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ISSUES PAPER  
TAXI FARE REVIEW 2007-08

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## PREFACE

On 19 September 2007, the Minister for Public Transport (**Minister**) directed the Essential Services Commission (**Commission**), under section 186(1) of the *Transport Act 1983* and by notice in the Victoria Government Gazette on 14 September 2007, to undertake an independent review of taxi-cab fares in Victoria by 30 June 2008. The notice from the Minister and full terms of reference published in the Victoria Government Gazette are accessible from the Commission's website ([www.esc.vic.gov.au](http://www.esc.vic.gov.au)). The terms of reference are also reproduced in Appendix A of this Issues Paper.

This Issues Paper outlines the key matters the Commission had been directed to report on for the Taxi Fare Review 2007-08 and poses questions for further investigation. The Commission invites comments on the matters under the terms of reference, including the specific questions raised throughout this paper (and listed again in Chapter 9).

Interested parties and members of the public are invited to submit written comments to the Commission (hard copy and electronic format are preferred) by Friday 25 January 2008 to:

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The Commission is committed to ensuring that this review is transparent. The Commission will therefore adopt its standard practice of making all submissions to the review available on its website. Therefore, parties should indicate where they submit information or data that is commercial in-confidence and is not to be made publicly available.

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# 1 | INTRODUCTION

The Victorian taxi industry is subject to regulation under the *Transport Act 1983*. Under this framework each taxi operator must be licensed and the taxi fares are set by the Minister for Public Transport<sup>1</sup> under s.144A(1) of the Act. However, under s.144A(2) the Minister for Public Transport must obtain a report from the Commission prior to changing the schedule of taxi-cab fares (a report from the Director of Public Transport must also be obtained).

The Essential Services Commission (**Commission**) is the economic regulator of essential utility infrastructure and transport services in Victoria. The Commission's primary objective under section 8 of the *Essential Services Commission Act 2001* is the protection of the long term interests of Victorian consumers with regard to the price, quality and reliability of essential services.

In 2005 the Commission undertook its first review of Victorian taxi fares, and its final report: *Taxi Fare Review 2005*, was submitted to the Minister in June 2005. The upcoming 2007/08 review is the second major taxi fare review carried out by the Commission. Fares were increased in September 2005 by 8%, in September 2006 by 3% and in September 2007 by 1.1% in accordance with the Commission's recommendations. This Review will provide recommendations in relation to price paths applicable from September 2008.

## 1.1 Terms of reference

The Terms of Reference of this review are reproduced in Appendix A.

In summary, the Minister for Public Transport has given notice that in accordance with the provisions of section 186 of the *Transport Act 1983*, the Commission is required to conduct an investigation into Victoria's taxi-cab fares and report on:

- an appropriate price-setting model to provide for automated fare adjustments for the next 3-5 years, including the timing of such adjustments;
- the appropriateness of the taxi fare structure within the current market;
- appropriateness of selected surcharges, including the New Year's Eve non-metropolitan taxi surcharge, and a surcharge for pre-booked premium service taxis, and whether they should form a permanent part of the taxi fare structure;
- the distribution of taxi fare revenue and measures that may be considered by Government to improve taxi driver remuneration; and
- information reporting by the taxi industry and performance measurement.

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<sup>1</sup> This is a condition of the taxi cab license as provided for under s.144(2)(d) of the Act.

In undertaking the review, the Commission is required to take into consideration several matters including:

- the findings of its Taxi Fare Review 2005 and the country taxi fare review undertaken by the Department of Infrastructure (**DOI**) in 2005/06
- the impact on Victorian business and the community, the taxi industry and to issues such as the availability and affordability of services to customers, and
- the impact on taxi industry participants including licence holders, taxi operators, drivers and employees.

The Commission must also have regard to its statutory objectives in s.8 of the *Essential Services Commission Act 2001* (**ESC Act**), and must provide its final report to the Minister by 30 June 2007.

## 1.2 Objectives

The objectives of the Commission in s.8 of the ESC Act include the primary objective to protect the long term interests of Victorian consumers with regard to the price, quality and reliability of essential services. The facilitating objectives include:

- to facilitate efficiency in regulated industries and the incentive for efficient long-term investment;
- to facilitate the financial viability of regulated industries;
- to ensure that the misuse of monopoly or non-transitory market power is prevented;
- to facilitate effective competition and promote competitive market conduct;
- to ensure that regulatory decision making has regard to the relevant health, safety, environmental and social legislation applying to the regulated industry;
- to ensure that users and consumers (including low-income or vulnerable customers) benefit from the gains from competition and efficiency; and
- to promote consistency in regulation between States and on a national basis.

## 1.3 Process for conducting the Review

Section 187 of the *Transport Act 1983* specifies the manner in which the Commission must undertake its investigations. The Commission may conduct an investigation in any manner it deems appropriate, may receive written submissions or statements, hold public hearings and may consult with any person that it considers appropriate.

The key dates for the upcoming review are proposed in Table 1.1 below.

Under section 190 of the *Transport Act 1983*, the Minister must make the Commission's Final Report public within seven sitting days of Parliament or within 30 days if Parliament is not sitting. However, the Act does not require the Minister to accept the Commission's recommendations or specify when the Minister must

make a decision about the adjustment of taxi fares following receipt of the Commission's advice.

**Table 1.1 Timetable to conduct the Review**

| <b>Timeframe</b>                                       | <b>Task</b>  |
|--|--|
| 25 January 2008  | Closing date for receipt of submissions to <i>Issues Paper</i>                                     |
| March–April  | Release of <i>Draft Report</i> (including draft recommendations) for four week consultation period |
| During 4 week period following release of draft report | Public hearings in the Commission's Melbourne office and in regional centres                       |
| Within 4 week of release of draft report               | Submissions to <i>Draft Report</i>   |
| 30 June 2008   | Delivery of <i>Final Report</i> to Minister  |

#### **1.4 Plan of paper**

The remainder of this Issues Paper has the following structure:

- Chapter 2 provides background to the review and to the regulation of taxi charges
- Chapter 3 presents an overview of the taxi market in Victoria and identifies market issues relevant to the review;
- Chapter 4 contains a summary of approaches to setting price paths for taxis
- Chapter 5 outlines fare structure issues including comparisons between jurisdictions
- Chapter 6 discusses issues relevant to the proposed premium taxi service surcharge
- Chapter 7 identifies factors relevant to the distribution of income between drivers, operators and depots
- Chapter 8 discusses issues relevant to performance measurement and information gathering
- Chapter 9 is a summary of questions asked in the paper.



This chapter provides a background to the Review and to the regulation of the taxi industry in Victoria, and outlines current initiatives being undertaken by Government in relation to the industry, including policy matters relevant to the review.

## 2.1 Regulated taxi charges

The Victorian taxi industry is a regulated industry in which entry is restricted by the requirement for each taxi cab operator to hold a licence (one vehicle per licence). The industry is regulated by the Victorian Taxi Directorate (**VTD**), which issues licences and enforces their conditions. VTD is a branch of the Public Transport Division of the Department of Infrastructure.

Taxi fares are set by the Government, and the metered fare must be charged by the cab.<sup>2</sup> An exception is made for permanent and contracted services, where operators and drivers can negotiate fares below the metered rate.

Taxis are also required under the licence to 'be used so as to maintain regular and continuous service'. This licence condition does not appear to be interpreted by the VTD as requiring continuous 24 hour per day operation, but for there to be sufficient cabs in service at any time to meet demand.<sup>3</sup>

Other aspects of taxi industry regulation include safety and service quality standards regulation. These include standards for vehicle livery and maximum age, driver licensing and accreditation, amenity requirements such as air-conditioning, as well as driver uniforms and other requirements.

Other elements of the regulatory framework include:

- licences issued after 9 May 2002 are leased from the government and are not tradeable or assignable. Licences issued prior to this date are all issued on a perpetual basis, and are tradeable
- use of an independent taxi market is mandatory for all licence and assignment trading
- each taxi operator must be affiliated with a VTD approved depot

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<sup>2</sup> This mandatory fare approach is not typical in Australia. In most other jurisdictions where taxi fares are regulated, these are maximum fares, which the taxi operator can discount from. This is relevant to the detail comparison of taxi fares in chapter 5.

<sup>3</sup> KPMG Consulting (July 1999) 'NCP Review of Taxicab Legislation', p.37

- each driver must be accredited, with the new driver accreditation regime applying to new drivers and to existing Driver's Certificate holders applying for renewal of accreditation
- new metropolitan taxi drivers are required to undertake a 90 hour course in taxi driving prior to being certified, and Wheelchair Accessible Taxi (**WAT**) drivers must complete WAT training
- maximum age of a taxi is 6.5 years for metropolitan taxi-cabs, 7.5 years for country taxis, and 10.5 years for metro and country WAT vehicles.

The regulation of taxis and hire cars in Australia has a long and complex history. Whilst the regulation of many industries has decreased during the past decade or so, the regulation of taxis is still supported in most Australian jurisdictions, with the exception of the Northern Territory which has recently reformed taxi regulation. Regulation is also being reduced in a number of European countries<sup>4</sup>, and has been deregulated in New Zealand. In Australia, a number of major inquiries have supported greater deregulation of the taxi industry, such as the 1986 Foletta report into taxis, the 1999 Productivity Commission *Regulation of the Taxi Industry* research paper, and the 1999 Department of Infrastructure *National Competition Policy Review of Taxi-cab and Small Commercial Passenger Vehicle Legislation (Victoria)* prepared by KPMG Consulting.

## 2.2 Synopsis of previous Commission recommendations and Government response

In 2005 the Commission undertook a review of taxi fares that was submitted to the Minister in June 2005. The terms of reference of that review required the Commission to assess the existing fare structure and to recommend appropriate variations to each fare component, having regard to the impact on Victorian business and the community, the taxi industry, and regional communities.

In the *Taxi Fare Review 2005* Final Report, the Commission made a number of recommendations to the Victorian Government. Table 2.1 provides a summary of these recommendations and the government responses to each of the Commission's recommendations.

It appears that whilst most of the Commission's recommendations were supported by the Government and implemented, the Commission's recommendations regarding data collection and analysis have not been fully implemented to date. However, the Government is currently consulting on an industry accreditation regime that will involve information collection, and is discussed further in section 2.3.4 below, and chapter 8.

Data collection and analysis was identified as being an important requirement by the Commission in the previous *Taxi Fare Review 2005*. The *Transport (Taxi-Cabs) Regulations 1994* require that licence holders maintain records of revenue earned, kilometres travelled, number of hirings, operation and maintenance costs,

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<sup>4</sup> OECD/European Conference of Ministers of Transport (2007) '(De)Regulation of the Taxi Industry' – e.g. see p.46

driver details and any other information required by the terms of the licence. However, it does not appear that this data is provided to the VTD. The Victorian Taxi Association (**VTA**) and the Australian Taxi Industry Association (**ATIA**) each publish high level data of uncertain accuracy. The VTD has undertaken several market research studies into customer satisfaction and driver characteristics and satisfaction, which have been provided to the Commission. A survey of country taxi depots and analysis of cost was also undertaken as part of the Country Taxi Review in 2005. However, these data remain insufficient to be used effectively for determining fare adjustments.

Information gathering is an important part of current initiatives in relation to industry accreditation which are discussed in section 2.3.6 below, and chapter 8. Information gathering and performance reporting are also part of the terms of reference for this Review.

Table 2.1 **Previous Commission Recommendations and the Government Response**

| <i>Recommendation</i>            | <i>Summary of Recommendation</i>  | <i>Status</i>   |
|----------------------------------|---|---|
| <b>Future fare-setting</b>       | Future fare-setting in the taxi industry should be based on a predetermined formula and process that provides certainty for the taxi industry and for users.  | The Government indicated that it agreed that future fare-setting in the taxi industry should be based on a predetermined formula and process. This is now a requirement as implied in the terms of reference for this review. |
| <b>Fare revenue distribution</b> | Fare revenue distribution issue between licence owners, licence lessees and taxi drivers and the need for measures to address concerns about low driver remuneration and operator returns should be referred for further review by an independent body such as the Commission or the Victorian Competition and Efficiency Commission ( <b>VCEC</b> ). | The Government has included this as part of the terms of reference for this review.   |
| <b>CPI-based fare regulation</b> | A Consumer Price Index ( <b>CPI</b> ) minus 1% based approach to fare regulation in the taxi industry should be adopted with immediate effect (i.e. 2006 to 2008).  | The Government indicated that it agreed that, subject to further analysis of productivity improvements, a CPI minus 1% based approach to future fare increases in the taxi industry should be adopted.                        |

| <b>Recommendation</b>  | <b>Summary of Recommendation</b>   | <b>Status</b>   |
|--|--|---|
| <b>Fare increase</b>   | There should be an immediate fare increase of 8% for each individual fare component, with a further increase in each of the next two years based on the CPI minus 1%. A comprehensive industry review should be undertaken over the next two years to underpin a more robust estimate of the appropriate productivity adjustment for use in price setting beyond 2007. | In accordance with the Commission's recommendation, taxi fares increased by 8% on 10 September 2005 and by 3% on 23 September 2006. Fares increased by 1.1% in September 2007.<br><br>A comprehensive industry review to underpin a more robust estimate of productivity has not been carried out prior to this review. |
| <b>Rebalancing fare components</b>   | Rebalancing fare components should be considered when more detailed industry data and analysis is available. Any rebalancing should have appropriate regard to the likely response on both the demand and supply sides of the market for taxi services.  | The comprehensive review of the structure of taxi fares is part of the terms of reference to this review.   |
| <b>Maximum fare regime</b>   | The Government should provide for a maximum fare regime with flexibility to negotiate fares below the maximum in appropriate circumstances by making clarifying amendments to the Transport Act 1983.  | As announced in September 2006, Victorian taxi depots and operators now have the flexibility to negotiate fares below the metered rate for permanent and contracted services. This has not been applied to other customers to date.   |
| <b>Structural and operational review of the industry in regional areas</b> | A broader review should be conducted of the structural issues and operations of the taxi industry in regional Victoria to identify appropriate regulatory reforms. An independent advisory body such as the Commission or VCEC could be given broad terms of reference to undertake this review.   | DOI and the Director of Public Transport undertook the <i>Country Taxi Services Review</i> , drawing on advice from the Commission and VCEC. (See section 2.3.3 for a brief summary of its findings.)   |
| <b>Review of MPTP</b>  | The Multi Purpose Taxi Program ( <b>MPTP</b> ) should also be reviewed to ensure that it remains consistent with Government policy and with community expectations.  | The Government has acted to assist MPTP members by: (i) increasing the annual subsidy cap in August 2005 and September 2006; and (ii) increasing the trip cap in August 2005.<br><br>The MPTP was also examined as part of the Country Taxi Services Review.  |

| <i>Recommendation</i>                              | <i>Summary of Recommendation</i>   | <i>Status</i>  |
|--|--|--|
| <b>Collection and publication of industry data</b> | The VTD or another appropriate regulator should regularly collect and publish industry data relating to: total industry revenue; taxi patronage; km driven; industry cost structures. Consideration should be given to a study of taxi user profile that includes an analysis of the elasticity of demand for taxi services. The process of data collection and publication should allow for input by all industry participants. | The development of processes to improve data collection is being established as part of the Taxi-cab Industry Accreditation Regulations, which are currently in draft form for public comment. Information gathering is also part of the terms of reference for this review. |

### 2.3 Recent Taxi Industry Reforms

Policy changes have had a significant impact on the taxi industry in recent years. The Victorian Government's reform package in 2002, and in particular the introduction of the peak time 'green top' taxis in January 2003, the 20% Late Night Surcharge implemented in August 2004, and the establishment of a regulatory scheme for the transfer or assignment of taxi licences in January 2006, are reforms that have been put in place with the aim to address the policy objectives of National Competition Policy. However, at the time they were introduced, the Government noted that these reforms did not represent the end point of reform<sup>5</sup>.

A key element of the 2002 reforms was the announcement that 600 peak taxi licenses would be released over a six year period, and that at least half of these licenses will convert to full 24 hour licenses on the sixth anniversary of the issue date. Over the five years from 2003 to 2007, 400 licenses have been issued. The Government also stated that 'industry performance monitoring will determine whether there is a need to increase the number of licenses'.

Additional Government reforms were introduced in 2006. Each of these reform areas are discussed separately below.

#### 2.3.1 Subsidy schemes

The Multi-purpose Taxi Program (**MPTP**) is a scheme of direct subsidies that aims to address the affordability requirements of more vulnerable users. There are numerous users, such as the elderly and disabled, who are particularly dependent on taxis and for whom the absolute level of taxi fares is a crucial issue.

Members of the MPTP must: live in Victoria, have a severe and permanent disability, and have a disability that means they cannot use public transport independently. They also must either use a wheelchair all the time, hold a Department of Veterans' Affairs Pensioner Concession Card or gold Repatriation

<sup>5</sup> Department of Treasury and Finance (2003), 'National Competition Policy: report for the 2003 assessment on Victoria's implementation of national Competition Policy', p.92

Health Card, hold certain Pensioner Concession or Health Care Cards from Centrelink; or be able to show they have financial hardship. The concession cards required are the same as those required for public transport concession fares, though there are additional public transport concessions not accepted in the MPTP such as student concessions<sup>6</sup>.

The MPTP commenced in 1983 and currently has 178,000 members<sup>7</sup>. In regional areas 24% of revenue is from MPTP members<sup>8</sup>. In late 2006 the Government increased the annual capping of the MPTP by the taxi fare adjustment (3 per cent) and set it to automatically increase in line with future taxi fare increase<sup>9</sup>.

### **2.3.2 Ability to discount**

As announced in September 2006, Victorian taxi depots and operators now have the flexibility to negotiate fares below the metered rate. A hiring rate which is less than the metered fare may be negotiated, but only for contracted or permanent taxi bookings.

### **2.3.3 Country Taxi Review**

In 2005, the Victorian Government commissioned the Victorian Country Taxi Industry Review Working Party to conduct a review into the operation, regulation and licensing of taxi services in country Victoria.

As a result of the *2006 Country Taxi Review*, the Government began introducing a new package of measures to address the financial hardship faced by many taxi operators in provincial Victoria and to ensure that regional communities continue to enjoy the benefit of a local taxi service.

The new measures include:

- increased business support and training for country taxi operators;
- greater operational flexibility – for instance, in hours of operation;
- reduced fees and charges for operators;
- a \$3 million fund to assist the purchase of wheelchair-accessible taxis by operators in country communities; and
- greater flexibility for operators wishing to negotiate competitive fares<sup>10</sup>.

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<sup>6</sup> DOI website 2007

<sup>7</sup> VTD unpublished information provided to the Commission

<sup>8</sup> Booz Allen (2006) 'Victorian Country Taxi Industry Review Working Group 2006', p.8

<sup>9</sup> DOI website 2007

<sup>10</sup> DOI website 2007

### 2.3.4 Accreditation

In September 2006 the *Transport (Taxi-cab Accreditation and Other Amendments) Act 2006* received assent in Victoria, amending the *Transport Act 1983* to introduce an accreditation scheme for the taxi-cab industry.

The Government is currently publicly consulting on the industry accreditation regime. This aims to improve safety, competency, professionalism and service quality in the taxi industry and enables the Minister for Public Transport to determine business and service standards for industry participants by a notice in the Government Gazette<sup>11</sup>.

The accreditation requirements also establish significant information provision requirements (outlined in chapter 8). The Regulatory Impact Statement indicates that these are anticipated to impose a one-off cost to the industry of \$615,000, and ongoing costs averaging approximately \$455,000 per year.<sup>12</sup>

In order to introduce taxi accreditation, business and service standards will be developed by the VTD in consultation with the taxi industry<sup>13</sup>.

### 2.3.5 Taxi safety

Under the direction of the Minister for Transport, the Director of Public Transport established a Taxi Industry Safety Taskforce in late 2006 to conduct a thorough review of taxi driver safety and wellbeing within the Victorian taxi industry. The Taxi Industry Safety Taskforce is currently working with senior government officials in the development of an extensive plan to make the Victorian taxi industry safer for drivers and passengers.

The Taskforce last met in January 2007, and reports regularly to the Minister for Transport. It will prepare and submit to the Minister an Action Plan, identifying its key work streams and expected time lines for the completion of all key initiatives<sup>14</sup>.

### 2.3.6 Information gathering & performance reporting

The DOI has regularly commissioned surveys of taxi users. In particular the Taxi Customer Satisfaction Monitoring Surveys that have occurred as far back as April 2004, and which assess taxi customer satisfaction with a wide range of service delivery aspects.

The *Country Taxi Review* included collection of baseline data that may assist in determining country taxi industry operating costs and efficiencies.

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<sup>11</sup> DOI website 2007

<sup>12</sup> The Allen Consulting Group (October 2007) 'Transport (Taxi-Cab Industry Accreditation) Regulations 2007: Regulatory Impact Statement', p.x

<sup>13</sup> Minister for Public Transport Media Release 'New Service-based Accreditation Scheme for Victoria' Taxi Industry', 24 August 2006

<sup>14</sup> DOI website 2007

The Victorian Integrated Survey of Travel and Activity (**VISTA**) will be conducted in Melbourne and selected regional centres from April 2007 through to June 2008 on behalf of the DOI. The survey will consist of a household travel survey to provide an accurate picture of the complex travel interactions that occur in the State. Results from the survey are anticipated to be used by the DOI to ensure that transport and land-use planning decisions are reflective of the actual travel behaviour of Victorians.

### **2.3.7 Other Government initiatives**

Other initiatives under the Government's future reform program include:

- introducing measures to improve the availability and reliability of taxi services for people who use wheelchairs
- increasing the numbers, visibility and presence of VTD staff in the field, with active policing of vehicle and service standards<sup>15</sup>, and
- Victorian Metropolitan taxi licences are now able to be traded on the Bendigo Stock Exchange (BSX) Taxi Market<sup>16</sup> to help bring greater transparency to the way metropolitan taxi licences are transferred or assigned. The formal and independent market aims to bring greater transparency to the transferral process<sup>17</sup>.

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<sup>15</sup> DOI website 2007

<sup>16</sup> Note: the BSX Taxi Market is operated by BSX Services, a member of the Bendigo Stock Exchange Group.

<sup>17</sup> Minister for Public Transport Media Release 'World First: Victorian Taxi License Trading Market' 28 March 2006



## 3 | VICTORIAN TAXI INDUSTRY

This chapter provides an overview of the taxi industry in Victoria and a summary of the market issues relevant to the review.

