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## TAXI FARE REVIEW 2013-14

PRINCIPLES PAPER

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# TAXI FARES PRINCIPLES PAPER

## 1. INTRODUCTION

In undertaking its fare setting role, the Essential Services Commission's (the Commission's) objectives are to promote the efficient provision and use of commercial passenger vehicle services; and promote the long term interests of Victorian consumers, by having regard to the price, quality and reliability of taxi services.

These high level objectives are an overall espousal of what is required of the Commission's fare setting process.

Given the only mechanism available to the Commission for achieving its objectives is the fare setting process, the Commission has sought to operationalise these objectives into something practical and tangible.

This paper sets out the objectives that the Commission expects a good fare setting process should seek to achieve for the provision of Victorian taxi services and the principles the Commission will use in setting new maximum taxi fares.

The purpose of the principles is not to prescribe what should happen in a particular situation, but rather, 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.

## 2. What are we required to do?

Under new legislation, the Commission is now responsible for reviewing and ultimately setting fares (prices) for taxi services in metropolitan and urban zones.<sup>1</sup>

The Commission has been authorised by the Victorian Government to make the decision regarding taxi fares. This is referred to in the legislation as making a price determination.

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<sup>1</sup> The Taxi Services Commission (the taxi industry regulator) is yet to define and publish the boundaries for the urban zones.

We have recently begun our price determination process and must have in place new maximum taxi fares (make our first determination) by 28 June 2014.<sup>2</sup>

## 2.1 Legislative objectives

Two objectives are set out in legislation that the Commission must seek to fulfil in undertaking its taxi fare setting role.<sup>3</sup> These are:

1. *to promote the long term interests of Victorian consumers, having regard to the price, quality and reliability of essential services (section 8 of the Essential Service Commission Act 2001).*
2. *to promote the efficient provision and use of commercial passenger vehicle services (section 162B of the Transport Legislation Amendment (Foundation Taxi and Hire Car Reforms) Act 2013).*

These two objectives are of central importance and our price determination must be directed towards achieving them. The two legislative objectives are discussed further below.

### *The ESC Act objective*

The *Essential Services Commission Act 2001* (the ESC Act) objective highlights the importance of the consumer, that is, the customer or passenger of the taxi service. It essentially places the consumer's perspective as central to the Commission's taxi fare setting process. Given taxis are part of the broader transport network, how taxi fares are priced will also impact on consumers who use alternative modes of transport.

The 'interests of consumers' may be interpreted to mean the lowest possible fares in light of an increased quality of service and increased diversity and scope in taxi service offerings.

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<sup>2</sup> The *Transport Legislation Amendment (Foundation Taxi and Hire Car Reforms) Act 2013* has been passed by the Victorian Parliament and received Royal Assent on 28 June 2013. As such, the Commission must make its initial determination before 28 June 2014.

<sup>3</sup> In undertaking its role the Commission is also required to have regard to a list of matters. These matters are set out in Appendix A.

Whereas the 'long term' indicates that the fare setting process should be used so as to ensure consumers will continue to benefit from the provision of taxi services in the future. Promoting the long term interests of consumers involves setting prices sufficiently high enough to ensure high quality and reliable services to be provided both now and in the future. In other words, it is not in consumers' long term interests to have low prices now (or high prices) if that leads to poor quality or unreliable services in the future.

### *The Transport Act objective*

The *Transport Legislation Amendment (Foundation Taxi and Hire Car Reforms) Act 2013* (the Transport Act) objective emphasises the efficient provision and use of commercial passenger vehicle services which includes both taxis and hire cars.

While the Commission's price setting powers only relate to setting taxi fares, this objective means it must have regard to the relationship between taxi fares and the services provided by other commercial passenger vehicles such as hire cars.

The phrase, the 'efficient provision and use' suggests that taxi services at a desired level of quality and reliability should be produced at the least cost technically possible (referred to as productive efficiency) and provided to those who value them (referred to as allocative efficiency). Economic regulation typically focusses on the first of these two concepts — that is, by ensuring costs are determined efficiently, regulators leave it to society to determine how services are allocated across the economy.

