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

8 October 2013

Dear Dr Ben-David,

**VTA SUBMISSION**  
**Taxi Fare Review 2013-14 – Call for ideas**

Please find enclosed the Victorian Taxi Association (VTA) submission in response to the ESC 'Taxi Fare Review 2013-14 – Call for Ideas'.

This VTA submission has been prepared in consultation with VTA members as well as associated taxi operators and drivers.

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 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 – Call for ideas'

October 2013

#### Background

At a time of great change in the Victorian taxi industry, the VTA welcomes the reform to metropolitan, urban and large regional taxi fare setting which takes fare setting out of the political arena and changes the role of the ESC from an advisory one to being empowered to set fares.

The Victorian tax industry has not had a fare adjustment since 2008, despite the costs of doing business, reflected by the CPI, and regulatory requirements increasingly significantly over the past five years.

This fundamental shift in the way fares are set is accompanied by what we understand to be an equally significant change in approach from the ESC. We appreciate that unlike previous reviews, the ESC does not intend to take a price path formula approach to determine business input costs and deliver a profit margin for operators. Instead, the ESC is seeking to consider and put at the centre of the fare model, the role and value of the services received by passengers.

It is in light of these considerations that this submission has been developed. It seeks to offer a broad industry perspective on how to approach restructuring taxi fares in Victoria and how a new taxi fare model could be used to address various policy objectives in the spirit of the Government's recently announced reforms.

We hope and trust that other representatives throughout the industry will make well evidenced submissions to the ESC at this and future opportunities. The VTA keenly anticipates the chance to contribute more detailed input to the review at the time the principles paper and draft report are released.

This submission has been developed in consultation with VTA's members, associated taxi operators and a number of taxi drivers.

#### The importance of price

Cost is not the key motivator in the decision for the community to use taxi services.

Driving demand for taxi services and providing a high standard of customer service are the key determinants of success of the industry, especially in the face of increased competition.

The VTA has consistently voiced the view that there was a broad acknowledgement for the need for reform throughout the industry for some years. In light of this, it is worth noting that when the Inquiry process began in 2011, the industry approval rating was 53 per cent, certainly not an acceptable result. However, at the conclusion of the Inquiry, the same indicator from the same survey was 69 per cent. Considering the lack of regulatory change over this period and the challenges presented by the Inquiry and resulting media for the industry, this shift reflects the dedication of the industry to activities and initiatives to improve services for passengers.

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.

As the ESC Chairperson, Dr Ben-David, highlighted at the VTA's recent State Conference, the key considerations when setting a price for taxi services are value and value-for-money. What is perceived as good value for money is less about the most affordable option and more about the quality of service received. Fundamentally, a high quality service can only be provided if a reasonable return can be achieved by all industry participants through the income generated from the fare box. The maximum fare must enable taxi services that are safe and of a high standard. It should be anticipated that any reduction in fares, would threaten safety and service standards, in turn reducing demand.

For too long, some parts of the taxi industry have been perceived as merely a cost of doing business, without also recognising the contribution they make to the industry. Network Service Providers (NSPs) affiliation fees are often pointed to as a 'dead' cost of the industry when in reality, the work accessed through networks far outweighs the cost of affiliation. On top of the jobs dispatched, NSPs ensure safety for both passengers and drivers, as well as vehicle compliance.

NSPs also provide significant customer support including assistance with lost property, complaint handling, conflict resolution and assisting police and other authorities in their important work and investigations.

Perhaps most importantly, NSPs provide a sense of centralised accountability for the level of service. Accountability, given the relative ability to exert power and influence, that should be borne, but is not, by the industry's regulator.

There are some very simple reasons that justify, and make network affiliation crucial. Reasons that stand up far better to rigorous interrogation than outdated and ill conceived corporate conspiracy theories.

On this note, the VTA would like to clarify the role of Network Service Providers in dispatching taxi bookings. The ESC paper refers to NSPs 'assigning jobs' to drivers which are sometimes 'refused'. NSPs cannot assign jobs, they can simply make the booking available to affiliated taxis. The decision to accept a booking is at the discretion of drivers.

### Fare box split

The shift to a 45/55 operator/driver split of the fare box is unnecessary.

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.

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.

### Peak periods

There is no 'one' taxi market, taxis service a range of different consumer markets and the fare structure should be careful to reflect this.

The VTA is concerned about the references being made in some parts of the industry to 'on-peak' and 'off-peak' fares. The danger of this terminology is that it implies that the taxi market is one market, when in fact it is comprised of many groups of people accessing services for many different reasons and in different ways.

Certainly the new fare model should carefully consider the incentives that can be created to overcome current difficulties in the industry, such as short-fare refusal, but it must be careful not to create other distortions.

For example, an idea which has been raised is the reduction of day fares accompanied by an increase in night fares, presumably to address difficulties in attracting night drivers and to encourage use during the day when occupancy rates are lower.

