, street hail hirings were around 10 per cent of the total market. The share of street hail hirings in the ACT is likely to be less than this figure. The ACT market has a strong telephone booking market, and ranks are established around high demand spots throughout the city. There is only a very small proportion of street hails in the ACT.

The ability to price shop at ranks

One of the reasons deregulation worked in NZ was because fare levels had to be posted on the outside of taxis. This allowed potential customers to compare taxi fares between competing companies. This requirement was not present in the US experience, and this affected the success of deregulation in some US cities.

In deregulating the ACT taxi industry, the Commission strongly recommends that taxis have their fare levels posted on the outside of the vehicles. Obviously, coupled with this is the requirement that the 'first cab off the rank' rule be removed.

Regulation of service quality

The effects of deregulation on service quality are highly mixed. NZ generally experienced improvements in service quality and the introduction of new services. The UK and some US cities did not experience a similar outcome. It is therefore important that aspects of service quality be appropriately monitored and controlled by both the government, taxi companies and taxi networks. The new Act, with responsibilities for performance and service quality, operator and driver accreditation, and improved enforcement mechanisms appears to be an appropriate tool for managing service quality in a deregulated environment. Further, the Commission is not recommending open entry to the taxi industry. It is recommending an

¹⁶ Gaunt C and Black T (1994) "The unanticipated effects of the Industry Commission's recommendations on the regulation of the taxi cab industry", *Economic Analysis and Policy*, vol24 no.2 p 154.

enforceable standards approach to market entry deregulation. Such an approach proved successful in NZ and in US cities.

Taxi relationship to an authorised taxi company

The international experience suggests that service quality may be assisted where taxis belong to an authorised taxi company.¹⁷ The argument in favour of such membership is that overall service quality will be greater as taxi companies have a greater incentive to ensure adequate service quality is given by their member taxi operators.

In the NZ experience the requirement to belong to an authorised taxi company (with a brand name) may have promoted service quality as competition existed between taxi companies and co-operatives.¹⁸ Where taxi companies can establish a strong reputation for quality taxi services, they may be able to attract passengers to their brand names. Branding would also help consumers make quick decisions on ranks.

The Commission does not disagree with the proposition that affiliation to a taxi company and/or network can maintain/improve service quality. However, it is reticent to commit to such a requirement at this stage as there is only one taxi company/network in the ACT. The Commission considers it far more appropriate to encourage the establishment of new taxi companies in the ACT rather than automatically sustain the existing single company through regulation.

The functioning of the taxi market may drive operators to become affiliated with a taxi company and/or network. In the ACT market, where a significant proportion of demand comes from telephone bookings, affiliation to a network may be imperative. However, the Commission considers that such a decision should be market driven. If consumers are able to get better service through operators affiliated with a company and/or network, then operators will be encouraged to move in this direction. By allowing the market to decide, more appropriate outcomes are likely to be generated compared to excessive government intervention.

To support this outcome, some amendments to the Act may be needed as it currently requires taxi operators to be affiliated with a network. Further, some service standard requirements may need to be relaxed for an interim period as new network entrants establish themselves in the ACT. Such an approach was also recommended in the Freehills review. The Commission does not expect this to have a noticeable effect on overall service quality in the ACT. This is because the existing network operator is in a highly dominant position. Any new entrants in the short to medium term are likely to be relatively small in terms of member numbers. Therefore their overall influence on service quality is likely to be relatively small in the short to medium term.

¹⁷ It is important here to note the difference between a taxi company and a taxi network. A taxi network provides a booking service. Taxi companies, to which multiple taxis would belong, contract with a taxi network to use their booking service. In some cases, a taxi company may also offer a network booking service. These differences are masked in the ACT where there is only one network and one company, Canberra Cabs.

¹⁸ Customer service issues can be minimised by maintaining regulation on aspects such as requiring accreditation and passing knowledge based tests. The Commission supports continued service quality regulation and the requirements of the new Act.

Without the above changes, it is likely that the existing network affiliation requirements and service requirements will act as a restriction to new market activity and/or drive new operators to the existing monopoly network service provider.

The experience of deregulation in the ACT should obviously be closely monitored to assess the importance of the taxi – taxi company/network relationship.

The level of competition from close substitutes

The UK experience indicated that competition can be increased by allowing close substitutes to compete. Also, the NZ approach did allow some competition between taxis and other vehicles such as limousines.

The Commission's approach to deregulation of the ACT taxi and hire car industries is to remove the distinction between the vehicles types as much as possible. This will allow them to compete across markets (specifically the telephone/pre-booked market, and at the Canberra Airport) if public demand for this exists. Importantly, the removal of restrictions creates greater competitive pressures.

Commission conclusions

The above success factors for deregulation have been established through consideration of international experience with deregulation. What the discussion indicates is that the environment in the ACT is generally one that supports the successful introduction of deregulation.

The Commission therefore recommends that the ACT taxi market be deregulated. Referring this decision back to the regulation matrix in chapter 3, the Commission's decision relates to the easing of entry restrictions. With accreditation requirements still to apply, the Commission is recommending that the 'enforceable standards' approach be applied as the market entry mechanism.

6.2.3 The approach to deregulation

Having determined that the ACT taxi market should be deregulated, the Commission must consider whether a phased approach is warranted, or whether deregulation should be 'overnight'.

The Commission considers that both the industry and the general public would benefit from a phased approach to deregulation. The phased approach will give all stakeholders additional time to adjust to the new operating environment. The Commission considers this as important as the changes being implemented are not trivial.

However, the Commission cautions against an overly long phase in period. The costs regulation and the benefits of deregulation have been clearly identified. These costs should not be borne unnecessarily, neither should the benefits to flow be pushed out into the future.

The phasing in period

Having determined that a phased approach to deregulation is appropriate, it is a somewhat arbitrary process deciding on the length of time over which deregulation should be phased in. The Commission favours a relatively short phasing in period before reaching full deregulation. The key reason for this is that while any degree of regulation (ie licence quota

restrictions) remains, the costs associated with regulation will also remain. Similarly, it will be longer before the benefits of deregulation are fully realised.

Thus Commission recommends that a phased approach be adopted for 3 years, before the market is fully deregulated.

Number of new licences during the phase in period

Determining the number of new licences to be issued during the phasing in approach is also a somewhat arbitrary decision. Given that the process is one of moving towards full deregulation, the Commission considers that the number of new licences to be issued should be material in nature.

In determining the number of new licences to be issued during the three year phasing in period, the Commission has considered the taxi per head of population figures presented by Freehills (reproduced in section 9.1.1). That table indicates that in 1995 the ACT had the lowest number of taxis per head of population compared to the other states and territories of Australia. The Northern Territory had the same proportion as the ACT, however the Northern Territory has since deregulated the industry. Ignoring changes in taxi numbers and population since 1995¹⁹, if the number of ACT taxis is allowed to increase by 10 per cent per annum, the number of taxis per head of population in the ACT would increase to 8.3 per 10,000 people. This is only the fourth highest figure for Australian states/territories. In the third and final year of the phased approach, the figure would increase to 9.2, which would be the second highest of the 8 Australian states/territories (note that this relative position assumes no change to Northern Territory figures, even though it has deregulated the taxi industry).

However, during the phase-in period, in view of the other far reaching changes being imposed on the industry, the Commission recommends that rather than increasing licenses available by 26 each year, which a 10% increase would represent, the number should be reduced to 15 new licences per annum. This increase is in addition to the existing 243 ACT taxi licences. Thus, if some existing operators decide to leave the industry, their licence will become available on top of the 15 released for that particular year. Further, if the full 15 licences are not taken up in year 1, then those remaining licences from year 1 will be added to those available in the second year. And similarly for year 2, whereby those new licences not taken up in year 1 and year 2 will be available for distribution in year 3 in addition to the 15 to be made available in year 3. In this way, there will be a release of 45 licences by the end of the 3 year phase in period. Licences of those existing operators choosing to leave the industry will be added to this available figure.

Who can take up a new licence?

The Commission considers that the new licences to be released during the phase in period should only be available to individuals who are not existing ACT taxi licence holders, or who have not owned an ACT taxi licence in the period following the Commission's final decision (due in May 2002). Similarly, those who are taking up the new licences should not have family members/related parties/associates who are existing ACT taxi licence holders,

¹⁹ It should be noted that given the majority of Australian states/territories continue to regulate taxi licence quotas, any change in taxi numbers is expected to be small. Further, ignoring population changes will only be an issue where population growth rates have been significant and/or have been significantly different between the states/territories. As this is unlikely to be the case, these simplifying assumptions are considered reasonable.

or who have family members/related parties/associates who have owned an ACT taxi licence in the period following the Commission's final decision.

The key reason for this is that the release of new taxi licences is aimed at increasing competition. There would be incentives for existing licence holders to take up a new licence, but not actually run a taxi with this licence, since this would leave the number of taxis seeking hirings unchanged (other things being equal). In addition, the process encourages new entrants to the industry. Taxi drivers who do not own the taxi plate are one group that may wish to take up a licence and run a taxi business.

During the operation of the safety net scheme, the Commission recommends that a lessee have first right to that particular plate if the owner of that plate decides to enter the safety net scheme. Lessees of taxi plates have invested in the capital costs of a taxi vehicle, and are currently able to carry on that business by leasing a taxi plate. In the event that the taxi plate owner entered into the safety net scheme, the lessee effectively faces the loss of their earning potential as a taxi operator/lessee. In such circumstances, it is appropriate that the lessee have first right on that particular taxi licences as this will act to protect their investment. In the event that the lessee chooses not to take up the relinquished taxi plate, then that plate will be added to the pool of new taxi plates to be released.

Importantly, the Commission is recommending a safety net for those who owned a taxi licence prior to the phasing in of deregulation. To allow these existing owners to take up new licences could lead to gaming of the process, ie existing licence holders could sell their licence either on the market or through the safety net, and then take up a free licence through the deregulation process. This would obviously be an inappropriate outcome and is counter to the purpose of both deregulation and the safety net.

In this regard, the Commission is recommending that those existing licence holders that utilise the safety net scheme cannot re-enter the ACT taxi industry as a licence holder for a period of 5 years.

Related to the issue of who can take up a new licence, is the issue of concentrated ownership and/or operation of the taxi licences/industry. The Commission has been made aware of the influence of a small number of operators who control a large percentage of taxi plates, eg through ownership and/or leasing of plates.

This potential for a concentration of ownership and/or operation of taxis also exists in a deregulated environment. However, the potential is reduced in a deregulated environment with relative freedom and entry and exit from the industry. The Commission also notes that anti-competitive conduct may be challenged/illegal under the Trade Practices Act.

Such issues are also commented on by DUS. It states that there is a greater chance of concentration of ownership in a regulated environment as currently exists in the ACT:²⁰

Unless there is a freeing up of licences there may be a risk that a monopoly or duopoly may develop by one or a few individuals, possibly in a corporate capacity, buying up existing licences.

²⁰ ACT Department of Urban Services submission, 25 March 2002, p 3.

The Commission does not consider that additional regulations/legislation is required. The deregulated environment recommended by the Commission, plus existing checks on anti-competitive conduct, should prevent problems arising from concentrated ownership and/or operation within the taxi industry.

In the situation where demand for new taxi licences exceeds supply (this can only happen during the phase in period), the Commission recommends that distribution of licences be based on a ballot.

The safety net

The level of the safety net to an individual will vary depending on two factors:

- how long they have been a taxi licence holder
- when they decide to participate in the safety net package.

The key issue is that those who entered the industry relatively recently have had less time to earn a return on their investment. For this reason, the Commission considers it reasonable that these individuals receive a greater level of safety net payment.

The Commission also believes that the safety net paid to existing licence holders opting to exit the industry should decrease over time. This recognises that the longer the operator is in the market, the greater amount of time they have been able to earn a return on their investment, and also a return of their investment.

Similar to the length of the phasing in period and the number of new licences to be issued, there is a degree of subjectivity associated with safety net levels, and how these should change depending on length of time in the industry.

The following table details the Commission's recommendation on the safety net.

Table 6.1 Taxi safety net, \$'000

Year applying for safety net	<i>Period of taxi licence ownership</i>		
	0–5 yrs	5–10 yrs	> 10 yrs
Year 1	105	70	45
Year 2	60	45	25
Year 3	25	13	-

The Commission considers that payments should only be made available to those licence holders as of close of business, Australian Eastern Standard Time, 15 April 2002. As the Commission will brief industry representatives before the formal release of this draft report, it is appropriate that a date be set such as this such that 'gaming' of the safety net scheme cannot take place.

As an example of the safety net, a licence owner who has had a taxi licence for up to 5 years, and who opts in year 1 (ie the first year of the phase in of deregulation) to participate in the scheme, would receive a payment of \$105,000 for their licence.

The Commission has been provided with information from the ACT DUS that indicates current lease rates for standard taxi plates of around \$26,000 per annum. Thus the \$105,000 safety net figure noted above is essentially equivalent to a 5 year return based on current leasing rates.

The cost of the safety net to government will obviously depend on the number of existing licence holders entering the scheme, and the length of time they have held their licence. The Commission does not have such information to consider at this time, thus the following are purely theoretical examples of the potential cost to government.

Assuming all licences were purchased by their owners between 5 – 10 years ago, and all owners opt for the safety net, the cost to government would be:

- \$15.2m if all plates were returned in the first year of the safety net scheme
- \$9.8m if all plates were returned in the second year of the safety net scheme
- \$2.8m if all plates were returned in the third year of the safety net scheme
- \$9.3m if a third of plates are returned in each of the three years of the phase in period.

The Commission considers that each of the above examples are likely to represent upper limits of the estimated costs of the safety net scheme. Obviously this is because the numbers assume all licence holders enter the safety net scheme. The Commission considers that licence holders who lease out their plates are more likely to enter the scheme, as opposed to those who are owner/operators.

A key reason for this is that those licence holders who lease out their plates are essentially in the industry to earn an investment on their plate. They have not committed to the costs of actually purchasing and maintaining a taxi vehicle. They therefore have less of an investment in the industry compared to an owner/operator (other things being equal).

However, an owner/operator has made the investment in the taxi plate, but also in the capital costs of the taxi vehicle. They therefore have a greater investment in the industry (other things being equal), and a closer association with the industry. As representatives of Canberra Cabs have told the Commission, many in the industry purchase a taxi plate and drive their taxi as a lifestyle choice.

Fare regulation

Currently the Commission regulates maximum fares for taxi services. The question is what regulation of fares should exist as licence quota restrictions are removed. The Commission considers that during the phase in period, regulation of maximum fares should continue. With increasing competition through this period, it is possible that some operators may offer new, innovative services and/or charge fares below the maximum fare. In the current regulated environment, the maximum fare has come to be the only fare charged.

During the 3 year phase in period, any fare setting process should be relatively straightforward. The Commission intends to use the ABS Canberra CPI to adjust taxi fares during this period. Where the level of Government charges increases over this period, the Commission intends to allow the flow through of these charges (where they are not already captured in the CPI measure).

Following the 3 year phase in period, the Commission considers that maximum fare regulation should be removed, ie that fares should be deregulated. A process should be implemented that requires operators to notify in advance changes to their maximum fares, say a month in advance. Similar to the system operating in NZ, there is some worth in restricting fare schedule changes to two per year.

Other issues

To create greater certainty on the path to deregulation, the process should be legislated. Importantly, this locks in the process and ensures stakeholders are fully aware of what that process will be.

The Commission considers at this stage that only licence quotas and fares should be deregulated. It is not recommending deregulation of service standards. Rather, the proper regulation of service standards is an important complement to deregulating licence quotas. In this regard, the new Act should prove a useful tool in regulating service standards in a deregulated environment.

The Commission notes that in some cities where licence quota restrictions have been removed, special consideration has had to be given to taxi operations at airports. The key issue has usually been that the smooth flow of taxis through the airport has not been unnecessarily impeded by price shopping at ranks. These cities have tended to be relatively large (with populations in excess of Canberra's), and have had significant airport activity.

It is not clear that such circumstances exist in the case of Canberra Airport. Further, the Commission notes that any charges levied by the operators of Canberra Airport for taxis waiting on rank will provide some level of disincentive to taxis entering the airport and ranks becoming overcrowded. The Commission does not see a need to regulate taxi activity at Canberra Airport. The ACT Government may wish to monitor the situation following the removal of licence quota restrictions.

6.3 Deregulation for the ACT unrestricted hire car industry

The majority of the literature focuses on the experience of deregulation of the taxi industry, perhaps because this industry is relatively large compared to the unrestricted hire car industry. However, the same issues are relevant to both industries. Where artificial barriers to industry entry exist, we can expect there to be costs to consumers and society as a whole.

For this reason, the Commission considers that the hire car industry should also be deregulated. Again a phased approach is considered appropriate to allow the industry time to adjust to these changes. As the Commission's approach is likely to encourage greater competition between the current taxi, hire car and other/tourist markets, it would be appropriate for the phase in period for hire cars to be the same as for that taxis.

However, during this interim period before full deregulation of the individual taxi and hire car markets, the Commission is recommending that competition between the markets be opened up. That is, where such demand occurs, competition between taxis, hire cars and other/tourist vehicles be allowed. However, competition in the 'rank and hail' market will be limited to taxis, ie vehicles that have a taxi meter installed and have their fares posted on the inside and outside of the vehicle.

A similar safety net package is recommended for operators in the unrestricted hire car market.²¹ The following table shows the Commission's recommendation for the hire car safety net. They are based on current leasing rates for unrestricted hire cars, as supplied to the Commission by the ACT DUS.

Table 6.2 Unrestricted/perpetual hire car safety net, \$'000

Year applying for safety net	Period of unrestricted hire car licence ownership		
	0-5 yrs	5-10 yrs	> 10 yrs
Year 1	41	28	17
Year 2	24	17	10
Year 3	10	5	-

Like taxis, the Commission considers that payments should only be made available to those licence holders as of close of business, Australian Eastern Standard Time, 15 April 2002.

Further, the Commission is recommending that those existing licence holders that utilise the safety net scheme cannot re-enter the ACT hire car industry as a licence holder for a period of 5 years.

