



ICRC
INDEPENDENT COMPETITION AND REGULATORY COMMISSION

FINAL REPORT

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

June 2002



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The Independent Competition and Regulatory Commission is established under the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act). The Commission's functions are set out in section 7 of the ICRC Act

The Commission is made up of three Commissioners:

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

The Commission's reports and inquiries are public, except where the Commission assesses some information as being confidential. All publicly available information may be accessed in hard copy at, or available from, the Commission. The Commission maintains a website (www.icrc.act.gov.au) to assist access to a range of documents and other information. The Commission can also be contacted electronically at icrc@act.gov.au.

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FOREWORD

On the 6 September 2001 the then Minister for Urban Services, Brendan Smyth MLA, issued a reference to the Commission for 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, the Minister for Urban Services, Bill Wood MLA, issued a reference to the Commission on 30 January 2002 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 decided to release a combined draft report. This was released in April 2002. Following release of the draft report, the Commission held a public hearing on the investigations on 13 May 2002, and submissions on the draft report closed on 22 May 2002.

Timetable for the reviews

The schedule for the inquiry is shown in the table below.

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 sought submissions following the issues paper and draft report stages of the process. Submissions to the Commission's inquiries are public documents and are 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.

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 to 30 June 2004. The Commission was later requested to also conduct an investigation into options for reforming taxi and hire car services within the 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.

Overview

The taxi and hire car industry in the ACT is at a time of major change. The introduction of the *Road Transport (Public Passenger Services) Act 2001* creates a new legislative environment which has some important consequences for the licencing of motor vehicles that are available for hire. Cross border competition has been on trial and decisions need to be taken regarding its future. The Government has also to consider the next step to take on the question of taxi and hire car licence plate restrictions in response to its obligations under the *Competition Principles Agreement*.

All of these issues have arisen at a time when demand for taxi services in the ACT has continued to decline. This has in part been driven by major one off events such as the Ansett collapse and September 11 and by price increases approved by the Commission in recent years at levels above the general level of inflation but in line with apparent cost increases faced by the industry. But more importantly, the Commission believes that the continuing decline in taxi patronage has reflected part of a wider paradigm shift in the use of public transport in the ACT. This is evident not only in the taxi sector but also in the public bus sector.

The relative decline in the cost of private transport, the ease and convenience of using private transport in the ACT and the lifestyle changes that have been evident over the last decade have contributed significantly to this shift in preference away from public transport to private transport in the Territory.

The Commission is particularly concerned about this shift in demand patterns. It has major implications for the way in which the Commission addresses the issue of fare adjustments. But even more importantly it has major implications for the continuing viability of the public transport network and the taxi and hire car industry in particular.

The market has already tried to respond to this new paradigm. One of the hire car companies in the ACT now offers a discount hire car service as an alternative to its normal

limousine service. Evidence given by taxi operators indicates that they are finding it increasingly difficult to attract drivers in order to keep their taxis on the road 24 hours a day, and are withdrawing the taxis from after hour services because they are failing to recover sufficient revenue to cover at least their variable costs.

The regulation of the number of taxi and hire car plates on issue not only prevents new entrants to the industry, at a time when demand is falling, it actually acts as a barrier to existing operators exiting the industry. Numerous submissions to the Commission have indicated a desire to leave the industry, but an inability to do so because the plate owner can not recover the price they have paid for the plate or their expectation of its 'market value'.

At the same time, the wider community is incurring an extra cost of around \$2.70 on an average taxi fare as a result of the value attached to the taxi plate.

In this report, the Commission has sought to address what it sees as the need for a fundamental change in the way in which the taxi and hire car industry is regulated in the ACT. The Commission has made a number of recommendations regarding the future regulation of the industry which it believes will remove the artificial barriers to market entry and exit that add costs not only to the fares paid by the travelling public, but also effectively trap those in the industry who want to leave and prevent those wishing to enter the industry from doing so.

In making these recommendations, the Commission has been mindful of the financial implications for many existing plate owners and has provided advice on a structural adjustment package and a safety net scheme which could be adopted by the Government.

Finally, the Commission has set out its direction for the adjustment in taxi fares to take effect from July 2002. In so doing the Commission has adopted a slightly different model to that used on previous occasions but using what it believes is an appropriate weighting of the various costs that a taxi operator faces. This revised model will apply for the next five years unless the Government decides to deregulate the industry as recommended, whereupon regulation of taxi fares will cease from 30 June 2005.

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. 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. The Commission considers the most logical and administratively efficient approach to licensing is to have three 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 considers that the distinction between unrestricted and restricted hire cars and vehicles up to 9 seats unnecessarily restricts trade and limits consumer choice. At the public hearing and in written submissions, the only substantial concerns of the industry related to whether there would be a large rise in the licence fees paid by the ‘other passenger vehicle’ category (covered in the next section).

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 undertake in relation to the taxi and hire car 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 on an annual basis 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 pick up fee – see chapter 8.

Regarding the ‘other public passenger vehicle’ category, the Commission has no difficulty with the ACT Government charging a lower licence fee given that the cost of supervising accreditation and standards is likely to be slightly lower than for the taxi component of the industry and the ability to maximise a vehicle’s earning time on the road is limited.

Licence term and transferability – taxi and hire car

The Commission recommends that licences be issued for 12 months and not be transferable. Licences would be automatically renewed annually assuming that the applicant continues to satisfy the relevant licence requirements and pays the relevant fee.

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 undertake 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, but be automatically renewable subject to satisfying the relevant licence requirements
- 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 an issue for all States and Territories. In considering this issue as part of the competition reform process, the reviews of taxi regulation in other States and Territories have 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 have also noted that the costs of regulation were generally borne by consumers who have reduced choice in terms of service quality and price, and also service options. In the ACT for example, the Commission has estimated that the direct cost of regulation as reflected in the ability of plate owners to lease their plates for \$26,000 per year, adds around \$2.70 to an average fare of \$15.17.

Significantly the Commission has also identified an unintended cost of regulation of plate numbers on the plate holders themselves. Deregulation of this function would allow both freedom of **entry** into the industry and **exit** from the industry. In submissions made to the Commission and at the public hearings the Commission was informed by several parties of occasions of the inability of current plate owners to leave the industry despite their desire to do so.

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 and ultimately plate owners themselves, and also limits service innovation. Deregulation can be successfully introduced if there is stringent administration of driver accreditation and vehicle standards. 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 suitably safe vehicles. The stringent requirements under the *Road Transport (Public Passenger Services) Act 2001* and related legislation provide those minimum/enforceable requirements. These standards must be stringently enforced to provide confidence in the industry both for the consumer and for taxi operators.

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 that the ACT Government consider introducing some form of adjustment assistance. This issue is discussed at length in section 6.1.3.

Recommendation 2 – taxi market deregulation

The Commission recommends that entry to the ACT taxi industry be deregulated, ie that licence quota restrictions be removed.

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.

Similar to taxis, an adjustment assistance package is recommended for operators in the unrestricted hire car market. 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.

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's recommendation to deregulate market entry would remove these significant hire car licence costs.

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 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 new services. The existing disaggregation of licence categories makes it virtually impossible for competition between the markets to develop. 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 4 – 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 once licence quota restrictions are removed. The Commission considers that regulation of maximum fares should continue over a three year period after the introduction of deregulation. 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 this three year 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.

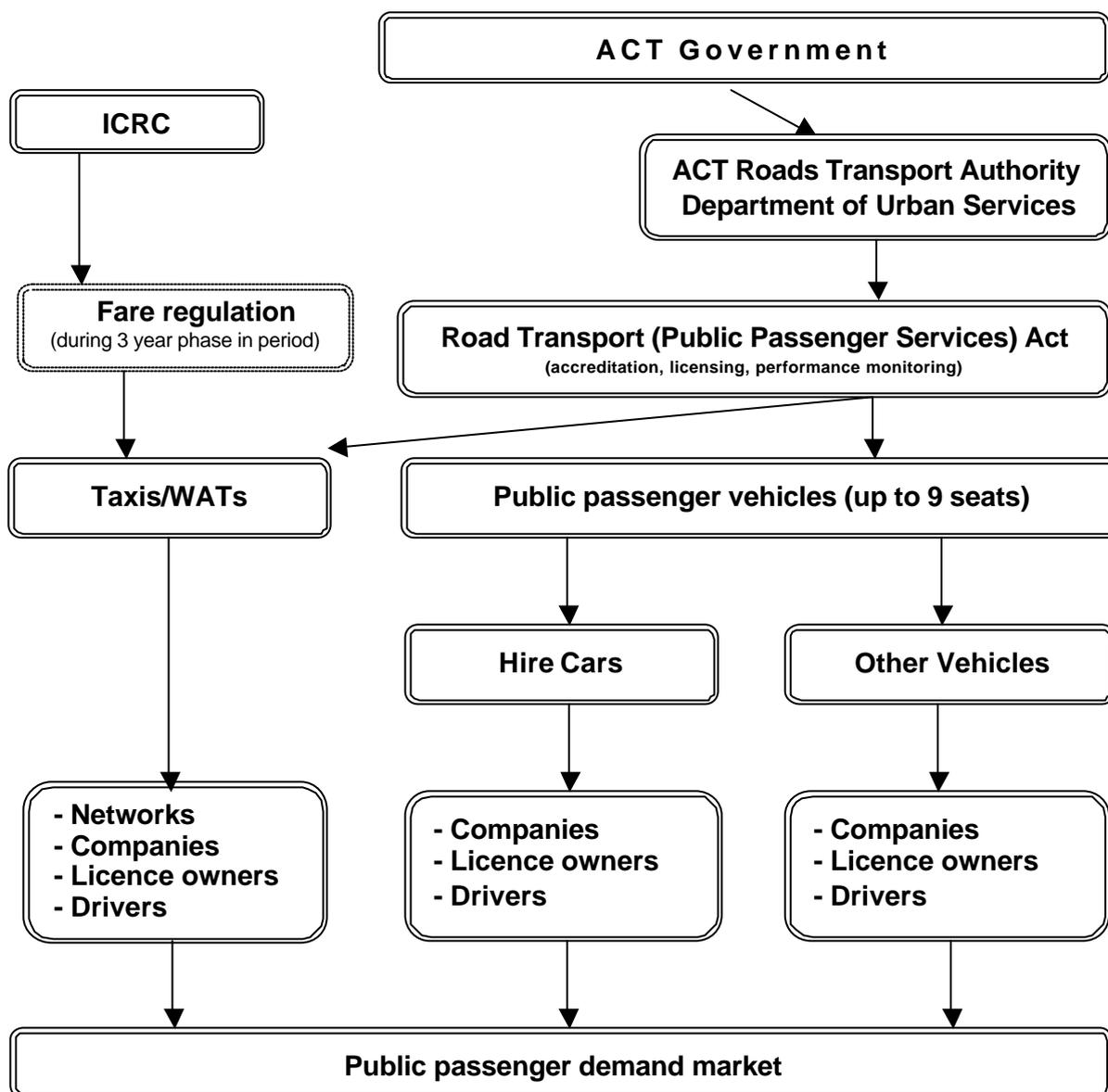
Fares for hire cars and other public passenger vehicles are not currently regulated. The Commission recommends that there be no change to the situation.

Recommendation 5 – maximum fare deregulation

The Commission recommends that maximum taxi fare regulation be maintained during a three year period following the introduction of deregulation. 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 Transport Authority and the Department of Urban Services (DUS) would have key roles in this regard. During a three year post deregulation period, the Commission would maintain its role as the regulator of maximum taxi fares.

