

RESPONSE TO INVITATION FROM THE VICTORIAN
ESSENTIAL SERVICES COMMISSION FOR 'CALL FOR IDEAS'
VICTORIAN TAXI FARE SETTING 2013 – 2014

The Essential Services Commission will now set Victorian taxi fares and, as a first step in a consultative process, has published a paper entitled '[Call for ideas.](#)'

Previously in 2005 and 2008, the Essential Services Commission conducted reviews of Victorian taxi fares and provided *advice* to (then) Ministers of Transport. These reviews provided the Commission with a good grasp of the structure of the Victorian taxi industry, Commission staff acquired a sound understanding of the costs incurred in providing taxi services and it is that prior experience which will aid the Commission as it performs the new role of *setting* taxi fares.

Why would the Essential Services Commission *now* call for “ideas?”

Has something changed since reviews were conducted in 2005 and 2008?

Has the Essential Services Commission 'changed' since 2005 and/or 2008?

What has changed since the last taxi fare reviews were conducted is that the Victorian Taxi Industry Inquiry has conducted an extensive review of taxi and hire car services and concluded that the provision of existing services could be much improved by the introduction of competition.

However, the inquiry did not recommend a simplistic approach which may have only resulted in taxis competing with other taxis.

It took the view that competition *within* the taxi industry should be allowed to flourish but it also proposed that *additional* competition should be introduced and this was done by making changes to hire car legislative and regulatory arrangements so that competition would come from *without* the taxi industry.

In considering the reforms, many may have overlooked the significant opportunities which have also been provided for new revenue streams such as that provided by allowing taxi and hire car permit holders and operators to tender for government bus contracts, provide independent (and quite different) 'Share Ride' services and, in a less-regulated environment, be free to try new ways of enhancing revenue opportunities.

The setting of *maximum* taxi fares is just one example of opportunity to *increase demand* for taxi services and those who take advantage of this initiative will *increase occupancy* of their taxis. It is important to understand that the opportunity for discounting maximum taxi fares has been provided so that *permit holders* (not bailee drivers) can offer *and fund* discounts.

The occupancy of taxis (the time the taxi is engaged compared with the time that a taxi is available for hire) has been highlighted during the Victorian Taxi Inquiry and it is contended that taxis in greater Melbourne are only engaged for 28% of the time that they spend plying for hire.

The occupancy per taxi has fallen because the increase in the number of taxis has out-stripped demand.

However, what has happened to demand? Is the total number of trips increasing, has it stagnated or is it in decline?

No meaningful changes can be made to Victorian taxi fares until this simple question is *publicly* answered.

If the number of trips is in decline or stagnating, is the industry content with that position? If so, a decision can be made to simply increase taxi fares to compensate for declining revenues and increasing costs. This might result in doing a lot less work for the same profit (for taxi owners and operators) and may have some merit if one owns and/or operates taxis.

Indeed, that may be the approach that will be embraced by some. However, it may not deliver long-term sustainability.

It seems that the use of taxis is not increasing at a rate that would guarantee growth (in real terms) sufficient to guarantee the sustainability of the industry and to provide sufficient income for all of the current industry participants.

Indeed, the current industry cannot provide sufficient income for about 13,000 drivers in the supply chain but this seems of little importance to others in the industry.

In the short term, one way of dealing with this problem is to reduce the number of industry participants and that must be given serious and careful consideration.

Can taxi services be provided at a much more affordable price by significantly reducing the number of people in the supply chain?

During the Victorian Taxi Industry Inquiry it was often suggested that “the food chain” in the taxi industry is too long and that, as a consequence, taxi drivers and taxi passengers are the big losers.

It was said that a few in the supply chain derived most of the benefits (profits) and that the vast majority (bailee taxi drivers) subsidised the well-doers.

It must be agreed that bailee taxi drivers in Victoria subsidise the taxi industry and that this subsidy amounts to nearly \$400 million dollars a year.

Bailee taxi drivers are paid about 50% of what they would receive if they were paid award wages.

The appropriate award for taxi drivers (as drivers of commercial passenger vehicles) is the [Passenger Transport Award 2010](#).