6.4 Licence categories

One issue that has arisen following the introduction of the *Road Transport (Public Passenger Services) Act 2001* is the treatment of vehicles seating 6 to 9 adults, including the driver. These vehicle types are not properly covered in the Act. Transitional arrangements allow them to continue operating for 18 months from 1 December 2001, however the issue remains as to how they will be treated post this period.

6.4.1 Submissions to the review

The Tourism Industry Council ACT and Region Limited is concerned about the implications of the Act on the delivery of tourism services in 6 to 9 seat vehicles, stating:²²

The licensing and regulatory issues arising from the *Road Transport (Public Passenger Services) Act 2001* regarding 6 to 9 seat public vehicles has the potential to threaten the very existence of the tour operators sector in the ACT...

The reclassification of such vehicles under the [new Act] will effectively disenfranchise existing operators. It is feared that in some cases it will force them out of business due to both increased licensing costs and/or the capital investment required to upgrade vehicles to a capacity of more than 9 seats.

The Tourism Industry Council proposes that a 'special purpose vehicle' licence be established, similar to that operating in Victoria. The views of the Council are also

²¹ Owners of restricted hire car plates do not require compensation for removal of entry restrictions. Restricted hire car plates were granted to operators for a nominal fee. They are not transferable, hence a capital value is not associated with these plates.

²² Tourism Industry Council ACT and Region Limited submission, 15 March 2002, pp 1-2.

supported by the Canberra Tourism and Events Corporation.²³ The Canberra Region Tourism Operators Association (CRTOA) also commented on the 6 to 9 seat vehicle issue:²⁴

It is extremely important that a new category be established for such [6 to 9 seat] vehicles, rather than forcing them to be classified as hire cars... imposition of hire car licence fees on the operators of these vehicles would force them out of business... second, the services provided by the operators of 6 to 9 seat vehicles are, in many cases, quite different from those provided by hire cars and taxis.

There is a need for this special category not only for vehicles with 6 to 9 seats, but for smaller vehicles, ie 5 seat saloon cars... it should be noted that NSW, Victoria and South Australia all allow the use of saloon cars... they do not require these vehicles to be licensed as hire cars.

The ACT Department of Urban Services (ACT DUS) states the following in regard to the 6 to 9 seat vehicle issue:²⁵

Once the transitional period expires, unless further legislation is introduced, vehicles constructed with 6 to 9 seats will not be permitted to operate. Standard hire car licences may not be appropriate. A tourist service category could be introduced (in line with NSW).

6.4.2 Commission comments

Under the current regulatory regime, the taxi and hire car industries are essentially separate markets. This distinction not only limits the level of competition between the industries, but it also limits competition within the industries through flow-on effects. These are negatives for consumers in terms of service choice, service quality and price.

The Commission argues above that the taxi and hire car industries should be deregulated. Specifically, entry restrictions should be removed to allow suitable persons to enter the industries. In addition, to assist in the development of a competitive and viable deregulated industry, distinctions between taxis and hire cars should be removed as much as possible. The Commission particularly sees value in further encouraging hire car operators to compete directly in telephone/pre-booking market. This competition from the hire car industry is particularly important given the monopoly Canberra Cabs has as the ACT taxi network operator.²⁶

The Commission is also concerned at the implications of the new Act on operators of vehicles seating 6 to 9 adults including the driver. The existing legislation does not properly account for these operators, and following transitional arrangements, operators of such vehicles would be required to take out a hire car licence. This would add significantly to the licence costs of these operators.

Although licence fees are low per vehicle (whether taxi, hire car or other), if existing 6 to 9 seat vehicle operators were required to operate under requirements relating to hire cars,

²³ Canberra Tourism and Events Corporation submission, 15 March 2002.

²⁴ Canberra Region Tourism Operators Association submission, 13 March 2002, pp 2-3.

²⁵ ACT Department of Urban Services submission, 25 March 2002, p 1..

²⁶ The Commission acknowledges that Queanbeyan Cabs are currently able to operate in the ACT under a 12 month trial. Anecdotal evidence suggests that the level of activity from Queanbeyan Cabs is minimal.

they would be required to purchase a hire car plate/licence from the ACT Government. On latest information, the cost of such a plate would be \$120,000.

The Commission sees the above as an unintended consequence of the new Act, and one that is not desirable. There are two broad options to rectify this situation. The first would be to have a 'tourist service' category for public passenger vehicles that would cover the 6 to 9 adult seat vehicles (or 5 seat vehicles also as suggested by the CRTOA). Alternatively, there could be a broad 'other public passenger vehicle' category that would cover hire cars and other/tourist vehicles (these other vehicles could have a seating capacity of up to 9 seats).

The Commission favours the latter option. This will simplify the administration of public passenger vehicles, and will facilitate the emergence of competition between the current different licence categories. This is important in terms of creating competition between service providers and providing greater choice to consumers. Further, the environment is one that will foster the development of innovative and new services. The existing disaggregation of licence categories makes it virtually impossible for competition between the markets to eventuate. The option of an 'other public passenger vehicle' category is also consistent with deregulation of market entry.

Due to the importance of WATs to certain members of the community, WAT licences would continue to be licensed separately to other public vehicle licences.

The Commission is strongly in favour of the accreditation standards required under the new Act. It believes that proper enforcement of the standards and appropriate action by the ACT Government where standards are not met, should provide the necessary mechanisms to ensure enforceable quality standards are maintained in a deregulated environment. The Commission stresses the point that the ACT Government must properly administer the requirements of the Act, and must avail itself of sufficient resources to carry out this function.

The enforcing of the accreditation standards will be particularly important during the process leading to full removal of quota restrictions, ie during the 3 year phase in period. If the benefits of greater competition are to be available without the costs of decreases in service standards, strong enforcement of standards will be imperative.

The Commission is also concerned to note comments in submissions that some operators may be operating in the industry illegally. Whether we have a regulated or deregulated market, the operators of public passenger vehicles (ie taxis, hire cars or other vehicles) must be accredited. Operators in either of the markets who do not hold the appropriate licences or accreditation would face the fines/sanctions that are able to be applied in those cases.

The Commission stresses that any fines/sanctions and enforceable standards are only useful if they are suitably and effectively applied. The ACT Government has an obligation to ensure that it is able to properly administer the legislation that governs the industry.

7 SECOND TAXI NETWORK

7.1 Commission conclusions – establishing a second network

The ACT Government has asked the Commission to “provide advice on what measures may be required to facilitate the establishment of a second taxi network in the ACT and the costs and benefits of introducing such measures”.

Establishing a traditional second network in the short term is likely to be difficult for the following reasons:

- ‘critical mass’ needs to be achieved
- there is a cost involved in leaving the Canberra Cabs network (ie forfeiture of the \$20,000 membership premium).

In the longer term existing operators are likely to switch to a new network operator if there is a financial benefit in doing so. This financial benefit would largely come in the form of lower annual network fees. Canberra Cabs currently charges a network fee (in addition to the \$20,000 membership fee) of approximately \$13,000 per annum. This is significantly more than other jurisdictions in Australia. Given this, the Commission believes that a second network operator could lower the annual network fee and provide competition to Canberra Cabs.

The Commission does not see only a single option as being the answer to establishing a second network operator in the ACT. Rather, it is looking at establishing an environment where joint outcomes are possible. Each of these have advantages in their own right, and it is reasonable that they be given the opportunity to take place.

It is likely that a combination of the above approaches is needed to facilitate the establishment of a second network. If licence quota restrictions are removed and new licences taken up, the second network operator may be able to achieve that ‘critical mass’. At the same time, removing entry restrictions for Queanbeyan Cabs would assist the new network to achieve economies of scale.

7.2 Introduction

Canberra Cabs operates as a monopoly in the provision of taxi services to the ACT community. Following the recommendations of the Freehills review, the ACT Government sought tenders for the operation of a second taxi network. Yellow Cabs (Canberra) Pty Ltd emerged as the preferred operator. In the course of subsequent negotiations, Yellow Cabs sought, and the then ACT Government agreed to, the allocation of all existing WATs to Yellow Cabs in order to provide the operator with a critical mass to support the establishment of the network.

Canberra Cabs and some WAT licensees disagreed with this decision, which led to the Commission being requested to inquire into the competition implications of the forced allocation of WAT licences to a second network.²⁷

²⁷ Independent Competition and Regulatory Commission, *An investigation into the competition implications of the provision of Wheelchair Accessible Taxi Services by a single network in the ACT*, October 2001.

In the course of the inquiry, the Commission considered the following options:

- allowing WATs to choose their network provider
- allowing WATs network choice and issuing an additional 10 licences to Yellow Cabs
- allocating all existing WATs to Yellow Cabs and issuing 10 new WAT licences on the condition that they affiliate with Canberra Cabs
- subsidising drivers to undertake wheelchair work
- temporarily allocating all existing WATs to Yellow Cabs and putting in place measures to allow network choice for WATs at a later stage.

The Commission found that the Government's objectives of increasing competition in network services and improving services to the disabled community would be best achieved by a two step process: initially allocating all WATs to a second network operator, and once the second network was established, giving choice of networks for WAT operators/drivers. The Commission considered a period of 2 years as sufficient for the establishment of the second network, thereby setting a deadline for allowing WAT licensees network choice.

Canberra Cabs had threatened legal action if the Government allocated all WAT licences to a second network. However, the new ACT Government announced that there would not be a compulsory transfer of WAT licences to a second network.

7.3 Submissions to the review

An individual submission to the review makes the following statements in regard to the establishment of a second taxi network in the ACT:²⁸

The new regulations [the Act] will also hamper the chances of establishing new networks in Canberra and opening up the market place... the tougher the accreditation stipulated the better for Aerial [Canberra Cabs] as it sets the benchmark, but the harder for any new network to enter the market...

I wish to draw your attention to the most obvious sticking point preventing the establishment of another network in Canberra. It relates in short to the ability of taxi operators to be able to freely resign from [Canberra Cabs]... To date as plates are released and sold at auction each new plate holder has been required to join [Canberra Cabs]. The joining fee as stipulated with the Rules amount to a payment of \$20,000 "premium"... There is no provision in the Rules for this "premium" to be refunded to a member resigning.

Another submission from taxi operators states:²⁹

Without competition from a second network, operators, drivers and in particular the public, are without option in choosing their taxi service or its provider. Although the general public and taxi operators and drivers have been vocal in their approval of the establishment of a second network the same cannot be said of many Aerial Co-op members. Why? Does anyone believe that operators in the ACT are happy to pay the highest base fees of any taxi network in Australia? Should they not at least have choice

²⁸ P Button submission, 14 March 2002, pp 2, 4-5.

²⁹ S McDermott and M Grogan (A1 Cabs) submission, March 2002, p 1.

in networks? The main reason is simple. To become a member of the Aerial Taxi Co-op a plate owner must pay a joining fee of \$20,000. This is not an industry standard but particular to the Aerial group. If the owner leaves the Co-op this money is not repatriated.

7.4 Commission comments

7.4.1 A 'traditional' second taxi network

The ACT Government, following the Freehills review, moved to introduce a second taxi network in the ACT. The Commission supported such a move as introducing competition to what has traditionally been a monopoly service in the ACT. To date a second taxi network as selected following a tender process has not begun operations, and the Commission has been asked to provide advice on what measures may be required to facilitate the establishment of a second taxi network in the ACT, and the costs and benefits of introducing such measures.

A previous review by the Commission assisted in establishing some basic criteria on the establishment of a second taxi network.³⁰ A key issue in terms of establishing a 'traditional' network operator is how it can quickly gain a critical mass of operators in order for it to be viable. The Commission determined that around 60 – 70 taxis represents 'critical mass'.

In order to achieve this critical mass the Commission has focused on options that would encourage new entry to the market. Without a release of additional taxi plates or deregulation of market entry, a second taxi network could only achieve members if existing taxi operators left Canberra Cabs. This will be difficult as all existing operators (aside from the WAT operators) have already paid what is essentially a non-refundable \$20,000 premium to Canberra Cabs and it would be costly for them to switch to a new network operator.

If licence restrictions were removed and new licences taken up, the second network operator may be able to achieve that 'critical mass'. Short of this, additional licences could be released up to a point where 'critical mass' was achieved.

However, it needs to be kept in mind that while quota restrictions have existed, licence owners have enjoyed increasing capital values and profitability, and have been sheltered from greater competition. Any change in regulation involves costs and benefits, and it is reasonable that those who have benefited directly from competitive restrictions, bear some of the costs associated with industry change. However, to mitigate these costs, the Commission is recommending a safety net package.

The benefits of competition have been discussed previously. Generally competition can lead to lower costs, improved services and increased consumer choice. The establishment of a second traditional network in the ACT would encourage such outcomes.

The most obvious cost of such an outcome is the competitive impact on the existing monopoly service provided of taxi network services. Canberra Cabs has previously stated

³⁰ Independent Competition and Regulatory Commission, *An investigation into the competition implications of the provision of Wheelchair Accessible Taxi Services by a single network in the ACT*, October 2001.

that competition at the network level could result in it ceasing to offer a network service, with a resultant loss of jobs in the ACT.

7.4.2 Alternatives to a ‘traditional’ taxi network

As well as a traditional network operator, it is worthwhile considering alternatives that would nonetheless act to create competition at the network level. Options include considering the development of mobile phone networks between drivers/operators, consolidation of taxi and hire car licence categories, or even consolidation of all public vehicle licences that are not buses.

The first option focuses on taxi drivers/operators, and how different ways of operation between a subset of drivers/operator could provide an alternative to Canberra Cabs’ taxi booking service. The latter two options are concerned about the definition of licence categories.

The aim of these latter options is to allow greater competition between taxis, hire cars and other public vehicles. This would effectively introduce a second network through the removal of restrictions on what services the licence holder can provide. Taken to its limit, licence categories in the ACT could be ‘public passenger vehicles’, which would cover taxis, hire cars and other vehicles used for such activities as eco/bush tours. Those vehicles registered as public vehicles could effectively operate between taxi, hire car and other public vehicle markets.

From an operational point of view, the Commission considers that taxis need to be identified as a separate licence category, and that only taxis can operate in the rank and hail market. However, all other public passenger vehicles seating up to 9 adults, including the driver, can be classified under the same licence. The key benefit of this approach is that it again introduces competition between current licence categories. The more open market may encourage greater competition from ‘other public passenger vehicles’ in the telephone/pre-booking market which the taxi industry currently dominates.

Thus broadly speaking, the type of benefits would be similar to those under a new traditional network establishing itself. However, the level of competition generated under these alternatives, particularly mobile phone networks, is likely to be limited. This is particularly the case where they are considered in isolation. These alternatives to a traditional second taxi network are likely to have only a moderate impact on competition. However, taken together with the other recommendations made by the Commission, there is significant potential for new, innovative and responsive services to be offered to the ACT travelling public.

7.4.3 Removal of cross border restrictions

Section 5.1 discusses the Commission’s conclusions in regard to the removal of cross border restrictions between the ACT and Queanbeyan. To summarise that discussion, the Commission concludes that the removal of restrictions should be at least extended, if not permanently removed. Given time, Queanbeyan Cabs may be able to provide greater competition for Canberra Cabs and increased consumer choice.

The above options provide alternatives to the establishment of a ‘traditional’ second taxi network in the ACT. The Commission considers that without deregulation and the entry of

new taxi operators in the ACT, the establishment of a new second taxi network is difficult to achieve. However, given the barriers that are present for existing operators to leave Canberra Cabs and join another network, it may still be some time before a second network is able to properly establish itself.

Even in a deregulated environment where a second network operator is able to begin operations, the Commission considers that alternatives such as those outlined above should not be prohibited. They themselves will provide increased competition across the industry and increased consumer choice.

A key benefit of the removal of cross border restrictions is that Queanbeyan Cabs is a well established organisation and has experience in operating a taxi network. Further, it would combine the ACT and Queanbeyan markets. However, it would likely take some time before Queanbeyan Cabs is able to offer significant competition to Canberra Cabs. The degree of competition it is able to offer will depend on how successful it is at attracting taxis from Canberra Cabs, and new taxis under deregulation of market entry.

8 SERVICE QUALITY

8.1 Commission conclusions and recommendations

The Act sets out aspects of the relationship between the ACT Government and Canberra Cabs, the operator of the radio taxi network in the ACT. In particular, the Act establishes performance requirements that Canberra Cabs must meet. At present, these are equivalent to those that previously existed in a Memorandum of Understanding (MoU) between the ACT Government and Canberra Cabs.

The Commission has reviewed the nature of taxi demand in the ACT and aspects of service quality supplied by Canberra Cabs. For standard taxis, peak period targets are easily achieved. Interestingly, the 85 per cent of customers experiencing a waiting time of no more than 10 minutes target during off peak periods is only just achieved.

Canberra Cabs generally **does not** meet its waiting time requirements in regard to WATs. The Commission is particularly concerned at this outcome given disabled users of this service often have limited alternatives. The ACT Government's issuing of an additional 10 WAT licences in 2001 and more stringent enforcement of licence requirements is supported in this regard.

The Commission has been asked to provide advice on the measures that may be necessary to ensure that people with a disability receive equivalent access to taxi services to that enjoyed by the general community. The Commission considers that a lift fee for WAT services is appropriate. The provisions of the new Act should also assist in improving WAT services. Further, the re-introduction of micro-management by Canberra Cabs appears to have improved WAT waiting times.

Recommendation 7 – service quality

The Commission recommends that:

- service quality indicators be reviewed, with particular attention paid to tightening peak period waiting time requirements
- WAT service quality be closely monitored, this includes the success of Canberra Cabs' micro-management of WAT bookings
- the ACT Government actively apply the relevant provisions of the *Road Transport (Public Passenger Services) Act 2001* to ensure WAT licence conditions are being met
- a lift fee for WAT hirings of \$3.00 be introduced. This should be funded by the ACT Government.

8.2 Introduction

The terms of reference require the Commission to assess the level of service provided by the ACT taxi and hire car industry. The primary reason for regulating the taxi industry is that service quality would suffer in an unregulated environment. Justification for regulating the hire car industry is less clear, as a significant majority of hire car work is telephone based. Hire car passengers have greater ability to distinguish between hire car operators on the basis of price and quality.

