

OFFICIAL



Unbooked taxi fare review 2022

Draft decision

1 July 2022



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Our draft decision is to increase the maximum fares

- Our draft decision is to increase the maximum fares for unbooked taxi trips that begin in the Melbourne metropolitan or urban and large regional zones by 10.4 per cent.
- Our draft decision proposes to introduce a new fare adjustment mechanism to take account of changes in fuel and labour costs between fare reviews.

Our role is to set maximum fares for unbooked taxis

As Victoria's economic regulator, one of our roles is to set maximum charges (fares) for unbooked commercial passenger vehicle services that begin in the Melbourne metropolitan or urban and large regional zones (applicable unbooked services), supplied by or within the Victorian commercial passenger vehicle industry.¹

Unbooked commercial passenger vehicle services are trips that have not been booked via an app, over the phone or via a website (for example, trips hailed from the street or hired from a designated taxi rank).²

Fares for booked commercial passenger vehicle services are not regulated, meaning operators set their own fares for these trips.

In this paper, we refer to commercial passenger vehicles that provide unbooked services as unbooked taxis, and applicable unbooked services as unbooked taxi services. This is on the basis that taxis currently meet the requirements to provide unbooked commercial passenger vehicle services. However, we acknowledge that other commercial passenger vehicles that meet the regulatory requirements in the future may also provide applicable unbooked services.

When we regulate the maximum fares for unbooked taxi services, our objectives include promoting the long term interests of Victorian consumers and the efficient provision and use of unbooked taxi services.³

We must also have regard to a range of matters under the *Essential Services Commission Act 2001* and the transport system objectives and decision-making principles under the *Transport*

¹ Essential Services Commission Act 2001, s. 32; Commercial Passenger Vehicle Industry Act 2017, s. 110D.

² Commercial Passenger Vehicle Industry Act 2017, s. 3, see definition of 'unbooked commercial passenger vehicle service'.

³ Essential Services Commission Act 2001, s. 8; Commercial Passenger Vehicle Industry Act 2017, s. 110C.

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Integration Act 2010.⁴ Under the *Commercial Passenger Vehicle Industry Act 2017*, we have discretion to decide the manner in which we regulate maximum fares for unbooked taxi services. We may now also determine maximum fares according to, among other things, the Fair Work Commission's annual wage review under section 285 of the *Fair Work Act 2009* of the Commonwealth⁵ and the commercial viability of operating a taxi service.⁶ The legal framework for setting maximum fares for unbooked taxi services is set out in Appendix G.

We must complete a review of the maximum fares for unbooked taxi services no later than two years after a price determination is made.⁷ We made our current price determination on 2 September 2020. The review of this determination must be completed by 2 September 2022. The fares we set are maximums, meaning unbooked taxi service providers can charge below the maximum fares we set.

Our draft decision is to increase maximum fares

We propose to increase the maximum fares by 10.4 per cent for unbooked taxi services. This equates to an increase of about \$1 in maximum fares for a three-kilometre trip within the Melbourne central business district,⁸ or \$5 for a longer trip such as from the Melbourne central business district to the Melbourne International Airport.⁹

The proposed increase will apply equally to the tariff components for each tariff period across the Melbourne metropolitan, urban and large regional zones. See Appendix A for the maximum fares we propose to set.

Our draft decision is based on changes in the costs of operating a taxi over the period from March 2020 to March 2022, except for fuel costs and driver labour which are based on May 2022 and June 2022 information, respectively. This means the most recent driver labour and fuel prices have been incorporated into this draft decision.

⁴ Essential Services Commission Act 2001, ss. 8, 8A, 33; Transport Integration Act 2010, s. 24.

⁵ Commercial Passenger Vehicle Industry Act 2016, s. 110E(1)(ga).

⁶ Commercial Passenger Vehicle Industry Act 2017, s. 110E(1)(gb).

⁷ Commercial Passenger Vehicle Industry Act 2017, s. 110F(2).

⁸ This estimate is for a conventional taxi and is based on daytime 'time and distance' tariffs. Distance and travel time to destination (Parliament to Docklands) are based on Google maps. Fare estimates exclude other charges not set by the commission.

⁹ This estimate is for a conventional taxi and is based on daytime 'time and distance' tariffs. Distance and travel time to destination (Melbourne CBD to Melbourne Airport) are based on Google maps. Fare estimates exclude other charges not set by the commission such as toll and the Melbourne Airport fee.

Our draft decision is to increase the maximum fares

We will update the cost index to reflect the changes in costs over the period from June 2020 to June 2022 and take this into account in our final decision. The change in the maximum fares will therefore be different from this draft decision.¹⁰

In coming to our draft decision, we have considered the increase in costs as suggested by the new taxi cost index we developed for this review, the balance between the demand and supply of taxi services (market outcomes), and stakeholders' feedback.¹¹ We were also mindful of the challenges being faced by the taxi industry as a result of the coronavirus pandemic.

We consider that the suggested increase in the maximum fares, as calculated by the new taxi cost index, is reasonable and appropriate. The new taxi cost index reflects the current costs of operating a taxi in Victoria, and therefore also the costs that should be recovered to facilitate the commercial viability of operating an unbooked taxi service in Victoria. The taxi cost index also incorporates the Fair Work Commission's annual wage review determination. The manner in which we have set the maximum fares for unbooked taxi services are consistent with the recent amendments to the *Commercial Passenger Vehicle Industry Act 2017* which allows the commission to determine the maximum fares based on Fair Work Commission's annual wage review and the commercial viability of operating a taxi service.

The main contributors to the 10.4 per cent increase in the maximum fares are:

- Fuel costs at 6 per cent: accounts for the change in fuel costs since our last review in 2020
- Driver labour at 4.3 per cent: accounts for the use of the Fair Work Commission's annual wage review as cost inflator for driver labour.

If 2018 and 2019 are representative of what the taxi market may be like over the next two years, the market outcomes analysis (if considered on its own) suggests that the maximum fares should not increase. However, the transient nature of the coronavirus pandemic and recent changes in the labour market mean that it is difficult to draw definitive conclusions about how these trends may continue into 2022 and beyond. We recognise that supply is potentially constrained in 2022 due to the unusual labour market that has emerged as the economy has reopened. Service providers have stated that driver shortages, and the broader tight labour market are making it difficult to increase taxi supply in line with increasing demand for unbooked taxi services.

¹⁰ For this draft decision, the taxi cost index already accounts for the Fair Work Commission's 2022 wage review. This means that the level of increase in the maximum fares for the final decision will be mainly influenced by the fuel prices as of June 2022.

¹¹ We developed a new taxi cost index for this review, and it is informed by an operator cost survey. The survey was sent to about 6,419 taxi operators in May 2022. 355 taxi operators responded to the survey. Trip and shifts data were collected pursuant to compulsory information notices issued to booking services providers and Commercial Passenger Vehicle Victoria under section 36 of the Essential Services Commission Act.

Our draft decision is to increase the maximum fares

We consider that our draft decision best meets our legislative objectives of promoting the efficient provision and use of unbooked taxi services and the long term interests of Victorian consumers.¹² An increase in maximum fares will enable taxi operators to recover the efficient costs of providing unbooked taxi services, help attract new drivers and facilitate continued service provision to consumers.

Same level of increase in the fares for conventional taxis and high occupancy vehicle trips

Our new taxi cost index suggests a 10 per cent increase in the maximum fares for high occupancy vehicle trips.¹³ We propose to also increase the maximum fares for high occupancy vehicle trips by 10.4 per cent similar to conventional taxi trips.

High occupancy vehicles that are wheelchair accessible have an important role in providing means by which persons with disability can access social and economic opportunities to support their wellbeing. This is one of the objectives of the *Transport Integration Act 2010* the commission is to have regard to.¹⁴ We consider that applying the same increase in maximum fares for high occupancy vehicle trips will help promote sustained and commercially viable provision of wheelchair accessible taxi services. It will also facilitate continued access to social and economic opportunities, on the same basis as all other users of unbooked taxi services.

Cleaning fee will remain the same

We propose to keep the cleaning fee at a maximum of \$120. If a passenger soils an unbooked taxi with food, drink, or bodily fluids, the driver may charge the passenger a reasonable fee for the time required to clean the vehicle.

Our response to stakeholders' feedback on our consultation paper

In our consultation paper, released on 16 February 2022, we outlined our proposed approach to the unbooked taxi fare review 2022. We asked stakeholders for feedback on our proposed approach to assessing maximum fares including the use of the Fair Work Commission's annual

¹² Commercial Passenger Vehicle Industry Act 2017, s. 110C; Essential Services Commission Act 2001, s. 8.

¹³ Under our approach, we use the changes in the costs of operating a wheelchair accessible taxi as our basis for setting the high occupancy vehicle fee in the Melbourne metropolitan and urban zones and the high occupancy vehicle tariffs in the large regional zone. Maxi taxis or high occupancy vehicles are similar to wheelchair accessible taxis. They can carry 11 passengers and have plenty of space for luggage. The main difference is that wheelchair accessible taxis are fitted with anchor points to keep wheelchairs and scooters secure.

¹⁴ Transport Integration Act 2010, ss. 8 and 24(1).

Our draft decision is to increase the maximum fares

wage review, barriers to implementing ‘time **and** distance’ tariffs, and the impact of changes to the commercial passenger vehicle industry. We received submissions from four stakeholders.

Stakeholders suggested maximum fares should increase to account for higher fuel prices, ensure industry viability, improve driver earnings and address driver shortages.¹⁵ While Silver Top acknowledged that, prior to the coronavirus pandemic, the ‘Tariffs were "about right"...’, they stated that the events of the past two years including high fuel prices have resulted in material changes in the costs of providing taxi services.¹⁶

13cabs opposed the use of the market outcomes approach and suggested some alternative approaches.¹⁷ 13cabs and Silver Top also suggested that the taxi cost index should have a degree of variability for major costs such as fuel.¹⁸ 13cabs also raised some concerns about the timeframes for the review.

Our draft decision may help with attracting and retaining drivers

The increase in the maximum fares may help resolve the driver shortage and driver earnings issues. However, increases in the maximum fares for unbooked taxi services alone will not fully resolve issues related to driver earnings and shortages. Taxi driver earnings depend on a combination of:

- the demand for and supply of commercial passenger vehicle services, including for booked services
- the demand for and supply of taxi drivers
- fares charged, including how revenue is shared between taxi drivers and operators (currently a minimum of 55:45 ratio).

Section 97 of the *Commercial Passenger Vehicle Industry Act 2017* provides that it is an implied condition of every driver agreement that at least 55 per cent of the gross fares are paid to the driver.

To help improve driver earnings, operators may choose to increase their fares for booked services or increase their drivers’ revenue share above the minimum 55 per cent. Our survey of costs shows that some operators currently offer a revenue share of 60 to 65 per cent to drivers.

¹⁵ 13Cabs, submission received 23 March 2022. Submission of Rajesh Gupta, received 15 March 2022. Gange Corporation, submission received 11 April 2022. Gange Corporation owns Silver Top, West Suburban Taxis, Frankston Taxis and 50 per cent of Geelong Taxis.

¹⁶ Gange Corporation, submission received 11 April 2022. 13cabs, submission received 23 March 2022.

¹⁷ 13Cabs, submission received 23 March 2022.

¹⁸ 13Cabs, submission received 23 March 2022, Silver Top, submission received 11 April 2022.

Our draft decision is to increase the maximum fares

We are proposing a fare adjustment mechanism to apply in between fare reviews

We acknowledge that the two biggest issues being faced by the commercial passenger vehicle industry are driver shortage and high fuel prices. They have the greatest impact on the costs of providing and meeting demand for unbooked taxi services.

We propose to include a fare adjustment mechanism in our price determination which, if needed, would allow maximum fares to automatically increase or decrease in between fare reviews without the need to undertake a price review. The fare adjustment mechanism will account for changes in driver labour and fuel costs only.

We are seeking feedback on our proposal to include a fare adjustment mechanism in our final decision, which we explain in detail in the next chapter.

Our approach to setting the maximum fares is still appropriate

13cabs considers our market outcomes approach is not appropriate for fare setting decisions in a highly deregulated commercial passenger vehicle industry. It noted that the commission 'has no role in correcting any demand/supply imbalance.'¹⁹ We consider that it is appropriate to have regard to market conditions and outcomes in setting the maximum fares for unbooked taxi services. In light of the new requirements to consider the commercial viability of operating a taxi service²⁰ and any other matter or factor the commission considers to be relevant²¹ (such as the balance of demand and supply of taxi services) we consider our approach is still appropriate for this review. As discussed above, our draft decision is to increase the maximum fares.

13cabs, in opposing the market outcomes approach, suggested that we simply adjust the maximum fares using the consumer price index or in line with the Fair Work Commission's annual wage review.²² We do not consider these approaches would reflect the change in the costs of providing unbooked taxi services as closely as our taxi cost index. However, we consider that the Fair Work Commission's annual wage review reasonably reflects the cost of alternative opportunities for drivers, and it is appropriate to use the annual wage review as the cost inflator for driver labour rather than the wage price index (transport, postal and warehousing) that we used in our existing taxi cost index. See appendix B for more details.

¹⁹ 13Cabs, submission received 23 March 2022.

²⁰ Commercial Passenger Vehicle Industry Act 2017, s 110E(1)(gb).

²¹ Commercial Passenger Vehicle Industry Act 2017, s 110E(1)(h); Essential Services Commission Act 2001, s. 33(3)(e).

²² 13Cabs, submission received 23 March 2022.

Our draft decision is to increase the maximum fares

'Time and distance' tariffs to remain optional

A 'time **and** distance' tariff uses a time rate and a distance rate at the same time. In contrast, a 'time **or** distance' tariff uses either a time rate or a distance rate at any point in time (depending on the speed of the vehicle). We are not seeking to introduce any mandatory regulatory requirement in the taxi industry. Our draft decision is to keep 'time **and** distance' tariffs optional.

Our process to date

Since we started the review in late 2021, we have engaged with stakeholders at various times via a consultation paper, cost survey, one-on-one meetings, emails and phone calls. We engaged with them on a number of matters, including:

- the issues the taxi industry is facing
- the changes in the costs of operating a taxi
- their capability to provide trip data; issues about the trip data they submitted
- our approach to setting the maximum fares.

Consistent with our charter of consultation, we gave stakeholders one month to consider our consultation paper and make a submission. We also gave them sufficient time to respond to the notices we issued under section 36 of the *Essential Services Commission Act 2001*. Prior to issuing the costs survey, Honeycomb Strategy also undertook in-depth interviews with taxi operators to better understand their circumstances.

Stakeholders have another opportunity to engage with us by making a submission on this draft decision paper and attending the public forum we will hold on 19 July 2022.

We invite feedback on our draft decision

We are interested in hearing your views on our draft decision. Table 1 provides the indicative timeline of our review including consultation.

We also seek your feedback on the length of time it takes to implement a change in fares. We were previously advised that it could take two to three weeks to fully update the meters and replace fare stickers. Your response will help us decide on whether the price determination can take effect earlier than 1 October 2022.

Table 1. Indicative timeline

Key milestone	Indicative date
Release draft decision	1 July 2022
Public forum	19 July 2022
Submissions on draft decision close	1 August 2022
Release final decision and price determination	Early September 2022

Our draft decision is to increase the maximum fares

Taxi operators update meters and replace stickers to reflect the new fares	September 2022
New maximum fares take effect	1 October 2022

How to make a submission

Submissions on this draft decision should be made by **5pm 1 August 2022**. We may not be able to consider, or give the same weight to, submissions received after this date.

To make a submission, please go to the Engage Victoria's webpage for this review www.engage.vic.gov.au. Otherwise, please email us at transport@esc.vic.gov.au to discuss other options for making a submission.

Submissions are treated in accordance with the commission's submissions policy. All submissions will be made available on the commission's website, except for any information that is commercially sensitive or confidential. Submissions should clearly identify which information is sensitive or confidential. Find more information at www.esc.vic.gov.au/submissions.

Costs of operating a taxi have increased

As proposed in our consultation paper, we constructed a new taxi cost index to measure changes in the costs of operating a taxi since we last determined maximum fares in 2020.

Our draft decision is to increase maximum fares for unbooked taxi trips by 10.4 per cent as suggested by our taxi cost index.

Our new cost index reflects the change in the costs of operating a taxi over the period from March 2020 to March 2022 (except driver labour which reflects the most recent Fair Work Commission annual wage review as of June 2022 and fuel cost which is based on May 2022 prices).

We will update the cost index to reflect the change over the period June 2020 to June 2022 for the final decision.²³ The change in costs of operating a taxi may differ from this draft decision.

Under the *Essential Services Commission Act 2001*, we must have regard to the efficient costs of operating a taxi.²⁴ We have estimated efficient costs using the costs for an ‘average taxi’ recognising that actual average costs can differ significantly between different operators depending on factors such as size and operating model.

We measure changes in costs using a taxi cost index

Our existing taxi cost index was constructed in 2014 using cost components relevant to taxi operators at that time. These cost components form the ‘cost shares’ or ‘weights’ for the cost index. If there have been changes in inputs caused by technological, regulatory, or other factors that have occurred in the commercial passenger vehicle industry, updating the cost inflators may no longer measure changes in efficient costs since then. To address this concern, we have developed new weights for our new taxi cost index. To help us understand the costs of operating a taxi and construct our new taxi cost index, we conducted a survey of taxi operators. A total of 355 out of 6,419 taxi operators responded to the survey. The respondents comprise of small and medium sized operators from Melbourne metropolitan, urban and large regional zones.²⁵

²³ For this draft decision, the taxi cost index already accounts for the Fair Work Commission’s 2022 wage review. This means that the level of increase in the maximum fares for the final decision will be mainly influenced by the fuel prices as of June 2022.

²⁴ Essential Services Commission Act 2001, s. 33(3).

²⁵ Eighty seven per cent of respondents own one taxi. Only four respondents own ten taxis or more.

We have also reviewed other elements of our existing tax cost index (including cost components, cost shares and cost inflators) to construct our new index. See Appendix B for more information on our process.

Our new tax cost index suggests that costs have increased

Our tax cost index suggests that the costs of operating a conventional taxi have increased by 10.4 per cent over the period from March 2020 to March 2022.²⁶ The key reasons for the increase in costs are fuel (6 per cent) and driver labour (4.3 per cent). Table 2 shows the cost components, cost shares and contribution to the overall change in the tax cost index.²⁷

Table 2: Change in costs of operating a conventional taxi using our new tax cost index

March 2020 to March 2022²⁸

Cost component	Cost share	Change in cost inflator	Contribution to overall change
Fuel	6.6%	90.2%	6.0%
Network (equipment)	5.7%	-3.0%	-0.2%
Network (labour)	5.7%	3.8%	0.2%
Insurance	3.6%	6.5%	0.2%
Vehicle	7.6%	-12.7%	-1.0%
Registration ^(a)	1.2%	1.4%	0.0%
Repairs and maintenance	6.9%	6.0%	0.4%
Administration ^(b)	7.7%	3.9%	0.3%
Total operating costs	45%	13.4%	6.1%
Driver labour	55%	7.8%	4.3%
Total operating and labour costs	100%	Not applicable	10.4%

Source: ESC analysis; (a) includes Transport Accident Charge, (b) includes building site cost.

²⁶ Fuel costs and driver labour are based on May 2022 and June 2022 information, respectively. This means the most recent driver labour and fuel prices have been incorporated into this draft decision.

²⁷ The cost inflator for comprehensive insurance is based on data from the Insurance Council of Australia over the period September 2019 to September 2021 as more recent data is not available. We will update this cost inflator for the final decision once more recent data becomes available.

²⁸ Fuel costs and driver labour are based on May 2022 and June 2022 information, respectively.

Costs of operating a taxi have increased

Our taxi cost index suggests that the costs of operating a wheelchair accessible taxi have also increased by 10.0 per cent over the period from March 2020 to March 2022.²⁹ Similar to conventional taxis, the key reasons for the increase in costs are fuel and driver labour. This information is detailed in Table 3.

Table 3: Change in costs of operating a wheelchair accessible taxi using our new cost index
March 2020 to March 2022³⁰

Cost component	Cost share	Change in cost inflator	Contribution to overall change
Fuel	7.0%	88.9%	6.2%
Network (equipment)	4.3%	-3.0%	-0.1%
Network (labour)	4.3%	3.8%	0.2%
Insurance	3.9%	6.5%	0.3%
Vehicle	11.5%	-12.7%	-1.5%
Registration ^(a)	1.1%	1.4%	0.0%
Repairs and maintenance	6.3%	6.0%	0.4%
Administration ^(b)	6.5%	3.9%	0.3%
Total operating costs	45%	12.6%	5.7%
Driver labour	55%	7.8%	4.3%
Total operating and labour costs	100%	Not applicable	10.0%

Source: ESC analysis; (a) includes Transport Accident Charge, (b) includes building site cost.

The cost share of fuel has changed the most

Table 4 shows the cost share of each cost component for the new and existing taxi cost indexes. Both indexes are based on the average cost of operating a taxi.

²⁹ Under our approach, we use the changes in the costs of operating a wheelchair accessible taxi as our basis for setting the high occupancy vehicle fee in the Melbourne metropolitan and urban zones and the high occupancy vehicle tariffs in the large regional zone. Maxi taxis or high occupancy vehicles are similar to wheelchair accessible taxis. They can carry 11 passengers and have plenty of space for luggage. The main difference is that wheelchair accessible taxis are fitted with anchor points to keep wheelchairs and scooters secure.

³⁰ Fuel costs and driver labour are based on May 2022 and June 2022 information, respectively.

**Table 4: Comparison of cost shares under new taxi cost index and existing taxi cost index
(including driver labour) - Conventional taxi**

Cost component	Cost share (%) New taxi cost index	Cost share (%) Existing taxi cost index
Fuel	6.6%	15.4%
Network (equipment)	5.7%	2.9%
Network (labour)	5.7%	2.9%
Insurance	3.6%	3.4%
Vehicle	7.6%	5.2%
Registration ^(a)	1.2%	1.8%
Repairs and maintenance	6.9%	8.0%
Administration ^(b)	7.7%	5.4%
Total operating costs	45%	45%
Driver labour	55%	55%
Total operating and labour cost	100%	100%

Source: ESC analysis; (a) includes Transport Accident Charge, (b) includes building site cost.

