ICRC

independent competition and regulatory commission

# Draft determination

# Taxi Fares
# 1 July 2004 to 30 June 2007

**February 2004**

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

The commission has three commissioners:

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

# Foreword

This is the commission's draft determination on pricing of taxi services in the Australian Capital Territory (ACT) for the period from 1 July 2004 to 30 June 2007. As required by the *Independent Competition and Regulatory Commission Act 1997* (the ICRC Act), the commission is releasing this draft determination and invites submissions on it before releasing a final determination.

Taxis are an important mode of public transport in the Territory. Surveys and industry data indicate that some 57% of Territorians have used a taxi in the past three months, with an average 6,800 hirings per day being completed. The commission is mindful that some people cannot use other forms of transport. Overall, the commission will try to ensure that taxis provide a comfortable, reliable and safe service for a reasonable fare.

In its last determination, the commission used the weighted cost index (WCI) method to revise taxi fares, but expressed concerns about the effectiveness of the WCI and foreshadowed that in the course of the current inquiry it would evaluate alternative fare revision methods. The commission notes that the industry does not favour retention of the WCI, stating that the index is 'flawed in its construction and deleterious in its outcomes for both the public and the industry.' Consequently, the commission is proposing to supersede the WCI with a new, simpler *taxi cost composite index* (TCCI).

This draft determination summarises the issues the commission is required to consider as part of its inquiry, and provides preliminary conclusions on the future fare-setting methodology, an evaluation of the WCI, an examination of alternative fare revision methods and a proposal for the new TCCI approach. The commission seeks written submissions from interested parties on this draft determination, including the preliminary conclusions and the proposed TCCI. These submissions will be taken into account in the preparation of a final determination on the fare-setting methodology and resulting fare changes. A public hearing will be held for those who wish to make verbal submissions. Following consideration of these submissions, the final determination, which incorporates the final price direction, will be issued.

## Indicative timetable for the review

| *Event* | *Date* |
|---|---|
| Submissions close on draft determination | Friday, 26 March 2004 |
| Public hearing | mid-April 2004<br>(date and time to be advertised) |
| Final determination released | 30 May 2004 |
| New fares take effect | 1 July 2004 |

I urge those who have an interest in taxi fares, whether as users or industry participants, to make submissions on this draft determination and to participate in each stage of the investigation.

Paul Baxter
Senior Commissioner
18 February 2004

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# Executive summary

This executive summary is provided to assist interested parties and other readers of the commission's detailed draft determination. It summarises the information considered by the commission, the analysis applied, and the commission's draft decision. The summary neither substitutes for, nor forms any part of, the commission's detailed determination.

## Reference for investigation

The reference for this inquiry (see Appendix 1) required the commission to assess the effectiveness of using the weighted cost index (WCI) to set maximum taxi fares during the three years to June 2007. This draft determination evaluates methodologies for revising taxi fares and does not contain specific fare adjustments, but does provide indicative guidance on a potential fare change based on a new proposed methodology. The new methodology will be refined and finalised for the commission's final determination in May 2004, which will also detail a specific taxi fare change.

The reference for this inquiry also required the commission to consider the labour cost weighting, any adjustments required to assumptions on average distance travelled, the summation of the individual cost components to determine the percentage change in fares, and the matters referred to in Section 20 of the *Independent Competition and Regulatory Commission Act 1997* (the ICRC Act).

## Submissions to the issues paper

In October 2003, the commission released an issues paper for this inquiry and sought views on many relevant matters, with a focus on the merit of the WCI and how it could be improved. The commission received three submissions from:

- Mr Kenneth Tucker
- Mr Graeme Vagg.
- Canberra Taxi Proprietors Association Ltd, in conjunction with Canberra Cabs.

These submissions are summarised in Appendix 2, and in the relevant sections of the draft determination. A further submission will be provided on this draft determination, with data on cost movements, in March 2004.

## Effectiveness of the WCI

The commission has expressed concerns about the effectiveness of the WCI. These concerns include the following.

- *Difficulties in defining the cost levels of an average taxi*. The proposed reforms acknowledge that the taxi industry in the ACT comprises 162 operators controlling 242 vehicles. Because these are small businesses with differing cost structures, defining an 'average' taxi operator is difficult. For example, costs of repairs and maintenance vary widely with mileage, vehicle age (new vehicles cost less, as they are under warranty), self-maintenance by the operator versus dealer servicing, choice of genuine or generic parts, and planned versus reactive maintenance.

- *Misinterpretation*. The WCI is weighted using a calculated dollar-value labour cost, and some stakeholders saw this as an attempt to estimate the average earnings of drivers.

- *Absence of direct incentives to reduce cost, improve service quality or increase productivity*. The commission seeks better links between fare levels and service quality, while acknowledging the trade-off between price, quality and waiting times.

- *Definitions of cost items*. There is contention about the inclusion or exclusion of particular costs, and about their definition. The most contentious items are the allowance for a return on investment, and labour.

- *Allowance for reduced demand*. As operators and drivers come under pressure, questions arise about whether, or how, to have fare changes reflect reduced demand.

The taxi industry opposes use of the WCI, stating that 'for the most part the taxi industry believes that the WCI developed and used by the commission over the past two years is flawed in its construction and deleterious in its outcomes for both the public and the industry.'

In evaluating the WCI, the commission examined interstate approaches to taxi fare revisions. Alternatives included making minor changes to the WCI, using a profit and loss approach, and using one or more Australian Bureau of Statistics (ABS) indices.

## A proposed new taxi cost composite index

The commission is proposing to streamline and simplify the calculation of reasonable fare adjustments with a new *taxi cost composite index* (TCCI), which will supersede the WCI. The TCCI retains significant parts of the WCI where costs are uniform across the industry and verifiable (for example, LPG and registration costs).

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

- *Labour*. The commission proposes to retain the WCI weighting of 50%, as this matches income-sharing arrangements between drivers and operators. A minor change to the escalation approach is proposed, whereby the ABS wage cost index is to be used instead of average weekly earnings.

- *Motor vehicles, repairs and maintenance*. Instead of attempting to measure the change in the cost level of an average taxi, the TCCI adopts the 2003 WCI weightings and uses the average of three ABS indices for vehicles, parts and servicing to measure the cost change.

- *Insurances*. Instead of attempting to measure the change in the cost level of an average taxi with an assumed purchase of four different policies (demurrage, comprehensive, workers compensation and income protection) the TCCI adopts the 2003 WCI weighting and uses the ABS consumer price index for insurance services to measure the cost change.

- *Network fees*. For some time, the commission has been concerned that network costs were not efficient and that they created a small overweighting in the WCI. To mitigate this, the commission previously froze this cost item at 2001 cost levels. For 2004, the commission proposes a minor reduction in weighting to a cost level closer to best practice, based on other jurisdictions. The commission proposes to increase this item by the Canberra consumer price index, which matches the outsourced contract cost escalation approach that Canberra Cabs uses for bureau services.

- *Return on investment*. To better match the calculation logic of the WCI, the commission proposes to rename this item 'interest costs' and reduce its weighting in line with the reduced plate rental levels of the past 12 months. The commission also proposes to change the interest rate used from the 10-year bond rate to the 90-day bank bill rate, which more accurately reflects rates applying to loans for taxi plates. Changes in the bank bill rate should better match changes in interest costs incurred by taxi operators, such as overdrafts and secured or unsecured floating rate loans.

- *Office, uniform and other costs*. The commission proposes to aggregate a large range of minor costs, set them to a weighting based on their equivalent WCI 2003 weight, and escalate these by the Canberra consumer price index.

By reducing the number of cost items to the more important components, the TCCI should allow more appropriate weightings and escalation methods for each item, while avoiding the need for micro-level analysis of such things as maintenance cycles.

The commission will work with industry to refine the weightings and the proposed escalation methods, and then use the same approach for fare revisions at 1 July 2005 and 1 July 2006. The commission proposes to complete a major review of the weights and escalation methods every three years, as part of major fare determinations with associated public processes.

However, the commission also acknowledges that the TCCI weights and inclusions might need to be reset within the three-year period. If an existing cost grows by over 20% in a year, the commission proposes to adjust the weighting between major revisions. If a material new cost is incurred by taxi operators (that is, a cost which adds over 10% to total costs), the commission will consider a submission from the industry to accommodate the new cost into the TCCI. Such a submission should include a proposal for revised weighting and a suggested approach for the escalation of the new item.

Based on the proposed new TCCI with adjusted weights, and using cost change and ABS index data available to early February 2004, the fare change is likely to be about 4.2%. However, this figure could change significantly in the final determination because of such factors as further changes in interest rates or fluctuations in LPG prices.

## Merit of the TCCI

The main advantages of the TCCI are as follows.

- It is a far simpler, more practical and more readily understandable method.
- It reduces subjectivity in measurements of changes in the costs of an average taxi.
- It is a far less resource-intensive both for the industry and for the commission.
- It is likely to produce results that are broadly similar to the WCI for most years.
- It reduces the need to estimate dollar cost levels for an average taxi, which vary widely and are hard to analyse.
- It removes the link between labour and other components. Rises in interest rates led to rises in the implied dollar value of labour in the WCI, and caused confusion among taxi operators when they did not necessarily see a corresponding increase in their actual labour payments or receipts.
- It can better accommodate a linkage between the fare level and service quality.

Arguably, a potential disadvantage of the TCCI is that it is less able to accurately measure the change in cost levels for an average taxi, because it relies less on actual cost data and more on ABS indices.

## Demand

The industry reports that demand (measured by meter activations per year) has fallen 10.7% over the past six years, from 2.90 million in 1996 to 2.48 million in 2003. Growth in the taxi fleet has resulted in a larger (21%) fall in the number of meter activations per ACT taxi.

On the positive side, it is hoped that the 6.5% growth in total demand from 2002 to 2003 is a sign of demand stabilisation or recovery. However, the

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

The commission holds the view that demand per taxi may continue to weaken because of continued growth in alternative forms of transport. The commission also believes that customers should not pay for falling demand.

## Service quality

The Department of Urban Services (DUS) has provided the commission with service quality information for the latest period. The draft determination summarises and analyses this information, which indicates that service quality for standard taxis is usually adequate. However, the commission believes there is sizable scope to improve peak and off-peak response times, particularly for wheelchair accessible taxi customers, and for standard taxi customers in outer areas.

The best way to improve wheelchair accessible taxi service quality is through improved operational regulations and network sanctions, rather than through pricing or fare adjustments.

The commission also suggests that some additional evaluation of driver health and safety issues may have merit.

## Fare structure

The commission is keen to ensure that the fare structure is efficient, functional and equitable. The commission seeks views from industry and customers on:

- the appropriate level for the ACT booking fee
- the merit of changing fares for high occupancy taxis (those that seat five or more adult passengers) from a 50% premium on the distance rate to a fixed surcharge
- the impact on customers and on driver availability of the current higher night fare rate (the distance charge is 15% higher between 9 pm and 6 am), and whether the premium level or times should be changed.

## Other potential impacts

Aside from service quality, efficiency and costs, section 20 of the ICRC Act requires the commission to also consider the following potential impacts.

- *Ecologically sustainable development.* The commission believes that a modest taxi fare rise would not be significantly inconsistent with the principles of ecologically sustainable development.

- *The social impacts of any decisions.* The commission understands the importance of taxi transport to specific community groups, such as people with disabilities who must rely on taxis. The commission notes that the ACT Government offers a taxi subsidy scheme designed to help those with permanent or temporary disabilities who need to use taxis. Overall, the commission is keen to ensure that the final taxi fare rise does not materially change the affordability of fares for such people, and that they retain their mobility. The commission seeks further views and submissions on the likely social impacts of taxi fare rises.

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

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

A more detailed assessment of these issues will be completed when a fare adjustment is decided upon as part of the commission's final determination in May 2004. An initial discussion is provided in section 5 of this draft determination.

# 1 Background

## 1.1 The commission

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

The commission has the following objectives:

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

For price regulation inquiries, the commission must also consider:

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

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

## 1.2 Reference for investigation—determination of taxi prices

The ACT taxi industry has undergone a number of reviews, mainly reflecting the ACT Government's obligations under the National Competition Policy. Following consideration of the most recent review conducted by the commission, the ACT Government introduced the Road Transport (Public Passenger Services) Amendment Bill in 2003.

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

- the Minister for Urban Services, under section 60 of the *Road Transport (Public Passenger Services) Act 2001*

or

- the commission, as a result of a review reference and price-related direction from the Minister.

Against the background of taxi industry policy reform, the commission remains focused on dealing with important questions in the setting of taxi fares. In its determination of June 2002, the commission adopted a *weighted cost index* (WCI) to determine fares. In September 2003, the commission received a reference from the ACT Government to consider the effectiveness of the WCI and the need for any adjustments to it for future fare determinations. Subsequently, the Government asked the commission to determine the change in taxi fares for the three-year period from 1 July 2004 to 30 June 2007.

Specifically, the commission's reference requires it to have regard to the WCI. While the reference does not restrict the commission in reaching a determination or in its use of the WCI, the commission is to take into account:

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

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

c) the setting of labour cost weighting

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

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

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

The commission's full terms of reference are included in Appendix 1 of this draft determination.

## 1.3 Purpose of this draft determination

The commission is required to release its draft and final determinations as part of its price setting process. The taxi industry data required to assess cost movements is not due to be available to the commission until March 2004.

The terms of reference for the determination require the commission to evaluate the effectiveness of the WCI and its appropriateness as the ongoing fare revision method. The commission has decided to focus this draft determination on assessing the effectiveness of the WCI and to call for stakeholder comments on a proposed refined approach to revising taxi fares.

## 1.4 Previous decisions by the commission on taxi fares

### 1.4.1 Fare decisions, 1989–90 to 2000–01

Historically, taxi fares in the ACT were set using a taxi cost index initially developed in 1989 by the Taxi Industry Advisory Council, an advisory body

to the ACT Government. The index comprised a number of cost items associated with the operation of a taxi, but was not intended to provide an estimate of the actual cost of operations. Instead, it attempted to measure the movement in operating costs over time.

The commission was concerned that, because the taxi cost index only measured the cost movement of inputs, it did not account for efficiencies possible within the taxi industry, such as those arising through better radio and vehicle location technology. Further, the cost structure behind the index had become substantially outdated. As a result, the commission decided to reform the approach for calculating taxi fare changes.

### 1.4.2 2001–02 fare decision

For its price direction for the 2001–02 financial year, the commission developed a cost build-up pricing model that sought to provide an estimated 'profit and loss statement' for a typical taxi operation in the ACT, from the perspective of the taxi owner. A longstanding problem with this approach lies in obtaining accurate income estimates, given the significant variation in incomes between operators and the potential to understate incomes in the industry. The June 2001 fare decision gave taxis an increase of 5.5% (both of flagfall and of distance rates).

In considering how to revise fares from July 2002, the commission encountered complications caused by falling demand, which reduced revenue and created a significant fall in earnings using the 'profit and loss statement' method. Under this approach, the labour cost component was taken to be 50% of estimated average gross takings. If used again in 2002–03, this method would have produced sizable fare increases to hold earnings constant against continuing declines in demand.

The commission, mindful of its role to protect consumers from abuses of monopoly power and to minimise adverse social impacts while stimulating improvements in service and cost efficiency, took the view that such rises were not justified or warranted.

The commission believes that customers should not be expected to pay for a fall in demand. Moreover, demand would only decline further if fares were to rise significantly, possibly creating a vicious cycle and leading to the underutilisation of the taxi fleet. In other regulated industries, the regulator would be likely to declare any excess capacity 'stranded' and therefore not

entitled to earn a revenue stream. In the taxi industry, the regulator has no input to capacity, but relies on market forces to encourage some operators to leave the industry, crystallising financial losses and creating some social impacts.

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

### 1.4.3 Fare decisions, 2002–03 to 2003–04

The commission's current price direction, which was released in June 2002 and runs through to 30 June 2004, reverted to setting taxi fares using a WCI. The June 2002 fare decision gave taxis an increase of 3% (both of flagfall and of distance rates).

In June 2003, the commission recalculated the WCI and recommended a rise to the distance rate of 7.1%, with the flagfall being held constant. This equated to an average fare rise of approximately 5% (assuming an eight kilometre trip).

While the commission's concerns about using a WCI remained, the fall in demand (especially in 2001) made the use of a 'profit and loss statement' approach untenable.

### 1.4.4 Taxi fare determination issues paper, October 2003

In its October 2003 issues paper, the commission sought views on:

- the costs and benefits of continuing to use the WCI compared to other approaches
- the effectiveness of the WCI and how it could be improved
- approaches to improving the labour cost estimate in the WCI and the way the prior year's base cost components are adjusted to account for changes in average distances travelled by taxis
- the average number of hirings and kilometres travelled per year, and the typical costs of operating a taxi in the ACT

- whether demand is still falling and, if so, why and how this should be reflected in the commission's price direction
- how network fees should be treated and the scope for greater efficiency in network operation
- how best to account for plate ownership or leasing costs in the price direction
- the current market price of taxi plates and current plate lease fees
- the best ways of collecting cost and revenue data from operators
- which cost components for taxis in the ACT differ significantly from those in other jurisdictions
- the impact, on the costs and revenues of taxi operations, of the Government's announced approach to deregulation of the taxi industry
- the degree to which the wheelchair accessible taxi (WAT) lift fee has improved response times and other elements of service quality for passengers who require wheelchair access
- the most appropriate fare structure for taxi services in the ACT—in particular, the commission sought data and views on whether the current relationship between:
  - the flagfall and distance rate is appropriate to ensure that drivers are willing to accept both short and long trips
  - the ordinary and multiple hiring rate is appropriate to ensure that taxi users are suitably encouraged to use multiple hirings, which have environmental benefits and, by using the taxi fleet more efficiently, could improve response times at peak periods
  - the ordinary and maxi-cab hiring rate is encouraging plate owners to provide a suitable number of high-occupancy taxis
- whether a three-year price path is preferable to a formula by which fares are changed at the end of each financial year
- whether the Australian Bureau of Statistics (ABS) wage cost index is a better proxy for taxi industry labour costs than the bureau's full-time adult total earnings series.

The commission received three submissions, from:

- Mr Kenneth Tucker
- Mr Graeme Vagg.
- Canberra Taxi Proprietors Association Ltd, in conjunction with Canberra Cabs.

These submissions are summarised in Appendix 2 and in the relevant sections of this draft determination. A further submission will be provided on this draft determination, with data on cost movements, in March 2004.