Participants in the industry – the deregulated model



Under the Act the Commission’s recommendations, there would be three licence categories, Taxis, Wheelchair Accessible Taxis, and all other public passenger vehicles seating up to 9 adults, including the driver. Each of these categories would have their participants, eg network operators, companies, drivers. These participants would serve the market demanding public passenger services.

From an overall administration perspective, the Commission stresses the importance of the role of the ACT Government in monitoring and enforcing the service standard requirements imposed on the industry. Submissions to this Inquiry have highlighted the importance of this role even in the current regulated environment. The issues go to matters of passenger safety, appropriate vehicle standards, and performance monitoring of drivers, operators and networks.

This role continues for the Government in a deregulated environment where quota restrictions are replaced with enforceable minimum standards. The role of the Government in this regard is perhaps even more important than under the current regulated environment, given possible misconceptions in regard to the introduction of deregulation. The Government should be in a position to assure confidence to the industry and the community that enforceable standards will be maintained in a freer market environment.

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 should the Government adopt the deregulation proposal recommended, a pick up 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 6 – 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, including 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 pick up fee for WAT hirings of \$5.00 be introduced if the Government adopts the Commission's deregulation recommendations. This should in part be funded by the ACT Government under its Taxi Subsidy Scheme.

Introduction of a Second Network

The Commission has reviewed the matter of establishing a second network in the ACT. The earlier proposal to allocate 26 WATs to a second network to help develop a sufficient business base and to then issue additional licences is unlikely to succeed. A second network cannot simply be imposed on the ACT. It is also financially difficult for existing taxi owners to leave the Canberra Cabs network as they will forfeit the \$20,000 joining fee.

The Commission's view is that its deregulation recommendations will, over time, create the conditions where competition will develop through service innovations and use of new communications technologies. The form of any network arrangement that evolved should be left to the market, and regardless of their form there will be increased competition under the deregulation recommendation which will benefit consumers.

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. There will always be difficulties with the form and nature of this information as it seeks to establish estimates for an 'average' taxi in a market where there is a wide range of variations around this derived concept of 'average'.

The information provided by Canberra Cabs suggests that operators are making significant losses. This is supported by evidence that demand for taxis has dropped by 15 per cent over the last six years. However, at the same time, the value of taxi plates has been relatively stable over recent years at around \$240,000 to \$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. Clearly some taxi operators are able to make an appropriate return and perhaps more on their operations, while others for whatever reason make less than an appropriate return.

In the context of these inconsistencies across the industry, the Commission has had to consider 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 a Weighted Cost Index as developed by the Commission is an appropriate mechanism to adjust maximum taxi fares over the next two years. Should the Government decide to adopt the Commission's recommendations on deregulation, the Commission would propose to set fares for the years 1 July 2002 to 30 June 2003 and 1 July 2003 to 30 June 2004 using the Weighted Cost Index. For the final year in the three year phase out of fare regulation, the Commission would propose to use the Canberra CPI as produced by the Australian Bureau of Statistics.

Should the Government not adopt the deregulation recommendations included in this Report, the Commission would propose to use the Weighted Cost Index as the basis for setting fares for a period of five years subject to a review of the operation of the Index after two years.

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

Price Direction – maximum taxi fares

The Commission directs that average maximum taxi fares be increased by 3.0 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 Australian Capital Territory.

The Commission's objectives include 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 to 30 June 2004. The Commission was later requested to also conduct an investigation into options for reforming taxi and hire car services within the 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

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- 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 final 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 final 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 matrix³ 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	<i>'Regulated' usually means both market entry and fares are specified by regulators</i>		<i>'Deregulated' usually means market entry and fares are unrestricted</i>
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 related 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

³ The matrix has been modified from that appearing in: Price Waterhouse, *Analysis of taxicab deregulation and re-regulation*, prepared for the International Taxicab Foundation, 8 November 1993, p 1.

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 final report, it is referring to the removal of the quota ceiling and fare regulation.

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) up to 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.⁴

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.

⁴ 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 RTA 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. 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)
- 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 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.⁵

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.

⁵ 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 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).

5.2 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

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.

- phased increase in taxi and hire car licences
- introducing an additional category of licences to operate during peak times only.

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.

5.3 Freehills recommendations and the 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), RHV 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 3 provides details 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, in 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.

5.4 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 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.

5.5 Submissions to the ICRC 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 Department of Urban Services 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 in which RHVs can operate should be removed.¹⁵

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.

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 rather the number of hire car operators has increased 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.

5.6 Commission conclusions and recommendations

The following discusses the Commission's views on competition in terms of 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 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:¹⁶

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.

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 licence – 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 pick up fee – see chapter 8.

¹⁶ ACT Department of Urban Services submission, 25 March 2002, p 3.

A separate issue is an appropriate licence fee for 'other public passenger vehicles'. The Commission heard from a range of stakeholders at its public hearing, commenting on the likely implication of high licence fees on the industry. Currently licence fees for RHVs and small buses is less than \$150, and around \$500 for hire cars. As stated above, the Commission considers that the ACT Government should move towards full cost recovery in setting licence fees. However, it obviously needs to balance this against the potential adverse impacts overly high fees could have on operators. In this regard the Commission has no difficulty with the Government charging a lower licence fee since the cost of supervising, accreditation and vehicle standards is likely to be lower than for the taxi industry.

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 5.3, 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 5.3, the ACT Government has accepted the Freehills recommendations. The Commission sees no reasons to amend this position.

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 in 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, unrestricted hire cars and other public passenger vehicles seating up to 9 adults including the driver, should be removed. This would leave three licence categories: taxis; WATs; and other public passenger vehicles carrying up to 9 adults
- 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, but be automatically renewable subject to satisfying the relevant licence requirements
- the removal of cross border restrictions between the ACT and Queanbeyan should be extended or removed permanently.

6 THE COMMISSION'S APPROACH TO DEREGULATION

6.1 Deregulation for the ACT taxi industry

6.1.1 Why consider deregulation?

Deregulation of the taxi (and hire car) industry is being considered following the introduction of national competition policy. State and Territorial governments 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.¹⁷ 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.

6.1.2 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 and vehicle standards
- taxi relationship to an authorised taxi company
- the level of competition from close substitutes.

Each of these issues are dealt with in turn.

¹⁷ 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.

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 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.¹⁸ 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.¹⁹ 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.

¹⁸ 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.

¹⁹ 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.

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 recommend 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.

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.

6.1.3 Adjustment assistance schemes following entry deregulation

The Commission's draft report discussed and recommended a safety net scheme for existing taxi and hire car plate owners who wished to exit the industry in the lead up to the full removal of licence quota restrictions. This scheme received considerable comment at the Commission's public hearing and through submissions on the draft decision. In light of these comments, the Commission has considered further the issue of adjustment assistance.

Historically, regulatory control of the taxi industry and to a lesser extent the hire car industry in Australia has produced high asset values for licence holders. Regulatory reform therefore has the potential to produce large losses in asset value for some licence holders. Within this context, in considering adjustment schemes and the level of assistance that should be made available, a central issue is who should pay for the cost of reform.

From a theoretical viewpoint, the level of adjustment assistance ranges from zero for existing licence holders to a full payout based on current market values. Under the first scenario, the loss of licence value brought on through the removal of licence restrictions represents a transfer from existing plate owners to consumers of taxi and hire car services. In contrast, a full payout (paid from the government's budget) to existing plate owners implies that they bear none of the costs of reform, while the taxpayer bears the whole sum.

The remainder of this section discusses some options for adjustment assistance. The list of options is by no means exhaustive, and the ultimate decision on the type and level of adjustment assistance is a decision for the ACT Government. Some factors that may be considered by the Government in making its decision are:

- whether there is a legal right to adjustment assistance
- equity issues
- how the costs of reform should be shared among stakeholders
- budget constraints
- the timing of reforms.

Zero adjustment assistance

As discussed above, New Zealand has deregulated its industry. In doing so, adjustment assistance was not paid to existing licence holders.²⁰ Reviews carried out by state governments in Australia have generally concluded that no legal right to a payment would be found to exist in the event of entry deregulation. A recent National Competition Council staff discussion paper considers the equity arguments.²¹

²⁰ The Commission notes that plate values in New Zealand were significantly lower than current ACT plate values.

²¹ R Deighton-Smith, *Reforming the taxi industry in Australia*, National Competition Council Staff Discussion Paper, November 2000, pp 12-15.

The paper commented that factors to consider in determining the equity grounds for a payout include:

- whether licence owners have paid the government for the 'asset'
- whether licence owners have undertaken substantial additional investments in connection with their use of the licence – the key additional investment is the vehicle, which is a highly transferable asset
- how and when the licence was acquired – as licences have generally been transferable, the effective cost of the licence to current owners varies widely. Further, those who purchased after the signing of the National Competition Policy agreements have done so despite the clear signal from governments that the existing regulatory regime was not likely to endure.

The paper concludes that taxi and hire car plate owners have invested in an asset with considerable sovereign risks attached to it in the pursuit of high and rising historical rates of return. In these circumstances it can be argued that the government should not have to consider some form of payment if it chooses to change the regulatory structure and, in so doing, remove substantial value from the plates.

The implication from the above discussions is that there are neither legal nor equity grounds that suggest a payment to existing licence holders in the event of market entry deregulation. Under this approach therefore, no payout would be made to existing plate owners.

Nevertheless, the Commission does support some form of adjustment assistance for existing plate owners. In its draft decision, the Commission outlined a safety net scheme that could be applied to taxi and hire car plate owners. In particular, the Commission notes that in submissions made to it there was evidence of potential serious financial hardship for some plate owners should government action effectively significantly diminish the value of the investment in the plate.

The safety net for taxi and hire car plate owners

The safety net approach outlined in the draft report was premised on two factors:

- how long they have been a plate 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. Thus, it could be argued that these individuals should receive a greater level of safety net payment. It also assumes 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.

With regard to taxis, the following table (Table 6.1) outlines a possible payment regime under a safety net approach.

Whereas the Commission had originally recommended in its draft report that there be a phase in period of three years for deregulation and that there be a similar phase in period for the safety net payments, the Commission believes that in effect the phase in period is not

required and that existing plate owners would quickly opt to participate in the safety net arrangement should this be adopted. Thus, only one standard pay regime would apply.

The Commission had previously proposed that any plate owner who took the safety net payment would effectively be required to withdraw from the industry for a period of five years. The Commission believes that this may be impractical. Furthermore, given the number of plate owners who have indicated that they want to leave the industry, payment of the safety net arrangement to all existing plate owners should still have the desired effect of facilitating an orderly restructuring of the industry in current market circumstances.

Table 6.1 Taxi safety net, \$'000

<i>Period of taxi licence ownership</i>		
0–5 yrs	5–10 yrs	> 10 yrs
105	70	45

The Commission has been provided with information from the ACT Department of Urban Services 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 five year return based on current leasing rates. The lower payments for those who have held the plate for a longer period reflects the fact that they will have had a return on and partial recovery of the cost of that plate over these years.

As an example of the operation of the safety net, a plate owner who has had a taxi licence for up to 5 years, would receive a payment of \$105,000 for their plate. If the plate has been held for more than 5 years and up to 10 years, the payment would be \$70,000.