### 3.1 Market structure

The right to operate a taxi is based on the issuance of a licence by the VTD although owners of licences in the most part assign the right to actually operate the taxi to others who in turn hire drivers. There are over 4,525 licence holders and cars, of which 84% are in the metropolitan and outer suburban area, and the remaining 16% in regional Victoria<sup>18</sup>.

Taxi operators hold licences either through ownership or assignment, and may also drive taxis. There are also the taxi drivers who work as 'bailees' (or sub-contractors), and the depots who provide fleet management and booking and dispatch services. There are also licence brokers, and specialist service providers such as Cabcharge payment systems.

The VTA is the industry body representing depots and major licence owners in Victoria.

Figure 3.1 provides a diagrammatic representation of the Victorian taxi industry participants.

#### 3.1.1 Licence owners & types of cabs

Licence owners possess an entitlement to operate a taxi in a specified region in Victoria. Figure 3.2 below shows a breakdown of licence types by region.

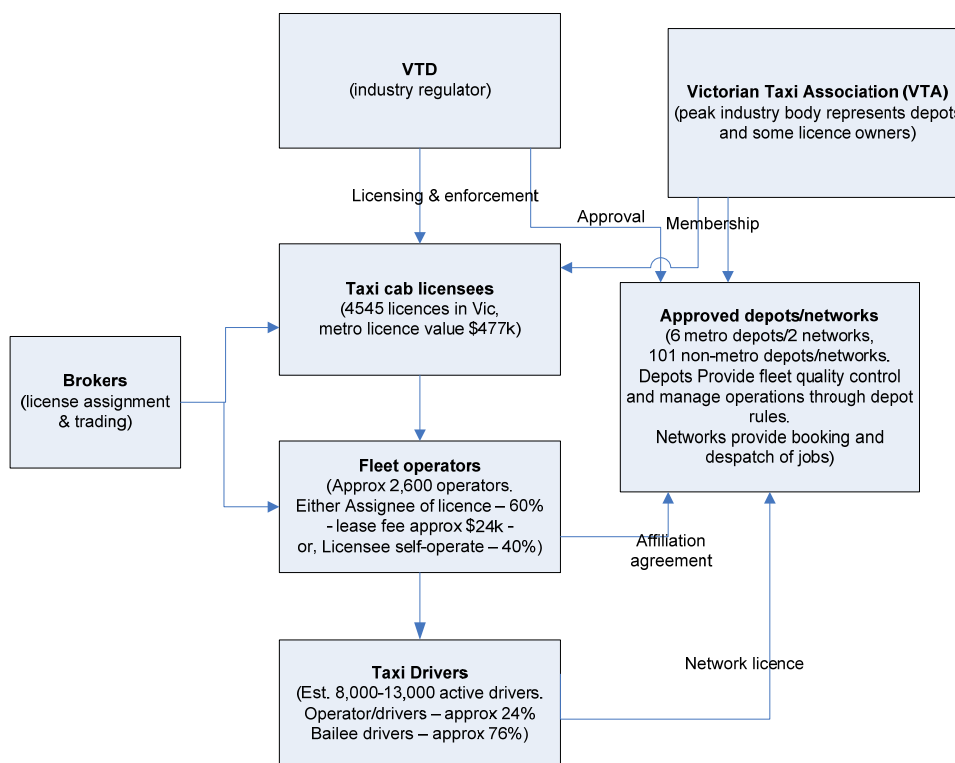
The majority of metropolitan licence owners do not operate the vehicle attached to their licence, but lease or assign it to a third party. This group receives income from assignment rates (currently around five to six per cent per annum of the market value of a licence) as well as capital gains from growth in the value of the licence<sup>19</sup>.

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<sup>18</sup> VTD unpublished data provided to the Commission 2007

<sup>19</sup> ESC 2005, p.22

Figure 3.1 Structure of the Victorian Taxi Industry



Data Source: VTD

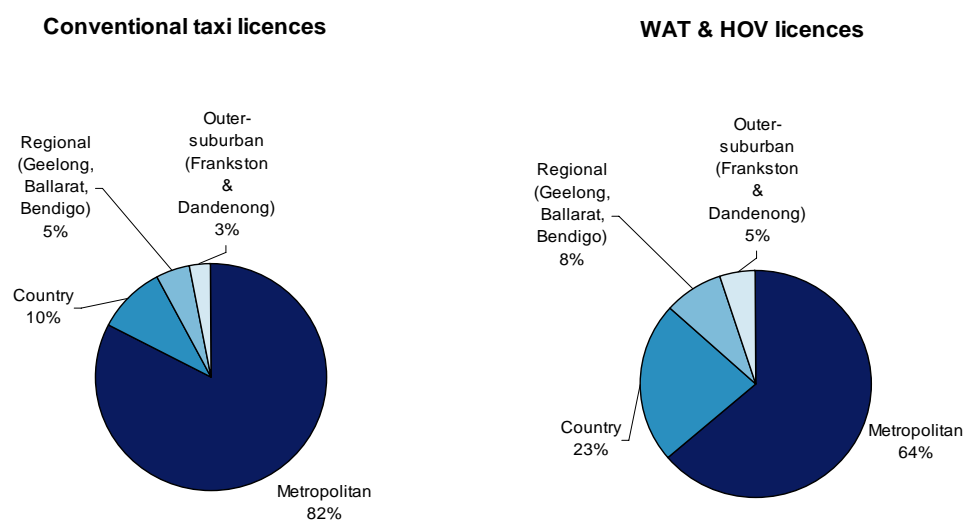
Beyond the 3,768 conventional taxis currently in operation, several types of specialty taxis exist in Victoria. These specialty types include:

- *Peak service taxis* – known as ‘green tops’ in the industry. These taxis are allowed to operate between the hours of 3pm and 7am, and during specified major events, within the Metropolitan Taxi Zone. Peak service taxis were introduced in January 2003 to service the high demand for late afternoon, evening and early morning taxi services.
- *Wheelchair Accessible Taxis (WATs)* – WATs are specially fitted taxis which can accommodate wheelchairs, and are required to respond to wheelchair passenger bookings. However they are also allowed to carry non-wheelchair passengers if not otherwise booked.
- *High Occupancy Vehicles (HOVs)* – HOV licences or “maxi-taxi” were first issued in 1999, and are larger vehicles that are able to carry between 6 and 11 passengers or two occupied wheelchairs. 100 licences were issued for HOVs in 1999 and 2000. When carrying six or more passengers, or when a larger than standard taxi is required (excluding wheelchair hirings), HOVs have a regulated booking fee that is higher than conventional taxis.
- *Premium taxis* – also known as “silver service” taxis, are generally fitted to a better standard than conventional taxis and charge a higher booking fee, for

example Silver Top depot charges an \$11 surcharge to the conventional fare for hiring premium silver service vehicles<sup>20</sup>.

Figure 3.2 presents the regional breakdown of taxi licences by type, and shows that the majority of conventional licences in Victoria are for operating taxis in metropolitan Melbourne. However, there are a relatively higher proportion of WAT licences in country and regional Victoria compared to conventional taxi licences.

Figure 3.2 Breakdown of Licences by Region



Source: VTD 2007a.

Notes: 'Conventional' taxi licences here include peak service taxis licences; WAT licences include HOV taxis. Metropolitan and Outer Suburban taxis are licensed to operate from depots located within the metropolitan area of Melbourne. Urban licensees are able to operate in the urban centres of Geelong, Ballarat and Bendigo and Country licensees operate in country towns throughout the rest of Victoria.

Figure 3.3 below indicates the trend in Victorian metropolitan and outer suburban licence numbers since 1953. As the figure above indicates, the number of metropolitan conventional taxi licences has been virtually unchanged since the mid-1970's, with the exception of the issue of 160 additional conventional licences in 1986-87, and the introduction over the last decade of WAT & HOV licences, and peak period licences.

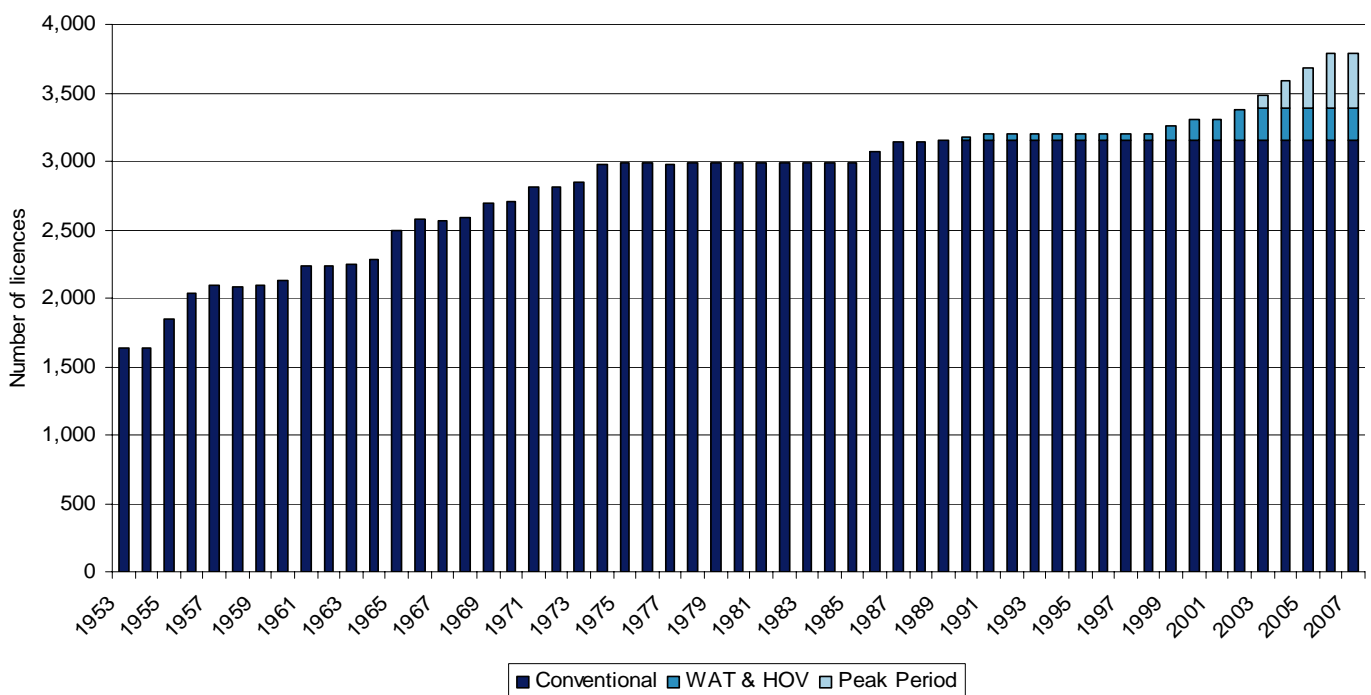
Over the five years from 2003 to 2007, 400 peak period licences have been issued. This has followed the Government's announced intention in 2002 to release 600 peak taxi licences over a six year period, with at least half of those licences converting to full 24 hour licences on the sixth anniversary of the issue date.

<sup>20</sup> Silver Top website 2007

The issue of Metropolitan licences therefore remains tightly constrained, although the Government has also stated in 2002 that 'industry performance monitoring will determine whether there is a need to increase the number of licences'.

Regional licence issue is, in principle, ongoing and based on local demand. Following the National Competition Review in 1999, up to 11 taxi licences were issued in regional Victoria as of December 2006<sup>21</sup>.

Figure 3.3 Trends of Metropolitan and Outer Suburban Licence Numbers (1953 – 2007)



Source: VTD 2007 and Foletta Report 1986

### 3.1.2 Operators and licence assignees

Unless they own a taxi licence, operators pay a fee to operate a licence, either to the licence holder or to the Government (for post-May 2002 licences). They are then required to purchase, maintain and operate a taxi.

Some licences are 'non-assignable', i.e. the licence holder is required to also operate the vehicle attached to that licence. However, most licences are 'assignable' and an estimated 60 per cent of these licences are assigned to a separate taxi operator, and the remaining 40 per cent are operated by the licence owner<sup>22</sup>. Virtually all regional taxis are operated by the licence owner.

<sup>21</sup> VTD unpublished data provided to the Commission 2007

<sup>22</sup> VTD website 2007: [www.taxi.vic.gov.au](http://www.taxi.vic.gov.au)

Assignment fees and conditions are not regulated. Annual assignment rates for a metropolitan taxi licence are estimated to be around \$25,108 as at October 2007. This is 5.3% of the average licence value for the same month of around \$474,390<sup>23</sup>.

### 3.1.3 Drivers

Taxi operators (whether they are assignees or licencees who are also operators) may drive their own taxis and/or engage drivers for an agreed period and terms. Within the Victorian taxi industry this is through a standard Bailment Agreement. According to the ATIA, there are 13,000 taxi drivers in Victoria, and of these 2,126 are new metropolitan drivers who entered the industry in 2005/06.

Taxi drivers require certification prior to driving a taxi. New drivers are required to undertake a 90 hour course in taxi driving prior to being certified, and WAT drivers are also required to complete a 40 hour course for WAT operations.

Under the Bailment Agreement, fare revenue collected by drivers is shared with the taxi operator. In Victoria this is generally on a 50/50 basis, with over 90% of agreements on this basis. The alternative arrangement used in the industry is for the driver to buy a shift through a fixed pay-in (and receiving all of the revenue for that shift).

There are no official statistics relating to driver income although estimates from the Commission's 2005 review ranged from \$7.50 to \$8 per hour. Drivers typically account for additional expenses such as superannuation and sick leave<sup>24</sup>.

### 3.1.4 Depots & networks

Metropolitan and outer suburban taxi operators are required to operate their vehicles from privately owned and operated depots authorised by the VTD to provide communication networks to receive and dispatch bookings for taxis. Taxi operators pay fees to depots for the services they provide<sup>25</sup>. Depot/network fees are not regulated.

A total of 107 taxi depots operate in Victoria, of which 6 are in the metropolitan zone, two are in the outer suburban zone, and 99 are located in country Victoria. The main depots in metropolitan Melbourne are Silver Top Taxi Service and Black Cabs Combined. There is indication of a trend for increasing concentration of metropolitan licences in depots, with depot numbers decreasing over recent years. This is in particular emphasised by metropolitan zones being dominated by the two depots.

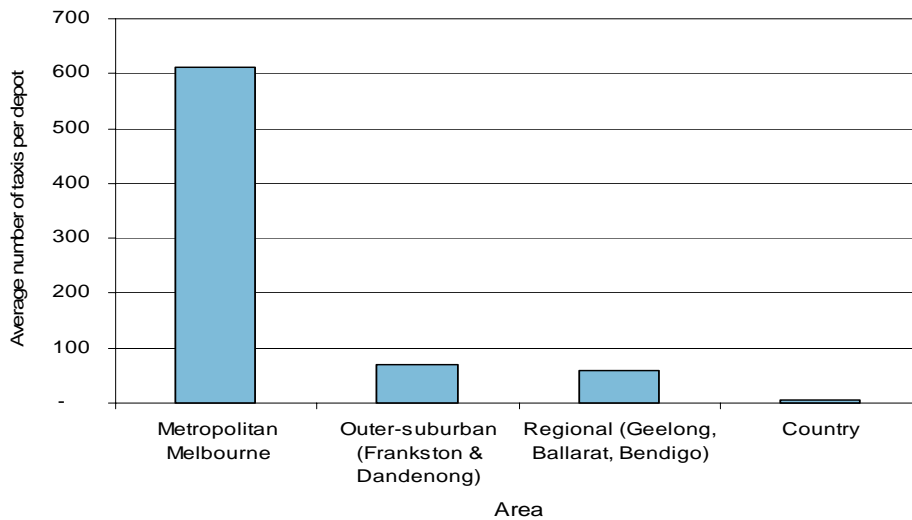
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<sup>23</sup> BSX Taxi Market Website 2007

<sup>24</sup> ESC 2005, p.24

<sup>25</sup> ESC 2005, p.24

Figure 3.4 **Average Number of Taxis per Depot by Region**



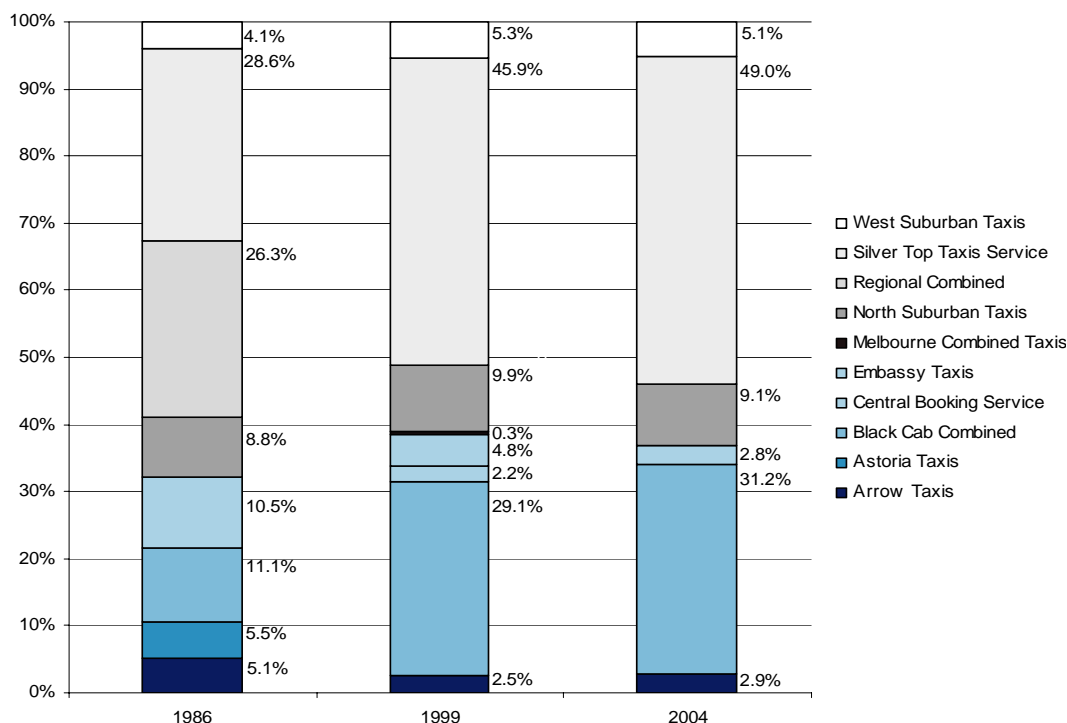
Source: VTD 2007a

Figure 3.4 shows that on average, metropolitan Melbourne depots are much larger than outer-suburban, regional and country depots.

Figure 3.5 below shows the changing concentration of licences in Victorian taxi depots. This figure is based on the proportion of taxi licences in each taxi depot across an 18 year period, showing 1986, 1999 and 2004. The number of licences in each of these years was 2,875, 3,198 and 3,377 respectively. The figure shows that in 1986, Silver Top and Black Cabs Combined collectively made up 39.7% of the market, but by 2004 these two depots held 80.2% of the market.

This figure understates the degree of concentration because of the effect of amalgamations. This follows several minor depots merging with, or transferring depot activities to Black Cabs. Among the remaining depots, North Suburban Taxis and Arrow Taxis are affiliates with Black Cabs (also known as Yellow Cabs) through acquisition by its owner, Cabcharge. Black Cabs and North Suburban taxis operate under the common banner “13CABS”, which Arrow/Embassy are also being brought into. The other large depot, Silver Top Taxis, is owned by the Gange Corporation, a private company which is also a major holder of taxi licences. As a result there are now two major taxi businesses servicing Melbourne, with three smaller depots respectively based in the western suburbs, Dandenong and Frankston.

**Figure 3.5 Changing Concentration of Licences per Depot**



**Sources:** Foletta Report (1986 data); VTA submission to the NCP review, and ACCC 2005, Determination: Review of Taxi Authorisations, 11 March 2005

### 3.2 Demand

Taxis operate in the broader market for transport services and compete with other modes of passenger transport such as public transport, private vehicles and other commercial passenger vehicles such as hire cars. Total taxi fare revenue exceeds \$400 million annually<sup>26</sup>.

There is a considerable degree of uncertainty over the number of taxi trips annually in Victoria. According to the ATIA there were in 2006 an estimated 27 million taxi trips in Victoria transporting approximately 47 million passengers.<sup>27</sup> However, VTD estimates (April 2007) that 32 million trips are carried out annually, with the same number of passengers<sup>28</sup>. Furthermore, the DOI website reports an estimated 35 million trips per annum.

Similarly, there is uncertainty about the average distance of a taxi trip and the associated average fare. The ATIA reports the Melbourne metropolitan average fare at December 2006 to be \$20.30, based on an average distance of 11.5 km.

<sup>26</sup> VTD unpublished data provided to the Commission 2007

<sup>27</sup> ATIA 'State & Territory Statistics as at December 2006'

<sup>28</sup> VTD unpublished information provided to the Commission 2007

However, the DOI website reports an estimate of 10 km per trip. The breakdown of this into Melbourne and country areas is as follows:

- VTD estimates the average fare in the metro area to be \$18.80, implying an average trip distance of 10.8 km.
- Booz Allen has estimated the average trip length in country areas to be 6.7 km, and the average fare per hiring of \$13.10.

#### *Method of hiring*

There are three main segments of the taxi market: phone bookings, taxis hired in taxi ranks and hailed in the street. Recent market research carried out by DOI indicates that phone bookings comprise approximately 60% of all taxi engagements.<sup>29</sup> Approximately 20-25% are hailed in the street, while 15-20% are engaged at taxi ranks.

This profile appears to have changed since the late 1990's and early 2000's. In 1999 KPMG reported that approximately 45-50% of taxi trips were booked over the phone<sup>30</sup>. Similarly the 2002 National Taxi Users Survey found that in Victoria, 49% of taxis were booked, 27% were hired from a rank, and 24% were hailed in the street. These comparisons indicate that the phone booking component of the market has increased in importance.

In country areas phone bookings account for over 90% of all taxi engagements.<sup>31</sup>

#### *Types of users*

The demand for taxi services can be categorised into the following three broad categories:

- *Corporate demand.* VTD estimates that this market segment accounts for around 30% of taxi revenue. It is likely to be price inelastic but possibly sensitive to quality issues such as vehicle standards, punctuality and reliability. Airport trips are likely to account for a significant component.
- *Private or social demand.* This incorporates leisure or commuting journeys, and represents over half of total revenue according to VTD – and almost all trips in country areas<sup>32</sup>. Demand likely more price sensitive while other factors such as reliability may be less important.
- *Tourism demand.* This sector accounts for approximately 17% of revenue. Demand is likely to depend on quality issues such as vehicle standards and perceptions of driver capability and to be moderately price elastic<sup>33</sup>.