Aspects of service quality for the taxi industry were originally covered in a Memorandum of Understanding (MoU) between Canberra Cabs and the ACT Government. The MoU was abolished from 28 February 2002, and the performance requirements originally in the MoU have been incorporated into the new Act.

In regulating the taxi industry, a trade off must be made between price, quality and waiting times, all of which relate to the service received by the customer. Taxi fares are now formally regulated by the Commission. As well as the service requirements specified in the Act, service quality information is also available from annual surveys conducted by the ACT Government.

8.3 Performance targets for the taxi industry

The performance requirements originally set out in the MoU have been incorporated into the Act. The new reporting requirements in the Act will assist in future amendment of these service quality requirements. The following sets out the existing requirements imposed on Canberra Cabs' taxi booking service.

Maximum waiting times

A taxi service must be provided so that:

On Monday to Friday afternoon between 3pm and 6pm the following standards are met:

- 85 per cent of hirers experience a maximum waiting time of no more than 18 minutes
- 95 per cent of hirers experience a maximum waiting time of no more than 30 minutes.

At all other times the following standards must be met:

- 85 per cent of hirers experience a maximum waiting time of no more than 10 minutes
- 95 per cent of hirers experience a maximum waiting time of no more than 20 minutes.

These standards apply separately to both standard and wheelchair accessible taxis (WATs). They are minimum service levels required of Canberra Cabs.

Further, in no zone within Canberra Cabs' network should more than 40 per cent of hirers experience a waiting time of more than 10 minutes.

Response times

Canberra Cabs is also required to provide information separately for standard and WATs on response times for hirers requesting taxis by phone. Response times are classified into:

- less than 5 minutes
- between 5 minutes and 10 minutes
- between 10 minutes and 15 minutes
- between 15 minutes and 20 minutes
- between 20 minutes and 30 minutes
- between 30 minutes and 60 minutes

- more than 60 minutes.

Details of Canberra Cabs' performance in relation to the above requirements, and additional service quality information, is presented in sections 8.4 and 8.5 below.

Other matters

Service quality involves more than just waiting times. Issues such as driver knowledge and ability, and vehicle cleanliness and condition are also important. Canberra Cabs is required to take all reasonable steps to have in place procedures to ensure that:

- all taxis are clean and tidy when performing the service
- the interior of all taxis are maintained as smoke free zones
- all taxis have fully functioning air conditioning from 1 December 1999.

Canberra Cabs itself has conducted quarterly vehicle inspections since 1992. The entire fleet is inspected on a single day. The inspection concentrates on vehicle and driver presentation. Vehicles not meeting the required standards are given on the spot written notices of the defect, with a time/date by which the defect must be redressed. Any defect associated with safety requires an immediate response. Operators may be given two weeks to have minor defects corrected. Vehicles that do not comply are suspended from the radio network.

8.4 Taxi passenger demand and waiting times

In this section passenger demand for taxis is considered in terms of variations over a day, week and a year, ie a short term view, and also in terms of demand trends over recent years.

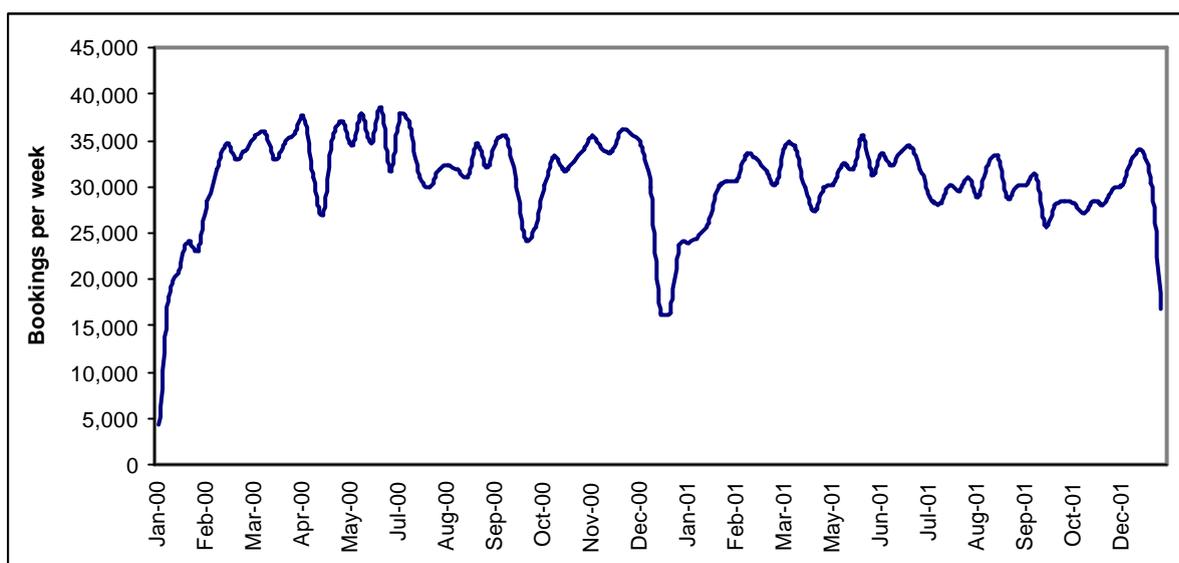
8.4.1 Variations in demand

Information on demand for taxi services is maintained within the Canberra Cabs network system. This provides detailed information, particularly in regard to telephone bookings through the network. From this information, demand for rank and hail bookings may be estimated, ie total bookings on the network less phone bookings. In practice, the 'rank and hail' figure includes bookings made through informal mobile phone networks, ie some taxi drivers may have regular users who book a taxi using their mobile phones. This market is likely to be small.

Weekly telephone booking demand for taxi services shows some variability. Figure 8.1 shows the pattern of weekly radio bookings demand for Canberra Cabs' network between 2000 and 2001.³¹ The data shows no growth over the 2 years. In fact, total telephone booking demand has fallen over recent years, from around 1,698,000 in 1999, to 1,672,000 in 2000 and 1,555,000 in 2001. The variability for each year follows a similar pattern.

³¹ Last year's fare review included demand information for the year 1999. Readers are referred to last year's final report for this information.

Figure 8.1 Trend in weekly demand for telephone bookings



Source: Canberra Cabs.

Demand drops off considerably in January, coinciding with the major school holidays of the year. Other school holiday periods of the year are also associated with falls in demand, although the extent of those falls is moderate compared to the January period. Overall, demand for taxis generally ranged between 29,000 and 35,000 telephone bookings per week for the year 2001.

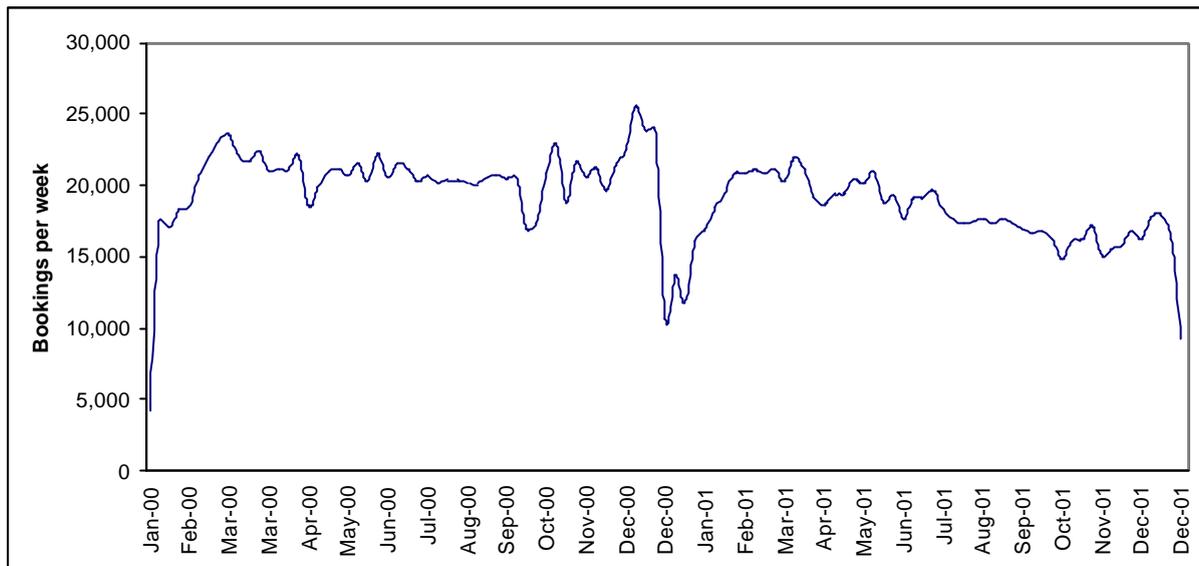
In the year 2000 there is a clear 'break' in demand between the first and second halves of the year. Demand fell through July of that year, possibly associated with school holidays, and did not fully recover when compared to the experience of 1999. This may in part be explained by the impact of the Olympics, particularly during September and early October when a considerable fall in demand is evident.

A similar drop off in demand is experienced in 2001. Relatively sharp falls in demand coincide with school holidays and the Sydney Olympics. However the Commission notes that fares have increased over recent years, associated with cost increases and the introduction of the GST in 2000 (total increase of around 14 per cent) and general cost increases in 2001 (5.5 per cent). Without compensating improvements in service quality as perceived by consumers, the affect of fare increases may have been to discourage taxi travel.

Figure 8.2 illustrates weekly demand for 'rank and hail' bookings. Similar to the experience of telephone bookings, demand has fallen over recent years, from around 1,088,000 in 1999, to 1,073,000 in 2000 and 927,000 in 2001. The pattern of demand is similar to that for telephone bookings, in that January shows a significant fall and falls are also associated with school holidays.

Figures 8.1 and 8.2 indicate that telephone bookings contribute the greatest share of total demand. Telephone bookings represent around 60 per cent of all bookings.

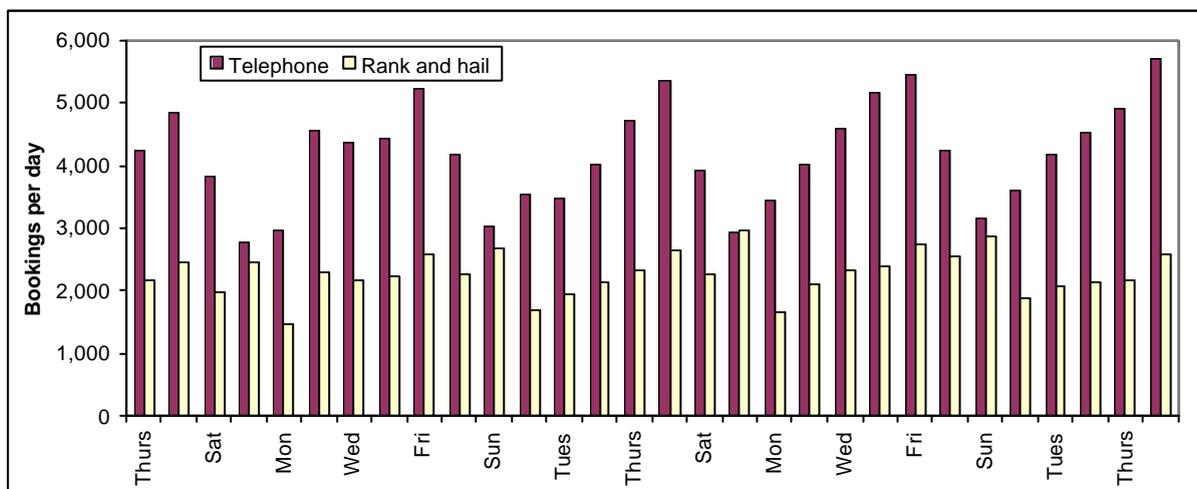
Figure 8.2 Trend in weekly demand for 'rank and hail' bookings



Source: Canberra Cabs.

Figure 8.3 shows the pattern of daily bookings for telephone and rank and hail demand.

Figure 8.3 Daily booking totals – November 2001

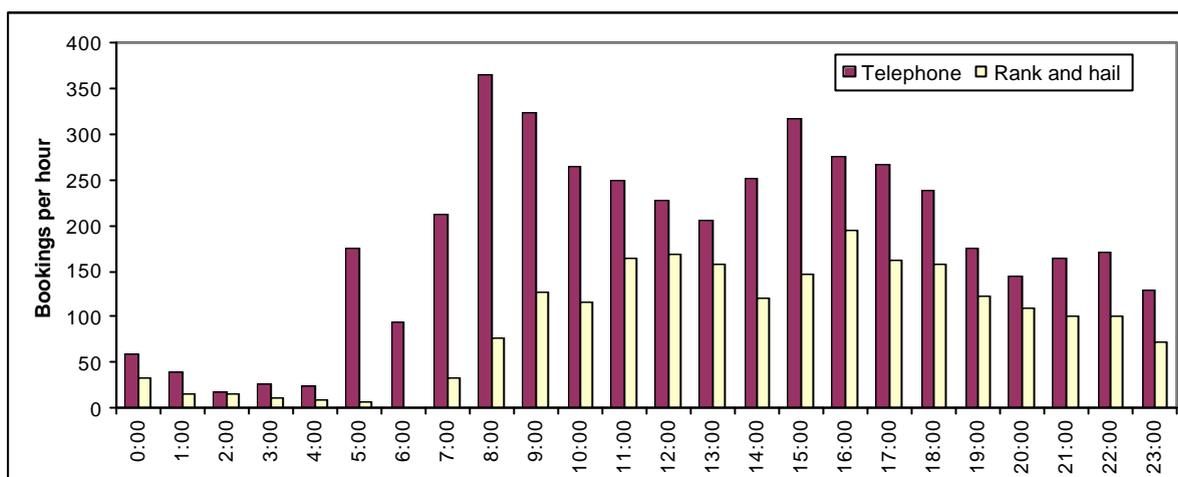


Source: Canberra Cabs.

Figure 8.3 illustrates a consistent pattern in terms of increasing demand for telephone bookings over the latter part of each week, with demand highest usually on Thursdays and Fridays. For rank and hail bookings, highest demand tends to occur on Fridays and Sundays. Relatively high rank and hail demand on Sundays contrasts with demand for telephone bookings.

Figure 7.4 shows how hourly demand for both telephone and rank and hail demand varies over a typical weekday.

Figure 8.4 Hourly booking totals on weekday – 8 Nov 2001

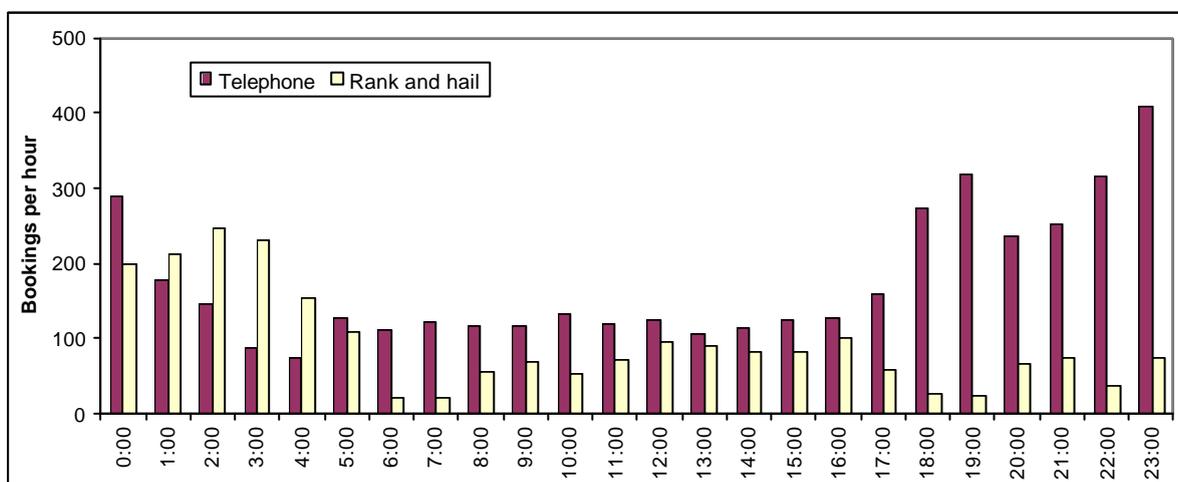


Source: Canberra Cabs.

Peaks for telephone bookings occur for several hour from 8:00am and 3:00pm. Highest demand for rank and hail bookings tends to occur between 11:00am and 7:00pm.

Figure 8.5 shows how hourly demand varies over a typical weekend day for both telephone and rank and hail demand.

Figure 8.5 Hourly bookings totals on weekend day – 10 Nov 2001



Source: Canberra Cabs.