However, late night surcharges and fees are already in place which strongly incentivise drivers to work night shifts. The VTA and other industry members have consistently argued that the reason some drivers chose not drive nights extends well beyond an economic rationale. If it was simply economic drivers would work these shifts not only because they already attract a surcharge or additional fee, but because they tend to be higher grossing shifts anyway.

Furthermore, demand for services from passengers with a disability requiring a Wheelchair Accessible Taxi (WAT) is highest during working hours on weekdays. Thus, a reduction in day fares would unfairly and disproportionately reduce the income for WAT drivers who actively seek to service the passengers for which their vehicles are licensed and designed. Particular considerations of the fare model for WATs is further explored later.

Having noted this, it is supported by the VTA and by industry participants consulted that the fare structure should continue to provide increased remuneration for drivers who work what would be considered undesirable hours, namely nights, weekends and public holidays.

The VTA anticipates the opportunity to consider a draft fare model with an analysis of industry-wide impacts and for particular segments of the passenger markets, as well as particular groups of drivers and operators.

### Sustainable fare level

The call for ideas paper refers to the desire to create a sustainable fare level.

As referenced earlier, Victorian taxi fares have remained unchanged since 2008 leaving many industry stakeholders in a precarious financial position. The outcomes of this fare review are eagerly anticipated by many. A key factor in whether fares are sustainable will be how often they are reviewed and using what methodology. 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. 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.

The spirit of the Government's recent reforms are to encourage an increase in competition between within the industry and enable providers to differentiate their services. A genuine desire to enable price differentiation, without witnessing a race to the bottom, will require the ceiling of maximum fares to be set reasonably high. Ultimately, it is the customer who decides what they are prepared to pay for services, and very high quality and service standards can only be realistically expected if commensurate income can be generated by providing the service.

### Specific markets

#### *Wheelchair Accessible Taxis*

One of the key challenges of service delivery for taxi the industry and the regulator is effectively servicing the disability community. The industry works hard and does well in spite of the additional challenges of this work, and NSPs are committed to providing a first class service to the most vulnerable members of the community.

Though not within the scope of the ESC review, it is important to note that the VTA believes the annual price of a Government WAT licence has been set too close to that for conventional licence, and is likely to result in little or no growth in the fleet of WAT taxis due to the cost of licences and associate vehicle costs. Considering the ageing of population projected in the coming decades, this is a major concern.

Again, it is important that the ESC review be conducted in concert with the Taxi Services Commission's (TSC) commitment to a review of the current Performance Based Booking System (PBBS), introduced to reward the best performing booking companies in their response to requests for WAT vehicles. The inquiry and response failed to recognise the PBBS is in fact a way for booking companies to recover costs in the delivery of specialty services, and is not simply a bonus for good performance.

The Multi-Purpose Taxi Program subsidises travel for individuals who have a severe and permanent disability and are assessed as being in financial hardship. The key difficulty in creating more responsive services is to make servicing this market economically viable, and incentivising this work above other markets for WAT vehicles.

Considering WATs and the individuals who require them only a sub-set of the supply and demand for services, WAT vehicles are often presented with short-trip bookings for people in a wheelchair which commence a significant distance from where they are at the time of the booking being made available to them. It is simply not economically viable for a driver to travel long distances to accept these jobs. The lifting fee must be increased to account for not just the time taken to load and unload passengers in a wheelchair but the unoccupied travel time required to service these bookings.

Current reward for effort for WAT drivers who provide excellent service for clients with a disability is poor. As previously noted, a reduction in off-peak fares, when the majority of this work occurs, will only serve to worsen this situation and make it harder for people who need accessible taxis to get them. For drivers who do provide excellent service for these people, their income will be significantly reduced.

In order to achieve an improvement in accessibility of taxi services for people with a disability, the remuneration of this work needs to reflect the additional challenges and costs associated with it.

#### *Melbourne airport*

Trips to and from Melbourne Airport represent a significant proportion of all taxi services provided on a daily basis in metropolitan Melbourne, and as such, deserves special consideration in the fare model. It would be appropriate to consider a minimum fare when the trip originates at the airport which includes a certain time and/or distance allowance, which could be set higher than minimum fares in other places. This would provide certainty for drivers servicing the airport and customers seeking transport via taxi, and would enable better promotion of taxi services in the market of transport options from the airport.

#### Minimum fares

Whilst no evidence exists on the prevalence of short-fare refusal, it is an issue which presents a challenge for the industry, especially in driving increased demand for services.

One approach, which is widely supported by the industry, is the introduction of a guaranteed minimum taxi fare. It is felt this would greatly contribute to a reduction in the incidence of short-fare refusal as well as a sense of certainty for both passenger and driver. A minimum fare could be managed through a significantly 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.

The VTA does not support a policy of fare negotiation. Differentiation of fare schedules offered by competing operators or networks should be managed through a process overseen by the TSC including approval and publishing of the approved fare schedule.

Finally, any proposed fare model will need to take in to consideration the capacity of taxi meters in Victoria to successfully implement the new model.

END

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