If this approach were to be adopted, the Commission considers that payments should only be made available to those licence holders as at 5pm, Australian Eastern Standard Time, 15 April 2002. As the Commission briefed industry representatives before the formal release of its draft report, it is appropriate that a date be set such as this so that 'gaming' of the safety net scheme cannot take place. If the ACT Government introduces any form of adjustment assistance scheme, it should also apply this date to scheme participants.

The cost of the safety net to government will obviously depend on the number of existing plate holders entering the scheme, and the length of time they have held their plate licence. Also, payments would not be made to WAT licence holders who have obtained such a plate since 1995 under the concessional arrangements introduced by the Government. The Commission does not have such information to consider at this time, thus the following is purely a theoretical example of the potential cost to government.

Assuming 75 plate licences were purchased by their owners between 0 – 5 years ago²², and the remainder were purchased equally between 5 and 10 years and greater than 10 years, the cost of the safety net scheme would be \$18 million.

The Commission considers that \$18 million to \$20 million is likely to represent an upper limit of the cost of the safety net scheme. Means by which this cost could be funded are discussed further below.

²² This is based on an assumed churn rate in taxi plates of 15 per year.

The safety net for hire car plate owners

In the draft decision the Commission recommended a safety net package for operators in the unrestricted hire car market.²³ The following table shows the Commission's draft decision recommendation for the hire car safety net. It was 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

<i>Period of unrestricted hire car licence ownership</i>		
0-5 yrs	5-10 yrs	> 10 yrs
41	28	17

Like taxis, the Commission considers that payments under this or any other scheme should only be made available to those licence holders as 5pm, Australian Eastern Standard Time, 15 April 2002.

Payment related to market value

The Commission's objective is to open up entry to, and ease exit from, the taxi and hire car market. Only in this way can the forces of supply and demand in the industry find equilibrium.

It will already be apparent that the major issue facing the Commission and ultimately the Government is how to deal with the build-up of taxi plate values and to a lesser extent, hire car plate values.

In submissions and at the public hearing, it was made clear to the Commission that sales of taxi plates in recent years had been at around \$240,000 to \$260,000 including both private sales and Government auctions.

The broad consensus in submissions and at the public hearing is that taxi plates' current market value is of the order of \$250,000 and for hire cars around \$120,000 to \$130,000 (although there has been a plate advertised for \$120,000 for some time without finding a buyer).

It was also made clear to the Commission that many owners have used superannuation money to buy plates, while others have acquired the necessary funds from financiers using their houses as security or guarantees from relatives.

If entry to the taxi and hire car industry is deregulated so that any suitably qualified person may obtain a taxi or hire car licence, taxi and hire car plates will no longer have any capital value and in any case will not be transferable.

In giving consideration to this issue the Commission could not avoid the conclusion that since 1995, when the ACT Government signed the *Competition Principles Agreement* with other members of the Council of Australian Governments (CoAG), the likelihood of deregulation of the taxi and hire car industry became a reality.

²³ 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.

Taxi and hire car plate owners have been (or should have been) aware of this situation in their industry for seven years.

Further, in November 2000, the Government released the Freehills Report (reviewed earlier) recommending deregulation of entry to the industry among other deregulatory measures.

In these circumstances, the Commission has to conclude that the potential for the opening up of entry to the taxi and hire car market with the inevitable impact on plate values has been known for some time and that plate values in recent years have been unrealistic and without any firm basis on which to build an estimate of long term returns.

It is equally unrealistic to assume that any Government would continue indefinitely to restrict plate numbers on issue so that the value of the plates will be maintained or would increase.

In the payment related to market value model, weighing up all the factors outlined above, the Commission believes that applying a 20% discount to the accepted market value of a taxi plate of \$250,000, ie \$200,000, would be an appropriate outcome as the adjustment assistance offered to plate owners. In the case of hire cars, if a 'market' value of around \$125,000 is accepted, a 20% discount indicates adjustment assistance of \$100,000 per plate. During the public hearing stage there was some support for some form of a discount on market value should any form of structural adjustment payment be made.

Should the Government adopt this approach the total cost would be of the order of \$50million. Payment of this structural adjustment would not be made to those WAT plate holders who currently have a special concessional plate allocation. In order to spread the impact of this amount on the Territory budget, the Government may wish to spread the payments over a period; for example: three equal instalments over three years which would amount to \$17 million per annum.

If the Government were of the view that some of this cost should be recovered through taxi fares, it could charge taxi plate owners a fee of \$26,000 per annum for the first three years of deregulation. The Commission is proposing that it would maintain the regulation of fares over this three year period and thus there would continue to be a cap set on the maximum fare that could be charged. The \$26,000 is equivalent to the lease rental currently paid by lessees of plates in the industry. This payment would not apply to concessional WAT plate holders. The Government could be expected to generate around \$15 million to \$17 million in revenue over the 3 years from this special fee. The fee would be discontinued at the end of 3 years.

In the public hearings, the Commission was alerted to the potential difficulties that could be faced by plate owners who have borrowed against the value of the plates. Concerns were expressed about the potential for lending institutions to foreclose on these loans. If the Government were to pay out the full amount of adjustment assistance at one time, this would be a feasible approach in terms of addressing the financing issues and the industry and taxi users would be making a contribution to the cost of the reform.

However, if the Government were to adopt the three years of equal payments approach, ie \$66,600 per annum, an owner owing \$200,000 would have his loan reduced to \$133,400 in the first year. He would then have interest commitments of around \$9,300 (\$133,400 x (say) 7 per cent interest) plus \$26,000 licence fee making a total outlay of \$35,300 in year one. The

Commission would expect that for some (probably a small number) of owners, such a commitment would be beyond their means. Nevertheless, the Government may still wish to utilise the additional \$26,000 in licence fee for a fixed period so that the taxi users make a financial contribution to the cost of reform and at the same time the cost to the ACT rate payer is reduced.

In terms of any exposure by the taxi plate owners to existing loan agreements with financial institutions, it is noted that in discussions with such institutions, the Commission has determined that there are appropriate security arrangements that could be taken out against the commitment by the Government to make the payment.

The Commission has been made aware that some plate leases taken out by current operators have a life of more than one year, with some instances of up to five years. It would be important that on paying out a plate owner (lessor) who was leasing out his plate to another party, the lessor would be required to terminate the lease contract immediately. Given that to refuse to do so, would cause the lessor to forego \$200,000 (either in one lump sum or in three annual instalments), versus a maximum of 4 remaining lease payments (on an existing five year lease) totalling \$104,000 (\$26,000 x 4 years), it is unlikely that any lessor would not wish to terminate the lease. Nevertheless, the Government does need to be aware of these circumstances and to deal with them if it implements this adjustment assistance model.

In the Commission's draft report, it was proposed that if an owner accepted the safety net or adjustment assistance payout, they would be required to leave the industry for five years. The Commission has been persuaded that this issue is an unnecessary measure, although it expects that a number of owners would seize the opportunity to accept the adjustment assistance and leave.

Commission conclusions

In moving to a deregulated market, the ACT Government has to make a decision as to whether some form of adjustment assistance should be offered to existing licence holders.

The Commission has outlined three approaches:

- (i) zero adjustment assistance;
- (ii) the safety net;
- (iii) a payment related to market value.

Ultimately the Government has to make a judgement as to what it regards as appropriate adjustment assistance. The Commission has made some suggestions as to ways in which the cost to the budget could be defrayed. It is important to note however, that to fail to address the issue of deregulation at this time will only serve to reinforce the market's expectations regarding future security values of taxi plates, and thereby compound the problem for future generations.

6.1.4 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 period, any fare setting process should be relatively straightforward. The Commission intends to use the Weighted Cost Index (discussed in Chapter 11) to adjust taxi fares for the years 1 July 2002 to 30 June 2004, and the ABS Canberra CPI to adjust fares for the year 1 July 2004 to 30 June 2005. 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 this 3 year 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.

6.1.5 Other issues

To provide certainty to the industry and to lenders to the industry, the Government will need to enter into irrevocable agreements for the payment of the structural adjustment or safety net amount if it is decided to stagger these payments over up to 3 years.

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.

6.2 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.

6.2.1 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:²⁴

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 supported by the Canberra Tourism and Events Corporation²⁵ and the Canberra Region Tourism Operators Association (CRTOA)²⁶.

6.2.2 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.²⁷

The main concern raised by operators about a single category of other public passenger vehicles, which category would include:

- unrestricted hire cars
- restricted hire vehicles (RHVs)
- other public passenger seating up to 9 adults

was the cost of registration.

The Commission recognises this concern and suggests that the Government charge a lower licence fee for this category, given that the cost of supervising accreditation and vehicle

²⁴ Tourism Industry Council ACT and Region Limited submission, 15 March 2002, pp 1-2.

²⁵ Canberra Tourism and Events Corporation submission, 15 March 2002.

²⁶ Canberra Region Tourism Operators Association submission, 13 March 2002, pp 2-3.

²⁷ 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.

standards for this category is likely to be lower than for the taxi component of the industry, and given the limited ability to maximise a hire vehicle's earning time on the road²⁸.

There is considerable value in the simplicity of having only three categories:

- taxis
- WATs
- other passenger carrying vehicles up to 9 adults

both for limiting the opportunity for confusion between overlapping services and the general ease of administration for both operators and the Government. The Commission did not distinguish any clearly established negatives relating to the three way classification (other than that relating to licence fees which has already been covered).

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 function²⁹.

The enforcing of the accreditation standards will be particularly important after deregulation.

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. In the case of hire cars, the Commission supports the industry view that whenever hire car services are advertised (eg in the Yellow Pages), the licence numbers of the vehicles used must be included.

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.

²⁸ The Commission has had some advice that indicates that such costs would indeed be less than those for taxis and under the principle of setting licence fees that move toward cost recovery, this suggests that a licence fee of around 30 per cent to 40 per cent of the current taxi licence fees would be possible.

²⁹ While the Commission has not made a full assessment of relevant costs from the information available, continuation of the correct level of taxi licence fees of around \$7,000 per taxi should be sufficient to fund the regulation and policing activities. A licence fee of around \$2,000 for hire cars would be relevant. WATs would be given concessional licence fees of around \$1,000.

6.3 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 consideration of adjustment assistance for taxi and unrestricted hire car plate owners.

Recommendation 2 – taxi market deregulation

The Commission recommends that entry to the ACT taxi industry be deregulated, ie that entry restrictions be removed.

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. In addition, the Commission recommends that all advertising of hire vehicle services clearly displays the licence numbers of the vehicles for hire.

As noted earlier, the Commission has 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 4 – 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 for three years. 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 5 – maximum fare deregulation

The Commission recommends that maximum taxi fare regulation be maintained for 3 years. 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.

7 SECOND TAXI NETWORK

7.1 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.³⁰

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 to 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.

7.2 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:³¹

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

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.

³¹ P Button submission, 14 March 2002, pp 2, 4-5.

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:³²

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 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.

7.3 Commission comments

7.3.1 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 selected through a tender process has not begun operations. 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.³³ 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 acquire members if existing taxi operators left Canberra Cabs. This will be difficult as all existing operators (aside from the WAT operators) have already paid a non-refundable \$20,000 premium to Canberra Cabs and it would be costly for them to switch to a new network operator.

³² S McDermott and M Grogan (A1 Cabs) submission, March 2002, p 1.

³³ 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.

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 by taxi network services. Canberra Cabs has previously stated 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.

7.3.2 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/operators 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 would 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 arising from the establishment of a new traditional network. 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.