For the remainder of the paper, we deliberately avoid using technical terms, but the concepts of efficiency will be evident in the discussion.

### *Translating the legislative objectives*

Given the high level of the Commission's guiding legislative objectives, the Commission has identified a number of more specific objectives (section 3) and principles (section 4) that it believes a good fare setting (price determination) process should seek to satisfy. The next section discusses the fare setting process before discussing the objectives and principles.

### 3. The fare setting process

The fare setting process is about establishing both fare levels and fare structures.

- Establishing *fare levels* is about determining whether fares are at a sufficient level to recover the overall costs of providing the community with a taxi service at the quality of service they expect and are prepared to pay for. Overall industry viability and community satisfaction depends on getting the fare levels right.
- Establishing *fare structures* on the other hand is about designing and setting the various components of a fare (e.g. the flagfall, distance charge and waiting charge) to give the right incentives for operators and drivers to supply services, and for consumers to use taxi services.

Given the fare setting process (i.e. fare levels and fare structures) are the key tools available to an economic regulator to promote its legislative objectives, the Commission has identified a number of objectives it believes a good fare setting process should seek to fulfil.

#### 3.1 Objectives of the fare setting process

The Commission believes a good taxi fare setting process would seek to achieve the following four objectives:

1. Facilitate the provision of taxi services in accordance with community expectations, through promoting the supply (availability) of taxis as and when required by passengers, and ensuring waiting times are not excessively high.
2. Ensure the fare structure does not operate to the detriment of customers overall or to groups of customers such as short trip passengers (e.g. trips between home and hospital) or wheelchair passengers.
3. Provide taxi service providers with the scope to compete and with opportunities to innovate and promote new service offerings and standards of taxi services.
4. Support customers understanding of fare structures when in a taxi or when considering whether to use a taxi, that is, the fare structure is clear, easily understood and allows customers to compare taxis with substitute services.

The Commission is seeking as part of this maximum fare determination to develop new fares and fare structures that will achieve these objectives.

An important part of this process includes consulting and taking into account the views and options put forward by the industry. Commission staff have been engaging widely with drivers, operators, and suppliers since our review commenced in September 2013.

We also have recently sought such input through the release of our *Call for Ideas* paper and look forward to further consultation with stakeholders about setting taxi fares.

#### 4. Principles

To assist in developing new maximum fares that will achieve the above objectives, the Commission has developed a number of principles to guide it in designing new maximum taxi fares.

The purpose of these principles is not to prescribe what should happen in a particular situation, but rather to assist in the objectivity of the fare setting process and rule out certain approaches which may not assist in achieving the Commission's legislative objectives.

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

While the Commission is the fare regulator and is tasked with determining new maximum taxi fares, it must do this within the current legislative and taxi policy framework established by Government.

As such, in undertaking its fare determination, the Commission must work within and reflect the current legislated policy framework in setting fares. This means the Commission must accept the policy parameters in undertaking its fare setting role, for example, the removal of mandatory affiliation and the introduction of new licence fees at \$22 000 a year indexed at CPI less 0.5 per cent, in metropolitan Melbourne.

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

This principle is about ensuring fares reflect the reasonable costs of producing taxi services.

In competitive markets, prices will tend to reflect the reasonable cost of producing goods and services and consumers will generally purchase those goods and services that yield the greatest value to them. The Commission can do very little about producing taxi services that a potential customer will see as an attractive proposition. Creating a service that people value is the job of each taxi service provider and the industry as a whole.

The challenge for the Commission is setting a maximum fare that represents value for money and allows the taxi services market to smoothly transition to the new competitive environment.<sup>4</sup> To this end, the Commission will seek to set maximum fares that reflect the reasonable costs associated with providing taxi services, in an increasingly competitive market.

This principle acknowledges the importance of competition in the new policy settings for the Victorian taxi services market. The recently announced Government reforms mean the market for point-to-point passenger transport services within which taxis operate, will become more competitive and dynamic over-time. In particular, the availability of new licences at \$22 000 a year and the removal of mandatory affiliation means that entering the taxi services market will become easier for new entrants, including those with new and innovative business models. Of course, the level of new entry will be determined by whether there is strong customer demand for more (or different) taxi services.