Compared with our existing taxi cost index, the key change in the cost shares for a conventional taxi is fuel, which decreased from 15.4 per cent to 6.6 per cent. Similar to conventional taxis, the key change in the cost shares for a wheelchair accessible is fuel which decreased from 14.6 per cent to 7.0 per cent.

The significant decrease in the cost share for fuel in 2022 compared to 2014 is likely due to several factors including that:

- taxis are driving less. We found that taxis are driving, on average, between 52,000 kilometres per year (based on trip data for 2019) and 75,000 kilometres per year (based on cost survey results) compared to 100,000 kilometres per year in 2014.
- many operators are using more fuel efficient vehicles. Our survey results suggest that in 2022 more operators are using hybrid vehicles, which consume less fuel per 100 kilometres compared to non-hybrid vehicles.

The share of network cost has also almost doubled. This is due, in part, to an increase in the reported network cost and, in part, due to a decrease in other cost components (particularly fuel) leading to a reallocation of cost share to other cost components.

We have maintained most of the cost inflators used in our existing taxi cost index

With the exception of fuel and driver labour, we have maintained the cost inflators used in our existing taxi cost index for all cost components as we consider that these cost inflators are still appropriate. The reason for the change in fuel and driver labour cost inflators is explained in the following section below.

Fuel cost inflator

We understand from our cost survey that hybrid taxis have become more common, and LPG taxis less common, since we constructed our existing taxi cost index in 2014. The survey results suggest that 51 per cent of conventional taxis use a petrol/electric hybrid, 23 per cent use LPG, 17 per cent use petrol, and nine per cent use diesel.³¹ We have used a fuel cost inflator weighted by the share of taxis using each fuel type as we consider that it best reflects the fuel costs being experienced by taxi operators. To the extent that an individual operator chooses a higher cost fuel source than the average, we assume that there must be other efficiency advantages (such as, lower vehicle cost) to compensate for that fuel cost disadvantage. See Appendix B for details on how we calculate the weighted fuel cost inflator.

Driver labour cost inflator

The *Commercial Passenger Vehicle Industry Act 2017* was amended in 2021. In setting maximum fares, we may now also determine maximum fares according to, among other things, the Fair Work Commission's annual wage review.³² In our consultation paper, we asked stakeholders for views on how we might use the Fair Work Commission's annual wage review in determining maximum fares. In its submission, 13cabs noted that it 'would support the ESC linking changes in the maximum fare for unbooked services to the Fair Work Commission's annual wage review'.³³ We note that the annual wage review reflects only one cost component of operating a taxi (driver labour). Overall, it is not as reflective of the cost of providing unbooked taxi services as the taxi cost index, and we do not consider that it is appropriate to change maximum fares by the amount of the annual wage review only.

However, taxi operators must compete for the services of taxi drivers in the market for labour. To maintain the supply of drives, taxi operators need to offer at least as much as alternative opportunities. We consider that the Fair Work Commission's annual wage review reasonably reflects the cost of alternative opportunities. Therefore, we consider that it is appropriate to use the

³¹ The breakdown is slightly different for wheelchair accessible taxis: 44 per cent use diesel, 22 per cent use petrol/electric hybrid, 20 per cent LPG and 14 per cent use petrol.

³² Commercial Passenger Vehicle Industry Act 2017, s. 110E(1)(ga).

³³ 13Cabs, submission received on 23 March 2022.

Fair Work Commission's annual wage review as the cost inflator for driver labour rather than the wage price index (transport, postal and warehousing) that we used in our existing taxi cost index.

New cost index suggests that the difference between changes in the cost of providing taxi services by a conventional taxi and a wheelchair accessible taxi is minimal

Under our approach, we use the change in the costs of operating a wheelchair accessible taxi as our basis for setting the high occupancy vehicle charge in the Melbourne metropolitan and urban zones and the high occupancy vehicle tariffs in the large regional zone. Our new taxi cost index suggests a lower increase in the maximum fares for high occupancy vehicle trips at 10.0 per cent.³⁴

Our draft decision is to also increase the maximum fares for high occupancy vehicle trips by 10.4 per cent similar to conventional taxi trips. If we increase the current \$14 high occupancy vehicle charge in metropolitan Melbourne and urban zone by 10.4 per cent and 10.0 per cent as suggested by the change in the costs of providing a conventional taxi and a wheelchair accessible taxi, respectively, the difference in the high occupancy vehicle charge will be minimal at 0.06 cents.³⁵

High occupancy vehicles that are wheelchair accessible have an important role in providing means by which persons with disability can access social and economic opportunities to support their wellbeing. This is one of the objectives of the *Transport Integration Act 2010* the commission is to have regard to.³⁶ We consider that applying the same increase in maximum fares for high occupancy vehicle trips will promote sustained and commercially viable provision of wheelchair accessible taxi services. It will also facilitate continued access to social and economic opportunities, on the same basis as all other users of unbooked taxi services. We also consider that differentiating the level of increase in maximum fares in this case, where the gap between the fares would be minimal, is likely to result in costs that far exceed any benefits to be gained from adopting different levels of fares increase.³⁷

³⁴ Under our approach, we use the changes in the costs of operating a wheelchair accessible taxi as our basis for setting the high occupancy vehicle fee in the Melbourne metropolitan and urban zones and the high occupancy vehicle tariffs in the large regional zone. Maxi taxis or high occupancy vehicles are similar to wheelchair accessible taxis. They can carry 11 passengers and have plenty of space for luggage. The main difference is that wheelchair accessible taxis are fitted with anchor points to keep wheelchairs and scooters secure.

³⁵ The current high occupancy vehicle (HOV) charge in the metropolitan Melbourne is \$14. If we increase it by 10 per cent as suggested by the change in the costs of operating a wheelchair accessible taxi, the new HOV charge would be \$15.40. If we increase it by 10.4 per cent as suggested by the change in the costs of operating a conventional taxi, the new HOV charge would become \$15.46. The difference between \$15.46 and \$15.40 is 0.06 cent.

³⁶ Transport Integration Act 2010, ss. 8 and 24(1).

³⁷ Section 33(4)(a) of the Essential Services Commission Act 2001 provides that, in making a determination, the commission must ensure that the expected costs of the regulation does not exceed the expected benefits. Section 8A(1)(e) of the Essential Services Commission Act 2001 also provides that, to the extent relevant, the commission must

Costs of operating a taxi have increased

New cost index suggests changes in cost of providing taxi services are largely the same across the different zones

To compare whether the costs of operating a conventional taxi differ by zone, Honeycomb Strategy developed a cost profile for a conventional taxi operating in the metropolitan zone and a conventional taxi operating in the urban and large regional zone. The results suggest that the costs of operating a conventional taxi in the urban and large regional zones would be largely the same as that in the metropolitan zone.

Honeycomb Strategy noted that insufficient responses were recorded by operators with a wheelchair accessible taxi to compare whether the costs of operating a wheelchair accessible taxi in the metropolitan zone differ from the urban and large regional zone.

Fuel prices have increased significantly

Our analysis also shows that the price of petrol, LPG and diesel have increased significantly in recent months (between 55 and 102 per cent over the period from May 2020 to May 2022 depending on the fuel type). In its submission to our consultation paper, 13cabs noted that the cost of fuel has ‘skyrocketed’ over the last year, and other transport service providers in unregulated markets have introduced surcharges to cover the rising cost of fuel.³⁸ Silver Top also noted the impact of rising fuel costs and suggested that our models include a degree of variability for the major costs such as fuel.³⁹

Our draft decision is based on the change in fuel costs over the period from May 2020 to May 2022 and captures the significant increase in the cost of fuel experienced in recent months. We note that this impact has been mitigated by the decrease in the cost share for fuel for the reasons discussed in the section ‘The cost share of fuel has changed the most’ above. We will use the period from June 2020 to June 2022 for our final decision in line with our approach in previous reviews. The change in the cost of fuel may therefore differ from this draft decision.

We propose a fare adjustment mechanism to apply in between fare reviews

We propose to include a fare adjustment mechanism in our price determination which, if needed, would allow maximum fares to automatically increase or decrease in between fare reviews without the need to undertake a review and make a new price determination.

have regard to the benefits and costs of regulation for consumers and users of products and services (including low income and vulnerable customers), as well as regulated entities.

³⁸ 13Cabs, submission received 23 March 2022.

³⁹ Silver Top, submission received 11 April 2022.

The fare adjustment mechanism will account for changes in driver labour and fuel costs only. There will be no changes to any of the other cost components in the taxi cost index. The key reasons for including driver labour and fuel in the fare adjustment mechanism are:

- **driver labour:** to reflect annual changes in the minimum wage according to the Fair Work Commission's annual wage review.
- **fuel:** to address variability in fuel prices and stakeholder concerns about recent increases in fuel prices.

Our proposed approach is consistent with the recent amendments to the *Commercial Passenger Vehicle Industry Act 2017* which allows the commission to determine the maximum fares based on consideration of the Fair Work Commission's annual wage review and the commercial viability of operating a taxi.

Below is the indicative process for the fare adjustment mechanism.

Indicative process for the fare adjustment mechanism in year 2023

- In July 2023, the commission will update the taxi cost index to account for changes in fuel costs and the Fair Work Commission's annual wage review for the period from June 2022 to June 2023.⁴⁰ The commission will not update the taxi cost index for any of the other cost components.
- The commission will calculate the change in the costs of operating a taxi using the updated taxi cost index.
- If the indicated change is more than a pre-determined amount, say, plus/minus one per cent, maximum fares will change by this amount.
- If the indicated change is less than the pre-determined amount, maximum fares will not change as the administrative and implementation costs of changing fares are likely to outweigh any benefits.
- In early September 2023, the commission will publish a notice if the maximum fares are to change.
- To assist unbooked taxi providers, the notice will also include the newly calculated tariffs.
- The new maximum fares will take effect from 1 October 2023 and remain in place until a new price determination takes effect.

⁴⁰ Fueltrac is our source of fuel prices.

Questions for stakeholders

1. What are your views on our proposed fare adjustment mechanism?
2. What is the appropriate threshold for the change in the costs of operating a taxi to trigger maximum fares to change?

The cleaning fee will remain the same

Occasionally taxi passengers soil the vehicle they have hired by, for example, vomiting or spilling food or drink. When this happens, the driver must take the vehicle out of service for cleaning. This usually takes between one and two hours, but in particularly bad cases the vehicle can lose an entire shift.

In 2018 we introduced a cleaning fee of up to a maximum of \$120, based on price benchmarks, estimate of lost revenues and stakeholders' feedback.⁴¹

Our draft decision is to continue to allow taxi drivers to charge a reasonable cleaning fee of up to a maximum of \$120. Our updated benchmarking analysis suggests that a \$120 cleaning fee remains within the range of cleaning fees charged by taxis and ride share vehicles in Australia. Maximum cleaning fees allowed for taxis in other Australian jurisdictions range from \$50 (Northern Territory) to \$137 (Queensland).⁴² Rideshare providers in Victoria currently charge a cleaning fee of up to a maximum of \$150.⁴³

⁴¹ Essential Services Commission, Unbooked commercial passenger vehicle review 2018: Final decision, September 2018, pp. 20-22.

⁴² Northern Territory Government information and services, Taxi areas, meters and fares, accessed 13 June 2022, <https://nt.gov.au/driving/industry/taxi-areas-meters-and-fares#:~:text=If%20you%20soil%20a%20taxi,night%20between%2010pm%20and%205am>. Department of Transport and Main Roads, Queensland taxi fares – South East Queensland, accessed 13 June 2022, [file:///C:/Users/smadamba/Downloads/pdf%20taxi%20fares%20stickers%20seq%20\(5\).pdf](file:///C:/Users/smadamba/Downloads/pdf%20taxi%20fares%20stickers%20seq%20(5).pdf).

⁴³ Uber, I want to claim a cleaning fee, accessed 13 June 2022, <https://help.uber.com/driving-and-delivering/article/i-want-to-claim-a-cleaning-fee?nodeId=300209b3-2960-4ef6-899f-974e6bdebb47>. Didi Australia, Driver help, accessed 13 June 2022, <https://australia.didi.global.com/driver/driver-help/>. Ola, Driver cleaning fee reimbursement policy, accessed 13 June 2022, <https://ola.com.au/driver/drivers-guidelines/ola-driver-cleaning-fee-reimbursement-policy/>.

Costs of operating a taxi have increased

Passengers are using unbooked taxi services less often

This chapter provides an overview of our analysis of the demand for and supply of unbooked taxi services in the Melbourne metropolitan, urban and large regional zones. As proposed in our consultation paper, we used a market outcomes approach, where we looked at the balance between the demand for and supply of commercial passenger vehicles. This helped to inform whether maximum fares for unbooked taxi services should increase, decrease, or remain unchanged.

Given data limitations, we present the industry-wide results of our analysis, that is, in total for the Melbourne metropolitan, urban and large regional zones, and in some cases normalised using index values.⁴⁴

The demand for and supply of taxi services have decreased

Our analysis looks at several proxies for demand and supply over the period from 2018 to 2021 and includes comparisons to findings in our 2018 report. Importantly, the impacts of the coronavirus pandemic during this period are reflected in the measures we have used to assess the market for unbooked taxi services.

Data prior to the coronavirus pandemic provides clearer indications of how the market for unbooked taxi services was evolving. During 2018 and 2019, the overall demand for taxi services decreased by more than supply and service quality was maintained. If 2018 and 2019 are representative of what the taxi market may be like over the next two years, the market outcomes analysis (if considered on its own) suggests that the maximum fares should not increase.

However, the transient nature of the coronavirus pandemic and recent changes in the labour market means that it is difficult to draw definitive conclusions about how these trends will continue into 2022 and beyond. We recognise that supply is potentially constrained in 2022 due to the unusual labour market that has emerged as the economy has reopened. Service providers have stated that driver shortages, and the broader tight labour market are making it difficult to increase taxi supply in line with increasing demand for unbooked taxi services.

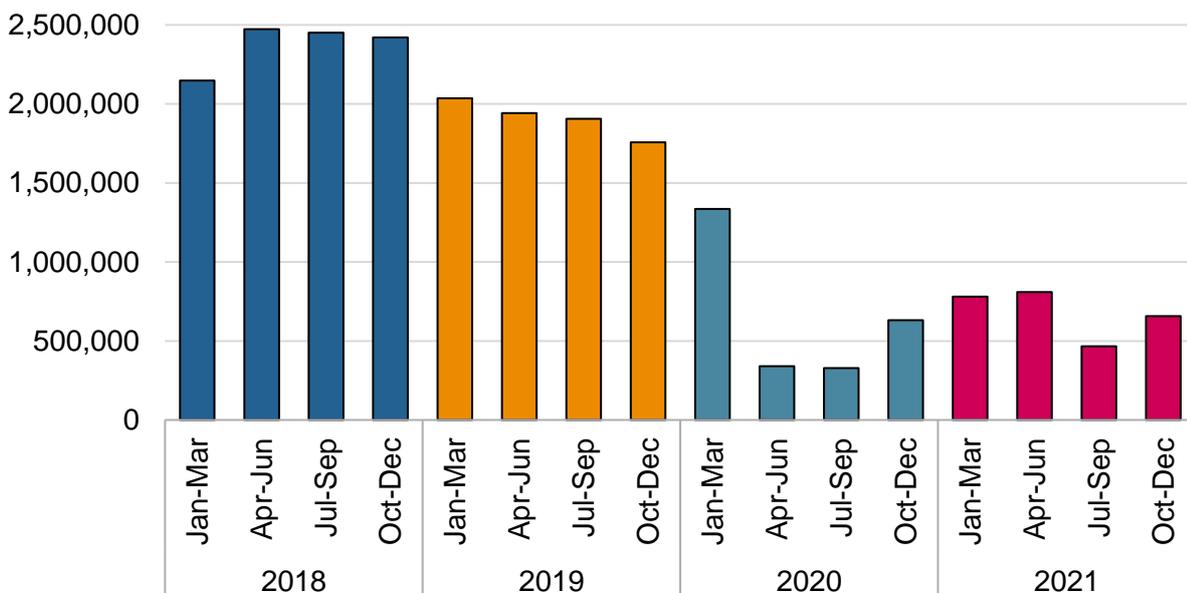
⁴⁴ Data is missing for some months and some booking service providers only provided data from October 2019. This coincides with the introduction of a requirement for booking service providers to submit their booked trips data to Commercial Passenger Vehicle Victoria. It is likely they do not have complete information prior to October 2019. We have cleansed and aggregated the data as we consider it to be more representative of industry-wide trends.

Passengers are using unbooked taxi services less often

The number of unbooked taxi trips has declined since we last reviewed industry data in 2018.⁴⁵ Our analysis shows that there was a reduction in unbooked taxi trips from 2018 to 2019, with a sharp and sustained decline occurring in March 2020, at the onset of the coronavirus pandemic.

Figure 1 shows that unbooked taxi trips were 20 per cent lower in 2019 than 2018. Over the same period, total taxi trips fell by 11 per cent. This follows the rideshare and commercial passenger vehicle reforms that occurred in 2017, which has increased competition in the commercial passenger vehicle market.⁴⁶ Although we do not have complete rideshare data, information submitted by Commercial Passenger Vehicles Victoria suggests that, in 2019, unbooked taxi trips accounted for less than 13 per cent of the total commercial passenger vehicle (taxis and rideshare) market.

Figure 1: Unbooked taxi trips in the Melbourne metropolitan, urban and large regional zones, per quarter: 2018 to 2021



Note: Due to limited data availability the chart does not show all unbooked taxi trips that occurred in the Melbourne metropolitan, urban and large regional zones. This chart only includes trip data that is comparable over the 2018 to 2021 period (around 95 per cent of the data we received).

⁴⁵ The 2020 taxi review did not rely on extensive analysis of industry data.

⁴⁶ Commercial Passenger Vehicle Industry Act 2017 s.1(b)(i) (prior to the amendments under the Commercial Passenger Vehicle Industry Amendment (Further Reforms) Act 2017).

Demand for taxi services fell during the coronavirus pandemic

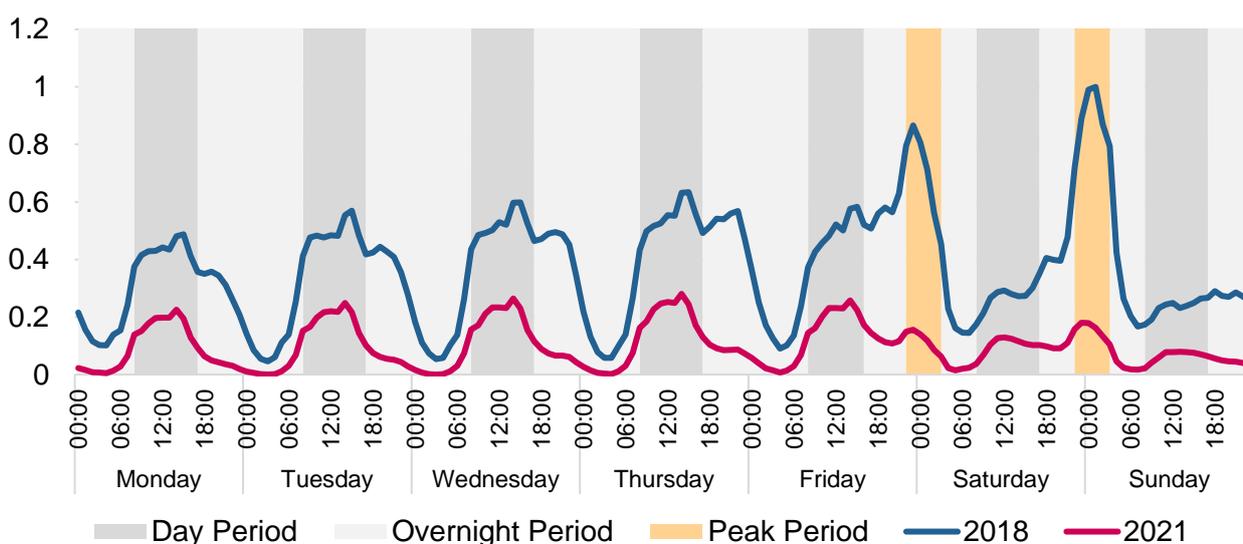
Throughout 2020 and 2021, the coronavirus pandemic and subsequent lockdowns resulted in limited people movement across Victoria. This meant that there was less demand for transport services. Based on the data we received, we estimate that from the first to the second quarter of 2020, the number of:

- unbooked taxi trips fell by 75 per cent
- booked taxi trips fell by 52 per cent
- all commercial passenger vehicle trips fell by 75 per cent.

As restrictions periodically eased, unbooked taxi trips showed signs of improvement. However the number of unbooked taxi trips remained 54 per cent lower in December 2021 compared to December 2019. During our engagement with stakeholders for this review, service providers stated that, as of May 2022, the demand for unbooked taxi services has returned to between 50 to 80 per cent of pre-coronavirus pandemic levels.

We observe that the pattern of demand for unbooked taxi services during peak and non-peak times of the week was also affected by the coronavirus pandemic. Figure 2 compares the number of unbooked trips by hour of the week during 2018 and 2021 (normalised to the peak value). The number of unbooked trips in 2021 was lower during each hour of each day compared to 2018. Additionally, there was a substantial drop in unbooked taxi trips during historical peak periods, on Friday and Saturday nights.