7.3.3 Removal of cross border restrictions

Section 5.6 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.

7.4 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 is likely to be difficult in the short term 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 a single option as being the only 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.

8 SERVICE QUALITY

8.1 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.

8.2 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 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 taxis 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 8.3 and 8.4 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.

8.3 Taxi passenger demand and waiting times

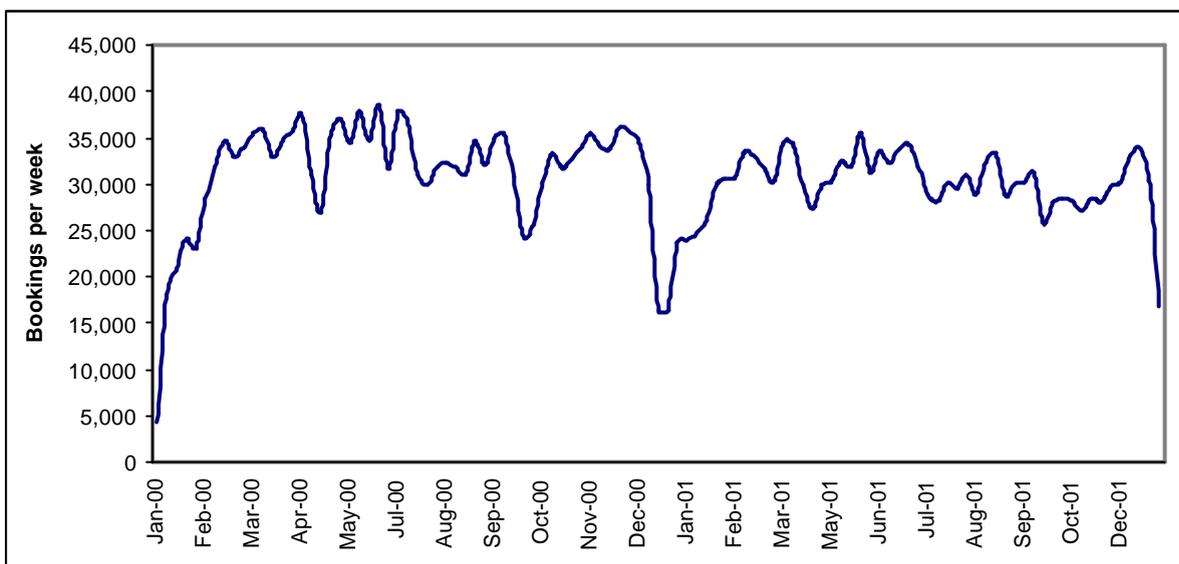
In this section passenger demand for taxis is considered in terms of variations over a day, week and a year, ie a short term view, and also in terms of demand trends over recent years.

8.3.1 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 2001.³⁴ 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.

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 during July of that year, possibly associated with school holidays, and did not fully recover compared to 1999. This may in part be explained by the impact of the Olympic Games, 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. 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.

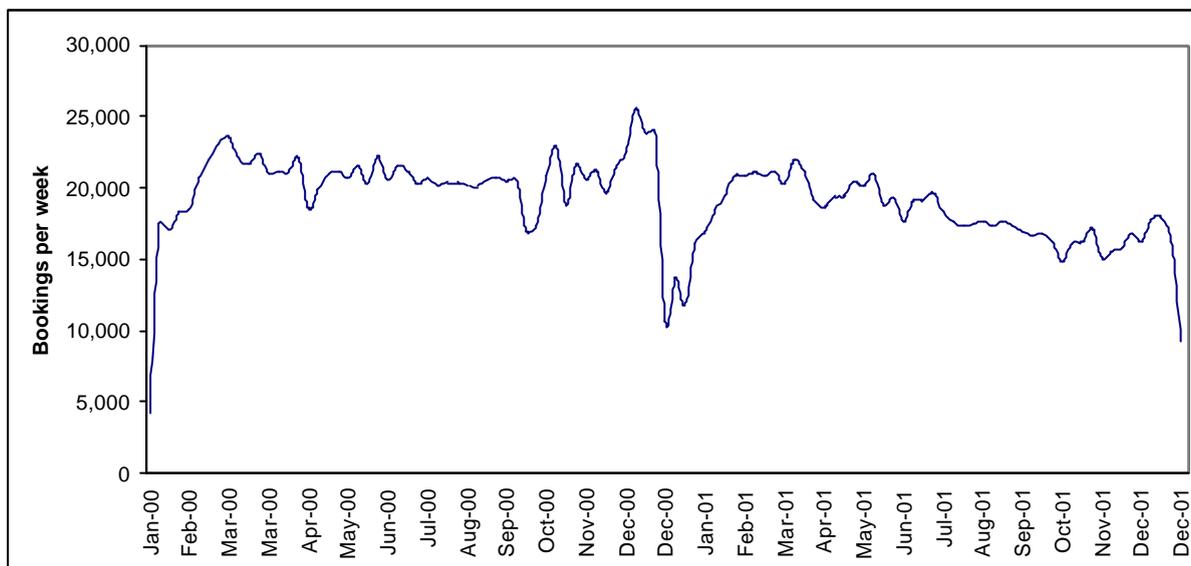
Figure 8.2 illustrates weekly demand for 'rank and hail' bookings. Similar to the experience of telephone bookings, demand has fallen over recent years, from around 1,088,000 in 1999, to 1,073,000 in 2000 and 927,000 in 2001. The pattern of demand is similar to that for

³⁴ Last year's fare review included demand information for the year 1999. Readers are referred to last year's final report for this information.

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.

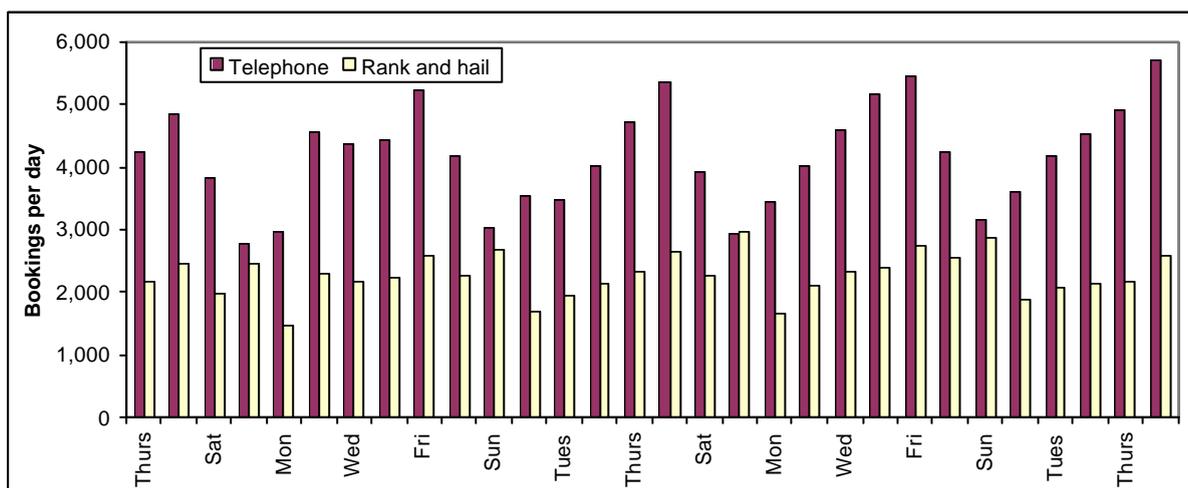
Figure 8.2 Trend in weekly demand for ‘rank and hail’ bookings



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



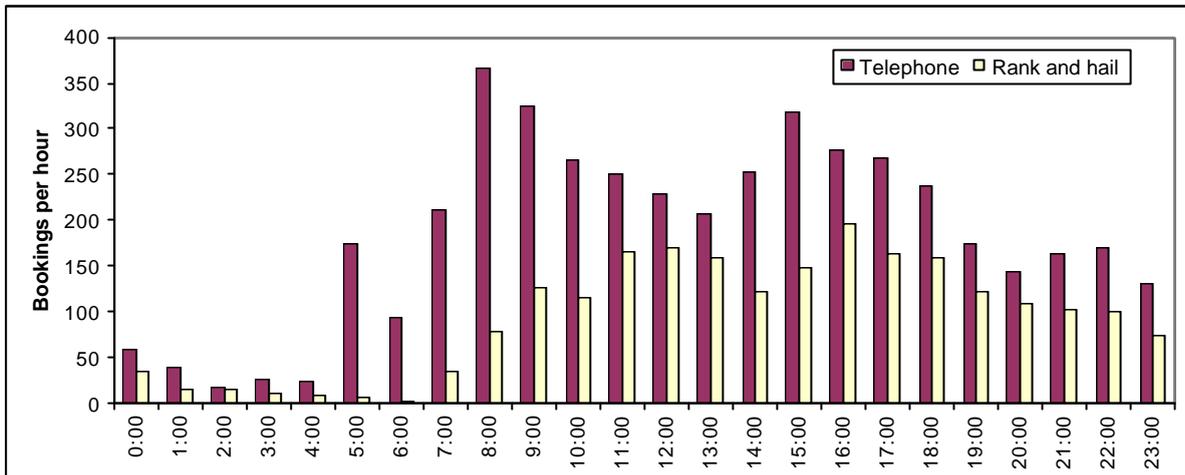
Source: Canberra Cabs.

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

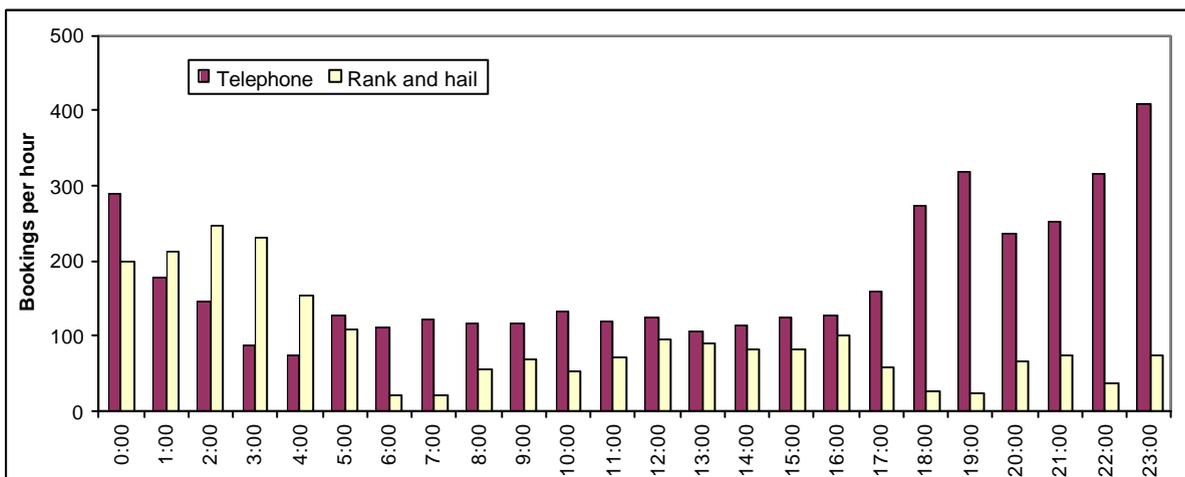


Source: Canberra Cabs.

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.