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<sup>29</sup> Wallis Consulting Group (2006), 'Taxis Customer Satisfaction Monitoring Survey: Quarterly Report Oct-Dec 2006', prepared for Information Services, Public Transport Division, Department of Infrastructure, p.15

<sup>30</sup> KPMG Consulting 1999, *National Competition Policy review of Taxi-cab and Small Commercial Passenger Vehicle Legislation*, Department of Infrastructure Victoria, Melbourne, p. 31

<sup>31</sup> Booz Allen (2006) p.14

<sup>32</sup> Booz Allen (2006) p.13

<sup>33</sup> ESC 2005, p.26



Approximately 10% of all taxi trips are by MPTP members<sup>34</sup>. Many of these users may be less price-elastic as their use is subsidised.

#### *Purpose of use*

The taxi industry *Customer Satisfaction Monitoring Surveys* carried out from June 2004 to December 2006 provide an overview of taxi users and non-users in Victoria. Based on the results of the June 2004 survey, it was found that the main purposes for using taxis were to get to or home from a social event (36%), for work related activities (22%), to get to or from a personal appointment (17%); and to get to or home from the airport (13%). In country areas social events and appointments together comprise around 86% of journeys, with work journeys (6%) and getting to other transport (8%) accounting for the remainder.<sup>35</sup>

#### *Frequency of use & time of use*

Most customers only use cabs infrequently. The June 2005 monitoring survey of taxi users found that:

- approximately 10% of respondents used taxis more than once per week, and a similar percentage used taxis once per week (21% overall). Users aged 65 and older were relatively heavily represented in this group.
- the most common frequencies of taxi usage were '1 to 3 days a month' or '3 to 4 times a year'. These frequencies accounted for 38% and 24% of users respectively (i.e. 62% overall).
- The remaining 18% of respondents used a cab either 'once every 6 months' or 'once a year or less'.

The busiest periods are Friday and Saturday nights. On other days of the week the nights tend to be quiet, and are significantly less busy than daytime periods. This is relevant to the "peak period" licences, which cover the peak Friday and Saturday night periods, but at all other times only operate during off-peak periods.

#### *Reasons for use*

The key reasons identified in these monitors for the use of taxi services rather than public transport included:

- public transport not being available at the time of travel, and
- not being able to get directly to the destination using other transport.

The key reasons for not using taxis included the following:

- drive own vehicle
- taxis too expensive
- never need to, and
- use public transport.

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<sup>34</sup> Wallis Consulting Group (2006)

<sup>35</sup> Booz Allen (2006) p.14

### *Trends in use*

In the Commission's Taxi Fare Review 2005, it was raised that "there is evidence that the relative number of taxi trips has declined in recent years in Victoria and in other jurisdictions"<sup>36</sup>. The National Competition Council (NCC) referred to "substantial evidence on the extent of substitution away from taxi services over the past five to ten years"<sup>37</sup>. This is consistent with indications in other jurisdictions such as the ACT, where there is reportedly evidence of falling taxi demand.

However, given the uncertainty in relation to reported data for the number of taxi trips as mentioned above, it is difficult to make an assessment of this. Table 3.1 presents some data published by the ATIA for Victoria in 2006, and selected earlier years. On the basis of this data, taxi trips have grown at 1.4% per annum between 1987 and 2006. This is similar to Victoria's population growth rate over this period, and suggests that the number of taxi trips per capita has been relatively constant.

However, over time the average trip length has consistently increased – perhaps reflecting the ongoing geographical spread of the city. This has resulted in a stronger growth in passenger kilometres, averaging 3.4% per annum over the period 1987 to 2006.

Table 3.1 **Victorian Taxi demand**  
Selected years

|                             | <i>1978</i> | <i>1987</i> | <i>2006</i> |
|-----------------------------|-------------|-------------|-------------|
| Vehicle kms (millions)      | 276         | 307         | n/a         |
| Passenger trips (millions)  | 21.2        | 20.9        | 27          |
| Average trip length (km)    | 5.9         | 8.2         | 11.5        |
| Passenger kms (millions)    | 133         | 163         | 310         |
| Paid/total paid & unpaid km | 48%         | 53%         | n/a         |

**Sources:** VTA submission to the review of Taxi Industry Regulation (February 1999), p.6, ATIA 'State & Territory Statistics as at December 2006'

Neither DOI nor the ATIA report a current estimate of the ratio of paid to total km. However, Booz Allen has estimated this ratio for country Victoria to be 57%.<sup>38</sup>

### **3.3 Current fares and historical trends**

From 1986 to 2002, taxi fare rises were determined by the Minister for Transport after submissions from the industry demonstrating cost growth. During this period

<sup>36</sup> ESC 2005, p.28

<sup>37</sup> National Competition Commission (2002), 'Assessment of government's progress in implementing the National Competition Policy and related reforms: 2002-Volume One: Assessment', p.5.7

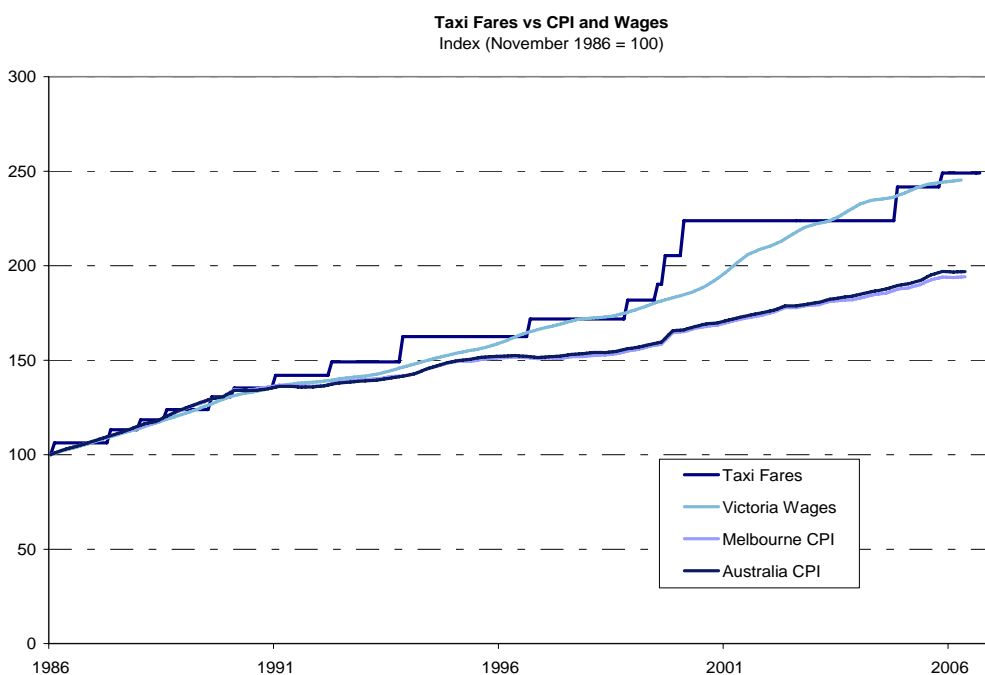
<sup>38</sup> Booz Allen (2006) p.16

taxi fares had been increased in an ad hoc manner since 1986, with no clearly stated criteria or bases on which periodic fare adjustments had been made<sup>39</sup>.

Over the 16 years from 1984 to 2002, fare increases occurred in ten of those years, with more than one increase in some years. The increases varied from 3.5 to 9 per cent at any one time<sup>40</sup>. In September 2005, Victorian taxi fares rose by 8 per cent in line the Commission's fare review recommendations. This was the first increase that had occurred since 2000. The most recent taxi fare rise was announced in September 2007, when taxi fares increased by 1.1% consistent with the recommendation by the Commission that fares in 2006 increase by an amount equal to the CPI less one per cent<sup>41</sup>.

Figure 3.5 compares taxi fares to the Melbourne and national Consumer Price Index (CPI), and to Victorian Average Weekly Earnings (AWE). Taxi fare increases over the period since 1986 have been similar to AWE, and higher than CPI.

**Figure 3.5 Index of Fare Increases Compared to CPI and AWE (1986 – 2006)**



**Sources:** Fare data: ESC 2005 and VTD 2007; CPI & AWE (ordinary time earnings): ABS 2007 6302.0 & 6401.0

Table 3.2 below outlines the current scheduled fares in Victoria, in place since the September 2006 most recent fare increase.

<sup>39</sup> ESC 2005, p. 32

<sup>40</sup> ESC 2005 and VTD data provided to the Commission

<sup>41</sup> Australian Taxi Industry Association (ATIA) 2006

Table 3.2 **Summary of Current Scheduled Fares in Victoria**

|   | <i>Metro &amp; outer suburban</i>  | <i>Regional urban</i>                             | <i>Country</i>                                    |
|---|--|---|---|
| <b><i>No more than 5 passengers</i></b>     |  |   |   |
| Flagfall                                    | \$3.10 when meter is started   | \$3.10 when meter is started                      | \$3.10 when meter is started                      |
| Distance                                    | \$1.465 per km   | \$1.536 per km                                    | \$1.577 per km                                    |
| Time  | \$0.525 per minute if the speed is below 21 km/hr  | \$0.525 per minute if the speed is below 21 km/hr | \$0.525 per minute if the speed is below 20 km/hr |
| <b><i>Carrying 6 or more passengers</i></b> |  |   |   |
| Flagfall                                    | \$3.10 when meter is started   | \$3.10 when meter is started                      | \$3.10 when meter is started                      |
| Distance                                    | \$2.20 per km  | \$2.305 per km                                    | \$2.365 per km                                    |
| Time  | \$0.788 per minute if the speed is below 21 km/hr  | \$0.788 per minute if the speed is below 20 km/hr | \$0.788 per minute if the speed is below 20 km/hr |
| <b><i>Extras</i></b>                        |  |   |   |
| Phone booking                               | \$1.30   | \$1.30  | \$1.30  |
| Late night surcharge/extra                  | 20% (metropolitan zone only – midnight to 5am)<br><br>\$1.30 (outer suburban zone – midnight to 6am) | \$2.60 (midnight to 6am)                          | \$2.60 (midnight to 6am)                          |

**Source:** DOI Website 30/10/2007

**Note:** Metro and outer suburban includes all taxis in Melbourne, including Dandenong and Frankston

Taxis are also permitted to charge certain other fees, including:

- airport related charges (charges imposed by Melbourne Airport include \$2.00 for taxis hired from Melbourne Airport ranks and \$3.00 for pre-booked taxis from Melbourne Airport),
- pass-through of CityLink tolls.

A New Years Eve surcharge of \$5.50 was also authorised for non-metropolitan taxi fares in 2006 and 2007, as an incentive for drivers to operate their taxis during this period.

Table 3.3 provides a comparison of the average taxi fare in Victoria compared to that in other states, as well as the average revenue per taxi. A more detailed comparison of Victoria taxi fares with those in other jurisdictions is presented in chapter 6. Table 3.3 shows that because the average trip distance in Victoria is greater, the average fare per trip is comparatively high. However, average revenue per cab is relatively low due to the comparatively fewer number of jobs per taxi.

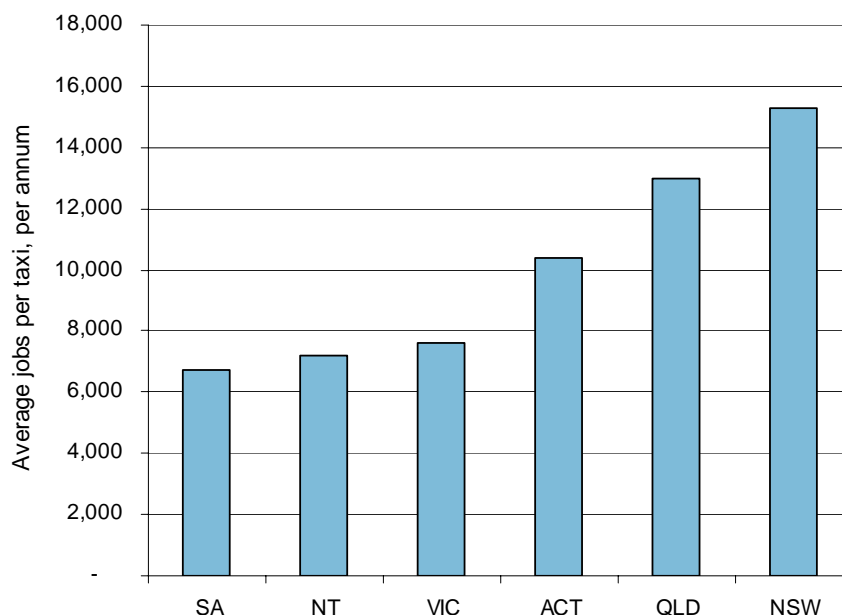
**Table 3.3: Average fare per trip by jurisdiction**

| <i>Jurisdiction</i> | <i>Average trip km (metro)</i> | <i>Average jobs per taxi</i> | <i>Average fare (metro)</i> | <i>Average fare per km (metro)</i> | <i>Average revenue per taxi (\$,000)</i> | <i>Jobs per capita</i> |
|---------------------|--------------------------------|------------------------------|-----------------------------|------------------------------------|--|------------------------|
| Victoria            | 11.5                           | 6,000                        | \$20.30                     | \$1.77                             | 122                                      | 1.36                   |
| NSW                 | 7.0                            | 15,300                       | \$17.13                     | \$2.45                             | 262                                      | 4.89                   |
| QLD                 | 7.5                            | 13,000                       | \$17.20                     | \$2.29                             | 224                                      | 2.00                   |
| SA                  | 7.8                            | 6,700                        | \$14.95                     | \$1.92                             | 100                                      | 0.39                   |
| ACT                 | 8.4                            | 10,400                       | \$17.74                     | \$2.11                             | 184                                      | 1.36                   |

**Source:** ATIA 'State and Territory Statistics as at December 2006'

The comparatively low average number of passenger trips (jobs) per taxi compared to other jurisdictions is evidenced by Figure 3.6 below.

**Figure 3.6 Average Annual Number of Jobs per Taxi**



**Source:** Australian Taxi Industry Association

A relevant issue to consider when analysing taxi demand is supply induced demand, and unmet demand. The 2002 National Taxi Users Survey found that in Victoria 30% of customers indicated that on some occasions in the preceding 6 months they had been unable to get a cab. More generally, the cost to users of waiting time is high,<sup>42</sup> and consequently waiting times may be discouraging some demand. Supply induced demand results when the rate of growth in the supply of licences is sufficient to increase the number of available cabs at any one time, and thereby reduces waiting times (and potentially other aspects of customer service), and thereby stimulates demand.

Conversely, insufficient growth in the number of licences can be expected to lead to deterioration in response times and other taxi service attributes. This can in turn discourage demand – so that observed demand levels do not provide a clear indication of the potential levels of demand with a greater supply of cabs.

The maintenance and improvement of service levels and response times requires a movement towards a market position where the supply of licences better matches the potential demand at those improved service standards. It is reasonable to assume that the significant improvement in response times and competition for passengers would induce additional taxi trips, i.e. trips that would not have otherwise taken place on any mode of public transport.

### 3.4 Competition from hire cars & other transport modes

Competition from hire cars, public transport and private motoring are often cited as key factors that impact on taxi demand, including:

- a long term structural shift from public transport (buses and taxis) to private car use, with a growing proportion of households shifting from single to multi-car status. Australian Bureau of Statistics (**ABS**) census data for Victoria indicates that registered motor vehicles per 1,000 persons increased from 568 to 590 from 2002 to 2006<sup>43</sup>
- growing competition from hire cars
- competition from rental cars with competitive all-day rental rates, and
- competition from mini-buses and courtesy vehicles.

Reforms in the hire car industry have allowed more entrants into the industry and increased the range of vehicles which are allowed to be operated as hire cars.

The hire car industry in Victoria consists of:

- *Hire cars*: There are currently 723 hire car licences in Victoria, 651 of which are based in Melbourne. Hire cars are modern luxury sedans or stretch limousines. Hire cars do not have meters; charges are negotiated between the driver and customer. A one-off fee of \$60,500 (including GST) is payable for the issue of a new hire car licence to operate in the Melbourne metropolitan area.

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<sup>42</sup> For a summary of estimates of the cost of passenger waiting time see: Victorian Competition and Efficiency Commission (2006) 'Making the Right Choices: Options for Managing Transport Congestion', pp. 44-46

<sup>43</sup> ABS Census 2006

- *Restricted hire vehicles*: Restricted hire vehicles are similar to hire cars except that limited vehicle types qualify for this licence, such as vintage cars, off-road or tour vehicles. There are currently 518 restricted hire vehicle licences in Victoria.
- *Special purpose vehicles*: These are similar to hire cars except that they are licensed for specific purposes such as weddings or tours. There are currently 1,028 of these licences operating in Victoria<sup>44</sup>.

Competition also exists with other forms of public transport in Melbourne and Victoria. Taxi trips – estimated by the ATIA to be approximately 27 million in 2006 – compares to 146 million passenger journeys by train, 130 passenger journeys by tram and 94 million bus passenger journeys in 2005-06.<sup>45</sup> ABS Census data for Journey to Work in Melbourne shows that between 2001 and 2006, trains, trams buses and ferries increased their combined share<sup>46</sup> from 9.3% to 10.2%. Over the same period the share of taxis decreased from 0.31% to 0.27%.

### 3.5 Trends in licence values

There are 4,525 taxi licences on issue, and the Government “regulates the release of licences on the basis of assessed consumer need”. Licences for taxi operation in regional Victoria are generally issued when increased demand is experienced or where applicants wish to establish a service at a location where a taxi service does not currently exist.

Since May 2002, all new licences are leased from the Government, i.e. an annual licence operation fee applies which varies depending on the type and location, and licences are non-transferable and non-assignable. An example is the metropolitan peak service licence, which enables a licensee to operate a vehicle between 3pm and 7am. By contrast, pre-2002 licences are, in most cases, freely tradeable intangible assets that can be assigned to a third party.

The average prices of metropolitan taxi licences in Melbourne from January 1989 to October 2007 are provided in Figure 3.8 below. As this figure indicates, the price has increased from an average of \$123,267 over the year 1989 to an average of \$449,241 from January to October 2007. This is an average increase of 7.4% per annum. In comparison the CPI increased by 3.0% per annum over the same period. The most recent data indicates that taxi licence values were \$474,390 in October 2007.<sup>47</sup>

In 2002 the government introduced a policy of leasing all new licences, which are also non-tradeable. A further recent change to the taxi licensing arrangements in Victoria took place in March 2006 when the BSX taxi-cab licence transfer and assignment system commenced operation. Metropolitan taxi licences and assignments must be traded in accordance with the BSX Taxi Market System, and

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<sup>44</sup> VTD website 2007

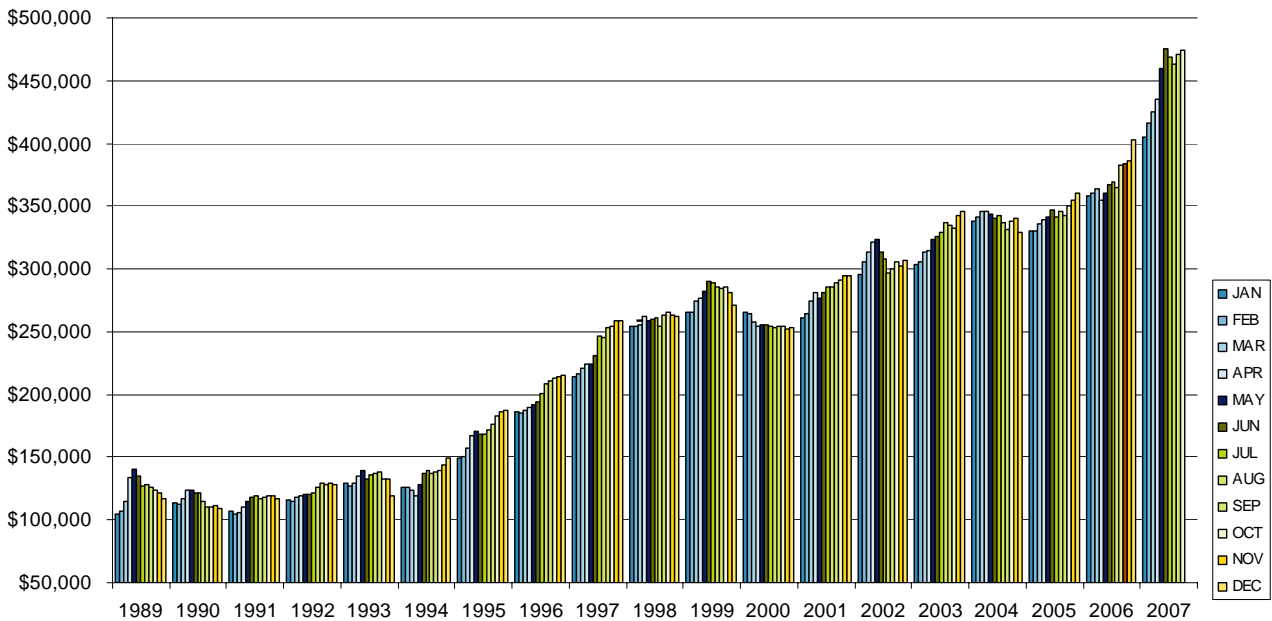
<sup>45</sup> DOI website

<sup>46</sup> Considering only journeys that use one method of transport

<sup>47</sup> BSX Taxi Market Website 2007 (accessed 14 November 2007)

only with this system<sup>48</sup>. Since the introduction of these two schemes, licence values have continued to increase strongly.

Figure 3.8 **Average Price of Metropolitan Taxi Licences**



**Source:** VTD 2007c (Jan 1989 – Jun 2005); BSX Taxi Market Website 2007 (Jun 2006 – Oct 2007)

For non-metropolitan licences, their values are more difficult to analyse. Trades in such licences do not occur on the BSX Taxi Market, and do not occur as frequently as is the case for metropolitan licences. Furthermore, licence restrictions on the areas in which they can operate mean they cannot readily be compared<sup>49</sup>.