Figure 2: Unbooked taxi trips by hour of the week in the Melbourne metropolitan, urban and large regional zones, normalised – 2018 and 2021



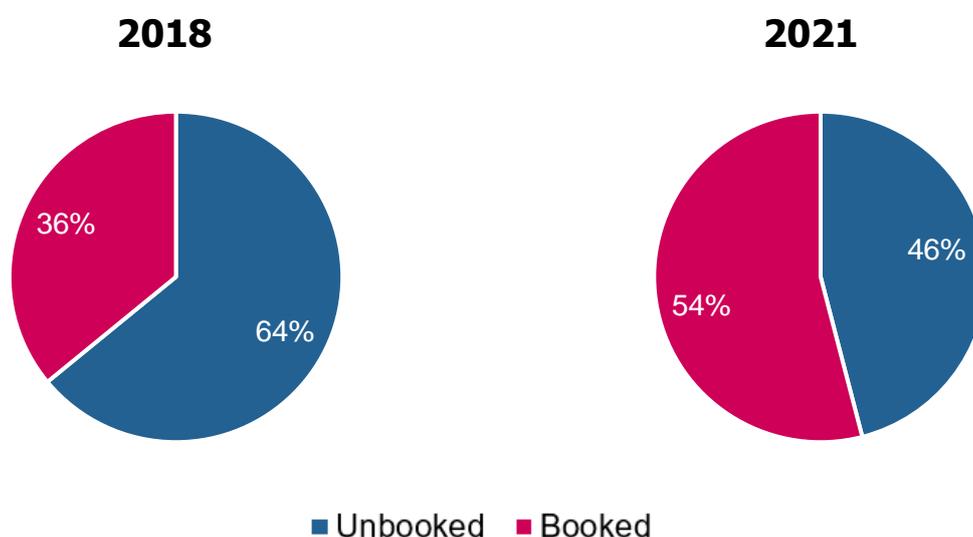
Note: the number of unbooked taxi trips has been normalised to the peak value. This means that the trip numbers have been reweighted such that the maximum value is represented by a one and the lowest value is represented by a zero. This helps improve comparability to the large regional zone (figure 11 in the next chapter).

Passengers are using unbooked taxi services less often

The proportion of unbooked trips decreased from 2018 to 2021

Some of the fall in unbooked taxi trips can be explained by the relative increase in booked trips. Figure 3 shows that the proportion of unbooked trips decreased from 64 per cent in 2018 to 46 per cent in 2021. This could have been driven by a combination of factors including improvements in booking app technology and increased availability, differences in the types of consumers using taxis during the coronavirus pandemic, and underlying changes in consumer preferences for booked and unbooked taxi. As will be discussed in the next chapter, the majority of trips in the large regional zone are booked.

Figure 3: Ratio of booked and unbooked taxi trips in the Melbourne metropolitan, urban and large regional zones: 2018 and 2021



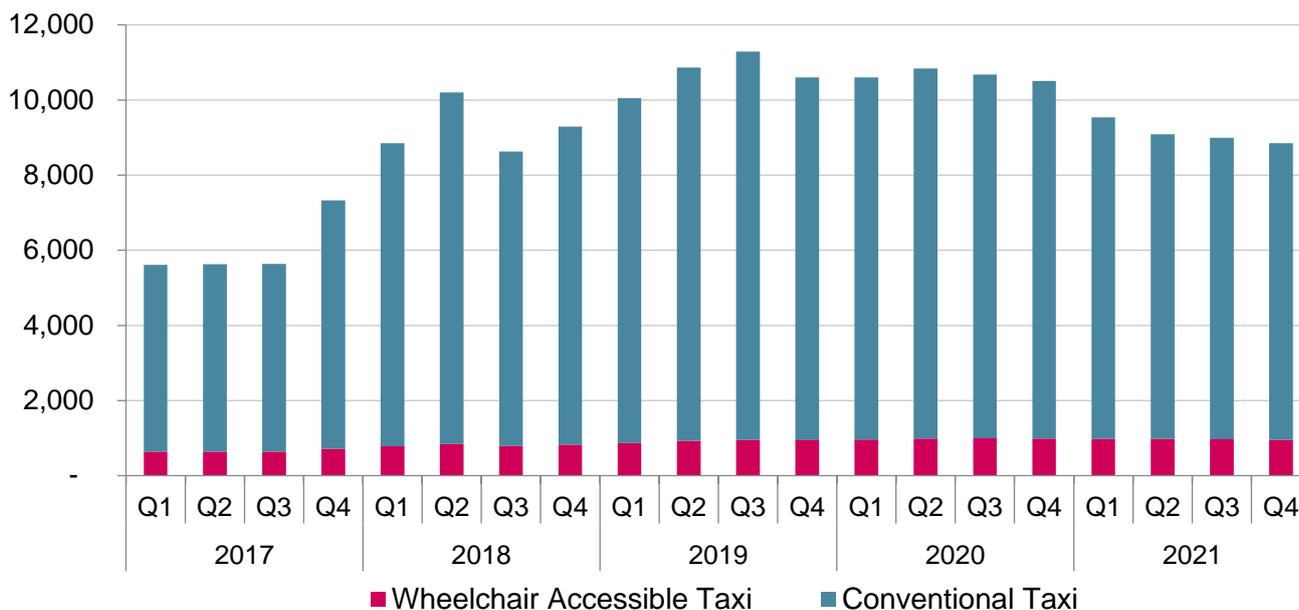
The number of registered taxis has decreased

In August 2017, the Victorian government introduced commercial passenger vehicle reforms that removed the cap on the number of taxi licences granted and reduced annual registration costs from \$22,703 to \$55.10. Figure 4 shows that the reforms led to an increase in the number of registered taxis, from 5,635 in the third quarter of 2017 to a peak of 11,287 in the third quarter of 2019. However, the impact of the coronavirus pandemic has seen the number of registered taxis fall from 10,763 in March 2020 to 8,699 in March 2022.

It is difficult to draw conclusions about what this trend means for the supply of unbooked taxi services. The fall in the number of registered taxis could reflect drivers exiting the market due to decreases in demand, concern for their health during the coronavirus pandemic, or to pursue other career opportunities. This data could also be understating a potential fall in supply as drivers and operators may simply choose to retain their taxi registration during periods of low demand and not provide unbooked taxi services given the relatively low cost of registration.

Passengers are using unbooked taxi services less often

Figure 4: Average number of registered taxis per quarter – All of Victoria: 2017 to 2021



Note: Data sourced from Commercial Passenger Vehicles Victoria. From June 2018, data is for all of Victoria including the country zone.

Taxi drivers are working fewer shift hours

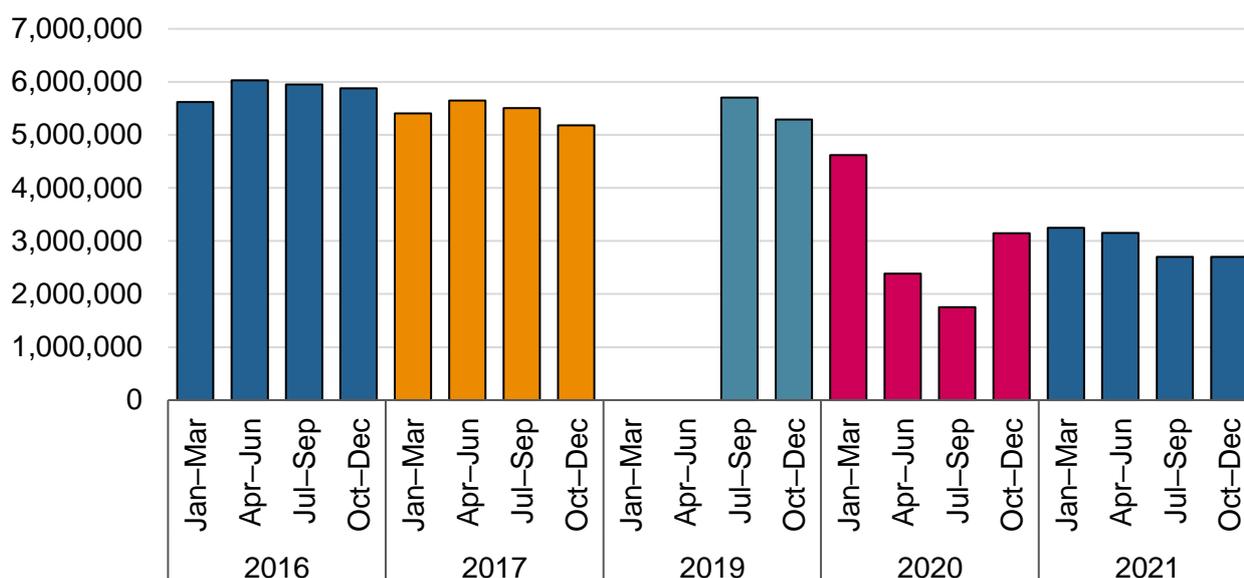
Shift hours represent the time between the start and the end of each shift for taxi drivers. It includes both the duration a taxi is occupied with passengers, and the duration a taxi is unoccupied but looking for passengers or driving to collect a passenger.

Our 2018 review findings showed a decline in taxi shift hours across each quarter over the four years from 2014 to 2017.⁴⁷ While we do not have a complete set of data for 2018 and 2019, the shift hours observed during the second half of 2019 are within the range observed prior to the taxi reforms in 2017 (Figure 5). Over the same period, the number of registered taxis has more than doubled while the demand for taxi services declined. This means that despite the increased competition from rideshare services and broader changes in the market, taxi availability did not decrease.

In contrast, the coronavirus pandemic has had a noticeable impact on the availability of booked and unbooked taxi services. During the fourth quarter of the year, shift hours were 41 per cent lower in 2020 and 49 per cent lower in 2021 compared to 2019.

⁴⁷ Essential Services Commission, Unbooked commercial passenger vehicle fare review 2018: Final decision, September 2018.

Figure 5: Total taxi shift hours in the Melbourne metropolitan, urban and large regional zones: 2016 to 2021⁴⁸



Note: Data sourced from the Commercial Passenger Vehicle Victoria’s Multi-Purpose Taxi Program. Data on shift hours is not available for 2018 and the first half of 2019.

Taxi utilisation levels suggest there is unused capacity

We use occupancy rate as a measure of taxi utilisation. It can provide an indication of what the trends in demand and supply mean for taxi fares. It is calculated by dividing the total number of minutes that each taxi was occupied with a passenger (passenger minutes) by the total number of minutes each taxi was on the road (shift minutes).

In 2016 – one year before the commercial passenger vehicle reforms – taxi utilisation levels as high as 43 per cent were observed on Friday and Saturday nights, and relatively high utilisation seen from 8am to 10am and 3pm to 5pm. These times continued to see the highest utilisation rates across the week in 2019 and 2021 (Figure 6). However the average hourly occupancy rate fell from 27 per cent (metro zone) in 2016 to 21 per cent (all zones) in 2019. The largest decreases occurred during the peak service periods on Friday and Saturday nights.

The results for 2019 indicate that there was an increase in unused capacity prior to the coronavirus pandemic. Between 2016 and 2019, the occupancy rate decreased alongside a decline in the number of taxi trips, while shift hours stabilised. This meant that drivers were spending less time on

⁴⁸ Data is sourced from the Commercial Passenger Vehicle Victoria’s Multi-Purpose Taxi Program. We do not have data on shift hours for 2018 and the first half of 2019.

Passengers are using unbooked taxi services less often

the road with passengers and were completing fewer trips per shift. Under these conditions, fares could be lowered to incentivise customers to use taxis over competing services.

A reduction in supply (Figure 5) occurred after 2019 that was likely partly driven by lower demand during the coronavirus pandemic. In 2021, the overall rate of taxi utilisation remained at similar levels to 2019.

Stakeholders state driver shortages have created supply issues in 2022

As part of our engagement with stakeholders for this review, service providers stated that in 2022, they are experiencing difficulty engaging drivers to meet the increasing demand for taxi services as economic activity is gradually returning to pre-coronavirus pandemic levels. As this is a recent occurrence, we do not have the data to determine as to what extent supply constraints are affecting taxi utilisation and whether this should have an impact on taxi fares. However if this was occurring, we would expect to hear about longer wait times for passengers in 2022. Our analysis of customer wait time indicates that this may have been occurring towards the end of 2021 (Figure 8).

Figure 6: Occupancy rates for Melbourne metropolitan, urban and large regional zones – 2019 and 2021, (per cent)

	2019							2021						
	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun
12am-1am	21	19	17	20	20	23	22	22	26	26	29	27	30	28
1am-2am	17	17	17	17	20	26	27	24	23	23	23	27	27	31
2am-3am	13	14	13	15	17	22	23	18	19	19	18	21	26	27
3am-4am	9	10	9	10	12	20	24	17	16	16	16	19	23	26
4am-5am	15	13	14	13	14	15	16	17	15	16	16	16	19	20
5am-6am	20	19	18	17	16	16	16	16	15	15	15	17	18	18
6am-7am	20	20	19	18	18	19	20	18	17	18	18	19	21	22
7am-8am	21	21	21	21	21	19	19	18	18	18	18	19	17	18
8am-9am	30	31	32	33	31	19	19	28	28	28	29	28	16	16
9am-10am	28	31	31	32	29	22	21	24	26	25	26	25	21	21
10am-11am	24	25	26	27	26	25	23	22	23	23	25	24	24	23
11am-12pm	21	22	24	24	26	27	24	21	23	23	24	25	25	24
12pm-1pm	21	22	24	24	26	26	24	22	22	23	24	25	25	23
1pm-2pm	21	21	22	23	24	23	22	21	22	22	23	24	23	23
2pm-3pm	23	24	25	26	26	20	21	24	24	25	26	26	21	22
3pm-4pm	26	27	28	29	29	20	21	27	28	28	29	29	19	21
4pm-5pm	22	24	25	26	26	19	23	21	22	23	24	24	19	20
5pm-6pm	19	21	24	24	24	21	22	18	18	19	21	21	21	20
6pm-7pm	18	20	22	22	24	24	20	16	17	18	19	21	22	19
7pm-8pm	16	17	19	19	20	20	18	14	14	15	16	18	19	18
8pm-9pm	19	20	21	21	17	15	18	15	15	16	16	16	17	18
9pm-10pm	21	23	24	24	20	17	20	17	18	19	19	18	18	20
10pm-11pm	19	21	24	26	25	21	21	18	19	20	20	21	21	20
11pm-12am	16	18	18	22	25	25	17	16	17	18	19	23	24	18

Passengers are using unbooked taxi services less often

Taxi service quality has generally stayed the same or improved

Measuring taxi service quality can provide information on whether the level of fares or the structure of fares is sufficient to maintain or improve the quality of service. While measures relate to both unbooked and booked trips, they can still provide an indication for unbooked trips. We used two measures to examine taxi service quality, including:

- customer wait time for booked trips calculated from taxi networks' trip data.
- complaints lodged with booking service providers.

While these metrics are not direct measures, they provide an indication of changes in service quality for unbooked services. For example, if customer wait times for booked trips are falling, it is likely that there is greater taxi availability. Therefore, wait times for unbooked trips are also likely declining.

Our analysis shows that the quality of taxi services in the Melbourne metropolitan, urban and large regional zones generally stayed the same or improved between 2018 and 2019.

Customer wait time for booked trips

Customer wait time is an indicator of service quality and is reflective of how trends in the balance of supply and demand are affecting taxi availability. It is calculated as the duration between the time a customer makes a booking request, and the time the allocated taxi's meter is turned on to indicate commencement of the trip.⁴⁹

Overall, the average customer wait time for a booked service is longer in 2021 compared to 2018 and 2019 (Figure 7). The higher wait times at midnight and over the rest of the night period in 2021 is potentially due to the curfew restrictions mostly enforced in metro and urban zones in Victoria during 2021.⁵⁰ Taxi drivers may have opted to work more shift hours during daytime to obtain more trips. Shorter wait times for booked taxi services during the day imply greater availability of taxis in general and therefore shorter wait times for unbooked taxi services.

Given the significant impact the coronavirus pandemic has had on the commercial passenger vehicle industry, we cannot rely on the trends in customer wait time observed during the coronavirus pandemic to draw inferences about the current level of taxi service quality.

⁴⁹ There are two types of trips that fit into this category: advanced bookings and ready to ride bookings. Advanced bookings are bookings where the requested time of departure is in the future. Ready to ride bookings are bookings that request the next available cab: the time the booking is made and requested for are the same. Ideally, we would have used an average weighted approach to give greater weight for ready to ride bookings. This is to reflect the fact that wait times for rank and hail trips, for which there are no recorded wait times, are more similar to immediate pick up bookings. Due to some data constraints, we were not able to use the weighted average approach.

⁵⁰ Overall, across the week, weekend wait times are in the mid-range and peak period wait times are lower compared to the weekdays.

Passengers are using unbooked taxi services less often

However, the average customer wait time increased between September 2021 and December 2021 (Figure 8). This suggests that taxi availability declined towards the end of 2021. The increase in customer wait time supports stakeholder claims that operators have faced difficulties in attracting and retaining taxi drivers and, as a result, have been unable to increase supply at the same rate as demand since the end of coronavirus related lockdowns in 2021.

Figure 7: Indicative average customer wait time in minutes – Melbourne metropolitan, urban and large regional zones: 2018, 2019 and 2021

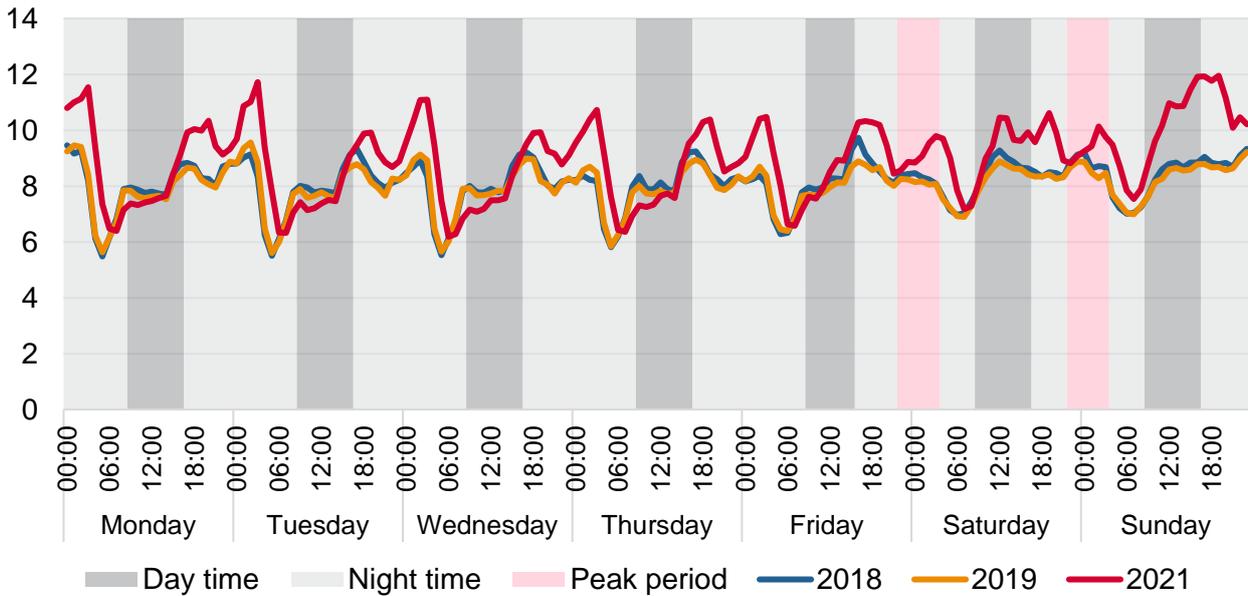
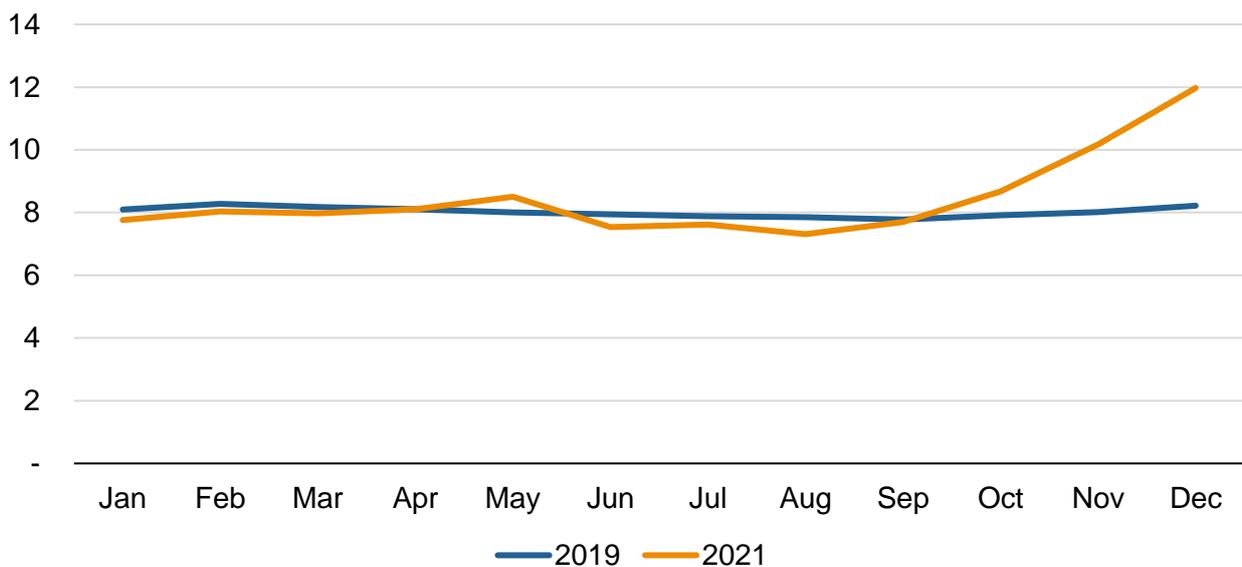


Figure 8: Indicative average customer wait time in minutes per month – Melbourne metropolitan, urban and large regional zones: 2019 and 2021



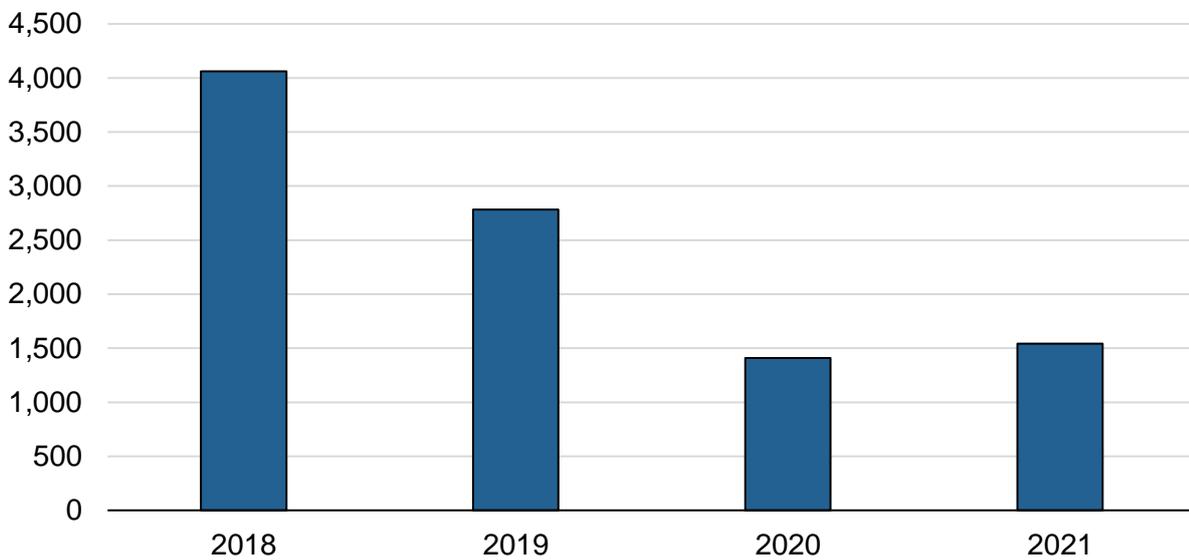
Passengers are using unbooked taxi services less often

Complaint data

Following the 2017 reforms, customer complaints were directed towards booking service providers rather than Commercial Passenger Vehicles Victoria.⁵¹

We received data from some booking service providers, showing that there was a fall in complaints from 2018 to 2019. This suggests that fares may be sufficient to maintain or improve the quality of service. Complaints then fell by an average 26 per cent per year between 2019 and 2021. This likely reflects the decreased number of trips that occurred over the same period (33 per cent per year).