### 1.4.5 Construction of the WCI

***Cost composition***

The WCI is the sum of changes in the costs of taxi operation, and is current-period weighted to reflect relative changes in these costs. The WCI comprises four components:

- *Fixed costs*. These costs, which form about 19% of the WCI, include vehicle capital, registration, drivers licence and medical, comprehensive insurance, demurrage insurance, network fees, uniforms, office and miscellaneous expenses, and administration labour.
- *Non-labour variable costs.* Components include fuel, tyres, car washing, repairs and maintenance, workers compensation insurance and income protection insurance. These costs form about 19% of the WCI. Some are calculated on assumed average kilometres travelled annually: the 2002–03 and 2003–04 determinations assumed 160,855 kilometres per year. For the final determination, the reasonableness of this assumption will be reconsidered.
- *An allowance for a return on investment in a taxi plate*. This cost represented 12% of the 2003 WCI. This component uses movement in the Commonwealth 10-year bond rate as a proxy for any change in the required return on investment, and for the change in borrowing costs. To weight the item in the WCI, the commission assumes that the 2002 annual lease fee of $26,000 applies in the current year at the current bond rate. To reset the 'return on investment' for the past year, the commission takes the difference between the current bond rate and the

prevailing rate 12 months ago. Therefore, the movement in this item reflects only the annual change in the bond rate; the average plate rental is used only to set the weighting.

- *Labour*. Labour is treated similarly to return on investment. The commission sets labour costs in the current year as the sum of the three other cost components (and therefore 50% of total costs in the WCI). The change in the labour cost is then 'back-solved' (see Glossary), based on the movement in the ABS ACT full-time adult total earnings. This approach was favoured by the commission because it matches the 50:50 split of income between drivers and operators.

### 1.4.6 Problems with the use of the WCI

Despite the continued use of the WCI, the commission remains concerned about its use as a means of setting fares. The commission's main concerns are:

- *Absence of direct incentives to reduce cost, improve service quality or increase productivity*. The commission is keen to explore ways to establish better linkages between fare levels and service quality, while acknowledging the trade-off between price, quality and waiting times, all of which affect the service received by the customer.

- *Difficulties establishing an accurate 'average' taxi in a market with a wide range of variation*. The ACT taxi industry comprises 162 operators (managing 242 vehicles); the commission is keen to assess better ways to accommodate the substantial variation in revenue between different drivers, operators and owners, and similarly large variations in costs.

- *Improving the definition of specific cost items and determining the costs to be included and excluded*. Of the four components, the most contentious are the allowance for a return on investment, and labour.

- *Whether, or how, to reflect reduced demand in fare changes*. Falling demand limits the viability of operators and drivers.

Despite these concerns, the commission used the WCI for the 2002–03 and 2003–04 taxi fare determinations because the government of the day was investigating full deregulation. At the time, the WCI was seen as a short-term solution until deregulation, when fare regulation would cease and fares would be set by market forces.

However, the Government subsequently decided on a much more gradual approach to deregulation, and the commission must now consider the effectiveness of the WCI for ongoing use in taxi fare adjustments. To complete this assessment, the commission will evaluate the merits of:

- developing a new approach
- refining the WCI to remove or reduce some perceived and potential shortcomings.

### 1.4.7 ACT Government taxi industry policy

The ACT Government announced its policy for the taxi industry in December 2002.[1] In summary, the policy states that:

- Each year, additional taxi licences, at the rate of 5% of existing standard licence numbers, will be released for sale by auction.
- An independent market valuation will be completed before the first auction, based on the value of licences at November 2001.
- A reserve price will be set at 90% of the market value. If bids do not reach the reserve price, no licences will be sold. If the average price at auction is more than 95% of the market value (that is, demand for licences is high), then a further 5% release of licences will be triggered. The maximum number of licences released in any year will be 10% of the current fleet.
- In the following years, market value will be the average sale price from the previous year's auction. If no licences were sold in the previous year, the reserve price will be 90% of the previous year's reserve. It is possible that, again, no licences will be sold.
- The new licences will be perpetual and transferable. Further to the safeguards in the release formula, the Government will assist licence owners through a period of structural adjustment by returning to them the net revenue from the sale of new licences after allowing for costs associated with the reforms. The Government has made a commitment to provide structural adjustment assistance for two years, and may extend it

[1] See http://www.urbanservices.act.gov.au/ns4/transportparking/taxiwhatsnew.html

for a further three years if an extension is justified. This assistance is linked to increases in competition (that is, to the number of new licences sold, if any).

- At this stage, it is not proposed that the number of WAT licences be increased; instead, the Road Transport Authority will work in partnership with the industry to ensure that the service provided by the existing 26 WATs is improved. It is expected that the introduction of a lift fee will contribute to an improvement in the service.

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

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

### 1.4.8 Report by the Assembly Standing Committee on Planning and Environment

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

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

- the role of taxis, hire cars and other small passenger vehicles in a sustainable public transport strategy

- appropriate licensing and accreditation strategies to support that role

- any transitional arrangements such as compensation that should accompany any recommended changes to industry regulation

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

The Standing Committee released its final report on 19 December 2003. For taxis, the committee recommended:

i a buy-back scheme be implemented for taxi licences

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

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

iv that any legislation include a framework for enforcement of an accreditation, licensing and registration regime with penalties for operators who breach the regulations, and that the Department of Urban Services be properly resourced with appropriately trained personnel to undertake the enforcement regime

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

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

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

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

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

For WATs, the committee recommended:

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

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

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

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

xiii that the Government implement an off-budget buy-back scheme for taxi licences to provide adequate compensation, include a minimum no capital loss provision, and implement at the same time a budget-funded buy-back scheme for the hire car industry

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

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

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

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

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

- ensure that the supply of substitute services is reviewed
- assure the private sector that the Government would not impose policy that would have a material adverse effect on the market for taxis and hire cars
- ensure that licence fees are set at a level that is less than 80% of existing lease charges indexed to inflation and matching the revenue base of taxi and hire car operations, to enable the benefits of reform to be immediately realised (a fixed fee over the term would require a higher initial licence fee to limit the early benefit of deregulation, but over time the benefit would become clearer as the proportion of licence fees to revenue falls)
- ensure that it regulates minimum quality standards, such as roadworthiness requirements, vehicle standards, driver presentation and knowledge, to maintain consumer safety and consumer confidence and protect the interests of a sustainable industry
- ensure that the Taxi Fund would finance the compensation payable for cancellation of perpetual licences, so that it will not have to fund any capital outlay (this would ensure that funding of the taxi-plate buy-back scheme will be off the balance sheet for the Territory)
- ensure that, at the expiry of the fixed-term Taxi Fund, it would establish a framework to continue to generate licence fee income for its own account at whatever level it chose
- develop guidelines for the buy-back structure and subsequent legislation.

The committee's report was tabled in the ACT Legislative Assembly on 10 February 2004, at which time the Government had three months to respond.

# 2 Issues in the ACT taxi industry

A range of local ACT factors need to be evaluated in designing reforms to the WCI or in considering a change to other fare revision mechanisms. These factors, outlined in the commission's issues paper, include falling demand, rising competition and instances of poor peak-demand response times.

The ACT taxi fleet currently provides an average of 6,800 hirings each day and travels 39.6 million kilometres each year. Assuming 1.8 passengers per hiring, the fleet averages 12,240 individual passenger journeys per day. Taxis complete less than 1% of total passenger trips in the ACT; most use private cars. In comparison, 363 ACTION buses carry an average of 44,660 passengers a day travelling on 3,000 services, completing 5% of total trips within the ACT, and travelling 22.5 million kilometres per year.

The taxi fleet comprises a mixture of sedan or station wagon 'standard' taxis, high occupancy taxis (HOTs) and wheelchair access taxis (WATs). There are currently 242 vehicles, including 23 WATs. The ACT has a relatively smaller fleet, per capita, than Sydney (one taxi per 1,315 residents, compared to Sydney's one per 900 residents). However, ACT residents are far less frequent taxi users (fewer than eight hirings per resident per year, compared to Sydney's 20 hirings).[2]

Canberra Cabs operates the sole taxi radio network in the ACT. The radio network is a primary source of taxi bookings, and owners of individually licensed taxis generally operate within it. Operators of licensed taxis manage individual businesses, driving the taxis themselves and/or engaging drivers as they see fit.

Taxi operators must be accredited by the Road Transport Authority. Drivers are licensed after being judged fit and proper, and after satisfying requirements for character, medical fitness, driving ability and knowledge of Canberra.

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

As part of the inquiry, the commission called for submissions from interested parties. The Canberra Taxi Proprietors Association (CTPA) and Canberra Cabs made a joint submission, in which they commented on many of the issues affecting the local industry. In arriving at its final conclusions, the commission assessed these views, which are set out below.

## 2.1 Falling demand for taxis

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

Information provided to the commission by the CTPA and Canberra Cabs in their submission indicates that the trend in the number of taxi hirings has been downwards since 1996 (see Table 2.1). This is one of the main factors affecting the ongoing viability of the industry.

The ACT taxi industry reports that demand (measured by meter activations per year) has fallen 10.7% over the past six years, from 2.90 million in 1996 to 2.48 million in 2003. Growth in the taxi fleet has resulted in a larger fall (21%) in the number of meter activations per taxi.[3]

**Table 2.1 Meter activations, standard taxis and WATs, 1996 to 2003**

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

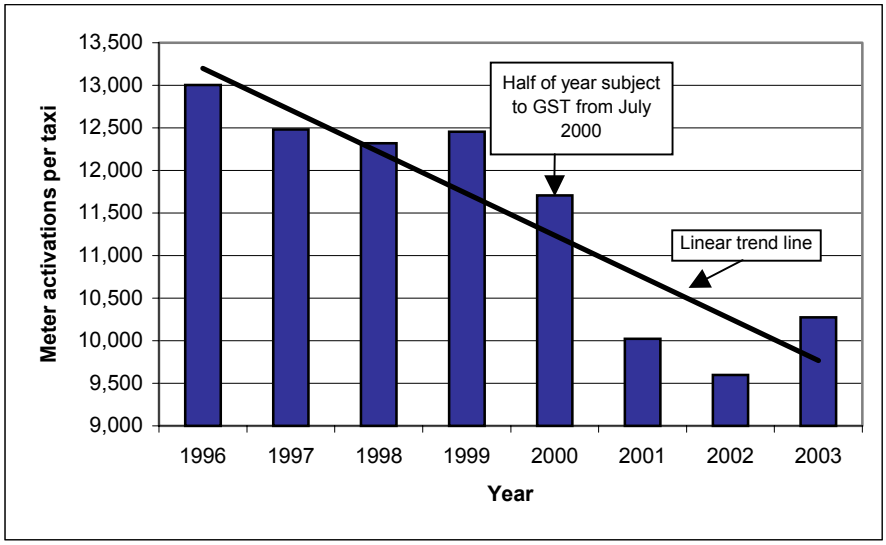
Note: These figures do not include the hirings undertaken by Queanbeyan Cabs, which has operated in the market since 1 July 2001.
Source: The Canberra Taxi Proprietors Association and Canberra Cabs.

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

On the positive side, it is hoped that the 6.5% growth in total demand from 2002 to 2003 is a sign of demand stabilisation or recovery. However, the recovery in 2003 usage may have been boosted by higher passenger demand at Canberra Airport, and by one-off events such as the Rugby World Cup and the Masters Games; the longer term trend may still be one of weakening demand.

Figure 2.1 illustrates the sizable fall in the number of meter activations per ACT taxi.

**Figure 2.1 Meter activations per ACT taxi, 1996–2003**




Canberra Cabs believes there are a number of reasons for the decline in demand for taxis, including:

- increased competition from the introduction of 16 Queanbeyan cabs[4] into the Canberra market since 1 July 2001
- increased competition from chauffeured hire cars
- the introduction of the GST in July 2000[5]

[4] Consisting of 15 standard vehicles and a 'taxi bus'.
[5] A 15.56% fare rise occurred in July 2000, consisting of a normal annual rise of 7.71% and a rise of 7.86% caused by the introduction of the GST. While Commonwealth taxation and

- the increased ease of using rental cars, particularly at airports
- a considerable drop in the relative price of second-hand motor vehicles in recent years, allowing more people to buy cars
- the introduction of 20 additional WAT licenses, bringing the total to 26 licences.

On the question of WAT licenses, it should be noted that the Government has expanded the WATs fleet to 10% of the total taxi fleet, and stated recently that the existing WAT fleet will be better utilised rather than further expanded. However, three of the WAT plates have been returned to government and are yet to be re-issued. The industry is concerned that WAT vehicles, on average, service only two wheelchair customers per day, indicating that over 90% of WAT taxi journeys are not wheelchair-related and that WAT vehicles have diluted earnings for standard taxis.

The commission agrees that many of the above factors have weakened demand, with the key factors being:

- *A long-term structural shift from public transport (buses and taxis) to private cars*. A growing proportion of households operating more than one car. This shift is driven by rising household incomes, cheap and available parking[6], the superior door-to-door flexibility and speed of private vehicle travel, reduced real costs to operate private cars, and improved affordability caused by wider availability of salary packaging.
- *Growing competition from hire cars, which have a more competitive cost structure*. For example, CBD Transport provides a professional chauffeured hire car service from Canberra Airport to the central business district for as little as $20.[7] However, the typical price for a hire car for this route is $35, compared with about $18 for an average taxi fare on the same route.
- *Increased competition for longer trips*. average taxi fares to outer ACT suburbs are less affordable for non-business travellers due to the longer distances involved. For example, taxi fares from the airport to Belconnen

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welfare levels were adjusted to broadly neutralise the impact of GST, the price rise may have weakened demand and stimulated switches to other transport modes.

[6] Private car-parking costs are relatively inexpensive; for example, long-stay airport parking costs $13 per day and all-day parking at the Canberra Convention Centre costs $7.70.

[7] See http://www.chauffeursdirectory.com/canberra_town_car.html

average $60, to Woden $52 and to Queanbeyan $34. Hence, long-stay airport parking is often relatively more attractive for leisure travellers who live further from the airport. Moreover, the premium for hire car prices over taxi fares is generally smaller for longer trips.[8]

- *Competition from rental cars*. There has been some shift in demand from taxis to rental cars (eg Hertz, Budget, Avis and EuropeCar) particularly for airport-related work where the customer has a multi-leg journey in Canberra. At corporate rates, it is possible to hire a Ford Falcon for $49.50 per day. This rental car cost (fuel and parking costs aside) is less than that of three separate, 10-kilometre, daytime taxi fares (about $52).

- *Competition from ComCar*. Expansion of the ComCar fleet has reduced taxis' peak 'overflow' work, which was once more evenly shared between ComCar and the taxi industry.

- *Competition from other sources*. Mini-bus operators ('MO plates'), and hotels and tour operators providing courtesy vehicles, have contributed to reduced demand.

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

### 2.1.1 The relationship between fare increases and patronage

Canberra Cabs generally argues that demand for taxis is not significantly affected by fare increases; the rise in annual hirings in 1999 is cited as evidence of this. However, it is difficult distinguish between the overall weakening trend in demand and the impact of annual July price rises. Table 2.2 compares June and July hirings with the July fare changes between 1996 and 2003 and attempts to measure any correlation.

[8] http://www.canberraairport.com.au/getting_here/car/comparison.html

**Table 2.2 Comparison of June and July hirings and the July fare changes, calendar years 1996 to 2003**

| | Hirings | | | |
|---|---|---|---|---|
| Calendar year | June | July | Demand change | 1 July fare rise |
| 1996 | 244,754 | 235,159 | –3.9% | 6.2% |
| 1997 | 235,294 | 225,334 | –4.2% | 6.75% |
| 1998 | 227,593 | 228,529 | 0.4% | 2.27% |
| 1999 | 232,869 | 236,419 | 1.5% | 2.3% |
| 2000 | 248,091 | 226,570 | –8.7% | 7.71% / 15.56%[a] |
| 2001 | 224,297 | 209,236 | –6.7% | 5.5% |
| 2002 | 207,620 | 190,845 | –8.1% | 3.0% |
| 2003 | 211,378 | 205,376 | –2.8% | 5.0%[b] |
| **Simple average** | **228,987** | **219,684** | **–4.06%** | **4.84% / 5.82%** |
| Correlation | | | | –0.61 / –0.62 |

a The July 2001 rise was 15.56% in total, with 7.71% of the increase due to cost increases and 7.85% due to the GST adjustment.

b A 7.14% rise in the distance rate equates to around a 5% rise in the total fare, assuming an eight-kilometre journey.

In Table 2.2, there appears to be a modest correlation between fare rise size and July demand. The average fare rise (excluding the GST rise) over the past eight years has been 4.84%, and the average reduction in July demand has been 4.06%. The largest decline in demand in the eight years followed the largest fare rise in 2001. It also seems that, fare changes aside, July may be a weaker demand month than June.

This simplified June–July analysis indicates an elasticity of –0.84. However, the commission has more confidence in the results of specific elasticity studies. A 2003 ACT transport demand elasticity study by Booz Allen Hamilton (BAH) estimated own price elasticity for taxi use to be –0.36; that is, a 10.0% rise in fares would result in a revenue rise of 6.4% and a 3.6% reduction in demand. The study also reported that taxi users are more price sensitive than bus users; it found price elasticity of bus users to be –0.20% for a 10.0% price change.

It is clear that demand for taxis is significantly affected by fare increases. In the context of modifications to the WCI, the commission also believes it likely that total demand for taxis and, more particularly, demand *per* taxi will continue to weaken because of competition and the Government's plans expressed in the June 2003 draft legislation (see Section 1.4.8) to expand the taxi fleet.

### 2.1.2 Seasonality and variability of taxi demand

Wet weather increases demand for taxis by 20–40%. Periods of wet conditions are excluded from the response times required under the Road Transport Authority service level agreement.

Demand is also seasonally volatile. Demand is stronger on:

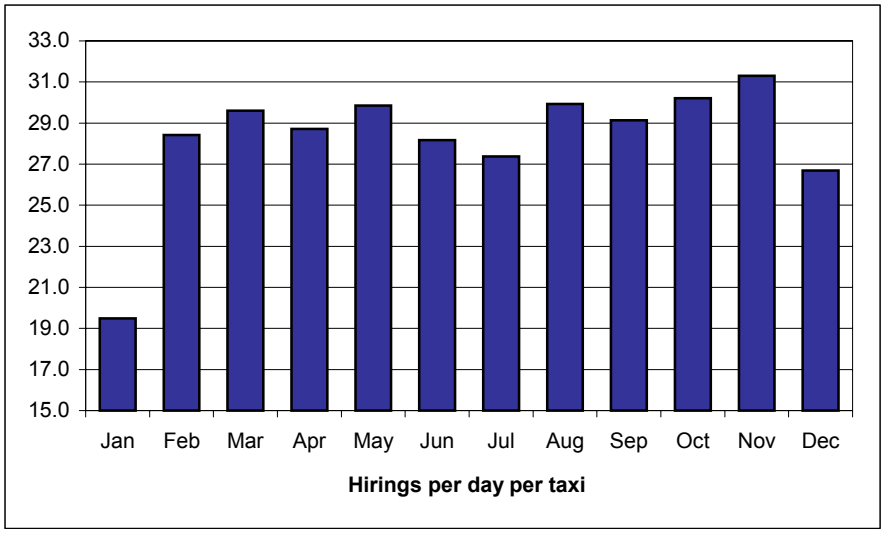
- Parliament sitting days
- Friday and Saturday evenings
- Monday mornings from the airport and Friday afternoon to the airport.