Implicitly, this principle is also about the industry taking responsibility for growing passenger demand. The best way for the industry to ensure its own success is to create a strong demand for its services. Given the reforms, customer and competitor responses to fares will be more dynamic than ever before, meaning that taxi operators can, within the maximum fare structure, differentiate their service to meet the demands of the travelling public. It also means that given sufficient revenue, operators can invest and innovate in providing taxi services that are valued by consumers.

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<sup>4</sup> R Ben-David 2013, *The new reality of [setting] taxi fares*, VTA Conference 10 September 2013. Available at: <http://www.esc.vic.gov.au/getattachment/2a399498-a61c-4646-a8d0-667a8614572d/Presentation-at-VTA-Conference-The-new-reality-of.pdf>



The fare setting regulator (i.e. the Commission) can no longer see taxis as just a regulated service. Rather, the regulator must now take the view that taxi service providers are competing for patronage (existing and new) in the broader passenger transport market.

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

This principle is about providing service providers a return on investments they make in order to provide the services desired by customers.

This is not to say that all investments should receive a return regardless of expenditure. Rather, the Commission should seek to ensure that a reasonable return is provided only on those investments deemed necessary to provide a taxi service.

In order to arrive at what is a reasonable return, the Commission will seek to benchmark returns and costs associated with providing taxi services to reflect what would be expected in providing a competitive taxi service.

**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.**

This principle is about determining fares that ensure adequate industry revenue to promote industry viability. That is, the role of the Commission is not to ensure the viability of each and every individual taxi business, but rather, to ensure that taxi fares are set to generate sufficient aggregate (industry) revenue for taxi service providers to remain viable.<sup>5</sup>

Similarly, it is not the Commission's role to provide a return to each party in the supply chain, for example, drivers, operators, owners or networks — but rather to allow the required overall return for the industry and have the parties resolve how it is allocated between them.

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<sup>5</sup> Section 8A(1)(b) of the *Essential Services Commission Act 2001* states that the Commission is to have regard to the financial viability of the industry.

### **Principle 5: Taxi fare structures should promote the right incentives for users of taxi services.**

Taxi fare structures affect consumers decisions whether to catch (demand) a taxi service or seek alternative options. As such this principle is about reflecting passenger preferences as best as possible within the taxi fare.

Promoting the right incentives for users means that fares should reflect the way passengers want to use taxis. This could mean developing fares that respond to peak and off peak times, for example, during periods of high demand, taxi prices may increase to ration the available taxis and in periods where demand is low, taxi prices may fall to encourage demand for taxis. Further, the fare structure could aim to ensure that at all origin points and at all times, the supply of taxis within a short distance of that point is reasonable, as are waiting times for users of taxi services.

This principle recognises that the Commission must not only determine the fare level to ensure adequate industry revenue which reflect the cost of service provision but also develop a taxi fare structure that appeals to customers and potential customers.

### **Principle 6: Taxi fare structures should promote the right incentives for operators and drivers**

Taxi fare structures affect decisions of taxi operators and drivers to drive (supply) a taxi at certain times and/or queue at certain areas for a fare.

To this extent, promoting the right incentives for operators and drivers means:

- taxi operators and drivers being broadly indifferent between jobs — for example not preferring longer trips over shorter trips (i.e. short trip refusal)
- taxi operators and drivers not having incentives to either prolong a job (take a longer route) or shorten a job (driving at excessive speed)
- the supply of taxis in any one area or sub-market should not be excessive, that is, significantly larger than necessary to ensure a reasonable response time.

Taxi fares that allow for very different margins between the fare and the cost of supplying particular journeys will be unlikely to promote the right incentives. For example, large differences between costs and fares may result in service refusals and or poor service availability as drivers preference a particular type of trip (whether that be a long or short trip). In order for drivers to be indifferent between jobs and for the supply of available taxis to be reasonable across the market, the fare structure needs to ensure that the average returns to taxis are reasonably consistent across all combinations of different journey length.