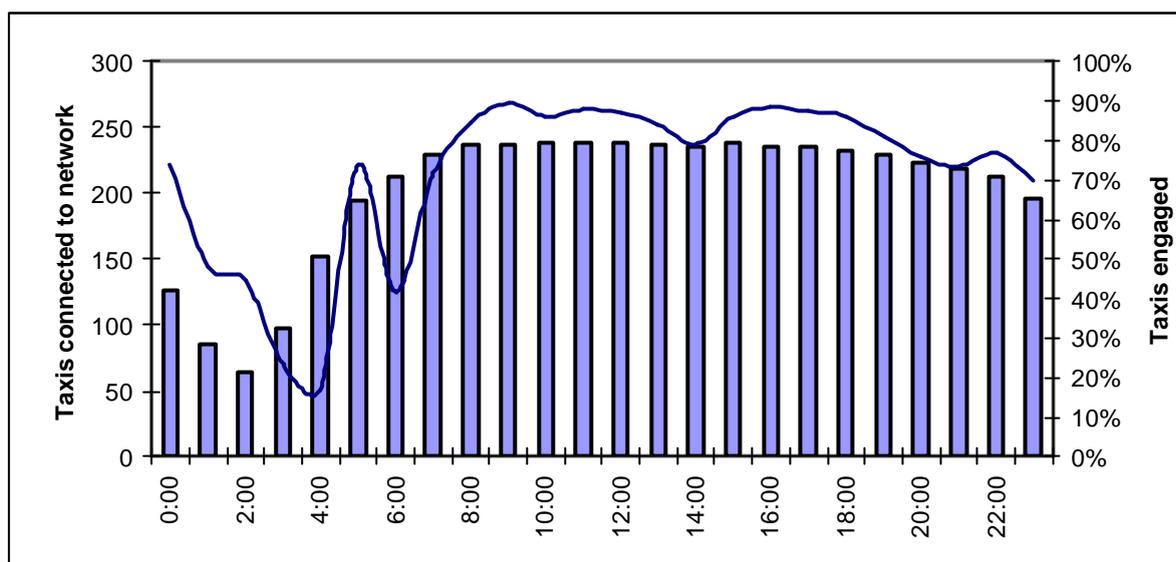
Demand patterns for the two services are quite different. Telephone bookings are greatest from 6:00pm to 12:00am, consistent with customers using taxis to go out and/or return home. Rank and hail demand peaks in the early hours of the morning, as customers use taxis to return home after an evening out. The central location of many restaurants/night spots in Canberra with taxi ranks nearby contributes to this outcome. The figures also indicate significantly different demand patterns between weekday and weekend.

As the above figures illustrate, demand varies on a daily, weekly and yearly basis. The taxi industry/operators have to manage their service provision to meet this varying demand. In

periods of high demand, a relatively higher number of taxis is likely to be connected to the network, and similarly with the proportion of taxis engaged, ie occupied. During low demand periods, the opposite is likely to be the case because taxis will be on the road only if the operators believe they will make money during that time period.³²

These issues are illustrated in figures 8.6 and 8.7, and considered further in section 8.5.1.

Figure 8.6 Number of taxis connected to network and % engaged – 8 Nov 2001



Source: Canberra Cabs.

The line across figures 8.6 and 8.7 indicates the proportion of taxis connected to the network at that time that are engaged, as measured on the right hand scale. The columns indicate the number of taxis connected to the network.

The pattern for number of taxis connected to the network is generally consistent with daily demand, insofar as a low number of taxis is connected during the early hours of the day. For the remainder of the day, there are a consistently high number of taxis connected, usually between 190 and 239. The number slowly decreases towards the end of the day.

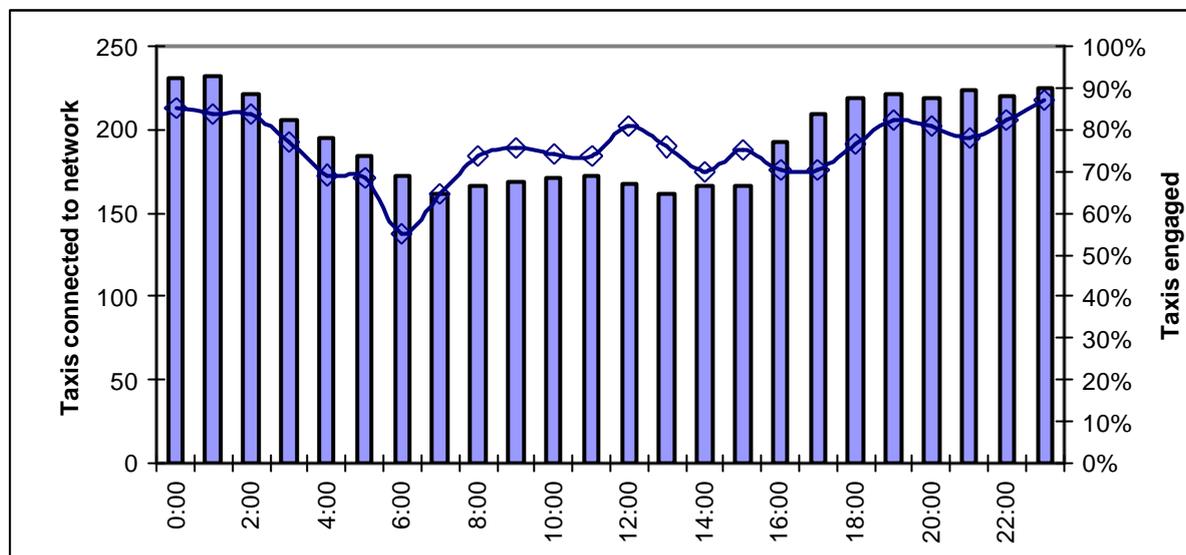
The variability of taxis engaged is consistent with the pattern of hourly demand (figure 8.5). Where demand is low or decreasing, the proportion of taxis engaged tends to be low and/or falling. This is particularly evident during the early and late hours of the day. As the figure illustrates, the increase in taxis connected from 4:00am, without a commensurate increase in demand, results in the proportion engaged falling sharply at that time. A less severe fall in engagement rates is experienced in the evening from around 7:00pm. Further, this evening fall is moderate compared to 2000 where engagement rates fell to around 57 per cent compared to 70 per cent in 2001.

For a significant period of the day, the proportion of taxis engaged is over 80 per cent. This is a relatively high figure when compared to taxis in Sydney, where the proportion engaged

³² There are 243 ACT taxi licences. These are split between standard taxis (217) and WATs (26). Sixteen Queanbeyan taxis are currently able to operate in the ACT (and ACT taxis in Queanbeyan) under a 12-month trial removal of cross-border restrictions.

does not reach 80 per cent even during peak periods.³³ Notwithstanding the different market factors in Canberra and Sydney (eg traffic conditions/congestion), this suggests that the ACT market has a low number of taxis relative to demand.

Figure 8.7 Number of taxis connected to network and % engaged – 10 Nov 2001



Source: Canberra Cabs.

As in figure 8.6, the number of taxis connected to the network shows a similar pattern to demand. In the late evening, the proportion of taxis engaged reaches around 90 per cent. Again, this is a very high result when compared to Sydney. The Commission also notes that compared to 2000, the proportion of taxis engaged shows less variability, and overall the engagement rate throughout the day is higher in 2001.

The information in figures 8.6 and 8.7 may have relevance and importance in relation to waiting times. Waiting times are influenced by the proportion of taxis engaged, which in turn is a function of demand and number of taxis on the network.

8.5 Service quality performance – taxis

The Commission has considered the quality of services provided by the ACT taxi industry. The key area of poor performance has been poor waiting/response times for WAT services.

Performance is differentiated for standard and WATs, and a distinction is made between 3:00 – 6:00pm Monday to Friday, and ‘all other times’. The time period between 3:00 – 6:00pm Monday to Friday is treated as a peak demand period, and performance requirements are more lenient for these times.

8.5.1 Waiting and response times

Under the recently abolished MoU and now under the Act, Canberra Cabs is required to have the performance information it submits to the ACT Government independently audited. At the time of last year’s review, the Commission had been informed that these

³³ IPART, *Review of the taxi cab and hire car industries*, Final Report, 24 November 1999, pp 37-38.

independent audits had not taken place. This information has now been corrected by ACT Government officials, and the Commission understands that Canberra Cabs has complied with independent audit requirements.

The following tables show Canberra Cabs' recent performance in relation to waiting time requirements:

Table 8.1 Waiting times: 3 – 6pm Monday to Friday

Requirement	Dec 99	Mar 00	Jun 00	Sep 00	Dec 00	Mar 01	Jun 01	Sep 01
<i>Standard</i>								
85% < 18mins	96.7	96.3	99.0	99.7	97.6	96.4	96.1	98.1
95% < 30 mins	98.8	98.9	96.0	98.4	98.1	99.1	99.0	99.7
<i>WAT</i>								
85% < 18mins	86.8	89.5	66.2	72.4	65.4	76.7	73.2	84.2
95% < 30 mins	93.0	96.6	87.8	87.9	86.0	93.5	91.0	94.7

Table 8.2 Waiting times: all other times

Requirement	Dec 99	Mar 00	Jun 00	Sep 00	Dec 00	Mar 01	Jun 01	Sep 01
<i>Standard</i>								
85% < 10mins	86.6	86.6	86.2	87.7	84.8	86.0	85.9	87.7
95% < 20 mins	98.5	98.9	98.6	99.2	98.4	98.9	98.7	99.3
<i>WAT</i>								
85% < 10mins	79.3	81.8	60.1	63.0	55.7	62.2	64.2	71.5
95% < 20 mins	94.2	94.7	84.1	86.3	82.5	86.5	86.7	91.9

Standard taxis

Performance for standard taxis generally meets the requirements. For the period 3:00 – 6:00pm Monday to Friday, Canberra Cabs has easily achieved the performance requirements. This is also the case for the performance requirement that 95 per cent of telephone booking customers wait less than 20 minutes at 'all other times' (table 8.2).

Interestingly, requirements for 85 per cent of telephone booking customers having to wait less than 10 minutes at 'all other times' (ie during periods outside the peak demand times of 3:00 – 6:00pm Monday to Friday) are barely achieved.

The above performance is very similar to that noted by the Commission during last year's taxi fare determination. At that time, the Commission suggested that:

- peak period performance requirements for standard taxis could be tightened. Performance targets that are achieved by default do not provide incentives to continually improve. This suggests a gradual convergence between peak and off peak performance requirements.
- the indicators do not properly reflect peak periods. Certainly, the information presented suggests multiple peaks in the Canberra taxi market.

As well as the general pattern that demand tends to follow on a daily, weekly and yearly basis, increased demand (or conversely tight supply) may occur randomly throughout the

day due to particular circumstances such as weather. This differs from the general peaks and pattern of demand identified above.

The Commission notes that Canberra Cabs has put in place processes to meet these demand 'hot spots'. The system was trialled from February 2001, and involved identifying hot spots through the network system, and directing drivers to those areas. The network operator remunerates the driver for attending that particular area. Following the successful trial of the 'hot spots' system, Canberra Cabs now operates the system on a permanent basis.

The ACT DUS was not aware of this 'hot spot' system, and questions why such a process has not been applied to WATs in an effort to overcome performance measure failures.³⁴

The Commission received comments from the Law Council of Australia in regard to taxi waiting times. The Law Council regularly hosts meeting and conferences in Canberra, and stated the following:³⁵

Regrettably, as part of our planning for the conference [2002 Australian Legal Convention] we have to factor in the inadequacy of Canberra's taxi service... The 'taxi' shortage is not limited to peak periods. I can report that interstate and international guests at a dinner in Canberra in December 2001 waited well over 1 ½ hours for their booked taxis. We have repeatedly found the taxi service to be inadequate, particularly on Friday evenings. We are, in fact, planning a similar dinner in March, but have taken the precaution of hiring a coach on this occasion.

Wheelchair accessible taxis

Canberra Cabs' performance in relation to WATs is more variable than for standard taxis, and generally does not meet the performance requirements of the Act.

During the peak period 3:00 – 6:00pm Monday to Friday, Canberra Cabs is required to have 85 per cent of its customers experience a waiting time of no more than 18 minutes. Between December 2000 and September 2001, performance ranged between 65.4 per cent and 84.2 per cent.

Canberra Cabs' performance in relation to 95 per cent of its customers experiencing a waiting time of no more than 30 minutes between 3:00 – 6:00pm Monday to Friday was generally closer to the performance standard required, but still falls short. Between December 2000 and September 2001, performance ranged between 86.0 per cent and 94.7 per cent.

During 'all other times', Canberra Cabs' performance did not meet its requirements on any occasion. In relation to the target of 85 per cent of customers waiting less than 10 minutes, performance ranged between 55.7 per cent and 71.5 per cent over December 2000 to September 2001. For the target of 95 per cent of customers waiting less than 20 minutes, performance ranged between 82.5 per cent and 91.9 per cent.

Although WAT waiting time performance did improve during the September 2001 quarter, performance over the last 12 months was essentially unchanged compared to that of the 12 month period the Commission considered during last year's taxi fare determination.

³⁴ ACT Department of Urban Services submission, 25 March 2002, p 2.

³⁵ Law Council of Australia submission, March 2002.

Response times

The Commission has considered the response time information that Canberra Cabs has submitted. Generally, response times for standard taxis are 'front loaded' into the less than 5 minutes and 5-10 minutes categories, ie a significant majority of standard taxi customers wait less than 10 minutes for a taxi. The majority of WAT response times is in the less than 5 minutes category, although the degree of 'front loading' is far less compared to standard taxis, ie the average waiting time for WAT users is greater than for standard taxi users.

This again suggests that service levels for users of WATs is relatively poor. Waiting time targets for WATs are generally not achieved, and on average, response times are significantly higher than is the case with standard taxis.

The Commission notes that the ACT Government released an additional 10 WAT licences in 2001. Although these taxis only began operating in the June and September quarters of 2001, the performance information above suggests that they have not had any noticeable impact on WAT performance. The ACT Government has also stated its intention to strengthen the enforcement of WAT licence requirements. As noted above, there has been no overall improvement in WAT performance since the Commission's last taxi fare determination.

8.6 Service quality and deregulation

Regulation of the taxi industry is often justified on the grounds that in an unregulated environment quality standards would suffer, with the cost of such a deterioration borne by rank and hail customers who have little ability to pick and choose between taxis.

Sections 8.4 and 8.5 have considered the recent performance of the ACT taxi industry. Areas have been identified where service quality as measured by waiting time may be poor. Aspects of service quality where positive customer sentiment exists have also been identified.

The unanswered question at this stage is what happens to service standards in an unregulated environment.

Proponents of continuing regulation often regard deregulation as an 'all or nothing' decision. They claim deregulation of quota restrictions, service standards, fare levels, etc would lead to a proliferation of new entrants, and service standards would fall as taxi operators competed for a fixed (in the short term at least) number of customers.

However, deregulation of the industry need not take this path. Once quota restrictions have been removed, the relevant government can still maintain a role in setting service standards, in authorising/licensing networks, operators and drivers, and in monitoring service provision. Government will maintain the power to sanction industry participants where necessary.

Enforcement of such requirements can produce positive outcomes by maintaining service quality. Rank and hail customers will always be in a relatively adverse position compared to phone booking customers, when considering the impacts of deregulation. However, the relative position of rank and hail customers should not be confused with their absolute position. In absolute terms, they may still be receiving an appropriate level of service. If

there are strong concerns in regard to deregulation's effect on such customers, stringent enforcement of service standards will alleviate those concerns.

It should be kept in mind that a key advantage of competition and deregulation is that consumer choice is generally increased. Service providers may choose a particular position on the service quality/price trade off, consistent with government requirements in regard to minimum service quality standards. Further, regulation of **maximum** fares can be maintained by government in a 'deregulated' market.

With appropriate safeguards, the Commission considers that the removal of licence quota restrictions can promote community benefits while maintaining service standards in a deregulated environment.

Additional discussion on the experience of taxi deregulation is contained in chapter 3.

8.7 Improving taxi service quality – Commission comments

The waiting time and response time information considered by the Commission indicates that standard taxis enjoy a relatively high level of service. The one stand out result for standard taxis is that the 85 per cent waiting time requirement at 'all other times' is only just achieved. The Commission considers that this suggests standard taxi performance requirements could be reviewed. The Act will provide detailed information to undertake such a review, and it understood this is the intention of the ACT Department of Urban Services.

Of greater concern to the Commission is the level of service quality enjoyed by users of WATs. Very rarely are WAT waiting time requirements achieved, despite the fact that WAT licence conditions require priority to be given to WAT bookings.

The key question for the Commission is what mechanisms would be appropriate for improving WAT service quality. Broadly speaking, the following options are available:

- improved management of WAT bookings
- tighter enforcement of WAT licence conditions
- additional charges to encourage WAT drivers to take up WAT hirings.

Each of these options are discussed in turn.

Improved management of WAT bookings

There are a number of management process that if implemented, could assist in improving WAT service quality. Canberra Cabs for a period operated a micro-managed process for the despatch of WAT hirings. It has previously been put to the Commission by Canberra Cabs that the removal of this system lead to Canberra Cabs failing to meet WAT performance requirements.³⁶ In January 2001 the ACT Department of Urban Services directed Canberra Cabs to reintroduce micro-management. The waiting time information considered above shows some improvement in WAT performance over recent quarters, however performance does not meet the required standard.

³⁶ Canberra Cabs submission, January 2001, p 6

Drivers of WATs have expressed to the Commission that WAT performance levels can be improved through better management of bookings. For example, some have said that the allocation of WAT bookings and WAT performance standards would improve if Canberra Cabs' global positioning system (GPS) were used to allocate work. That is, the GPS could be used to allocate the WAT hiring to the nearest WAT.

Drivers of WATs have pointed out to the Commission that the critical time of day for WAT hirings is 9:00am and 3:00pm. Some WAT drivers have regular customers at these times, and if a further WAT booking is made, they are obviously unavailable to accept that job. In such circumstances, it has been suggested that Canberra Cabs could assist in the process by suggesting a change in hiring time.

Tighter enforcement of WAT licence conditions

Holders of WAT licences are required to give priority to WAT hirings. If WAT licence holders are failing to comply with their licence conditions, the ACT Government is able to apply such measures as fines, sanctions and revocation of the licence.

More stringent enforcement of licence conditions and application of sanctions available to the ACT Government could assist in improving WAT service standards.

The ACT DUS states the following in relation to WAT service quality and the new Act:³⁷

With the introduction of the Public Passenger Service legislation, where a wheelchair hiring has not been accepted networks must direct drivers of wheelchair accessible taxis to undertake the hiring. Failure to direct a driver, and failure to undertake the hiring, can result in infringement notices being issued against both the network and driver. The operator of the WAT is also liable under the restricted licence conditions for not giving priority to the disabled, this can result in a range of disciplinary actions including monetary penalties and cancellation of the licence.

The Department considers that the new legislative provisions for directing drivers will significantly improve the response time for wheelchair hirings, and assist Canberra Cabs in meeting minimum performance requirements.

It is clear that the new Act should assist in improving the performance of WATs. This process should be given time to work. Further, the differential licence fee for WAT and standard taxis and the Commission's recommendation for a WAT lift fee will each act to improve incentives to operate a WAT.