Weak demand periods include:

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

Figure 2.2 shows variation in average taxi demand by month.

**Figure 2.2 Monthly taxi demand, 2003**



## 2.2 Service quality and reliability

The commission has a role to encourage improved service quality, reliability and safety of taxi services. Taxis, like a range of service industries (such as airlines and hotels), are required to manage a peak demand (7 am – 9 am and 4 pm – 6 pm) which can be several times larger than average demand. However, taxis appear to have a far lower peak demand than buses. The BAH 2003 ACT transport demand elasticity study noted that ACTION buses complete 49% of their passenger weekday journeys in the peak period, whereas taxis complete only 11% of such journeys in the peak.[9]

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

### 2.2.1 The 2003 DUS taxi satisfaction survey

The DUS coordinates regular surveys, with a taxi component known as the taxi satisfaction survey, of public transport satisfaction. In June 2003, the fourth taxi satisfaction survey used telephone surveys, direct observation of arrival times, and an on-board survey of WAT services.

The survey report provides satisfaction levels as measured across eight criteria, including response times, accuracy of fare, and cleanliness of vehicle.

***Standard taxis***

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

Average general passenger satisfaction levels were high across all criteria in 2003 and were similar to levels in 2002, the one exception being some declines in WAT customer satisfaction measures.

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

In the 2003 survey, a new question about overall satisfaction with the taxi service was included. The result for this measure (78% 'satisfied' or 'very satisfied') is the only score under 80%. As all other criteria have results in the range 81%–93%, the overall satisfaction rating is unusual and indicates there may be other dissatisfaction factors not accounted for in the survey questions. Overall, as the majority of taxi journeys are completed by a relatively small group of frequent users (about 30% of the population typically account for over 80% of taxi journeys[10]) the satisfaction survey may produce more meaningful results if it is targeted at frequent taxi users.

In 2001, Canberra Cabs introduced a by-law prohibiting taxis from changing over during the peak period (3.00 pm – 5.00 pm on weekdays). This internal regulation has resulted in some improvements in peak period response times.

In some outer parts of Canberra, the response times of taxis during peak demand periods continue to be less than satisfactory. Response times can be poor because drivers estimate that dead running to service outer suburbs is less profitable than focusing on more central locations.

Ideally, a new or refined fare revision system would provide a better linkage between requiring acceptable response times and an adjustment of fares to reflect full cost movements.

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

- implementing a system of identifying drivers who regularly reject less desirable jobs, and following up with warnings, counselling and withdrawal of network access

- as a last resort, offering cash incentives ('paid dead running') to drivers to accept less desirable fares, a budget for which is included within network fees.

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

The survey results also indicate that the general public is not sufficiently aware of the complaints mechanisms available for taxi services. The commission understands that availability of appropriate information for consumers about complaints will be addressed by DUS as part of Canberra Cabs' taxi network provider accreditation compliance requirements.

There is a need to educate the public about how complaints can be made and the processes available to investigate and remedy them. The public seems generally unaware of 'who to complain to' when problems occur.

Minor issues were raised about driver training, the choice of route for a journey, fares and charges (particularly multiple hiring), and customer service, both by drivers and by telephone operators. Training, whether internal or external, will assist the industry in maintaining and improving its current standards.

Actual response times from the Canberra taxi industry survey for WAT customers in 2003 were longer than in 2002, and the previous guidelines were only met for the 95th percentile during the peak period:

- the non-peak 85th percentile was 18:24 minutes (17:22 minutes in 2002)
- the non-peak 95th percentile was 21:06 minutes (19:12 minutes in 2002)
- the peak time 85th percentile was 21:15 minutes (16:30 minutes in 2002)
- the peak time 95th percentile was 23:50 minutes (17:00 minutes in 2002).

Figures provided to DUS by the networks are included in the Tables 2.3–2.6.

**Table 2.3 Standard taxis, yearly results July 2000 to January 2003**

| Measure: waiting times | Required | 2000–01 | 2001–02 | 2002–03 | 2003–04 (to date) |
|---|---|---|---|---|---|
| Peak period | | | | | |
| <18 mins | 85% | 97% | 97% | 97% | 97% |
| <30 mins | 95% | 99% | 100% | 99% | 99% |
| Off-peak period | | | | | |
| <10 mins | 85% | 86% | 86% | 86% | 83% |
| <20 mins | 95% | 98% | 99% | 99% | 99% |

Observed waiting times for standard taxis have been stable in recent years and have been at or better than requirements. Response times in peak periods have bettered requirements by the greatest margin, whereas response times in off-peak periods have only just met the 85th percentile requirement in the 2003–04 year to date.

**Table 2.4 Standard taxis, monthly results for calendar year 2003**

| Measure: waiting times | Req % | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Peak period | | | | | | | | | | | | | |
| <18 mins | 85% | 99 | 97 | 96 | 98 | 96 | 96 | 98 | 97 | 97 | 97 | 94 | 95 |
| <30 mins | 95% | 100 | 99 | 99 | 100 | 99 | 99 | 100 | 100 | 99 | 100 | 99 | 99 |
| Off-peak period | | | | | | | | | | | | | |
| <10 mins | 85% | 87 | 85 | 85 | 86 | 86 | 85 | 86 | 85 | 86 | 85 | 83 | 82 |
| <20 mins | 95% | 99 | 98 | 98 | 99 | 99 | 99 | 99 | 99 | 99 | 99 | 98 | 98 |

The monthly statistics show that requirements were also bettered in most cases during 2003, although the requirement that 85% of waiting times be no more than 10 minutes in off-peak periods was not met in March and November.

### *Wheelchair accessible taxis*

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

The issues raised by WAT users usually relate to the late arrival of their taxi and to the apparent lack of help from base staff when the user enquires about the whereabouts of the taxi. However, measure improved on last year's result (56% satisfied or very satisfied).

The survey identified further areas of concern for WATs passengers, including:

- in over 10% of hirings, wheelchairs are not fully secured
- driving ability scored a lower level of satisfaction than in 2002

- in 100% of hirings, passengers in scooters are not required to relocate to a seating position in the taxi (although only three respondents use a scooter, this indicates that the new regulations on the transport of scooters in taxis, and the new standard for taximeter display in WATs, are not being met)
- over 52% of wheelchair passengers cannot view the taximeter.

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

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

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

In the December 2003 survey, a morning peak period was included for WAT performance measurement. Additionally, a 10-minute allowance was added to response times for WAT customers to take loading time into account.

**Table 2.5 Wheelchair accessible taxis, yearly results July 2000 to January 2004**

| Measure: waiting times | Required % | 2000–01 | 2001–02 | 2002–03 | 2003–04 (to date) |
|---|---|---|---|---|---|
| Peak period | | | | | |
| <18 mins | 85% | 72% | 86% | 74% | 80% |
| <30 mins | 95% | 89% | 95% | 91% | 93% |
| Off-peak period | | | | | |
| <10 mins | 85% | 61% | 72% | 66% | 70% |
| <20 mins | 95% | 85% | 92% | 89% | 89% |

As noted above, waiting time requirements for WAT users have not been met in recent years. Performance improved in the year to June 2002, but has fallen substantially since.

**Table 2.6 Wheelchair accessible taxis, monthly results for calendar year 2003**

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

The waiting time requirements for WAT passengers were not met in any month of 2003. The best result was recorded in December, when demand was lower. The commission wants greater attention paid by all stakeholders to improving this situation. The industry and DUS are looking at penalties for those operators who are not complying with network rules. The commission supports exploration of additional initiatives to further improve WAT service quality.

### 2.2.2 Safety

In assessing the adequacy of safety, the commission has considered the 2003 DUS taxi industry survey results. A key measure of passenger safety is the number of complaints relating to unsafe driving, unsafe vehicles or assaults by drivers on passengers. According to the survey, 83% of respondents were either satisfied or highly satisfied with driver ability, which implies that vehicles are being operated safely; 89% were either satisfied or highly satisfied with vehicle condition, which implies that taxis are being kept in a safe operating condition.

ACT accident statistics data for 2002 from the Road Transport Authority indicates that taxis and hire cars are involved in 0.59% of motor vehicle accidents (92 out of 15,493 accidents).[11] As taxis account for an estimated 0.8% to 0.9% of total vehicle kilometres, the taxi accident rate is lower than that for other ACT motor vehicles.

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

***Vehicle safety and the taxi inspection program***

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

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

- compliance with driver licensing, information display and vehicle registration requirements
- roadworthiness
- comfort and cleanliness
- equipment compliance with the regulations and relevant standards (for example, taximeters are sealed).

***Driver and passenger safety***

A key aspect of taxi safety is minimising the risk of passengers and drivers being involved in incidents. Over the past few years, initiatives have included the following:

- *GPS based alarms*. These can be activated by drivers to seek assistance from police or other drivers in the event of theft or assault by passengers. GPS is used to accurately locate the vehicle and direct support to that location. While GPS does not have the deterrent value of other mechanisms, such as security cameras, it has been valuable in preventing a number of potential assaults. Police, but more particularly taxi drivers, respond rapidly when the alarm is raised and are able to converge on the location to assist the driver.
- *Security cameras.* The T8030 network system used by Canberra Cabs incorporates GPS dispatch methods. Security surveillance cameras in all vehicles transmit live digital images to base control in the event of a

driver emergency. While there is little empirical evidence available in this area, the security cameras appear to have significant deterrent value against assault and fare evasion. The cameras do not protect the driver from assault or fare evasion, but they aid the prosecution of the offender after the event. Anecdotally, disputes over fares lead to a large proportion of assaults. Successful fare evasion prosecutions encourage the reporting of the offences and have additional deterrent value.

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

A 2001 Queensland Government survey of 98 taxi drivers sought to identify the main health and safety concerns of taxi drivers, and found that the four key concerns were long hours of work (52%), driver risk of assault (33%), inadequate training (27%) and abuse from the public (25%).[12] Secondary concerns included adequacy of vehicle maintenance (8%), insurance against personal injury (7%), poor seating (4%), wearing of seatbelts (3%) and air pollution (3%). Minor concerns included infection control, personal health, education of the public, access to toilets, and dirty cars. The commission would expect similar concerns in the ACT. The commission suggests that DUS complete a similar survey for ACT taxi drivers and evaluate approaches to resolve the concerns identified in order to improve safety and driver retention.

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

**Preliminary Conclusion 1**

Overall, the commission is broadly satisfied that service quality for standard taxis is generally adequate. However, the commission believes there is sizable scope to improve peak and off-peak response times, particularly for WAT customers and for standard taxi customers in outer areas. The most appropriate mechanisms for resolving these two issues are enhanced operational regulations and sanctions on the network, rather than pricing or fare adjustments.

The commission also suggests that:

- an evaluation of driver health and safety issues may have merit
- the satisfaction survey for standard taxis be refined to include some interviews with or phone surveys of regular taxi users.

## 2.3 Network fees

Since 2000, the commission has expressed an ongoing concern at the level of the network fees operators are charged for being part of the Canberra Cabs network. In the July 2002 decision, the commission noted that network fees in the ACT were significantly higher than in much of NSW, and took the decision to freeze this cost component at the 2001 level of $12,454 (13% below the February 2004 cost). In its submission, Canberra Cabs put the view that any model the commission implements must include the full cost of the network fees to the plate owner or lessee, as these are real costs to the plate operator. Canberra Cabs believes that it is unreasonable and unfair to compare network fees in the ACT with other jurisdictions, because with only 242 ACT plate owners there are insufficient economies of scale to reduce costs in line with other jurisdictions.

The average NSW urban network fee, as estimated by the Independent Pricing and Regulatory Tribunal (IPART) in June 2003, is $6,500. The commission acknowledges that the NSW urban network fee level may not be achievable in Canberra (assuming similar technology) because of better economies of scale in Sydney. The IPART June 2003 estimate for the NSW country average network fee of $10,667 may be more relevant. This figure is calculated as the plate weighted average network fee cost of Albury, Armidale, Bathurst, Coffs Harbour, Tamworth and Wagga Wagga. However,

these six towns use simpler (voice-only dispatch) trunk radio based technologies than those used in the ACT, and have taxi fleets substantially smaller than the ACT fleet.[13]

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

Current Canberra Cabs network fees are $14,380. Table 2.7 provides details of average network fees in other jurisdictions, and shows that the ACT cost is 40–200% greater. The table also gives comparative fares and lease fees.

**Table 2.7 Average network fees fares and plate lease rents in different jurisdictions**

| Jurisdictions | Network fee | Extent that ACT Network fee is higher | Estimated fares (10 km trip at weekday day rate, inc. flagfall) | Est. lease fees, av. per year [a] |
|---|---|---|---|---|
| ACT | $14,380 | n.a. | $16.35 | $20,000 |
| NSW urban average | $6,500 | 121% | $17.95 | $21,913 |
| NSW country average | $10,670 | 35% | $17.25 | $11,884 |
| Queanbeyan | $10,220 | 41% | $17.25 | $19,760 |
| Northern Territory | $10,300 | 40% | $17.00 | $16,000 |
| South Australia | $5,360 | 168% | $14.60 | $12,000 |
| Victoria | $5,670 | 154% | $15.90 | $23,000 |
| Western Australia | $6,240 | 130% | $14.60 | $18,000 |
| Tasmania | $4,800 | 200% | $15.80 | $9,000 |

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

The trend to consolidation of networks is driven by the fact that costs are mainly fixed, allowing a reduction in the cost per plate for larger fleets. An exception to the trend is the decision by Manly Cabs (180 cars) to exit from the Taxis Combined network in Sydney (around 3,100 taxis). This move was driven by a desire to provide a better service to a local community, a task not considered achievable as part of a Sydney-wide pool. Following the move from the Taxis Combined network, the commission understands that the Manly network fee remains about 10% above the Combined Network fee of $6,363. This example demonstrates that it is possible to use a high level of

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

network technology (supplied by Raywood) for a small fleet at a cost similar to best-practice costs. However, the commission does not have access to the necessary information to compare the quality of Manly and Canberra technology, or to evaluate the cost recovery and sustainability of the Manly network fee level.

Based on the network fee information above, it appears that the ACT network fee is the highest in Australia, by a margin of over 20%. It also appears that most networks select a technology type and cost structure to provide their customers with a fit-for-purpose service quality while limiting the total cost incurred per taxi to a more affordable level, typically between $6,000 and $10,700 per year.

### 2.3.1 The costs of operating the ACT taxi network

During August 2002, Canberra Cabs entered a 50:50 joint venture with Sigtec to form iDispatch (ACT) Pty Ltd.[14] iDispatch provides Canberra Cabs with bureau services that, in summary, involve manning the call centre to process bookings and providing the information technology to enable allocation of bookings to individual taxis. The contract is for seven years, with two separate three-year options for extension. Fifty per cent of any profits earned by iDispatch are retained by Canberra Cabs Aerial Taxi Cabs Co-operative Society Ltd. As part of the joint venture, Sigtec made an investment of $2.8 million in new software and for a new system that operates across five radio channels to provide excellent coverage throughout Canberra city and surrounding areas. A call centre staff of approximately 40 was transferred to iDispatch. The previous Motorola network system had a life of nine years.

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

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

Some key features of the financial statements and balance sheets are as follows:

- Growth in total costs was 11.3% from 2001–02 to 2002–03. This was only partially offset by base fee revenue growth of 5.7%.
- The largest single network cost is iDispatch, at $7,780 per taxi in 2002–03.
- other key network costs (per taxi) are salaries ($2,440), accident losses ($690), directors fees and honoraria ($600), superannuation ($510) and airport commissionaire ($510).
- The 2002–03 pre-tax profit margin of 16% was down from 19.7% in 2001–02. This equates to pre-tax profit of $3,050 per taxi in 2002–03 (and $3,550 per taxi in 2001–02).
- The entity has progressively accumulated assets of $8.32 million, most of which (89%) are held as investments (eg shares).

Further analysis of how to treat network costs is provided in Section 3.3.3 of this draft determination.

**Preliminary Conclusion 2**

The commission believes that the size of the Canberra network fee remains an area of significant concern. The commission notes the comments of the CTPA and Canberra Cabs on economies of scale. Nevertheless, given that there is no alternative network in Canberra to benchmark against, the commission believes that network costs should be subject to regulatory scrutiny in calculating fare changes.

## 2.4 Return on investment

Prior to the June 2002 price determination, the costs of plate ownership or plate leasing were not included when calculating fare changes. At June 2002, the average market plate lease fee was $26,000 per year, and this amount was used to weight the 'return on investment' (RoI) component of the WCI to compensate for changes in the 10-year bond rate.

The submission by the CTPA and Canberra Cabs seeks to revise the WCI to remove any RoI component. Because of the diversity of funding and purchase arrangements for plates, and on the basis that any return on investment in the plates will be achieved through capital gains (or losses) when the plates are sold, the industry believes that returns on investment should not be part of a taxi cost model. The latest available information indicates that lease fees have now fallen to a level of $20,000 per year (in November 2003), a reduction of 23%. The commission understands that the trend in plate values has been similar, but this is harder to identify because there are relatively few sales and because of the complexities of sales that include vehicles.

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

- weakening demand and rising competition from MO plates, ComCars, hire cars, rental cars and private cars

- general uncertainty over the impacts on value of the Government's recently announced gradual deregulation process and its timing

- the addition of 20 new WAT plates since December 2000, with less than 7% of fares serviced by these vehicles being for customers who use wheelchairs or who have poor mobility

- the liberalisation of the ACT and Queanbeyan markets, permitting entry by 16 Queanbeyan taxis.

As discussed in Section 1.4.7 of this draft determination, the ACT Government announced a taxi reform package in December 2002. Taxi licences will continue to be perpetual and tradable, and 5% more perpetual licences to be issued annually. The likely supply–demand impact of this gradual expansion of the fleet will be a progressive reduction in plate values.