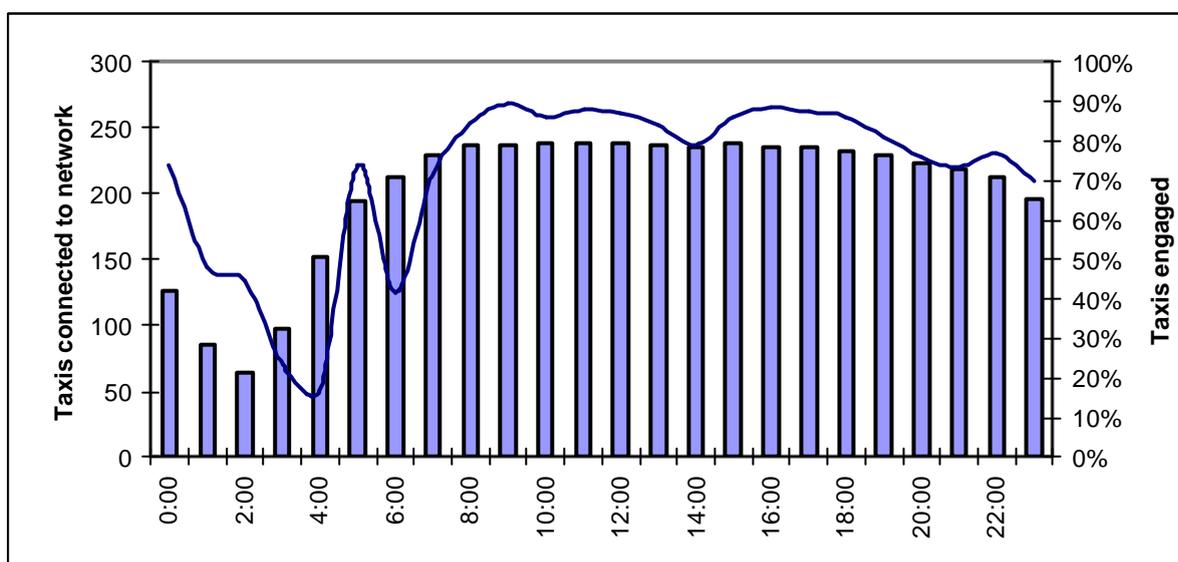
Demand patterns for the two services are quite different. Telephone bookings are greatest from 6:00pm to 12:00am, consistent with customers using taxis to go out and/or return home. Rank and hail demand peaks in the early hours of the morning, as customers use

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.³⁵

These issues are illustrated in figures 8.6 and 8.7, and considered further in section 8.4.1.

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.

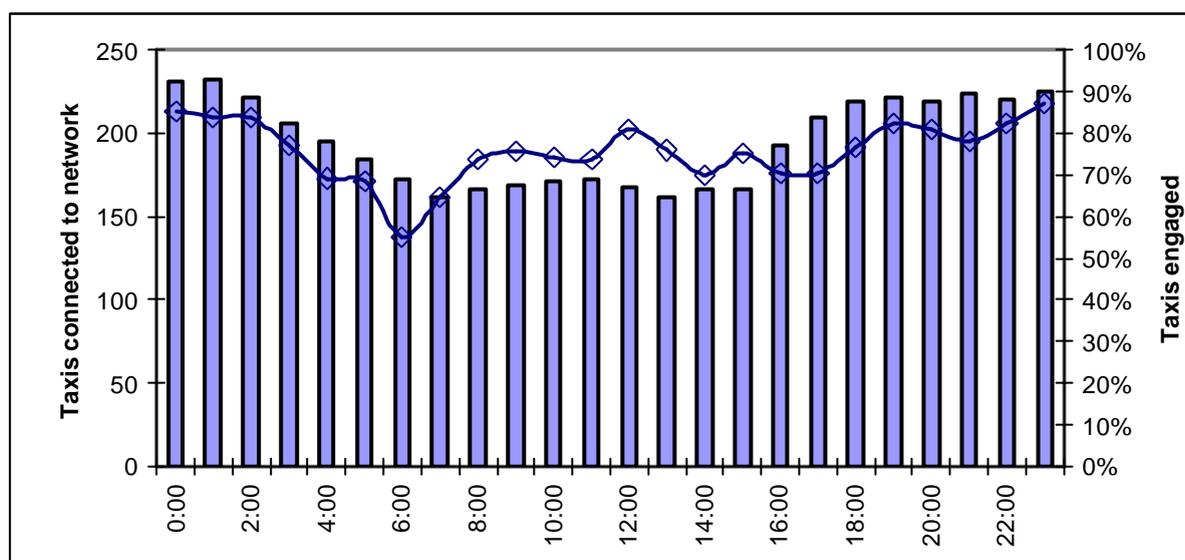
The variability of taxis engaged is consistent with the pattern of hourly demand (figure 8.5). Where demand is low or decreasing, the proportion of taxis engaged tends to be low and/or falling. This is particularly evident during the early and late hours of the day. As the figure illustrates, the increase 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

³⁵ 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.

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 does not reach 80 per cent even during peak periods.³⁶ This is an interesting outcome as it suggests a high usage of the taxi fleet. However, from total hiring data provided by Canberra Cabs, actual hirings in November 2001 were down by 19 per cent on 12 months previous.

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.

8.4 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 –

³⁶ IPART, *Review of the taxi cab and hire car industries*, Final Report, 24 November 1999, pp 37-38.

6:00pm Monday to Friday is treated as a peak demand period, and performance requirements are more lenient for these times.

8.4.1 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 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 direction. 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 Department of Urban Services 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.³⁷

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:³⁸

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.

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

³⁸ Law Council of Australia submission, March 2002.

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 direction.

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 direction.

8.5 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 8.3 and 8.4 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.

8.6 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 processes 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.³⁹ 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.

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:⁴⁰

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.

³⁹ Canberra Cabs submission, January 2001, p 6

⁴⁰ ACT Department of Urban Services submission, 25 March 2002, p 2.

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 an 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.

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 pick up fee (sometimes referred to as a '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 pick up 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 pick up fee of \$15 may be appropriate.⁴¹ 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.

⁴¹ 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.

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 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 pick up 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 pick up 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 pick up fee of around \$7.00.

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. However, the Commission also recognises that there needs to be an 'incentive' element in the fee to encourage the driver to go to a WAT specified pick up.

Thus, the Commission proposes that a pick up fee of \$5.00 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 \$90,000 to be funded in part by the ACT Government. Funding should be provided through the Taxi Subsidy Scheme and the payment would not be introduced until funding is provided. In addition, the Commission does not consider that the pick up fee is as critical should the Government decide not to proceed with the deregulation.

8.7 Commission conclusions and recommendations – taxis

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 pick up fee for WAT services is appropriate particularly if the issuing of plates is deregulated. 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 6 – 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 pick up fee for WAT hirings of \$5.00 be introduced if the Government adopts the Commission's deregulation recommendations. This should in part be funded by the ACT Government under its Taxi Subsidy Scheme

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:⁴²

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.

Other hire car operators expressed to the Commission their view that to (an unspecified extent) they found themselves in competition with Comcar vehicles. However, following enquiries, the Commission has been advised that Comcar vehicles are not permitted to provide a passenger service to the general public. Comcar vehicles are used exclusively to provide transport to Federal VIP's and guests. They are not permitted to undertake general hirings by public servants using Cabcharge.

In the past, some hire cars were allocated substantial business by Comcar, but in more recent times this work has largely dried up. It may be this change that has given rise to an impression that Comcar is undertaking hire car business.

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,

⁴² Queanbeyan Hire Cars submission, 1 March 2002, p 2.

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.

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 and Territorial 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 Further review 2003 Continue fare regulation	60 new restricted licences and 120 wheelchair accessible taxi licences issued Performance reviews established
Victoria	July 1999	Remove entry restrictions 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	The Victorian Government recently announced reforms to the Victorian taxi industry. These reforms included release of 600 peak period taxi licences over six years, the immediate release of 11 new licences in regional Victoria, a 20 per cent tariff to apply to fares between 1am – 6am, payable entirely to the driver, and introduction of a new customer service charter for taxis and hire cars
Queensland	Publicly released Sep 2000	Revamp regulatory structure around performance agreements with booking companies Allow booking companies control over licence numbers	Awaiting government response
WA	Aug 1999	Remove licence restrictions Use substantial training requirements to regulate entry Full compensation to existing plate owners New licences issued at maximum rate of 20% pa on first come, first served basis	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

Comparison with other jurisdictions

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 jurisdictions⁴³, 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 \$250,000 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.⁴⁴

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.

⁴³ It may also reflect better roads (less congestion) and public transport systems or greater car ownership.

⁴⁴ In practice, Combined Cabs provides radio booking services to a number of smaller networks.

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:⁴⁵

- 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.

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.

⁴⁵ 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 was interested to hear comments from both operators and other stakeholders on the level of service being supplied by the ACT hire car industry, and how this compared to other jurisdictions. The Commission also sought 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 direction 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.

Independent Competition and Regulatory Commission

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 ACT⁴⁶ However, the impact on the ACT hire car industry of further increases in NSW registered

⁴⁶ 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 5.6.

Part B

Determination of maximum taxi fares



11 ACT TAXI COSTS AND EFFICIENCIES

11.1 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).

11.2 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. This proposal is based on an argument that the Commission should reflect in taxi prices a remuneration level for drivers commensurate with average weekly wage levels across the whole economy. This issue was also raised in the public hearings.

Canberra Cabs also provided results of a survey of taxis undertaken in October/November 2001. This survey sought to provide information on the number of kilometres that the taxis were operating in hired and non hired mode, the average fares collected, the average paid kilometres and total kilometres per fare, and paid kilometres as a proportion of total kilometres travelled. This survey provided a useful adjunct to the information provided on previous occasions by Canberra Cabs and allowed the Commission the opportunity to test various possible taxi operating models. The survey data, which was collected from a random sample of taxis, indicated that standard taxis travel on average 7.9 kilometres in hired mode and that 48% of their kilometres travelled is in hired mode. Based upon these survey results and other information available to it, Canberra Cabs has estimated that for a standard vehicle, the annual total revenue is \$145,539 (including a \$340 LPG gas rebate) and for a WAT is \$122,930.

In subsequent meetings with Canberra Cabs after the release of the Draft Report and during which the issue of the proposed 15.9 percent fare increase was discussed, it was suggested by Canberra Cabs that the fare increase that they proposed could be introduced over a three year period. To ensure that the full increase is provided, it was proposed by Canberra Cabs that fares be increased by 5 per cent per annum real for the next three years with appropriate adjustment on an annual basis to compensate for other cost increases in the year concerned.

11.2.1 Comment on Canberra Cabs' information

In undertaking its review of taxi fares, the Commission is reliant on information provided by the industry. This is usually supplied through Canberra Cabs on behalf of the industry, although the Commission has been pleased to note a larger number of submissions from individual taxi owners and operators as part of the current Inquiry. Canberra Cabs itself has

had to rely upon what information it can gather from individual taxi owners or operators in an attempt to build a picture of the financial affairs of the industry.

To help overcome some of these data deficiencies which has made it difficult for the Commission to assess fully the efficiency or otherwise of the industry, Canberra Cabs as part of the current inquiry undertook a survey of taxi operators. From this survey the Commission has been able to obtain some useful information, not the least of which has been a possible better estimate of what is an average taxi's current total revenue over a 12month period. The revenue estimates derived from this survey when combined with the total hiring information provided by Canberra Cabs for the year suggest a further fall in average revenue per taxi in the recent year.