Additional charges to encourage WAT drivers to take up WAT hirings

Drivers of WATs are not necessarily the actual owner of the WAT licence. This separation of licence owner and driver affects the incentives to comply with WAT licence conditions. The bailee driver is more likely to be concerned with maximising their earnings for the particular shift. This can lead to a disincentive to undertake WAT hirings as these involve extended loading/unloading times compared to a standard hiring, and may also involve greater dead miles in performing the hiring.

³⁷ ACT Department of Urban Services submission, 25 March 2002, p 2.

For this reason, an additional charge for WAT hirings is often raised as an option to provide greater incentive to accept a WAT booking. Two broad options for an additional WAT charge are:

- to include the additional loading/unloading time in the fare
- to apply a separate lift fee.

Under the first approach, waiting time would be applied while the passenger was being loaded and unloaded from the taxi. Assuming an additional 4 minutes for both loading and unloading (ie 8 minutes in total), the additional waiting time would add \$3.80 to the fare at current rates. In NSW and WA, a maximum of 15 minutes waiting time charge is allowed in the fare for WAT hirings. These waiting time charges are aimed at compensating the driver for the greater time involved in loading and unloading the WAT passenger compared to a standard hiring. Tasmania allows a higher flagfall and distance rate for WAT hirings - \$4.10 and \$1.47 / km compared to \$2.60 and \$1.32 / km for a standard hiring.

An alternative is to apply a separate lift fee for WAT hirings. Such a lift fee would be paid to the driver in addition to the actual fare. Canberra Cabs have suggested that a subsidised lift fee of \$15 may be appropriate.³⁸ In Victoria, a loading fee of \$6.60 is charged.

Commission conclusions

Management/enforcement options or payment options provide a basis for potentially improving service standards to WAT users. A key reason why the Commission is having to consider these issues is because to date, incentives have been insufficient in attaining WAT performance requirements.

The incentives for drivers to accept WAT bookings has been lacking due to poor enforcement and profit motives. WAT hirings are generally less profitable than standard hirings due to the extra time involved in loading and unloading the passenger, and potentially greater dead running time. The incentives for licence holders to meet the performance requirements has been lacking due to poor enforcement of licence requirements.

The question is whether we can/should alter these outcomes via management/enforcement options and/or payments options. The answer to this question is affected by the Commission's recommendations to remove quota restrictions. In a regulated environment, the Commission would favour tighter management/enforcement of WAT operators.

However, in an environment where quota restrictions are removed, the Commission believes that a combination of management/enforcement and payments options will yield the best outcome for WAT users. The new Act aims to improve services to WAT users and make it easier for sanctions for non-compliance to be applied. Under the Act, operators must now apply for specific accreditation to become a WAT operator. To receive accreditation, an operator must satisfy the ACT Roads and Traffic Authority that they have the competencies and processes to manage a WAT service. Significantly, WAT servicing will form part of the accreditation and will therefore be subject to a range of disciplinary options, eg reprimands, monetary orders, suspension, cancellation of accreditation. Under the old legislation there were very limited occasions when an infringement notice could be

³⁸ Canberra Cabs submission to ICRC investigation into the competition implications of the provision of wheelchair accessible taxi services by a single network in the ACT, September 2001.

issued, as these were criminal actions in nature, with the associated evidentiary requirements. Under the new Act, any actions taken under accreditation are purely administrative decisions, and are therefore easier to initiate, action and substantiate. Further, accreditation will include tying of bailment (ie use of bailee drivers) to licence conditions.

The introduction of micro-management by Canberra Cabs has also seen some recent improvement in WAT waiting times.

In addition to this the Commission supports paying the WAT driver an additional sum for accepting a WAT booking. This is particularly required in a deregulated environment and will ensure that operators have a commercial imperative to undertake wheelchair work.

The Commission has considered the interstate approaches to setting additional charges to encourage operators to take on wheelchair work. While the approaches provide some indication on the levels of additional payment required for operators, there is no 'golden rule' that the Commission can apply.

The Commission supports a fixed lift fee (ie a fixed add-on to the existing fare):

- due to its simplicity to administer for both passengers and operators
- because it does not require the passenger to see the meter when loading/unloading and is, therefore, less open to abuse.

As noted earlier, Canberra Cabs supports a fixed lift fee and considers a fee of \$15 per wheelchair fare to be appropriate. Canberra Cabs estimate that this would cost the Government around \$272,000 per annum. This fee appears excessive compared to the \$6.60 loading fee charged in Victoria. This also appears excessive based on a maximum 15 minute loading period. At the current waiting time charge, this would equate to a lift fee of around \$7.

However, the Commission notes that the 15 minute period is a **maximum** time permitted. Obviously, it may take significantly less time to load and unload in some cases. Commission discussions with industry participants has indicated that around 5 – 6 minutes time is spent loading and unloading wheelchair-bound passengers from WATs. At the Commission determined new waiting time charge of 50 cents per minute (see section 12.4), this equates to between \$2.50 and \$3.00.

The Commission therefore proposes that a lift fee of \$3 be applied to the normal fare for WAT hirings. Based on current demand for WAT hirings, this would equate to an annual outlay of around \$54,500 to be funded by the ACT Government.

8.8 Service quality performance - hire cars

Like taxis, aspects of hire car service quality are regulated by government. These include vehicle standards, operator and licence holder accreditation, and driver authorisation requirements. However, there appears to be considerably less information on the level of service quality actually provided by hire cars. This may in large part be due to the nature of the industry and their relationship with government. The taxi network operator has formal performance requirements as specified in its accreditation as a taxi network operator by the ACT Government (previously these performance requirements were specified in the MoU

between the two parties). This on-going type of performance measurement relationship does not exist for hire cars.

8.8.1 Submissions to the review

Queanbeyan Hire Cars makes the following comments:³⁹

The fact that the level of customer complaint against private hire vehicle operators has historically been low suggests that private hire vehicles adequately service their market segments...

I consider that service levels would drop significantly in an unregulated market. Legislated requirements relating to operator accreditation, vehicle standards and driver authorisation are essential to the maintenance of service and customer safety levels in the private hire car vehicle industry.

8.8.2 Commission conclusions

Limited information is available to the Commission on the service quality offered by the hire car industry. However, the Commission notes that the public's dependence and demand for hire cars is far less than that for taxi services. This in part reduces the need for any detailed information to be collected on hire car service quality. Further, the nature of the hire car industry is that if operators are not offering a service that is demanded by the public, business opportunities would decrease. Although this is also true for the taxi industry, the effect is unlikely to be as strong as for the hire car industry.

Service quality issues are touched on in the Queanbeyan Hire Cars submission quoted above. However, the Commission disagrees with the assertion that service standards will drop significantly in a deregulated environment. Even in a deregulated environment, factors such as operator accreditation, vehicles standards (namely safety) and driver authorisation would continue.

The Commission does not see a need to collect detailed information on the service quality of the hire car industry. However, accreditation of licence holders/operators/drivers should be maintained. This broad aspect of service quality is important in ensuring only suitable people are permitted to operate in the market.

³⁹ Queanbeyan Hire Cars submission, 1 March 2002, p 2.

9 COMPARISON WITH OTHER JURISDICTIONS

The terms of reference require the Commission to compare the state of competition, level of service and costs with other comparable jurisdictions.

9.1 State of competition

9.1.1 Taxis

Review and reform activity

The National Competition Council (NCC) has considered the competition reviews carried out by state governments, and any reforms that have flowed from these reviews. The following table details the NCC's findings.

Table 9.1 Review and reform activity – taxis

Jurisdiction	Review completed	Recommendations	Reform activity
NSW	Nov 1999	5% annual increase in licence numbers (restricted, non transferable) 2000 – 2005	60 new restricted licences and 120 wheelchair accessible taxi licences issued
		Further review 2003	Performance reviews established
		Continue fare regulation	
Victoria	July 1999	Remove entry restrictions	Victoria advised that it was currently developing its response to the review
		Buy back existing licences, funded by annual fees on operators	
		Retain fare regulation pending development of competitive market	
		Improve quality of fare regulation by transfer of responsibility to an independent economic regulator	
Queensland	Publicly released Sep 2000	Revamp regulatory structure around performance agreements with booking companies	Awaiting government response
	Allow booking companies control over licence numbers		
WA	Aug 1999	Remove licence restrictions	Tenders called for release of limited number of restricted licences (peak period and multi purpose)
		Use substantial training requirements to regulate entry	
		Full compensation to existing plate owners	Ministerial advisory committee to be established to determine a feasible model for licence buy backs
		New licences issued at maximum rate of 20% pa on first come, first served basis	

Independent Competition and Regulatory Commission

Jurisdiction	Review completed	Recommendations	Reform activity
SA	Review completed Nov 1999	Retention of existing restrictions (the Act allows no more than 50 new licences to be issued pa, though none have been issued) Reliance on competition from hire cars, with removal of some current restrictions	Awaiting government response
Tasmania	Final report Apr 2000, not publicly released	5% new licences annually, or 10% if tender price exceed valuations by 10% Maximum fare retained for rank and hail market only	Awaiting government response
ACT	Final report finished Mar 2000. Report considered by Cabinet Oct 2000	Immediate removal of restrictions on supply of taxi licences Full compensation to licence holders Compensation funded via consolidated revenue or by long term licence fee regime	Release of 10 wheelchair accessible taxi licences Restriction on number of licences that can be owned by an individual to be removed Agreement with NSW to a cross-border trial Preferred provider of a second taxi booking service selected Network and operator accreditation to be introduced Further review of licence quota restrictions by June 2002
NT	Discussion paper released May 1998	Restrictions on licence numbers eliminated Compensation paid as lump sum Substantial licence fees to recoup compensation costs Maintenance of fare regulation	Main recommendations fully implemented. Maximum fare restrictions under review

Source: National Competition Council, *The 2001 (Third Tranche) NCP Assessment of Governments' Progress in Implementing the National Competition Policy and Related Reforms*, AusInfo, Canberra, 14 December 2001, pp 11.5-11.6.

All the reviews generally state that entry restrictions do not provide net benefits to the community (ie net costs to the community are incurred). Most of the reviews recommend removal of licence/quota restrictions or at least a gradual increase in taxi licences. However, to date only the Northern Territory has removed quota restrictions. The NCC has previously raised concerns that where removal of restrictions has been recommended, details of the expected or recommended reform path have not been provided.

The Commission notes that the Northern Territory announced on 28 November 2001 a freeze on the issuing of licences for taxis, minibuses and hire cars. This freeze is to remain in place for 6 months.

Number and value of licences

The table below indicates that there are relatively few taxis per person in the ACT, compared to other states in Australia. Not only can this reflect the relative state of competition between jurisdictions⁴⁰, but it could also influence service levels (eg waiting time). Further, the value of taxi licences also appears to be higher in the ACT than other states in Australia. This would tend to indicate a lesser degree of competition within the ACT.

Table 9.2 Number and value of licences

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT
Number of taxis per 10,000 people								
1991	9.2	9.9	8.2	4.1	7.4	12.1	7.8	6.3
1995	8.6	8.5	7.9	7.4	7.2	12.9	6.9	6.9
Real cost of taxi licences (\$'000)								
1998	260	265	267	158	210	100	230	280

Source: Freehills, *NCP Review of ACT Taxi and Hire Car Legislation*, March 2000, p 131.

More recent information on plate values suggests that ACT taxi plates have traded at around \$260,000 to \$270,000 over the last 12 months.

There also appears to be less competition in the provision of network services in the ACT. At this stage there is one network service provider in the ACT. This compares to 12 taxi networks in the Sydney metropolitan area, although not all of these networks provide a radio booking service. The largest network is Combined Cabs which services approximately 60 per cent of taxis in the metropolitan area.⁴¹

However, in making comparisons the Commission will need to consider the ACT market's different characteristics compared to other capital cities and large towns. The ACT relies far more on private motor vehicles, resulting in less demand for public transport services. The demand pattern appears to be driven primarily by parliamentary timetables and public service requirements.

Submissions to the review

The Commission received no submissions that discussed the above issues in detail.

9.1.2 Hire cars

The above table 9.1 noted taxi review and reform activity around Australia. When states have reviewed legislation relating to the taxi industry under national competition policy commitments, they have usually at the same time considered the relevant legislation for the hire car industry. The following indicates the hire car review activity as commented on by the NCC, with updates where additional information has become available since the release of the NCC's report.

⁴⁰ It may also reflect better roads (less congestion) and public transport systems or greater car ownership.

⁴¹ In practice, Combined Cabs provides radio booking services to a number of smaller networks.

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Table 9.3 Review and reform activity – hire cars

Jurisdiction	Review completed	Recommendations	Reform activity
NSW	Nov 1999	Deregulation of hire cars to increase competition Further review in 2003	Licence costs recently reduced, and age restrictions on vehicles removed
Victoria	July 1999	Removal of entry restrictions for hire cars Buy back existing licences funded by annual fees on operators	Awaiting government response
Queensland	Publicly released Sep 2000	(no key recommendations for hire cars noted by NCC)	
WA	Aug 1999	Remove licence restrictions Use substantial training requirements to regulate entry Full compensation to existing plate owners	Tenders called for release of limited number of restricted licences (peak period and multi purpose) Ministerial advisory committee to be established to determine a feasible model for licence buy backs
SA	Review completed Nov 1999	Removal of some current restrictions on hire cars	Awaiting government response
Tasmania	Final report Apr 2000, not publicly released	Free entry to hire car industry subject to \$5,000 licence fee	Awaiting government response
ACT	Final report finished Mar 2000. Report considered by Cabinet Oct 2000	Immediate removal of restrictions on supply of taxi licences Full compensation to licence holders Compensation funded via consolidated revenue or by long term licence fee regime	Restriction on number of licences that can be owned by an individual to be removed Further review of licence quota restrictions by June 2002
NT	Discussion paper released May 1998	Restrictions on licence numbers eliminated Compensation paid as lump sum Substantial licence fees to recoup compensation costs	Main recommendations fully implemented

Source: National Competition Council, *The 2001 (Third Tranche) NCP Assessment of Governments' Progress in Implementing the National Competition Policy and Related Reforms*, AusInfo, Canberra, 14 December 2001, pp 11.5-11.6.

The above table provides detail on state reviews of hire car legislation. These reviews essentially considered the issue of how existing legislation restricts competition. The Commission has not yet been able to consider information on the actual level of competition between operators in the different markets.

Submissions to the review

The Commission received no submissions that discussed the above issues in detail.

9.2 Level of service

9.2.1 Taxis

The level of service offered in jurisdictions throughout Australia may reflect the different operating environments. Nevertheless, licence conditions imposed on operators, and the actual level of performance relative to those requirements, provide a useful basis to compare levels of service.

In NSW, taxi operators and networks are required to meet various licence conditions regarding service quality. For networks, the required performance standards are separated into those relating to operations, telephone answering standards, delivery standards and customer services. The following details telephone answering and delivery standards for taxi networks. In relation to telephone answering standards, requirements include:

- 90 per cent of calls to be connected to the booking service immediately
- of these, 70 per cent are to be answered within 1 minute
- and 90 per cent answered within 2 minutes.

In relation to delivery standards, requirements include:⁴²

- 85 per cent arrival within 15 minutes of booking being made
- 98 per cent arrival within 30 minutes of booking being made
- 100 per cent arrival within 60 minutes of booking being made.

These are broadly consistent with the waiting time requirements on Canberra Cabs which were discussed in chapter 8.

The Commission will also consider other information, such as customer satisfaction surveys and customer complaints records, to assess the quality of services offered in other jurisdictions. The Commission is in the process of gathering such information for other jurisdictions, and intends to discuss this information in its draft report.

Another useful indicator of service level (and perhaps also competition) is the fares charged in different jurisdictions. The table below compares current fares for state capital cities in Australia. The fares are those for off-peak hirings. It should be noted that surcharges to either the distance rate or kilometre rate are usually applied for night-time and/or weekend hirings.

⁴² These standards apply to the provision of normal services in metropolitan areas. Any minimum performance standards contained in contracts for special purpose taxis or fringe area services will override these 'general' standards for metropolitan areas.

Table 9.4 Interstate fare comparison

	ACT	NSW	Vic	WA	SA	Qld
Flagfall	\$3.20	\$2.45	\$2.80 ¹	\$2.90	\$2.40	2.50 ²
Distance	\$1.282 / km	\$1.38 / km	\$1.31 / km	\$1.17 / km	\$1.18 / km	\$1.25 / km
Radio	\$0.65	\$1.15	\$1.10	na	na	\$1.20
Waiting time	\$28.50 / hr	\$37.10 / hr	\$27.00 / hr	\$33.60 / hr	\$23.40 / hr	\$31.58 / hr ³

1. Includes first 76.34 metres of journey.
2. Includes first 102.7 metres of journey.
3. Exact calculation is 10 cents per 11.4 seconds.

One key feature of interstate fare structures is that a radio booking fee is not charged in South Australia or Western Australia. The Commission understands that one factor influencing this outcome is competition from hire cars. This is particularly the case in South Australia.

Submissions to the review

The Commission received no submissions that discussed the above issues in detail. Some submissions did comment that it may not always be appropriate to look at other states as an appropriate benchmark.

9.2.2 Hire cars

As noted in section 8.8, there is limited information available on the actual service levels supplied by the hire car industry. The Commission is interested in hearing comments from both operators and other stakeholders on the level of service being supplied by the ACT hire car industry, and how this compares to other jurisdictions. The Commission also seeks information on the actual level of charges for hire cars.

Submissions to the review

The Commission received no submissions that discussed the above issues in detail.

9.3 Costs

The Commission has been asked to consider the costs of the ACT taxi and hire car industry relative to other comparable jurisdictions. There are two interpretations of 'cost'. The first is the cost to users, that is the level of taxi fares and hiring costs for hire cars. These were discussed in section 9.2. The second interpretation is that 'costs' refer to the actual costs of providing the taxi and hire car service.