The cost of capital for taxi plate owners is made up of the weighted average cost of debt and cost of equity. A measure of the RoI required to invest in plates is provided by the taxi market. RoI can be measured as the plate lease rent divided by the plate value. Assuming typical rental of $20,000 per year and a current market value of $200,000, the required RoI is 10%.

The industry has conducted a survey of all ACT taxi plate owners to determine the cost of debt (or average interest cost) and current debt size relating to the purchase a taxi plate. A total of 58 responses (that is, from about 20% of the industry) were received. Financial arrangements vary dramatically, from those who own outright to those who borrowed 100% of the cost of the plate to buy at or near to the top of the market (using their home as security) only to see their plates decline in value. The average purchase price was $217,104 (range $12,500 to $300,000), the average current loan balance being $107,367 and the average interest rate 8.02% (range 6% to 14.25%). The interest rates paid will depend on the level of security provided (where the loan is secured against residential property a lower rate will prevail) and the degree of gearing, which is the bank debt as a percentage of the plate value. The average loan balance indicates a gearing of about 50%. Overall, the survey and market yields for taxi plates indicate that the debt and also the cost of capital are significantly above the Commonwealth 10-year bond rate.

## 2.5 Labour

The WCI used by the commission sets labour costs in the current year as the sum of the other cost components (fixed costs, variable costs and RoI); hence, labour becomes 50% of total costs in the WCI. The change in the labour cost is then 'back-solved', based on the movement in the Australian Bureau of Statistics (ABS) ACT full-time adult total earnings. This approach was favoured by the commission because it matches the longstanding 50:50 split of income between drivers and operators.

The CTPA believes that the methodology for labour costs in the WCI is not appropriate, and that the linkage between labour and non-labour costs should be removed. The industry points out, for example, that a reduction in the RoI because of lower interest rates results in a fall in nominal labour costs.

The commission notes that, while the notional size of the labour cost varies with changes in items such as vehicle lease costs, LPG fuel, tyres, insurance and so on, this linkage is only active in the weighting process. The outcome of the WCI is that half the size of the fare rise is driven by the change in the ABS full-time adult total average weekly earnings (AWE). While the industry understands this issue, it would still prefer to refine the WCI so that the labour cost amount is more reasonable and realistic, and allow the labour cost quantum to move independently of other costs.

To determine the level of labour costs, the CTPA and Canberra Cabs believe that the model should recognise that taxi drivers have the same lifestyle aspirations and rights as the rest of the community. The CTPA and Canberra Cabs believe that the setting of labour costs should not ignore the social and economic disadvantage taxi drivers experience because of the extremely long hours they must work.

The estimated 2003 labour cost of $107,636 based on the WCI calculation equates to $12.30 per hour operating 24 hours per day and seven days per week, or $15.36 per hour if drivers average about 10 hours per shift connected to the network and take rest or sleep breaks during periods of low demand.

The commission recognises that this outcome creates two problems:

- *A potential overweighting of labour vis-à-vis gross takings*. The 2003 labour cost implies gross takings of $215,702 or an average of $295 per shift, which is significantly above most average revenue estimates. The July 2001 commission decision estimated gross takings at $163,493. Attempting to update this estimate for the three subsequent fare rises[15] and the 12% fall in hirings (see Table 2.2) implies gross takings of about $164,400 or $225 per shift, which indicates broad nominal dollar stability in the period since 2001.

- *A perception issue*. The commission's 2003 determination assumed an average labour cost that was equal to the sum of all other costs (or $107,636) to achieve a 50% weight which was escalated by the change in AWE. A sizable proportion of industry participants do not follow this logic and simply conclude the WCI is unrealistic, as their earnings are well below commission assumptions.

### 2.5.1 Escalation of the labour cost component

In the current WCI, the commission has used changes in the ABS AWE as a proxy for labour cost changes in the taxi industry. As acknowledged by IPART[16], the ABS has advised that the wage cost index series provides a superior measure of the change in wages on a constant quality basis. The

[15] 5.5% (July 2001), 3% (July 2002) and 7% (July 2003—distance rate only).
[16] Independent Pricing and Regulatory Tribunal of NSW, *Review of fares for taxis in New South Wales in 2003 from 31 August 2003*, Report to the NSW Minister for Transport Services, August 2003, p. 17.

wage cost index series avoids labour-type and productivity changes that are captured in the AWE series and that may result in AWE understating wages growth.

The industry submission supports a change to use the ABS wage cost index. Based on the ABS advice, if the WCI is retained (or if some WCI variant is used which also requires a labour cost escalation method), the commission would look to change the labour cost escalation method to use the ABS wage cost index.

**Preliminary Conclusion 3**

If escalation of a labour cost is required, the commission will use the ABS wage cost index.

## 2.6 Price path duration

The commission's reference for investigation (see Appendix 1) requires a determination of taxi fare levels for the three years from July 2004. Such a three-year price path is desirable in order to improve industry certainty and to reduce regulatory costs for the industry and the commission. In practice, the commission would establish a three-year price path by defining a methodology to be used for the July 2004 price change, and re-using this method for any price changes in July 2005 and July 2006 without the need for a full price investigation. Arguably, a three-year path also encourages efficiency in the industry, because the benefits of any cost reductions by operators are retained by them as additional profits until the next price direction.

Because of the nature of the industry and the impact that government decision-making processes can have on it, the industry has agreed that, as far as possible, fare changes should be limited to once a year. After an announcement in late May (to enable sufficient time to manufacture new meter chips and to print new fare information material), the changes take effect from 1 July in line with the government financial year.

However, if a major cost item changes significantly as a result of factors over which the industry has no control, the impact of such a shift in costs

should be reflected in fares as soon as possible. One example of a potential significant cost changes was the Federal Budget announcement (May 2003) of a plan to bring excise-free fuels such as LPG under the fuel excise regime from July 2008. The initial proposed rate of excise was 29 cents per litre (cpl) and was based on energy content in order to provide tax neutrality between different fuels.[17] The July timing is fortunate and will negate any need for a mid financial year price adjustment. While the LPG excise does not become effective for over four years, it has the potential to change vehicle purchasing decisions and this may see a rise in the percentage of the fleet using unleaded petrol (ULP).

On 16 December 2003, the Australian Government revised its original decision and announced a phase-in arrangement whereby excise on LPG is to increase initially by 2.5 cpl from mid-2008, rising to an eventual rate of 12.5 cpl by 2012. The smaller level of excise, the lag before commencement in 2008 and the gradual nature of increases to 2012 should significantly moderate impacts on costs and taxi fares.[18]

The commission also notes that the Government's planned expansion of the taxi fleet is likely to progressively reduce plate values. Depending on how any RoI component of taxi fares is calculated, the reduction in plate values may create a need to revise how this component of the WCI is weighted or calculated. Furthermore, the trend towards weaker demand for taxis may also create issues that require refinement of the fare methodology used from July 2004.

Overall, the commission suggests that the WCI needs to be flexible to accommodate significant changes to cost components. While the commission would like to commit to using the same methodology for 2005 and 2006 as part of a three-year price path, the industry is undergoing a

[17] LPG uses on average 25% more fuel to travel the same distance as ULP. On this basis, the LPG excise cost per litre would be 25% below that of ULP to provide energy equivalent prices.

[18] Based on a typical recent average LPG price of 44 cpl and a ULP price of 92 cpl, LPG users currently obtain a benefit of 37.5 cpl. This is offset by up front capital costs of either factory fitting LPG ($480 extra) or converting to LPG (about $1700). Imposition of a 12.5 cpl excise on LPG removes around 33% of the current operating cost benefit and may see some minor switching by taxis to ULP. The WCI at June 2003 had a fuel cost of $13,985 (6.5% of total costs) based on 160,855 kilometres at 48 cpl at 5.5 kilometres per litre. When a 12.5 cpl excise is applied to the current LPG price (44 cpl) in 2012, the new price would be 56.5 cpl, lifting the total fuel cost by 18% to $16,520. Simplistically, the cost of LPG per shift (52 weeks per year and 14 shifts per week) would rise from $19.00 to $22.70. This change in isolation (holding all other costs constant) would translate in the WCI to a fare rise of 1.4%.

period of much change. The commission needs to reserve the right to modify the fare change calculation methodology to ensure that outcomes are consistent with the commission's objectives and its full consideration of issues required under section 20 of the ICRC Act.

**Preliminary Conclusion 4**

The commission is keen to establish a three-year price path. However, as the industry is not currently close to a 'steady state', particularly in view of weakening demand and planned fleet size expansions, the commission needs to retain the flexibility to modify the price path at June 2005 or June 2006. Additionally, the commission needs the flexibility to adjust fares outside the normal annual July cycle where significant unforeseen cost changes occur.

# 3 Alternative approaches to revising taxi fares

## 3.1 Fare revision approaches used in other jurisdictions

In considering modifications to the WCI, the commission reviewed fare-setting mechanisms in other jurisdictions. Table 3.1 summarises these approaches.

**Table 3.1 Comparison of approaches used in other Australian jurisdictions to adjust taxi fares**

| Jurisdiction | Fare determined by | Comment |
|---|---|---|
| **Victoria** | Until recently, fares set solely by the minister. In May 2002, legislation changed to allow the minister to determine fares following evaluation by Director of Public Transport, and independent assessment by the Essential Services Commission (ESC). | Before ESC involvement, fare rises have been based on industry submissions demonstrating cost growth, and on ministerial judgment. The approach to be used by ESC is not yet known. Up to the mid-1990s a cost index was utilised, but this was abandoned in favour of ministerial judgment. The most recent fare rise was 9% in May 2000, which the minister deemed necessary because of large rises in LPG prices. In October 2003, industry requested a rise of 12%, but some operators oppose as 12% rise as being likely to harm demand. A 20% night levy on fares to improve availability remains a government reform policy, but is yet to be implemented. The ESC involvement is meant to ensure that the cost of hiring a taxi is fair and equitable. However, the government is yet to formally begin the ESC's role. |
| **South Australia** | Passenger Transport Board (PTB) | Fares are adjusted using a taxi cost index (TCI). In July 2003 fares were increased by 4.8% based on the change in the TCI. The flagfall was held constant. The TCI is relatively conventional. On the key issues of return on investment (RoI) and labour:<br>• The TCI is termed an operating cost index and no inclusion of RoI has been contemplated.<br>• The labour cost was set based on a reliable estimate of 50% of revenue completed in 1999, and this has been escalated by the ABS wage cost index. The weighting of labour is 47%.<br>The PTB also completes a detailed industry study and national survey of taxi customer satisfaction. Adelaide also has a $6 subsidy to drivers for mobility-impaired customers collected within 13 minutes of their booking time. |

| Jurisdiction | Fare determined by | Comment |
|---|---|---|
| **Western Australia** | Minister for Planning and Infrastructure | Fare rises have been controlled by the minister and where granted were usually based on the movement in CPI. However, taxi fares have not increased since July 2001 and the government announced that they will be frozen until July 2004 and will be adjusted thereafter by using a private motoring index (PMI).[a] The PMI is made up of costs of motor vehicles, fuel, repair and servicing, parts and accessories and other motoring charges. The PMI is component of CPI (20.3%) and it rose 1.6% in the year to September 2003 and 1.3% over the prior year. PMI rises have been less than CPI due to new car discounting, but PMI can be more volatile due to fuel prices.<br><br>A June 2003 report for the minister recommended a voluntary buyback of plates to comply with NCP and a shift towards liberalisation by issuing non-transferable licences where demand warrants. This report also recommended that the falls in lease payments may be used to reduce fares.[b]<br><br>The industry wants taxi fare increases to be linked to the CPI rather than the PMI because the PMI movements have been low because of new car discounting. As a second preference, the industry would prefer a taxi cost model over PMI.<br><br>Maximum pay-in levels are also regulated—the shift lease maximum at July 2003 was $67.50 per weekday shift. Friday and Saturday night maximum pay-in is $94.00. Maximum plate lease per week is $453. The maximum fees will now also be adjusted using the ABS PMI. |
| **Queensland** | Minister for Transport | Taxi fares are reviewed annually and set on the basis of movements in the operating costs of the taxi industry. New fares are determined in November each year. The methodology was developed by KPMG Consulting in 1995. The Queensland index contains no recognition of labour costs, and states that 'fare increases to cover cost rises will automatically flow through to maintain the labour component at the same level as the current income sharing split of either 45% or 50% of takings.' The index also intentionally avoids the return on investment issue by constraining analysis to 'operating costs' only. |

| Jurisdiction | Fare determined by | Comment |
|---|---|---|
| **Tasmania** | Minister for Transport | The government uses an operating cost model to guide fare rises. The industry applies to government for a fare rise. Taxi fares are not automatically adjusted by CPI or changes in taxi operating costs, such as fuel rises. A fare rise that is below or equal to the ABS CPI may be passed on to the industry on approval by the minister. A fare rise that is greater than CPI must be justified through a regulatory impact statement; that is, it must be demonstrated that operating costs faced by the taxi industry have risen at a faster rate than CPI over a given period.<br><br>Fare rises of 3.8% in December 2000, 2% in April 2002 and 5.79% in March 2003 have been awarded. The basis for the recent rise was a CPI increase from December 2001 to March 2003 of 4.55% plus an additional 1.24% to cover the costs associated with the purchase of a camera system.[c]<br><br>A large part of the ACT's competition policy reforms are similar to reforms being explored in Tasmania. The Tasmanian Government is considering an NCP review recommendation to allow discounting on fares in the rank and hail markets (by display of a sign—not negotiable) and fares to be fully negotiable in the phone-booked market. |
| **New South Wales** | Minister for Transport Services, based on detailed review and recommendations from IPART | IPART uses a detailed taxi cost index.[d] The key differences between IPART's index and the WCI are:<br><br>IPART uses 8.3% of plate value as the plate lease cost estimate. Despite some movements in bond and bank bill rates, the 8.3% remains the average bank interest rate for plate loans, with Arab Bank being the reference point. Recent announcements by the NSW Government that it will not deregulate may stabilise or see some modest growth in plate values<br><br>IPART separates labour into driver and operator components, as the Industrial Commission uses the latter to adjust maximum pay-in levels. The driver labour cost is based on AWE per hour (24/7 operation) or $68,376 (inc. entitlements). Operator labour is 10 hrs per week at AWE per hour or $13,000 (IPART is concerned that this is overstated but as this is only an index it is yet to be corrected). IPART escalates both labour costs by the ABS wage cost index. Total driver and operator labour costs are 45.6% of the index or $82,350 (where the commission's WCI is at $107,636).<br><br>IPART's index is weighted based on 1999 weights (that is, it is not current weighted) |

| Jurisdiction | Fare determined by | Comment |
|---|---|---|
| **Northern Territory** | Determined by the Minister for Infrastructure, Planning and Environment, following a recommendation from the Commercial Passenger Vehicle Board (CPVB) | Fare increases are worked out by the CPVB in different areas according to local prices for a basket of goods, which includes fuel and cleaning costs. There are no specific components for RoI or labour. In October 2002, the government announced that fares would rise by 5.78% in Darwin (slightly different rises elsewhere); these were the first increases since December 2000. The rise was in part compensation for removal of phone booking fees.<br>The territory has undergone substantial deregulation reform, followed by reregulation. However, maximum fare levels were continually controlled by the government, meters remained mandatory and maximum fares must be prominently displayed. However, fares to destinations outside regulated zones are negotiable. |

a http://www.mediastatements.wa.gov.au/media
b http://www.dpi.wa.gov.au/taxis/documents/review0603.pdf
c http://www.transport.tas.gov.au/publications/veh_opps/issue_26.html
d http://www.ipart.nsw.gov.au

Taking into account the concerns raised in relation to the WCI, no Australian jurisdiction has reached a completely effective solution to the treatment of RoI and labour costs. Most other jurisdictions (except NSW) elect to exclude both RoI and labour costs for simplicity and to avoid contention.

## 3.2 Alternative approaches to revising taxi fares

The commission's June 2002 decision appraised some alternative approaches to revising taxi fares.

### 3.2.1 Resetting fares to provide a living wage

Some industry participants support the completion of a detailed, bottom-up reset of taxi fares to provide a 'living wage' (based on average weekly earnings) from the margin by which revenue exceeds costs. Simplistically, this would involve:

- completing meter-reading surveys to obtain the current estimate of revenue per taxi
- a detailed estimation of the costs per taxi along the lines of that completed for the WCI but modified to include an estimate of the living wage

- an evaluation of the extent to which costs, including a living wage, exceed revenues, followed by an estimation of the required increase in revenues to equate both amounts, taking into account the elasticity impact (fares need to increase by 1.36% to obtain a 1% revenue increase).

The February 2002 submission from the CTPA sought a 15.9% fare rise to provide industry participants with the income necessary to ensure a viable taxi service in the ACT. Given the growth in taxi costs and in average earnings, it could be assumed that a 20% rise in taxi revenue is now required to achieve the CTPA's concept of a living wage. The approximate fare increase to achieve this revenue rise, assuming an elasticity of –0.36 (see Section 2.1.1), would be about 27%. Overall, it is not the commission's practice to attempt to provide minimum revenue levels to the entities it regulates. For electricity and water, for example, the commission uses price caps which do not guarantee the revenue that the monopoly supplier will earn. The regulated entities are responsible for providing the service quality and value for money that generates sufficient demand to enable recovery of costs plus an appropriate margin. Furthermore, the commission is of the view that a 27% taxi fare rise would have a number of undesirable effects, including the following:

- It would result in a reduction in hirings (due to the elasticity impact) of about 10%, or around 250,000 hirings per year.[19] As the elasticity estimate of –0.36 was for relatively modest fare changes, a higher elasticity impact may be likely for larger price changes. Such rises would move taxi prices closer to hire car prices, which would be likely to result in further loss in market share for taxis.

- A 27% fare rise would increase the average (eight kilometre) weekday daytime taxi fare in Canberra to about $18.40, which would leave Canberra with the most expensive regulated taxi fares in Australia. ACT average taxi fares would be about $4.60 higher than fares in Melbourne, $2.50 higher than Queanbeyan, and $3.50 higher than Sydney.

Consequently, the commission is unlikely to approve fare rises of this magnitude.

[19] As an example of elasticity, ACT taxi demand fell 6% in the twelve months after the 15.56% fare rise following the introduction of GST on 1 July 2000.

### 3.2.2 A 'profit and loss statement' approach, as used in 2001–02

The commission made use of a 'profit and loss statement' approach in its 2001–02 determination. As discussed above, previous submissions to the commission have argued that the margin between revenues and costs is inadequate (or negative), and that fares need to be increased to boost revenues to achieve a margin which provides a living wage.