Under the costing and pricing model developed by the Commission during the course of last year's direction, 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 taxi's total operating expenses (around 40 per cent).

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, within this industry, driver earnings and entitlements are derived from takings of the taxi; they are not based on wage rates paid to Comcar drivers or some other average weekly earnings estimate.

In developing the costing and pricing model in its submission, Canberra Cabs has argued for the use of a standard wage rate for drivers established through industry – government negotiations, with this wage rate to be updated using the Australian Bureau of Statistics' (ABS) ACT wage cost index. Thus, in its pricing model covering driver entitlements, Canberra Cabs included costs for holiday pay, sick pay and holiday leave loading, along with superannuation. This treatment, however, 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 advised the Commission that if its proposed 15.9 percent fare increase was 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 has been told that such an increase could be encouraged as a result of certain taxi owners leading the way and offering say a 60:40 split with their drivers. However, there is no guarantee that this approach would be adopted by all operators, or continued as standard practice within the industry.

The Commission also notes that even if it 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:⁴⁷

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 in NSW, 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 come to an agreement that these entitlements are not paid.

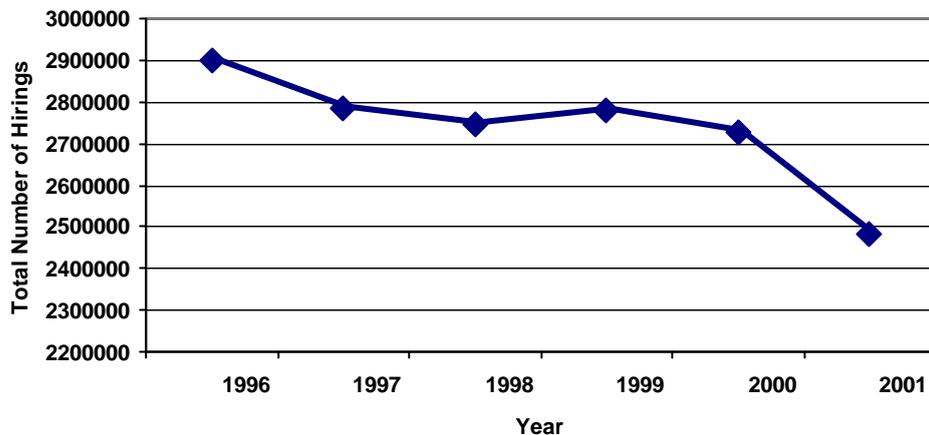
In any case, an over-riding factor in regard to paying bailee drivers, is the fact that a driver's legal entity is as a "bailee", not as an "employee". In fact, the Commission understands that under industrial law, standard "employee" entitlements are not a directly relevant consideration for payment of bailee drivers.

The Commission also notes that the payment of higher amounts to drivers is not only a function of the percentage of takings that are shared between the taxi owner/operator and the bailee driver, but also of the overall number of paid trips undertaken by the taxi. Simply to increase the dollar value of the payments made to drivers in the price model, given the present demand levels, would not automatically ensure that the drivers received the 'minimum level of payment commensurate with average weekly award wages' that is being sought by Canberra Cabs. Rather, if demand for taxis again drops as it has done almost continuously over the last six years (See Figure 11.1) this would result in drivers receiving less than had been allowed for by the Commission in the price direction.

The sensitivity of the payment to drivers to the overall demand for taxis is demonstrated by the fact that every percentage point increase in demand for taxis above present levels adds around \$365 per annum to individual drivers' remuneration. Thus the 15 percent reduction in taxi hirings since 1995 represents a decline in remuneration of drivers (in current prices) of around \$5,500 per annum. A 15.9 percent increase in fares, if demand remained unchanged at present levels, would recover this 'loss' in remuneration.

⁴⁷ IPART, *Report to the NSW Minister for Transport: report on NSW taxi fares*, July 2001, p 22.

Figure 11.1 Total Taxi Hirings by Calendar Year, ACT



Source: Canberra Cabs.

However, the issue of demand for taxis is an area which has caused the Commission some concern. As demonstrated in Figure 11.1, the fall in hirings of taxis of 15 percent over the last six years has continued almost unabated. The industry has blamed this decline on a number of external factors, including elections, the move of the Prime Minister to Sydney, the Olympics, September 11, the Ansett collapse and, in particular, the advent of the GST.

The Commission has no doubt that each of these events has played a part in the change in the overall level of demand for taxis. However, the Commission is not convinced that these are the only factors impacting upon demand for taxis or indeed the major causal factors. For example, the Commission notes that research undertaken by the National Centre for Social and Economic Modelling (NATSEM) has argued that consumer welfare would be enhanced by the advent of the GST⁴⁸. Certainly given the strong growth seen in consumer spending over the last 12 to 18 months, there is little evidence to suggest that the GST has represented a long term disincentive to expenditure by the household sector. Furthermore, the reduction in taxi hirings in the ACT has been evident for a number of years prior to the GST.

There has been a shift in consumer spending away from public transport. This shift has been noted by the Commission in its reports on ACTION bus fares⁴⁹ and has been evident even before the GST and the events of September 11 and the Ansett collapse. The Canberra community is demonstrating a move away from all forms of public transport towards private transport. The high quality of the road network in the ACT together with relatively cheap parking close to places of work and shopping facilities has been a longer term feature of Canberra. However, these factors act in favour of private transport over public transport and have been enhanced by the availability of relatively cheap automobiles, and a greater emphasis upon 'convenience' as ACT residents make the most of flexible working hours, greater flexibility in shopping hours and a lifestyle that treats the 'two car family' as almost the norm.

In the face of this paradigm shift in demand characteristics, the Commission has had to consider carefully various proposals to increase public transport charges at rates in excess of

⁴⁸ 'The Distributional Impact of Year 2000 Tax Reforms in Australia', Harding, Warren, Robinson, Lambert; *Agenda*, Vol 7, Number 1, 2000.

⁴⁹ 'Final Determination ACTION Pricing for the Period 1 July 2001 to 30 June 2003', May 2001, ICRC.

the general level of inflation. Whereas for the ACTION bus service there is a direct payment by government to ensure that at least a minimum level of bus services is available, the taxi industry is, for all practical purposes, entirely reliant upon fares to recover its costs.

In these circumstances, the Commission notes that to increase fares by 15.9 percent as proposed by the industry or even to stagger this increase in real terms over a three year period, would be unlikely to encourage a return to growth in total hirings. Thus, neither the desire of the industry to improve its overall recovery of costs or to pay bailee drivers an average weekly award wage rate would be achievable in the long term. Thus the Commission is not inclined to adopt the price adjustment arrangements proposed by the industry.

Furthermore, the Commission notes that the claims by the industry that, at the current fare levels, individual operators are being forced to leave the industry at great personal cost is a symptom of the current system of artificially limiting the number of taxi plates that are on issue. The Commission's recommendation that all restrictions on the number plates on issue be removed would have the advantage of facilitating exit from the industry as well as potential entry. Without the added cost of the plates, participants would find it relatively easy to withdraw from the industry at little or no cost.

The Commission notes that in public submissions and at the public hearings a number of taxi and hire car operators have indicated that they want to leave the industry (presumably because of the decline in demand as discussed above), but that they are prevented from doing so by the need to recover the price that they paid for the plates. Removing the current restriction on the number of plates on issue would allow the industry to find its own level of equilibrium where demand for taxis at a price consumers are willing to pay would more readily match the supply of those taxis. The ability of an operator to withdraw from the industry under these arrangements would be relatively simple and at minimal cost to that operator.

Another area of cost where Canberra Cabs has sought an increase is 'network charges'. These are the fees charged by Canberra Cabs for the use of its radio network service. 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 Australia⁵⁰, and itself notes that they are relatively high compared to NSW operators, both in Sydney and regional centres.

11.3 A cost index

The Commission, since having the responsibility for setting maximum taxi fares, has raised concerns with a cost index approach. These general concerns remain. However, the Commission is equally concerned that an approach to build a cost plus pricing model when demand is clearly falling, will only result in significant price increases in order to recover lost revenue from the fall in demand. This would be an inappropriate outcome and in other regulated industries would in all probability result in some of the excess capacity being declared 'stranded' for regulatory purposes and therefore not entitled to earn a revenue stream. In the taxi industry this can only be achieved by individual taxi operators leaving the industry.

⁵⁰ S McDermott and M Grogan (A1 Cabs) submission, March 2002, p 1.

Furthermore, given the nature of the industry and the way in which bailee drivers are paid, there is no guarantee that a cost plus pricing model approach of this type will result in additional income flowing to drivers. Effectively they are only paid 50 percent or some similar percentage of the gross revenue generated while they are driving the taxi.

In these circumstances, therefore, the Commission has reverted back to a consideration of a cost index as the method of adjusting prices.

The Commission has considered four 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, using a single ABS index, such as the consumer price index (CPI), or the development of a new weighted cost index.

11.3.1 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 two 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).

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 two 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.

The Commission notes that this approach effectively incorporates the reduced distances travelled in the last twelve months over previous years. Thus, the Commission has prepared an adjusted model which has sought to remove the impact of distances travelled. This approach resulted in suggested fare changes of minus 1.1 per cent

11.3.2 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. Depending on the data source, labour costs account for over 50 per cent of a taxi's costs. These costs include not only the driver's remuneration but also other administrative 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 50 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 the 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 that 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 twelve months.

Transportation CPI

The most recently available CPI statistics are the March quarter 2002 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
Mar 02	136.2

From these figures it can be seen that transportation costs decreased by 1.9 per cent from March 2001 to March 2002. This follows an increase in transportation costs of 2.6 per cent from March 2000 to March 2001.

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 50 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 50 per cent and the transportation CPI at 50 per cent. Whilst the periods over which the AWE and CPI are measured are slightly different, AWE being to November and CPI to March, this is not seen as a sufficiently large timing difference to invalidate the outcome.

Thus from the end of 2000/early 2001 to the end of 2001/early 2002, costs as measured by this composite index have risen by 0.4 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 3.65 per cent. For the 2 year period therefore, there has been a cumulative 4.05 per cent increase in the composite ABS index. Netting off the 5.5 per cent increase given last year leaves a negative adjustment in 2002 of minus 1.45 per cent.

11.3.3 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 1.9 per cent between the March quarter 2001 to the March quarter 2002. For the two years to the March quarter 2002, the index increased by 0.7 per cent. From this figure the 5.5 per cent increase awarded last year would need to be deducted, leaving a figure of minus 4.8 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
Mar 02	135.6

As reported in the draft report, the Canberra CPI increased by 2.9 per cent between the December quarter 2000 to the December quarter 2001. For the two 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.

With the release of the March 2002 figures, the Canberra CPI increased by 2.6 per cent between the March quarter 2001 to the March quarter 2002. For the two years to the March

quarter 2002, the index increased by 8.6 per cent. Deducting the 5.5 percent increase awarded last year would leave a figure of 3.1 percent.

11.3.4 Weighted Cost Index

The Commission has considered the various options and notes that for all other regulated industries in the ACT it uses a Canberra CPI adjustment mechanism to set prices. To adopt such an approach for the taxi industry would be consistent with this practice.

However, given the limited ability of a small business to adjust its cost structure within the confines of the movement of a general inflation indicator, it may be more appropriate to consider a variation of a detailed, specific cost index. To this end, the Commission has examined a number of options designed around the specific non-labour variable and fixed costs identified by the industry in its submission (and used in the specific cost index at 11.3.1 above) plus appropriate modifications to reflect the relative contribution of labour costs to the operating costs incurred by the industry and a provision to reflect changes in the return on investment in the taxi industry.