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

In practice it is not feasible to set a fare schedule that mimics the many possible variations that could emerge in a competitive market. Any regulated fare schedule must be simple because of information constraints and transaction costs.

Simplicity requires that taxi fares should be readily understood by passengers otherwise this is likely to affect the demand for taxi services. If customers don't understand how fares work, they will be reluctant to use a taxi.

'Readily implementable' refers to acknowledging the current or existing constraints within which the Commission is undertaking its fare determination. For example, there may be restrictions associated with introducing new or innovative tariff structures given current metering technology and the time it takes to roll out and install new meters. However, as the Taxi Services Commission (TSC, the industry regulator) seeks out new metering solutions and rolls out new meter standards, these reforms will support more innovative fare structures in the future.

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

Developing the appropriate level of fares and an accompanying fare structure is a complex task given the challenges of obtaining relevant and reliable information and data.

It is important to acknowledge, however, that the Commission is a fare regulator and as such our focus will be on fare related issues, not policy or industry regulations.

This principle recognises that the fare setting process is not about pricing for equity or affordability purposes. Issues of equity are best addressed through other mechanisms such as income support or subsidy schemes. Similarly, fare setting is not about ensuring each participant in the supply chain gets a particular share of the revenue.

Further, the fare setting process cannot address the safety, or driver or vehicle standards as these are issues for the industry regulator through enforcement and compliance activities.

Rather, the fare setting process should seek to ensure that fares reflect the reasonable cost of supply such that resources are used and services are provided to those who value them. In other words, the Commission's fare regulation process is about establishing price signals and structures that promote supply and demand

responses that could be expected in a competitive market. The weight of expectations imposed on the fare setting process should be no greater or less than this.

**Principle 9: As customers and industry respond to the reforms being implemented by the Victorian Government, fare structures should evolve to reflect changing needs and expectations.**

As we undertake our fare review, we will need to be mindful that there are a number of changes yet to occur and new regulations that are still yet to be developed and implemented by the TSC. The TSC is responsible for developing new policies/regulations and implementing and administering the Government's taxi reform measures.

This means we will be undertaking the first fare review at the same time as the TSC is developing and introducing new regulations. Some of the key matters that will impact on the Commission's fare determination include:

- zone determination — the TSC is tasked with determining the zone boundaries and overlap areas where taxi licence holders can operate their taxi. Having a clear understanding of the zones is necessary for the Commission to undertake its fare determination. Related to zone determination is the TSC's development of the taxi fare notification system in regional and country areas and in particular, where this system starts and finishes
- the TSC's role to grant licences in metropolitan Melbourne under a rental arrangement for \$22 000 a year and suspend the release of additional taxi licences taking into account the impact of new licences on industry participants, service levels and consumer benefits
- meter technology — while the recent reforms recommended meters be changed and updated, it is unclear when the new meters will be introduced and to what extent they can accommodate a change in fare structures, for example fixed fares or specific fares based on origin and or destination
- the TSC will develop approval criteria for authorised taxi organisations, which will replace network service providers in a regulatory sense. The nature of these criteria will influence their administrative and compliance costs, which will influence the costs for operators who choose to affiliate with them. Understanding these new cost structures will be important as the Commission assesses the costs associated with providing a taxi service
- the proposed driver agreement which will mandate that drivers receive a minimum of 55 per cent of farebox revenue

- the TSC will consider and determine a sufficient level of third party damage insurance cover for permit holders (i.e. operators), which will be mandatory under the proposed legislation. This will have implications for the Commission's assessment of operator costs.

Given these industry reforms are still in progress, the Commission will closely monitor the impact that its taxi fare determination and fare structures have and will review its 2013-14 determination within two years of its commencement.

#### **Principle 10: Customer and industry input must inform fare setting.**

The Commission recognises that its decisions will affect consumers and providers of taxi services. For this reason, we aim to be open and transparent in our decision-making, and to consult with as many people as possible over the next few months.