Figure 9: Number of complaints in the Melbourne metropolitan, urban and large regional zones: 2018 to 2021



Note: not all booking service providers were able to provide complaints data. These numbers should not be compared to complaints previously collected by Commercial Passenger Vehicles Victoria (up to 2017) as the process for defining, handling, and recording complaints was different.

⁵¹ Commercial Passenger Vehicle Industry Regulations 2018, S.R. No. 84/2018, pp. 24-25. Complaints started to be lodged with booking service providers in late 2018.

The coronavirus pandemic effect was less pronounced on demand and supply in the large regional zone

This chapter provides an overview of our analysis of the demand and supply of unbooked taxi services in the large regional zone which includes Ballarat, Bendigo and Geelong.

As discussed in the previous chapter, there are some data limitations issues, hence the total industry-wide presentation of demand and supply information. To get some indications of the trend in the demand for and supply of unbooked taxi services in the large regional area, we used the data provided by the booking service providers in the large regional zone. The implication of this approach is that trips which started in the Melbourne metropolitan zone, if any, were also counted.⁵² We consider that the number of these trips is not likely to affect the general trend of demand and supply of unbooked taxis in the large regional zone.

We presented the results of our analysis of taxi trips and shifts that occurred in the large regional zone as a whole without identifying the booking service provider. In some cases data are normalised.

Passengers are using fewer unbooked taxi services

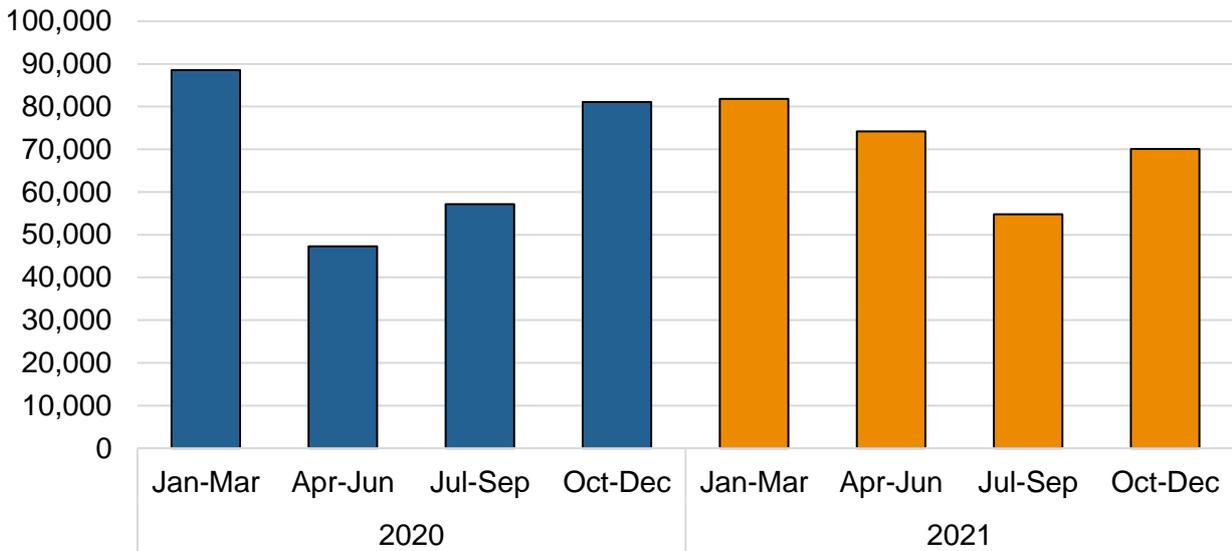
In comparison to 2019 levels, we observe a notable reduction in the number of unbooked taxi trips in the large regional zone during 2020 since the start of the coronavirus pandemic. The number of trips momentarily reached near pre-coronavirus pandemic levels in late 2020 before the declining trend continued through to the September quarter of 2021 (Figure 10). Similar to our observation for the Melbourne metropolitan, urban and large regional zones as a whole, the health concerns and travel restrictions associated with coronavirus pandemic appear to have impacted the demand for taxi services in regional Victoria. However, the impact in the large regional area is not as severe given that coronavirus restrictions were less onerous and were in place for less time in regional Victoria.

Based on the data we received that includes historical information, the level of unbooked taxi trips observed in the fourth quarter of 2021 was 29 per cent lower than the fourth quarter of 2019.

⁵² For example, when an operator from the large regional zone dropped a passenger at the Melbourne Airport, that operator could have stayed at the Melbourne Airport rank to wait for a passenger.

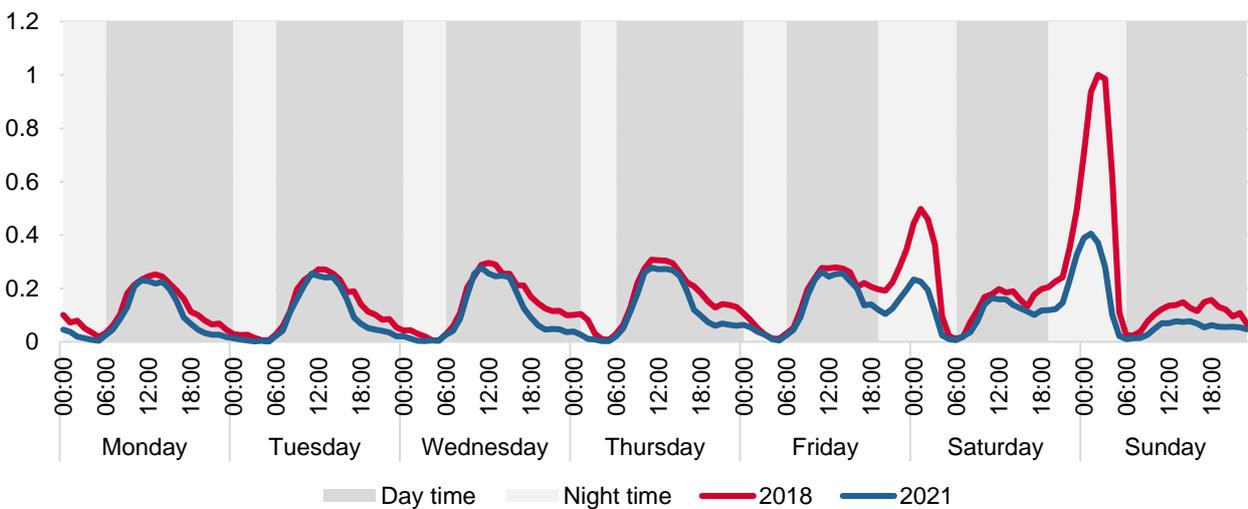
The coronavirus effect was less pronounced on demand and supply in the large regional zone

Figure 10: Unbooked taxi trips in the large regional zone, per quarter: 2020 to 2021



We also observe that the average number of unbooked trips in 2018 is higher across the week compared to 2021 (Figure 11). The difference is much less pronounced than what we observe in the data for all three zones combined. The gap in number of unbooked trips between 2018 and 2021 is largest during the peak times on Friday and Saturday nights. A similar gap is observed between 2020 and 2021 unbooked trip numbers at these peak times. The coronavirus pandemic-related restrictions and health concerns experienced during 2021 are likely to have reduced demand for unbooked taxi services, contributing to the significant drop in peak time activities observed in our data.

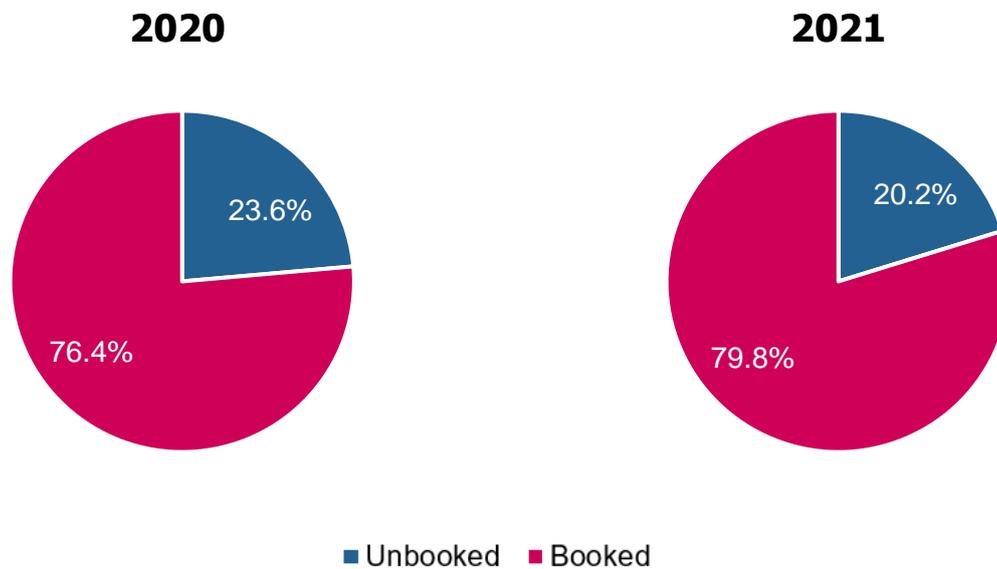
Figure 11: Unbooked taxi trips by hour of the week in the large regional zone, normalised - 2018 and 2021



The coronavirus effect was less pronounced on demand and supply in the large regional zone

Figure 12 provides a comparison of the ratio of booked to unbooked trips between 2020 and 2021. While the proportion of unbooked trips in the large regional zone is smaller compared to the Melbourne metropolitan, urban and large regional zones combined, a similar trend is observed where the proportion of unbooked taxi trips has fallen between 2020 and 2021, however the change is minor.

Figure 12: Ratio of booked and unbooked taxi trips – large regional zone: 2020 and 2021⁵³



The number of registered taxis has fallen

The number of registered taxis peaked in mid-2019 and has since decreased, with one potential driver being the low demand for passenger services given the prevalence of the coronavirus pandemic in Victoria. Figure 4 shows the trend in the total registered taxis in Victoria since 2017. We do not have segregated data on the number of taxi registrations for the large regional zone.

Taxi drivers are working fewer shift hours

Shift hours represent the time between the start and the end of each shift for taxi drivers. It includes both the durations when the taxi is occupied with passengers, as well as the duration it is unoccupied but looking for passengers or driving to collect a passenger.

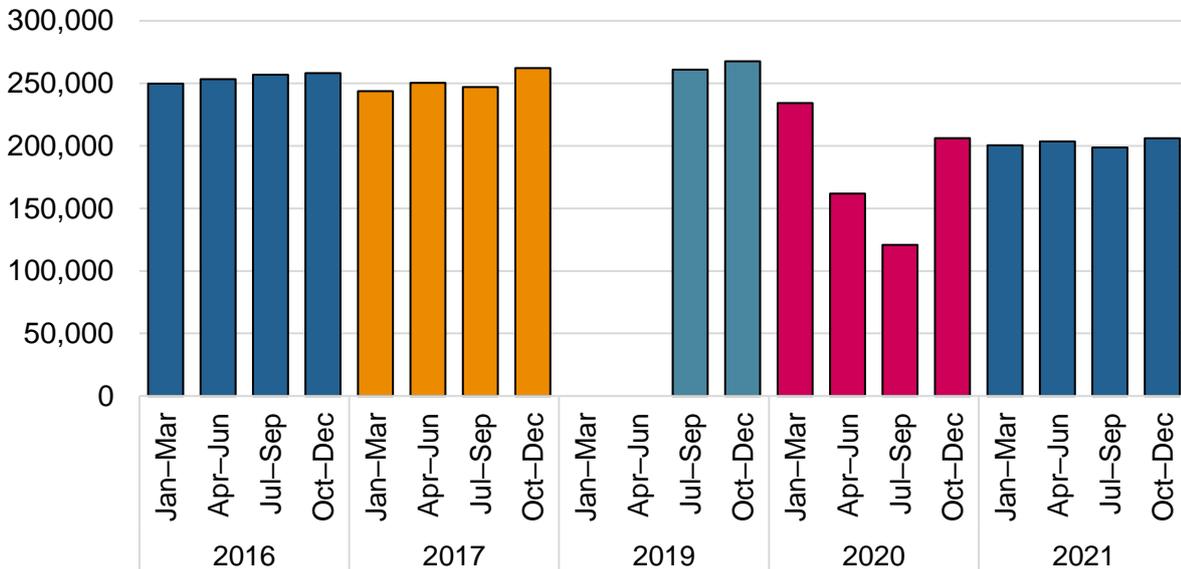
Figure 13 shows that shift hours were relatively stable prior to the onset of the coronavirus pandemic. Due to data limitations, we cannot provide any analysis of the level of shift hours in the large regional zone during 2018 and the first half of 2019. In line with lower demand for unbooked

⁵³ Data for prior years are only available for one booking service provider. This chart captures data from two booking services providers.

The coronavirus effect was less pronounced on demand and supply in the large regional zone

taxi services, the number of shift hours worked by drivers has fallen and not returned to pre-coronavirus pandemic levels towards the end of 2021.

Figure 13: Total taxi shift hours in the large regional zone: 2016 to 2021⁵⁴



Trip numbers and taxi availability suggest there is unused capacity

Occupancy rates

In our 2018 analysis, occupancy rates for 2016-17 showed high levels of taxi utilisation on Friday and Saturday nights, and relatively high utilisation from 8am to 10am and 3pm to 5pm in Geelong. A similar pattern is observed in the large regional zone during 2019 and 2021 (Figure 14). The average occupancy rates have gradually increased between 2019 and 2021 with the highest increases (7-10 per cent) seen during peak service hours on Friday and Saturday nights.

Based on our data, we can identify higher unused capacity during 2019 prior to the coronavirus pandemic. The improved occupancy rates during 2020 and subsequently 2021 are a result of the relatively large reduction in shift hours, compared to the quantity of trips completed – that is, due to a higher decrease in supply compared to demand. This means that drivers were receiving more trips during the times they were available for service, even though the number of shift hours worked were lower compared to pre-coronavirus pandemic levels. Given the coronavirus

⁵⁴ Although we have complete trip data for much of this period, we have gaps in the shift data covering 2017, 2018 and the first half of 2019. Shift data is sourced from Commercial Passenger Vehicle Victoria’s Multi-Purpose Taxi Program data.

The coronavirus effect was less pronounced on demand and supply in the large regional zone

pandemic-driven influences on demand and supply for unbooked taxi services, the observed improvement in occupancy rates between 2019 and 2021 does not provide a reliable indication of whether maximum fares in the large regional zone needs to be changed or remain the same.

However, when comparing occupancy rates across the week between 2019 and 2021, the current fare structure appears to be appropriate.

Figure 14: Occupancy rates for large regional zone – 2019 and 2021 (per cent)

	2019							2021						
	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun
12am-1am	22	21	18	26	22	23	25	23	22	28	33	27	31	32
1am-2am	19	26	21	17	24	22	26	27	23	25	25	31	29	34
2am-3am	14	17	14	16	22	18	21	21	18	20	22	24	28	31
3am-4am	13	15	11	13	19	20	24	18	19	20	22	25	27	31
4am-5am	16	16	15	16	14	15	17	20	17	17	18	20	23	26
5am-6am	17	18	16	15	16	17	16	18	18	17	17	19	22	22
6am-7am	17	17	17	17	17	17	18	19	18	18	19	20	23	24
7am-8am	18	19	18	19	17	15	17	20	20	20	20	20	16	19
8am-9am	32	32	33	33	31	18	18	36	35	37	37	36	18	18
9am-10am	28	29	29	30	29	23	22	28	29	29	30	29	24	25
10am-11am	24	25	25	27	26	25	23	25	26	26	28	27	27	26
11am-12pm	23	23	24	25	26	26	25	24	26	26	27	28	28	27
12pm-1pm	22	23	23	24	26	26	25	25	25	26	27	29	28	25
1pm-2pm	22	22	22	24	25	23	22	24	24	25	26	27	26	25
2pm-3pm	26	27	28	28	28	20	20	28	29	31	31	31	23	24
3pm-4pm	30	31	32	33	33	19	21	35	35	36	37	37	22	23
4pm-5pm	22	23	24	25	26	19	22	24	24	26	27	27	22	22
5pm-6pm	19	19	21	22	22	20	21	20	19	21	22	23	23	22
6pm-7pm	15	18	18	19	22	22	20	17	17	18	20	22	25	22
7pm-8pm	14	16	15	16	17	18	17	15	16	16	18	20	22	21
8pm-9pm	15	16	17	17	16	14	19	18	18	18	19	19	20	22
9pm-10pm	18	19	19	20	19	16	20	21	22	23	22	21	22	24
10pm-11pm	19	21	22	21	23	20	21	24	24	25	25	25	27	26
11pm-12am	18	23	19	18	23	25	17	23	23	25	25	29	32	26

Customer wait times increased during the pandemic

Customer waiting time for booked trips

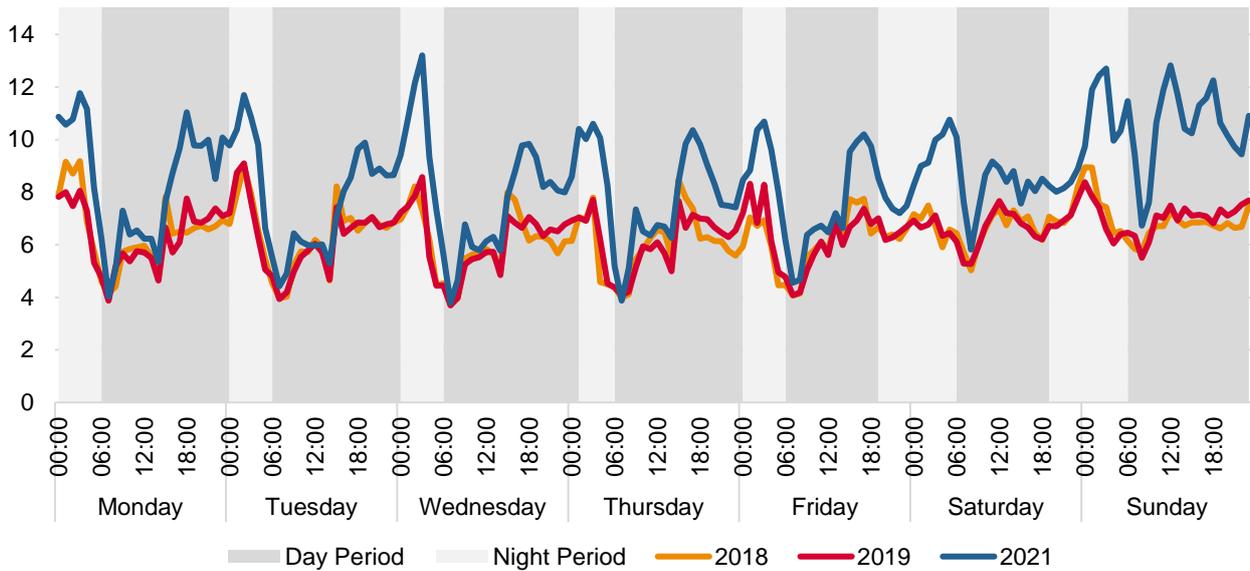
Across all hours of the week, our data shows that waiting time for booked taxis has increased in 2021 in comparison to 2019. Customer wait times in 2021 are the longest from evening through to the night period on weekdays (Figure 15). Despite significant reductions in demand during 2020 and 2021 due to coronavirus pandemic-related restrictions, passengers who did use a booked taxi service were waiting longer than they were in 2019. Some reasons for this observed trend are the

The coronavirus effect was less pronounced on demand and supply in the large regional zone

driver shortages observed across the different taxi networks over the duration of the coronavirus pandemic. During our discussions with taxi booking service providers, we heard that some taxi drivers have found work in different sectors and industries with more demand for services during this period.

Given the significant impact the coronavirus pandemic has had on the commercial passenger vehicle industry, we cannot rely on the trends in customer wait times observed during the pandemic to draw inferences about the current level of taxi service quality.