9.3.1 Taxis

As part of the pricing determination for ACT taxis, the Commission is provided with a model prepared by Canberra Cabs that reflects the major cost items in operating a taxi and the yearly movement in these costs. In the 2001/02 taxi fares review the Commission developed a new pricing and costing model. This has updated the Commission's understanding of taxi costs in the ACT.

The Commission had wished to use this information to compare costs in other jurisdictions, notwithstanding that industry factors and differing operating environments will produce varying cost results between jurisdictions.

Limited information is available on the absolute cost levels of operating a taxi in other cities of Australia. A key reason for this is that a cost index approach is often applied to adjusting fares. Under such an approach, absolute costs are not always measured, as the main concern is in regard to relative cost changes over time.

Submissions to the review

The Commission received no submissions that discussed the above issues in detail.

9.3.2 Hire cars

The Commission has at this stage been unable to obtain information on the costs of operating a hire car. The Freehills review does provide an indication of the key costs for hire cars, as indicated below. However, this information may now be outdated.

This cost information may also not represent the actual costs incurred by different types of operators in the hire car industry. This may make it difficult for the Commission to compare costs of operating hire cars in different jurisdictions.

Table 9.5 Costs of operating a hire car

	\$ per annum
Company fees for communications, advertising, infrastructure	22,000
Fuel	5,000
Vehicle upkeep	3,000
Relief chauffeur	6,000
Insurance, registration	2,000
Paying for/leasing plates	12,000
Paying for/leasing car	9,600
Total costs	59,600

Submissions to the review

The Commission received no submissions that discussed the above issues in detail.

10 RECENT CHANGES IN NSW AND IMPLICATIONS FOR THE ACT

The terms of reference require the Commission to consider the likely implications for the ACT taxi and hire car industry of changes recently introduced or proposed by the NSW Government.

In 1999 the NSW Government asked the Independent Pricing and Regulatory Tribunal of NSW (IPART) to review the regulation of the taxi and hire car industry under the *Passenger Transport Act 1990* as part of the Government's commitment to improving the industry's service levels. IPART recommended:

- immediate and longer term actions to improve the regulatory basis of the taxi and hire car industry
- an increase in the availability of taxis by releasing more taxi plates in both Sydney and country NSW
- introducing regular public reporting of taxi service standards
- the establishment of cost recovery enforcement practices.

Following the review the NSW Department of Transport consulted with the rural taxi industry before any decision was made to release more licences in country NSW. In May 2001 the Department of Transport released a discussion paper on the rural taxi industry in NSW which canvassed the release of additional licences in rural areas as well as shifting the regulation of the rural taxis industry to local government. The Commission understands that, following consultation with relevant stakeholders, no new licences will be released and the NSW Government will maintain regulation of the rural taxi and hire car industry.

In regard to the hire car industry, the NSW Government introduced a new hire car regulatory regime from September 2001. The changes are aimed at increasing competition so as to deliver a greater range of hire car services to the public. The main changes to the regulations include:

- reducing annual hire car licence fees in Sydney from \$16,000 pa to \$8,235 pa. There is no change to the annual hire car licence fees in the rest of the state
- lifting restrictions on age limits and types of hire cars
- deregulating wedding cars so they are not required to undergo licensing (only operator accreditation)
- allowing oversized stretch limousines to be used for tourist services.

The Commission notes that submissions to the Standing Committee of Planning and Urban Services raised concerns about the potential increase in hire car licences in Queanbeyan. Under current regulations hire cars licensed in NSW cannot operate within the ACT without the approval of the ACT Government. The Commission understands that there are currently three hire cars licensed in NSW that are approved to operate in the ACT⁴³ However, the impact on the ACT hire car industry of further increases in NSW registered

⁴³ Freehills Regulatory Group, *National competition policy review of ACT taxi and hire care legislation*, Final Report, Prepared for ACT Department of Urban Services, March 2000, p 24.

hire cars based in Queanbeyan would largely be dependent on the ACT Government's approval to allow them to operate in the ACT.

Another issue that may have implications on the ACT taxi and hire car industry is cross border taxi operations. The ACT and NSW Governments are currently trialling a process whereby ACT and NSW taxi operators can operate freely in both the ACT and Queanbeyan. Under the trial, ACT taxis operating in NSW will be regulated under the ACT legislation, and vice-versa. The trial period will cease in July 2002 and the success of the program will be reviewed. The issue of cross border restrictions has been discussed in detail in section 5.1.

Part B

Determination of maximum taxi fares

11 ACT TAXI COSTS AND EFFICIENCIES

11.1 Commission conclusions and recommendations

Either a specific, detailed tax cost index, a composite ABS index, or the Canberra CPI could be used to adjust maximum taxi fares. Applying the specific cost index suggests a fare change of between minus 7.0 and minus 3.1 per cent as appropriate. The composite ABS index gives a result of between 0.3 per cent and 0.6 per cent, and the Canberra CPI gives a result of between 2.9 and 3.6 per cent.

In selecting between these options the Commission has given consideration to a range of factors, as illustrated in the following table. Further, the Commission has considered whether the approach as considered for this fare determination produces a reasonable outcome for taxi operators.

Table 11.1 Relative merits of fare setting regimes

	Ease of application	Verifiable	Accuracy	Consistent with deregulation
CPI	44444	44444	4	44444
Other ABS index	44444	44444	44	44444
Composite ABS	44444	44444	44	44444
Specific taxi index	44	44	444	4
Revenue/cost model	4	4	4444	4

An approach using ABS information is the easiest to apply, and also is verifiable. A specific taxi cost index or revenue/cost model for the industry is neither easy to apply or easily verifiable. The Commission encountered some data problems in constructing the specific, detailed cost index and a revenue/cost model for the industry. Although cost information is given by Canberra Cabs, and the absolute cost levels can be verified with suppliers, many cost items are estimates, and it is not clear that they represent an industry average, eg maintenance costs. Thus the cost information is not easily verifiable. Even greater data concerns in regard to revenue information exist.

Under the 'accuracy' column, the Commission considers how accurate the approach would be, **if** all information was verifiable and accurate. Thus, the specific cost index and revenue/cost model approaches would be accurate if information was verifiable. The problem is that the information is not verifiable.

The Commission also notes that application of a specific taxi index, and possibly a revenue/cost model, would actually suggest a fare decrease. The Commission considers that this is not an appropriate outcome in the lead up to deregulation.

Although the ABS information is not specific to the taxi industry, the information is of a high standard. It is also consistent with a move to deregulation. It would not be appropriate to impose an intensive fare setting approach given that this would apply only for an interim period.

The issue for the Commission is over what time period should this be applied, and what is an appropriate composite or single index to use. Generally, the Commission does have some concern with using the ABS information if the cost change over the last 2 years is considered. The key reason for this is that the time period includes the introduction of the goods and services tax (GST). By looking at the 2 year period, we would be comparing an index pre and post the GST. This would not be appropriate as taxi fares have already been adjusted to take into account the introduction of the GST.

Based on the above and the Commission's desire to ensure a reasonable outcome for taxi operators, the Commission has determined that taxi fares should be adjusted by 2.9 per cent from 1 July 2002. This reflects movements in the Canberra CPI between the December quarter 2000 and the December quarter 2001.⁴⁴

Determination – maximum taxi fares

The Commission determines that average maximum taxi fares be increased by 2.9 per cent from 1 July 2002.

For comparative purposes, the Commission also considered the approach of Canberra Cabs, ie an approach that considered the shortfall between taxi revenues and costs. Notwithstanding the concerns the Commission has with the revenue information, it nonetheless accepted these figures for the purpose of comparison. The Commission's analysis concentrated on the cost information presented by Canberra Cabs, and whether this information was reasonable. A number of adjustments can be reasonably made to the cost information. Key among these relate to driver entitlements and network fees.

Making these adjustments bring the required fare increase down significantly from that requested by Canberra Cabs. In fact, based on Canberra Cabs' own revenue figures, the adjustments suggest no fare increase may be warranted.

This finding is consistent with the Commission's position that the combination of significant operator deficits, as suggested by the Canberra Cabs information, and high taxi plate values, is not tenable.

11.2 Introduction

Under section 20 of the *Independent Competition and Regulatory Commission Act 1997*, the Commission is required to consider a range of factors relating to industry costs and efficiencies:

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

⁴⁴ The Commission will issue its final determination for taxi fares by 30 May 2002. By this time, Canberra CPI figures for March 2002 will be available. It is therefore the Commission's intention to use this latest information to adjust maximum taxi fares from 1 July 2002.

11.3 Canberra Cabs' submission

The Canberra Cabs submission is summarised in attachment 4. Canberra Cabs has developed cost and revenue models for both a standard taxi operation and a WAT operation. Canberra Cabs' models suggest that both taxi types are making significant losses on an annual basis. It proposes an increase in average fares of around 15.9 per cent from 1 July 2002.

11.3.1 Concerns with Canberra Cabs' information

The Commission's main concern is in relation to the revenue figures presented by Canberra Cabs. As the Commission has commented on in previous fare determinations, it is reliant on Canberra Cabs for information on industry costs and revenues. Although some costs can be verified, others cannot and/or cannot be assessed to be efficient or otherwise. Revenue figures are perhaps even more difficult to assess accurately. Taxi networks in their provision of booking services, do not monitor the fare takings of taxis. The electronic systems for the booking system and fare calculation are separate within the taxi. Further, taxis have multiple drivers that operate on a bailee relationship, rather than being paid a salary. These factors make accurate assessment of taxi revenue highly problematic.

These problems have been highlighted in the last year with the dramatic fall in revenues that Canberra Cabs claims have been experienced by ACT taxis. Under the costing and pricing model developed by the Commission during the course of last year's determination, revenues play an important role. The model was developed to represent a profit and loss statement for the average ACT taxi. As such revenue is a key determinant in the model's outcome. Further, the revenue figure is used to calculate bailee driver payments. Based on last year's model, these payments represent a major proportion of a taxis total operating expenses (around 40 per cent).

As the Commission does not have confidence in the accuracy of the revenue figures of Canberra Cabs, it is not in a position to apply the new costing and pricing model. The Commission is recommending that taxi services be deregulated. It considers that in moving towards a deregulated market, any fare setting process should be relatively straightforward. The Commission has therefore considered a number of options in adjusting taxi fares. These are discussed later in this chapter.

Other key concerns with the Canberra Cabs submission relate to the calculation of driver earnings and entitlements (both operator and bailee driver), and network costs.

Under a regulated environment (ie licence quotas), it had been the Commission's desire to apply in the new costing and pricing model figures that captured the actual operating practices of the industry. For example, driver earnings and entitlements are derived from takings of the taxi. They are not related to wage rates for Comcar drivers or average weekly earnings. These were approaches previously applied by Canberra Cabs.

In developing the costing and pricing model in its submission, Canberra Cabs reverts to using a wage rate established through industry – government negotiations, that is updated using the Australian Bureau of Statistics' (ABS) ACT wage cost index. In relation to driver entitlements, Canberra Cabs includes costs for holiday pay, sick pay and holiday leave loading, along with superannuation. This treatment does not reflect the actual operation of taxis. The Commission has been given no information to suggest that operators are paying

their bailee drivers these entitlements. Rather, the bailee driver gets to keep 50 per cent of his/her takings. This is how they are actually remunerated.

Canberra Cabs has stated to the Commission that if its previously proposed fare increases were granted, then the type of worker entitlements discussed above would be paid. However, the Commission considers that this is unlikely to be the most appropriate mechanism to have such payments made available. Under existing bailee driver arrangements – whereby drivers keep 50 per cent of the takings – any increase in fares obviously flows through to the operators also. The Commission is not suggesting that this is not appropriate, however there may be better ways of increasing returns to drivers. One easy example would be to increase the share of takings the bailee drivers keep.

The Commission also notes that even it had provided a fare increase as proposed by Canberra Cabs, there is still no award requirement that bailee drivers be paid the above entitlements. Further, even if an award existed, the entitlements still may not be paid. The Commission notes that in NSW, permanent bailee drivers in urban areas have access to driver entitlements. However, a recent report by the Independent Pricing and Regulatory Tribunal of NSW stated:⁴⁵

The Tribunal notes that the item [driver entitlements] may actually be irrelevant when considered against actual industry operations. In its 1999 review, the Tribunal noted that few Sydney taxi drivers are paid these entitlements. Discussions with the Taxi Council indicated that this situation has not changed.

Thus, even though driver entitlements are available to permanent bailee drivers, very few seem to actually receive these payments. Either taxi operators structure their driver hirings such that drivers do not achieve the required hours to be classified as ‘permanent’, or the operator and driver may come to an agreement that these entitlements are not paid.

Based on the above and the Commission’s considerations during previous fare determinations, it does not agree with Canberra Cabs’ treatment of driver entitlements.

The Commission has previously raised concerns in regard to the level of Canberra Cabs’ network charges. The Commission notes a submission to this review stating that these charges are the highest in Australia⁴⁶, and itself notes that they are relatively high compared to NSW operators, both in Sydney and regional centres.

11.4 A cost index – an interim approach to adjusting fares

The Commission, since having the responsibility for setting maximum taxi fares, has raised concerns with a cost index approach. These general concerns remain. However, given the significant concerns over Canberra Cabs’ revenue information and a recommended move to deregulation, the Commission considers that a cost index approach is reasonable.

The Commission has considered three broad approaches in applying a cost index. These are: developing a detailed, specific cost index for the taxi industry (as has been applied historically in the ACT); using a composite index based on existing ABS indices; or using a single ABS index, such as the consumer price index (CPI).

⁴⁵ IPART, *Report to the NSW Minister for Transport: report on NSW taxi fares*, July 2001, p 22.

⁴⁶ S McDermott and M Grogan (A1 Cabs) submission, March 2002, p 1.

11.4.1 A detailed, specific cost index

Historically, a detailed cost index has been applied to adjusting maximum taxi fares in the ACT. This index has attempted to capture significant cost items faced by a taxi, and to measure its cost changes over time.

In exploring this option, the Commission developed a cost index to measure costs over the last 2 years. From the result of this index the Commission intended to deduct the 5.5 per cent increase given last year. In this way, there would have been a consistent approach to fare setting over the last 2 years.

The major cost items included in the index are consistent with those cost items used by Canberra Cabs as shown in attachment 4. However, the Commission did encounter some difficulties in preparing the cost index. In some cases, certain cost items may not have been categorised uniformly over the time period being considered. Further, the calculation of labour costs has changed over recent years (as discussed above), and there are concerns in regard to the accuracy of such costs.

Working through these issues, the Commission was nonetheless able to develop a detailed, specific cost index for the ACT taxi industry. Over the last two years, increases in fixed costs have been outweighed by declining variable costs, particularly due to declining fuel costs. Depending on assumptions for labour costs, the 2 year cost index shows a change in costs of between minus 1.5 and plus 2.4 per cent. Netting off the 5.5 per cent increase given last year would therefore suggest a fare change of between minus 7.0 and minus 3.1 per cent.

11.4.2 A composite ABS cost index

Whilst there is no single ABS index that adequately represents the costs of operating a taxi in Canberra, it is possible to use a combination of indices to broadly approximate the cost base of a taxi. Changes in labour costs can be tracked via the average weekly earnings (AWE) figures produced regularly by the ABS, which would account for approximately 60 per cent of a taxi's costs. The ABS also prepares a transportation index as part of the CPI series. This takes into account prices of motor vehicles, fuel, motor vehicle repair and servicing, motor vehicle parts and accessories and other motoring charges and urban transport fares. This can be used as a proxy for the remaining 40 per cent of a taxi's costs. Whilst the inclusion of urban transport fares may be inappropriate, it is not possible to remove this item. However, the effect of this item is not expected to be material in nature.

Average weekly earnings

The most recently available AWE data is for November 2001. For ACT this data is as follows:

Table 11.2 ACT average weekly earning annual percentage change

November	Full-time adult ordinary time earnings	Full-time adult total earnings	All employees total earnings
1999	4.1	3.1	-1.5
2000	5.5	4.7	8.8
2001	1.9	2.4	-3.9

Given the labour costs being modelled are for taxi drivers, the full-time adult total earnings figure is likely to be the most appropriate. From the data above it is apparent that this cost item has increased by 2.4 per cent from November 2000 to November 2001, after increasing by 4.7 per cent in the previous 12 month period.

Transportation CPI

The most recently available CPI statistics are the December quarter 2001 figures. These are shown in the table below for the ACT.

Table 11.3 Canberra CPI transportation index

Period	Index
Dec 99	131.4
Mar 00	135.3
Jun 00	136.4
Sep 00	138.6
Dec 00	139.3
Mar 01	138.8
Jun 01	142.6
Sep 01	138.2
Dec 01	136.4

From these figures it can be seen that transportation costs decreased by 2.1 per cent from December 2000 to December 2001. This follows an increase in transportation costs of 6.0 per cent from December 1999 to December 2000.

The composite ABS index

A weighted average of the above indices in proportion to Canberra Cabs' cost base can be used to measure the approximate increases in taxi costs. As labour costs constitute 60 per cent and other transportation related costs such as motor vehicles, fuel and repairs make up the residual, it is appropriate to weight AWE at 60 per cent and the transportation CPI at 40 per cent. Whilst the periods over which the AWE and CPI are measured are slightly different, AWE being to November and CPI December, this is not seen as a sufficiently large timing difference to invalidate the outcome.

Thus from the end of 2000 to the end of 2001, costs as measured by this composite index have risen by 0.6 per cent. Whilst labour costs were rising over this period, falling fuel costs provided an offsetting factor. From the end of 1999 to 2000, costs measured similarly increased by 5.2 per cent. For the 2 year period therefore, there has been a cumulative 5.8 per cent increase in the composite ABS index. Netting off the 5.5 per cent increase given last year leaves 0.3 per cent

11.4.3 A single ABS index

A further alternative is simply to apply a single ABS index. The most obvious choices for this are the Canberra CPI transportation index, or the Canberra CPI.

The ACT transportation index decreased by 2.1 per cent between the December quarter 2000 to the December quarter 2001. For the 2 years to the December quarter 2001, the index increased by 3.8 per cent. From this figure the 5.5 per cent increase awarded last year would need to be deducted, leaving a figure of minus 1.7 per cent.