Most taxi operators, particularly in the metropolitan area, pay assignment fees for the right to operate an owner's licence. Licence owners receive income in the form of assignment rates as well as capital gains accruing from growth in the value of the licence over time. Annual assignment prices for a metropolitan taxi licence have increased steadily over time, as evidenced in Figure 3.9 below. As of October 2007, the annual assignment rate was around \$25,108.<sup>50</sup>

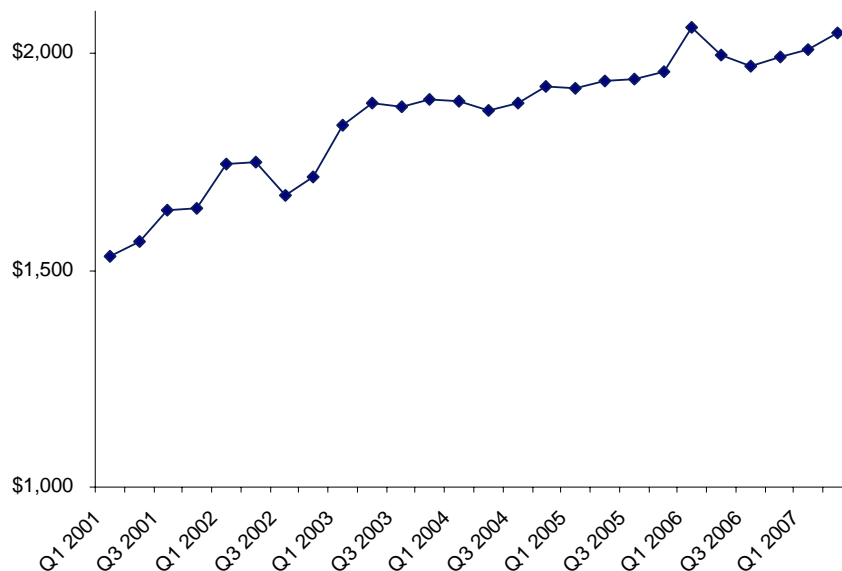
<sup>48</sup> ATIA 2006, p.12

<sup>49</sup> ESC 2005, p.23

<sup>50</sup> BSX Taxi Market Website 2007 (accessed 14 November 2007)



Figure 3.9 **Average Monthly Assignment Prices (by Quarter)**



**Note:** Quarterly data not available for Q2, Q3 & Q4 2005 and Q1 2006

**Source:** VTD 2007e (April 2002 – June 2005); BSX Taxi Market Website 2007 (June 2006 – June 2007)

However, assignment rates as a percentage of licence value has decreased, from 7.1% of the average licence value in June 2002 to 5.3% of the average licence value in October 2007. This suggests that an increasing proportion of taxi licence values are based on expected capital gains.

### 3.6 Discussion

The discussion identifies a number of issues which need to be considered in the Review, including:

- There is considerable uncertainty around the total volume of taxi trips and the average number of trips per taxi. More data is required to analyse the trends in the supply of and demand for taxis, and changes in trip characteristics, to inform the 2007/08 fare review.
- The average number of jobs per taxi in Victoria is significantly lower than that in NSW and Queensland, and beyond that which can be explained by differences in average trip length. A more in-depth analysis of the reasons behind this productivity and/or efficiency difference is required.

***Are there any other market issues the Commission has not identified, that should be considered under the specific ‘terms of reference’?***

## 4 | APPROACHES TO SETTING PRICE PATHS

The terms of reference require the Commission to report on:

*An appropriate price setting model to provide for automated fare adjustments for the next 3-5 years, including the timing of such adjustments*

This section presents a summary of approaches to setting price paths for taxis. The discussion provides an understanding of how taxi fares can be adjusted in a way to ensure that industry participants such as taxi operators and drivers are operating in a viable yet efficient manner.

### 4.1 The 2005-2008 price path – CPI-X

In 2005, the Commission recommended adopting a CPI-X approach for setting of taxi fares. This approach combines a broad economic cost index with a productivity X-factor.

The CPI-X approach provides for fare increases in line with the general price index with an adjustment to account for industry productivity gains. As indices such as the CPI already take account of productivity gains in the economy as a whole, the X-factor in this CPI-X approach was included in order to take account of the productivity gains made by the taxi industry in addition to these economy-wide gains<sup>51</sup>.

As part of the review process leading up to the *Taxi Fare Review 2005*, the Commission engaged PricewaterhouseCoopers (**PwC**) to investigate the movement in taxi costs over the four years to December 2004. PwC's data suggested that changes in costs per kilometre over these four years may have been 2.5 to 3.0% per annum less than CPI. That is, the data suggested an annual net productivity gain of approximately 2.5 to 3% had been achieved in practice. However, this analysis was based on a limited survey, and was potentially subject to a significant degree of measurement error.

The Commission recommended adopting a more conservative basis for the recommended X-factor of 1%. This was because it considered that in the face of uncertainties such as the lack of information comparing taxi industry prices with input price trends for the Australian economy, and a lack of understanding as to the extent that recent capacity gains were sustainable, it was appropriate to set an X-factor that was not too demanding since doing so could have had an adverse affect on industry profitability and dynamic efficiency.<sup>52</sup>

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<sup>51</sup> The X factor was recommended by the Commission to take into account differences in the relative price movements. Appendix B contains an elaboration of the relevant concepts.

<sup>52</sup> ESC 2005, p.72

Whilst the CPI-X approach provides incentives to participants in the taxi industry to improve their productivity, and reduces the impact of fare rises on passengers, it also has a number of drawbacks, including:

- difficulty in accurately determining a productivity factor
- some concern that the CPI already incorporates economy-wide productivity gains (however, see Appendix B for an explanation of these concepts), and
- concern that the incentive structure already present within the industry provides drivers with strong encouragement to work the most productive hours and pursue the maximum amount of work, as well as for the operators to minimise cost and maximise the number of shifts per week that the taxi vehicle is operational. Hence the X-factor approach may be unlikely to provide significant further encouragement to pursue productivity gains over the strong incentives already present.

To implement this approach, a close review of fare adjustment approaches and in particular a close review of how to derive X will be important.

One way of determining the X-factor to be included within a price cap mechanism is to calculate the total factor productivity (TFP) trends of the industry over the recent past, and assume this trend persists over the regulatory period. Appendix B outlines the relationship between TFP trends and the X-factor within this approach to setting the X-factor. In order to ensure that the price path is cost reflective, it will usually be necessary to change the level of prices in the first year of the new regulatory period, which is termed a “P<sub>0</sub> adjustment”. These two price adjustments, the P<sub>0</sub> adjustment and the X-factor, are designed to ensure that prices are at a level that will enable the full recovery of all legitimate costs of supply, and reflect levels and trends that are consistent with the outcomes expected in an effectively competitive market.

Issues relating to the measurement of productivity are discussed in section 4.4.

***How effective has the CPI-X approach and determination of the productivity X factor been as a method for determining Victorian taxi fares?***

***Are there any specific reasons that justify a change in the Commission’s adoption of a conservative approach towards setting an X factor?***

***Given the available information on costs and productivity movements tend to be limited, what additional sources of data should the Commission consider, in order to improve the use of the CPI-X regulatory approach?***

## 4.2 Alternative approaches to taxi fare adjustments

Recent years have seen the analysis and review of suitable approaches to taxi fare adjustments as a frequently visited issue within the Australian taxi industry. A range of approaches are currently implemented across the different Australian jurisdictions.

In assessing the alternative approaches to determining price paths, the Commission will need to have regard to the requirement of the terms of reference to establish a price setting model that provides for automated fare adjustments over a three to five year period, as well as to its overarching statutory objectives. Other key considerations will include:

- simplicity of use and understanding,
- regulatory cost minimisation,
- taxi cost movement reflectivity and accuracy,
- incentives for efficiency, and
- the viability and competitiveness of the taxi industry.

The approaches to taxi fare adjustments used in Australian jurisdictions can be simplified into the following three methods:

- industry-specific cost indices
- broader economic indices
- composite price indices.

Each of the three types of approaches is explained in the following sections. However, it is not necessarily the case that all of these approaches would satisfy the requirement for a price setting model that provides for automated fare adjustments over a three to five year period. For example, this might mean an explicit formula for re-determining fares each year based on certain published indices.

### 4.2.1 Industry-specific cost estimates

Industry-specific cost indices, such as the Taxi Cost Index used by the Independent Pricing and Regulatory Tribunal (**IPART**) in NSW<sup>53</sup>, are those that involve gathering detailed cost data on a regular basis in order to review taxi industry cost increases that can then be applied to fares.

An industry-specific cost index is used to determine future fare increases in line with the movement in the principle costs of a taxi business. The approach involves establishing key actual costs at a certain point in time and then constructing an index to measure the change in these costs over time. These key actual costs are those that define the 'average' taxi based upon:

- fuel consumption and prices
- parts and maintenance costs

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<sup>53</sup> IPART (2007) 'Maximum fares for taxis in NSW for 2007/08: Recommendations to the Minister'

- insurance
- vehicle leasing costs
- driver income
- annual kilometres travelled – paid and unpaid (which will determine the costs per paid kilometre).

On a regular basis these models are updated to measure and monitor changes in 'average' taxi operating costs. In any projection, assumptions are made about productivity gains, typically based on new technology developments. Like any index, an industry-specific cost index needs to be regularly reviewed including updating weightings to reflect the types and significance of costs involved in operating a taxi.

This approach is essentially that used by IPART for setting fares within its CPI-X price control framework for NSW. Several other regulators use a similar approach, including the Independent Competition and Regulatory Commission (**ICRC**) of the ACT. These price decisions have generally been based on an annual review of the change in the cost base.

#### 4.2.2 Broader economic cost indices

Broader economic cost indices involve escalations of fares based on cost indices determined for the broader economy or a broader subset of the economy, as opposed to being specific for the taxi industry.

These indices are generally simpler to implement in comparison to other approaches to taxi fare adjustment, due to the reduced requirement to conduct surveys or to collect data from stakeholders. As opposed to survey data required for industry-specific cost indices, broader economic cost indices are instead based on cost indices determined for the broader economy or a broader subset of the economy as opposed to the taxi industry specifically. These economic cost indices are generally determined by the government bodies such as the ABS. Examples of economic cost indices that can be applied include:

- *Consumer Price Index*

One of the alternatives to using an industry-specific cost index is to adjust taxi fares each year in line with the movement in the CPI. CPI formed the basis of recent fare increases in Victoria, with a productivity 'X-factor' applied to the increase in CPI.

The movement in the CPI provides an indication of the increase in prices in the economy as a whole. Specifically, it measures the rise in the prices of a basket of goods typically purchased by households, including food, alcohol and tobacco, clothing and footwear, housing, furniture and household goods, health services, transportation, communication, recreation, education and financial and insurance services.

- *Transportation & private motoring components of the CPI*

An alternative approach is to adjust taxi fares each year in line with either: (i) the movement in the transportation group of the CPI; or (ii) the private motoring sub-group of this transportation group.

The transportation group accounts for 13.1% of the CPI. The private motoring sub-group comprises 94.4% of the transportation group. The private motoring sub-group includes components relating to household impacts of new vehicle prices, fuel price movement, price of servicing a vehicle, cost of vehicle parts and accessories, and other motoring charges such as registration, parking fees, and tolls. The remaining 5.6% of the transportation group comprises urban transport fares, including the movement in urban train, bus, ferry, tram and taxi fares<sup>54</sup>. The inclusion of taxi fares is a fairly negligible proportion of the index. The urban transport fare component is sourced by the ABS from Government transport authorities and taxi, bus, train and tram companies.<sup>55</sup>

The West Australian Government has adopted the private motoring sub-group of the CPI for setting taxi fare increases in Perth since 2004.

- *Wage Price Index*

Labour is a significant input to the taxi industry, with labour-related costs comprising a varying proportion of total taxi costs, depending on whether it is an operator-driver or bailee-driver operation, and the scale of the business (single taxi or multi taxi fleet).

Two ABS measures of changes in labour costs are available:

- Wage Price Index (**WPI**) – designed to measure the change over time in the price of labour; and
- Average Weekly Earnings (**AWE**) – an estimate of average weekly ordinary time earnings and average weekly total earnings for full-time adult employees.

The ABS advocates the use of the WPI as the best measure of wage cost movements. It does not recommend using the change in Average Weekly Earnings for this purpose as it is affected by changes in hours worked and the composition of the workforce<sup>56</sup>.

The WPI is designed to measure the change over time in the price of labour. It is an input price index that measures changes over time in the prices paid by businesses for a fixed quantity and quality of labour input. It does not take the output of this labour into account, and therefore does not make allowances for changes in the level of productivity<sup>57</sup>.

### 4.2.3 Composite price indices

The third approach to adjusting taxi fares is to use a composite increase made up of ABS inflators. This approach involves the amalgamation of different ABS price indices in order to result in a weighting of cost adjustments that more closely

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<sup>54</sup> IPART (2006) 'Review of Taxi Fares 2006: Issues Paper', p.21

<sup>55</sup> ABS 6461.0, *Australian Consumer Price Index: Concepts, Sources and Methods*, June 2005

<sup>56</sup> IPART (2006), p.23

<sup>57</sup> IPART (2006), p.24

mirrors the cost structure of the taxi industry than a single ABS economic index can.

An example is a weighted increase based on the CPI (or one of its groups/sub-groups) and the WPI. One approach would be to give equal weighting to the CPI and the WPI. Alternatively, the transportation group or private motoring sub-group of the CPI could be substituted for the CPI. A composite index can broadly track the results of indices such as the CPI or WPI, but with less subjectivity and lower resource requirements for calculation. These indices may still involve data collection in order to determine weightings of costs, e.g. the proportion of taxi costs that may change with WPI as opposed to CPI.

The Weighted Escalation Index that PwC prepared for the Commission in 2005 was a form of composite index. In this constructed index, whereby survey data was analysed to determine a weighting for different cost elements, which were then escalated by factors such as the WPI:

- driver payments – WPI
- LPG – average monthly Melbourne FuelTrac prices
- lease payments – market rental cost of taxi vehicles
- depot & network costs – increase reported in survey
- repairs, maintenance & washing – CPI transportation component
- tyres – reported in the survey
- registration, compulsory third party costs and insurances – insurance component of the CPI
- assignment costs – values reported in the survey and obtained from VTD
- office / miscellaneous costs – CPI
- variable labour costs and drivers' costs – WPI<sup>58</sup>.

The VTA put forward a proposal in the 2005 Taxi Fare Review that fares should simply be increased on the basis of a weighted composite index of the CPI and either AWE or the WPI<sup>59</sup>.

#### 4.2.4 Discussion

As mentioned, the assessment of the alternative fare setting approaches will need to ensure that the recommended approach provides for automated fare adjustments over a three to five year period, and must be consistent with the Commission's statutory objectives other relevant principles of good regulation, including simplicity, cost reflectivity and incentives for efficiency:

- whilst an industry-based cost index is favoured by some Australian jurisdictions given that it encompasses costs specific to the taxi industry, this approach is more costly and timely given that detailed survey data is required in order to profile the cost structure and changes in costs in the industry. For example, to maintain the current taxi cost indices in place, IPART reviews NSW taxi fares

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<sup>58</sup> PwC, Report to the ESC on changes in costs of operating taxi in Victoria 2000 to 2004, May 2005, p. 6.

<sup>59</sup> ESC 2005, p.3

annually, and Queensland Transport has at times varied fares on a six month basis.

- in contrast, a broader economic cost index or a composite cost index approach are simpler to implement, and less costly as they utilise widely published ABS economic cost indices as opposed to requiring detailed stakeholder survey. They also have the potential to provide stronger efficiency incentives. However they may not reflect taxi industry costs as closely as an industry-based index over the full term of the regulatory period.

***What other approaches or variations to those listed, if any, should the Commission also consider?***

***Are any of the three CPI-X methods identified inconsistent with the requirement to establish a model to provide for automated fare setting over a 3 to 5 year period?***

***Of all the approaches considered which is the most appropriate for setting Victorian taxis fares? Why?***

### 4.3 Productivity

A common element in each of the three approaches to taxi fare adjustment outlined in section 4.2 above is the issue of potential productivity gains to be taken into account.

#### *Potential sources of productivity gain*

Productivity refers to the ratio of outputs to inputs used, and improvements in productivity may come about by reducing input requirements, or improving the utilisation and service outputs per cab. General principles for measuring productivity gain are outlined in Appendix B.

Some of the opportunities for realising productivity gains in the taxi industry include improvements in technology and the reduction in fixed costs by expanding fleet sizes. Other specific examples where taxi industry efficiency or productivity gains might be made include:

- use of network global positioning systems (**GPS**) to allocate jobs and reduce dead running when the closest taxi does not accept the closest available booking
- expanded use of the existing automated Short Message Service (**SMS**) booking service for taxis, which would provide the network with some cost savings by reducing the number of staff required to operate call centres
- 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 insurance to levels achieved in other Australian jurisdictions<sup>60</sup>.

At a broader level, productivity gains may result from improvements achieved in the ratio of paid to total (paid and unpaid) kilometres driven. This raises productivity because outputs primarily relate to paid kilometres, whereas inputs are either fixed or weighted more toward total kilometres driven. Given the substantial improvements that have occurred over time in the ratio of paid to total kilometres, discussed in section 3.2 above, this is likely to have been an important source of productivity improvement.

Improvements in the ratio of paid to total kilometres can arise due to improvements in fleet management, including having the 'right' number of cars in operation in each shift, and a number of the specific productivity initiatives already discussed. However, an improvement in this ratio can also arise simply by constraining the growth in supply of taxi-cabs relative to the growth in demand. Higher taxi-cab productivity can be achieved at the expense of higher user waiting times. However, productivity gains of this kind may not be economically efficient if the imputed cost of waiting time is higher than the cost savings achieved. As customer waiting times are not routinely measured at the present time, and may not in themselves be sufficient to satisfactorily address the question where patrons are discouraged by waiting times and choose other transport modes, there remains a significant degree of uncertainty about whether observed productivity improvements are 'efficient' improvements or not. For the regulator there is a risk of basing future productivity targets on past trends if those past trends are distorted by constraints on the supply of taxi-cab licences.

#### *Summary comments*

In the 2005 Taxi Fare Review the Commission emphasised that one of the principle concerns with approaches to setting fares based on direct measurement of the cost of service, and with frequent price reviews, is that while this may ensure that operators are able to recover the costs of supplying services, they are not provided with strong incentives over time to operate efficiently or to maintain the quality of the services they provide. In this situation, any improvements in efficiency that enhance industry profitability will typically result in a reduced price, and this would ultimately reduce industry profits to their previously regulated level. CPI-X forms of regulation which set price paths for an extended period, especially those that rely on indices that are external to the regulated firm or industry (in the sense that the efficiency improvements achieved by the firm or industry do not have a strong direct leverage on the future price path) are considered to provide much stronger incentives to improve efficiency.

Appendix B describes a method of setting the X-factor based on productivity gains. Specification of an appropriate X factor to account for productivity is challenging. If it is set too high and the industry struggles to achieve it, then its long term viability may be threatened. If it is too low, then productivity improvements are retained by the industry at the expense of consumers.

Taxi services are a labour intensive activity, and as such some argue that the scope of productivity gain is less than in some other industries. On the other hand,

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<sup>60</sup> ICRC 2004

it is observed that there has been a range of technology improvements in the industry, and as taxi services compete with other modes of passenger transport, the taxi industry would be expected to generate total factor productivity improvements to remain competitive<sup>61</sup>.

The NSW regulator, IPART, identified three possible approaches that could be used to determine an X-factor to account for productivity gains within the taxi industry when setting taxi fares. These approaches included:

- using transport industry data available from the Australian Bureau of Statistics (ABS). The ABS collects and publishes industry-sector data on gross value added at constant prices, and on the number of employees. The industry sector most relevant to the taxi industry is Transport and Storage, although passenger transport is only a small sector of this industry
- using economy-wide data available from the ABS. The ABS measures of labour productivity include the change in the volume of gross value added relative to total hours worked, or the trend GDP per hour worked, though there can be disparate results from these approaches, and
- making a conservative estimate. For example, this was the approach taken by the Commission for Victoria's fare review in 2005.

***In what ways, if any, should the Commission account for productivity gains when setting taxi fares?***

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<sup>61</sup> ESC 2005, p.4

The Commission is required to report on:

*The appropriateness of the taxi fare structure within the current market for taxi-cab services in Victoria*

In addition the Commission is asked to report and make recommendations on some specific fare structure issues, including the appropriateness of certain surcharges, such as the New Year's Eve non-metropolitan taxi surcharge.

This chapter outlines a range of fare structure issues including comparisons between jurisdictions. Understanding fare structures is important in order to understand how fare adjustments would impact on taxi customers.

## 5.1 Comparison of fare structures between jurisdictions

Taxi fares for all jurisdictions in Australia are generally structured into the following components:

- flagfall (fixed component)
- distance per kilometre (variable component)
- waiting time (variable component)
- booking fees and
- surcharges.

These components may then be varied based on the region, such as metropolitan or country, time of use, or on the size of the vehicle; e.g. carrying more or less than five passengers.

Table 5.1 overleaf, shows a comparison between the fixed and variable components in Victoria, NSW, ACT, WA, SA and QLD. This table indicates that the overall structure of fares is broadly similar in each jurisdiction, although the levels of the component charges differ. There are also a range of surcharges, as shown in Table 5.2.

In most jurisdictions the fare levels are higher in non-metropolitan areas, and higher in times outside weekday daytime hours. In Victoria, the flag-fall and waiting time charges are the same in the metropolitan, regional and country areas, however, the distance fares vary depending on the region. In this respect there is similarity with WA and QLD, whereas in NSW the flag-fall charge is also higher for country fares. The jurisdictions differ widely in how they impose a higher charge for night time and weekend operation – some through higher flag-fall, some through a higher variable rate and some through late night surcharges (e.g. Victoria and NSW). The NSW country tariff is the only example of a multipart distance-based charge, with this charge increasing for trips greater than 12 kilometres.