The commission believes that this approach faces significant challenges, particularly in an environment with:

- questionable data accuracy (eg potential understatement of income and overstatement of some costs)
- major variability in cost and income levels (for example, some experienced owner-drivers have no or minimal debt, elect to work only during stronger demand periods, and choose not to hire the vehicle out at other times; some are able to maintain their vehicles themselves)
- a trend of weakening demand, apart from some growth in 2003 (attempts to hold earnings constant against falling demand using this approach will likely lead to higher fares, which may reduce demand even further).

Most industry representatives also recognise that a profit and loss statement approach has practical challenges. In view of the factors listed above, the commission has decided that it is not practical to use this approach to the setting of taxi fares

### 3.2.3 A detailed specific taxi cost index, as used previously

From 1989 to 2001, a detailed cost index was used to adjust maximum taxi fares in the ACT. The index differed from the WCI in that it contained no RoI component.

The index made greater effort to capture all significant taxi cost items and to measure cost changes over time, as opposed to the WCI general approach of taking initial cost estimates and escalating them over time with relevant ABS indices.

In this index, labour cost growth was calculated using changes in the ABS full-time adult total average weekly earnings series as a proxy for labour cost changes in the taxi industry. The labour cost component in the base year for the WCI 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.

As part of the analysis supporting its 2002 determination, the commission developed and evaluated a detailed specific cost index. This index suggested that a fare reduction of 5.5% was warranted, mainly because of a large decline in LPG costs and stability in most other costs.

The advantages of a detailed taxi cost index are:

- arguably greater accuracy in measuring the change in taxi costs
- less scope for windfall gains if movements in ABS indices exceed actual cost growth for taxis.

The disadvantages of a detailed taxi cost index can be:

- potentially greater volatility in the results
- the substantial data collection and analysis required to define an average cost per item and to assess the reasonableness and accuracy of individual inputs.

### 3.2.4 A single ABS index

Another alternative is to use a single ABS index to set changes in fares, for example, the Canberra CPI transportation index, the Canberra CPI, or the private motoring index (PMI) component of the CPI. As noted in Section 3.1, the Western Australian Government has decided to use the ABS PMI to adjust taxi fares. The PMI represented 19.3% of the CPI at September 2003. While the PMI contains a number of costs related to taxi operations (new motor vehicle costs, fuel, repairs, servicing, parts, accessories and other motoring charges), it may not be suitable as sole index for taxis for the following reasons:

- In measuring fuel, it captures mainly the change in costs of leaded and unleaded petrol rather than LPG, and the correlation between LPG and ULP prices is minimal. Fuel has a sizable weighting within the PMI, making this index more variable.

- The motor vehicle cost component of the PMI captures the change in the cost to purchase or hire-purchase a basket of new vehicles and motor cycles. Taxi motor vehicle costs mainly relate to the purchase or hire-purchase of new or second hand Ford Falcons.
- Average mileage by taxis is likely to be significantly higher than mileage assumptions within the PMI, meaning that variable costs may be understated and fixed costs may be overstated.
- The PMI does not directly capture a change in labour costs or an RoI (these form over 62% of the WCI).
- The level of insurance costs within the PMI would be less than that incurred by taxi operators.

A modification of this single-index approach would be to use the transport component of the CPI. The transport component comprises the PMI plus urban bus, train, ferry, tram and taxi fares (excluding fares mainly for holiday travel). Fare changes for urban transport are likely to have only a modest correlation to changes in taxi operating costs because public transport fare rises are based various factors that differ by jurisdiction (for example, ministerial discretion, franchise contract arrangements often linked to CPI, or independent price regulation). There would also be a degree of circularity in the use of the urban transport fares to set one of the components of that part of the CPI, namely taxi fares. Therefore, the PMI is potentially a better proxy for taxi cost changes than the transport CPI.

Overall, the commission is not comfortable that the movement in the mix of costs involved in operating a taxi is captured with adequate accuracy in any single ABS index. If any refinement of the WCI is merited, a composite index using a weighted mix of ABS and possibly other indices is likely to be more appropriate than a single ABS index.

### 3.2.5 A composite index based on existing ABS indices

While there is no single ABS index that adequately estimates changes in taxi operating costs, it is possible to use a combination of indices for the purpose. Over the medium to long term, a well-designed composite index can broadly track the results of indices such as the WCI, but with less subjectivity and lower resource requirements for calculation. In addition, a productivity gain (or X factor) could be inserted into the index to provide incentives to improve efficiency.

A possible shortcoming of a composite index is its inability to reflect taxi-specific cost impacts, such as security cameras. This would require appropriate modification of the index to allow recognition of specific costs where appropriate. A modified index, while not being a 'composite' index in the full sense, has the potential advantages of simplicity and greater acceptance, as it gives recognition to specific costs of the taxi industry that might affect other vehicle users differently.

Some examples of potentially workable approaches include:

- composite taxi cost index 1 = (50% of change in ABS wage cost index for ACT) plus (50% of change in ABS ACT CPI) minus an efficiency factor, X

- composite taxi cost index 2 = (50% of change in ABS wage cost index for ACT) plus (50% of change in ABS PMI) minus an efficiency factor, X

- composite taxi cost index 3 = (50% of change in ABS wage cost index for ACT) plus (10% of change in five-year bond rate) plus (40% of change in ABS PMI) minus an efficiency factor, X

- composite taxi cost index 4 = (45% of change in ABS wage cost index for ACT) plus (25% of change in ABS ACT CPI) plus (30% of change in ABS PMI) minus an efficiency factor, X

- composite taxi cost index 5 = (45% of change in ABS wage cost index for ACT) plus (10% of change in LPG reference price) plus (25% of change in ABS PMI) plus (10% of change in five-year bond rate) plus (10% of change in taxi insurance cost) minus an efficiency factor, X.

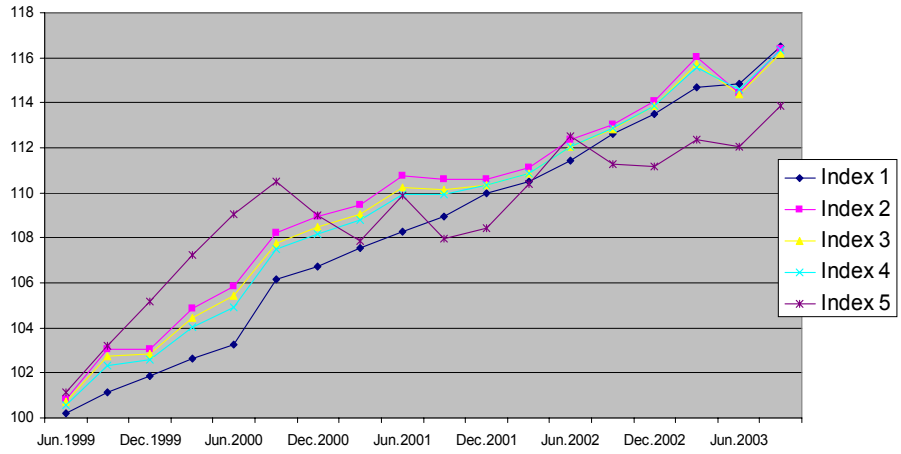
**Table 3.2 Assessment of potential composite taxi cost indices**

| Potential composite taxi cost index | Advantages | Disadvantages |
|---|---|---|
| Composite index 1 = (50% x wage cost index) + (50% x CPI) – X. | • Simplicity<br>• Certainty<br>• Lower regulation costs | • Contention about X factor<br>• May not adequately capture change in costs which are more significant for taxis, eg insurance and LPG |
| Composite index 2 = (50% x wage cost index) + (50% x PMI) – X. | • Simplicity<br>• Certainty<br>• Lower regulation costs<br>• PMI arguably more reflective of taxi costs than CPI | • As above |
| Composite index 3 = (50% x wage cost index) + (10% x change in five-year bond rate) + (40% x PMI) minus X. | • Simplicity<br>• Certainty<br>• Lower regulation costs<br>• PMI arguably more reflective of taxi costs than CPI<br>• Considers changes in cost of debt | • As above |
| Composite index 4 = (45% x wage cost index) + (25% x CPI) + (30% x PMI) – X. | • Simplicity<br>• Certainty<br>• Lower regulation costs<br>• Blend of PMI and CPI may smooth out PMI volatility and better reflect movements in non-motoring costs eg insurance | • As above |
| Composite index 5 = (45% x change in wage cost index) + (10% x change in LPG) + (25% x PMI) + (10% x change in five-year bond rate) + (10% x change in taxi insurances cost) – X. | • Simplicity<br>• Certainty<br>• Includes LPG and interest changes as separate items<br>• Includes change in insurance costs<br>• Lower regulation costs | • Greater effort to calculate than other composite indices<br>• Contention about X factor |

Of the composite indices in Table 3.2, composite index 5 arguably provides a reasonably close match to likely movements in taxi operating costs. This concept appears worthy of further evaluation.

Figure 3.1 shows the movement in the five options in Table 3.2 since 1999, assuming an X factor of zero.

**Figure 3.1 Examples of the movement in potential taxi cost indices**




The five composite indices taken over a four-year period ended with outcomes of between 14.9% and 16.5% cost growth. The simpler composite indices with fewer components (indices 1 and 2) naturally had less volatility than the indices with more components.

**Preliminary Conclusion 5**

Taking into account the issues raised above, the commission favours simplifying taxi fare revision calculations by making greater use of ABS indices.

This view is not final and the commission seeks the views of stakeholders on whether something like composite index 5 produces an outcome similar enough to the WCI but with significant other benefits.

## 3.3 Refining the WCI

Based on submissions from industry and the commission's own review of the WCI, the key issues to be addressed in the revision of the WCI are:

- the calculation of labour costs
- the inclusion of plate fees and an appropriate rate of return
- the treatment of network charges.

### 3.3.1 Labour

The commission's preliminary conclusion in Section 2.5.1 was that, if base labour costs have to be escalated, the commission will use the ABS wage cost index. Set out below are the commission's views on options for calculating a reasonable base level of labour costs.

**Table 3.3 Assessment of WCI labour options**

| WCI labour options | Evaluation and comments |
|---|---|
| Status quo | • Outcome of method is reasonable in basing 50% of any fare adjustment on 50% of the change in AWE. However, the calculations to reach this outcome can confuse some stakeholders.<br>• The 50% has some robustness in that it matches income-sharing arrangements whereby the driver retains half of fare takings (the labour cost to the operator or owner).<br>• The shortcomings are a potential overweighting of labour (if other costs are overstated), and the coupling to other costs means that rises or falls in other cost components (eg LPG) result in changes in the notional labour cost.<br>• While the notional labour cost of $107,636 is set at the sum of all other WCI costs (50% of total costs), drivers do not follow this logic and simplistically conclude that the WCI is detached from reality because their earnings are well below commission assumptions. |
| Remove labour from index | • Arguably, labour cost growth is built into other cost growth measures (eg the CPI), albeit indirectly, and therefore can be excluded (especially since estimation of labour costs is subjective).<br>• Labour is a justifiable cost inclusion and removal is a major reform to overcome a resolvable estimation issue.<br>• As AWE and wage cost index growth typically exceed CPI, to exclude may see a reduction in the attraction of taxi driving as an occupation.<br>• Removal would result in a 100% magnification of other cost changes. For example, based on June 2003 cost levels, LPG rises from 6.7% to 13.4% of taxi costs. |
| IPART-style approach | • Much subjectivity in calculating base cost. For example, 144 hrs / wk based on 14 x 10-hour shifts + 4 hours per week for operator administration, multiplied by an hourly rate assumption (eg bus driver award, AWE ordinary time etc).<br>• Some stakeholders may infer that the commission has determined an equitable remuneration level for drivers rather than simply estimating a reasonable average labour cost for the purpose of weighting the amount of the growth in the wage cost index which is present within the fare change.<br>• Recognises that labour cost is independent of other costs and removes 50% coupling.<br>• Some risk of overstating driver earnings. Weak demand and an expanding fleet mean average driver might not earn as much as AWE or another award level.<br>• Could retain current year weighting, but need to back-solve prior year is removed.<br>• This reform has the support of the taxi industry. |

**Preliminary Conclusion 6**

The commission proposes to simplify the presentation of the labour component by setting it at a fixed weighting within the fare change index and escalating the labour component by the annual movement in the wage cost index. The commission is open to considering different weighting but has an initial preference for retaining a 50% weighting because this matches income-sharing arrangements. This approach avoids the need to estimate a specific labour cost dollar amount, which is difficult because of variability and subjectivity.

### 3.3.2 Return on investment

The industry has completed an internal survey of all ACT taxi plate owners on cost of capital within the industry and received 58 responses (that is, from about 20% of the industry). The industry has given the commission a spreadsheet summary of the survey results. The key results were as follows:

- The average purchase price paid was $217,104 (range $12,500 to $300,000).
- The average initial debt was $152,013, with an average current loan balance of $107,367.
- The average monthly loan payment is $1664.
- The average remaining loan term is 11.4 years and the average total term is 13.5 years.
- The average interest rate is 8.02% (range 6% to 14.25%).

Overall, the industry survey results give an average entry price of $217,104. This is higher than expected, given that prices peaked at $317,000 (and there were few sales at that level) and that over a quarter of plate owners, most of whom paid less than $100,000, have been in the industry since 1990. The survey also shows that the average survey participant is only 2.1 years into an average loan term of 13.5 years. This indicates a possible bias in the survey towards newer entrants, and partly explains the apparent high entry price.

More complete information on investments in taxi plates was provided recently by DUS in its December 2003 submission to the Assembly Standing Committee on Planning and Environment. The DUS information indicates the following:

- Prior to 1990, 66 current owners paid less than $120,000.
- From 1990 to 1995, 29 current owners paid $130,000–$190,000 and 42 paid $200,000–$245,000.
- From 1996 to 2002, 80 current owners paid $200,000–$260,000.

Using this data, the average price paid by the current holders of taxi plates is likely to be $160,000–$170,000.

Apart from deciding the most reasonable value or weighting to assume for interest costs, a further key issue is to ensure that the selected interest rate moves similarly to the interest rates on debts held by the taxi industry. The commission's current view is that the movement in the government 10-year bond rate may not be the most effective proxy for change in the interest costs for taxis. The commission considers that measuring the change in a shorter term market rate (for example, bank bills) could provide a better proxy for the average movement in the interest rates paid by the taxi industry, such as unsecured floating-rate term loans or overdrafts.

Table 3.4 assesses options for reforming the RoI component.

**Table 3.4 Assessment of return on investment options**

| RoI options | Evaluation comments |
|---|---|
| Status quo | • A market-based measure able to be empirically observed.<br>• Average plate lease cost has reduced 23% and is now $20,000 rather than $26,000, and further decreases are likely. If left at $26,000, cost is overweight and not realistic.<br>• Most loans are likely to be variable rate or fixed terms of 3–5 years. Merit in the use of a shorter term rate, as 10-year bonds do not adequately reflect short and medium term market rate movements.<br>• The calculation method causes some confusion. |

| RoI options | Evaluation comments |
|---|---|
| Remove RoI from the WCI | • This reform also has the support of industry because they believe that the returns to industry are earned through capital gain and that such returns should not be addressed through fare adjustments.<br>• This reform is opposed by the Department of Urban Services, which it views as a real cost borne by operators (ie operators pay owners a rental fee for a large proportion of the fleet) and it results in a need for higher fares than would otherwise need to prevail.<br>• To reflect changes to the cost structures of the taxi industry, the WCI needs to incorporate at least some allowance for the change in indicative return levels, which in this case are measured by market interest rates. |
| Simplified status quo—rename 'Change in interest rates' but use a shorter term rate (eg 90-day bank bill rate) and set the ongoing weight at the 2003 level of 12% or updated 2004 level | • A market-based measure able to be empirically observed.<br>• Simpler calculation approach.<br>• The objective of the component is clearer and the outcome is the same as the status quo.<br>• Weighting basis is arguably slightly more subjective. |
| Reduce cost in the current year to current lease cost for weighting and measure the change in the 90-day bank bill rate over past 12 months | • A market-based measure able to be empirically observed.<br>• Ensures that RoI continues to measure costs from change in interest rate but with a more current weighting.<br>• New interest rate more akin to interest costs of plate owners.<br>• The calculation method may continue to cause some confusion. |
| An estimate of the cost of capital (eg 90-day bank bill rate + 3% premium) multiplied by market plate value | • A market-based measure able to be empirically observed.<br>• This approach has the fare change linked both to changes in interest rate and to changes in plate values. It is similar to the approach used by IPART for taxi fares in NSW.<br>• As plate values are more likely to reduce, given the government policy to expand the fleet, this method would be likely to reduce the size of annual fare rises.<br>• The approach has a degree of undesirable circularity.<br>• If passenger demand is weak, plate values will fall and (all else being equal) the model would suggest fares be reduced.<br>• If passenger growth is strong, driver and operator earnings will rise. Plate values will also rise because owners can charge operators higher levels of rent. Estimated plate lease costs would rise, which in turn can translate into higher fares, boosting earnings further and potentially creating a windfall gain.<br>• The rate used is a closer approximation of the cost of capital for a plate owner. This could be adjusted from time to time if the risks of holding a plate investment change.<br>• Calculation is clearer but still uses a market base for interest rate and plate value. |

| RoI options | Evaluation comments |
|---|---|
| The change in the average plate lease rental cost | • A market-based measure able to be empirically observed.<br>• The return a plate owner receives from an operator for investing in a taxi plate.<br>• Large change to WCI, in that it no longer represents a change in interest rate.<br>• Has a degree of undesirable circularity, like the previous option. As plate values are more likely to reduce, given the government policy to expand the fleet, this method would be likely to reduce the size of annual fare rises.<br>• Calculation is clearer but still uses a market base for interest rate and plate value. |

The commission believes that the capital cost of owning or leasing plates is a legitimate cost of taxi operation.

In establishing a 'maximum' price, the commission is responsible for regulating the 'returns' earned by the industry. The industry has indicated in previous submissions that it has been earning low returns. By including RoI in the WCI calculation, this issue will be addressed explicitly.

The commission therefore does not agree with the industry's views that, because the returns to industry are earned through capital gain that, such returns should not be addressed through fare adjustments. Also, at a time when the government has indicated that it intends release additional plates, the opportunity to earn a future capital gain from buying and selling a plate is likely to be minimal. In future, therefore, plate holders will need to focus on earning operating profits from leasing rather than on capital gains.

**Preliminary Conclusion 7**

Given the current industry outlook, it is the commission's preliminary conclusion that the WCI should be refined to rename the 'return on investment' component as 'interest costs'. The commission also proposes to change the interest rate used to a shorter term rate (for example, the 90-day bank bill rate) and to simplify the calculation by setting a new weighting based on an estimate of 2004 plate rent levels as a proportion of estimated total average costs.