Figure 15: Average customer wait time in the Large Regional zone: 2019 and 2021



The coronavirus effect was less pronounced on demand and supply in the large regional zone

'Time and distance' tariffs will remain optional

We propose to keep 'time and distance' tariffs optional

Our draft decision is to keep 'time **and** distance' tariffs optional. This means that unbooked taxis will continue to have the option to choose between using 'time **or** distance' tariffs or 'time **and** distance' tariffs.

We introduced the optional 'time and distance' tariffs in our 2018 unbooked taxi fare review.⁵⁵ Under 'time **and** distance' tariffs, the time rate and the distance rate apply at the same time. Under the existing tariffs, which are 'time **or** distance' tariffs, either the time or the distance rate applies at any point in time (depending on the speed of the vehicle). Our analysis shows that the average fare would generally be the same under the 'time and distance' tariff and the 'time or distance' tariff.⁵⁶ 'Time **and** distance' tariffs have the benefits of being easier to compare fares between service offerings and making fares more predictable.

The box below shows how fares are calculated using a 'time and distance' tariffs and a 'time or distance' tariff.

'Time and distance' tariff

Taxi fare = (kilometres travelled x distance rate) + (duration of trip in hours x hourly rate)

'Time or distance' tariff

Taxi fare = (kilometres travelled at speed above 21 kilometres per hour x distance rate) + (hours spent at speed below 21 kilometres x hourly rate)

In its submission to our consultation paper, Silver Top considered that 'time or distance' tariff is the more 'equitable approach for congested metropolitan areas in which our fleets operate, sharing the true economic cost of a trip between the passenger and the service provider, the driver ...'⁵⁷ 13Cabs stated that it sees no reason why the commission should seek to restrict taxi operators from adopting other fare structures.⁵⁸

⁵⁵ Essential Services Commission 2018, Unbooked commercial passenger vehicle review 2018 – Final decision, September, pp. 20-22.

⁵⁶ Essential Services Commission 2018, Unbooked commercial passenger vehicle review 2018 – Final decision, September, Appendix K.

⁵⁷ Gange Corporation, submission received 11 April 2022. Gange Corporation owns Silver Top, West Suburban Taxis, Frankston Taxis and 50 per cent of Geelong Taxis.

⁵⁸ 13Cabs, submission received 23 March 2022.

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While we acknowledge the benefits of 'time and distance' tariffs and that there are no technical barriers to implementing them, we are not seeking to introduce any mandatory requirement to adopt the approach. We consider that it is appropriate to continue to allow unbooked taxi service providers to have the option of choosing between using 'time or distance' tariffs or 'time and distance' tariffs. The commission has proposed maximum fares for both types of tariff structure.

Other matters raised in submissions

Since we started the review in late 2021, we have engaged with stakeholders at various times via meetings, emails, phone calls and a consultation paper. We engaged with them on a number of matters, including:

- the issues the taxi industry is facing
- the changes in the costs of operating a taxi
- their capability to provide trip data; issues about the trip data they submitted
- our approach to setting the maximum fares.

In our consultation paper, released on 16 February 2022, we outlined our proposed approach to the unbooked taxi fare review 2022. We asked stakeholders about their views on a number of matters including:

- our proposed approach to market outcomes and taxi cost index in setting the maximum fares, and whether there are any other assessment approaches that we should consider
- how the Fair Work Commission's annual wage review should be used in our review of fares
- any barriers to implementing 'time **and** distance' tariffs that we should consider
- customer experience of catching unbooked taxis changed in the past two years
- change in the availability and quality of the vehicles and service
- changes in the commercial passenger vehicle industry should we consider in setting maximum fares.

Four stakeholders made a submission to our consultation paper: two booking service providers, and two taxi drivers. Stakeholders suggested maximum fares should increase to account for higher fuel prices, ensure industry viability, improve driver earnings and address driver shortage.⁵⁹ 13cabs has also opposed the use of the market outcomes approach, and has suggested some alternative approaches.⁶⁰ 13cabs and Silver Top also suggested that the taxi cost index should have a degree of variability for major costs such as fuel.⁶¹ We have addressed these key matters in the preceding first two chapters.

⁵⁹ 13Cabs, submission received 23 March 2022. Submission of Rajesh Gupta, received 15 March 2022. Gange Corporation, submission received 11 April 2022. Gange Corporation owns Silver Top, West Suburban Taxis, Frankston Taxis and 50 per cent of Geelong Taxis.

⁶⁰ 13Cabs, submission received 23 March 2022.

⁶¹ 13Cabs, submission received 23 March 2022, Silver Top, submission received 11 April 2022.

This chapter summarises the other matters raised by stakeholders and how we have considered them in our draft decision. Appendix H provides a list of the stakeholders that provided written submissions.

'The last fares increase in Victoria was in 2014'

13cabs noted that the last maximum fares increase in Victoria was in 2014.⁶² This is not unique for Victoria. Other Australian jurisdictions such as New South Wales and Queensland, as well as South Australia, increased their fares in 2014 and 2016, respectively. This is detailed in Appendix F.

Our decision not to change the maximum fares during our 2016, 2018 and 2020 unbooked taxi fare reviews are detailed in the relevant final decision papers.⁶³

'Averaging the flag fall'

Silver Top suggested that the commission consider 'the averaging of flag fall over the trip as is the case in Rideshare to avoid "meter shock" at the start of taxi trips'.⁶⁴ Rideshare and pre-booked trips provide a fixed upfront fare that covers the proposed distance to be travelled. This allows for a 'flag fall' to be averaged as suggested by Silver Top. However, for unbooked fares, passengers rely on metering to accurately calculate distance travelled. As a consequence, the proposed change would effectively remove the flag fall, with all charges being distance-related. Our understanding of the purpose of a flag fall is that it provides for the recovery of some fixed costs associated with each trip. If fixed costs are recovered via the waiting and distance rates, it may be over- or under-recovered depending on the distance travelled by the unbooked taxi. Furthermore, the proposed approach could encourage short trip fare refusal by taxi drivers.

There is merit in broadly examining the tariff structure for unbooked taxi services. We consider this would require a more extensive consultation with the industry, passengers and the Department of Transport. Our priority at this stage is to release the new price determination by early September 2022 so the new maximum fares can take effect on 1 October 2022.

⁶² 13Cabs, submission received 23 March 2022.

⁶³ Essential Services Commission, Taxi fare review 2016: Final report, June 2016. Essential Services Commission, Unbooked commercial passenger vehicle fare review 2018: Final decision, 13 September 2018. Essential Services Commission, Unbooked taxi fare review 2020: Final decision, 8 September 2020.

⁶⁴ Gange Corporation, submission received 11 April 2022. Gange Corporation owns Silver Top, West Suburban Taxis, Frankston Taxis and 50 per cent of Geelong Taxis.

Other matters raised in submissions

'Unbooked taxi fares should be deregulated'

13cabs suggested that the commission should decline to set a maximum fare, and instead require taxi operators to adhere to the pricing principles that unbooked fares be determined in the same manner taxi operators estimate booked fares.

The commission has no legislative power to deregulate unbooked taxi services as it is a policy matter for the government to consider. Under section 110F of the *Commercial Passenger Vehicle Industry Act 2017*, the commission is required to make a determination of the maximum charges for applicable unbooked services.⁶⁵ The determination must be made in accordance with the statutory framework provided in Part 6 Division 1A of the *Commercial Passenger Vehicle Industry Act 2017*. This does not provide for the setting of the maximum fares using a principles-based approach.

⁶⁵ Commercial Passenger Vehicle Industry Act 2017, s 110F.

Appendix A: Proposed maximum fares

Melbourne metropolitan and urban zones

Table A.1: Proposed maximum fares for unbooked taxi services that begin in the Melbourne metropolitan or urban zones - ‘time or distance’ tariffs

	Tariff 1 ‘Day’ (9am-5pm)	Tariff 2 ‘Overnight’ (5pm-9am, excluding peak)	Tariff 3 ‘Peak’ (Fri & Sat nights 10pm-4am)
Standard fare components	Maximum charge up to		
Flagfall (\$)	4.64	5.74	6.84
Distance rate (\$/km) (when speed is above 21 km/hr)	1.791	1.992	2.193
Waiting time (\$/min) (when speed is below 21 km/hr)	0.627	0.697	0.767
Other fare components (applicable to tariffs 1, 2 and 3)	Maximum charge up to		
High occupancy fee ^(a)			\$15.46
Airport taxi rank fee ^(b)	For trips from the airport rank		Pass-through
Holiday rate ^(c)			Tariff 3 rates
CPV levy recovery fee			Pass-through
CityLink and EastLink tolls ^(d)			Pass-through
Cleaning fee	Up to a maximum of \$120		

(a) For taxis carrying 5 to 11 passengers.

(b) As published by that airport in a daily newspaper generally circulating in Victoria and on that airport’s website.

(c) For trips commencing on Christmas Day, Boxing Day, New Year’s Day and from 6pm on New Year’s Eve.

(d) As published from time to time in the Victorian Government Gazette in accordance with the Melbourne City Link Act 1995 or the EastLink Project Act 2004 as applicable.

Table A.2: Proposed maximum fares for unbooked taxi services that begin in the Melbourne metropolitan or urban zones - ‘time and distance’ tariffs

	Tariff 1 ‘Day’ (9am-5pm)	Tariff 2 ‘Overnight’ (5pm-9am, excluding peak)	Tariff 3 ‘Peak’ (Fri & Sat nights 10pm-4am)
Standard fare components	Maximum charge up to		
Flagfall (\$)	4.64	5.74	6.84
Distance rate (\$/km) (at all times)	1.482	1.645	1.819
Duration rate (\$/min) (at all times)	0.380	0.418	0.450
Other fare components (applicable to tariffs 1, 2 and 3)	Maximum charge up to		
High occupancy fee ^(a)			\$15.46
Airport taxi rank fee ^(b)	For trips from the airport rank		Pass-through
Holiday rate ^(c)			Tariff 3 rates
CPV levy recovery fee			Pass-through
CityLink and EastLink tolls ^(d)			Pass-through
Cleaning fee	Up to a maximum of \$120		

(a) For taxis carrying 5 to 11 passengers.

(b) As published by that airport in a daily newspaper generally circulating in Victoria and on that airport’s website.

(c) For trips commencing on Christmas Day, Boxing Day, New Year’s Day and from 6pm on New Year’s Eve.

(d) As published from time to time in the Victorian Government Gazette in accordance with the Melbourne City Link Act1995 or the EastLink Project Act 2004 as applicable.

Large regional zone

Table A.3: Proposed maximum fares for unbooked taxi services that begin in the Large Regional zone, including Geelong, Ballarat and Bendigo - ‘time or distance’ tariffs

Fare component		Maximum charge
Standard fare components		
Flagfall (\$)		3.97
Distance rate (\$/km) (applies when speed is above 21 km/hr)		2.029
Waiting time (\$/min) (applies when speed is below 21 km/hr)		0.710
High occupancy trips		
For trips with 5 or more passengers: not applicable if the commercial passenger vehicle does not have the capacity for carriage of 5 or more passengers in fixed seats. ‘Fixed seats’ does not include positions for the carriage of persons in wheelchairs.		
Flagfall (\$)		3.97
Distance rate (\$/km) (applies when speed is above 21 km/hr)		3.044
Waiting time (\$/min) (applies when speed is below 21 km/hr)		1.065
Other fare components		
Late night fee	For trips commencing between 7pm on Friday and Saturday nights through to 6am the following morning; and from midnight to 6am on all other days	\$3.75
Holiday rate ^{(a)(b)}		\$4.64
CPV levy recovery fee		Pass-through
CityLink and EastLink tolls ^(c)		Pass-through
Airport taxi rank fee ^(d)	For trips from the airport rank	Pass-through
Cleaning fee	Up to a maximum of \$120	

(a) For trips commencing between 7pm on evenings prior to all public holidays, through to 6am the following mornings and trips commencing on Christmas Day, Boxing Day, New Year’s Day and from 6pm on New Year’s Eve.

(b) The ‘late night fee’ does not apply during times that the holiday rate applies.

(c) As published from time to time in the Victorian Government Gazette in accordance with the Melbourne City Link Act 1995 or the EastLink Project Act 2004 as applicable.

(d) As published by that airport in a daily newspaper generally circulating in Victoria and on that airport’s website.

Table A.4: Proposed maximum fares for unbooked taxi services that begin in the Large Regional zone, including Geelong, Ballarat and Bendigo - ‘time and distance’ tariffs

Fare component	Maximum charge
Standard fare components	
Flagfall (\$)	3.97
Distance rate (\$/km) (at all times)	1.649
Waiting time (\$/min) (at all times)	0.542
High occupancy trips	
For trips with 5 or more passengers: not applicable if the commercial passenger vehicle does not have the capacity for carriage of 5 or more passengers in fixed seats. ‘Fixed seats’ does not include positions for the carriage of persons in wheelchairs.	
Flagfall (\$)	3.97
Distance rate (\$/km) (at all times)	2.695
Waiting time (\$/min) (at all times)	0.584
Other fare components	
Late night fee	For trips commencing between 7pm on Friday and Saturday nights through to 6am the following morning; and from midnight to 6am on all other days
	\$3.75
Holiday rate ^{(a)(b)}	\$4.64
CPV levy recovery fee	Pass-through
CityLink and EastLink tolls ^(c)	Pass-through
Airport taxi rank fee ^(d)	For trips from the airport rank
	Pass-through
Cleaning fee	Up to a maximum of \$120

(a) For trips commencing between 7pm on evenings prior to all public holidays, through to 6am the following mornings and trips commencing on Christmas Day, Boxing Day, New Year’s Day and from 6pm on New Year’s Eve.

(b) The ‘late night fee’ does not apply during times that the holiday rate applies.

(c) As published from time to time in the Victorian Government Gazette in accordance with the Melbourne City Link Act 1995 or the EastLink Project Act 2004 as applicable.

(d) As published by that airport in a daily newspaper generally circulating in Victoria and on that airport’s website.

Appendix B: Detailed cost analysis

We constructed a new taxi cost index to measure changes in costs

A cost index provides a way to estimate and track the cost of a good or service over time. To measure changes in the costs of operating a taxi over time, we use a taxi cost index. The *Essential Services Commission Act 2001* requires us to have regard to efficient costs.⁶⁶ We use the **average cost** of operating a taxi because this is the cost that we consider is achievable for an efficient taxi. If costs are higher than average, we assume that operators will need to have other efficiency advantages to sustainably supply services such as higher utilisation due to better service.

Our existing taxi cost index was constructed in 2014 using cost components relevant to taxi operators at that time. If there have been changes in inputs caused by technological, regulatory, or other factors that have occurred in the commercial passenger vehicle industry since then, updating the cost inflators may no longer measure changes in efficient costs. To address this concern, we constructed a new taxi cost index.

To construct our new index, we:

- identified the **cost components** associated with operating a taxi
- calculated the share of each cost component as a proportion of total cost (**cost share**)
- assigned a **cost inflator** to each cost component

To update the taxi cost index and measure the change in the cost of operating a taxi since our review in 2020, we then:

- multiplied the cost share for each cost component by the change in its respective cost inflator (**index contribution**)
- added up the index contribution for each cost component to find the total change in costs.

Our process is explained in more detail in the following section.

We undertook a survey of taxi operators to understand the costs of operating a taxi

We engaged Honeycomb Strategy to develop and undertake a survey of taxi operators to understand the costs of operating a taxi. Honeycomb Strategy held in-depth meetings with four taxi operators and booking service providers to better understand their costs and operating

⁶⁶ Essential Services Commission Act 2001, s. 33(3)(b).

environment prior to developing the survey. Honeycomb Strategy’s report is available on our website.

The online survey was issued via email to 6,419 taxi operators in the Melbourne metropolitan and urban and large regional zones on 4 May 2022. A total of 355 out of 6,419 operators responded to the survey. The respondents comprise of small and medium sized operators from Melbourne metropolitan, and the urban and large regional zones. Eighty-seven per cent of respondents operate one taxi only. Four respondents operate 10 or more taxis.

The survey looked at key cost components associated with operating a taxi. Table B.1 identifies and explains each cost component.

Table B.1: Key cost components associated with operating a taxi

Cost component	Description
Fuel	Total fuel costs incurred
Network	Includes costs associated with network affiliation. Operators receive access to services such as centralised booking and dispatch and networked security alarms.
Insurance	Includes comprehensive insurance and workers’ compensation insurance
Vehicle	Includes costs associated with purchasing or leasing a vehicle, including fit-out. We have used purchase costs amortised over the life of the vehicle.
Registration	Includes VicRoads registration fee and compulsory third party insurance (Transport Accident Charge)
Repairs and maintenance	Includes cost of operators’ own time, staff costs and costs paid to other businesses for repairs and maintenance
Administration	Includes cost of operators’ own time, staff costs and costs paid to other businesses for administration (e.g., accountant)
Driver labour	Payment made to drivers as per the Driver Agreement ⁶⁷

Survey results

Honeycomb Strategy used the survey results to estimate the average, lower bound and upper bound cost for each cost component associated with operating a taxi. Honeycomb Strategy excluded the highest five per cent and lowest five per cent of survey responses to exclude the impact of outliers.

⁶⁷ The driver must receive at least 55 per cent of the gross fares earned while they have possession of the vehicle. Commercial Passenger Vehicle Industry Act 2017, s. 97.

The results have been combined for taxis in the Melbourne metropolitan, urban and large regional zones given the largely similar operating costs in these zones as suggested by the cost survey results.

The data has been weighted based on the number of taxis operated by each survey respondent

Table B.2 shows the average cost of operating a conventional taxi and a wheelchair accessible taxi based on the survey results. See Honeycomb Strategy’s report for details on the lower bound and upper bound costs of operating a taxi.

Table B.2: Costs of operating a conventional taxi and wheelchair accessible taxi in 2022

Melbourne metropolitan, urban and large regional zones

Cost component	Conventional taxi Average cost (\$)	Wheelchair accessible taxi Average cost (\$)
Fuel	\$5,624	\$5,721
Network	\$8,039	\$6,541
Insurance	\$2,572	\$2,952
Vehicle	\$5,339	\$8,642
Registration ^(a)	\$818	\$818
Repairs	\$4,850	\$4,739
Administration ^(b)	\$5,473	\$4,903
Total operating costs	\$32,716	\$34,317

Source: Essential Services Commission analysis; (a) includes Transport Accident Charge, (b) includes building site cost

Some of the costs are taken directly from the survey results (network and insurance), while the cost for registration is taken directly from the VicRoads website (mid-point of the Melbourne metropolitan zone (high risk) and outer Melbourne metropolitan zone (medium risk)). For the other costs, Honeycomb Strategy made further calculations using the survey results and publicly available information. We consider Honeycomb Strategy’s estimates appropriate. We only made some adjustments to the estimate of fuel costs. These adjustments are explained in the following section.

Fuel

Fuel cost = average cost (4.9L per 100km at 1.637 per L for petrol and 0.895 per L for LPG) x number of kilometres travelled, weighted to number of vehicles with each fuel type. 4.9L per 100 kilometres is reflective of the average fuel economy of a Toyota Camry.⁶⁸

Vehicle

The vehicle cost is based on the cost of the vehicle plus any fit-out costs. The costs are then amortised using the average operating life from the survey results (6.8 years for a conventional taxi and 8.1 years for a wheelchair accessible taxi).

The survey results suggest that the average operating life of a conventional taxi has increased to 6.8 years from 4.54 years previously. Stakeholders have told us that the increase in average operating years is partly due to longer waiting periods to purchase vehicles and taxis driving fewer kilometres during the coronavirus pandemic. However, they also noted that 6.8 years is now around the ideal operating life even in normal circumstances.

Repairs and maintenance

Repairs and maintenance cost = (own time hours x \$25.90 x 52 weeks) + workshops costs + costs paid to other businesses

Honeycomb Strategy used the hourly pay rate for **industry employee—tradesperson or equivalent Level II** from the Vehicle Repairs, Services and Retail Award 2020 as a proxy for the hourly rate for repairs and maintenance.

Administration

Administration cost = (own time hours x \$26.26 x 52 weeks) + annual staff cost + costs paid to other businesses

Honeycomb Strategy used the hourly pay rate for **Level 4** from the Clerks – Private Sector Award 2020 as a proxy for the hourly rate for administration.

Our adjustments to survey results

As a check on some of the cost components, we directly contacted service providers and received industry quotes or researched publicly available information for these components. We note that these quotes align relatively well to the survey results, and we have not made any adjustments based on these quotes and our research.

⁶⁸ See Honeycomb Strategy's report for more information on calculating the fuel cost.

We made some adjustments to the fuel cost. First, we included diesel in the mix of fuel types as the cost survey results show that diesel is still widely used for wheelchair accessible taxis. The updated fuel cost reflects the fuel efficiency of each fuel type and is weighted to the number of vehicles with each fuel type.

Second, we updated the average kilometres driven per year to reflect our trip data. The trip data of one of the main booking service providers suggests that the average kilometres driven per year pre-coronavirus pandemic by a conventional taxi is 52,000, and a wheelchair accessible taxi is 49,000 (compared to 75,000 and 89,000, respectively, based on the cost survey results). We consider that the trip data is a more accurate reflection of the average kilometres driven and we have made an adjustment to the fuel cost to reflect this. We have also used the average kilometres driven per year **pre-pandemic**, as this is likely to be a more accurate reflection of average kilometres driven in a normal year.

We determined the cost profile for a conventional taxi and wheelchair accessible taxi

Based on the average cost for each cost component and the adjustment for fuel explained in the previous section, we determined the cost profile for a conventional taxi and a wheelchair accessible taxi in the Melbourne metropolitan, urban and large regional zones in 2022. The cost profile for a conventional taxi is set out in Table B.3 and for a wheelchair accessible taxi in Table B.4.

We then used the cost profile to determine the cost share for each cost component. To do this, we divided the cost for each cost component by the total operating cost. Tables B.3 and B.4 show the cost share both excluding driver labour and including driver labour. The results **including** driver labour are based on a 55:45 revenue sharing arrangement. The 55 per cent driver share is the minimum mandated by the Victorian government.⁶⁹

⁶⁹ Commercial Passenger Vehicle Industry Act 2017, s. 97.