Table 5.1  
2007)

## Comparison of fare structures between jurisdictions (July

| <i>Jurisdiction</i> | <i>Fare Item</i>   | <i>Metro</i>  | <i>Regional</i>   | <i>Country</i>  |
|---------------------|--------------------|---|---|---|
| <b>Victoria</b>     | Flagfall           | \$3.10  | \$3.10  | \$3.10  |
|                     | Distance / km      | \$1.465   | \$1.536   | \$1.577   |
|                     | Waiting time / min | \$0.525 (<21 km/hr)   | \$0.525 (<21 km/hr)   | \$0.525 (<20 km/hr)   |
| <b>NSW</b>          | Flagfall           | \$3.00  | -   | \$3.50  |
|                     | Distance / km      | \$1.79  | -   | Tariff 1: \$1.83 (first 12 km)<br>Tariff 2: \$2.57 (> 12 km)                      |
|                     | Waiting time / min | \$0.77 (<25.81 km/hr)   | -   | \$0.787 (<25.79 km/hr)  |
| <b>QLD</b>          | Flagfall           | Tariff 1: \$2.50 (weekday 7am-7pm)<br>Tariff 2: \$3.80 (other times) <sup>1</sup> | Tariff 1: \$2.50 (weekday 7am-7pm)<br>Tariff 2: \$3.80 (other times) <sup>2</sup> | Tariff 1: \$2.50 (weekday 7am-7pm)<br>Tariff 2: \$3.80 (other times) <sup>3</sup> |
|                     | Distance / km      | \$1.68  | \$1.76  | \$2.70  |
|                     | Waiting time / min | \$0.62  | \$0.62  | \$0.62  |
| <b>WA</b>           | Flagfall           | Tariff 1: \$3.30 (weekday 6am-6pm)<br>Tariff 2: \$4.80 (other times)              | -   | Tariff 1: \$3.30 (weekday 6am-6pm)<br>Tariff 2: \$4.80 (other times)              |
|                     | Distance / km      | \$1.35  | -   | \$1.35 (+\$0.83 per km surcharge)   |
|                     | Waiting time / min | \$0.644   | -   | \$0.644   |
| <b>SA</b>           | Flagfall           | \$2.80  | -   | \$4.40  |
|                     | Distance / km      | \$1.37  | -   | \$1.53  |
|                     | Waiting time / min | \$0.309   | -   | \$0.309   |
| <b>ACT</b>          | Flagfall           | \$4.00  | -   | -   |
|                     | Distance / km      | Tariff 1: \$1.64 (weekday 6am-9pm)<br>Tariff 2: \$1.89 (other times)              | -   | -   |
|                     | Waiting time / min | \$0.675   | -   | -   |

**Note:** for vehicles carrying no more than 5 passengers; [1] QLD South East QLD metered areas; [2] QLD regional metered areas; [3] QLD exempted areas

**Sources:** See sources Table 5.2

Table 5.2 Summary of Surcharges in Australia

| <i>Jurisdiction</i> | <i>Fare Item</i>  | <i>Metro</i>                              | <i>Regional</i>            | <i>Country</i>             |
|---------------------|---|---|----------------------------|----------------------------|
| Victoria            | <b>Phone booking</b>  | \$1.30                                    | \$1.30                     | \$1.30                     |
|                     | <b>Late night</b>   | 20% (metro), \$1.30 (outer suburban zone) | \$2.60                     | \$2.60                     |
|                     | <b>New Years Eve</b>  | -   | \$5.50                     | \$5.50                     |
| NSW                 | <b>Phone booking</b>  | \$1.60                                    | -                          | \$1.60                     |
|                     | <b>Late night</b>   | 20% on distance rate                      | -                          | 20% on distance rate       |
|                     | <b>Luggage</b>  | \$0.10 for each kg >25 kg                 | -                          | \$0.10 for each kg >25 kg  |
|                     | <b>New Years Eve</b>  | -   | -                          | 20%                        |
| QLD                 | <b>Phone booking</b>  | \$1.10                                    | \$1.10                     | \$1.10                     |
|                     | <b>Late night / holiday</b>   | See Tariff 2 (Table 5.1)                  | See Tariff 2 (Table 5.1)   | See Tariff 2 (Table 5.1)   |
|                     | <b>Return to boundary</b>   | Double fare (trips >40km)                 | Double fare (trips >40km)  | Double fare (trips >40km)  |
|                     | <b>Multiple hiring</b>  | 75% of fare at destination                | 75% of fare at destination | 75% of fare at destination |
| WA                  | <b>Phone booking</b>  | \$1.00                                    | -                          | \$1.00                     |
|                     | <b>Late night / holiday</b>   | See Tariff 2 (Table 5.1)                  | -                          | See Tariff 2 (Table 5.1)   |
|                     | <b>Multiple hiring</b>  | 75% of fare at destination                | -                          | 75% of fare at destination |
|                     | <b>Ultra Peak Surcharge</b><br>(Friday & Saturday nights - midnight to 5am) | \$2.00                                    | -                          | \$2.00                     |
|                     | <b>Xmas day</b>   | \$4.00                                    | -                          | \$4.00                     |
|                     | <b>New Year's Eve</b>   | \$4.50                                    | -                          | \$4.50                     |
| ACT                 | <b>Phone booking</b>  | \$0.00                                    | -                          | -                          |
|                     | <b>Late night / holiday</b>   | See Tariff 2 (Table 5.1)                  | -                          | -                          |

**Note:** carrying no more than 5 passengers

**Source:** VTD website; NSW Ministry of Transport<sup>62</sup>; Queensland Transport (provided by email); Taxi Council of WA<sup>63</sup>; ACT Territory and Municipal Services<sup>64</sup>.

<sup>62</sup> <http://www.transport.nsw.gov.au/taxi/fares.html>

<sup>63</sup> <http://www.tcwa.com.au/servtaxifares.html>

<sup>64</sup> [http://www.tams.act.gov.au/move/public\\_transport/taxi\\_services\\_and\\_information/taxifares](http://www.tams.act.gov.au/move/public_transport/taxi_services_and_information/taxifares)

### 5.1.1 Differences between metro and country fares

Table 5.3 shows the fare calculated for a 10 kilometre trip during weekday daytime hours in each jurisdiction and region.

The fare for a ten kilometre trip in metro Victoria is lower than that in NSW, QLD and ACT, but higher than the fare in WA and SA. However, as previously shown in Table 3.3, the average trip length is typically greater in Melbourne.

Table 5.3: **Average Fare for 10 km trip**

| <i>Jurisdiction</i> | <i>Metro</i> | <i>Regional</i> | <i>Country</i> | <i>% difference<br/>Country &amp; metro</i> | <i>% flagfall<br/>(Metro)</i> |
|---------------------|--------------|-----------------|----------------|---|-------------------------------|
| Victoria            | \$17.75      | \$18.46         | \$18.87        | 6.3   | 17.5                          |
| NSW                 | \$20.90      | -               | \$21.80        | 4.3   | 14.4                          |
| QLD                 | \$19.30      | \$20.10         | \$29.50        | 52.8  | 13.0                          |
| WA                  | \$16.80      | -               | \$25.10        | 49.4  | 19.6                          |
| SA                  | \$16.50      | -               | \$19.70        | 19.4  | 17.0                          |
| ACT                 | \$20.40      | -               | -              | n.a.  | 19.6                          |

**Note:** Based on a cab hailed or hired from a rank. That is, no booking fee is included.

Table 5.2 shows that in Victoria country taxi fares are only around 6% higher than metro fares (using a 10km trip for comparison). This relativity is broadly similar to NSW. However, in SA the fare for a 10km trip is 19% higher in the country, and in QLD and WA the country fare is around 50% higher than metro fares.

### 5.1.2 Relative importance of flagfall

Table 5.2 also shows, for each standard metro fare, the percentage of the fare that is made up of flagfall (in all cases the booking fee is excluded). This varies between 13.0% and 19.6% across the jurisdictions, and in Victoria represents 17.5% – which is towards the centre of the range.

### 5.1.3 Waiting time thresholds

Waiting time charges vary from around 50 to 80 cents per minute across Australian jurisdictions. In some States, the waiting time charge applies when the cab operates at a speed below a certain threshold – in NSW this is 26 kmph, and in Victoria 21 kmph. In other States the charge applies only when the cab is stationary.

In Victoria, the fare for waiting time per minute is calculated based on the revenue that would otherwise be obtained from the distance-based charge if the cab were operating at the minimum speed threshold. In Victoria, this threshold is 21 kmph for metro and urban areas and 20 kmph country areas.

Although distance based charges sometimes vary between metro and country areas (for example, in Victoria), the waiting time charges usually don't. Hence, for

country Victoria, this explains the small decrease in the waiting time charge speed threshold.

#### 5.1.4 Night time & weekend rates

Several jurisdictions have higher fares outside weekday daytime hours. However they vary in how this is implemented through the fare structure. In QLD and WA there are higher flagfall charges outside weekday daytime hours. In the ACT there is a higher distance based charge during these times. In Victoria and NSW, as shown in Table 5.2, there are late night surcharges which apply. In NSW metropolitan Melbourne, these surcharges are a percentage of the overall fare. However, in country Victoria it is a fixed amount, essentially equivalent to a higher flagfall during these times. WA also has an additional surcharge that applies between midnight and 5am on Friday and Saturday nights.

In Table 5.4 the taxi fares that would apply during late night or weekend periods, assuming a 10 km trip, are compared to the fares that would apply during 'normal hours' (i.e. weekday daytime hours). In QLD and WA the extra cost during late night and weekend periods is between 4 to 9%, although higher surcharges apply in WA late on Friday and Saturday nights. In Victoria, NSW and the ACT there are higher night/weekend surcharges. In the ACT it is 12% for a 10 km journey. In Victoria, in the outer suburban zone it is lower, however in the metropolitan and regional areas it is higher – i.e. 20% (metro) and around 14% (country). In NSW it is around 17%.

Table 5.4: **Late night and week-end taxi fares** (Avg. for 10 km trip)

| <i>Jurisdiction</i> |                | <i>Normal hours fare</i> | <i>Late night w/end fare</i> | <i>% late night w/end extra</i> |
|---------------------|----------------|--------------------------|------------------------------|---------------------------------|
| Victoria            | Metro          | \$17.75                  | \$21.30                      | 20.0                            |
|                     | Outer suburban | \$17.75                  | \$19.05                      | 7.3                             |
|                     | Regional       | \$18.46                  | \$21.06                      | 14.1                            |
|                     | Country        | \$18.87                  | \$21.47                      | 13.8                            |
| NSW                 | Metro          | \$20.90                  | \$24.48                      | 17.1                            |
|                     | Country        | \$21.80                  | \$25.46                      | 16.8                            |
| QLD                 | Metro          | \$19.30                  | \$20.60                      | 6.7                             |
|                     | Regional       | \$20.10                  | \$21.40                      | 6.5                             |
|                     | Country        | \$29.50                  | \$30.80                      | 4.4                             |
| WA                  | Metro          | \$16.20                  | \$17.50                      | 8.9                             |
|                     | - ultra peak   |                          | \$20.30                      | 20.8                            |
|                     | Country        | \$24.10                  | \$25.40                      | 6.0                             |
|                     | - ultra peak   |                          | \$28.60                      | 13.9                            |
| ACT                 | ACT            | \$20.40                  | \$22.90                      | 12.3                            |

### 5.1.5 Phone booking fees

There are some significant differences between jurisdictions in phone booking fees. In WA, QLD and VIC the phone booking fees are similar, and all in the range \$1.00 to \$1.30. In NSW the phone booking fee is \$1.60, while in the ACT there is no booking fee.

### 5.1.6 Rates for carrying multiple passengers

In Victoria, higher variable rates apply when a taxi-cab is carrying six or more passengers. This is relevant to high occupancy vehicles. The variable rate is 50% higher than when carrying five or fewer passengers.

Where there is multiple hiring of a cab by two or more unacquainted people travelling in the same general direction from a common starting point – then each hirer will pay a fee no more than 75% of the metered fare at their destination. This is the same as in QLD and WA.

### 5.1.7 Other fees and surcharges

There are some surcharges specific to certain jurisdictions, such as the luggage surcharge in NSW, and the surcharge for trips greater than 40 kilometres in QLD. In Victorian country areas there is a New Year's Eve Surcharge.

***How should the Commission assess the specific components of the current fare structure? Should their relative weightings be altered?***

***How effective have the surcharges on phone-bookings, late nights and New Year's Eve been in encouraging the operation of more taxis? How have they affected demand?***

***Should the surcharges on phone-bookings, late nights and New Year's Eve form a permanent part of the Victorian taxi fare structure? If so, what should the surcharges be?***

## 5.2 Tariff Structure Issues

Some of the key issues that will need to be addressed by the Commission in this Review include:

- the flagfall/variable rate structure, as well as booking fees and waiting time fees
- the relativities in fares between weekday daytime hours and all other times, as well as other peak use pricing opportunities such as the New Year's Eve Surcharge
- the levels of fares in non-metropolitan areas.

Information and approaches relevant to the consideration of each of these issues are discussed in the next three sections.



### 5.2.1 Fixed and variable fare elements

An efficient tariff structure, for example in terms of fixed and variable components, will depend on cost structures as well as on demand characteristics. The most efficient tariff structure will ensure that directly attributable costs are fully recovered from each type of user, and that additionally, indirect costs are recovered from all users in a way that maximises welfare.

In Australia, a relevant study of tariff structures in NSW has been carried out by Booz Allen in 2003.<sup>65</sup> However, Booz Allen noted that there has been very little published research on taxi fare structures:

*We have not been able to identify any international research that addresses this topic directly; and only able to identify one article that addresses it indirectly. It is surprising that so little research appears to be available on this topic internationally, given that setting the relative fare components is a common issue faced by taxi companies and regulators.*<sup>66</sup>

Booz Allen estimated an urban taxi cost model for NSW, in which direct costs were given by the following function: \$0.55 per 'live'<sup>67</sup> km + \$2.70 per telephone booking + \$9.60 per hour waiting time. The cost per km and the waiting time included vehicle operating costs such as fuel, as well as driver time costs. The telephone booking cost included the cost of positioning the taxi to the pick-up point – which was assumed to be 3km on average. Booz Allen found that:

*While the cost modelling has not identified any specific flag-fall costs, some small level of costs could be identified in a more detailed appraisal, eg for pick up/set down time and for fares transactions/accounting.*<sup>68</sup>

Booz Allen found that over 60% of total taxi operating costs were indirect costs. They noted that:

*The 'classical' approach to allocating joint costs to set tariffs in a situation such as this is through Ramsey pricing, ie setting the price excess over direct costs for each component in inverse proportions to the relevant demand elasticities. While demand elasticity information is very sparse, we would expect shorter trips to be the most price elastic. This would tend to imply making the flagfall component relatively low (given its direct costs are close to zero) and recovering most of the indirect costs through the distance rate.*<sup>69</sup>

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<sup>65</sup> Booz Allen Hamilton (July 2003) 'Appraisal of Taxi Fare Structure Issues', prepared for IPART

<sup>66</sup> *ibid.*, p.5

<sup>67</sup> This refers to km travelled while the taxi is engaged

<sup>68</sup> Booz Allen (2003), p.7

<sup>69</sup> *ibid.*, p.8

The information on taxi demand elasticities in Australia is very limited. In a survey analysis of modal choice in Canberra, Booz Allen found an average taxi demand elasticity of  $-0.36$  over all taxi users. However, this average was derived by assuming a zero demand elasticity for all customers using company charge card. The demand elasticity for users not on-charging fares to a third party was found to be  $-1.41$ . The survey excluded evening and night travel. Booz Allen suggested that 'it might be expected that this market would be less elastic than average'.<sup>70</sup>

In advice to IPART, Booz Allen concluded, based on a review of international studies, as well as considerations specific to Australia, that the demand elasticity is likely to be in the range  $-0.3$  to  $-0.8$ .

There are also issues to be considered in relation to the design of the variable component of the fare. At present the variable charge is a two-part charge. Below a speed of 20 or 21 kmph it is an hourly rate, and above that speed it is a per km charge. Alternatives include:

- a purely time-based charge,
- the per kilometre charge can be a multi-part price, with a higher or lower charge applying to distances over a certain threshold.

***What methodologies and approaches should the Commission consider when addressing the balance between fixed and variable elements of the tariff structure?***

***Are there other tariff structures that should be considered?***

### **5.2.2 Variation of charges by time-of-use**

Most jurisdictions have a higher fare at night than during the day. This appears to be motivated toward bolstering the income of drivers on the quieter night shifts during most week days. It may also be intended to suitably reflect the greater value of taxis to users during peak periods on Friday and Saturday nights.

During the night periods taxis may face less competition from other transport modes, and hence demand may be less price-elastic. This may tend to support the economic efficiency of price premiums during the night-time period. However, the Commission is not aware of any analysis undertaken to date of this issue.

***What considerations are relevant to the balance between day-time and night-time taxi fares? Should these fares vary between peak Friday and Saturday night periods and other nights of the week?***

### **5.2.3 Metro and country fare structures**

In the current Victorian fare structure, higher distance rates are charged for regional and country taxi services than for metro services. This is the same case in NSW and WA, though there is no specific 'regional' fare, only 'metro' and 'country'. NSW is the only jurisdiction that has a higher fixed flagfall as well as a higher

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<sup>70</sup> *ibid.*, p.13

variable distance component for country fares. There are only metro fares in the ACT's fare structure.

Some of the principal reasons behind the fare differences stem from cost differences of operating in country areas, including differing fuel and network fees. There may be economies of scale in fleet management costs. For this reason, depot fees paid by non-metro vehicles are significantly higher than for metro vehicles, as there are larger fleets in the metropolitan area.

In the 2005 PwC report to the Commission on changes in costs of operating taxis in Victoria, several other major costs were found to vary considerably according to region:

- taxi plates are usually significantly cheaper outside of the metro area
- taxis cover significantly less paid kilometres per trip in regional and rural areas (hence fixed costs are relatively more important)
- average cost of maintaining a taxi are higher in country areas, and
- some services are considerably cheaper outside of Melbourne – most notably insurance.

In addition to the cost issues of operating a taxi in country as opposed to metropolitan areas, the market for taxi services in regional areas also differs in the function that taxis perform and the regulatory framework that is appropriate. In regional areas where well developed bus, train and tram networks do not exist, taxis are a proxy form of public transport.

While the viability of regional taxi operations is an important consideration, the impacts of a significant fare increase for regional taxi services may impact on country taxi users resulting in a reduction in total industry revenue. Submissions to Commission's *Taxi Fare Review 2005* indicated that there is a relatively high proportion of MPTP eligible taxi users in some regional areas and a significant fare increase would result in a significant decline in regional patronage<sup>71</sup>.

***How should the Commission assess the specific components that differentiate Country from Metropolitan fare structures?***

***What other considerations, if any, should be included in a country and regional taxi fare assessment?***

### 5.3 Discussion

Assessing options for changes to the existing fare structure will require consideration of a number of principles, including the following:

- **Revenue neutrality:** That is, adjusting the components of the taxi fare in a way that will ensure the total fare revenue reflects the estimated change in costs, so

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<sup>71</sup> ESC 2005, p.8

that the updated fare structure will fully compensate for changes in costs on an aggregate basis.

- **Efficiency:** Identifying the fare structure that best serves the economic efficiency objectives and promoting the use of taxi cabs.
- **Demand and supply issues:** It is important that both demand and supply issues and impacts from adjusting fare structures be considered. The fare structure should ensure that operators and drivers are prepared to offer their services for both long and short distance trips, and at times when services are demanded. In the long term, adverse impacts to either user demand or taxi operator/driver supply would be negative for the taxi industry and the community as a whole.
- **Impact on sections of the market:** Changes in the tariff structure may impact some types of taxi users, or some purposes, more than others. For example, a shift toward higher fixed charges and lower variable charges may affect the willingness of short-trip users to use taxis, but may stimulate demand for longer trip uses. The resulting impacts on different types of users and purposes may also be relevant.

***How should the Commission assess the impacts of changes in fare structures on taxi demand and revenue?***

***What other sources of data might the Commission consider, in its assessment of the impacts of changes in taxi fare structures?***

The terms of reference direct the Commission to consider the appropriateness of selected surcharges, including a surcharge for pre-booked premium service taxis, and whether it should form a permanent part of the taxi fare structure. This chapter discusses issues relevant to this aspect of the terms of reference.

### 6.1 Process for establishing taxi fares

The Commission has become aware of a premium service being offered by at least one firm, Silver Top taxis. The Commission understands that since 2000 it has provided 'Silver Service' taxis, involving a higher quality vehicle than ordinary taxis, and has charged an additional \$11 booking fee for this service (**Premium Service Surcharge**). These taxis can also be used for regular bookings, or in the rank and hail market, and in each case the premium fee does not apply. This only applies to bookings specifically for a 'Silver Service' cab.

The Commission understands that VTD has issued 'temporary permits' under s.154 of the Transport Act 1983 approving the levying of the Premium Service Surcharge. Under s.154 the licensing authority may 'grant to the owner of a licensed vehicle a permit authorizing such vehicles to operate temporarily in any manner not specified in the licence'.

The Commission has not previously been referred by the Minister to investigate the impact of the Premium Service Surcharge as per the Act, and the Premium Service Surcharge does not form part of the schedule of hiring rates previously considered by the Commission. The status of this surcharge is therefore uncertain, given the process established in s144A of the Act.

The Terms of Reference now ask the Commission to consider the appropriateness of selected surcharges, including the Premium Service Surcharge, and whether it should be a permanent part of the taxi fare structure. The Commission invites public comment on whether a surcharge should form a permanent part of the taxi fare structure where a premium taxi service is pre-booked and provided, and if so what the amount of the surcharge should be.

### 6.2 Premium services and hire cars

Premium services such as 'Silver Service' are close competitors with hire cars. The regulatory framework applying to hire cars differs from that of taxis. Fares for hire cars are not regulated – they are negotiated between the user and the service provider. Hire car licences are in principle not restricted, although the licences are issued at a fee. In practice, the setting of new hire car licence fees at a premium to the currently traded value of those licences may effectively restrict the supply and demand for new licences. Because of regulatory constraints on the ways in which they can operate, hire cars are effectively restricted from competing with taxis in most of the rank and hail parts of the taxi business. However, they can compete

with taxis in the pre-booked part of the market, as well as in certain taxi rank niches, such as from airports or major hotels.

To date 799 hire car licences have been issued and the number of licences has increased by approximately 87 on average over the last 3 years.

Because of the close competition that would appear to exist between hire cars and premium taxis, and the very different regulatory arrangements that apply to these two suppliers, it will be relevant to consider the market for hire car and premium taxi services, and the regulatory arrangements that apply to hire cars and premium taxis.