### 3.3.3 Network fees

In analysing the network fee issue the commission examined in detail:

- the cost build-up of the current network fee of $13,055 and additional costs incurred by Canberra Cabs that are not incurred by other network providers
- the specific technology and capability of the Canberra network system (to enable benchmarking and to obtain new replacement capital cost estimates for similar systems)
- the returns from the network component and by the entity overall.

***Canberra Cabs network costs***

Canberra Cabs incurs a range of additional costs that are not incurred by other network providers. These include:

- airport commissionaires, who manage passenger queues at Canberra Airport and promote taxi-sharing (at a 2003 cost of $124,256)
- complaints line on behalf of government
- monthly reporting of service quality and demand to the ACT Government
- some vehicle inspection roles typically performed by the government in other jurisdictions.

It is difficult to accurately assess the cost impact of the complaints telephone line, monthly reporting and inspection requirements. Assuming the cost impact of each of these three functions is, say, three full-time senior resources plus labour on-costs or $240,000 per year, the total additional costs incurred by Canberra Cabs would be approximately $365,000. This equates to about $1,500 per taxi per year.

While the commission in no way wishes to micro-manage operations by directing certain management approaches, the commission does have a requirement to assess efficiency and as part of this process typically considers cost benchmarking results. Before Canberra Cabs entered its 50:50 joint venture current contract with Sigtec to form iDispatch, which operates out of the Canberra Cabs Lyons office, Canberra Cabs evaluated the cost

effectiveness and likely service quality of outsourcing the network service to the Sydney-based Combined Communications, a larger specialist taxi network company and a specialist call centre provider. In electing to set up a Canberra-based operation using iDispatch, key factors for Canberra Cabs were:

- a belief that using locally based staff who know the city and have the ability to build an ongoing rapport with regular customers is critical to providing a better service to the ACT community and to competing against hire cars
- the joint venture proposal with Combined Communications had a higher net cost than the joint venture with Sigtec
- retaining in employment an existing local staff team of 40, which transferred from Canberra Cabs to iDispatch
- cost savings, if any, of contracting services from another larger call centre were viewed as likely to be minimal.

While the commission agrees that the above factors have merit, the commission remains accountable for ensuring that consumers are not required to pay more than an equivalent efficient cost for the delivery of the network service.

***Queanbeyan network fees***

The Queanbeyan network service has also recently changed to provision by iDispatch from the Canberra Cabs Lyons office, using the same equipment for the same bureau fee as paid by Canberra Cabs. However, the total network fee of $10,220 per year paid by the 16 Queanbeyan taxis is 29% lower than the Canberra Cabs network fee of $14,380.

Because the networks are from the same bureau provider, the $4,160 cost difference appears to be caused by four additional cost factors identified by Canberra Cabs: the complaints line, monthly reporting, airport staff and inspection requirements.

Table 3.5 shows the options developed by the commission for the treatment of network fees in the WCI .

**Table 3.5 Assessment of network fee options**

| Network fee options | Comment |
|---|---|
| Status quo: retain a frozen cost at $12,454 and exclude any actual changes | • As network fees were 5.8% of total costs, the impact is to dilute fare rises by this same amount.<br>• Network costs are growing, and holding an inefficient 2001 network cost constant may be suboptimal compared to using a comparable network efficient cost and permitting pass-through of cost rises experienced by such networks. |
| Reset to the current fee level of $14,380 (but keep cost level frozen) | • Arguably better, as it improves weighting accuracy but keeps exclusion of any cost movement.<br>• Further inflates notional total cost above average gross takings. |
| Reset the weighting to a level based on modern, similarly sized, peer networks | • Feasible because network cost information is fairly readily obtainable and a range of peer networks exists (eg Newcastle, Townsville, Hobart, Wollongong)<br>• Network costs will grow, and it is fairer to provide some compensation for this cost growth, but from an efficient base.<br>• Provides Canberra Cabs with a justified target cost level and may encourage them to reduce costs to this level while keeping cost changes within the benchmark range. |
| Market test (ie estimate the cost or obtain a quote from a large network provider for outsourcing, escalate by average change in Sydney fees and reset periodically) | • Arguably the least-cost approach for Canberra.<br>• May be hard to obtain a firm and reliable outsourcing cost estimate.<br>• Could provide a justified target cost level and may encourage Canberra Cabs to reduce costs to this level or more fully explain the cost gap. |

The commission is of the view that, because network fees are such a significant cost in the operation of a taxi, such costs should be subject to close scrutiny. In terms of their treatment within the WCI, there are two issues:

- the appropriate 'weight' that should be applied to network costs relative to other costs
- how the change in costs should be calculated.

The submission by CTPA and Canberra Cabs argues that the full cost of the network should be recovered, and that the network fee in Canberra is higher than in other jurisdictions because of a lack of economies of scale. The commission acknowledges that economies should be a consideration in the assessment of network costs. However, the commission notes that the benefits of economies of scale are not being captured by industry because of

the charging arrangements that industry has entered into with the network provider.

Under the industry's seven-year joint venture contract with Sigtec, the industry pays an additional $654 for each taxi added to the network. In effect, under this contract the industry has converted a largely fixed cost for network service provision to a 100% variable cost: Canberra Cabs has transferred 50% of the volume risk (eg if a competing network were to be established) but at a cost of not capturing the benefits of economies of scale. For example, the 16 Queanbeyan taxis joined the iDispatch service using the same staff and infrastructure as Canberra Cabs, which increased iDispatch revenue by 6%, but no rebate or price reduction was shared with ACT taxi operators. Instead, a high return was retained within the iDispatch venture. The annual iDispatch charge to Canberra Cabs is escalated at the Canberra CPI to reflect cost increases. From a regulatory perspective this means that the efficiency improvements from increased utilisation of the network are not being passed on through network fees but appear to be captured within the iDispatch joint venture.

**Preliminary Conclusion 8**

The commission will reset network fee weighting to a level based on a more efficient cost of operation, which will be estimated from cost levels of similarly sized modern benchmark networks. The commission's initial view is to set a weight based on an assumed reasonable efficient cost of $10,000–$11,000 per taxi per year, and seeks submissions on this view. As Canberra Cabs has entered into a seven-year contract with a CPI escalation clause, the commission will, subject to adequate service quality, consider escalating the benchmark network cost by this contracted CPI rate.

### 3.3.4 Simplifying the calculation approach

To date, the calculation of a fare change using the WCI requires substantial data collection, verification and analysis, both by the industry and by the commission, for a large range of cost items.

A major complexity is the need to define an average cost per item for an industry consisting of 162 operators (controlling 242 vehicles), each with a different approach to cost management. For example, part of the fleet uses cheaper retread tyres while other operators prefer the additional comfort, safety and performance of more expensive tyres. Some operators wash and maintain their own vehicles (with a major cost saving), while others outsource such functions.

The cost analysis of less significant items has often been substantial, even when subsequent fare impacts are minimal. For example, under the WCI a $10 rise in the cost per tyre would result in a rise in the average fare of about 10 cents.

As part of this review, the commission is keen to explore the potential to simplify the WCI by aggregating a variety of related smaller cost items, setting a weight for such items and then escalating by an appropriate, independently calculated cost index.

For July 2004, the commission proposes to supersede the WCI with the *taxi composite cost index* (TCCI) and aggregate items into the following eight components:

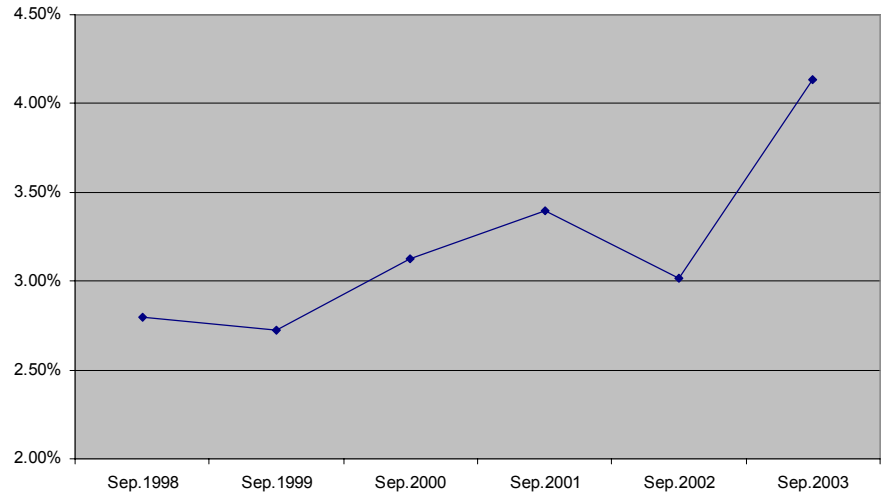
- labour
- interest
- insurances
- LPG
- network fees
- vehicle, repairs, maintenance, tyres and washing
- registration and third party personal injury insurance
- other/administration.

Each proposed cost component of the TCCI is discussed below.

### *Labour costs*

The labour costs item is intended to cover both driver and operator labour costs, including entitlements and superannuation. The suggested weighting is 50%, which is based on this weight being consistent with income-sharing arrangements. The commission proposes to change escalation methods to use the ABS wage cost index, as recommended by the ABS. Figure 3.2 shows the recent annual change in the ACT wage cost index (September quarter on September quarter).

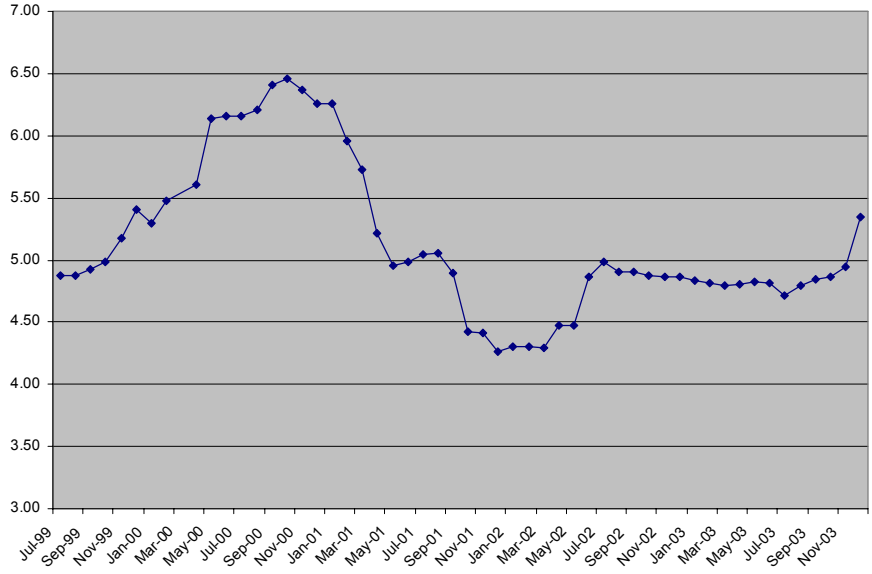
**Figure 3.2 Annual change in the ABS ACT wage cost index**




### *Interest costs*

The proposed interest costs item was labelled 'return on investment' in the WCI. With large parts of the industry using debt to significantly fund their plate investment, this component is to reflect cost changes from any changes in interest rates. The proposed new interest rate used is the 90-day bank bill rate. The proposed weighting remains the average plate lease rent as a proportion of total costs. The bank bill rate since 1999 has moved within a band typically between 4.5% and 6.5%, as illustrated in Figure 3.3.

**Figure 3.3 90-day bank bill rates, 1999–2003**




A further benefit of the proposed simplification is that it overcomes the industry criticism that reductions in interest rates automatically reduce labour costs.

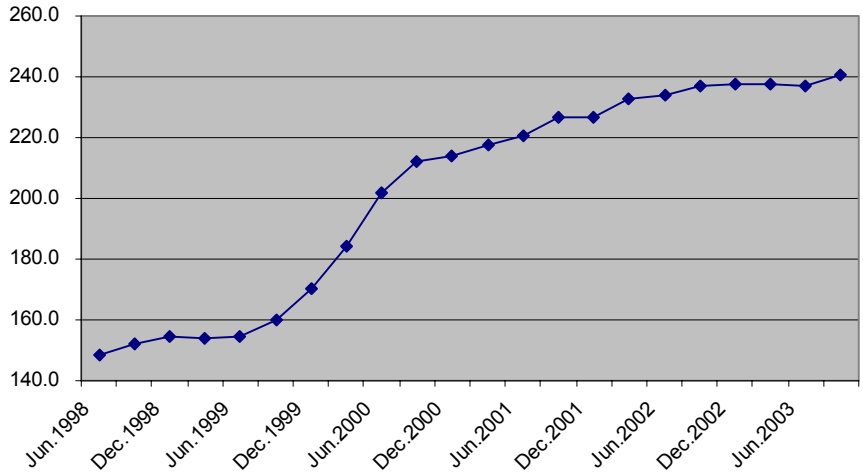
### *Insurances*

The WCI assumed the use of four different insurance policies (workers compensation, demurrage insurance, comprehensive insurance, income protection insurance) and it tracked the individual cost movements in an average purchase of each policy by a taxi operator. However, actual cost levels vary markedly because of decisions not to buy discretionary policies (eg income protection and demurrage), differing vehicle capital costs, and differing driving records, which generate different no-claim bonus entitlements. The 2003 weighting of the sum of the insurance products was 10.7%, and the commission proposes to retain a similar weighting for 2004 (subject to minor adjustment following a review of industry cost data). The commission also proposes to adjust this insurance component by the change in the ABS insurance cost index (rather than adjusting by the estimated insurance cost change for an average taxi driver). The commission is of the view that outcomes under the new approach should be broadly similar to the

those under the previous approach over the medium to long term, but with less data verification and analysis.

The commission acknowledges that insurance costs for taxi operators have grown significantly over the past eight years; broadly similar growth is reflected in the ABS insurance services index within the CPI, as illustrated in Figure 3.4.

**Figure 3.4 Movement in the ABS insurance services index (eight cities weighted average)**




### *LPG*

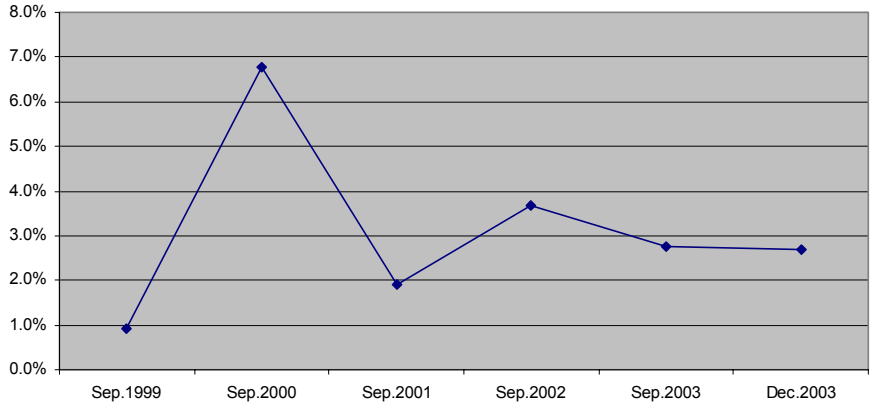
The commission proposes to use a reasonable weighting level for LPG as a proportion of total costs. In 2003, the weight for LPG was 6.5% and the 8% reduction in prices over the 2003–04 year to date implies that a reduction in weighting to 6% would be reasonable, all else being equal. For simplicity, the commission proposes to continue to adjust this component by the change in the prevailing average Canberra price of LPG at a time close to the final decision.

### *Network costs*

The network cost was assumed to be $12,454 for the July 2003 determination (based on the July 2001 cost level). Based on initial benchmarking, this assumed level appears to remain about 15% above comparative network cost levels. Therefore, the commission proposes to

reduce the 2003 weighting by 15%, from 5.8% to 5.0%. The key component of the network cost is the cost associated with the outsourced network provider. This contract has a Canberra CPI cost escalation and the commission proposes to escalate the network component by the CPI. Recent annual movements in the Canberra CPI are shown in Figure 3.5.

**Figure 3.5 Canberra consumer price index, annual change, 1999–2003**




### *Vehicle, repairs, maintenance, tyres and washing*

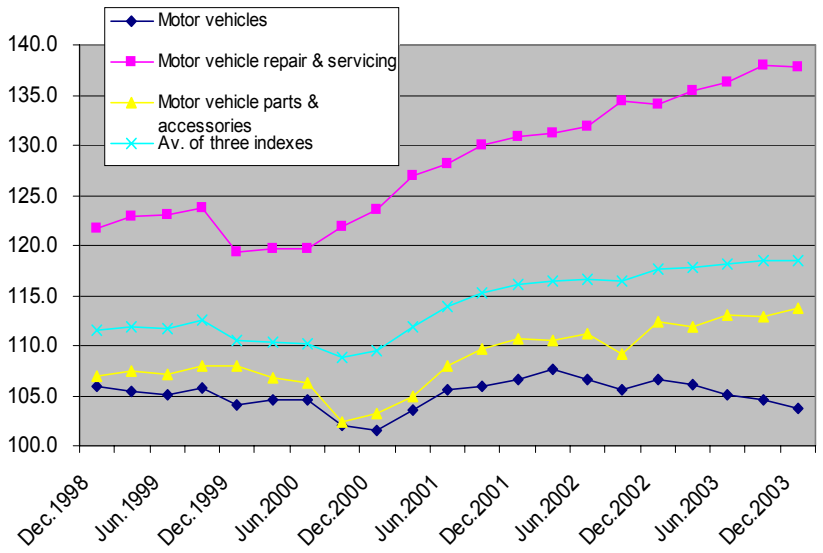
The commission proposes that this item cover nine items from the 2003 WCI: car washing; vehicle capital costs; repairs and maintenance; tyres; registration; accreditation; drivers licence; drivers medical; and the Gas Leak Certificate. The WCI weighting from 2003 could be retained at 13% or refined slightly, based on more up-to-date cost information. Instead of attempting to measure the actual change in this wide basket of costs for a hypothetical average taxi operator, the commission proposes to base 13% of the fare change on the simple average change in three ABS CPI subindices:

- *the motor vehicle repair and servicing index*—reflects cost changes in mainly routine servicing activities driven mainly by mileage thresholds
- *the motor vehicles index*—the ABS measure of changes in the costs of purchasing motor vehicles
- *the motor vehicle parts and accessories index*—the ABS measure of the cost changes of parts and accessories (for example, panel replacement following accidents or major overhaul such as replacement of an alternator).

