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Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

19 November 2013

Dear Dr Ben-David,

VTA SUBMISSION
Taxi Fare Review 2013-14 – Principles Paper – October 2013

The ESC recently released a principles paper for the 2013-14 Taxi Fare Review which I understand was developed to *“assist in the objectivity of the fare setting process and provide a statement of the framework that will guide us in achieving the Commission’s legislative objectives.”*

It is in light of the gravity of this document in process of reviewing and setting maximum taxi fares the VTA formulated the enclosed response to the principles paper, which has been prepared in consultation with VTA members.

Should you or your team wish to discuss the matters raised in the submission, please contact Georgia Nicholls at the VTA.

We look forward to continuing to work with the ESC and discuss these matters further as the fare review process continues.

Yours faithfully

DAVID SAMUEL
Chief Executive Officer

Victorian Taxi Association submission to Essential Services Commission

'Taxi Fare Review 2013-14 – Principles Paper'

November 2013

Background

The recent release of the ESC's Principles Paper is welcomed by the VTA. The paper provides a good foundation for the scope and objectives of the current metropolitan taxi fare review..

There are some key points made in the document to which the VTA would like to officially respond to, and have thus developed this submission in consultation with our members.

It needs to be clarified that the current review will apply to the Metropolitan, Urban and Large Regional licence zones (to be set), not just the metropolitan area as referred to under section two on page one.

Business costs

Principle 1: Fare regulation must reflect the broader competitive policy reforms being implemented by the Victorian Government.

It is noted in the discussion of Principle 1 that concurrent changes to regulation need to be considered in the work of the ESC. Specifically noted was the removal of mandatory affiliation. It is vital that this is not perceived as representing a reduction in costs for operators. Once able, operators who choose not to affiliate with a network, referred to as 'independent providers', will still be required to make arrangements to provide the same suite of services currently provided by networks, including: receipt and dispatch of bookings; safety equipment including GPS tracking; duress alarms; in-car cameras; branding; processing of MPTP and other non-cash transactions; and complaints handling processes. These all represent real and ongoing costs for operators.

It also needs to be considered that in the short term, a decision not to affiliate with a network would result in an immediate decline in work by between at least 30% and, up to, 70% depending on the geographic location of the business in question. .

Principle 2: Taxi fares should reflect the reasonable costs of providing taxi services in an increasingly competitive market.

The discussion of Principle 2 also touches on the availability of new annual Government leased licences as a consideration when establishing the reasonable costs of providing taxi services. Taxi Services Commissioner Graeme Samuel has publicly discussed his position on licence releases and has stated that average occupancy rates of around 28% suggests there is no need for new licences. As such, the Commissioner indicated that the Commission only intends to make these licences available in the event that private perpetual licence plate owners not reduce their assignment prices in light of the Government's price of \$22,000 per annum. Little emphasis should be placed on the

availability of these licences in the considerations of the ESC in this review. This may change in future reviews.

In statements made by the TSC to the industry, and in line with many of the recommendations of the Victorian Taxi Industry Inquiry accepted by the Government, it has been made clear that the TSC will increase data and reporting requirements on industry participants, especially those the Urban and Large Regional zones. These changes will come with an associated increase in costs and should be considered by the ESC in establishing costs of service provision.

Finally, the notion that it has ever been hard to enter the taxi industry as a Network Service Provider (NSP) is wholly rejected by the VTA. There have never been any regulatory or structural barriers to market entry other than the costs associated with establishment.

Cost to the industry of regulation and reform

Further to the points on establishing business costs above, one aspect of the reforms that has not been adequately considered or costed to date relates the regulatory burden and straight cost the reforms place on industry. Complying with the TSC's increasingly burdensome requests costs a great deal both in administrative and financial terms. It simply must be recognised that such impositions of cost will ultimately be reflected in price. Perhaps one way to avoid these prices escalating unnecessarily would be for a more meaningful dialogue between the regulator and the industry.

It is the VTA's position that the TSC, needs as a part of their approach, to acknowledge and account for the costs imposed by their actions and requests on business. In relation to fare setting, it seems it will be the ESC will ultimately be responsible for accounting for these costs while having no control over how they are accumulated.

It seems there is a fundamental tension between the roles and responsibilities of the two agencies. On the hand, the TSC must act in a way that they believe best allows them to fulfil their responsibilities as the regulator, recently illustrated by the requests for significant amounts of information and assistance.

The ESC on the other hand is expected to act in the interest of the consumer, one would assume particularly in relation to price. While the ESC principles paper rightly recognises that under pricing the service may well (in the VTA's view most certainly will) reduce the quality of the service, there does still seem at a theoretical level at least to be a disconnect between the roles of the two key agencies.

Once again, proactive and timely discussions between the industry and the two agencies would go some way to overcoming the issue. Ensuring only relevant requests were made, for example, could assist in reducing the regulatory burden and therefore impose a less significant cost.

A discussion prior to requests for information would ensure the scope of requests would provide all the necessary information and nothing more.

The VTA does not want to give the impression that the industry opposes requests for information or other actions requested to expedite reform, certainly there is an understanding that quality information is key to good decision making. Rather, it simply would like to see the associated costs considered and calculated.