The following table shows the Canberra CPI figures.

Table 11.4 Canberra CPI index

Period	Index
Dec 99	123.7
Mar 00	124.9
Jun 00	125.9
Sep 00	130.7
Dec 00	131.1
Mar 01	132.2
Jun 01	133.4
Sep 01	133.2
Dec 01	134.9

The Canberra CPI increased by 2.9 per cent between the December quarter 2000 to the December quarter 2001. For the 2 years to the December quarter 2001, the index increased by 9.1 per cent. From this figure the 5.5 per cent increase awarded last year would need to be deducted, leaving a figure of 3.6 per cent.

The Commission favours use of the Canberra CPI figure over the transportation index. As the above figures indicate, the Canberra CPI figure will give a higher increase in maximum taxi fares. However, the Commission considers this higher increase to be reasonable.

The final decision for the Commission is to choose between the 1 year CPI figure (2.9 per cent), or the 2 year figure (9.1 per cent) from which last year's increase would need to be deducted. In this regard, the Commission favours the 1 year figure. The key reason for this is that 2 year figure spans the period of the introduction of the goods and services tax (GST). We would thus be comparing an index pre and post the GST. This would not be appropriate as fares have already been adjusted to take into account the introduction of the GST.

12 PRICING AND CONSUMER PROTECTION

Under section 20 of the *Independent Competition and Regulatory Commission Act 1997*, the Commission is to consider a range of factors relating to pricing and consumer protection:

- the protection of consumers from abuses of monopoly power in terms of prices, pricing policies (including policies relating to the level or structure of prices for services) and standard of regulated services – section 20(2)(a)
- the social impacts of the decision – section 20(2)(g)
- the effect on general price inflation over the medium term – section 20(2)(j).

Factors relating to price are addressed in this chapter. Service quality issues were considered in chapter 8.

12.1 Pricing

In its previous price determination, the Commission permitted a 5.5 per cent increase in average taxi charges based on Canberra CPI movements plus an additional amount to recognise higher increases in fuel prices. At that time the Commission had envisaged applying the newly developed costing and pricing model for future taxi fare adjustments, moving away from a cost index approach that had been applied in the ACT for around a decade.

The protection of consumers from abuse of monopoly power through prices can be achieved most appropriately through a proper determination of costs. In a deregulated, competitive environment, competition between suppliers and interactions between producers and consumers are relied upon to set prices at appropriate levels.

Issues surrounding cost items to be included in the determination of fares have been discussed in the previous chapter. The Commission is satisfied that its approach is appropriate for fare setting purposes, and that it protects consumers from any abuse of monopoly power.

12.1.1 Plate values/return on capital

In previous determinations, the Commission has considered the issue of whether plate values should be included in any fare setting methodology for taxis. It noted that no jurisdiction had fully come to terms with the issues surrounding plate values and their inclusion in any fares model.⁴⁷

Canberra Cabs does not support a fare setting approach that includes plate values. In its submission to this review, Canberra Cabs states:⁴⁸

Given that this issue was fully considered by the Commission less than 12 months ago and the above decision made [to exclude plate values from the fare setting model], it is surprising that it should want to reconsider this, particularly given the debate which

⁴⁷ The Commission notes that the Independent Pricing and Regulatory Tribunal included plate lease fees (in effect plate values) in models for NSW urban and country taxi costs. The Tribunal made recommendations to the NSW Minister for Transport in its July 2001 report.

⁴⁸ Canberra Cabs' submission, February 2002, p 4.

took place on this subject around this time last year prior to the Commission ruling on the exclusion of plate costs from the cost and pricing model.

With the Commission recommending deregulation of the taxi industry, it is compelled to develop a cost setting methodology and price path that will allow the industry to prepare for the removal of licence quota restrictions. It considers that a detailed approach that attempts to include plate values is therefore not appropriate. What the Commission is concerned about is establishing a 2 year price path that sets maximum taxi fares appropriately, and frees those in the taxi industry to prepare for deregulation.

In this regard, the Commission will be applying the Canberra CPI figure to adjust maximum taxi fares for the 2 years of this fare determination, plus allowance for increases in ACT Government charges if these are not captured in the CPI figure. It is the Commission's intention to apply this methodology during the full 3 year phase in of deregulation (ie removal of licence quota restrictions).

This does not mean that plate costs/licence lease costs are not a legitimate cost to some taxi operators. Clearly, those who invested in a taxi plate would expect some form of return on their capital, and for those who lease a plate, there is an obvious operating cost involved. However, in moving towards a deregulated taxi quota environment, there are clear reasons for reducing the complexity of fare regulation and government involvement in the industry. The Commission's approach to setting fares achieves these aims.

12.1.2 Fare structure

Fare setting methodologies generally confine themselves to determining how fare levels should be altered. What they do not address is the issue of fare structure. The Commission is of the view that the principal objective of a fare structure is to ensure that the correct signals are sent to consumers and producers, reflecting the value and the cost of the services being provided. Thus, these factors should be considered when the relative levels of fare components, eg flagfall v distance rate, are assessed.

In its last price determination, the Commission made adjustments to the waiting time and distance components of the taxi fare. The flagfall component was left unchanged, although the Commission did state that it would consider closely the relativities between flagfall and distance rates for day and night hirings during the next price review. The radio fee was also left unchanged given the possible introduction of a second network operator in the ACT.

Canberra Cabs' submission proposes an average fare increase of around 16 per cent. In applying this to the individual fare components, it proposes to leave the flagfall unchanged, and to apply increases of around 20 per cent to each of the waiting time, radio fee and distance charge. Canberra Cabs' proposal is shown in the table below.

Table 12.1 Canberra Cabs' maximum taxi fare proposal from 1 July 2002

	Flagfall	Waiting time	Radio fee	Km. charge
Rate 1	\$3.20	\$0.572 per min	\$0.80	\$1.542 per km
Rate 2	\$3.20	\$0.572 per min	\$0.80	\$1.765 per km
Rate 3	\$2.40	\$0.572 per min	\$0.80	\$1.106 per km
Rate 4	\$2.40	\$0.572 per min	\$0.80	\$1.273 per km
Rate 5	\$4.80	\$0.572 per min	\$0.80	\$2.413 per km
Rate 6	\$4.80	\$0.572 per min	\$0.80	\$2.747 per km

For comparative purposes, table 9.4 shows existing taxi fares in other capital cities of Australia.

Flagfall v distance rate

During the course of last year's determination, Canberra Cabs expressed the view that there may be consumer opposition to a higher flagfall relative to the per kilometre charge. In its recent submission Canberra Cabs has also stated that a variable distance charge favouring night drivers would act as an incentive for night drivers to operate.⁴⁹

On the basis of an average trip of 8.8 kilometres under the current fare structure, the flagfall represents between 20 per cent and 25 per cent of the total fare, depending on the rate applied.

The Commission notes that previous price directions were calculated on the basis of an average trip of 8.8 kilometres. The Commission has been advised that over time the average taxi trip distance has increased as Canberra has grown.⁵⁰ This has contributed in large part to increased dead kilometres. To the extent that this trend continues, the Commission notes that a shift in the fare structure towards a higher per kilometre charge relative to a flagfall will lead to higher weighted fares. However, the Commission considers that any modest re-alignment of the flagfall and distance charge for an average trip is not likely to lead to any material difference in effective fares although there is little data available to the Commission which indicates the distribution of taxi trips by distance, and by time of day.

The current fare structure acknowledges a differential between day rates (1, 3 and 5) and night rates (2, 4 and 6). The night rate is about 15 per cent higher than the day rate. The higher rates are applicable from 9pm – 6am on weekdays, and all day on weekends and public holidays. The differentials are reflected solely through the per kilometre charges. Flagfall rates remain the same, irrespective of time of day.

The Commission notes that there are significant interstate variations. These are illustrated in the table below and show that there is no consistent pattern.

⁴⁹ Canberra Cabs submission, February 2002, p 6.

⁵⁰ This is at odds with the survey undertaken by Canberra Cabs, which suggested an average trip distance of 7.9 kms. The Commission notes that the survey was limited in terms of the period over which it was conducted, and the survey was voluntary.

Table 12.2 'Night' standard cab rates compared with 'day' rates

State	Flagfall	Distance	Night hours
NSW	same	+20%	10pm-6am everyday
Victoria	+39%	same	Midnight-6am everyday
Queensland	+48%	same	8pm-6am Mon-Fri; 1pm Sat-6am Mon
South Australia	+83%	+7%	7pm-6am Mon-Fri; Sat and Sun
Western Australia	+45%	same	6pm-6am Mon-Fri; Sat and Sun
Tasmania	same	+20%	8pm-6am Mon-Fri; Sat and Sun
ACT	same	+15%	9pm-6am Mon-Fri; Sat, Sun and public holidays

In terms of producing appropriate price signals to the market and reflecting legitimate differences in cost structure, the Commission considers that, in principle, there is little justification for per kilometre charge differences. This is because the variable costs of operation are generally the same, irrespective of the time of the day. In theory, there may be a case to provide a differential flagfall to provide an incentive to offer services.

During the course of last year's review Canberra Cabs suggested that a differential distance charge for night trips is required to encourage drivers to accept longer journeys and that, without such a differential, taxis will concentrate only on the shorter, more lucrative trips. The Commission considers that, for a given market of taxi trips comprising a mixture of short and long trips, it would not be practicable for all taxis to concentrate on short trips, ignoring longer distance trips. The only alternative would be for the taxis to be off the road, earning no income.

The Commission notes that during weekday and weekend night time periods in the ACT, most taxis are connected to the network, ie on the road. For example, on weekend (Saturday) nights, the proportion of taxis engaged is very high, reaching 90 per cent at times. The current market environment suggests that most taxis are on the road in the evenings, and are often engaged. The Commission suggested last year that such utilisation does not support a flagfall differential, but may be used to support additional taxi licences to meet demand. An alternative conclusion is that the existing differentials, which are expressed as a 15 per cent mark-up on the per kilometre charge with no change in the flagfall, actually facilitate the high availability of cabs.

Given the relatively higher flagfall rate compared with other states, the Commission considers that there is merit in any increase in fares being concentrated on the distance charge.

At the time of last year's price direction, the Commission recommended that the ACT Department of Urban Services and/or the taxi industry commission an independent survey of taxi trips to establish the average trip length, the distribution of trips around this average, and differences in trip distance depending on time of day. To date the Commission has not been given such information.

Multiple hiring and maxi cab rates

There are different rates for multiple hiring (rates 3 and 4) and for maxi cab hirings (rates 5 and 6). The Commission has had little information supplied to it about the frequency of

multiple hirings and the frequency of maxi cab hirings. The historical convention of having different rates for these services and the differences being 75 and 150 per cent respectively has not been revisited in detail. The Commission considers that these conventions should be retained in the lead up to deregulation.

Peak and off peak rates

Despite the varying fare rates, the structure does not distinguish between peak and off peak demand, eg morning and afternoon weekday peak periods. In principle, to facilitate a better balance between supply and demand, there would be grounds for considering fare differentials to encourage better waiting time performance at peak times. In chapter 8, the Commission considered Canberra Cabs' performance. The information available suggests that overall, current peak period waiting time requirements for standard taxis are easily achieved. The current performance requirements define the peak period as 3 – 6pm, Monday to Friday. Outside these times, the 85 per cent target is only just achieved. Whether this suggests a need for differential peak and off peak prices is unclear. A review of performance requirements may be more appropriate.

By definition, peak times are when the demand is greatest and, it may be expected, when the willingness to pay is also greatest. However, on the basis of the current supply conditions, evidence proffered by Canberra Cabs suggests that the majority of taxis are already available throughout the morning and afternoon peaks. Consequently, under current conditions, any morning and afternoon peak pricing differentials would be unlikely to increase the supply of taxis, and waiting times would remain substantially unchanged.

The Commission considers that further disaggregation of the taxi fare structure to recognise separate morning and afternoon peak periods is not required. The existing fare differential for evenings/early morning hirings will be maintained in the lead up to deregulation.

Standard taxis v WATs

The other major fare issue refers to the difference between standard taxis and WATs. Currently, fares are identical for both types of vehicle, even though vehicle costs for the latter are higher. Canberra Cabs' submission separately provides revenue and cost information for WATs, however, it does not propose a separate fare structure for WATs.⁵¹

Sections 8.6 and 8.7 consider the issue of WAT service quality, and what mechanisms would be most appropriate to use in improving service quality. The Commission concluded that an additional lift fee should be applied to wheelchair bound passengers and their WAT hirings.

12.2 Social impacts

The Commission's first determination resulted in taxi fares increasing by around 14 per cent. This was due to a combination of cost increases and the introduction of the goods and services tax. At that time, the Commission considered closely the social impacts of fare increases. Social impacts were again considered during last year's determination when maximum fares were permitted to increase by 5.5 per cent.

⁵¹ During the Commission's 2001 investigation into the competitive implications of the provision of wheelchair accessible taxi services by a single network in the ACT, Canberra Cabs submitted a proposal for a subsidised lift fee of \$15 for WAT hirings.

The Commission is aware of the importance of taxi transport to particular community groups. In particular, some people with disabilities are reliant on taxi travel as buses are not a viable alternative. The Commission's analysis in this report indicates an average maximum fare increase of 2.9 per cent from 1 July 2002.

The Australian Bureau of Statistics conducts a Household Expenditure Survey covering all States and Territories. Taxi transport charges are estimated to comprise around 0.3 per cent of an average Canberra household's weekly expenditure (ABS Cat.No. 6535.0, 1998-99).

Given the modest increase in fares the Commission has determined and the small share of taxi fares in average household expenditure, the Commission is satisfied that the proposed increase will not have significant inflationary effects on individuals or on overall inflation in the ACT.

The Commission also notes that the ACT Government runs a taxi subsidy scheme which is designed to assist people with permanent or temporary disabilities who need to use taxis.

12.3 Price path

The Commission stated in its previous determinations that it was looking to establish a process which would allow it to provide for price directions of longer than one year. This was desirable to encourage efficiency improvements in a regulated industry where the benefits could be shared between consumers and producers.

The Commission has now recommended that the ACT taxi industry should be deregulated. The final decision on deregulation rests with the ACT Government. Regardless, the Commission considers that a longer price path than usual is an appropriate approach in allowing the industry to prepare for deregulation. For this reason, the Commission will establish maximum fares for the period 1 July 2002 – 30 June 2004. At the end of the first 12 month period, the Commission proposes that maximum taxi fares be adjusted on 1 July 2003 by the movement in the Canberra CPI for the period March quarter 2002 to March quarter 2003. The Commission intends applying the Canberra CPI approach to adjusting maximum taxi fares during the 3 year phase in period of deregulation.

12.4 Commission recommendations – proposed maximum fares

As discussed in the previous chapter, the Commission has some concerns about the accuracy of revenue figures supplied by Canberra Cabs. These concerns have been heightened by Canberra Cabs' submission to this year's review, which shows a significant fall in revenues from the previous year. Although demand falls contribute to this outcome, it is clear that revenue figures are unlikely to fully reflect the earnings of the average taxi. It is difficult for the Commission to reconcile significantly lower revenue and high operator deficits, with plate values that have changed little over the last year.

Coupling these concerns with a recommendation to deregulate the ACT taxi industry, the Commission has chosen to adjust maximum taxi fares on the basis of movements in the Canberra CPI. Based on this model, the Commission recommends that maximum fares increase by 2.9 per cent from 1 July 2002. Fares from 1 July 2003 should be adjusted based

on the movement in the Canberra CPI for the period March quarter 2002 to March quarter 2003.

In translating this average increase into the various components of the fare, the Commission has sought to send appropriate signals to consumers and producers. It also believes that there is merit in rounding the components to the nearest five cents. Previous fare adjustments have been based on an average trip distance of 8.8 kilometres. Although the industry has contended that, over time, the average trip distance has been increasing with the growth of the ACT, there has been no change to the number.

On the basis of rate 1 (6am to 9pm), the current taxi fare for a journey at an average distance of 8.8 kilometres is as follows:

Flagfall	\$3.20	
Waiting time (per minute)	\$0.475	(\$28.50 per hour)
Radio fee	\$0.65	
Kilometre rate – rate 1	\$11.28	(\$1.282 per km)
Total	\$15.60	

The Commission’s direction that the average increase in the maximum fare for 2002/03 will be 2.9 per cent is applied to the total fare – in the above benchmark example, to \$15.60. In making this change, the Commission has maintained the existing rate 1 flagfall at \$3.20. Further, the Commission notes that the radio fee in the ACT is relatively low compared to that in other states (see section 9.2). Canberra Cabs itself proposed that the radio fee increase to 80 cents. The Commission has applied this increase.. The 2.9 per cent increase in average fares has also been applied to the waiting time charge and the distance rate.

The corresponding tariff changes for an average trip of 8.8 kilometres for rate 1 are as follows:

Flagfall	\$3.20	
Waiting time (per minute)	\$0.50	(\$30.00 per hour)
Radio fee	\$0.80	
Kilometre rate – rate 1	\$ 11.55	(\$1.313 per km)
Total	\$ 16.05	

Historically, the rate 2 tariff has represented a 15 per cent premium on the variable distance charge. Given the small change to maximum fares recommended by the Commission, it is reasonable to maintain this relationship.

The rates for multiple hiring and maxi cabs have been based on the previous 75 per cent and 150 per cent relativities, with similar differentials between day and night rates.

The total tariff rates for taxis for 2002/03 are outlined in the following table.