Table B.3: Cost profile for conventional taxi in 2022

Melbourne metropolitan, urban and large regional zones

Cost component	Average cost (\$)	Cost share (%) (excluding driver labour)	Cost share (%) (including driver labour)
Fuel	\$4,696	14.8%	6.6%
Network (equipment)	\$4,020	12.6%	5.7%
Network (labour)	\$4,020	12.6%	5.7%
Insurance	\$2,572	8.1%	3.6%
Vehicle	\$5,339	16.8%	7.6%
Registration ^(a)	\$818	2.6%	1.2%
Repairs and maintenance	\$4,850	15.3%	6.9%
Administration ^(b)	\$5,473	17.2%	7.7%
Total operating costs	\$31,787	100.0%	45%

Source: Essential Services Commission analysis; (a) includes Transport Accident Charge; (b) includes building site cost

Table B.4: Cost profile for wheelchair accessible taxi in 2022

Melbourne metropolitan, urban and large regional zones

Cost component	Average cost (\$)	Cost share (%) (excluding driver labour)	Cost share (%) (including driver labour)
Fuel	\$5,260	15.5%	7.0%
Network (equipment)	\$3,271	9.7%	4.3%
Network (labour)	\$3,271	9.7%	4.3%
Insurance	\$2,952	8.7%	3.9%
Vehicle	\$8,642	25.5%	11.5%
Registration ^(a)	\$818	2.4%	1.1%
Repairs and maintenance	\$4,739	14.0%	6.3%
Administration	\$4,903	14.5%	6.5%
Total operating costs	\$33,855	100.0%	45%

Source: Essential Services Commission analysis; (a) includes Transport Accident Charge; (b) includes building site cost

The cost share for fuel has changed the most

Compared with our existing taxi cost index, the key change in the cost shares for a conventional taxi is fuel, which decreased from 15.4 per cent to 6.6 per cent. Similar to conventional taxis, the key change in the cost shares for a wheelchair accessible taxi is fuel, which decreased from 14.6 per cent to 7.0 per cent.

The significant decrease in the cost share for fuel in 2022 compared to 2014 is likely due to several factors, including that:

- taxis are driving less. Our survey results suggest that taxis are driving, on average, between 52,000 kilometres per year (based on trip data) and 75,000 kilometres per year (based on cost survey results) compared to 100,000 kilometres per year in 2014.
- many operators are using more fuel efficient vehicles. Our survey results suggest that more operators are using hybrid vehicles in 2022 and hybrid vehicles use less fuel per 100 kilometres compared to non-hybrid vehicles.

We identified the appropriate cost inflator for each cost component

With the exception of fuel and driver labour, we have maintained the cost inflators used in our existing taxi cost index for all cost components. We consider that these cost inflators are still appropriate (see Table B.5). The reasons for the change in the cost inflators for fuel and driver labour are explained in the following section.

Table B.5: Cost inflators for each cost component

Cost component	Cost inflator
Fuel	FuelTRAC (petrol, LPG and diesel, average for Melbourne, Ballarat, Bendigo and Geelong)
Network (equipment)	CPI (telecommunications equipment and services component, Melbourne)
Network (labour)	WPI (Victoria)
Insurance	Insurance Council of Australia (comprehensive car insurance index)
Workers' compensation	WPI (Victoria)
Vehicle	Imputed on CPI (motor vehicle, Melbourne) and Reserve Bank of Australia lending rates for small businesses
Registration ^(a)	VicRoads registration fee
Repairs and maintenance	CPI (maintenance and repairs of motor vehicles, Melbourne)
Administration	WPI (Victoria), CPI (all groups, Melbourne)
Driver labour	Fair Work Commission's annual wage review

Fuel cost inflator

We understand from our cost survey that hybrid taxis have become more common and LPG taxis less common since we constructed our existing taxi cost index in 2014. The survey results suggest that 23 per cent of conventional taxis use LPG, 17 per cent use petrol, 51 per cent use petrol/electric hybrid and nine per cent use diesel. We have used a fuel cost inflator weighted by the share of taxis using each fuel type as we consider it best reflects the fuel costs being experienced by taxi operators (Tables B.6 and B.7). To the extent that an individual operator chooses a higher cost fuel source than the average, we assume that there must be other efficiency advantages (such as, lower vehicle cost) to compensate for that fuel cost disadvantage.

Table B.6: Weighted fuel cost inflator

Conventional taxi

Fuel type	Share of taxis	Change in fuel price (May-20 to May-22) ⁷⁰	Contribution to fuel cost inflator
LPG	23%	54.9%	12.6%
Petrol	17%	101.7%	17.3%
Petrol/electric hybrid	51%	101.7%	51.9%
Diesel	9%	93.8%	8.0%
Total	100%	Not applicable	90.2%

Table B.7: Weighted fuel cost inflator

Wheelchair accessible taxi

Fuel type	Share of taxis	Change in fuel price (May-20 to May-22) ⁷¹	Contribution to fuel cost inflator
LPG	20%	54.9%	11.0%
Petrol	14%	101.7%	14.2%
Petrol/electric hybrid	22%	101.7%	22.4%
Diesel	44%	93.8%	41.0%
Total	100%	Not applicable	88.9%

Driver labour cost inflator

The *Commercial Passenger Vehicle Industry Act 2017* was amended in 2021. In setting maximum fares, we may now also determine fares according to the Fair Work Commission’s annual wage review.⁷²

We note that taxi operators must compete for the services of taxi drivers in the market for labour. To maintain the supply of drivers, taxi operators need to offer at least as much as alternative opportunities. We consider that the Fair Work Commission’s annual wage review is a reasonable

⁷⁰ Fuel prices include the full fuel excise tax based on Government announcement that the fuel excise tax cut will end in September 2022.

⁷¹ Fuel prices include the full fuel excise tax based on Government announcement that the fuel excise tax cut will end in September 2022.

⁷² Commercial Passenger Vehicle Industry Act 2017, s. 110E(1)(ga).

indicator of the cost of alternative opportunities. Therefore, we consider that it is appropriate to use it as the cost inflator for driver labour rather than the wage price index (transport, postal and warehousing) used in our existing taxi cost index.

Our taxi cost index suggests the costs of operating a taxi have increased

Our new taxi cost index suggests that the costs of operating a conventional taxi have increased by 10.4 per cent over the period from March 2020 to March 2022.⁷³ The key reasons for the increase in costs are fuel and driver labour. Table B.8 shows the cost components, cost shares and contribution to the overall change in the taxi cost index.

We will update our new taxi cost index to reflect the period from June 2020 to June 2022 for our final decision. The change in costs of operating a conventional taxi may differ from this draft decision.

Table B.8: Change in costs of operating a conventional taxi

New taxi cost index; March 2020 to March 2022⁷⁴

Cost component	Cost share	Change in cost inflator	Contribution to overall change
Fuel	6.6%	90.2%	6.0%
Network (equipment)	5.7%	-3.0%	-0.2%
Network (labour)	5.7%	3.8%	0.2%
Insurance	3.6%	6.5%	0.2%
Vehicle	7.6%	-12.7%	-1.0%
Registration ^(a)	1.2%	1.4%	0.0%
Repairs and maintenance	6.9%	6.0%	0.4%
Administration ^(b)	7.7%	3.9%	0.3%
Total operating costs	45%	13.4%	6.1%
Driver labour	55%	7.8%	4.3%
Total operating and labour costs	100%	Not applicable	10.4%

Source: Essential Services Commission analysis; (a) includes Transport Accident Charge, (b) includes building site cost

⁷³ Except for fuel cost and driver labour which are based on May 2022 and June 2022 information, respectively. This means the most recent driver labour and fuel prices have been incorporated into this draft decision.

⁷⁴ Fuel costs and driver labour are based on May 2022 and June 2022 information, respectively.

The costs of operating a wheelchair accessible taxi have also increased

Our taxi cost index suggests that the costs of operating a wheelchair accessible taxi have increased by 10.0 per cent over the period from March 2020 to March 2022 (Table B.9). Similar to conventional taxis, the key reasons for the increase in costs are fuel and driver labour.

We will update our new taxi cost index to reflect the period from June 2020 to June 2022 for our final decision. The change in costs of operating a wheelchair accessible taxi may differ from this draft decision.

Table B.9: Change in costs of operating a wheelchair accessible taxi

New taxi cost index; March 2020 to March 2022⁷⁵

Cost component	Cost share	Change in cost inflator	Contribution to overall change
Fuel	7.0%	88.9%	6.2%
Network (equipment)	4.3%	-3.0%	-0.1%
Network (labour)	4.3%	3.8%	0.2%
Insurance	3.9%	6.5%	0.3%
Vehicle	11.5%	-12.7%	-1.5%
Registration ^(a)	1.1%	1.4%	0.0%
Repairs and maintenance	6.3%	6.0%	0.4%
Administration ^(b)	6.5%	3.9%	0.3%
Total operating costs	45%	12.6%	5.7%
Driver labour	55%	7.8%	4.3%
Total operating and labour costs	100%	Not applicable	10.0%

Source: Essential Services Commission analysis; (a) includes Transport Accident Charge, (b) includes building site cost.

We used our existing taxi cost index as a cross-check

We updated our existing taxi cost index to cross-check the results of our new taxi cost index. We used the cost components, cost shares and cost inflators identified in our 2014 review. We also included a cost component for driver labour. With the exception of the fuel cost inflator (which we obtained from FuelTRAC), all cost inflators are from publicly available sources including the Australian Bureau of Statistics, the Reserve Bank of Australia, and the Insurance Council of Australia.

⁷⁵ Fuel costs and driver labour are based on May 2022 and June 2022 information, respectively.

Appendix C: Our legislative considerations

The Essential Services Commission (commission) regulates the maximum charges for applicable unbooked services supplied by or within the commercial passenger vehicle industry (maximum fares).⁷⁶

An applicable unbooked service means an unbooked commercial passenger vehicle service in respect of carriage on a journey that begins in the Melbourne metropolitan zone or the urban and large regional zones.⁷⁷ An unbooked commercial passenger vehicle service refers to a service that is provided other than as a result of the provision of a booking service.⁷⁸

The *Commercial Passenger Vehicle Industry Act 2017* (CPVI Act) and the *Essential Services Commission Act 2001* (ESC Act) govern our role in regulating maximum fares for applicable unbooked services. We must also have regard to the transport system objectives and decision making principles under the *Transport Integration Act 2010*.⁷⁹

In this paper, we refer to commercial passenger vehicles that provide unbooked commercial passenger vehicle services as unbooked taxis, and applicable unbooked services as unbooked taxi services. This is on the basis that taxis currently meet the requirements to provide unbooked commercial passenger vehicle services. However, we acknowledge that other commercial passenger vehicle services that meet the regulatory requirements in the future can also provide unbooked taxi services.

Our objectives

The purposes of the CPVI Act include establishing a new regulatory framework for the commercial passenger vehicle industry, including new safety duties for commercial passenger vehicle industry participants and certain protections for consumers and drivers of consumer passenger vehicles.⁸⁰ Our role in determining maximum fares for unbooked services is one of these protections.

⁷⁶Before determining maximum fares, we typically undertake a fare review. A price determination is the legislative instrument we use to regulate maximum fares.

⁷⁷ Commercial Passenger Vehicle Industry Act 2017, s. 110A.

⁷⁸ Commercial Passenger Vehicle Industry Act 2017, s. 3.

⁷⁹ Transport Integration Act 2010, s.24. The definition of a transport body under s.3 of the Transport Integration Act 2010 includes the Essential Services Commission when it is exercising its functions and powers under any transport legislation in respect of the transport system. Transport legislation is also defined under s.3 to include the Commercial Passenger Vehicle Industry Act 2017.

⁸⁰ Commercial Passenger Vehicle Industry Act 2017, s.1.

Our specific objective under the CPVI Act for determining maximum fares for unbooked taxi services is to promote the efficient provision and use of unbooked commercial passenger vehicle services.⁸¹ This objective complements our objective under the ESC Act, which is to promote the long term interests of Victorian consumers.⁸² In seeking to achieve this objective, we must have regard to the price, quality and reliability of essential services.⁸³

Matters we must have regard to

We must also have regard to a number of other matters under the ESC Act. Under section 8A, we must have regard to a range of matters, to the extent they are relevant in any particular case. These include efficiency in the commercial passenger vehicle industry and incentives for long term investment, the financial viability of the industry, the degree of, and scope for, competition within the industry, the relevant health, safety, environmental and social legislation applying to the industry, the benefits and costs of regulation, consistency in regulation between states and on a national basis, and any matters specified in the empowering instrument.⁸⁴

Under section 33(3) of the ESC Act, we must also, in making a determination, have regard to: the particular circumstances of the regulated industry and the prescribed services, the efficient costs of supplying the regulated services and complying with relevant legislation, the return on assets in the industry, and any relevant interstate and international benchmark for prices, costs and return on assets in comparable industries, and any other factors that the commission considers relevant.⁸⁵ In addition, in making a determination, we must ensure that the expected costs of the proposed regulation do not exceed the expected benefits, and that the determination takes into account and clearly articulates any trade-offs between costs and service standards.⁸⁶

The *Transport Integration Act 2010* requires that we must have regard to the transport system objectives in exercising our powers and performing our functions under any transport legislation.⁸⁷ The transport system objectives we must have regard to relate to social and economic

⁸¹ Commercial Passenger Vehicle Industry Act 2017, s. 110C.

⁸² Essential Services Commission Act 2001, s. 8.

⁸³ Essential Services Commission Act 2001, s. 8.

⁸⁴ Essential Services Commission Act 2001, s. 8A.

⁸⁵ Essential Services Commission Act 2001, s. 33(3).

⁸⁶ Essential Services Commission Act 2001, s. 33(4).

⁸⁷ Transport Integration Act 2010. s. 24(1). Transport legislation is defined under s. 3 to include the Commercial Passenger Vehicle Industry Act 2017.

inclusion, economic prosperity, environmental sustainability, integration of transport and land use, efficiency, coordination and reliability, and safety and health and wellbeing.⁸⁸

Under the *Transport Integration Act 2010*, we must also have regard to a number of principles in making our decisions, which include:

- the principle of integrated decision making⁸⁹
- the principle of triple bottom line assessment⁹⁰
- the principle of equity⁹¹
- the principle of transport system user perspective⁹²
- the precautionary principle⁹³
- the principle of stakeholder engagement and community participation⁹⁴
- the principle of transparency.⁹⁵

The transport system objectives and decision making principles are broad in nature. The commission may determine the weight to give to each transport system objective and decision making principle.⁹⁶

⁸⁸ Transport Integration Act 2010, ss. 7-13.

⁸⁹ The principle of integrated decision making means seeking to achieve government policy objectives through coordination between all levels of government and government agencies and with the private sector. Transport Integration Act 2010, s. 15.

⁹⁰ The principle of triple bottom-line assessment means an assessment of all the economic, social and environmental costs and benefits taking into account externalities and value for money. Transport Integration Act 2010, s. 16.

⁹¹ The principle of equity means (a) equity between persons irrespective of their personal attributes, including age, physical ability, ethnicity, culture, gender and financial situation; or location, including whether in a growth, urban, regional, rural or remote area; (b) equity between generations by not compromising the ability of future generations to meet their needs. Transport Integration Act 2010, s. 17.

⁹² The principle of transport system user perspective means (a) understanding the requirements of transport system users, including their information needs; (b) enhancing the useability of the transport system and the quality of experiences of the transport system. Transport Integration Act 2010, s. 18.

⁹³ The precautionary principle means that if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation. The precautionary principle includes (a) a careful evaluation to avoid serious or irreversible damage to the environment where practicable; and (b) an assessment of the risk-weighted consequences of various options - Transport Integration Act 2010, s. 19.

⁹⁴ The principle of stakeholder engagement and community participation means (a) taking into account the interests of stakeholders, including transport system users and members of the local community; (b) adopting appropriate processes for stakeholder engagement. Transport Integration Act 2010, s. 20.

⁹⁵ The principle of transparency means members of the public should have access to reliable and relevant information in appropriate forms to facilitate a good understanding of transport issues and the process by which decisions in relation to the transport system are made. Transport Integration Act 2010, s. 21.

⁹⁶ Transport Integration Act 2010, ss. 26-27.

Recent amendments to the Commercial Passenger Vehicle Industry Act 2017

The commission has discretion to decide the manner in which it regulates maximum fares for unbooked taxi services.⁹⁷ Both the ESC Act⁹⁸ and the CPVI Act⁹⁹ set out a number of approaches and methodologies the commission could consider when deciding the manner in which it will determine these maximum fares. In 2021, the CPVI Act was amended to include additional matters the commission may consider in deciding the manner in which to regulate maximum fares. These amendments enable the commission to determine maximum fares according to, or to take into account among other things, the Fair Work Commission's annual wage review under section 285 of the *Fair Work Act 2009* of the Commonwealth¹⁰⁰ and the commercial viability of operating a taxi service.¹⁰¹

We regulate maximum fares for unbooked taxi services

The commercial passenger vehicle services market is the hire of point-to-point vehicle transport. This is different to other forms of transport that, for example, run on pre-specified routes.

It is useful to divide the market for commercial passenger vehicle services into two submarkets, depending on the way passengers obtain services:

- booked: passengers reserve prior to travel through an app, online or over the phone
- unbooked: passengers hail from the street or take a vehicle from a rank.

To provide unbooked commercial passenger vehicle services a vehicle must meet certain requirements.¹⁰² Taxis are commercial passenger vehicle services that meet these requirements. We regulate maximum fares for applicable unbooked services only.

⁹⁷ Essential Services Commission Act 2001, s 33(5).

⁹⁸ Essential Services Commission Act 2001, s 33(6).

⁹⁹ Commercial Passenger Vehicle Industry Act 2016, s. 110E(1).

¹⁰⁰ Commercial Passenger Vehicle Industry Act 2016, s. 110E(1)(ga).

¹⁰¹ Commercial Passenger Vehicle Industry Act 2017, s. 110E(1)(gb).

¹⁰² Commercial Passenger Vehicle Industry Regulations 2018.

Appendix D: How we assessed fares

Approach to fare review

In coming to our draft decision on maximum fares for unbooked taxi services, we have assessed developments in the commercial passenger vehicle industry, changes in the costs of providing unbooked taxi services and stakeholder views. This approach is largely consistent with the approach we used in our 2016 and 2018 taxi fare reviews. We consider this approach and methodology best meets our legislative objectives and requirements.

We analysed the demand for and supply of taxi services

We looked at the balance between demand for and supply of taxi services to get some indications of whether the current maximum fares need to change. Unlike most markets, there is little flexibility for prices to change in response to changes in demand and supply for unbooked taxi services. As a consequence, we can use evidence on excess demand or supply to inform our decision as to whether prices should rise or fall to maintain or improve service levels. We have also considered the impact of the coronavirus pandemic on the demand for and supply of unbooked taxi services.

We collected trip and shift data from booking service providers and Commercial Passenger Vehicles Victoria to help us analyse demand for and supply of taxi services.

We developed a new taxi cost index

We looked at the cost of operating a taxi to tell us whether maximum fares are sufficient to cover the efficient costs of operating a taxi and to maintain service levels.

We undertook a cost survey to develop a new taxi cost index and determine the change in the costs of operating a taxi for the period March 2020 to March 2022 (the most recent two years for which cost information is currently available).¹⁰³

We considered the impact of changes in the industry

We looked at the impact of changes in the industry including changes to the *Commercial Passenger Vehicle Industry Act 2017*, the coronavirus pandemic, changes to the Multi-Purpose Taxi Program and increasing fuel prices. We considered the impact of these changes on the demand, supply, and costs of operating a taxi.

¹⁰³ Except for fuel costs and driver labour which are based on May 2022 and June 2022 information. This means the most recent labour and fuel prices have been incorporated into this draft.

We considered stakeholders' views

We asked stakeholders for feedback on our consultation paper including our approach to assess maximum fares, barriers to implementing 'time and distance' tariffs, and the impact of changes to the commercial passenger vehicle industry. We received submissions from four stakeholders. We have considered their feedback in making our draft decision.

Other factors we considered

We considered the following matters, among others, when deciding whether any changes to the maximum fares are warranted. Changes to maximum fares should:

- have expected benefits that outweigh the expected costs
- give a reasonable opportunity for unbooked taxi service providers to recover the costs that a well-run business would incur to provide its service
- not make it difficult for unbooked taxi service providers to compete with each other or with booked service providers
- give incentives to unbooked taxi service providers to provide the service outcomes consumers want
- result in a fare structure that passengers can easily understand.

Our assessment approach helps us meet our legislative objectives and requirements

When we regulate maximum fares for unbooked taxi services, our objectives include promoting the long term interests of Victorian consumers and the efficient provision and use of unbooked taxi services.¹⁰⁴

To promote these outcomes, the maximum fares should not be set too low or too high. If the maximum fares are too low, unbooked taxi service providers will not recover their efficient costs. This could lead to operators leaving the market which could result in there not being enough taxi services to meet demand. Further, if maximum fares for unbooked trips are too low, taxi drivers may choose to provide booked trips instead of unbooked trips. This could mean that people that rely on taxis to get around may have difficulty getting a taxi from a rank.

On the other hand, if the maximum fares are set too high, and unbooked taxi operators choose to charge the maximum amount, informed customers are likely to choose alternative commercial passenger vehicle services. However, we note that many passengers that rely on taxi services to

¹⁰⁴ Essential Services Commission Act 2001, s. 8; Commercial Passenger Vehicle Industry Act 2017, s. 110C.

get around may not have smartphones. These customers would be left paying more than necessary for the service.

Neither undersupply nor underutilisation of unbooked taxi services is in the long term interests of Victorian consumers. Maximum fares must be set at a level that ensure quality and reliable service provision now and in the future.

