

Attention: Transport Division
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

22 July 2018

By email: [REDACTED]

Dear Sir/Madam

Submission on the Unbooked Commercial Passenger Vehicle Fare Review 2018

I refer to the ***Unbooked Commercial Passenger Vehicle Fare Review 2018 Draft Decision***, dated 21 June 2018, and the request for submissions in respect of this review by the Essential Services Commission.

My comments in respect of the Draft Decision are outlined below.

Increase in running costs

From my review of the Draft Decision, I firstly note that the fare review is based on outdated operating costs. Specifically, *Table G.3: Cost profile for metropolitan zone taxis (\$2014 excl. GST)* refers to the operating costs of a taxi cab in Melbourne in 2014. However, since 2014, operating costs have risen substantially, and therefore the data used in the report does not fairly represent the current state of the taxi industry.

Network depot fees have had an increase of 21% which equates to approximately 5% per annum. These costs are expected to increase at a similar rate each year into the foreseeable future.

LPG fuel has increased some 27% and with the current trend of crude oil prices continually rising, the price of LPG will do the same. The LPG prices in Melbourne spiked upwardly at a rapid rate between Spring and Summer of 2014, and then settled but have continually risen since that period.

The administrative costs associated with the operation of taxi cabs has also increased by an estimated 10% over this period. This information was after discussion with a depot operator of approximately 100+ vehicles. He also informs me that the cost of repairs and maintenance is on the increase each year, and whilst he could not put an exact figure on the increase owing to the time constraints, but would expect that figure to be in the vicinity of 5% to 10% each year.

Replacement vehicle costs have also risen by approximately 8%.

Insurance costs have had a marginal increase also.

The overall increases to operate a taxi cab in Melbourne totally negate the reduction in TAC annual charges. Even after that cost reduction of TAC charges, there have been substantial increases in operational costs and charges associated with the industry.

Revenue generation

When making your final consideration of the review, please also take into account the revenue generated from each taxi cab in Melbourne. At present a double shifted cab operating from a depot in Melbourne for an operator is on the road for approximately 44 weeks of the year. Of this, there are approximately 2 out of 14 shifts per week where the taxi

is not operating due to scheduled repairs, maintenance, smash repairs, inspections and any holiday leave by drivers.

Firstly, following apportionment with taxi operators, and the application of GST and income tax, drivers are left with a wage well below minimum income. The average weekly revenue generated by an operator owned cab is approximately \$3,000 per week. The drivers take 55% of revenue (i.e. \$1,650). As a result, each driver grosses approximately \$825. The GST component (\$75) leaves a gross income of \$750. Income tax then has to be deducted from the \$750 as well. That amount is calculated on marital and dependent status etc. Taking into account that a driver is usually working a 60 hour week, the post-tax amount is well below the minimum wage and also below poverty line status.

Additionally, the revenue of a taxi should also be considered. In the above example, in which \$3,000 per week is generated, the operator of that vehicle generates gross revenue of \$1,500 per vehicle per week. Of that, the operator has to pay a GST component of \$136, leaving gross revenue of \$1,364 per week.

As raised above, as a taxi typically operates for approximately 44 weeks per year, this equates to \$60,016 per annum per vehicle. Taking into account the operational costs associated with the vehicle (even by the outdated 2014 figures in the Draft Review) that leaves nil or very little margin at all, if not a loss. This is arguably the reason why many operators are leaving the industry or are in financial difficulties.

The single owner operated taxi cab in Melbourne grosses on average around \$1,700 per week often for a 6 day working week. Take out GST component of \$154 that leaves gross income of \$1,546 per week. Of that he must pay income tax plus all running costs and expenses. The only financial reprieve the single owner driver receives is less in administration costs and overheads to operate, but still substantial when taking into account costs for preparation of quarterly GST Business Activity Statements (BAS) and annual financial reconciliation usually by a professional accountant. His off road downtime would be marginally less than a multi operator but similar over a 12 month period.

The multi car operator and single owner also need to replace their vehicles usually around every 5 years owing to escalating maintenance costs as the vehicle ages. This investment can be in the vicinity of \$30 - \$50,000 dependant on the make and model purchased. These vehicles have a rapid depreciation in value and that initial investment after a 5 year period on the sale will return a maximum of \$3,000.

Please also take into account that the local car manufacturing industry has closed down leaving no alternative for owners or operators but to purchase Japanese or European vehicles into the future. Although initial purchase price is similar in cost replacement parts for maintenance is considerably higher. The technology advances in modern cars will also be a further financial impost on single owners and operators as fault diagnosis and rectification cannot be performed on many of these vehicles by traditional workshops owing to lack of information and availability of equipment from these manufacturers.

Reference to booking rideshare services such as Uber

I also note that the Draft Review refers to apps for booking rideshare services such as Ola, Taxify and Uber. Specifically, the Draft Review compares the pricing of the taxi industry to the ride sharing industry, with an underlying view of reducing the taxi fares to promote competitiveness with these ridesharing services.

As stated on your website, the Essential Services Commission was established to *“promote the long term interests of Victorian consumers with respect to the price, quality and reliability of essential services. We regulate Victoria’s energy, water and transport sectors, and administer the local government Fair Go Rates system.”* However, it is **not** the responsibility of the Essential Services Commission to compromise the financial viability or future of the Melbourne taxi cab industry to compete or engage in direct competition with a disruptive, and often predatory pricing business model of all companies engaged in the ride share industry.

The taxi industry is able to remain financially viable and will compete with our competitors on our terms of standards and service to the public for the benefit of all. The passengers we have served over 84 years in a regulated industry should be left to make that decisions for themselves. The Government agency should not influence or make the decisions on our behalf, or on the behalf of the public/consumer. We will happily compete if given the opportunity to do so.

I do sincerely hope you consider my submission in a diligent and fair minded manner. I am passionate in my wish to see the industry continue and eventually prosper in Melbourne.

My belief is that the industry cannot possibly remain financially viable into the future with the current tariff rates in place.

The industry needs an immediate rise in tariff 1 rates, a rise in the waiting time component of tariffs and introduction of the holiday rate to all public holidays. The current tariff 2 rate applicable 24 hours a day could be an alternative to restructuring of the tariff rates.

I would be happy to discuss any of the above submission points further and provide any additional assistance if required.

Yours faithfully

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