The Commission has a role in advising the Minister for Public Transport in relation to hire car licence fees. In February 2004 the Commission received a reference to conduct an inquiry into hire car licence fees, which it completed in August 2004. In its final report the Commission stated that:

*The Commission has reviewed the literature on supply restrictions in the taxi and hire car industry. While the Commission recognises that a case can be made on public interest grounds for the use of supply restrictions in the cruising market, it considers that the public interest case for applying such restrictions to the pre-booked segment of the market is far less convincing.*

...

*Greater competition within and between the taxi and hire car industry can be expected to generate significant benefits for consumers in terms of lower fares and improved services. For example, the Commission would expect the hire car industry to develop to a point where it would be represent a genuine alternative to taxis in the 'immediate dispatch' segment of the pre-booked market.<sup>72</sup>*

The Commission also recommended that it would be appropriate for it to be directed to undertake a further review in three years (i.e. by August 2007). The Commission has not yet been directed to undertake such a review, but may be directed to do so during the course of this Review.

A key issue in regard to the setting of hire car licence fees was whether they are to be issued at a price premium to the prevailing market, as was the practice at the time of that review, or at a discount to the market, as recommended by the Commission. This recommendation was based on the competitive benefits of increasing the pick-up rate of hire car licences. However, the Commission suggested that there should be some compensation to existing licence holders under this approach.

In summary, in providing advice in relation to the surcharge for premium taxi services, the Commission is effectively being directed to recommend a price to be set for a service provided by some participants operating in a competitive market. However, the suppliers in this market may not be operating on a level playing field,

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<sup>72</sup> Essential Services Commission (August 2004) 'Review of Hire Car License Fees: Final Report', p.ii

as the regulatory framework in which premium taxis and hire cars operate are different.

Therefore, in considering the proposed surcharge for premium taxi services, the Commission expects that it will need to consider the wider issues relating to the interface between the taxi and hire car regulatory frameworks.

***Should a surcharge for pre-booked premium taxi services form a permanent part of the Victorian taxi fare structure? If so, what should each surcharge be?***

***What issues, if any, should the Commission consider in relation to the proposed surcharge for premium taxi services?***

## 7 FACTORS RELEVANT TO THE DISTRIBUTION OF INCOME BETWEEN DRIVERS, OPERATORS AND DEPOTS

The Commission is required to report on:

*the distribution of taxi fare revenue and measures that may be considered by Government to improve taxi driver remuneration*

This chapter provides an overview of how taxi industry revenue is currently distributed amongst the industry participants. It then discusses elements of the distribution of income observed, and identifies issues for this review.

### 7.1 Previous findings

From the 2005 Review of Taxi Fares, the Commission concluded that remuneration of drivers and returns to operators are poor, relative to other industries<sup>73</sup>. On the other hand, it observed that high and rising licence values (which capitalise expected future economic rents to licensees) indicate that the level of total industry revenue earned continues to be more than adequate.

The Commission concluded that poor returns to drivers and operators were due not to the absolute level of fares or inadequate total revenue but rather, to the distribution of fare revenue between licence holders/operators and drivers. Even a large fare increase would be unlikely to substantially improve the remuneration of drivers and operators, though it would impose obvious costs on taxi users. Furthermore, given the structure of the bailment arrangements through which drivers are remunerated, a fare increase of this kind would generate windfall gains to licence holders.

Concerns about the levels of driver income have been expressed in earlier reviews, including by KPMG Consulting in its 1999 NCP Review of Taxicab Legislation. KPMG found, based on a 1998 survey of taxi drivers by the VTA, that an average taxi driver gross hourly rate was approximately 32% below that of a Chubb Security Guard, 37% below the Award wage (full time), 50% below a casual bus driver, and 36% above the single-person unemployment benefit<sup>74</sup>. KPMG observed:

*Low remuneration for drivers may not simply be the outcome of a fully competitive labour market. There is a concern that high*

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<sup>73</sup> ESC 2005, op cit, p.2

<sup>74</sup> KPMG Consulting (July 1999) 'National Competition Policy Review of Taxi-cab and Small Commercial Passenger Vehicle Legislation', p. 50



*concentration between buyers of driver services may restrict competition and allow driver remuneration to be set close to reservation wage levels approximated by the level of single person unemployment benefits.<sup>75</sup>*

Attention was directed to structural features of the taxi industry and the interaction between regulation and those structures. This includes the concentration of the industry at the depot/network level and the compulsory requirements for taxi operators to be affiliated with a depot; and for taxi drivers to enter into a licence agreement with a depot (which also gives the depot quasi-regulatory powers over the taxi driver). KPMG argued that the concentration of the industry has permitted standardised forms of bailment and other agreements to become established practice in the industry.

## **7.2 Key revenue allocation arrangements**

This section discusses each of the main income sources for the different industry participants.

### **7.2.1 Bailment agreements**

Approximately three quarters of taxi drivers are bailee drivers who rent a licensed taxi cab from a taxi operator – while the remainder are operators who also do some of the driving. Bailment drivers are self-employed subcontracted who operate under a Bailment Agreement with the operator. Operators also decide on the shifts they will drive, and those they will hire drivers for. Driver income will depend on both the allocation of shifts and on the revenue sharing arrangements under the bailment agreement.

A standard industry Bailment Agreement issued by the VTA is widely used. Formally, the VTA's 2002 Taxi-Cab Bailment Agreement sets out four options for rental payment under Panel 4 of the Schedule:

- Option 1 – rental is based on a percentage of the fare revenue received by driver;
- Option 2 – is similar to Option 1 except that it includes a flat fee per period of rental in addition to the percentage charge;
- Option 3 – rental payment consists of a fixed component specified for a free km ceiling and a variable item at certain rates for every km in excess of the ceiling; and
- Option 4 – provides that parties of the agreement can choose their own rental payment arrangements.

In practice, under standard bailment arrangements in Victoria, bailment drivers generally retain approximately 50% of the revenue they receive while actually driving. Bailment drivers are expected to meet some of their own costs (such as uniforms and some of their training costs) but do not generally pay any of the operational costs of the vehicle or business. The remaining 50% is kept by the

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<sup>75</sup> KPMG Consulting (July 1999) p.51

operator who meets all operational costs. It is estimated that approximately 90% of drivers operate under this form of arrangement. The remaining 10% are 'fixed pay-in' arrangements, where the driver buys a shift from the operator and in return receives all of the revenue for that shift.<sup>76</sup>

The absence of industrial legislation regulating taxis means no payments are made for annual leave, sick leave, or long service leave.

Based on information on the DOI website, Victorian bailment agreements are a civil matter and are not regulated by Government. Although in principle a bailee driver can use an alternate agreement, the VTA's template agreement is widely used across the industry.

#### *Comparison with other jurisdictions*

Victoria's bailment arrangements for drivers are similar to those in place in Queensland, SA, ACT and NT.

In contrast to Victoria, NSW Bailment Agreements are regulated by the NSW Office of Industrial Relations. Drivers can choose between one of two available methods, which are set out in a determination by the Office of Industrial Relations – NSW Department of Commerce:<sup>77</sup>

- Commission: drivers retain a certain percentage of the chargeable fares (i.e. meter takings). The percentage figures for first and second-year drivers are 45% and 50% respectively. (This method is common in country areas, but uncommon in metropolitan Sydney).
- Set Pay-in: drivers are entitled to retain from chargeable fares the balance left after deducting an amount paid by the drivers to the operators. The maximum amount is set out and varies with the type of shift and the day of the week.

Both methods provide permanent drivers with annual leave, sick leave and long service leave, although recent IPART and NSW Industrial Relations Commission reviews have indicated that entitlements to drivers are more often than not traded off by drivers (even permanent drivers) for higher pay.

In Queensland, the Taxi Council of Queensland Standard Bailment Agreement provides similar arrangements to Victoria in that drivers can choose to have pay-in based on a percentage of taking or a fixed amount. In Brisbane, approximately 40% of drivers operate under a Commission method where the driver receives 45%<sup>78</sup>. The Set Pay-in method applies to approximately 5% of drivers, with the remaining 10% operating on a seven day, fixed rental system<sup>79</sup>. Although the bailment arrangement in NSW and Queensland are broadly similar to those in Victoria, driver incomes in those states appear to be substantially higher. There is higher revenue generation per cab in those States, because in Victoria the average

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<sup>76</sup> Market Solutions (November 2006) 'Taxi Driver Survey 2006 – Final Report', p.22

<sup>77</sup> NSW Office of Industrial Relations website 2007

<sup>78</sup> ATIA 'State and Territory Statistics as at December 2006'

<sup>79</sup> De Luxe Red & Yellow Cabs Co-operative (Trading) Society Ltd & Ors V Commissioner of Taxation (1997) 840 FCA (28 August 1997)

number of jobs per taxi is much lower. For example, jobs per taxi in Sydney and Brisbane are twice as high as in Melbourne, whilst the average fares per trip in Sydney and Brisbane are only around 18% lower than in Melbourne (see Table 3.8). For this reason, average revenue per cab is around twice the level in those capitals when compared to Melbourne.

***Should the Commission consider recommending the adoption of mandated bailment agreements? If so, which type of arrangement?***

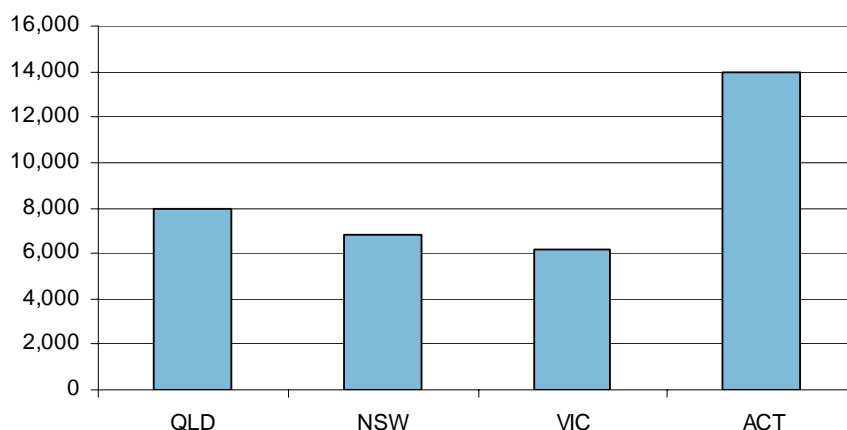
***Given the varying degrees of regulation and industry practice, how valid are comparisons with bailment arrangements in other jurisdictions?***

### **7.3 Network fees and insurance**

All taxis in Victoria are required to use a taxi depot/network to provide some booking, depot and other services. Network fees are not regulated despite taxis being required to be part of a network. In many cases depots purchase booking and network services from a network provider, provide some depot services and require operators to source other services privately.

The PwC 2005 taxi cost analysis undertaken for the Commission estimated that 4.4% of total operator costs related to network fees or approximately \$6,149 per annum in 2007. Figure 7.1 compares this estimate to network fees in other jurisdictions. Although Victorian network fees are similar to those in Queensland and NSW, for the reasons previously outlined, on a per taxi trip basis they will be considerably higher than in those two States.

Figure 7.1 **Network Fees for Taxis in Australian Jurisdictions**  
(\$ per annum)



**Source:** QLD 2007 data: June 2007 phone call to Black and White Taxis & Yellow Cabs; NSW 2006 data: Urban costs only IPART 2006, p.15; VIC 2007 data: 13 July phone call to Silver Top Taxis; ACT 2007 data: industry specialist

Although taxis are not required to do so, depots encourage taxi drivers to organise insurance through the network. Operators have a range of different arrangements for insurance, from comprehensive to self-insurance. In the PwC 2005 taxi cost analysis, an estimated 3.5% of total operator costs related to registration and third party personal injury and other insurances, or approximately \$5,000 per annum in 2004. In NSW, insurance costs are estimated to be \$14,300 per annum and while they appear to make up a higher proportion of costs than in Victoria<sup>80</sup>, on a per trip basis the difference between NSW and Victoria is narrowed. In Queensland, disability insurance, regulatory and third party insurance and government charges all make up less than 2 per cent of the cost index.

***What changes, if any, should the Commission consider recommending in relation to the present arrangements for taxi network fees and insurance?***

## 7.4 Cabcharge fees

Australia-wide, Cabcharge is currently offered in 96% of all taxis. In Victoria, eight Melbourne taxi networks and two Geelong networks accept Cabcharge as a payment<sup>81</sup>.

<sup>80</sup> IPART (2006) p.4 & 12

<sup>81</sup> Cabcharge Website 2007

The Cabcharge EFTPOS FAREWAY System™ enables passengers to pay fares electronically, using debit, credit and MPTP member cards. Given that Cabcharge is the only approved system for MPTP payments, this effectively makes this system the dominant EFTPOS payment system for Victorian taxis. Cabcharge's contract to provide MPTP voucher processing is non-exclusive.<sup>82</sup>

Cabcharge is also a major owner of taxicabs through its ownership of Black Cabs, North Suburban Taxis, Embassy Taxis and Arrow Taxis. Together these businesses account for approximately 40% of the metropolitan taxi fleet. It provides booking and dispatch services to four of the six taxi networks in Melbourne

The fees and costs involved with taxi operators offering Cabcharge are fairly uniform across Australia and currently include:

- a service fee of 10% of the fares charged to a taxi operator's account in each billing period. This fee is paid in addition to the fares, and in practice is passed directly on to customers.
- if the total of the fares charged in any billing period is less than \$60.00 then a minimum service fee of \$6.00 is charged.
- total minimum service fee per annum is \$72.00
- all Cabcharge Cards and Account Coded Dockets are provided at no extra cost<sup>83</sup>.

Given that Cabcharge fees are passed on to taxi customers, it is anticipated that there is no direct cost to taxi operators unless the minimum service fees are not reached in any billing period. However, any indirect effects of fees on demand for taxi services will impact on driver and operator incomes.

Given the average taxi fare in Melbourne, Cabcharge's 10% transaction fee represents around \$2 per transaction. For Visa and MasterCard credit cards, the service fees charged on each transaction are usually between 0.5% and 3.0%. Given that the average transaction on these cards is \$180<sup>84</sup>, service fees per transaction range between \$0.90 and \$5.40. American Express and Diners Club charges are slightly higher. Therefore, whilst the percentage value of transaction fees for Cabcharge is higher than credit cards, the dollar value of these transaction fees will be lower than the average credit card fee on all types of transactions.

***What impact, if any, does Cabcharge have on bailment revenue and driver income?***

<sup>82</sup> In 2001 the State Government terminated its contract with a company that, since 1999, had provided MPTP transaction processing services as an alternative to the services provided by Cabcharge. The contract was terminated after it was realised that the transaction rates paid to Taxinet were considerably higher than Cabcharge (Minister for Transport 2001).

<sup>83</sup> Cabcharge Website 2007

<sup>84</sup> Source: <http://www.smh.com.au/articles/2005/03/01/1109546865699.html>

## 7.5 Assignment fees

Assignment costs are the payments made by operators of a taxi to the owner of a taxi licence for the right to operate the taxi.

At times some industry participants have suggested that assignment costs should not be included in the costs of running a taxi. In the PwC review of taxi costs in 2005, several survey participants noted during the interviews that a reasonable proportion of assignment contracts contain clauses that automatically increase assignment fees if there is a fare increase.

This fact presents a number of difficulties for the Commission in determining fare increases:

- First, it means that automatic or indexed fare increases will inevitably contain an element of circularity. Automatic pass-on of fare increases to plate owners will increase costs of running a taxi and will be included in the next indexed increase; and
- Second, if the intent of fare increases is to increase the return to drivers or operators, automatic assignment fee increases will make it difficult to fulfil that intention.

One approach to breaking this circularity would be for assignment fees to be excluded from any assessment of the costs used to inform decisions on taxi fare adjustments<sup>85</sup>. In the currently employed Queensland taxi cost index, plate lease costs (return on investment) are excluded from the cost model based on this circularity concern. This does not remove the second form of circularity however, and if anything may mean that fare increases are lower but that a greater proportion of the fare increase is returned to licence holders.

***Should assignment fees be included in decisions regarding taxi fare adjustments?***

***What approaches, if any, might the Commission consider in order to break the circularity between fare increases and assignment fees?***

## 7.6 Further Issues

Returns to drivers and operators are lower than received by licence holders. In particular, licence prices continue to grow at very high rates whilst driver remuneration remains low (estimated at around \$7.50 - \$8.00 per hour).

Industry profit appears to be mostly captured by depots/networks and licence holders and increases in the regulated fare would force additional profits to be eventually passed on to licence holders from drivers and operators, due to cost

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<sup>85</sup> PwC 2005, p.9

escalation terms in current assignment arrangements, or to depots/networks through higher network fees.

An important factor relevant to distribution of industry profit is likely to be how licences are issued, and how many are issued. This includes the degree of access that drivers have to obtain licences in their own right as an alternative to being a bailee.

More generally, the regulatory framework imposes a barrier to entry, and behind the protection of this barrier the industry in the metropolitan area has – through a series of depot acquisitions and agency agreements – strongly consolidated in recent years to the point where there are effectively only two networks. This industry consolidation and concentration exacerbates the imbalance of market power in the industry, which the Commission has previously observed appears to be an important factor in relation to inadequate driver remuneration. Therefore further analysis of the interaction between the regulatory entry barrier and market power relationships within the industry is warranted as part of a consideration of the driver remuneration.

***On what basis should the Commission assess the adequacy of returns to drivers and operators at present?***

***What are the most relevant factors for affecting changes in the distribution of income between drivers, operators and licence holders?***

## 8 INFORMATION GATHERING & PERFORMANCE MEASUREMENT

The terms of reference require the Commission to report to the Minister on information reporting by the taxi industry, and performance measurement.

Information gathering from the industry is needed in several areas. Firstly, there is measurement and reporting of performance in the context of both customer satisfaction and the efficient performance of taxi operations against objective service quality measures. Secondly, industry data is needed for the analysis of demand patterns to support transport policy development. Third, information on costs and usage is necessary for fare setting processes.

The new driver accreditation regime that will be in place in 2008 is one initiative aimed at improving information gathering and service quality performance.

This chapter identifies available information on taxi industry service quality, and approaches to performance measurement and customer satisfaction measurement, including through market research. This discussion will assist in formulating appropriate performance measures to be reported against.

The chapter then discusses the kinds of information that are likely to be needed for information gathering, provides a brief overview of performance measurement in other States, and outlines the information that would become available under the proposed accreditation arrangements. These are considered against the information that might reasonably be required to support performance assessment and analysis for policy or fare setting processes.

### 8.1 Available information – Service quality performance

A number of surveys and reports have been conducted over recent years that relate to the Victorian taxi industry. The main purpose of these studies was to understand travel patterns of Victorian taxi users and their perceptions and expectations about the taxi industry. In addition, a national survey of taxi customers was undertaken in 2003 to provide a comparable data on a range of service and attitudinal measures. More recently, DOI has undertaken a number of studies since 2005 for the purpose of monitoring customer satisfaction.

Some of the observations about customer satisfaction and service quality coming out of market research on the industry include:<sup>86</sup>

- there are large variations in the quality of service provided by drivers

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<sup>86</sup> See KPMG (1999), p.49



- important factors in customer satisfaction are clean and relatively modern cars, smoke-free environment, driver presentation and uniforms, and driver knowledge/communication skills
- there is a considerable concern with long wait times, particularly on weekends.<sup>87</sup>

*Market Research Taxi Performance Index*

In 1999 market research was carried out to ascertain how the public decides what makes a good or poor taxi ride, and so to develop a benchmark taxi industry performance index upon which comparisons can be made at appropriate intervals in the future<sup>88</sup>. The research identified the elements to be measured to determine taxi performance, including:

- length of time on hold with the telephone operator
- taxi arrives within specified timeframe
- taxi presentation, e.g. is the clean and well maintained, presence of cigarette odour, etc
- driver attributes, including whether the driver is friendly and helpful, ability of driver to speak English clearly, driver's street knowledge, ability to read whether the customer wants to talk or be silent, and presence and driver's ability to use a Melway.

This laid the groundwork for the current performance monitoring process.

*2002 National Taxi Users Survey Report*

A national survey of taxi use and trip characteristics and taxi customer satisfaction was undertaken in 2002.

In relation to measuring service quality performance, based on rating the importance of 16 aspects of taxi service, it was found that what was important to customers was quite consistent between states. The most important aspects of service were driving skills; ability to take the cheapest/shortest route; and timeliness of arrival and availability. In particular, customers in general were found to have a relatively low tolerance for waiting time.

Among other things it found that customers were reasonably satisfied with the taxi service, and customer satisfaction in Victoria was comparable to other States.

*Taxi Customer Satisfaction Monitoring Surveys (2004-2006)*

DOI taxi customer satisfaction monitors are quarterly surveys covering the period from June 2005 to September 2007 – with an earlier survey also in June 2004. The surveys are based on monthly telephone interviews of taxi customers. It covers both metropolitan and country areas (although the majority of the respondents are in the Metro area).

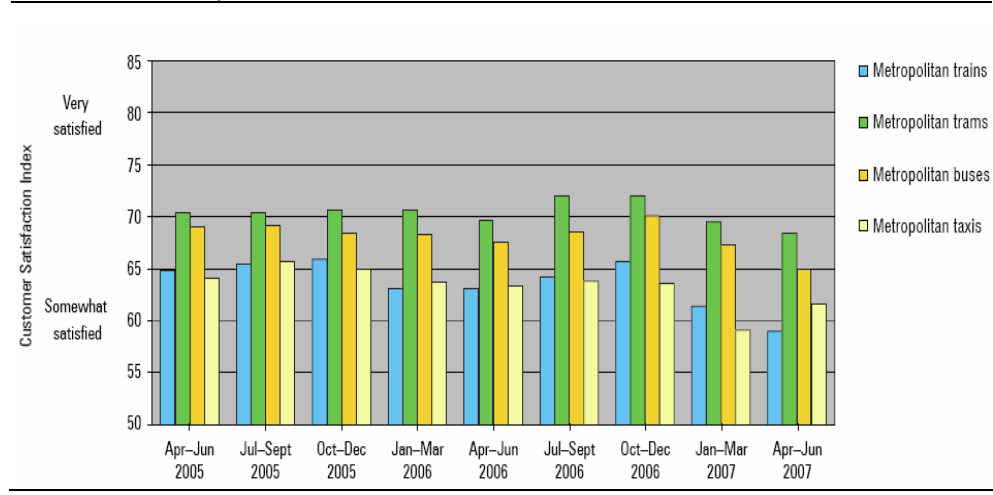
Figure 8.1 shows the results of the quarterly customer satisfaction monitoring surveys. One of the main findings is that overall satisfaction has declined, and in particular, satisfaction with value for money has gradually declined from April-June 2005 to October-December 2006. Among different demographic groups, males and

<sup>87</sup> KPMG Consulting 1999, p. 49.