In addition to our objectives, we also had regard to a range of matters under the *Essential Services Commission Act 2001* and the *Transport Integration Act 2010*.¹⁰⁵ We also had regard to different ways we may determine different fares under the *Commercial Passenger Vehicle Act 2017*.¹⁰⁶

Having regard to the relevant matters under the Essential Services Commission Act

In making our determination, we must have regard to a number of matters to the extent that they are relevant.¹⁰⁷ We have had regard to all of these matters in coming to our draft decision.

Efficiency

Efficiency is an important consideration for our decision. Our approach helped us establish the maximum fares for unbooked taxi services that reflect the efficient costs of operating a taxi. Our review used largely the same approach as our 2016 and 2018 reviews. By considering the costs for an ‘average taxi’, which we consider to be achievable for an efficient taxi, our approach helped us establish the maximum fares for unbooked taxi services that reflect the efficient costs of operating a taxi.

Financial viability

We considered the long-term incentives for investment and financial viability of the taxi industry. As our draft decision on maximum fares for unbooked taxi services reflects our estimates of the efficient cost of operating a taxi, we consider that it helps promote the financial viability of the industry and the commercial viability of operating a taxi service. The latter is an additional matter we may consider in determining the maximum fares under the recent amendments to the *Commercial Passenger Vehicle Industry Act 2017*.¹⁰⁸

¹⁰⁵ Essential Services Commission Act 2001, ss. 8A, 33; Transport Integration Act 2010, s. 24.

¹⁰⁶ Commercial Passenger Vehicle Industry Act 2017, s. 110E.

¹⁰⁷ Essential Services Commission Act 2001, ss. 8A, 33.

¹⁰⁸ Commercial Passenger Vehicle Industry Act 2017, s. 110E(1)(gb).

Competition within the industry

We note that setting maximum fares at efficient costs is consistent with competition. It does not prevent unbooked taxi service providers from competing with substitute services. It also does not prevent unbooked taxi service providers from offering lower fares to attract customers.

The relevant legislation applying to the industry

We considered other legislation that affects the costs of operating a taxi. Among other things, we considered costs associated with regulatory requirements on unbooked taxi service providers under the *Commercial Passenger Vehicle Industry Act 2017* and the *Commercial Passenger Vehicle Regulations 2018*, such as maintaining records of their unbooked trips, investigation and resolution of complaints, security camera and fare calculation devices.¹⁰⁹ They are also required to make quarterly lodgement of consumer passenger vehicle service levy with the State Revenue Office.¹¹⁰

We also considered the relevant transport system objectives under the *Transport Integration Act 2010* such as environmental sustainability by assessing the cost of operating a hybrid vehicle in the taxi cost index. Our cost survey shows a significant shift towards hybrid vehicles.

The benefits and costs of regulation

We had regard to the costs and benefits of regulation in our approach to assessing maximum fares. Our decision is based on the efficient costs of operating a taxi.

We requested data from booking service providers via our information gathering powers. To minimise the transaction costs and administrative burden on booking service providers, we engaged with them to ensure the process was as simple as possible, and incorporated feedback into the information notices where appropriate.

Consistency in regulation between States and on a national basis and any relevant interstate and international benchmarks in comparable industries

We looked at regulation of taxi fares and the level of taxi fares interstate and internationally (see Appendix F). The fares in Victoria appear slightly lower than in comparable Australian jurisdictions. This maybe because their fares still include licence costs or licence fees. As shown in Appendix F, most Australian jurisdictions still regulates taxi licences. Some jurisdictions continue to regulate booked taxi services.

¹⁰⁹ Commercial Passenger Vehicle Industry Regulations 2018, S.R. No. 84/2018, June 2020, ss. 12, 14, 18, 24, 32, 35.

¹¹⁰ Commercial Passenger Vehicle Industry Act 2017, Part 11.

The particular circumstances of the regulated industry

We had regard to actual trip and shift data to assess demand for and supply of unbooked taxi services. We also undertook a cost survey of taxi operators to understand the costs of operating a taxi. We also considered the broader environment including the impact of the coronavirus pandemic on the cost of operating a taxi. We have had regard to submissions by the industry raising concerns of potential driver shortages and the impact of rising fuel costs. We have also sought to increase the flexibility of our approach to account for these two matters by proposing an annual fare adjustment mechanism.

Accounting for trade-offs between costs and service standards

We must ensure that our decision takes into account and clearly articulates any trade-offs between costs and service standards. We consider that the maximum fares for unbooked taxi services will be sufficient for unbooked taxi service providers to ensure that the quality of service experienced by customers will at least remain stable.

Appendix E: Industry context

This Appendix provides context for our review of maximum fares, including a brief overview of the commercial passenger vehicle industry.

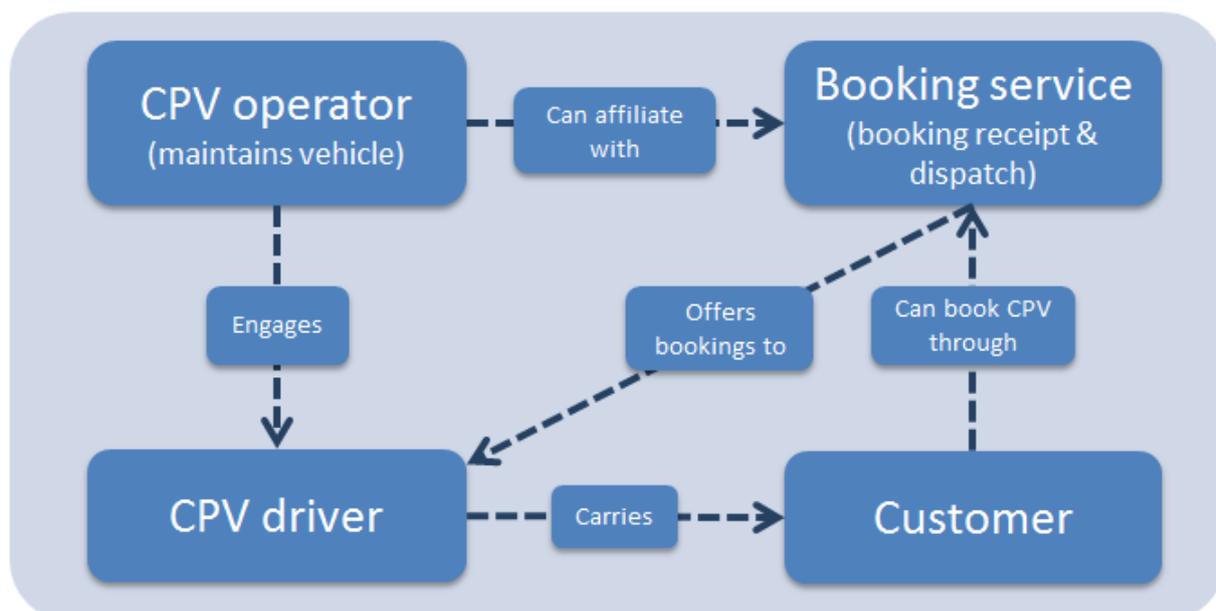
The commercial passenger vehicle industry

The commercial passenger vehicle industry provides the hire of point-to-point vehicle transport. This is different to other forms of commercial transport that, for example, run on pre-specified routes. Commercial passenger vehicles include taxis, hire cars and rideshare.

Commercial passenger vehicle industry participants

The main industry participants in the commercial passenger vehicle industry are operators, drivers and booking service providers. The key functions of these industry participants are shown in Figure C.1. In some cases, an individual participant may take on more than one role. For example, an operator may drive vehicles, or a booking service provider may operate vehicles.

Figure C.1 Commercial passenger vehicle industry participants



Submarkets and service providers

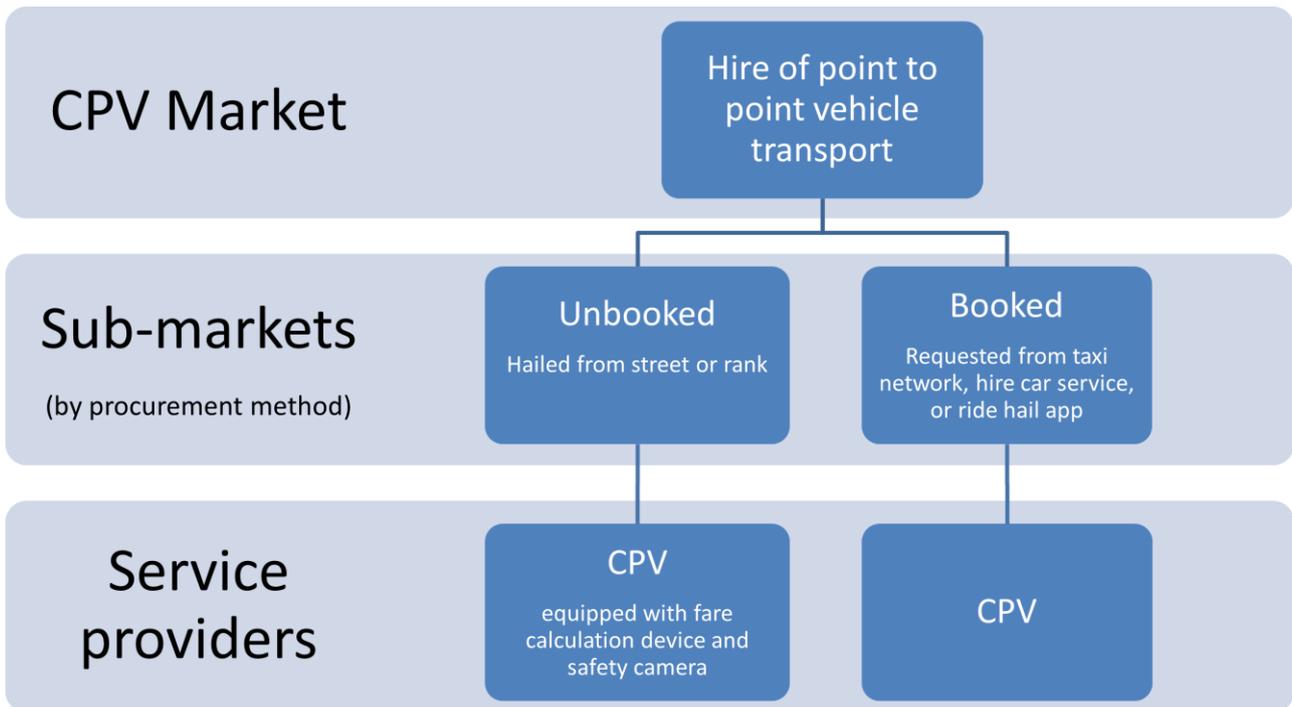
It is useful to divide the market for commercial passenger vehicle services into two submarkets depending on the way passengers obtain services:

- unbooked (rank and hail) services: trips hailed from the street or hired from a designated taxi rank

- booked services: trips that have been booked in advance via an app, over the phone or via a website.

To provide unbooked commercial passenger vehicle services a vehicle must meet certain requirements. For example, a fare calculation device¹¹¹ and security camera¹¹² must be installed. Taxis are commercial passenger vehicles that meet these requirements. Figure C.2 illustrates the differences between booked and unbooked commercial passenger vehicle services.

Figure C.2 Submarkets for commercial passenger vehicle services



Hire cars and rideshare vehicles that operate exclusively in the booked market are not subject to fare regulation. Fares for booked taxi services are also not subject to regulation.

In the unbooked submarket, negotiation of fares between service providers and consumers may be difficult or impractical. Consumers do not have complete information on the availability of services and fares offered by other service providers. In the booked market, consumers are typically better placed to negotiate prices, or to at least compare differing services and prices. It is easier to seek a fare estimate upfront and compare service providers over the phone or the internet.

¹¹¹ Commercial Passenger Vehicle Industry Regulations 2018, r. 12.

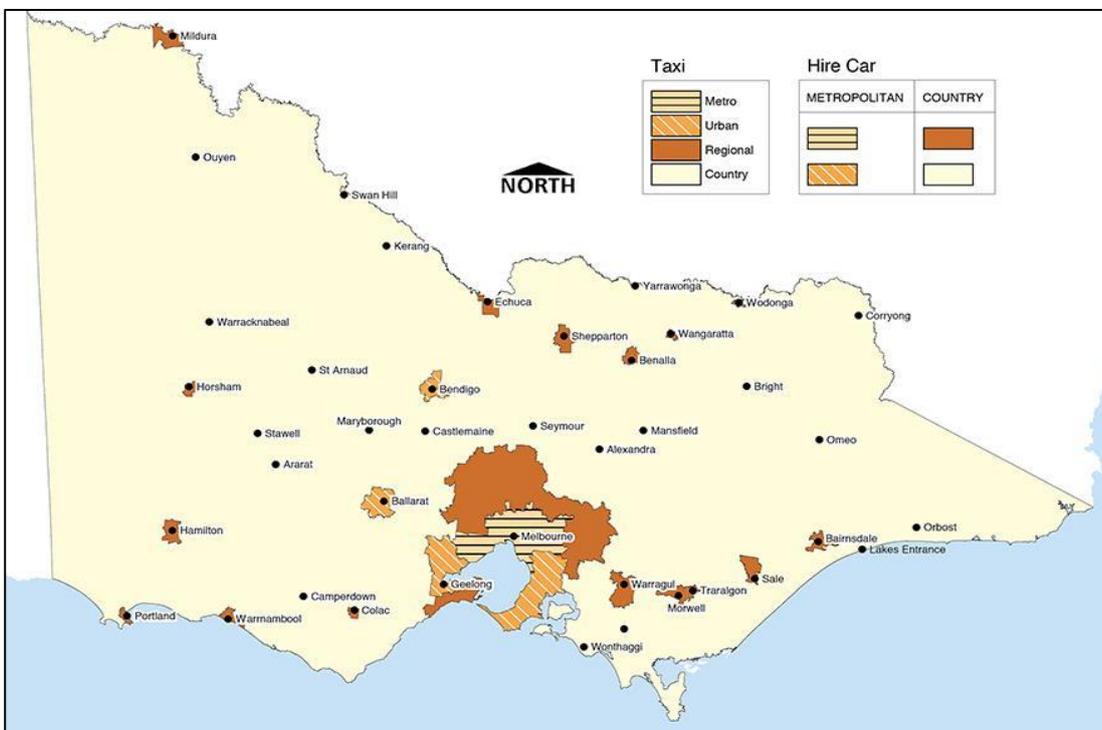
¹¹² Commercial Passenger Vehicle Industry Regulations 2018, r. 14.

Commercial passenger vehicle zones

Historically, there were four zones in Victoria: the Melbourne metropolitan zone, the urban zone, the regional zone, and the country zone (shown in Figure C.3). These zones were determined by Commercial Passenger Vehicles Victoria (CPVV) to define the boundaries of where taxis were allowed to operate before taxi licences were abolished. While the zones no longer exist, the boundaries are still used for the purposes of where maximum fares apply for unbooked taxi services.

The maximum fares that we set for unbooked commercial passenger vehicles apply only to trips that begin in the Melbourne metropolitan, urban and large regional zones. For trips that begin in all other parts of Victoria, taxi service providers set their own prices for unbooked trips.

Figure C.3 Historical taxi zones in Victoria



Competition in the commercial passenger vehicle industry

There are currently many commercial passenger vehicle services based on smartphone technology. This has resulted in more competition between taxi operators, hire cars and rideshare services.

Smartphone technology has also changed the way that passengers can book a commercial passenger vehicle service. It is now common for passengers to book taxis using a booking app.

The increasing number of booking apps has had two notable impacts:

1. It is easier to make bookings for taxis and hire cars where the consumer requests an immediate pick up. As a result, booked services are increasingly becoming a substitute for unbooked services.
2. Booking apps have introduced some degree of flexibility to fares for booked services. Some taxi booking service providers and operators have been providing discounted trips and fixed fares.

Dynamic pricing in rideshare services

Fares for rideshare services are calculated in the booking app and vary with the time and distance travelled. The booking service provider sets a base fare rate. Some booking service providers vary their rates using an algorithm that increases fares above the base rate during times of peak demand and limited supply. This allows dynamic pricing in response to demand and supply.

Appendix F: Comparison of fare regulation and taxi fares in Australian jurisdictions

Unbooked taxi services remain regulated in all Australian jurisdictions

All jurisdictions in Australia have a maximum tariff fare structure in place for unbooked taxi services. Some states still set a regulated maximum fare for booked taxi trips. Most of the jurisdictions still regulate taxi licences. This comparison is provided in table F.1.

Table F.1: Taxi regulation in Australian jurisdictions, as of June 2022

Jurisdiction	Regulation of booked Fares	Regulation of unbooked fares	Limit on number of licenses
Australian Capital Territory	✓	✓	✓
New South Wales	x	✓	✓
Northern Territory	✓	✓	✓
Queensland	x	✓	✓
South Australia	✓	✓	✓
Tasmania	✓	✓	✓
Victoria	x	✓	x
Western Australia	x	✓	x

New South Wales will be the first jurisdiction to deregulate fares for unbooked taxi services when they adopt into law the proposals recommended by the most recent review of the industry.¹¹³

The 2020 independent review into New South Wales's point-to-point transport industry recommended the removal of both the regulated maximum fare for rank and hail services, as well as the cap on taxi licenses.¹¹⁴ These recommendations were accepted by the New South Wales government.

¹¹³ Transport for New South Wales (TfNSW), Point to point transport independent review 2020; Report to the Minister for Transport and Roads, accessed 20 May 2022, [Point to Point Independent Review 2020 | Transport for NSW](#)

¹¹⁴ Transport for New South Wales (TfNSW), Point to point transport NSW Government reforms, accessed 20 May 2022, [Point to point transport reforms 2021 | Transport for NSW](#)

Some Australian jurisdictions increased their maximum fares in 2021

Western Australia, Tasmania, and the Australian Capital Territory each increased their maximum fares in 2021.¹¹⁵ In Western Australia maximum fares were increased by 6.5 per cent, and in Tasmania fares were increased by 5 per cent. In these jurisdictions, this represented the first increase in fares since 2014 and 2013, respectively. The increase in maximum fares in the Australian Capital Territory was more modest, reflecting inflationary changes since the last increase in 2019.

Other jurisdictions have not recently increased maximum fares. In New South Wales and Queensland, maximum fares were last increased in 2014, and in South Australia they were last increased in 2016.

Both New South Wales and Queensland have reviewed the level of their maximum fares since then but decided against increases to the maximum fare level.¹¹⁶

In South Australia, fare reviews are triggered by the taxi industry. There is no evidence to suggest that maximum fares in South Australia have been reviewed since their last increase in 2016.¹¹⁷

In comparison, fares in Victoria last increased in 2014. Since then, the commission has reviewed the level of fares three times (in 2016, 2018 and 2020). In each of these reviews, after considering demand and supply of taxis and changes in the cost of providing taxi services, the commission has decided to keep fares unchanged.¹¹⁸

¹¹⁵ Western Australia Department of Transport, On-demand rank or hail fares, Accessed 20 May 2022, [On-demand rank or hail \(taxi\) fares \(transport.wa.gov.au\)](#); Western Australia Department of Transport, On-demand rank or hail fares, Accessed 13 June 2022, [On-demand transport reform](#)

Tasmanian Economic Regulator, Taxi fare methodology inquiry, page 18, Accessed 20 May 2022, [Taxi Fare Methodology Inquiry Final Report - February 2022.PDF \(economicregulator.tas.gov.au\)](#)

Australian Capital Territory, Road transport maximum fares for taxi services determination 2021, Accessed 20 May 2022, [Road Transport \(Public Passenger Services\) Maximum Fares for Taxi Services Determination 2021 \(No 1\) | HTML view \(act.gov.au\)](#)

¹¹⁶ New South Wales Independent Pricing and Regulatory Tribunal, Review of taxi fares in NSW and taxi licenses outside Sydney from 1 July 2018, Accessed 20 May 2022, [Final Report - Taxi fares in NSW and Taxi licences outside Sydney from 1 July 2018](#)

Queensland Department of Transport and Main Roads, Queensland taxi fares – South East Queensland, accessed 14 June 2022, [file:///C:/Users/smadamba/Downloads/pdf%20taxi%20fares%20stickers%20seq%20\(6\).pdf](#). The fares sticker shows that fares took effect in 2017, the year taxi fares were last reviewed. The sticker is also dated June 2021 which implies that there was no change in fares since 2017. The 2017 taxi fares gazette notice is here: [file:///C:/Users/smadamba/Downloads/maximumtaxifaresnotice%20\(1\).pdf](#).

¹¹⁷ South Australia, Taxi and chauffeur vehicle industry review, Accessed 20 May 2022, [SA Taxi and Chauffeur Vehicle Industry Review Feb2016.pdf \(dit.sa.gov.au\)](#)

¹¹⁸ Essential Services Commission, Unbooked taxi fare review 2020 final decision, Accessed 20 May 2022, [FDP - Unbooked taxi fare review 2020 - Final decision - 20200713.pdf \(esc.vic.gov.au\)](#)

Tables F.2 and F.3 compare maximum fares in Australian jurisdictions.