Our consultation processes<sup>6</sup> mean that we commit to be:

- independent, balanced and fair by ensuring our decisions and processes do not reflect undue influences and are consistent with our statutory objectives
- accessible to, and inclusive of, all relevant stakeholders by providing them all reasonable opportunity within a reasonable timeframe to participate in our consultation processes
- representative and fair in the way in which we explain the key issues, facts and information and reflect the comments that stakeholders make to our processes
- effective in identifying priority issues, providing well-targeted opportunities for consultations and resolving them in a timely manner.

#### **Principle 11: Taxi fares should be set in accordance with a clearly specified methodology and should avoid price shocks and arbitrary changes to the methodology.**

Where a regulated industry is relatively stable and the cost of providing services is well established, relatively few price adjustments are needed.

However, where a regulated industry is undergoing a period of change, such as the current Victorian taxi services industry, more frequent fare reviews are favoured as this allows a better balancing of costs and revenues. To this extent, the Commission will be undertaking fare reviews at least every two years, conducted in an open and transparent way. Moreover, having established our initial

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<sup>6</sup> See the Commission's consultation policy for further information, available at <http://www.esc.vic.gov.au/About-Us/Consultation-Policy>.

methodology as part of the 2013-14 review, we will commit to that methodology and subject any future changes to public consultation.

In its fare determinations, the Commission will seek to articulate the direction in which it believes fares should be heading so participants can make informed future investment decisions.

**Principle 12: Over the longer term, as the industry and community adapt to the new regulatory arrangements, fare setting should become less prescriptive.**

The Victorian Government supported the Taxi Industry Inquiry's recommendation that after three years the TSC should assess the extent and effectiveness of fare competition in the market. The TSC's assessment will determine if it is suitable to move from regulated maximum to unregulated notified fares in the metropolitan and urban zones.

While the Commission will set regulated maximum fares for the next three years, as the industry adapts to the new regulatory arrangements, and pending the TSC's review of competition, the Commission expects its fare setting role to be less prescriptive (i.e. determining fares) and more light-handed (i.e. monitoring fares) in the future. Of course, the Commission's role will be determined by the emergence of competition in service provision.

## **5. Fare related issues about taxi services**

The principles set out above will assist and guide the Commission in developing options to address various fare issues raised by stakeholders.

To this extent, it is worthwhile to highlight some of the issues that have been raised about taxi services to date in the context of the fare structure. The following have been characterised by the Taxi Industry Inquiry as issues:

- short trip refusals — that is, drivers preference for long fares over short fares. The Taxi Industry Inquiry suggested a lack of incentives within the current fare structure for taxi operators to provide short trips given the current split of fixed (flagfall) and variable (distance) charges meant drivers were refusing short trips. We note that this is an issue both for fare setting and for enforcement.
- perceived shortages of taxis at peak demand times (e.g. late Friday and Saturday nights) due to some operators withdrawing vehicles off the road at these times. Potential reasons for the lack of supply at these times may relate to the current fare structure or concerns from taxi drivers and operators about

unruly or aggressive patrons who may damage the vehicle or endanger drivers welfare.

- the misallocation of high occupancy vehicles or wheelchair accessible taxis (WATs) away from disabled patrons to areas where longer fares could be expected (e.g. the airport). This problem appears to be a function of a perceived imbalance between the current distance and flagfall components of the fares with distance charges being relatively high. The current 50 per cent additional charge on distance and waiting time rates becomes very attractive for fares of a reasonable length creating an incentive for WAT operators to seek out high occupancy trips rather than to provide a service to wheelchair passengers.

It is important to test with the people that know the industry best (taxi operators, drivers, networks and passengers) whether these are issues and whether they are most effectively solved via fare setting.

Our consultation process will assist us to understand whether these issues are actual or perceived. We expect other concerns will also be brought to our attention.

## 6. Potential options raised by stakeholders

There are also a wide variety of options that have been proposed by stakeholders. Many of the options proposed involve some kind of tariff restructure to address concerns about existing fare imbalances.

For example, options suggested to date have included:

- increasing the flagfall and lowering the distance charge
- introducing a minimum fare
- introducing fixed fares from locations where long fares are predominant, such as the airport
- introducing declining distance charges (i.e. the distance rate falls as more kilometres are travelled) to provide stronger incentives for shorter trips as compared to longer trips
- providing short trip ranks (similar to grocery express lanes) to facilitate shorter taxi wait times that involve smaller fares.