Based upon this analysis, the Commission has developed a Weighted Cost Index using the cost information provided by Canberra Cabs and incorporating other information on the industry. Details of this Weighted Cost Index are provided in Attachment 5. Essentially the index is a current year weighted index which reflects movement in individual cost components between years adjusted for changes in the number of kilometres travelled.

Table 11.5 provided a summary of the composition of the index and the movement in the index between 2001 and 2002. Using this index suggests an increase in costs of 3 percent over the 12 months.

Table 11.5 Weighted Cost Index

	Current Year Weights	2001	2002	Weighted Cost Movement
	%	\$	\$	%
Fixed Costs	19.9	34,422	37,479	1.7
Variable Non Labour Costs	16.3	32,914	30,814	-1.2
Return on Investment	13.8	23,636	26,000	1.3
Labour Costs	50	92,063	94,273	1.2
Total	100	183,036	188,586	3.0

It is important to note that the index does not purport to reflect the actual total revenue or costs that a taxi operator will incur. Rather, it represents an attempt to determine a weighting pattern for various costs such that there is a recognition of the contribution to total cost movements of changes in the cost of labour, fixed and variable costs (such as the cost of the vehicle itself and fuel costs) and financing costs associated with the purchase or lease of a taxi plate.

Fixed and variable cost data have been taken from information provided by Canberra Cabs (see Attachment 4) excluding any labour costs or on-charges. However, the Commission has discounted fixed costs to the extent of not carrying forward any increase in network fees

from those reported for 2001. The Commission is of the view that network fees need to be considered in the context of potential cost savings from a more efficient operation of the network possibly in the context of an amalgamation with other network operations, thereby releasing some economies of scale.

Labour costs have been assumed to be 50 percent of the total value of costs, reflecting the industry standard of a 50:50 sharing of revenue between driver and owner/operator. The 'return on investment' component uses the current annual lease fee of \$26,000 as a proxy of the return to the investor/owner of the plate for purposes of weighting this item in the cost index.

The movement in costs between years reflects the actual changes in relative costs as measured for the various items making up the fixed and variable cost component, although the allowance for network fees has been held constant between the two years. ACT average weekly earnings (full time adult total earnings) are used to adjust the labour component, and the 10 Year Bond Rate is used to adjust the return on investment component.

The increase in costs suggested by this Weighted Cost Index is slightly higher than the movement in the Canberra CPI for the period to March 2002, although it reflects the movement in the All Capitals CPI for the same period (2.9 percent increase).

The Commission favours use of the Weighted Cost Index approach over the transportation index. For purposes of reflecting the actual cost changes that taxi operators will experience, the Weighted Cost Index is also preferred over the Canberra CPI. As the above figures indicate, the Weighted Cost Index figure will give a higher increase in the adjustment to maximum fares. However, the Commission considers this higher increase to be reasonable.

Following the draft decision, the Commission again considered the results of a specific cost index as proposed by the taxi industry. The index considered by the Commission essentially included fixed and variable cost items as proposed by Canberra Cabs, plus adjustments in the labour cost component to lift these to a minimum weekly average earnings level. However, as the Commission has already noted, the 15.9 percent increase in fares that this approach produced would contribute to a further reduction in demand for taxis and thus would be unlikely to provide a long term solution to the industry's concern about its falling revenue outcome.

The Commission is satisfied that the application of a Weighted Cost Index based fare adjustment of 3.0 per cent from 1 July 2002 adequately compensates for recent cost increases and at the same time will not of itself adversely impact upon the demand for taxis.

11.4 Commission conclusions and recommendations

Either a specific, detailed taxi cost index, a composite ABS index, the Canberra CPI or a Weighted Cost Index 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. If the industry's request for an increase in fares to allow payment of average weekly earnings was adopted, and based on current demand for taxis, an increase in fares of around 15.9 percent would be required. The composite ABS index gives a result of between minus 1.45 per cent and 0.4 per cent, and the Canberra CPI gives a result of between 2.6 and 3.1 per cent. The Weighted Cost Index gives a result of 3.0 percent.

In selecting between these options, the Commission has considered whether the approach proposed for this fare determination produces a reasonable outcome for taxi operators.

Depending upon the assumptions used, the Commission notes that application of a specific taxi index, and possibly a revenue/cost model, would actually suggest a fare decrease. Alternatively, if the claim for average weekly earnings to be included in the index is adopted, price increases of 15.9 percent are suggested at a time where demand for taxis has been falling by 15 percent over the last six years. The Commission considers that neither outcome is appropriate in the lead up to deregulation or as part of any future price path for the industry.

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. Thus the Commission considered seriously as to whether to adopt this approach.

The Weighted Cost Index, although slightly more complex to apply than the ABS CPI approach, can be seen to be reflective of movement in the costs that the industry actually has to meet.

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 3.0 per cent from 1 July 2002. This reflects movements in the Weighted Cost Index.

Price direction – maximum taxi fares

The Commission directs that average maximum taxi fares be increased by 3.0 per cent from 1 July 2002.

For purposes of adjusting fares from 1 July 2003, the Commission proposes that the Weighted Cost Index will again be used along the lines outlined in Attachment 5. Should the Government decide to adopt the Commission's recommendation to remove restrictions on the number of taxi and hire car plates available in the market, the Commission proposes that the Weighted Cost Index be used for the two years to 30 June 2004 and is disposed towards the use of the Canberra CPI for the period between the March quarter 2003 to the March quarter 2004 to adjust fares for the year commencing 1 July 2004. At the completion of that year (2004/05) the Commission proposes that fares no longer be regulated.

Should the Government not proceed with deregulation of the number of taxi and hire car plates on issue, and fare regulation remain, the Commission proposes to use the Weighted Cost Index for the period from 1 July 2004 for a period of up to a further three years.

Prior to determining fares to apply for the period commencing 1 July 2007, the Commission would again review the method used to adjust fares in the context of the then current operating conditions. The benefit of the Commission's proposed approach is that the taxi industry can now have a degree of certainty about the way that fares will be adjusted into the future assuming that some form of fare regulation is still required.

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 direction, 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 directions, 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.⁵¹

Canberra Cabs does not support a fare setting approach that includes plate values. In its submission to this review, Canberra Cabs states:⁵²

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

⁵¹ 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.

⁵² 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.

While the Commission is recommending deregulation of the taxi industry, it must still seek to set a price path methodology that adequately reflects changes in costs incurred by the industry.

The methodology that is proposed using a Weighted Cost Index incorporates a proxy for 'return on investment'. The proxy that is used is the annual taxi plate leasing costs as reported by the industry. While not all taxi operators lease their plate, it is the movement in the 10 Year Bond Rates that is the cost change incorporated into the pricing methodology by this technique. The use of the lease fee itself simply sets the weight of this cost item in the Weighted Cost Index. Consequentially, the Commission has in effect made allowance for movements either up or down in interest rates, and thereby made some allowance in the future price path for changes in this cost element. Thus, the Commission has recognised that a return on the investment in the taxi plate is one component of the cost structure of this industry and has allowed for changes in this cost element in future fare changes.

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 versus distance rate, are assessed.

In its last price direction, 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 versus distance rate

During the course of last year's direction, 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.⁵³

On the basis of an average trip of 7.9 kilometres⁵⁴ 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. 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.

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 non labour 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.

⁵³ Canberra Cabs submission, February 2002, p 6.

⁵⁴ This is based on the results from a recent survey undertaken by Canberra Cabs, which suggested an average trip distance of 7.9 kilometres.

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. The Commission notes the survey undertaken by Canberra Cabs in October/November 2001. While a small sample survey, the Commission would encourage the industry to undertake more regular surveys of this type as part of the provision of information to any future fare inquiry (should such an inquiry be required).

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. Should deregulation not proceed, the Commission requests that the industry provide more detailed information to support these conventions at any future fare determination inquiry.

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 versus 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.⁵⁵

Sections 8.4 and 8.6 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 pick up fee should be applied to wheelchair bound passengers and their WAT hirings. The Government would need to make budget provisions to cover the additional cost. In order for the pick up fee to come into operation, the Commission needs to make a direction that such a fee may be applied. Users of WAT taxis who meet the other eligibility requirements would be able to claim back 40 per cent of this pick up fee as part of the Taxi Subsidy Scheme administered by the Department of Health and Community Care.

12.2 Social impacts

The Commission's first direction 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 direction when maximum fares were permitted to increase by 5.5 per cent.

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 3.0 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).

⁵⁵ 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.

Given the modest increase in fares that 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 directions 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 twelve month period, the Commission proposes that maximum taxi fares be adjusted on 1 July 2003 by the movement in the Weighted Cost Index for the year 2003 calculated in line with the methodology provided in Attachment 5.

Should the Government implement the deregulation of the industry along the lines recommended by the Commission, the Commission would propose that the movement in the Canberra CPI between the March 2003 quarter and the March 2004 quarter be used to adjust fares for the period commencing 1 July 2004 until fare regulation ceased on 30 June 2005.

However, should the Government not adopt the deregulation recommendation, the Commission would propose that fares from 1 July 2004 to 30 June 2007 would be set using the Weighted Cost Index methodology. At the time of the subsequent fare review prior to new fares being set from 1 July 2007, the Commission would review the methodology and consider whether some alternate form of fare direction was required.

12.4 Commission recommendations – proposed maximum fares

In translating the average 3.0 per cent increase into the various components of the fare, the Commission has sought to send appropriate signals to consumers and producers. Previous fare adjustments have been based on an average trip distance of 8.8 kilometres. However the fare adjustment for the current period has been based on industry advice of an average trip distance of 7.9 kilometres.

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On the basis of rate 1 (6am to 9pm), the current taxi fare for a journey at an average distance of 7.9 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	\$10.13	(\$1.282 per km)
Total	\$14.45	

The Commission's direction that the average increase in the maximum fare for 2002 - 2003 will be 3.0 per cent is applied to the total fare – in the above benchmark example, to \$14.45. 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 3.0 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 7.9 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	\$10.39	(\$1.315 per km)
Total	\$14.89	

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 - 2003 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	\$1.315 per km
Rate 2	\$3.20	\$0.50 per min	\$0.80	\$1.512 per km
Rate 3	\$2.40	\$0.50 per min	\$0.80	\$0.944 per km
Rate 4	\$2.40	\$0.50 per min	\$0.80	\$1.086 per km
Rate 5	\$4.80	\$0.50 per min	\$0.80	\$2.054 per km
Rate 6	\$4.80	\$0.50 per min	\$0.80	\$2.362 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 specific 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:⁵⁶

- 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. To address this issue, the Commission has created a Weighted Cost Index in which it has included a component which is adjusted with movement in the 10 Year Bond Rate. While the Commission has not been able to establish a satisfactory revenue/cost model of a type that is used in setting regulated prices in other industries, the Commission believes that by including an element on the Weighted Cost Index for movements in interest rates, it has effectively allowed for the variability of the market requirements for a return on investment.

The Commission will continue to adopt this approach for the next five years should the Government decide not to proceed with deregulation, which would in turn mean that there would be no further need for price directions post June 2005. The price direction methodology would be reviewed prior to the price directions required by 1 July 2007 assuming price regulation is continued.

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

⁵⁶ ICRC, *Taxi fares for 2000-2001*, Final price direction, June 2000, p 21.