Role of the ESC

Principle 3: Regulated taxi fares should provide a reasonable return on service providers' investment.

In discussion of Principle 3, the ESC refers to establishing the range of “necessary investments” in order to “arrive at what is a reasonable return”. It is the VTA’s position that this is not the role of the ESC. What is considered ‘necessary’ for the provision of taxi services should either be determined by the industry regulator, which establishes the requirements on industry participants, or by the market as participants pursue business within the requirements of the laws and regulations prescribed and enforced by the regulator.

Further to this, the costs being considered in this Principle are not investments in the true sense of the word but in fact direct costs of doing business or necessary inputs.

In section 2.1, the paper defines the objectives of the review in light of the ESC Act and states that the ESC will consider “how taxi fares are priced will also impact on consumers who use alternative modes of transport.” The VTA argues again that this is not the role of the ESC and questions the relevance of impact of the review on anyone who is not a customer or potential customer of the industry. While the VTA accepts that taxis are part of a range of transport options available to potential passengers, but have never accepted the argument that price is a key determinant in people’s decision to take a taxi or another form of transport.

It has been the VTA’s contention throughout the Inquiry period that there is an over emphasis on the price of taxi services and the role it plays in determining demand. Whilst price will always be a factor in the decision making of individuals, quality and safety are just as important if not more so.

Taxis are not public transport. Taxis provide door-to-door private transport. Taxis will never be the most affordable transport option, but in many cases will be the most available, accessible or convenient. It is for these reasons that people chose to use taxi services.

Profit share and the fare box

Principle 4: Taxi fares should be set so as to ensure there is sufficient revenue for the industry to meet passenger demand for taxi services.

When giving context to Principle 4, the paper argues that “it is not the Commission’s role to provide a return to each party in the supply chain”. In reality, profit sharing within the industry is determined by regulation. As a result of the structure of the industry, fares directly determine the income of drivers, and to a great degree, of operators. A need to increase driver remuneration is widely acknowledged throughout the industry, but is directly dependent on the fare box.

In light of this, the VTA would like to restate our position on the fare box split, that a shift to a 45/55 operator/driver split of the fare box is unnecessary and will needlessly inflate fares for customers.

The introduction of a mandatory 45/55 split of the fare box between operators and drivers respectively will lead to unnecessarily inflated taxi fares. In practice, once implemented 45 per cent will need to cover what 50 per cent currently covers for operators, and at present that 50 per cent is

insufficient. The VTA's view remains that a fair outcome can be achieved with a 50/50 split and a properly adjusted fare.

A simple fare model

Principle 7: Taxi fare schedules should be simple to understand and readily implementable.

The VTA appreciates the desire for the review to result in a fare model which is simple and easily understood.

The contention that a fare model, other than a simple one, "is likely to affect the demand for taxi services" is rejected by the VTA. No link has been demonstrated between demand and understanding of how fares are calculated.

What, in part, is of consequence to the customer, and what will determine their purchasing decisions, is the ultimate result of the model. That is, that the fare is enough to facilitate provision of a high quality services for which they are happy to pay, but not so high as to be considered poor value-for-money.

As such, it is argued that the simplicity of the fare model should not be a key objective of the review, as stated on p. 4, and is not nearly at the same level of significance as the three other objectives articulated.

In regard to 'readily implementable' the VTA supports the two phased approach outlined which takes in to account the capacity of meter infrastructure across the industry and looks forward to a time when meters can more accurately reflect costs for the industry and customers.

Safety and equity

Principle 8: Price regulation (fare setting) should focus only on the provision and use of resources (taxis).

The VTA supports the ESC's view that equity considerations are outside the scope of the review.

However, the paper goes on to state under Principle 8 that "fare setting cannot address the safety, or driver or vehicle standards." In fact, fares do have a role to play in supporting safety of the industry and vehicle standards. In the past, the fare box has been used to subsidise investment in safety infrastructure at times of regulatory change, including subsidising installation of in-car camera technology and driver protection screens.

Review cycle

It is understood that the ESC will be required to review fares *at least* every two years, but the VTA believes it should be left no longer than 12 months. This is standard practice for the review of taxi fares in all other Australian jurisdictions, and would bring the industry in line with all other regulated industries.

Further, considering the scale of regulatory changes to be implemented over the coming years and the impacts this can have on costs, it is vital review occur no more than 12 months apart.

Minimum fares

As noted in our previous submission, the VTA supports introduction of a minimum fare. To clarify our position on this matter, it is important for the success of the industry and to achieve an ongoing high level of service for customers that there be certainty for drivers and passengers around a minimum fare. It is felt that this would greatly contribute to a reduction in the incidence of short-fare refusal.

In discussions with industry stakeholders, there is wide support for introduction of a minimum fare which could be managed through an s increased flag-fall rate which includes a time and/or distance limit included.

Again, it would be necessary to consider how a minimum could be appropriately implemented across various markets. For example, it may be appropriate for inner-city suburbs, Melbourne CBD and the CBDs of regional cities, but less suitable in outer suburban and urban areas.

END

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