This is similar to the approach used by IPART in NSW, which escalates the vehicles parts and panels cost by the CPI motor vehicle parts and accessories subcomponent.

Figure 3.6 illustrates the movement in the three ABS CPI motor vehicle related indices, and shows the average of the three indices from December 1998 to December 2003.

**Figure 3.6 Movement in the ABS CPI motor vehicle cost indices**




The commission sees merit in using a simple average of the change in these three ABS indices to overcome the substantial subjectivity and complexity of measuring the change in the vehicle related costs of an average taxi. Examples of complexities include the mix of new and second hand vehicles, cycles between major maintenance procedures (for example, transmission replacement), the labour costs of the maintenance provider, and so on.

The commission remains open to considering different weighting and indices for escalation to improve the cost reflectivity of the TCCI without significantly increasing the calculation complexity.

***Registration and third party personal injury insurance***

As registration and third party personal injury insurance costs are mandatory, with prices set by the ACT Government at uniform levels across all ACT taxi operators (apart from rebates available to operators with sound third party personal injury insurance records), the commission is proposing to keep these items separate and monitor the change in actual costs within the index. The proposed weighting is the broad weighting level from the June 2003 WCI.

***Administration and other costs***

The commission proposes that this item be linked to the Canberra CPI and be weighted at a level to cover all remaining minor costs from the WCI not listed above. This item would include telephone (landline and mobile); electricity; heating; bank charges; accountants' fees; home computer and software; NRMA membership; uniforms; and office and miscellaneous expenses. The total weighting of these cost items in 2003 was 1.9%. However, the commission believes that some other cost items were previously overweighted and that the above inclusions are not exhaustive. Consequently, a revised weight for administration and other costs of approximately 7% is proposed. As for network fees, the commission proposes to escalate this item by the Canberra CPI. This results in a total of 12% of the TCCI being linked to the Canberra CPI.

If the proposed reforms were to be implemented, the outcome would be a significant simplification of the WCI to form the new TCCI.

**Preliminary Conclusion 9**

The commission seeks views on the impacts of its proposed taxi composite cost index, to be created by rationalising the number of specific direct inclusions and making greater use of suitable independent indices for escalation of the weighted components.

### 3.3.5 Potential for further efficiency gain

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

The concept supporting the application of an X factor is that efficient cost is dynamic, and that all businesses can achieve continual, modest improvements in their productivity and efficiency through innovation or further use of technology. For the taxi industry, some areas in which efficiency or productivity gains might be made include:

- possible use of the network's GPS system to allocate jobs and reduce dead running when the closest taxi does not accept the closest available booking
- expanded use of the existing automated SMS booking service for taxis, which would provide the network with some cost savings by reducing the number of staff required to operate the call centre
- reductions in some predominantly fixed costs, such as network services, as a result of the Government's plan to expand the fleet
- further improvements in relative service quality and comparative value to increase demand for services and off-peak asset utilisation
- reforms to reduce the cost of insurances to levels achieved in other Australian jurisdictions.

**Preliminary Conclusion 10**

The commission seeks views on how to encourage the ongoing pursuit of efficiency and productivity improvements in the ACT taxi industry.

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

# 4 Estimated fare change from 1 July 2004

This section of the draft determination provides some indicative guidance on how the new taxi composite cost index (TCCI) approach to fare change calculations would work, and an early indicative estimate (based mainly on cost change data from December 2002 to December 2003) of the likely fare change from 1 July 2004.

## 4.1 Proposed weightings

The commission has proposed some weightings, and is keen to obtain industry data to evaluate and finetune the proposed weights.

**Table 4.1 2003 and proposed 2004 weightings**

| | ACT July 2003 weighting | Proposed TCCI July 2004 weighting | Basis of proposed 2004 weighting |
|---|---|---|---|
| Labour costs | 50.0% | 50.0% | Unchanged; weighting matches income-sharing arrangements. |
| Interest rates | 12.1% | 10.0% | Plate lease fees have fallen 23% to $20,000 pa. Therefore, it is proposed to reduce this weight. |
| Insurances | 7.8% | 9.0% | Awaiting detailed cost data from industry. Retain the rounded 2003 weight unless a material cost change has occurred. |
| LPG | 6.5% | 6.0% | LPG cost has fallen 8% from 48 cpl to 44 cpl |
| Network costs | 5.8% | 5.0% | Cost assumed in 2003 ($12,454) is about 15% above benchmark cost levels for similar networks. |
| Vehicle, repairs, maintenance, tyres and washing | 9.4% | 10.0% | Retain the 2003 weight unless a material cost change has occurred. |
| Registration and third party personal injury insurance | 3.2% | 3.0% | Same as rounded 2003 WCI weighting. |
| Other/administration | 1.9% | 7.0% | Rises as balancing item under proposed simplified approach |
| **Total** | 100.0% | 100.0% | |

To assess the reasonableness of the proposed weights, the commission has compared these weights to the country and urban weights applied by IPART to calculate a taxi cost index and recommended fare changes in NSW (see Table 4.2).

**Table 4.2 Comparison with weights used by IPART**

| Item | ACT July 2003 weighting | Proposed July 2004 weighting | Est. IPART urban weights, adjusted to TCCI categories | Est. IPART country weights, adjusted to TCCI categories |
|---|---|---|---|---|
| Labour costs | 50.0% | 50.0% | 45.6% | 46.5% |
| Interest rates (plate lease)[a] | 12.1% | 10.0% | 14.2% | 10.1% |
| Insurances (excl Greenslip) | 10.7% | 9.0% | 3.6% | 3.1% |
| LPG | 6.5% | 6.0% | 8.3% | 9.1% |
| Network costs | 5.8% | 5.0% | 3.4% | 7.0% |
| Vehicle related costs | 13.0% | 10.0% | 18.3% | 17.4% |
| Registration and third party personal injury insurance | 3.2% | 3.0% | 3.1% | 2.4% |
| Other/administration | 1.9% | 7.0% | 3.5% | 4.4% |
| **Total** | 100.0% | 100.0% | 100.0% | 100.0% |

a reported and measured by IPART as the change in the plate lease cost.

The commission's proposed weights are broadly similar to weights used by IPART. To date, IPART has largely retained the original 1999 weights, with only minor refinements to preserve long-term consistency. However, IPART has acknowledged that the weights need an update, and plans to undertake this task before the July 2004 fare revision.

Based on the proposed new TCCI approach with adjusted weights, and using cost change and ABS index data available to 10 February, the early indicative guidance on the potential fare change is about 4.2%. Note, however, that this could change significantly because of factors such as further changes in interest rates or fluctuations in LPG prices. Table 4.3 summarises the TCCI approach and weightings.

**Table 4.3 Indicative estimation of potential July 2004 fare change using the proposed new taxi composite cost index**

| TCCI cost item | Est 2004 weight (to be finalised) | Weighting basis and escalation approach | Change | Weighted change |
|---|---|---|---|---|
| Labour | 50% | Basis: unchanged from WCI, 50% matches income-sharing arrangements.<br>Escalation: ABS wage cost index for Canberra.[a] | 4.1% (year to September)[b] | 2.05% |
| Network fees | 5% | Basis: estimated efficient costs as a proportion of total costs. WCI assumed cost of $12,454 appears 15%–20% above efficient costs and WCI weight reduced proportionally.<br>Escalation: Canberra CPI [c] | 2.7% (year to December) | 0.14% |
| Interest cost | 10% | Basis: estimated % of plate lease costs over total costs. Lease costs have fallen to $19,000 pa, reducing weight.<br>Escalation: annual change in 90-day bank bill rate (4.65% 1/7/03 rising to 5.57% 9/2/04). | 19.8% (July 03 to February 2004) | 1.98% |
| Insurances | 9% | Basis: 2003 WCI weight<br>Escalation: ABS CPI insurance services cost index [d] | 1.3% (year to December 2003) | 0.12% |
| LPG | 6% | Basis: 2003 WCI weight reduced for price reduction from 48 cpl to 44 cpl.<br>Escalation: change in prevailing market Canberra retail price between May and May each year. | –8.3% | –0.50% |
| Vehicle costs, repairs, maintenance, car washing and tyres | 10% | Basis: 2003 WCI weight.<br>Escalation: simple average of change in three ABS CPI components: the motor vehicle repair and servicing index, the motor vehicles index and the motor vehicle parts and accessories index [e] | 1.3% (year to December) | 0.13% |
| Registration and third party personal injury insurance | 3% | Basis: 2003 WCI weight<br>Escalation: change in actual costs from ACT Motor Registry. | 2.6% (May 2003–Feb. 2004) | 0.08% |

| TCCI cost item | Est 2004 weight (to be finalised) | Weighting basis and escalation approach | Change | Weighted change |
|---|---|---|---|---|
| Office, uniform and other | 7% | Basis: sum of various 2003 WCI weight<br>Escalation: Canberra CPI | 2.7% (year to December) | 0.19% |
| **Total** | **100%** | | | **4.19%** |

a ABS Series 6345.0 Wage Cost Index, TABLE 2B. Wage Cost Index—Total Hourly Rates of Pay Excluding Bonuses, Private and Public Sector—States and Territories (Quarterly Index Numbers)(a).

b ABS Wage Cost Index to December 2003 available on 25 February 2004.

c ABS Series 6401.0 Consumer Price Index, TABLE 1B. CPI: All Groups, Index Numbers.

d ABS Series 6401.0 Consumer Price Index, TABLE 7K. CPI: Miscellaneous, Weighted Average of Eight Capital Cities.

e ABS Series 6401.0 Consumer Price Index, TABLE 7G. CPI: Transport, Weighted Average of Eight Capital Cities.

The likely fare change based on the industry's preferred position is more challenging to estimate because of its greater use of actual cost data. However, as interest rates would be excluded from an industry-supported index, on current available data a lower fare change outcome appears likely. The commission is considering whether to use an efficiency gain factor to encourage further productivity gains and innovations, and has called for public comments on this issue. If such a factor is used, the outcome would be a reduced net fare rise.

Overall, the TCCI proposed above contains a range of simplifications that should improve the transparency and clarity of the fare adjustment process. The TCCI will produce results that differ from the WCI. However, over the longer term the differences are not likely to be significant and, since no taxi operator has a cost structure matching the assumptions under the WCI, this is not viewed as a significant issue.

The commission recognises that the TCCI will need periodic adjustments to weights, as well as periodic changes to the escalation approaches, but such refinements are viewed as less resource intensive than using the WCI. These adjustments would occur at each resetting of the index at the end of each three-year price period.

## 4.2 Comparison of the TCCI and WCI methodologies with the position of the industry

The table below compares the methodologies used by the TCCI with those of the WCI, and summarises the preferred position of the industry.

**Table 4.4 Comparison of methodologies: WCI, TCCI and the industry position**

| Cost item (% weighting of index) | WCI (2003 weight) | TCCI (est 2004 weight to be finalised) | Industry position |
|---|---|---|---|
| Labour | Set at the sum of all other cost items with escalation by ABS average weekly earnings.<br>weight: 50%. | Set at the sum of all other cost items with escalation by ABS wage cost index.<br>weight: 50%. | Set at a sustainable living wage based on a bottom-up calculation of hours worked at average earnings, and escalate by the wage cost index. |
| Network fees | Set at 2001 cost levels with no escalation because of concerns about efficiency.<br>weight: 5.8% | Reduce weighting slightly to estimated efficient cost and escalate by Canberra CPI.<br>weight: 5%. | Recognise full current cost and pass-through of cost rise of 7.7% on 1 Jan 2004. |
| Return on investment | Weight based on plate rent cost as a % of total costs. Change based on annual movement in 10-year bond rate.<br>weight: 12.1% | Cost viewed as legitimate, but for clarity rename to 'interest cost'. Weighting reduced in line with fall in plate lease rents. Link the change in this item to the annual movement in 90-day bank bill rate.<br>weight: 10% | Not an appropriate component of a model for taxi fare revisions and it should be removed (0%) |
| Insurances | Average operator assumed to hold four different types of insurance; component rises by change in actual costs.<br>weight: 7.8% | Update weighting and escalate in the future by the ABS CPI insurance services cost index for Canberra.<br>weight: 9% | WCI approach acceptable. |
| LPG | Based on actual cost for an assumed mileage and consumption at prevailing price prior to determination.<br>weight: 6.5% | No change, except for minor reduction in weighting due to price decrease.<br>weight: 6%. | WCI (and hence TCCI) approach broadly acceptable. |

| Cost item (% weighting of index) | WCI (2003 weight) | TCCI (est 2004 weight to be finalised) | Industry position |
|---|---|---|---|
| Repairs, maintenance, car washing and tyres | Monitors the change in cost of 34 individual maintenance procedures, as well as the actual cost change for tyres and washing.<br>weight: 9.4% | Update weight and escalate by average change in two ABS Canberra CPI components: the motor vehicle repair and servicing index and the motor vehicle parts and accessories index.<br>weight: 10% | WCI approach acceptable. |
| Registration and third party personal injury insurance | Set at the sum of actual cost items; rises by change in actual costs.<br>weight: 3.2% | No change in method<br>weight: 3%. | WCI (and hence TCCI) approach broadly acceptable. |
| Office, uniform and other | Set at the sum of actual cost items; rises by change in actual costs or CPI.<br>weight: 5.2% | Aggregate all these items into a residual cost and escalate by change in Canberra CPI.<br>weight: 7% | WCI approach acceptable. |

The TCCI achieves significant simplifications of a number of cost elements while retaining actual taxi cost movements where the degree of cost estimation subjectivity is low. The commission is open to considering refinements which improve the TCCI. Overall, the TCCI proposed by the commission should provide a reasonably strong proxy measure for the movement in taxi operator costs, as it retains key elements of the WCI.

**Preliminary Conclusion 11**

The commission is seeking comments on the merit and impacts of its proposed use of the taxi composite cost index for future taxi fare revisions from July 2004. The commission also seeks suggested refinements to the proposed new approach, with a focus on the weightings and escalation methods, to ensure it better meets the needs of all stakeholders.

# 5 Other issues to be investigated

## 5.1 Fare structure issues

### 5.1.1 Current ACT taxi fare structure

The fare structure for Canberra Cabs from 1 July 2003 is provided in Table 5.1.

**Table 5.1 Taxi fares for 2003–04, ACT**

| Item | Rate |
|---|---|
| Flagfall: | |
| • Ordinary hiring | $3.20 |
| • Multiple hiring | $2.40 |
| • Maxi-cab hiring | $4.80 |
| Radio fee | $0.80 |
| Waiting time | $0.50 per minute ($30.00 per hour) |
| Distance rate: | |
| • Rate 1 (Ordinary hiring; 6 am to 9 pm) | $1.409 per kilometre |
| • Rate 2 (Ordinary hiring; 9 pm to 6 am and all day on a Saturday, Sunday or public holiday) | $1.620 per kilometre |
| • Rate 3 (Multiple hiring; 9 pm to 6 am and all day on a Saturday, Sunday or public holiday) | $1.011 per kilometre |
| • Rate 4 (Multiple hiring; 9 pm to 6 am) | $1.164 per kilometre |
| • Rate 5 (High Occupancy Taxi hiring; 6 am to 9 pm) | $2.201 per kilometre |
| • Rate 6 (High Occupancy Taxi hiring; 9 pm to 6 am and all day on a Saturday, Sunday or public holiday) | $2.531 per kilometre |

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

The industry has not proposed any changes to the fare structure. Submissions to the commission did not seek an changes to the fare structure.

### 5.1.2 Comparison with Queanbeyan fares

ACT and Queanbeyan taxi fares differ modestly. Table 5.2 illustrates that Queanbeyan taxis are typically 8–14% more expensive than ACT taxis depending on distance and time of day. For longer journeys (such as Queanbeyan–Canberra) involving travel over 12 kilometres, Queanbeyan taxis apply a higher distance rate for the travel beyond 12 kilometres, which is almost 40% above the shorter distance rate (that is, for less than 12 kilometres); for such longer journeys, fares are significantly higher than in the ACT. The exception to the ACT's cheaper fares is between 9 pm and 10 pm, and during the day on weekends (about 22% of the week) when ACT taxis are 1–2% more expensive.

**Table 5.2 Taxi fares for 2003–04, ACT compared with Queanbeyan**

| At January 2004 | ACT | Queanbeyan | Difference |
|---|---|---|---|
| Flagfall | $3.20 | $3.15 | ACT $0.05 higher |
| Distance rates | $1.409 | Tariff 1: $1.59 (1st 12 km) | ACT $0.181 lower |
| | | Tariff 2: $2.22 (>12 km) | n.a. |
| Night fee | A surcharge of 15% of the distance rate for journeys commencing between 6 am and 9 pm and all weekend | A surcharge of 20% of the distance rate for any journey commencing between 6 am and 10 pm. | ACT premium is 5% lower. ACT premium starts 1 hour earlier and spans all weekend. |
| Booking fee | $0.80 | $0.80 | nil |
| Waiting time per hour and crossover point | $30.00<br>21.3 kph | 40.00<br>25.2 kph | ACT is $10.00 lower<br>ACT is 3.9 kph lower |
| Average fare daytime 8 km | $14.50 | $15.90 | ACT is 8.8% or $1.40 lower |
| Average fare night 8 km | $16.15 | $18.40 | ACT is 13.9% or $2.25 lower |

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

Queanbeyan uses the same methodology that applies in the ACT to price multi-hiring and HOT taxis; however, different fare levels apply.

The ACT and Queanbeyan fares contain some minor difference that may irritate some customers. Given the free cross-border movements, over the longer term there may be merit in harmonising some elements of the ACT

fare structure with the Queanbeyan/country NSW structure to reduce customer concerns. Possible areas for harmonisation include:

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

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

**Preliminary Conclusion 12**

The commission seeks views on the impacts of different fare arrangements in the ACT and Queanbeyan, as well as views on approaches to simplify existing arrangements.

### 5.1.3 Ordinary hire flagfall

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

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

### 5.1.4 Waiting time rates

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

### 5.1.5 Taxi booking fee

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

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

Due to the low-density housing and buildings in much of the ACT, a larger proportion of hirings are completed via a telephone booking compared to other capital cities. The booking fee is intended to partially compensate the driver for the dead running from the point where they accepted the booking to the booking location—typically a distance of 1–4 kilometres. Some other Australian jurisdictions have slightly higher booking fees of $1.00 to $1.20. Arguably, the booking fee is modest given the extra costs incurred, and it does not give customers much incentive to move to a taxi rank or to try to hail a taxi on a main road.

**Preliminary Conclusion 13**

The commission seeks views from industry and customers on the appropriate level for the ACT booking fee.