More specifically, the Taxi Industry Inquiry recommended (and the Victorian Government's response endorsed) that fares should be restructured to take account of the following:

- ensure changes in operators' returns due to the new driver agreement do not adversely affect services, which require an increase in taxi fares late on Friday and Saturday nights (peak times), offset against a reduction in fares at all other times (off-peak)
- increase the flagfall and reduce the fare per kilometre for the Metropolitan zone to address short fare refusals and inefficient behaviour such as airport overcrowding
- replace the 'Tariff 3' 50 per cent surcharge on the distance and waiting time rate with a flat fee of between \$10 and \$15, which customers should be advised of when they book a higher occupancy vehicle or when they select one from a rank, such as at the airport
- simplify 'multiple hire' fare charging to support the industry to offer more flexible, innovative shared ride type services (e.g. by allowing flat fee amounts for passengers in a share ride trip that total more than the meter) and include provisions for MPTP members to use their subsidy for shared rides.<sup>7</sup>

#### *Submissions to the Commission's Call for Ideas paper*

The Commission has received 22 submissions to date to its Call for Ideas paper.<sup>8</sup> Box 1 below lists some of the options put forward by stakeholders to date.

These are matters which the Commission will have regard to in undertaking its taxi fare determination.<sup>9</sup> The Commission's pricing objectives and principles will guide it in assessing any potential options for any tariff restructure.

However, it is emphasised that the Commission is yet to form any view or decide on what options are best and what the appropriate quantum for fares should be. As part of its review, the Commission will assess the strengths and weaknesses of various options using the fare setting principles described above.

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<sup>7</sup> MPTP is the Multi Purpose Taxi Program. The program provides subsidised taxi fares for Victorians with severe and permanent disability who also experience financial hardship. MPTP gives members half price taxi fares, paying up to \$60 per trip. Some members have a yearly limit.

<sup>8</sup> As of 15 October 2013.

<sup>9</sup> As is required under section 162E of the Transport Act.



BOX 1 FARE OPTIONS RAISED IN SUBMISSIONS		
	OPTIONS RAISED	REASON
1	Immediate fare increase / increase in all fare components	Cost increases since last fare change in 2008. Large increase in LPG price. To provide appropriate return. To address new 55:45 driver operator farebox split.
2	Increase peak fares and time where these fares apply	Increase incentives for drivers and operators. Address cost increases. Address high demand.
3	Minimum fare / postage stamp pricing, e.g. higher flagfall which includes first X kilometres	Address short fare refusals. Effective way to recover fixed costs. Could be combined with removal of waiting time rate to simplify fare structure. (Some acknowledge this will impact elderly and disabled who tend to have shorter trips.)
4	Decrease distance rate, increase waiting time rate	Reduce incentives for longer trips. Provide appropriate return when speeds are low.
5	New tariff from airport / including minimum fare	Currently can wait 2 hours for short fare. Increase driver earnings.
6	Same fare structure at all times	Less complicated.
7	Fare to include dead running to get to pick up location	Fare would be at discount to maximum fare. Offer service guarantee. More driver revenue.
8	Remove high occupancy tariff	Increase availability of WATs to target market. Reduce fraudulent use of tariff.
9	Remove booking fee	Complements removal of mandatory affiliation. Encourage use of more flexible apps. Could include in flagfall.
10	Surcharge for cash fares	Encourage non cash payments. Reduce risk to drivers.
11	Fuel service charge	Address cost increase. Automatically increase fares when LPG prices increase to a certain trigger level.
12	Reviews every 12 months	Taxi costs increase annually, not every two years.

## 7. Next Steps

We are not formally requesting submissions on this Principles Paper but will integrate discussion of the principles into our ongoing consultation program.

Our next steps are to use these principles to develop options for new maximum taxi fares.

We will release our draft decision on new maximum taxi fares for public feedback by March 2014.