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 direction of maximum taxi fares in the ACT, the Commission allowed fares for the twelve 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 twelve 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.⁵⁷

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 Canberran's 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. However, the Commission notes that there are a range of other factors which impact on the use of taxis and other forms of public transport, and that these factors including relative ease of parking and good road systems in the ACT may be part of a significant paradigm shift in travel behaviour occurring currently across the Territory.

⁵⁷ ICRC, *Taxi fares for 2000-2001*, Final price direction, June 2000, p 24.

SCHEDULE 1 PRICE DIRECTION FOR TAXI FARES

Methods for ascertaining maximum prices to be charged under the Independent Competition and Regulatory Commission Act 1997.

This price direction specifies the method for ascertaining maximum prices for taxi fares and charges to apply in the ACT from 1 July 2002 to 30 June 2003.

For the period commencing 1 July 2002, the Commission's price direction for taxi fares is that:

- the flagfall rate to apply will be as follows:
 - Rate 1 \$3.20
 - Rate 2 \$3.20
 - Rate 3 \$2.40
 - Rate 4 \$2.40
 - Rate 5 \$4.80
 - Rate 6 \$4.80
- the waiting time rate will be at a rate of \$0.50 per minute (equivalent to \$30.00 per hour)
- the radio fee will be a fixed rate of \$0.80
- the kilometre rate will be set at:
 - Rate 1 \$1.315 per kilometre
 - Rate 2 \$1.512 per kilometre
 - Rate 3 \$0.944 per kilometre
 - Rate 4 \$1.086 per kilometre
 - Rate 5 \$2.054 per kilometre
 - Rate 6 \$2.362 per kilometre.

For the period commencing 1 July 2003 to 30 June 2003, the Commission's price direction is that:

- the flagfall rate to apply will be as outlined above
- the waiting time rate will be as outlined above
- the radio fee will be fixed at a rate as above
- the kilometre rate will be adjusted on the basis of the movement in the Weighted Cost Index as calculated and confirmed by the Commission using the methodology as outlined in Attachment 5 to this Direction Report.

The Commission also directs that, subject to the Government providing appropriate funds through the Taxi Subsidy Scheme to meet the relevant share of the costs covered by this Scheme, and that the Government agrees to proceed with deregulation as proposed, a WAT taxi attendance fee of \$5.00 per pick up be applied. This fee would be adjusted by the movement in the Weighted Cost Index for the year commencing 1 July 2003.

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.

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 direction 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 direction 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 direction 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 in 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:⁵⁸

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

⁵⁸ 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.⁵⁹

⁵⁹ 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 group (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, 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,

Independent Competition and Regulatory Commission

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.

ATTACHMENT 5 WEIGHTED COST INDEX

The Weighted Cost Index is a composite index developed for purposes of setting taxi fares for the years 1 July 2002 to 30 June 2003, and 1 July 2003 to 30 June 2004. It is also the intention of the Commission that the Weighted Cost Index will be used to adjust taxi fares for the three years 1 July 2004 to 30 June 2007 should the Government decide not to proceed with the deregulation of the taxi industry as proposed and the removal of the need for the Commission to determine taxi fares after 30 June 2005.

Components of the Weighted Cost Index

The Weighted Cost Index is a current year weighted index based on four main components, Fixed Costs, Variable Costs, Return on Investment and Labour Costs. The data used to construct the index has been taken from information provided by Canberra Cabs and from discussions with the industry.

Fixed costs

From the submission provided by Canberra Cabs, the following cost components have been used for the 2002 year.

Item	\$
Vehicle capital costs	6,271
Vehicle registration costs	6,850
Drivers' licence and medical	186
Comprehensive insurance	8,640
Demurrage insurance	300
Network fees (retained at 2001 level)	12,454
Uniform	507
Office/miscellaneous expenses	2,271
Total	37,479

Relevant costs for 2001 have been taken from the Commission's May 2001 Final Report on Taxi Fares (page iii) totalling \$34,422.

Moving forward to subsequent years, these fixed costs will be estimated in a similar manner to that currently used by Canberra Cabs to provide the 2002 year estimates, except that Network Fees will again be held constant for at least the 2003 - 2004 year.

Variable Non Labour Costs

From the estimates provided by Canberra Cabs, the following cost components have been used for the 2002 year.

Item	\$
Fuel	11,038
Tyres	1,580
Car washing	1,136
Repairs and maintenance	13,647
Workers compensation insurance	2,336
Income protection insurance	1,077
Total	30,814

Relevant costs for 2001 have been taken from the Commission's May 2001 Taxi Report. These costs have been adjusted for the reduced number of kilometres assumed in the 2002 estimates. The number of kilometres assumed are 140,105 kilometres. The equivalent estimate for this item in 2001 was \$32,914.

Moving forward to subsequent years, these variable costs will be estimated in a similar manner to that currently used by Canberra Cabs to provide the 2002 year estimate, except that the kilometres to be used will reflect the average kilometres travelled in the relevant year based upon an appropriate supervised survey of a sample of taxis undertaken by Canberra Cabs. The previous year's variable cost estimates will also be adjusted for the revised current year's kilometre estimates.

Return on investment

The estimate included in the index for purposes of determining a weight for this component is a proxy based on the \$26,000 annual lease fees paid for a taxi plate. The \$26,000 allowance is included in the current year, and the movement in this component is determined as the movement in the 10 Year Bond Rate between 2001 and 2002. The rate changes that have been included in the Weighted Cost Index for 2002 is an increase from 5.5 per cent to 6 per cent.

Moving forward for subsequent years, the \$26,000 allowance should be included in the current year's estimate, and the estimate for the previous base year will be calculated as the \$26,000 discounted back for any increase or decrease in the 10 Year Bond Rate between the then current year and the previous year.

Labour costs

The proxy for labour costs used for purposes of providing a weight for this item in the Weighted Cost Index is the sum of the Fixed Cost component, the Variable Cost component, and the Return on Investment component for the current year. In effect this means that the Labour Cost component represents a 50 per cent weighting in the Weighted Cost Index.

Having set the Labour Cost component for the current year, the Labour Cost component element in the base year is calculated by discounting back the current year's estimate by the movement in the Full Time Adult Total Earnings series between the two years.

Weighting of the index

The following table provides the estimates used in calculating the Weighted Cost Index for 2002. The weights used in the index are based on the relative size of the current year's cost components. These are shown in the table. The Labour Cost component will always remain at 50 per cent, but the other components may change in terms of their relative importance given the movement in costs for individual items between each year.

	Current Year Weights %	2001 \$	2002 \$	Weighted Cost Movement %
Fixed Costs	19.9	34,422	37,479	1.7
Variable Non Labour Costs	16.3	32,914	30,814	-1.2
Return on Investment	13.8	23,636	26,000	1.3
Labour Costs	50.0	92,063	94,293	1.2
Total	100.0	183,036	188,586	3.0

It should be noted that the sum of the various components is not intended to represent the current actual costs or revenue of an average taxi operator. Rather, the various components have been estimated and brought together in the manner described above as a means of devising a weighting methodology which incorporates the various cost components known to be incurred by a taxi operator.

Adjusting the Weighted Cost Index for future years

It is intended that the Weighted Cost Index be used for at least the two years 1 July 2002 to 30 June 2003, and 1 July 2003 to 30 June 2004. If the Government does not deregulate the taxi industry as recommended by the Commission, the Weighted Cost Index will be used for the following three years until 30 June 2007. It will be reviewed and possibly revised or replaced prior to the setting of any new rates from 1 July 2007.

The method to be used in adjusting the Weighted Cost Index each year will require:

- the assembly of the value of the various cost components for the current year (as outlined above)
- the setting of Labour Costs as 50 percent of the total weighting
- the adjustment of the previous year's base cost components to take account of any change in the number of kilometres travelled on average by taxis as determined by a survey of taxi operators to be undertaken by Canberra Cabs
- the summation of the individual components for the base year and the current year to determine the percentage change in these aggregates between the two years.

ATTACHMENT 6 PUBLIC HEARINGS

Participants at public hearing, Monday 13 May 2002

Contact name	Organisation
John Alsford	Hire car operator
Dianna Budd	IDOL Moments, Canberra Region Tourism Operators Association
Phil Button	Taxi operator
Marie Gordon	Hire car operator
Michelle Slater & Brock Cambourne	Tourism Industry Council
Nora Stewart	Stewart Limousines
Des Kennedy	Hire Car Industry
Lorraine Stevenson	Hire Car Industry
Wal Cooper	Canberra Hire Cars
Richard Filewood/Peter Murdock	Queanbeyan Taxi Cooperative Ltd
Ross Pearson	Taxi operator and owner
Bert Trenergy	Limousine Industry Association
David Little	Hire car operator
John Tam	Taxi operator
Richard Sliwka	Canberra Hire Cars

ATTACHMENT 7 LIST OF SUBMISSIONS

Public Submissions Received on the Issues Paper

Contact name	Organisation
Alfred Jones	QBN Hire Cars
Barry Bain	Murrumbateman Taxi Service
Bert Trenerly	Limousine Industry Association
Brian MacDonald	Department of Urban Services
Christine Harvey	Law Council of Australia
Craig Wallace	DPI
Daniel Stubbs	ACTCOSS
Denis Moulen	National Capital Limousines
Denis O'Brien	
Dianna Budd	IDOL Moments
Dianna Budd	Canberra Region Tourism Operators Association
Evan Kemp & Dave Ramsay	
John McKeough	
John Muir	Canberra Cabs
Michelle Slater	Tourism Industry Council
Patrick O'Brien	
Phil Button	
Phil Morris	Phil Morris Auto Mechanical Repairs
Peter Murdoch	QBN Taxi Co-operative Ltd
Peter O'Rourke	O'Rourke Partnerships
Ross MacDiarmid	CTEC
S McDermott & M Grogan	
Tara & Alan Pinsker	

Public Submissions Received on the Draft Report

Contact name	Organisation
Alan Shore	Dawn Drifters
Andrew Whale	Transport Workers Union
Bert Trenerly	Limousine Industry Association
Beverly & David Clarkson	Co-owners of Hire Car Licence H6
Brian Elliot	Taxi Proprietor
Craig Wallace	DPI
David Little & Marie Gordon	Bentleys MRI Canberra Pty Ltd
David Willetts	HUGHES Cars & Limousines
Denis Moulen	National Capital Limousines
Denis O'Brien	
Dianna Budd	Canberra Region Tourism Operators Association & IDOL Moments
Donn McMichael	Yellow Cabs
EM & BM Costello	
Graeme Vagg	
Howard & Margaret Garnier	Hire Car Industry
Howard Porter	
Ian AC Bunsell	Taxi Leasor
IE & J Leonard	Taxi Owner
John Alsford	

Contact name	Organisation
John Muir	Canberra Cabs
Karen Nicholson	ACTCOSS
Kenneth Tucker	Capital Chauffeured Limousines
Les Hanbidge	Owner/Operator TX9
Loraine & Gary Stephenson	Owners of Plate H2
Michael Cottier	Taxi Plate Owner
Michelle Slater & Brock Cambourne	Tourism Industry Council
Monica Young	Gondwana Dreaming
Nora Stewart	Stewart Limousines
Pamela Hyatt	Umbrella Tours
Peter O'Rourke	WAT Committee
Phil Button	
Rob Macaulay	
Ross MacDiarmid	CTEC
WN & G Tougher	