### 5.1.6 Multi-hire fares

The two rates for multiple hiring (rates 3 and 4) are 75% of the standard distance rates, but this fare is charged to each individual customer. The multi-hire flagfall is also 75% of the standard flagfall. A significant proportion of multi-hires occurs from the airport, where the Canberra Cabs commissionaires encourage the practice to more quickly clear any queues that form. However, the first passenger and each subsequent passenger entering the taxi has the regulatory right to decline a multi-hire arrangement. The $2.00 Canberra Airport toll is to be shared equally by each hirer.

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

The current multi-hire arrangements can provide occasional sizable windfalls to drivers. For example, on a four person multi-hire journey from Canberra Airport to the city, the total of the four fares would likely be $50–$60; the typical standard daytime fare is about $19.

The commission has had minimal information supplied to it about the frequency of multiple hirings.

Survey results from the Department of Urban Services indicate significant dissatisfaction with multi-hire fare arrangements. Potential issues that may give rise to complaints are as follows:

- The multi-hire fare arrangements are often not well explained, and the discount is far less than the savings from sharing a taxi. For example, passengers seeking nearby destinations could form a syndicate before entering the taxi and increase their discount from around 25% to 50% (for two people) or 66% (for three people).

- The last person dropped off on a multi-ride fare receives a discount of less than 25%, because of the extra distance travelled to cater for other passengers.

- Multi-ride fares can result in significantly greater journey times, particularly if destinations are some distance apart.

### 5.1.7 High occupancy taxi rates

A high occupancy taxi (HOT) is a large taxi, such as a van or a mini-bus, that seats between five and 11 adults, excluding the driver. The Canberra Cabs fleet has a two HOTs operating on standard plates, plus the 26-vehicle WAT fleet, which is also available to operate as HOTs. Where a HOT carries four or fewer passengers, the standard rates apply; where a multi-hire arrangement is agreed, 75% of the authorised fare applies. The rates for HOT hirings (rates 5 and 6) are 150% of the standard distance rates, and the flagfall is also 150% of the standard flagfall. However, HOT fares may not be applied for hirings from taxi ranks, even where a passenger walks past other taxi to hire the HOT. This applies regardless of the number of passengers carried or the amount of luggage carried.

Following a request in its July 2002 determination, the commission has had little information supplied to it about the frequency of HOT hirings, or

received any detailed justification of the 50% distance charge premium. Canberra Cabs promotes HOTs as 'an economical way of transporting sporting teams, office party nights out, club socials or any other group with seating for up to 11 passengers'.[21]

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

NSW and Western Australia use the same 150% system as the ACT. An alternative approach as used in Queensland is to price bookings for HOTs at a surcharge to standard taxis. The surcharge in Queensland is currently $11.[22] This approach is arguably a fairer compensation for the additional dead running a HOT vehicle might incur to service a HOT booking request. It would also reduce the number of different distance rates.

**Preliminary Conclusion 14**

The commission seeks views on whether there is merit in changing high occupancy taxi fares from a 50% premium of the distance rate to a fixed surcharge.

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

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

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

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

- *NSW* uses a 20% premium on the distance rate from 10 pm to 6 am, seven days a week.

- *Queensland* uses an 'after hours flagfall', which applies to public holidays and all times outside 6 am – 8 pm weekdays, and the flagfall from 6 am to 1 pm on Saturdays is $1.20 higher than the standard flagfall.

- *Victoria* currently applies a late night extra flagfall fee of $1.10 from midnight to 6 am. However, current government policy is for a 20% higher tariff to apply between 1 am and 6 am in the metropolitan taxi zone to encourage drivers.

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

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

Table 5.3 assesses the extra cost for an eight-kilometre fare at the relevant night rate (versus the standard rate) and the proportion of the week that the night rate is active.

**Table 5.3 Night rate taxi fares, average extra cost and extent of week covered, by jurisdiction**

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

Table 5.3 illustrates some diversity of approaches to improve late night, early morning and, for some jurisdictions, weekend fleet availability.

The commission seeks empirical evidence from the industry that since its introduction, the night/weekend fare has improved fleet availability at these times, and some demonstration that the extensive period during which premium applies is necessary.

**Preliminary Conclusion 15**

The commission seeks views on the impact on customers and on driver availability of the current night fare and on whether the premium level or duration should be refined.

## 5.2 Matters referred to in section 20 of the ICRC Act

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

- service quality, reliability and safety (see Section 2.2)
- the need for greater efficiency in the provision of the services, including considerations of demand management and least-cost planning (for example, see Section 3.3.5)

- the cost of providing the service, including an appropriate rate of return on any investment, the borrowing, capital and cash flow requirements of the regulated entities, and the need for the industry to renew or build assets (for example, see Section 2.4)
- ecologically sustainable development
- the social impacts of any decisions
- the effect on general price inflation over the medium term
- the protection of consumers from abuses of monopoly power.

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

### 5.2.1 Ecologically sustainable development

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

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

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

- The ACT taxi fleet of 242 vehicles is only a very minor part (0.12%) of the total of over 197,000 vehicles operating in the ACT.[24] While the average taxi travels annually travels about seven times further than the average motor vehicle, taxis account for only 0.8–0.9% of total motor vehicle kilometres in the ACT.
- The ACT taxi fleet is predominantly fuelled with LPG, which is considered to be less polluting than unleaded petrol; therefore, travel by taxi typically results in less air pollution than travel by private car.

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

To the extent that taxi demand is greatest on Fridays and Saturdays and after hours during the working week, the availability of taxis serves to discourage car use in crucial periods. The likely modest size of the upcoming fare rises is unlikely to significantly change the demand for taxis.

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

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

The commission believes that a modest taxi fare rise will not cause any significant inconsistencies with the principles of ESD.

### 5.2.2 Social impacts of decisions

The commission is aware of the importance of taxi transport to specific community groups. In particular, some people with disabilities, for whom buses are not a viable alternative, rely on taxi travel. The commission notes that the ACT Government runs a taxi subsidy scheme designed to assist people with permanent or temporary disabilities who need to use taxis. The commission is keen to ensure that the final taxi fare rise is contained to a level that does not materially change the affordability of fares for people who depend on taxi services, and that such customers retain their mobility.

As this draft determination does not yet suggest a specific fare change, this issue will be considered in more detail in the final determination in late May 2004. However, the commission would welcome further submissions discussing the social impacts of taxi fare rises to ensure that it has a full appreciation of these issues.

**Preliminary Conclusion 17**

The commission seeks further views on the likely social impacts of taxi fare rises.

### 5.2.3 Effect on general price inflation over the medium term

General price inflation is measured by the CPI, one of the components of which is urban transport fares, including bus, train, ferry, tram and taxi fares but excluding fares for holiday travel. The urban transport fares component is weighted at 1.28% of the CPI. Of this amount, taxis are estimated to comprise around 0.3% of an average Canberra household's weekly expenditure.[25]

Given that the likely fare rise suggested in Section 4 will be relatively modest, and the small share of taxi fares in average household expenditure, the commission is satisfied that the increase will not have significant inflationary effects on individuals or on the ACT economy.

### 5.2.4 Protection of consumers from abuses of monopoly power

Because Canberra Cabs provides a key public transport service and is the only accredited taxi network, the commission will seek to ensure that the fare levels, the fare structures and the conditions of usage remain fair and reasonable for the quality of service provided. Taxis are open to competition from other, similar service providers such as hire cars, so market forces help to ensure that this monopoly position is not exploited to the detriment of consumers.

The protection of consumers from abuses of monopoly power remains a critical role for the commission and we will continue to monitor Canberra Cabs in this regard.

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

# Appendix 1 Reference for investigation

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

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

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

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

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

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

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

c) the setting of Labour Cost weighting;

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

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

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

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

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

Bill Wood
Minister for Urban Services

26 September 2003

# Appendix 2 Summary of submissions on the issues paper

***Mr Graeme Vagg***

Data and financial results for 2002–03 of an associate who is an owner-driver in Sydney were supplied. Key results included:

- distance travelled: 60,000 kilometres
- income: $58,000 (or $0.966/kilometre)
- running costs: $46,043
- profit: $11,957 (or $3.98 to $4.98 an hour).

Other points were:

- Costs and incomes in Sydney and the ACT are viewed as broadly similar.
- Many owner-drivers do not own their plates and have to lease them for about $400 per week.
- Operators who lease plates usually cannot afford to buy new cars every six years, but use cheaper second-hand cars and replace them before the cars are six years old, as required by regulations.
- Average earnings when customers are available is limited to about $25 per hour because of the number of trips that can be made, traffic speed constraints and the trip length. Most trips have a one-way fare, so the taxi spends about 50% of its travel time empty. Therefore, if the fare structure gives an average return of about $2 per kilometre when the taxi is occupied, the net return for the year is only about $1 per kilometre, which is not much above actual running costs for a vehicle before the driver's wages are allowed for. The number of taxis licensed for use also affects earnings.
- While a small fleet operator needs to engage drivers, the owner of a single taxi often refuses to do this after initial trials. The reasons for this may be personal, but often relate to the additional wear and tear on the vehicle and much greater repair costs and more lost time off the road for maintenance or accident repairs. A car with two drivers may only have a service life of three years.

- Operating and earning constraints have reduced the taxi industry to a very low level of profitability, with expectations of regulators for performance well out of touch with the real-world conditions faced by owners. Owners are expected to outlay amounts from $50,000 to $300,000 to run a first-class public transport service for a return of as little as $2 to $6 an hour, and work one to two times average annual working hours to achieve that.

- The Government's desire to progressively deregulate has reduced the value of taxi plates and will deter people from entering the industry, particularly with current earnings so low.

- The night distance rate for the ACT has a premium of 15%, while the premium for NSW (both urban and country) is 20%. In Tasmania, there is no night time premium, but the weekend premium is 20%. An increase in the night time premium to 20% would be in line with other jurisdictions. A flagfall surcharge is used in several states in lieu of a higher distance charge.

- Labour cost data for NSW indicate that taxi drivers should earn about $15 per hour, and receive sick pay at a rate of $117.34 per day and four weeks leave/five weeks pay at $586.50 per week. On the cost and earnings data, it would not be possible for these rates to be paid by the industry.

- It is necessary to have a fare structure and surcharges for additional services that the industry may be able to offer to improve the hourly earnings for taxis.

- The industry may also be able to offer off-peak discount fares to attract customers at times when vehicles are mainly vacant. These fares could be provided by vehicles that may be returning to base empty and provided on a car-availability basis, in an arrangement like that used by the airline industry to fill empty seats.

***Mr Kenneth Tucker, hire car owner-operator***

Mr Tucker invested in a hire car licence after leaving his previous occupation because of an injury, and chose the ACT because of the stability of demand by government and the private sector.

- Demand has fallen because:
  - the Prime Minister now lives mainly in Sydney
  - tourism experienced a downturn after the 11 September 2001 terrorist attacks and the Ansett collapse
  - the restructure of ComCar has reduced its demand for hire cars.
- The supply of available vehicles has increased because restricted-hire vehicles are competing for the same customers as hire car operators, but without providing the same service standards and while holding cheaper licences. This competition is both unfair and illegal.
- The combination of decreased demand and increased supply has marginalised operators.

Mr Tucker also attached a submission he made to the Assembly Standing Committee on Planning and Environment, with a focus on ICRC's early investigation into the future direction of the ACT taxi and hire car industry. In this submission, Mr Tucker expressed a range of views relating to hire cars and competition within this market.

***Canberra Taxi Proprietors Association Ltd, in conjunction with Canberra Cabs***

- The return on investment (RoI) is not an appropriate component of a model for the determination of taxi fares and it should be removed. When a person purchases plates they are certainly investing in the plates but any return will be in the form of a capital gain when the plates are sold. Additionally, the diversity of funding and purchase arrangements for plates makes estimation of an RoI difficult.
- The weighting of the RoI ($26,000 in 2003) is extremely important because it determines the overall percentage attributed to the so-called 'return on investment'.

- If an RoI component is included, it should be on a net basis (the current WCI weighting is on a gross basis). A recent survey by Canberra Cabs, which has been supplied to the current inquiry (Attachment 1), shows that for the 58 respondents to the survey (from a total of 242 plate owners) the average cost of capital was $8,733 per year. If an RoI figure were to be used, it should have taken this into account and used a net RoI.

- The WCI needs to recognise the change in the plate lease rental, which has fallen from $26,000 to between $19,760 and $20,800.

- The WCI is flawed, as a $10,000 reduction in the ROI will also result in a $10,000 reduction in labour costs (since labour costs are fixed at 50% of the total cost). In reality, the cost of labour should be completely independent of the capital cost of the plates.

- The ACT taxi industry comprises over 160 small businesses. Each one has entered, and operates in, the industry in its own unique way. Any model must recognise this and attempt to represent reality as closely as possible.

- Labour costs should recognise that taxi drivers have the same lifestyle aspirations and rights as the rest of the community. The setting of labour costs should not ignore the social and economic disadvantage taxi drivers experience because of the extremely long hours they must work.

- Any outcome based on indices which are not specific to the taxi industry in the jurisdiction in which it is operating will be far removed from what is actually happening in that jurisdiction, in this case the ACT.

- Canberra Cabs now gathers exhaustive data, which it freely makes available to the ICRC and which allows for modelling based on a taxi cost index.

- Over the last six years there has been a significant decline in the demand for taxis. Since 1999, the demand as measured by the total number of ‘meter ons’ has declined by 16%. Based on average meter ons per taxi per calendar year, demand has declined by 22.9%.

- Analyses by Canberra Cabs have shown that demand for cabs has not been affected by fare increases. The upturn in hirings in 1999 is a good example of the unrelated nature of fares and hirings. Five key reasons for the decline in the demand per taxi include:

- increased competition from the introduction of 16 Queanbeyan cabs into the Canberra market since 1 July 2001
- increased competition from the CBD Chauffeured Cars
- as a result of the increased ease of using rental cars, particularly at airports, the demand for taxis has been reduced. There is much anecdotal evidence for this, but it is difficult if not impossible to quantify. This phenomenon has also been noted at other major Australian airports
- the relative cost of second-hand motor vehicles has dropped considerably in recent years, with more people being able to purchase a vehicle
- the introduction of 20 additional WATs, bringing the total to 26.

- With respect to how this continued drop in demand should be reflected in the commission's price direction, if the commission applies an appropriate methodology it will be reflected in the outcomes. For example, the impact will be reflected in the average number of kilometres travelled, the percentage of dead running time, the average amount of LPG consumed etc.

- Any model the commission applies must include the full cost of the network fees to the plate owner or lessee, as these are real costs to the plate operator. In the last two determinations the commission has fixed the network fees at $12,454 on the grounds that they are at the high end of what other jurisdictions are charging. Canberra Cabs believes this approach is both unreasonable and unfair. If two networks are providing comparable services and one has the cost shared over 242 plate owners while the other has the cost spread over 5,000 plate owners, then there will obviously be a difference in the per capita fees paid. Notwithstanding the economies of scale argument, if other jurisdictions are to be used for comparative purposes then a comparative analysis must be carried out.

- The commission must recognise the enormous amount of cost involved in preparing submissions, appearing at hearings and dealing with government requirements.

- Canberra Cabs incurs a range of network costs not incurred by other networks, for example providing monthly benchmarking reports to government, the maintenance of safety and quality checks, and the running of a commissionaire service at the airport

- Efficiencies are provided to the community in the minimal or zero transfer of new technology costs and in the addition of services at no cost. Examples of this are car mobile EFTPOS facilities, in-car security cameras, a text messaging booking service initially for the hearing impaired but available to the entire community, a dedicated WAT booking agent to monitor WAT hirings, and an infant safety capsule service free of charge..

- Canberra Cabs believes the best source of taxi cost and demand data is from Canberra Cabs itself.

- The new WAT lift fee has had no apparent improvement in response times. This is not surprising in light of the industry's previous advice to the ICRC and government that a $7.50 lift fee was insufficient to address the situation.

- The flagfall level is appropriate but the distance rate is not and requires increasing.

- The separation of the two rates is sufficient to attract users who are inclined to multiple hire.

- There is little incentive to provide additional HOTs, as the oversupply of 26 WAT/HOT vehicles flooded the market. There is one operator who has two HOTs operating on standard plates. The separation in the metered rate is appropriate but is not a relevant consideration given the number of HOTs in circulation.

- Because of the nature of the industry and the impact that government decision-making processes can have on the industry, the Canberra Taxi Proprietors Association and Canberra Cabs are strongly of the belief that a methodology must be adopted whereby fares are changed at the end of each financial year, especially if a major cost item such as LPG changes significantly.

- For the reasons given by the Australian Statistician, the wage cost index series is the better proxy for taxi industry labour costs.

Canberra Cabs also provided four attachments to its submission:

- a recent survey by Canberra Cabs on the approach to taxi plate investment funding
- the impact of deregulation in the Northern Territory
- the public benefit issues relating to the application of the National Competition Policy to the Australian taxi industry
- the Canberra Cabs submission to the Assembly Standing Committee on Planning and Environment.

# Glossary and abbreviations

| | |
|---|---|
| ABS | Australian Bureau of Statistics |
| ACT | Australian Capital Territory |
| AWE | average weekly earnings; an ABS measure of labour cost growth |
| back-solve | Back-solving is an equation technique that extrapolates the initial value of a variable based on a known final value and relevant growth. |
| BAH | Booz Allen Hamilton |
| commission | Independent Competition and Regulatory Commission |
| CPI | consumer price index; an ABS series designed to measures changes in prices for a basket of consumer goods. |
| CTPA | Canberra Taxi Proprietors Association |
| DUS | Department of Urban Services (ACT) |
| ESC | Essential Services Commission (Victoria) |
| GPS | global positioning system |
| HOT | high-occupancy taxi; a large taxi, such as a van or a mini-bus, that seats five or more adults excluding the driver |
| ICRC Act | *Independent Competition and Regulatory Commission Act 1997* |
| IPART | Independent Pricing and Regulatory Tribunal (New South Wales) |
| LPG | liquid petroleum gas |
| PMI | private motoring index; a component of CPI |

| | |
|---|---|
| RoI | return on investment |
| SMS | short message service |
| TCCI | taxi cost composite index; the cost index proposed by the commission for the next price direction |
| the industry | in the ACT, the CTPA and Canberra Cabs |
| ULP | unleaded petrol |
| WAT | wheelchair accessible taxi |
| WAT lift fee | a fee payable by a passenger who requires wheelchair access to a taxi, to compensate WAT drivers for the additional embarkation and disembarkation time required; where the passenger is paying for the hiring with a government Taxi Subsidy Scheme voucher, the fee is paid directly to the taxi driver by the Government |
| WCI | weighted cost index; the cost index developed by the commission for its current price direction |

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