## APPENDIX A — SUMMARY OF LEGISLATIVE REQUIREMENTS

The Commission's legislative requirements for undertaking its taxi fare determination are set out in the following:

- *Essential Services Commission Act 2001*
- *Transport (Compliance and Miscellaneous) Act 1983.*

The following tables summarise the matters the Commission must have regard to and the matters it may have regard to.

### Essential Services Commission Act 2001

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s. 8	<i>... the objective of the Commission is to promote the long term interests of Victorian consumers.</i>
s. 8A (1)	<i>provides matters the Commission must have regard to...</i> <i>In seeking to achieve the objective specified in section 8, the Commission must have regard to the following matters to the extent that they are relevant in any particular case—</i> <ul style="list-style-type: none"><li>(a) <i>efficiency in the industry and incentives for long term investment;</i></li><li>(b) <i>the financial viability of the industry;</i></li><li>(c) <i>the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries;</i></li><li>(d) <i>the relevant health, safety, environmental and social legislation applying to the industry;</i></li><li>(e) <i>the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for—</i><ul style="list-style-type: none"><li>(i) <i>consumers and users of products or services (including low income and vulnerable consumers);</i></li><li>(ii) <i>regulated entities;</i></li></ul></li><li>(f) <i>consistency in regulation between States and on a national basis;</i></li><li>(g) <i>any matters specified in the empowering instrument.</i></li></ul>

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- s. 33(3) provides matters the Commission must have regard to...
- In making a determination under this section, the Commission must have regard to—*
- (a) *the particular circumstances of the regulated industry and the prescribed goods and services for which the determination is being made;*
  - (b) *the efficient costs of producing or supplying regulated goods or services and of complying with relevant legislation and relevant health, safety, environmental and social legislation applying to the regulated industry;*
  - (c) *the return on assets in the regulated industry;*
  - (d) *any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries;*
  - (e) *any other factors that the Commission considers relevant*
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### Transport (Compliance and Miscellaneous) Act 1983

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- s. 162B The objective of the ESC in relation to the taxi industry is to promote the efficient provision and use of commercial passenger vehicle services.
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- s. 162D provides that the Commission may regulate fares according to...
- (a) *the time of day at which, or day of the week or kind of day on which, the service is provided; or*
  - (b) *the taxi-cab zone referred to in section 143B(1) that is specified in the vehicle's licence; or*
  - (c) *the speed at which the vehicle is travelling; or*
  - (d) *the distance travelled by the vehicle; or*
  - (e) *the type of vehicle; or*
  - (f) *the occupancy of the vehicle, including where there is more than one hirer; or*
  - (g) *where the journey begins or ends.*
- 
- s. 162E (1) *In making a determination in relation to the taxi industry, the ESC must have regard to recommendations 12•1 to 12•9 and 13•1 to 13•5 in the final report of the Taxi Industry Inquiry tabled in both Houses of the Parliament on 12 December 2012.*
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The Taxi Industry Inquiry recommendations referred to in section 162E (1) of the *Transport (Compliance and Miscellaneous) Act 1983* are presented in the following table.

## Taxi Industry Inquiry recommendations

### Recommendations 12.1 – 12.9 and 13.1 – 13.5

12.1	Taxi fares in Metropolitan and Urban zones should continue to be regulated in the short to medium term, and should change from being prescribed fares (fixed amounts) to maximum fares, giving permit holders and Authorised Taxi Organisations the ability to offer discounted rates below the maximum level to consumers.
12.2	Maximum fares should be determined by the Essential Services Commission (ESC). Fare reviews should be undertaken every two years, with the capacity to undertake interim reviews should certain cost thresholds (for example, LPG cost movements) be reached.
12.3	A Commissioner of the Taxi Services Commission should be appointed a member of the ESC for the purpose of assisting with taxi fare reviews and determinations for the first five years of taxi reform implementation. In addition, the ESC should be required to ensure its deliberations on fare setting have regard to the Government's broader taxi reform package and its progress in implementing these reforms.
12.4	A review of the taxi fare setting methodology should be commenced as soon as possible. The terms of reference should have regard to the views expressed by the Taxi Industry Inquiry on fare setting methodology, should take into account the differences in industry structure between the taxi industry and other utility industries regulated by the ESC, and should consider fare setting models that account for demand factors in a dynamic way.
12.5	Maximum fares should be recorded on the taximeter. Authorised Taxi Organisations (ATOs) and independent permit holders should be permitted to determine and advertise lower fares than the maximum (and these discounted fares will also be shown on the taximeter), and all taxis affiliated with an ATO should be required to adhere to that organisation's published rates.
12.6	In Regional and Country zones, where pre-booked services predominate, the Taxi Services Commission should be empowered to replace formal maximum fare regulation with a price notification and publication system, following the adoption of the licensing reforms proposed by the Taxi Industry Inquiry.
12.7	In areas where price notification applies, Multi Purpose Taxi Program (MPTP) passengers should have their subsidy component calculated on the Metropolitan zone regulated maximum fares rate.