<sup>88</sup> *Taxi Performance Index – Qualitative Report (October 1999)*

females had similar overall satisfaction levels, with “65 years +” group giving higher approval rates.

Figure 8.1 **Overall satisfaction with Metropolitan train, tram, bus and taxi services - June quarter 2005 to Sept. quarter 2007**



Source: Track Record, September 2007

The monitoring studies undertaken by DOI have revealed a deteriorating trend in customer satisfaction of taxi services. DOI states that there was a statistically significant decrease in customer satisfaction with metropolitan taxis in 2006–07, from 64.5% overall satisfaction in 2005-06 to 62.0% in 2006-07.

Furthermore, compared to most other modes of public transport, taxi services have low levels of satisfaction. The exception is trains, for which taxis have a comparable level of customer satisfaction.

The greatest areas of dissatisfaction with taxi services revealed by DOI’s monitoring surveys are ‘value for money’ and ‘fares’.<sup>89</sup> Satisfaction with value for money and fares appears to have gradually declined from April-June 2005 to April-June 2006.

On the other hand, aspects of service quality have obtained a relatively higher level of satisfaction. For example, “service delivery” obtained a relatively high rating and was found to have high impact on the overall customer satisfaction. Satisfaction with service delivery was approximately 65% in April-June 2007, which was higher than metropolitan trains, and broadly similar to buses and trams. Other service quality attributes such as “safety”, “driver”, “comfort on taxi”, and “booking services” also obtained higher ratings, but were found to have moderate impact on the overall satisfaction.

Figure 8.2 shows the results of customer satisfaction in June 2007 by each of the main attributes of the service.

<sup>89</sup> Track Record (September 2007), p.20

The Allen Consulting Group has summarised the situation as follows:<sup>90</sup>

*Customer surveys reveal that customer satisfaction with service delivery for the metropolitan taxi network is consistently rated as inferior to that of other modes of transport. ... VTD enforcement activity, complaint statistics, consumer surveys and anecdotal evidence reveal problems in the following areas:*

- *Limited availability of taxis at certain times (peak hours, at night and during special events in metropolitan Melbourne, for example) and in certain locations. This also applies to the availability of WATs and their willingness or otherwise to prioritise passengers with special needs;*
- *Response times for taxi bookings;*
- *Driver competence and conduct towards passengers;*
- *Vehicle safety and maintenance, including the cleanliness and smell of taxis*

Figure 8.2 **Customer satisfaction with Metropolitan taxis**  
June quarter 2007



Source: Track Record, September 2007

## 8.2 Relevant performance measures that should be reported

Customer satisfaction measurement should build on DOI's current taxi customer satisfaction monitoring surveys and provide continuity of measures over time. However, it will be important to ensure that previous findings in relation to key

<sup>90</sup> Allen Consulting Group (October 2007) *Transport (Taxi-Cab Industry Accreditation) Regulations 2007: Regulatory Impact Statement*, p.ix

factors that are important to customer satisfaction are specifically measured, including customer perceptions of waiting times for taxicabs that are hired from ranks; waiting times for hailed cabs; and waiting times for bookings; and customer satisfactions with waiting time specifically.

In addition, performance measurement should not only include survey's of customer satisfaction, discussed in the section above, but the measurement and reporting of key performance indicators (**KPIs**), as well as relevant indicators of overall industry efficiency and productivity.

Box 8.1 summarises KPIs reported for the NSW taxi industry by IPART, and the associated targets or standards that must be met in relation to some of these KPIs. Most of these KPIs relate to the performance of the phone booking service, and the waiting times of customers in response to phone bookings. There are also performance measures specifically targeted to WAT services.

Given the important findings that have emerged from Victorian surveys in relation to long waiting times during peak Friday and Saturday night periods, there may also be value in also reporting performance measures separately for these peak periods.

Measurement of efficiency and productivity will require continuous information gathering of a range of important statistical information, such as accurate information on the number taxi trips, passengers per trip, paid and unpaid kilometres, revenue and so forth, for different periods of the week or year. Cost information would, at least, need to be gathered every few years, for example by survey.

**Box 8.1 NSW taxi performance indicators**

IPART reports standards of performance required of taxi networks have been established by the Ministry of Transport, and include standards relating to operations, telephone answering standards, delivery standards and customer services. These standards include:

- 90 per cent of calls to be connected to the booking service immediately
- of this 90 per cent, 70 per cent of calls that are connected immediately are to be answered within one minute and 90 per cent are to be answered within two minutes.
- in 85 per cent of cases a taxi is to arrive within 15 minutes of a booking being made
- in 98 per cent of cases a taxi is to arrive within 30 minutes of a booking being made
- in 100 per cent of cases a taxi is to arrive within 60 minutes of a booking being made.

Continued next page.

Box 8.1 (continued)

In addition to reporting performance against these targets, IPART reports against a range of other Key Performance Indicators, including:

- Number of phone calls received, number of bookings required, number of advance bookings,
- Number of bookings offloaded, or offloaded and returned
- Number of jobs accepted by taxi drivers and the number of rejections, the number of 'no cab availables' and the number of 'no shows'
- Average answering time (seconds), average acceptance time (minutes) and average pick up time (minutes)
- Average number of radio jobs completed per taxi (per year) and total pick ups
- Number of taxis operating on network (monthly average), and average number of taxis signed on at 9 am (monthly average)

IPART also presents information on some of these service standards separately for WATs.

Source: IPART (July 2007), 'Maximum fares for taxis in NSW for 2007/08: Recommendations to the Minister', Appendix B.

### 8.3 Information proposed to be provided under new accreditation arrangements

The Government is currently developing and consulting on new taxi industry accreditation regulations.<sup>91</sup> These proposed regulations contain new information provision requirements. The Department of Infrastructure has released draft Regulations and is currently seeking public comment on them.

Among the information to be annually provided by a taxicab operator are details of:

- the days and times when the taxi was available for hire
- for each shift driven: the revenue earned; the total kilometres travelled; the number of hirings; and total paid kilometres
- the costs of operating and maintaining the taxicab
- details of all drivers and the shifts they drove, and the contents of each bailment agreement with each bailee driver
- the results of all inspections of the taxicab, and details of all vehicle faults or damage, and all details of the rectification of them

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<sup>91</sup> Transport (Taxi-Cab Industry Accreditation) Regulations 2007. See DOI website at: <http://www.doi.vic.gov.au/DOI/Internet/transport.nsf/AllDocs/181D0C89C6C9EF37CA256FFE000514ED?OpenDocument#cab>

- steps taken to comply with standards, including in relation to driver training, and
- details of complaints and complaint handling.

Information to be annually provided by large primary network providers includes:

- the dates and times bookings were received, made, and made for (if applicable)
- the places at which each of the customers was to be picked up, and whether there was a requirement for a WAT
- dates and times and other details in relation to offering the booking to drivers, and dates and times of acceptance, and pick-up
- if the booking is not offered to drivers the reasons, and whether it was off-loaded to another network.

A range of other information is to be provided, among these, information on the operation of communications systems, GPS, emergency warning devices, as well as steps taken to comply with standards, details of complaints and complaint handling, and details of each agreement that the network enters into.

Smaller networks are to provide similar information on a three yearly basis.

Copies of the draft Regulations and a Regulatory Impact Statement are available from the Department of Infrastructure website<sup>92</sup>. Details relating to public submissions may also be viewed at the DOI website.

Stakeholders who wish to respond to this Issues Paper are invited to consider the draft Regulations when commenting on the issue of information reporting and performance measurement within the taxi industry generally. The Commission will follow the Government's consultation on the regulations and its report in June 2008 will take account of the regulations, whether by then they are still the subject of consultation on have been finalised.

#### **8.4 Proposed approach to information gathering for this Review**

The Commission has previously emphasised the absence of reliable industry data. For the purposes of the Review, more data will be collected through the following sources:

- Surveys of taxi operators and taxi drivers are being carried out to obtain information on revenue earned, kilometres travelled, number of hirings, operation and maintenance costs, driver details including bailment arrangements, revenue income and driver costs, as well as other industry information including shifts and types of cabs operated. This data will provide the Commission with substantial information for the purposes of this review.
- Interrogation of available databases on travel patterns of households in Victoria may assist to identify demand characteristics relevant to tariff structure issues.

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<sup>92</sup><http://www.doi.vic.gov.au/DOI/Internet/transport.nsf/AllDocs/181D0C89C6C9EF37CA256FFE000514ED?OpenDocument#cab>

- Comments and information that can be gathered from the industry and other interested stakeholders in response to this Issues Paper.

Another potential source of data would be to work with the DOI to expand the scope of the customer satisfaction survey to collect data on average response times of taxis from ranks, hails and phone bookings.

***What other sources of data might the Commission consider, in its approaches to the measurement of performance and market research in the Victorian taxi industry?***

## 9 | SUMMARY OF QUESTIONS

1. Are there any other market issues the Commission has not identified, that should be considered under the specific 'terms of reference'?
2. How effective has the CPI-X approach and determination of the productivity X factor been as a method for determining Victorian taxi fares?
3. Are there any specific reasons that justify a change in the Commission's adoption of a conservative approach towards setting an X factor?
4. Given the available information on costs and productivity movements tend to be limited, what additional sources of data should the Commission consider, in order to improve the use of the CPI-X regulatory approach?
5. What other approaches or variations to those listed, if any, should the Commission also consider?
6. Are any of the three CPI-X methods identified inconsistent with the requirement to establish a model to provide for automated fare setting over a 3 to 5 year period?
7. Of all the approaches considered which is the most appropriate for setting Victorian taxis fares? Why?
8. In what ways, if any, should the Commission account for productivity gains when setting taxi fares?
9. How should the Commission assess the specific components of the current fare structure? Should their relative weightings be altered?
10. How effective have the surcharges on phone-bookings, late nights and New Year's Eve been in encouraging the operation of more taxis? How have they affected demand?
11. Should the surcharges on phone-bookings, late nights and New Year's Eve form a permanent part of the Victorian taxi fare structure? If so, what should the surcharges be?
12. What methodologies and approaches should the Commission consider when addressing the balance between fixed and variable elements of the tariff structure?
13. What considerations are relevant to the balance between day-time and night-time taxi fares? Should these fares vary between peak Friday and Saturday night periods and other nights of the week?
14. How should the Commission assess the specific components that differentiate Country from Metropolitan fare structures?
15. What other considerations, if any, should be included in a country and regional taxi fare assessment?



16. How should the Commission assess the impacts of changes in fare structures on taxi demand and revenue?
17. What other sources of data might the Commission consider, in its assessment of the impacts of changes in taxi fare structures?
18. Should a surcharge for pre-booked premium taxi services form a permanent part of the Victorian taxi fare structure? If so, what should each surcharge be?
19. What issues, if any, should the Commission consider in relation to the proposed surcharge for premium taxi services?
20. Should the Commission consider recommending the adoption of mandated bailment agreements? If so, which type of arrangement?
21. Given the varying degrees of regulation and industry practice, how valid are comparisons with bailment arrangements in other jurisdictions?
22. What changes, if any, should the Commission consider recommending in relation to the present arrangements for taxi network fees and insurance?
23. What impact, if any, does Cabcharge have on bailment revenue and driver income?
24. Should assignment fees be included in decisions regarding taxi fare adjustments?
25. What approaches, if any, might the Commission consider in order to break the circularity between fare increases and assignment fees?
26. On what basis should the Commission assess the adequacy of returns to drivers and operators at present?
27. What are the most relevant factors for affecting changes in the distribution of income between drivers, operators and licence holders?
28. What other sources of data might the Commission consider, in its approaches to the measurement of performance and market research in the Victorian taxi industry?

# APPENDIX A | TERMS OF REFERENCE

## Transport Act 1983

### REVIEW OF TAXI FARES 2007/08

I, Lynne Kosky MP, Minister for Public Transport, give notice that, in accordance with the provisions of section 186 of the **Transport Act 1983**, I have asked the Essential Services Commission to conduct an investigation into Victoria's taxi-cab fares and report on:

- i. an appropriate price setting model to provide for automated fare adjustments for the next 3–5 years, including the timing of such adjustments;
- ii. the appropriateness of the taxi fare structure within the current market for taxi-cab services in Victoria;
- iii. whether a surcharge on taxi fares on New Year's Eve should form a permanent part of the taxi fare structure for non-metropolitan taxi-cabs and, if so, the amount of such surcharge;
- iv. whether a surcharge on taxi fares should form a permanent part of the taxi fare structure where the hirer pre-books and is supplied a premium service taxi and, if so, the amount of such surcharge;
- v. the distribution of taxi fare revenue and measures that may be considered by Government to improve taxi driver remuneration; and
- vi. information reporting by the taxi industry and performance measurement.

In its investigation and report, the Commission is to have regard to the following factors:

- (a) the recommendations contained in the Commission's Report – 'Taxi Fare Review 2005' and the subsequent application of the CPI-X pricing model to taxi fares in 2006 and proposed to be applied in 2007;
- (b) the review of the regulatory structure and operations of Victoria's country taxi industry undertaken by the Department of Infrastructure during 2005/06;
- (c) the relevance and values of the individual components that, when combined in part or in full, make up the total taxi hiring charge – specifically these are the flagfall, time and distance rate, phone booking fee, Late Night Surcharge (metropolitan taxi-cabs only), Late Night Extra (non-metropolitan taxi-cabs), New Year's Eve taxi fare surcharge (non-metropolitan taxi-cabs) and any Premium Service Surcharge currently applied in accordance with permit conditions issued by the VTD;

- (d) the impact on Victorian business and the community including the impact of any proposed variations to taxi fares on the availability and affordability of taxi services to consumers; and
- (e) the impact on taxi industry participants including licence holders, taxi operators, drivers and employees.

The following directions have been given under section 186 (4) of the Act:

- In conducting the investigation the Commission should have regard to the objectives in section 8 of the **Essential Services Commission Act 2001** where relevant.
- Except as otherwise directed by the terms of reference, the Commission is to conduct the investigation in a manner as described in section 187 of the **Transport Act 1983**.
- The Commission is to submit its report to the Minister for Public Transport by 30 June 2008.

LYNNE KOSKY MP  
Minister for Public Transport

## APPENDIX B | PRINCIPLES OF CPI-X REGULATION

The objective of CPI-X price setting is to generate a price path equivalent to the outcome in an effectively competitive market. In these circumstances prices will track industry unit costs, including a normal rate of return on capital. The industry unit costs (UC) follow the path:<sup>93</sup>

$$\text{(Equation B.1)} \quad \Delta P = \Delta UC = \Delta W - \Delta TFP$$

Where the symbol “ $\Delta$ ” means “proportionate change in”, and W is an index of input prices and TFP is the total factor productivity index for the industry.

Under the CPI-X approach, prices are set as:

$$\text{(Equation B.2)} \quad \Delta P = \Delta CPI - X$$

However, the CPI is an index of output prices for the economy as a whole, and therefore X can be derived as follows:

$$\text{(Equation B.3)} \quad X = [(\Delta TFP - \Delta TFP_E) - (\Delta W - \Delta W_E)]$$

Here  $TFP_E$  is the total factor productivity of the economy as a whole and  $W_E$  is the index of import prices for the economy. This means that the X-factor is not simply a productivity factor, it is the differential between the productivity growth of the industry and for the economy as a whole, less the differential growth of input prices in the industry compared to the economy-wide growth. This is important because often there is considerable effort in estimating the productivity growth rates, but significantly less attention is devoted to measuring the difference between the input price index for the industry and the economy.

An alternative approach is to derive an index of input prices as use equation B.1 to set prices, i.e. based on the unit cost index and industry productivity trends alone. Meyrick and Associates has suggested that this approach is to be preferred:

*Perhaps the best way of doing this [i.e. setting P] is to use a specifically constructed index which weights together the prices of inputs by their shares in industry costs. However, this price information is often not readily or objectively available ...*

However, the lack of availability of input price index information is one reason why the estimation of X in the CPI-X approach may incorporate a significant cope for potential measurement error, and therefore when such an index can be reasonably

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<sup>93</sup> Meyrick & Associates (September 2003) ‘Regulation of Electricity Lines Businesses Resetting the Price Path Threshold – Comparative Option’, Report prepared for the Commerce Commission, New Zealand, pp.5-6

accurately constructed, the observations of Meyrick and Associates suggest that there would be a preference for using this within the approach in equation B.1 rather than equation B.2.

#### *TFP indexes*

TFP indexes are a common technique for estimating past productivity performance of an industry. A TFP index is the ratio of an index of outputs to an index of inputs. An index of outputs is obtained by calculating, for each year, the weighted average growth of all of the individual outputs, where the weights are the average revenue shares for each output. Similarly, the input index is constructed by weighting the growth rates for each input by the cost share for that input. The growth in TFP is therefore simply the weighted average growth of outputs less the weighted average growth of inputs.

Different index approaches are used, for example in terms of constructing the weights for averaging the growth output and inputs. The Tornqvist approach is perhaps the most common and widely accepted method. See equation B.4.

(Equation B.4)

$$\Delta TFP = \sum_k \frac{(r_{kt} + r_{kt-1})}{2} \ln\left(\frac{y_{kt}}{y_{kt-1}}\right) - \sum_j \frac{(c_{jt} + c_{jt-1})}{2} \ln\left(\frac{x_{jt}}{x_{jt-1}}\right)$$

Where:

- the percentage changes of the outputs of each product or service is  $y_k$ , and the subscript  $k = 1 \dots m$  numbers the outputs. The weights are the revenue shares,  $r_k$ , for each output – with the revenue shares averaged over the current and preceding period
- the percentage changes of the inputs of each factor of production are  $x_j$ , where the subscript  $j = 1 \dots n$  indicates each of the inputs. The weights are the cost shares,  $c_j$ , associated with each of the inputs – with the cost shares averaged over the current and preceding period.

Key issues in applying TFP are to define the outputs and inputs. Often outputs are defined in terms of the components of revenue. For example, taxi outputs might include both: (a) pick-up and set-down (i.e. trips), as well as (b) passenger kilometres. Inputs are sometimes not able to be quantified directly, and instead may be calculated by deflating a relevant cost – for example driver incomes – by an appropriate index (e.g. the Wage Price Index in the case of driver income).

## APPENDIX C | OPERATOR AND DRIVER SURVEYS

To provide detailed information on costs, demand and the remuneration of industry participants, the Commission is undertaking surveys of taxi operators and drivers. Questionnaires have been based on survey questionnaires developed by IPART and PwC for a study being undertaken in NSW. The surveys being used in Victoria have some variations from the IPART survey, but on the whole will provide a set of data that will be comparable in scope and detail. Regulators and researchers may therefore be able to benefit from having detailed and directly comparable data for two jurisdictions.

The operator survey has been mailed to approximately 2,600 taxi operators in the metropolitan and regional areas, and the driver survey has been mailed to approximately 4,100 drivers who are not also taxi operators. The questionnaires are attached.

A detailed report on the responses to the survey will be published by the Commission at the same time as the draft report for this Review is released.

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Individual responses will be aggregated to provide results. The results will NOT be used for any other purpose than those specified, nor will individual responses be submitted to the Essential Services Commission.

Dear Taxi Operator,

You are invited to participate in a survey on taxi costs which will be used by the Essential Services Commission (ESC) in their review of taxi fares. The ESC has been requested by the Minister for Public Transport to conduct a review of taxi fares for 2007/08 and this survey will assist the ESC in carrying out this role.

**Survey responses need to be lodged with PricewaterhouseCoopers (PwC) no later than 20 December 2007.**

### Managing the Survey

PwC has been engaged to manage the survey and report on the results to the ESC.

### Survey Participation

All taxi operators have been invited to participate in this survey. A related survey has been sent to a sample of drivers.

You are strongly encouraged to participate as this will help the ESC obtain a better understanding of the costs associated with operating and driving a taxi. Please answer each question carefully.

### Privacy

This survey will not be released to any third parties and survey responses will be destroyed following processing. All surveys will be treated as confidential.

The survey contains an optional cell to provide your name and contact details. Whilst providing your contact details is not mandatory, we encourage you to provide a daytime contact number in the event that PwC needs to clarify aspects of your survey response.

### How Do I Return My Survey?

Your survey responses can be delivered in 2 ways:

1. Fax the completed form to: [REDACTED]
2. Fill-in the hardcopy attached to this letter and return in the pre-paid envelope provided.

If you have any questions in relation to this survey feel free to contact [REDACTED] at PwC on [REDACTED]

Yours sincerely,

**Michael Cunningham**  
**Manager Industry Sectors & Special References**  
**Essential Services Commission**

CONFIDENTIAL

Individual responses will be aggregated to provide results. The results will NOT be used for any other purpose than those specified, nor will individual responses be submitted to the Essential Services Commission.