Table 12.3 Summary of maximum taxi fares from 1 July 2002

	Flagfall	Waiting time	Radio fee	Km. charge
Rate 1	\$3.20	\$0.50 per min	\$0.80	\$1.313 per km
Rate 2	\$3.20	\$0.50 per min	\$0.80	\$1.510 per km
Rate 3	\$2.40	\$0.50 per min	\$0.80	\$0.948 per km
Rate 4	\$2.40	\$0.50 per min	\$0.80	\$1.090 per km
Rate 5	\$4.80	\$0.50 per min	\$0.80	\$2.044 per km
Rate 6	\$4.80	\$0.50 per min	\$0.80	\$2.351 per km

13 OTHER ISSUES

13.1 Financial viability

Under section 20 of the *Independent Competition and Regulatory Commission Act 1997*, the Commission is to consider financial viability factors:

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

A cost index approach does not require consideration of an appropriate rate of return for the industry. Rather, an index generally concentrates on operating costs and return *of* capital as factors underpinning determination of fare levels. The Commission's initial review of taxi fares finds that disadvantages of this approach include:⁵²

- preventing the pricing regulator from being able to properly assess the impact of price decisions on the financial viability of persons providing taxi services
- limiting the ability of the pricing regulator to ensure there is an appropriate sharing of efficiency benefits between taxi owners/operators and consumers
- limiting the ability of the pricing regulator to adjust prices in accordance with the returns available from competing investment opportunities in the economy.

The Commission has continually considered the issue of plate values and their inclusion in a fare setting methodology. For example, last year's determination included detailed comment on the issue, including submissions from stakeholders. Having raised and considered the issue, and acknowledging that no other jurisdiction had adequately come to terms with the issue, the Commission decided to exclude plate values from the taxi pricing model. Further discussion on plate values is included in chapter 12.

The Commission is of the opinion that in moving to a more deregulated environment, any fare setting methodology should be made as simply as possible. In this regard, it favours an approach which excludes plate values.

The borrowing, capital and cash flow requirements of a taxi operator closely relate to the costs of providing the taxi service. These cost issues have been closely considered by the Commission in establishing the fare increase to apply from 1 July 2002 and in developing the cost index approach – see chapter 11 'ACT taxi costs and efficiencies'.

13.2 Environmental factors

Under section 20 of the *Independent Competition and Regulatory Commission Act 1997*, the Commission is to consider environmental factors:

- the principles of ecologically sustainable development mentioned in subsection (4) – section 20(2)(f)

⁵² ICRC, *Taxi fares for 2000-2001*, Final price direction, June 2000, p 21.

- considerations of demand management and least cost planning – section 20(2)(h).

Public transport provides an alternative to the use of private motor vehicles. The benefits of public transport include reduced congestion and pollution. The extent to which these benefits can be realised will depend on factors such as the relative cost of public versus private transport options and the propensity for private vehicle users to switch to public transport. This, in turn, will be influenced by accessibility, service quality and frequency of public transport.

Traditionally, the above factors have been discussed in respect of public transport options such as rail and buses. These forms of mass transit provide greater opportunity to reduce congestion and pollution. Nonetheless, taxis do provide an alternative form of public transport, and an environmentally superior alternative to greater use of private vehicles.

In its first determination of maximum taxi fares in the ACT, the Commission allowed fares for the 12 month period from 1 July 2000 to incorporate:

- a 7.71 per cent increase in average taxi charges based on cost increases over the previous 12 months
- a net 7.85 per cent GST adjustment after allowing for cost savings from the Federal Government's 'A New Tax System' package.

The Commission noted that although taxi fares would increase in real terms, it was important to consider the likely diversion of passenger journeys from taxis to private motor vehicles. The Commission concluded that given the varied factors that contributed to choice of transport mode, there would not be a significant increase in environmental or air quality problems.⁵³

Canberra Cabs has indicated that greatest demand for taxi services comes from business users. Generally, this is associated with weekday demand peaks occurring in the morning and late afternoon. Relatively high demand also takes place during Friday and Saturday nights, and early Saturday and Sunday mornings. Price rises are unlikely to have a significant effect on taxi use by these groups. Other factors apart from fare levels will influence business and social users of taxis.

The Commission observes that over recent years, taxi patronage has fallen. The recent combination of fare increases without compensating service quality improvements as perceived by passengers, may in part explain this fall in demand. Further, the design of Canberra and Canberrans attachment to private vehicles suggests that, other things being equal, patronage may only ever grow slowly in a regulated environment. However, the removal of licence quota restrictions, and the potential for competition to lead to innovative services and new service level/price combinations, may encourage some additional growth in taxi patronage.

The Commission has considered environmental factors in making its final decision, and believes that the modest real increase in fares will not have a significant detrimental effect on the use of taxi services.

⁵³ ICRC, *Taxi fares for 2000-2001*, Final price direction, June 2000, p 24.

ATTACHMENT 1 TERMS OF REFERENCE – TAXI AND HIRE CAR INDUSTRY REVIEW

For an investigation into the ACT taxi and hire car industry made under the *Independent Competition and Regulatory Commission Act 1997*, section 19C (acceptance of regulatory references – government-regulated activities), section 19E (terms of regulatory reference) and section 19H (procedure for regulatory reference investigations)

Specified requirements in relation to investigations under section 19C

Pursuant to subsection 19C(1) of the Act, I specify the following requirements in relation to the conduct of the investigation:

The Independent Competition and Regulatory Commission (ICRC) is to have regard to the following in its investigation:

1. Provide an assessment of the level of services currently provided by the ACT taxi and hire car industries (including the extent of any change in service levels over recent years), the state of competition within the industries and their costs relative to other comparable jurisdictions.
2. Provide advice on the need for further changes within the industries taking into account the National Competition Policy Review of taxi and hire car legislation, the recently commenced *Road Transport (Public Passenger Services) Act 2001*, competition within each respective industry, service levels and community expectations.
3. Advise on the likely implications for the ACT taxi and hire car industries of changes recently introduced or proposed by the NSW Government.
4. Where further changes for the ACT are recommended, provide advice on the expected community benefits for each recommended change.
5. Provide advice on what measures may be required to facilitate the establishment of a second taxi network in the ACT and the costs and benefits of introducing such measures.
6. Provide advice on the measures that may be necessary to ensure that people with a disability receive equivalent access to taxi services to that enjoyed by the general community.

Specified requirements in relation to investigation under section 19E

Pursuant to subsection 19E of the Act, I specify the following requirements in relation to the conduct of the investigation:

In undertaking the investigation, the ICRC is to:

- i. conclude the investigation no later than the end of May 2002 and report as soon as practicable thereafter.

Independent Competition and Regulatory Commission

Specified requirements in relation to investigation under Section 19H

Pursuant to subsection 19H of the Act, I specify the following requirements in relation to the conduct of the investigation:

In undertaking the investigation, the ICRC is to:

- i. canvass the view of key stakeholders and the wider public

Bill Wood MLA
Minister for Urban Services

ATTACHMENT 2 TERMS OF REFERENCE – TAXI FARE REVIEW

Australian Capital Territory

Independent Competition and Regulatory Commission Act 1997

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

Reference for Investigation Under Section 15

Pursuant to subsection 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 2002 addressing the following:

1. to further develop and refine the new costing and pricing model constructed by the Commission to determine prices (fares) for taxi services to provide a reliable and sustainable service for the period of the determination for both the industry and consumers. The costing and pricing model should address deficiencies within the existing taxi cost index and make provisions, where appropriate, for return on investment and efficiency gains through technology.
2. the recommended maximum fares for the regulated taxi services for a period of two years from 1 July 2002.

Without restricting the Commission in reaching a determination on those matters listed in items 1 and 2 above the Commission is to take into account:

- a) the degree of competition within the industry and the way in which that may affect the efficiency of the industry; and
- b) the matters referred to in Section 20 of the Act.

Specified Requirements in Relation to Investigation Under Section 16

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

- the Commission in conducting its investigation into the determination of fares shall determine a price path capable of being applied over a period of 2 years
- the final report in relation to determined taxi fares for the period 1 July 2002 to 30 June 2004 is to be provided to the Minister for Urban Services by 30 May 2002;

Dated this 6th day of September 2001

BRENDAN SMYTH
MINISTER FOR URBAN SERVICES

ATTACHMENT 3 NATIONAL COMPETITION COUNCIL

The National Competition Council (NCC) is a federal statutory authority which functions as an independent advisory body for all governments regarding the implementation of national competition policy reform. It is the NCC's task to assess progress on meeting the reform agenda. It may recommend that the Federal Treasurer reduce payments to a state or territory where that state or territory has not implemented reform in the public interest.

In reviewing the state of competition in the ACT taxi and hire car industry, the NCC identified taxi licensing as a key area of concern. The NCC has stated that failure to progress reform is likely to be regarded as a substantial failure of compliance with national competition policy objectives.

The NCC concludes by saying:⁵⁴

These factors suggest that most jurisdictions still need to make significant further progress in order to meet NCP [national competition policy] obligations in regard to the taxi industry. They also suggest that non-compliance on taxi regulation would be likely to be regarded as a substantial failure of compliance with overall legislative review commitments.

In order to justify continued regulation, rigorous assessment on public interest grounds must take place, and a net community benefit from continued regulation should exist. Under the Competition Principles Agreement signed by state/territory and federal Governments:

The guiding principle is that legislation (including Acts, enactments, Ordinances or regulations) should not restrict competition unless it can be demonstrated that:

- (a) the benefits of the restriction to the community as a whole outweigh the costs; and
- (b) the objectives of the legislation can only be achieved by restricting competition.

Part (a) specifically identifies the 'net community benefit' requirement as justification for continued regulation. National competition policy has a community wide perspective, rather than a focus on particular groups. This implies that for restrictions to be maintained they must be shown to benefit the community as a whole. This does not preclude consideration of impacts on individuals, regions or industries exposed to reform. The Council of Australian Governments (CoAG) has agreed that in examining public interest issues in relation to national competition policy reform, governments should give consideration to identifying the likely impact of reform on specific industry sectors and communities.

CoAG has directed governments to document the public interest reasons supporting a decision/assessment, and to make these available to interested parties and the public.

One factor that the numerous federal and state/territory reviews of the taxi industry have not considered in detail is the payment of compensation, or more precisely, the raising of funds to compensate individuals that have incurred substantial loss. Where compensation is

⁵⁴ National Competition Council, *Framework for the third tranche assessment of governments' progress with implementing national competition policy and related reforms*, AusInfo, Canberra, 5 February 2001, p 11.5.

paid by government, either taxation must be increased, a levy placed on taxi and hire car fares, and/or spending diverted from other areas. If additional revenues are raised, efficiency costs are involved. These should be taken into account when considering the benefits of deregulation and applying the public interest test.

The Commission notes that in responding to the Freehills report, the ACT Government states that it considers that there is no statutory or other legal entitlement for compensation.⁵⁵

⁵⁵ ACT Government response to National Competition Policy Review of ACT Taxi and Hire Car Legislation, December 2000, p 3.

ATTACHMENT 4 CANBERRA CABS' FARE SUBMISSION

The Canberra Taxi Proprietors Association and Canberra Cabs (together referred to as Canberra Cabs) submission proposes an average increase in maximum taxi fares of around 15.9 per cent from 1 July 2002. The submission also highlights key issues for the industry. The submission is summarised below.

Background

Since the last submission 12 months ago the ACT has seen turmoil in the ACT taxi industry, basically as a result of the flow on effects of the Freehills review. This review, the major recommendations of which are supported by the ICRC, proposed deregulation of the restriction on the number of taxi plates issued but at the same time maintain regulations on virtually all other aspects of the taxi industry.

Since the submission last year:

- a further 10 WATs have become operational
- the Queanbeyan taxi fleet (16 taxis) has been allowed to operate in the ACT
- ACTION buses has introduced its 'nightrider' service over December – January in direct competition with the ACT taxi industry
- the previous government gave approval for a second network to commence.

The increase in taxi numbers operating within the ACT since the last submission has been accompanied by a continuation of a downward trend in taxi hirings. It is notable that a downturn in taxi hirings is being experienced throughout the major state capital cities.

The increase of 10 WAT plates last year was not as a result of the demand for WAT services. Indeed it could be argued that there were more than enough WATs available in the ACT; what does need addressing is the incentive required for a WAT to give priority to calls from the disabled. The Canberra Cabs submission to the WAT review proposed the introduction of a 'lift fee' to be subsidised by Government.

Plate values

The terms of reference for this review requires the Commission to further develop and refine the costing and pricing model, and 'make provisions, where appropriate, for return on investment'.

The issue of the inclusion of plate values in the fare setting methodology was considered by the Commission in its report *Taxi Fares for 1 July 2001 – 30 June 2003* issued in May 2001. Given that this issue was fully considered by the Commission less than 12 months ago, it is surprising that it should want to reconsider this, particularly given the debate which took place on this subject around this time last year prior to the Commission ruling on the exclusion of plate costs from the cost and pricing model.

If the Commission is to suddenly decide to include plate lease costs into the costing and pricing model, the question arises as to how is it going to compensate owners and drivers as a result of the impact of not incorporating this in the model it adopted last year?

Network fees

The Commission has raised the size of Canberra's network fees as an issue. This appears to be based solely on the argument that the fees are higher in Canberra than in Sydney. The base fee for 2002 for Canberra Cabs is set at \$1,113 made up of \$438 Co-operative services charge and \$730 radio dispatch charge. This reflects the fact that Canberra Cabs is in the process of outsourcing its radio dispatch service to a company that provides taxi radio dispatch services to more than 3,000 of the Sydney based taxis. It is of course one of the interstate providers to which the Commission refers in the issues paper as having relatively low costs compared to Canberra.

Fare structure

A variable distance charge favouring night drivers would act as an incentive for night drivers to operate. On the other hand a higher flagfall at night has the potential to exacerbate problems for drivers dealing with unruly, intoxicated passengers. This is a clear disincentive to drivers at night.

In support of the maintenance of a dual km rate system rather than a dual flagfall system, it should be noted that:

- it is difficult to get night drivers – the suggested structural change has the potential to increase this difficulty
- safety is an issue, particularly given the type of passenger using taxis at night (from bars). With a higher night-time flagfall being displayed this could lead to problems between the passenger and the driver.

In the Issues paper the Commission appears to be saying variable costs won't change significantly between day and night time operations and so any differential should be in the flagfall. This would imply that the Commission believes the flagfall should cover fixed costs and the km rate should cover variable costs. This is an inappropriate division to make. If the Commission wishes to have particular fare components set to cover the cost of particular groups (or individual) items, then it might be argued that the booking fee should be set to recover network costs, for example. In this case the booking fee is estimated to be in the order of \$2.25.

Competition policy

In an environment experiencing a decrease in hirings the market has seen an increase of 26 competitors or 11.5% for those hirings. This has not brought with it the ICRC / Freehills espoused price-cutting that drivers would engage in to attract a greater share of the reduced market. A reason why lower fares have not been offered is that the current, inadequate fare level does not encourage discounting.

In regard to efficiency, efficiency, maintenance and improvement of service standards, and a reduction in waiting times have been the benefits enjoyed by the ACT public through the innovative actions of the single network provider in the ACT.

Model for a viable taxi business

This section identifies the components associated with a properly run taxi business. Because wheelchair accessible taxis (WATs) exhibit different characteristics from standard taxis,

separate models are provided for each type. The resultant costs indicate the level of income necessary to support a viable taxi business.

Model for a standard taxi

	Operator/driver Business	Non- operator/driver business
Fixed costs		
<u>Operator Expense</u>		
Vehicle capital costs	6,271	6,271
Vehicle registration costs	6,850	6,850
Driver's licence and medical	62	0
Comprehensive insurance	8,640	8,640
Demurrage insurance	300	300
Network fees	13,153	13,153
Uniform	169	0
Office/miscellaneous expenses	2,271	2,271
Administration labour	1,807	1,807
Sub-total	39,523	39,292
<u>Driver Expense</u>		
Driver's licence and medical	124	186
Uniform	338	507
Administration labour	1,404	2,106
Sub-total	1,866	2,799
Fixed costs sub-total	41,389	42,091
Variable costs		
<u>Operator expense</u>		
Fuel	11,038	11,038
Tyres	1,580	1,580
Car washing	1,136	1,136
Repairs and maintenance	13,647	13,647
Driver earnings	24,207	0
Driver entitlements	6,153	0
Worker's compensation insurance	2,336	3,304
Income protection insurance	1,077	0
Sub-total	61,154	30,705
<u>Driver Expense</u>		
Driver earnings	56517	80717
Driver entitlements	14049	20101
Sub-total	70,566	100,818
Variable costs sub-total	131,720	131,523
TOTAL	173,109	173,614

Model for a wheelchair accessible taxi

	Operator/driver Business	Non- operator/driver business
Fixed costs		
<u>Operator Expense</u>		
Vehicle capital costs	12,096	12,096
Vehicle registration costs	6,937	6,937
Driver's licence and medical	62	0
Comprehensive insurance	9,075	9,075
Demurrage insurance	300	300
Network fees	13,153	13,153
Uniform	169	0
Office/miscellaneous expenses	2,271	2,271
Administration labour	1,807	1,807
Sub-total	45,870	45,639
<u>Driver Expense</u>		
Driver's licence and medical	124	186
Uniform	338	507
Administration labour	1,404	2,106
Sub-total	1,866	2,799
Fixed costs sub-total	47,736	48,438
Variable costs		
<u>Operator expense</u>		
Fuel	13,835	13,835
Tyres	1,464	1,464
Car washing	1,323	1,232
Repairs and maintenance	13,038	13,038
Driver earnings	24,207	0
Driver entitlements	6,153	0
Worker's compensation insurance	2,117	3,084
Income protection insurance	1,077	0
Sub-total	63,214	32,661
<u>Driver Expense</u>		
Driver earnings	51,044	75,237
Driver entitlements	12,700	18,750
Sub-total	63,744	93,987
Variable costs sub-total	126,958	126,648
TOTAL	174,694	175,086

Canberra Cabs presented the above tables as identifying the income levels necessary to support a viable taxi business: these being \$173,109 per annum for a standard vehicle and

\$174,694 for a WAT, in an operator/driver business; and \$173,614 and \$175,086 respectively in a non-operator/driver business.

Canberra Cabs present figures for the levels of income achieved during calendar year 2001. For a standard vehicle income is presented as \$142,716 and for a WAT \$116,104. These figures are then adjusted for the discrepancy of the value of actual recorded fares being lower than that indicated by the application of the various components recorded during the survey. To this figure is then added \$340 in LPG rebates. Consequently, the total income for a standard taxi in 2001 was \$145,539. The figure for a WAT is \$122,930.