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12.8	<p>Following the first three years of the reform program, the Taxi Services Commission should assess the extent and effectiveness of fare competition to determine if it is suitable to also move from maximum to notified and monitored fares in the Metropolitan and Urban zones. In making this assessment, the Commission should consider if all or part of these services are sufficiently competitive, particularly the pre-booked segment of the market.</p>
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12.9	<p>Fares should be restructured to:</p> <ul style="list-style-type: none"> <li>• Ensure changes in operators' returns due to the new Driver Agreement do not adversely affect services, which require an increase in taxi fares late on Friday and Saturday nights (peak times), offset against a reduction in fares at all other times (off-peak)</li> <li>• Increase the flagfall and reduce the price per kilometre for the Metropolitan zone to address the undesirable practices of short fare refusal and inefficient behaviour such as airport overcrowding</li> <li>• Replace the 'Tariff 3' 50 per cent surcharge on the distance and time rate with a flat fee of between \$10 and \$15, which customers should be advised of when they book a higher occupancy vehicle or when they select one from a rank, such as at the airport</li> <li>• Simplify 'multiple hire' fare charging to support the industry to offer more flexible, innovative shared ride type services (for example, by allowing flat fee amounts for passengers in a shared ride trip that total more than the meter) and include provisions for MPTP members to use their subsidy for shared rides.</li> </ul>
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13.1	<p>Barriers to entry into payments processing should be reduced by changing arrangements for the Multi Purpose Taxi Program (MPTP) scheme and changing the approvals process for EFTPOS devices in Victorian taxis.</p> <p>Regulations and the unique requirements mandated by the regulator for EFTPOS terminals should be rationalised and all taxi-specific requirements for mobile EFTPOS terminals removed as part of a transition to an industry certification framework. This should commence immediately and replace the current approval of this equipment by the State.</p> <p>During the transition to the new certification framework, minimal taxi-specific requirements for those EFTPOS terminals that are hard-wired (fixed) to other in-cab equipment should be retained.</p>
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- 13.2 A new standard should be established for the processing of MPTP cards and this should be made available to future card payment providers. This would involve allowing any EFTPOS terminal to process MPTP cards by permitting taxi fare data to be acquired by EFTPOS terminals via newer 'cloud' technologies, rather than only via the current requirement of a hard-wired link with the taximeter. The new standard should be sufficiently technically robust to control fraud under all operating conditions. Adoption of this recommendation will require a formal design evaluation and commercial procurement diligence, prior to implementation.
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- 13.3 The 10 per cent service fee levied on the processing of electronic payments should be brought under regulation and set at a level that better reflects the resource costs of providing the service. The inquiry recommends this fee be set at five per cent of transaction value as a maximum amount that can be charged, until subject to a further evaluation by the Essential Services Commission.
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- 13.4 More broadly, if payments processors continue to have difficulty in obtaining access to Cabcharge payment instruments, the Victorian Government should ask the Reserve Bank of Australia to consider designating Cabcharge as a payment system and impose an access regime requiring it to give access to payments processors on reasonable terms.
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- 13.5 Removal of the service fee regulation applying to the processing of electronic payments for taxi fares should occur when competition is more effective in this area.
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