## Taxi Operator Survey

Please tick most appropriate answer. **ALL COSTS SHOULD INCLUDE GST.**  
Should you need any help completing this survey, please call [redacted] at PricewaterhouseCoopers on [redacted]

|  |   |   |  |   |   |
|--|---|---|--|---|---|
| Surname (optional):  |   | First name (optional):  |  | Residential postcode:                                       |   |
| Contact phone number(optional):  |   | Name of Network:  |  |   |   |
| Are you happy to be contacted to discuss this survey?  |   | Yes <input type="checkbox"/> No <input type="checkbox"/>      |  |   |   |
| 1) Place where you usually drive   | Metro (Melbourne) <input type="checkbox"/>  | Outer Suburban (Frankston Dandenong) <input type="checkbox"/> |  | Urban (Geelong, Ballarat, Bendigo) <input type="checkbox"/> |   |
|  | Country (remainder of regional Victoria) <input type="checkbox"/>   |   |  |   |   |
| 2) Number and type of taxis operated   | Standard sedan or station wagon <input type="checkbox"/>  | Wheelchair Accessible Taxi (WAT) <input type="checkbox"/>     |  | Number operated _____                                       |   |
|  | Premium / Silver service <input type="checkbox"/>   | Peak / Green top <input type="checkbox"/>                     |  | Number operated _____                                       |   |
|  | High Occupancy Vehicle (HOV) / Maxi taxi <input type="checkbox"/>   | (includes taxi with capacity for 2 wheelchairs)               |  | Number operated _____                                       |   |
| 3) Number of types of taxi licence   | Conventional _____  | WAT/HOV _____   | Peak Service _____   | Other _____   |   |
| 4) Status  | Driver only <input type="checkbox"/>  | Operator only <input type="checkbox"/>                        | Operator & Driver <input type="checkbox"/>                     | Operator, Driver & licensee <input type="checkbox"/>        | Owner only <input type="checkbox"/>   |
| 5) Number of drivers by engagement basis   | Casual Bailee <input type="checkbox"/>  | _____ number of drivers                                       |  | Permanent Bailee <input type="checkbox"/>                   |   |
|  | _____ number of drivers   |   | Driven by owner/operator <input type="checkbox"/>              |   |   |
| 6) If leasing licence (plate), what is the cost per year?  | \$_____,000   |   | If plate funded by debt: Funding term _____ years              |   | Interest rate _____%  |
|  | Residual _____%   |   | Deposit paid \$_____,000                                       |   |   |
| 7) What is the estimated value of your licence (plate) type (if owned)?  | \$_____,000   |   |  |   |   |
| 8) Average vehicle age when purchased  | New <input type="checkbox"/>  | 1 year <input type="checkbox"/>                               | 2 years <input type="checkbox"/>                               | 3 years <input type="checkbox"/>                            | 4 years <input type="checkbox"/> More than 5 years <input type="checkbox"/> |
| 9) Typical approach to purchase  | New via dealer <input type="checkbox"/>   | 2 <sup>nd</sup> hand via dealer <input type="checkbox"/>      | 2 <sup>nd</sup> hand via private sale <input type="checkbox"/> | 2 <sup>nd</sup> hand at auction <input type="checkbox"/>    |   |
| 10) Price paid for most recent addition to the fleet (on-road including GST) EXCLUDING taxi fit-out costs (eg meter, camera, LPG conversion, accessibility conversion costs) | \$_____,000   |   | Paid _____ years ago   |   |   |
|  | Vehicle type: _____   |   |  |   |   |
|  | OR  |   |  |   |   |
|  | If you bought your vehicle with fit-outs included, what was the price paid?   |   |  |   |   |
|  | \$_____,000   |   | Paid _____ years ago   |   |   |
|  | Vehicle type: _____   |   |  |   |   |
| 11) Most recent purchase funding method  | Paid cash <input type="checkbox"/> Lease <input type="checkbox"/> Hire purchase <input type="checkbox"/> Bank loan <input type="checkbox"/> Other <input type="checkbox"/> (Please specify) _____ |   |  |   |   |
| 12) Funding details (if relevant)  | Funding term _____ years  | Interest rate _____%  | Residual _____%  | Deposit paid \$_____,000                                    |   |
| 13) Average kilometres of travel per taxi per week   | less than 1,000 <input type="checkbox"/>  | 1,000-1,499 <input type="checkbox"/>                          | 1,500-1,999 <input type="checkbox"/>                           | 2,000-2,499 <input type="checkbox"/>                        | 2,500-2,999 <input type="checkbox"/>  |
|  | 3,000 – 4,000 <input type="checkbox"/>  | more than 4,000 <input type="checkbox"/>                      |  |   |   |



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Individual responses will be aggregated to provide results. The results will NOT be used for any other purpose than those specified, nor will individual responses be submitted to the Essential Services Commission.

| 14) Average number of day & night shifts operated per taxi per week  | 0-6 <input type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 <input type="checkbox"/> 11 <input type="checkbox"/> 12 <input type="checkbox"/> 13 <input type="checkbox"/> 14 <input type="checkbox"/>  |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
|--|--|----------------------------|--------|-----------------|-------------------|--|----------------------------|------------------------|--|----------------------------|-------------|--|----------------------------|--------------|--|----------------------------|----------------|--|----------------------------|--------------|--|----------------------------|
| 15) Average hours worked per taxi per shift (Friday & Saturday)  | Less than 5 hours <input type="checkbox"/> 6 hours <input type="checkbox"/> 7 hours <input type="checkbox"/> 8-hours <input type="checkbox"/> 9 hours <input type="checkbox"/> 10 hours <input type="checkbox"/><br>11 hours <input type="checkbox"/> 12 hours <input type="checkbox"/> 13 hours <input type="checkbox"/> 14 hours <input type="checkbox"/> 15 hours <input type="checkbox"/><br>More than 15 hours <input type="checkbox"/>   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 16) Average hours worked per taxi per shift (Sunday-Thursday)  | Less than 5 hours <input type="checkbox"/> 6 hours <input type="checkbox"/> 7 hours <input type="checkbox"/> 8-hours <input type="checkbox"/> 9 hours <input type="checkbox"/> 10 hours <input type="checkbox"/><br>11 hours <input type="checkbox"/> 12 hours <input type="checkbox"/> 13 hours <input type="checkbox"/> 14 hours <input type="checkbox"/> 15 hours <input type="checkbox"/><br>More than 15 hours <input type="checkbox"/>   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 17) Maintenance provider   | Self maintenance <input type="checkbox"/> Taxi base garage <input type="checkbox"/> Mainly small garage <input type="checkbox"/> Mainly Franchise (e.g. Ultratune) <input type="checkbox"/><br>Dealer workshop (e.g. Ford dealer) <input type="checkbox"/> Other <input type="checkbox"/> (Please specify) _____   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 18) Maintenance strategy   | Regular minor services only <input type="checkbox"/> Regular minor & major services <input type="checkbox"/><br>Reactive (only to fix a breakdown) <input type="checkbox"/>  |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 19) Maintenance labour cost (if known)   | <b>Cost per hour</b><br>Just my time <input type="checkbox"/> less than \$30 <input type="checkbox"/> \$30-\$34 <input type="checkbox"/> \$35-\$39 <input type="checkbox"/> \$40-\$44 <input type="checkbox"/> \$45-\$49 <input type="checkbox"/> \$50-\$54 <input type="checkbox"/><br>\$55-\$59 <input type="checkbox"/> \$60-\$64 <input type="checkbox"/> \$65-\$69 <input type="checkbox"/> \$70+ <input type="checkbox"/><br><b>Average number of hours spent on maintenance per taxi per month</b><br>Less than 5 <input type="checkbox"/> 5-9 <input type="checkbox"/> 10-15 <input type="checkbox"/> 16-20 <input type="checkbox"/> 21-24 <input type="checkbox"/> 25-30 <input type="checkbox"/> 31-35 <input type="checkbox"/> 36-40 <input type="checkbox"/><br>More than 41 <input type="checkbox"/>  |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 20) Typical type of parts and panels   | Manufacturer made (eg Ford) <input type="checkbox"/> Generic parts (eg Repeco) <input type="checkbox"/> 2 <sup>nd</sup> hand parts <input type="checkbox"/>  |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 22) Total cost of last minor service   | \$ _____   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 23) Total cost of last major service   | \$ _____   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 24) Average kms per tyre replacement   | 30,000km <input type="checkbox"/> 35,000km <input type="checkbox"/> 40,000km <input type="checkbox"/> 45,000km <input type="checkbox"/> 50,000km <input type="checkbox"/> More than 50,000km <input type="checkbox"/>  |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 25) Cost per tyre  | \$ _____ (excl balance/alignment)  |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 26) Average operator time per week spent on admin, shift changeover, rostering etc over your whole fleet           | less than 5 hours <input type="checkbox"/> 5-9 hours <input type="checkbox"/> 10-14 hours <input type="checkbox"/> 15-19 hours <input type="checkbox"/> 20-24 hours <input type="checkbox"/> 25-29 hours <input type="checkbox"/><br>30-34 hours <input type="checkbox"/> 35-39 hours <input type="checkbox"/> 40-44 hours <input type="checkbox"/> 45-49 hours <input type="checkbox"/> more than 49 hours <input type="checkbox"/>   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 27) Office / miscellaneous expenses (phone, electricity, accountant fees, admin staff wages, rent, computers, etc) | \$ _____ per month   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 28) Average cost of driver uniforms per vehicle per year   | Less than \$150 <input type="checkbox"/> \$150-400 <input type="checkbox"/> \$401-\$650 <input type="checkbox"/> \$651-\$900 <input type="checkbox"/> \$901-\$1,400 <input type="checkbox"/><br>\$1,400-\$1,900 <input type="checkbox"/> \$1,901-\$2,500 <input type="checkbox"/> More than \$2,500 <input type="checkbox"/>   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 29) Do you pay your drivers sick leave pay or holiday pay?   | No <input type="checkbox"/><br>Yes <input type="checkbox"/><br>If yes, how much do you pay? \$ _____ per year OR _____ days per year   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 30) What type of payment arrangement do you have for drivers?  | % of fare revenue <input type="checkbox"/> What % do drivers get? _____%<br>OR<br>Fixed pay-in <input type="checkbox"/> What is the pay-in? \$ _____ per shift   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 31) Average fare-taking per driver   | \$ _____ per week OR Don't know <input type="checkbox"/>   |                            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| 32) In general, what shifts are driven by operator or a driver, and what revenue is taken per shift?               | <table border="0"> <thead> <tr> <th>Shift</th> <th>Driver</th> <th>Average Revenue</th> </tr> </thead> <tbody> <tr> <td>Weekday (Mon-Fri)</td> <td>Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/></td> <td>Revenue per shift \$ _____</td> </tr> <tr> <td>Week night (Mon-Thurs)</td> <td>Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/></td> <td>Revenue per shift \$ _____</td> </tr> <tr> <td>Weekend day</td> <td>Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/></td> <td>Revenue per shift \$ _____</td> </tr> <tr> <td>Friday night</td> <td>Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/></td> <td>Revenue per shift \$ _____</td> </tr> <tr> <td>Saturday night</td> <td>Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/></td> <td>Revenue per shift \$ _____</td> </tr> <tr> <td>Sunday night</td> <td>Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/></td> <td>Revenue per shift \$ _____</td> </tr> </tbody> </table> | Shift                      | Driver | Average Revenue | Weekday (Mon-Fri) | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/> | Revenue per shift \$ _____ | Week night (Mon-Thurs) | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/> | Revenue per shift \$ _____ | Weekend day | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/> | Revenue per shift \$ _____ | Friday night | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/> | Revenue per shift \$ _____ | Saturday night | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/> | Revenue per shift \$ _____ | Sunday night | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/> | Revenue per shift \$ _____ |
| Shift  | Driver   | Average Revenue            |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| Weekday (Mon-Fri)  | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/>   | Revenue per shift \$ _____ |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| Week night (Mon-Thurs)   | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/>   | Revenue per shift \$ _____ |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| Weekend day  | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/>   | Revenue per shift \$ _____ |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| Friday night   | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/>   | Revenue per shift \$ _____ |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| Saturday night   | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/>   | Revenue per shift \$ _____ |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |
| Sunday night   | Operator-driven shift <input type="checkbox"/> OR Casual driver shift <input type="checkbox"/>   | Revenue per shift \$ _____ |        |                 |                   |  |                            |                        |  |                            |             |  |                            |              |  |                            |                |  |                            |              |  |                            |



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Individual responses will be aggregated to provide results. The results will NOT be used for any other purpose than those specified, nor will individual responses be submitted to the Essential Services Commission.

Dear Taxi Driver,

You are invited to participate in a survey on taxi costs which will be used by the Essential Services Commission (ESC) in their review of taxi fares. The ESC has been requested by the Minister for Public Transport to conduct a review of taxi fares for 2007/08 and this survey will assist the ESC in carrying out this role.

**Survey responses need to be lodged with PricewaterhouseCoopers (PwC) no later than 20 December 2007.**

### Managing the Survey

PwC has been engaged to manage the survey and report on the results to the ESC.

### Survey Participation

A sample of all taxi drivers have been invited to participate in this survey. A related survey has been sent to taxi operators.

You are strongly encouraged to participate as this will help the ESC obtain a better understanding of the costs associated with operating and driving a taxi. Please answer each question carefully.

### Privacy

This survey will not be released to any third parties and survey responses will be destroyed following processing. All surveys will be treated as confidential.

The survey contains an optional cell to provide your name and contact details. Whilst providing your contact details is not mandatory, we encourage you to provide a daytime contact number in the event that PwC needs to clarify aspects of your survey response.

### How Do I Return My Survey?

Your survey responses can be delivered in 2 ways:

1. Fax the completed form to: [REDACTED]
2. Fill-in the hardcopy attached to this letter and return in the pre-paid envelope provided.

If you have any questions in relation to this survey feel free to contact [REDACTED] at PwC on [REDACTED]

Yours sincerely,

**Michael Cunningham**  
Manager Industry Sectors & Special References  
Essential Services Commission

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## Taxi Driver Survey

Please tick most appropriate answer ALL COSTS SHOULD INCLUDE GST  
Should you need help completing this survey, please call [redacted] at PricewaterhouseCoopers on [redacted].

|   |   |   |  |                                      |                                      |
|---|---|---|--|--------------------------------------|--------------------------------------|
| Surname (optional):   |   | First name (optional):  |  | Residential postcode:                |                                      |
| Contact ph number (optional):   |   | Name of Network:  |  |                                      |                                      |
| Are you happy to be contacted to discuss this survey?   |   | Yes <input type="checkbox"/> No <input type="checkbox"/>                |  |                                      |                                      |
| 1) Place where you usually drive  | Metro (Melbourne) <input type="checkbox"/>                              |   |  |                                      |                                      |
|   | Outer Suburban (Frankston Dandenong) <input type="checkbox"/>           |   |  |                                      |                                      |
|   | Urban (Geelong, Ballarat, Bendigo) <input type="checkbox"/>             |   |  |                                      |                                      |
|   | Country (remainder of regional Victoria) <input type="checkbox"/>       |   |  |                                      |                                      |
| 2) Type of taxi driven  | Standard sedan or station wagon <input type="checkbox"/>                |   |  |                                      |                                      |
|   | Wheelchair Accessible Taxi (WAT) <input type="checkbox"/>               |   |  |                                      |                                      |
|   | Premium Silver service <input type="checkbox"/>                         |   |  |                                      |                                      |
|   | Peak / Green top <input type="checkbox"/>                               |   |  |                                      |                                      |
|   | High Occupancy Vehicle (HOV) / Maxi <input type="checkbox"/>            |   |  |                                      |                                      |
|   | (includes taxi with capacity for 2 wheelchairs)                         |   |  |                                      |                                      |
| 3) Average number of kms you drive in your taxi per week  | less than 499 <input type="checkbox"/>                                  | 500-749 <input type="checkbox"/>  | 750-999 <input type="checkbox"/>         | 1,000-1,249 <input type="checkbox"/> | 1,250-1,499 <input type="checkbox"/> |
|   | 2,000-2,999 <input type="checkbox"/>                                    | 3,000-4,000 <input type="checkbox"/>                                    | more than 4,000 <input type="checkbox"/> |                                      |                                      |
| 4) Which shifts do you generally drive each week?   | Mon AM <input type="checkbox"/>   | Tues AM <input type="checkbox"/>  | Wed AM <input type="checkbox"/>          | Thurs AM <input type="checkbox"/>    | Fri AM <input type="checkbox"/>      |
|   | Mon PM <input type="checkbox"/>   | Tues PM <input type="checkbox"/>  | Wed PM <input type="checkbox"/>          | Thurs PM <input type="checkbox"/>    | Fri PM <input type="checkbox"/>      |
|   | Sat AM <input type="checkbox"/>   | Sat PM <input type="checkbox"/>   | Sun AM <input type="checkbox"/>          | Sun PM <input type="checkbox"/>      |                                      |
| 5) Average hours worked per shift (Friday & Saturday)   | Less than 5 hours <input type="checkbox"/>                              | 6 hours <input type="checkbox"/>  | 7 hours <input type="checkbox"/>         | 8-hours <input type="checkbox"/>     | 9 hours <input type="checkbox"/>     |
|   | 11 hours <input type="checkbox"/>                                       | 12 hours <input type="checkbox"/>                                       | 13 hours <input type="checkbox"/>        | 14 hours <input type="checkbox"/>    | 15 hours <input type="checkbox"/>    |
|   | More than 15 hours <input type="checkbox"/>                             |   |  |                                      |                                      |
| 6) Average hours worked per shift (Sunday-Thursday)   | Less than 5 hours <input type="checkbox"/>                              | 6 hours <input type="checkbox"/>  | 7 hours <input type="checkbox"/>         | 8-hours <input type="checkbox"/>     | 9 hours <input type="checkbox"/>     |
|   | 11 hours <input type="checkbox"/>                                       | 12 hours <input type="checkbox"/>                                       | 13 hours <input type="checkbox"/>        | 14 hours <input type="checkbox"/>    | 15 hours <input type="checkbox"/>    |
|   | More than 15 hours <input type="checkbox"/>                             |   |  |                                      |                                      |
| 7) What is the average revenue for the following types of shifts?   | <b>Shift</b>  | <b>Average Revenue</b>  |  |                                      |                                      |
|   | <i>Weekday (Mon-Fri)</i>  | Revenue per shift \$ _____  |  |                                      |                                      |
|   | <i>Week night (Mon-Thurs)</i>   | Revenue per shift \$ _____  |  |                                      |                                      |
|   | <i>Weekend day (Sat-Sun)</i>  | Revenue per shift \$ _____  |  |                                      |                                      |
|   | <i>Friday night</i>   | Revenue per shift \$ _____  |  |                                      |                                      |
|   | <i>Saturday night</i>   | Revenue per shift \$ _____  |  |                                      |                                      |
|   | <i>Sunday night</i>   | Revenue per shift \$ _____  |  |                                      |                                      |
| 8) What is the basis of your driver engagement?   | a) Full-time Bailee <input type="checkbox"/>                            | If Full-time Bailee, how many weeks did you work last year? _____ weeks |  |                                      |                                      |
|   | b) Casual Bailee <input type="checkbox"/>                               |   |  |                                      |                                      |
| 9) What is the payment arrangement you operate under?   | a) Percentage of fare revenue (eg 50/50 split) <input type="checkbox"/> | If so, what percentage of fare revenue do you get? ____%                |  |                                      |                                      |
|   | OR  |   |  |                                      |                                      |
|   | b) Fixed pay-in <input type="checkbox"/>                                | If so, how much is the pay-in? \$ _____ per shift                       |  |                                      |                                      |
| 10) When you entered into your driver engagement were you offered a choice between different payment arrangements (see Question 9)? | Yes <input type="checkbox"/>  | No <input type="checkbox"/>   |  |                                      |                                      |

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|  |  |
|--|--|
| <p>11) What is your total fare take before pay-in?</p>   | <p>\$_____ per week (not including tolls)<br/>                 How much on average is collected in tolls? \$_____ per week<br/>                 How many incidents of fare evasion have you encountered in the previous year? _____ incidents</p>  |
| <p>12) Do you receive entitlements, such as sick leave or holiday pay?</p>   | <p>No <input type="checkbox"/><br/>                 Yes <input type="checkbox"/><br/>                 If yes, how much do you receive? \$_____ per year OR _____ days per year</p>   |
| <p>13) What costs do you cover out of your share of revenue?</p>   | <p>Daily wash and vacuum <input type="checkbox"/><br/>                 If so, what is the cost? \$____ per week<br/>                 Mobile phone costs (calls and/or SMS for contacting passengers upon approach) <input type="checkbox"/><br/>                 If so, what is the cost per week? \$____ per week<br/>                 Cleaning / other maintenance on your driver uniform <input type="checkbox"/><br/>                 If so, what is the cost per week? \$____ per week<br/>                 GPS navigation device <input type="checkbox"/><br/>                 If so, what is the cost? \$____<br/>                 Administration and paperwork costs (eg worksheets and pay-ins) <input type="checkbox"/><br/>                 If so, what is the cost? \$____ per week OR _____ hours per week<br/>                 How often is this cost incurred? _____<br/>                 Other <input type="checkbox"/><br/>                 If so, Please specify _____ at \$ _____ every _____ (time period)<br/>                 _____ at \$ _____ every _____ (time period)<br/>                 _____ at \$ _____ every _____ (time period)</p> |
| <p>14) Fuel use and cost</p>   | <p>Fuel type: LPG <input type="checkbox"/> Diesel <input type="checkbox"/> Unleaded <input type="checkbox"/> _____ km per litre obtained<br/>                 Last price paid \$ _____ /litre</p>  |
| <p>15) Who usually pays the fuel costs?</p>  | <p>You (i.e. after the end of shift settlement) <input type="checkbox"/><br/>                 The Operator <input type="checkbox"/></p>  |
| <p>16) About your last shift</p> <p>If possible this information should be obtained from the meter</p> <p>Please provide a copy of the meter printout if the meter has that facility</p> | <p>Date: _____ Time: from _____ am/pm to _____ am/pm<br/>                 Number of passenger trips provided: _____ (number)<br/>                 Number of radio bookings accepted (if information available): _____ (number)<br/>                 Number of kilometres travelled: _____ (kms)<br/>                 Number of booked kms: _____ (kms)<br/>                 Number of kilometres travelled for which fares were generated: _____ (kms) OR _____ % of km<br/>                 Estimated waiting time: _____ (hours per shift)<br/>                 Odometer reading at beginning of last shift _____ (kms)<br/>                 Odometer reading at end of last shift _____ (kms)</p>   |
| <p>16) Use of toll roads (as compared to alternative routes)</p>   | <p>Frequency of use: Never <input type="checkbox"/> Rarely <input type="checkbox"/> Regularly <input type="checkbox"/> Always <input type="checkbox"/><br/>                 Percentage time saving per trip: Less than 10% <input type="checkbox"/> 11-20% <input type="checkbox"/> 21-30% <input type="checkbox"/> more than 30% <input type="checkbox"/><br/>                 Do you usually use toll roads without passengers on the return trip? Yes <input type="checkbox"/> No <input type="checkbox"/></p>  |
| <p>17) Change in proportion of fare generating kilometres, compared to this time last year</p>   | <p><input type="checkbox"/> No change, the same proportion of fare generating kilometres as last year<br/> <input type="checkbox"/> There has been an increase in fare generating kilometres<br/> <input type="checkbox"/> There has been a decrease in fare generating kilometres</p>   |
| <p>18) Rank the following in terms of the frequency of the trips you make on average?<br/>                 (from 1—most frequent, to 6—least frequent)</p>                               | <p>2 kms or less _____<br/>                 &gt;2 – 5 kms _____<br/>                 &gt;5 -10 kms _____<br/>                 &gt;10 -15 kms _____<br/>                 &gt;15 -20 kms _____<br/>                 Greater than 20kms _____</p>   |