Table F.2: Day period fares in urban areas, as of June 2022

Jurisdiction	Flagfall	Distance rate	Waiting rate
Australian Capital Territory ¹¹⁹	\$5.30	\$2.20	92.2c/minute
New South Wales ¹²⁰	\$3.60	\$2.19	94.4c/minute
Northern Territory ¹²¹	\$5.40	\$1.54	92.3c/minute
Queensland ¹²²	\$2.90	\$2.17	82.0c/minute
South Australia ¹²³	\$3.70	\$1.87	65.5c/minute
Tasmania ¹²⁴	\$3.90	\$2.02	64.0c/minute
Victoria ¹²⁵	\$4.20	\$1.62	56.8c/minute
Western Australia ¹²⁶	\$4.50	\$1.84	86.7/minute

Essential Services Commission, Unbooked commercial passenger vehicle fare review 2018, Accessed 20 May 2022, [Unbooked Commercial Passenger Vehicle Fare Review 2018 \(esc.vic.gov.au\)](https://www.esc.vic.gov.au/unbooked-commercial-passenger-vehicle-fare-review-2018)

Essential Services Commission, Taxi fare review 2016, Accessed 20 May 2022, [RPT-Taxi-Fare-Review-2016-Final-Report-20160617.pdf \(esc.vic.gov.au\)](https://www.esc.vic.gov.au/rpt-taxi-fare-review-2016-final-report-20160617.pdf)

¹¹⁹ Australian Capital Territory, Road transport maximum fares for taxi services determination 2021, Accessed 20 May 2022, [Road Transport \(Public Passenger Services\) Maximum Fares for Taxi Services Determination 2021 \(No 1\) | HTML view \(act.gov.au\)](https://www.act.gov.au/road-transport-public-passenger-services-maximum-fares-for-taxi-services-determination-2021-no-1)

¹²⁰ Transport for New South Wales, Rank and hail taxi fares and charges, Accessed 20 May 2022, [Rank and hail taxi fares and charges | transportnsw.info](https://www.transportnsw.info/rank-and-hail-taxi-fares-and-charges)

¹²¹ Northern Territory, Taxi areas, meters and fares, Accessed 20 May 2022, [Taxi areas, meters and fares | NT.GOV.AU](https://www.nt.gov.au/taxi-areas-meters-and-fares)

¹²² Queensland Government Department of Transport and Main Roads, Taxi fares, service areas and maps, Accessed 20 May 2022, [Taxi fares, service areas and maps \(Department of Transport and Main Roads\) \(tmr.qld.gov.au\)](https://www.tmr.qld.gov.au/taxi-fares-service-areas-and-maps)

¹²³ South Australia, Taxis, Accessed 20 May 2022, [SA.GOV.AU - Taxis \(www.sa.gov.au\)](https://www.sa.gov.au/taxis)

¹²⁴ Tasmania Transport Services, Calculating your fare, Accessed 20 May 2022, [Calculating your fare – Transport Services](https://www.transporttasmania.com.au/calculating-your-fare)

¹²⁵ Essential Services Commission, Unbooked taxi fare review 2020 final decision, Accessed 20 May 2022, [FDP - Unbooked taxi fare review 2020 - Final decision - 20200713.pdf \(esc.vic.gov.au\)](https://www.esc.vic.gov.au/fdp-unbooked-taxi-fare-review-2020-final-decision-20200713.pdf)

¹²⁶ Western Australia Department of Transport, On-demand rank or hail fares, Accessed 20 May 2022, [On-demand rank or hail \(taxi\) fares \(transport.wa.gov.au\)](https://www.transport.wa.gov.au/on-demand-rank-or-hail-taxi-fares)

Table F.3: Peak period fares in urban areas, as of June 2022

Jurisdiction	Flagfall	Distance rate	Waiting rate
Australian Capital Territory ¹²⁷	\$5.30	\$2.50	92.2c/minute
New South Wales ¹²⁸	\$6.10	\$2.50	94.4c/minute
Northern Territory ¹²⁹	\$6.50	\$1.89	92.3c/minute
Queensland ¹³⁰	\$4.30	\$2.17	82.0c/minute
South Australia ¹³¹	\$4.90	\$2.16	65.5c/minute
Tasmania ¹³²	\$3.90	\$2.42	64.0c/minute
Victoria ¹³³	\$6.20	\$1.98	69.5c/minute
Western Australia ¹³⁴	\$6.50	\$1.83	86.7c/minute

Approach to setting maximum taxi fares differ

Approaches to setting maximum taxi fares vary across jurisdictions, but the most commonly used approach is either to index fares directly to CPI inflation, or to use a taxi cost index to adjust fares by changes in taxi operating costs over time.

In Victoria, fares are adjusted using a market outcomes approach, as well as a taxi cost index. A comparison of fare setting methodologies is shown in table F.4, including the years fares were last increased.

¹²⁷ Australian Capital Territory, Road transport maximum fares for taxi services determination 2021, Accessed 20 May 2022, [Road Transport \(Public Passenger Services\) Maximum Fares for Taxi Services Determination 2021 \(No 1\) | HTML view \(act.gov.au\)](#)

¹²⁸ Transport for New South Wales, Rank and hail taxi fares and charges, Accessed 20 May 2022, [Rank and hail taxi fares and charges | transportnsw.info](#)

¹²⁹ Northern Territory, Taxi areas, meters and fares, Accessed 20 May 2022, [Taxi areas, meters and fares | NT.GOV.AU](#)

¹³⁰ Queensland Government Department of Transport and Main Roads, Taxi fares, service areas and maps, Accessed 20 May 2022, [Taxi fares, service areas and maps \(Department of Transport and Main Roads\) \(tmr.qld.gov.au\)](#)

¹³¹ South Australia, Taxis, Accessed 20 May 2022, [SA.GOV.AU - Taxis \(www.sa.gov.au\)](#)

¹³² Tasmania Transport Services, Calculating your fare, Accessed 20 May 2022, [Calculating your fare – Transport Services](#)

¹³³ Essential Services Commission, Unbooked taxi fare review 2020 final decision, Accessed 20 May 2022, [FDP - Unbooked taxi fare review 2020 - Final decision - 20200713.pdf \(esc.vic.gov.au\)](#)

¹³⁴ Western Australia Department of Transport, On-demand rank or hail fares, Accessed 20 May 2022, [On-demand rank or hail \(taxi\) fares \(transport.wa.gov.au\)](#)

Table F.4: Approach to setting maximum fares, as of June 2022

Jurisdiction	Last Increase to maximum fares	Approach to setting fares
Australian Capital Territory	2021	CPI
Tasmania	2021	Index
Western Australia	2021	Index
Northern Territory	2020	CPI
South Australia	2016	Index
New South Wales	2014	Supply model
Queensland	2014	Index
Victoria	2014	Market outcomes, cost index

Appendix G: The legislation governing our role in regulating maximum fares

Table G.1: Relevant sections of the Essential Services Commission Act 2001

	Section detail
s. 8 (1)	<p>Objective of the Commission</p> <p>In performing its functions and exercising its powers, the objective of the Commission is to promote the long term interests of Victorian consumers.</p>
s. 8 (2)	<p>Without derogating from subsection (1), in performing its functions and exercising its powers in relation to essential services, the Commission must in seeking to achieve the objective specified in subsection (1) have regard to the price, quality and reliability of essential services.</p>
s. 8A (1)	<p>Matters which the Commission must have regard to</p> <p>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—</p> <ul style="list-style-type: none"> (a) efficiency in the industry and incentives for long term investment; (b) the financial viability of the industry; (c) the degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries; (d) the relevant health, safety, environmental and social legislation applying to the industry; (e) the benefits and costs of regulation (including externalities and the gains from competition and efficiency) for— <ul style="list-style-type: none"> (i) consumers and users of products or services (including low income and vulnerable consumers); (ii) regulated entities; (f) consistency in regulation between States and on a national basis; (g) any matters specified in the empowering instrument.
s. 8A (2)	<p>Without derogating from section 8 or subsection (1), the Commission must also when performing its functions and exercising its powers in relation to a regulated industry do so in a manner that the Commission considers best achieves any objectives specified in the empowering instrument.</p>
s. 31A	<p>Definitions</p>

In this Part—

prescribed goods and services means any goods or services made, produced or supplied by or within a regulated industry which goods or services are specified in the empowering instrument as being goods or services in respect of which the Commission has power to regulate prices;

prescribed price means the price or price-range however designated for the supply or sale of any goods or services by or within a regulated industry or particular factors used in price-fixing or terms and conditions relating to the price at which particular goods or services are supplied or sold, being a price, price-range, factor or term and condition specified in the empowering instrument as being a price, price-range, factor or term and condition which the Commission has power to regulate.

s. 32 **Price Regulation**

- (1) The Commission may regulate prescribed prices for or in respect of prescribed goods and services supplied by or within a regulated industry.

s. 33 **Price determinations**

- (1) This section is subject to anything to the contrary in the empowering instrument specifying the prescribed prices or prescribed goods and services in respect of which the Commission is exercising its power of regulation.
- (2) In making a price determination, the Commission must adopt an approach and methodology which the Commission considers will best meet the objectives specified in this Act and any relevant legislation.
- (3) 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.

- (4) In making a determination under this section, the Commission must ensure that—
- (a) the expected costs of the proposed regulation do not exceed the expected benefits; and
 - (b) the determination takes into account and clearly articulates any trade-offs between costs and service standards.
- (5) A price determination by the Commission may regulate a prescribed price for prescribed goods and services in any manner the Commission considers appropriate.
- (6) Without limiting the generality of subsection (5), the manner may include—
- (a) fixing the price or the rate of increase or decrease in the price;
 - (b) fixing a maximum price or maximum rate of increase or minimum rate of decrease in the maximum price;
 - (c) fixing an average price for specified goods or services or an average rate of increase or decrease in the average price;
 - (d) specifying pricing policies or principles;
 - (e) specifying an amount determined by reference to a general price index, the cost of production, a rate of return on assets employed or any other specified factor;
 - (f) specifying an amount determined by reference to quantity, location, period or other specified factor relevant to the rate or supply of the goods or services;
 - (g) fixing a maximum average revenue or maximum rate of increase or minimum rate of decrease in the maximum average revenue in relation to specified goods or services;
 - (h) monitoring the price levels of specified goods and services.

Table G.2: Relevant sections of the Commercial Passenger Vehicle Industry Act 2017

s. 3 **Definitions**

unbooked commercial passenger vehicle service means a commercial passenger vehicle service that is provided other than as a result of the provision of a booking service.

s. 4 **Meaning of *commercial passenger vehicle service***

- (1) A ***commercial passenger vehicle service*** is the carriage, for a fare or other consideration, of one or more passengers in a motor vehicle on a journey that begins in Victoria and ends at one or more destinations (whether in or outside Victoria).
- (2) Each of the following activities is also a ***commercial passenger vehicle service***—
- (a) doing either of the following things while being available to provide the service referred to in subsection (1)—
- (i) driving a motor vehicle;
- (ii) being in charge of a motor vehicle;
- (b) driving a motor vehicle to collect a passenger referred to in subsection (1).
- (3) None of the following things is a ***commercial passenger vehicle service***—
- (a) a charitable passenger service;
- (b) a vehicle pooling service;
- (c) driving a motor vehicle while being available to provide a charitable passenger service or a vehicle pooling service;
- (d) driving a motor vehicle to collect a passenger for a charitable passenger service or a vehicle pooling service;
- (e) the driving of a vehicle operated by or on behalf of and under the control of—
- (i) an ambulance service created under section 23 of the Ambulance Services Act 1986 or listed in Schedule 1 to that Act; or
- (ii) an ambulance service created under a law in force in another State or in a Territory of the Commonwealth;
- (f) the driving of a motor vehicle for the purposes of a non-emergency patient transport service (within the meaning of the **Non-Emergency Patient Transport and First Aid Services Act 2003**).

s. 110A **Definitions**

In this Division—

"applicable unbooked service" means an unbooked commercial passenger vehicle service in respect of carriage on a journey that begins in—

- (a) the Melbourne Metropolitan Zone; or
- (b) the Urban and Large Regional Zone;

"Melbourne Metropolitan Zone" means the Melbourne Metropolitan Zone established under section 143B(1)(a) of the Transport (Compliance and Miscellaneous) Act 1983 (as in force immediately before the commencement of item 10.7 of Schedule 1 to the Commercial Passenger Vehicle Industry Amendment (Further Reforms) Act 2017;

"Urban and Large Regional Zone" means the Urban and Large Regional Zone established under section 143B(1)(b) of the Transport (Compliance and Miscellaneous) Act 1983 (as in force immediately before the commencement of item 10.7 of Schedule 1 to the Commercial Passenger Vehicle Industry Amendment (Further Reforms) Act 2017.

s. 110B ***Application of Essential Services Commission Act 2001***

(1) For the purposes of the Essential Services Commission Act 2001 —

- (a) this Division is relevant legislation; and
 - (b) the commercial passenger vehicle industry is a regulated industry in relation to applicable unbooked services.
- (2) Despite section 5(1) of the Essential Services Commission Act 2001, if there is any inconsistency between this Division and a provision of the Essential Services Commission Act 2001, the provision of this Division prevails.

s. 110C **Objective of the ESC**

The objective of the ESC in relation to the commercial passenger vehicle industry is to promote the efficient provision and use of applicable unbooked services.

s. 110D **Powers in relation to fares regulation**

For the purposes of Part 3 of the Essential Services Commission Act 2001 —

- (a) applicable unbooked services are prescribed services; and
- (b) the maximum charges for the services covered by paragraph (a) are prescribed prices.

s. 110E **Price determinations**

- (1) Without limiting section 33(5) of the Essential Services Commission Act 2001, the manner in which the ESC may regulate prescribed prices includes determining different prices according to—
- (a) the time of day at which, or day of the week or kind of day on which, an applicable unbooked service is provided;
 - (b) the speed at which the commercial passenger vehicle used in the provision of the applicable unbooked service is travelling;
 - (c) the distance travelled by the commercial passenger vehicle used in the provision of the applicable unbooked service;
 - (d) the type of commercial passenger vehicle used in the provision of the applicable unbooked service;
 - (e) the occupancy of the commercial passenger vehicle used in the provision of the applicable unbooked service, including where there is more than one passenger;
 - (f) where a journey in respect of which the applicable unbooked service is provided begins or ends;
 - (g) the prevailing economic conditions, including the price of fuel and the consumer price index;
 - (ga) the Fair Work Commission's annual wage review under section 285 of the Fair Work Act 2009 of the Commonwealth;
 - (gb) the commercial viability of operating a taxi service;
 - (h) any other matter the ESC considers to be relevant.

2) In this section –

fare calculation device means a mechanical, electrical or electronic device that calculates, records or displays information about fares and charges for the provision of unbooked commercial passenger vehicle services;

taxi service means an unbooked commercial passenger vehicle service where the fare is calculated based on time and distance travelled as measured by a fare calculation device.

s. 110F **Exercise of regulatory functions**

- (1) The ESC must make a determination under this Division of the maximum charges for applicable unbooked services before the first anniversary of the day on which this section comes into operation.
- (2) The ESC must complete a review of a price determination no later than 2 years after it is made.

s. 110G **Offence to charge or ask for a fare for an unbooked service in excess of the maximum fare**

A person who drives a commercial passenger vehicle for the purpose of providing an applicable unbooked service must not charge or ask for a fare for the service that is in excess of the fare or hiring rates permitted by a determination of the ESC under this Division.

Penalty: 60 penalty units.

Table G.3: Relevant sections of the Transport Integration Act 2010

s. 3 **Definitions**

commercial passenger vehicle service has the same meaning as it has in the Commercial Passenger Vehicle Industry Act 2017;

transport body means—

- (v) the Essential Services Commission established under section 7 of the **Essential Services Commission Act 2001** when it is exercising its functions and powers under any transport legislation in respect of the transport system;

transport legislation means—

- (ea) Commercial Passenger Vehicle Industry Act 2017;

transport services includes—

- (ca) commercial passenger vehicle services;

transport system means all the components which make up the system for the movement of persons and goods including—

- (d) the services components including passenger, freight and any other transport services to move persons and goods;

s. 7 **Transport system objectives**

This Division specifies the transport system objectives.

s. 8 **Social and economic inclusion**

The transport system should provide a means by which persons can access

social and economic opportunities to support individual and community wellbeing including by—

- (a) minimising barriers to access so that so far as is possible the transport system is available to as many persons as wish to use it;
- (b) providing tailored infrastructure, services and support for persons who find it difficult to use the transport system.

s. 9 **Economic prosperity**

The transport system should facilitate economic prosperity by—

- (a) enabling efficient and effective access for persons and goods to places of employment, markets and services;
- (b) increasing efficiency through reducing costs and improving timeliness;
- (c) fostering competition by providing access to markets;
- (d) facilitating investment in Victoria;
- (e) supporting financial sustainability.

s. 10 **Environmental sustainability**

The transport system should actively contribute to environmental sustainability by—

- (a) protecting, conserving and improving the natural environment;
- (b) avoiding, minimising and offsetting harm to the local and global environment, including through transport-related emissions and pollutants and the loss of biodiversity;
- (c) promoting forms of transport and the use of forms of energy and transport technologies which have the least impact on the natural environment and reduce the overall contribution of transport-related greenhouse gas emissions;
- (d) improving the environmental performance of all forms of transport and the forms of energy used in transport;
- (e) preparing for and adapting to the challenges presented by climate change.

s. 11 **Integration of transport and land use**

- (1) The transport system should provide for the effective integration of transport and land use and facilitate access to social and economic opportunities.
- (2) Without limiting the generality of subsection (1), transport and land use should be effectively integrated so as to improve accessibility and transport efficiency with a focus on—

- (a) maximising access to residences, employment, markets, services and recreation;
 - (b) planning and developing the transport system more effectively;
 - (c) reducing the need for private motor vehicle transport and the extent of travel;
 - (d) facilitating better access to, and greater mobility within, local communities.
- (3) Without limiting the generality of subsection (1), the transport system and land use should be aligned, complementary and supportive and ensure that—
- (a) transport decisions are made having regard to the current and future impact on land use;
 - (b) land use decisions are made having regard for the current and future development and operation of the transport system;
 - (c) transport infrastructure and services are provided in a timely manner to support changing land use and associated transport demand.
- (4) Without limiting the generality of subsection (1), the transport system should improve the amenity of communities and minimise impacts of the transport system on adjacent land uses.

s. 12 **Efficiency, coordination and reliability**

- (1) The transport system should facilitate network-wide efficient, coordinated and reliable movements of persons and goods at all times.
- (2) Without limiting the generality of subsection (1), the transport system should—
- (a) balance efficiency across the network so as to optimise the network capacity of all modes of transport and reduce journey times;
 - (b) maximise the efficient use of resources including infrastructure, land, services and energy;
 - (c) facilitate integrated and seamless travel within and between different modes of transport;
 - (d) provide predictable and reliable services and journey times and minimise any inconvenience caused by disruptions to the transport system.

s. 13 **Safety and health and wellbeing**

- (1) The transport system should be safe and support health and wellbeing.
- (2) Without limiting the generality of subsection (1), the transport system

should—

- (a) seek to continually improve the safety performance of the transport system through—
 - (i) safe transport infrastructure;
 - (ii) safe forms of transport;
 - (iii) safe transport system user behaviour;
- (b) avoid and minimise the risk of harm to persons arising from the transport system;
- (c) promote forms of transport and the use of forms of energy which have the greatest benefit for, and least negative impact on, health and wellbeing.

s. 14 **Decision making principles**

This Division specifies the decision making principles.

s. 15 **Principle of integrated decision making**

The principle of integrated decision making means seeking to achieve Government policy objectives through coordination between all levels of government and government agencies and with the private sector

s. 16 **Principle of triple bottom line assessment**

The principle of triple bottom-line assessment means an assessment of all the economic, social and environmental costs and benefits taking into account externalities and value for money.

s. 17 **Principle of equity**

The principle of equity means—

- (a) equity between persons irrespective of their—
 - (i) personal attributes, including age, physical ability, ethnicity, culture, gender and financial situation; or
 - (ii) location, including whether in a growth, urban, regional, rural or remote area;
- (b) equity between generations by not compromising the ability of future generations to meet their needs

s. 18 **Principle of the transport system user perspective**

The transport system user perspective means—

- (a) understanding the requirements of transport system users, including their information needs;
- (b) enhancing the useability of the transport system and the quality of experiences of the transport system.

s. 19 **Precautionary principle**

(1) The precautionary principle means that if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation.

(2) The precautionary principle includes—

- (a) a careful evaluation to avoid serious or irreversible damage to the environment wherever practicable; and
- (b) an assessment of the risk-weighted consequences of various options.

s. 20 **Principle of stakeholder engagement and community participation**

The principle of stakeholder engagement and community participation means—

- (a) taking into account the interests of stakeholders, including transport system users and members of the local community;
- (b) adopting appropriate processes for stakeholder engagement.

s. 21 **Principle of transparency**

The principle of transparency means members of the public should have access to reliable and relevant information in appropriate forms to facilitate a good understanding of transport issues and the process by which decisions in relation to the transport system are made.

s. 24 **Application to a transport body**

(1) A transport body must have regard to the transport system objectives in exercising its powers and performing its functions under any transport legislation.

(2) A transport body must have regard to the decision making principles in making decisions under any transport legislation.

(2A) Subsections (1) and (2) do not apply to a transport body when it is exercising a power or performing a function for or in relation to—

- (a) the grant, issue or giving of a transport authorisation; or

- (b) the renewal of a transport authorisation; or
 - (c) the amendment or variation of, or change to, a transport authorisation or any conditions to which a transport authorisation is subject; or
 - (d) the suspension of a transport authorisation; or
 - (e) the cancellation of a transport authorisation; or
 - (f) the revocation of a transport authorisation or any condition to which a transport authorisation is subject.
- (3) If a transport body is a specified transport body in a statement of policy principles, it must have regard to the specified policy principles which apply to it under the statement of policy principles.
- (4) If a transport body is exercising a power which is a specified power in a statement of policy principles or performing a function which is a specified function in a statement of policy principles, it must have regard to the specified policy principles which apply under the statement of policy principles.
- (5) An Act specified in the heading to an item in Schedule 1 is amended, on the commencement of that item or a provision of that item, as set out in that item or provision.

(6) In this section—

transport authorisation means a licence, an accreditation, a permit, a permission, an exemption or a registration under transport legislation.

s. 26 **Weight to be given to transport system objectives**

For the purposes of sections 24 and 25, a transport body or interface body may determine the weight to give to each transport system objective.

s. 27 **Weight to be given to decision making principles**

For the purposes of sections 24 and 25, a transport body or interface body may determine the weight to give to each decision making principle.

s. 28 **Effect of this Part**

The Parliament does not intend by this Part to create in any person any legal right or to give rise to any civil cause of action.

Appendix H: Stakeholder submissions

Table H.1 Submissions received via Engage Victoria and via email

Name of submitter	Date received
Rajesh Gupta	15 March 2022
Anonymous (confidential)	15 March 2022
13Cabs	23 March 2022
Silver Top Taxi	11 April 2022