The award coverage clauses include:-

Passenger vehicle transportation industry means the transport of passengers by:

- * motor vehicle, limousine or hire car;**
- * bus or coach; and**
- * electric tramway, monorail or light rail.**

If there is overwhelming support for the retention of the existing taxi business model and if everyone currently deriving income from the supply of Victorian taxi services is to remain as part of the supply chain, the task of setting taxi fares under that scenario is quite simple.

Taxi fares must be set so as to :-

Recover all necessary costs incurred by taxi owners and operators;

Provide a just and sufficient profit for all of those owners and operators; and

Provide award wages with all attendant entitlements for taxi drivers, engaged by taxi owners and operators, to drive taxis.

An alternative model is one referred to as 'the single owner/driver model' where each taxi driver would own/operate/drive their own taxi and this model would avoid paying many who are feeding well under the predominant model now typical in Victoria.

This model would still need to recover all necessary costs incurred by the single owner/driver and also to provide a just and sufficient profit for those owner/drivers.

Would it be necessary to engage other additional drivers to provide additional revenue and profit for the single owner/driver?

That will need to be exhaustively tested by the Essential Services Commission as part of the fare-setting determination.

For consistency, any other drivers engaged by these single owner/drivers would need to be engaged under the Passenger Transport Award 2010.

It may be that some will want to continue the exploitation of bailee taxi drivers and that is understandable. In what other industry in Australia is labor available at 50% of the award rate?

This exploitation has been going on for many decades and there is certainly a determined few who are happy to see that continue.

It is pleasing to see that the Essential Services Commission has already flagged that it is taking a serious look at the supply side of taxi services.

Some have said “the taxi industry cannot afford to pay wages.”

What is more important – the continuation of an industry model that relies on a subsidy of nearly \$400 million a year from the front-line service providers or facing up to the truth and embracing some ethical and moral realities?

The issue of poor driver remuneration was not properly addressed by the Victorian Taxi Industry Inquiry and their recommendation that “drivers should get 55% of the farebox” ensured that the drivers have no hope of being paid anywhere near adequate remuneration unless taxi fares are increased by a great amount.

It would have been far better had the inquiry recommended that taxi drivers be employed under the Transport Vehicle Award 2010 and if politicians had enacted legislation to give effect to that.

On average, taxi drivers should earn about \$26.00 per hour and this is based on calculations including base wage hourly rates, overtime, allowances, annual leave, superannuation etc.

If a business cannot pay the wages it means that the business cannot continue in its present form and that urgent action needs to be taken to avoid insolvency.

Why is the taxi industry any different from any other business?

That is not a question that needs to be answered here – it needs to be answered by those very few who do well from the supply of taxi services.

Indeed, it is not a question that needs to be answered by bailee taxi drivers. They have never been *asked* to subsidise the provision of taxi services in Victoria but they have been *required* to do so.

During the Taxi Industry Inquiry it was often observed that improvements in service delivery would be inextricably bound to paying taxi drivers well.

The legislated changes around driver remuneration will not come anywhere near delivering \$26.00 an hour to bailee taxi drivers unless taxi fares are increased significantly. That is an option open to the Essential Services Commission and one which will need to be seriously explored.

If maximum taxi fares are set at a level that fails to provide sufficient revenue to supply the funds to pay drivers this hourly rate, it will be clear that the fare-setters also have the view that bailee taxi drivers are not even worth wages.

The Essential Services Commission may decide that taxi drivers do not merit wages and, if that is their considered view, they will need to justify their position and suggest what bailee taxi drivers must do to become *worthy* of such *normal remuneration*.

It is a cop-out to merely say “we will not be concerned with how taxi fares are split.”

That statement might need a little clarification. It will only be a cop-out if insufficient funds are provided by the fare-setters to guarantee that bailee taxi drivers *may* be paid \$26.00 per hour.

Whether taxi owners and operators charge the maximum fares and if they pay bailee drivers \$26.00 per hour is entirely up to those taxi owners and operators.

This relieves the Essential Services Commission of any ethical or moral dilemma and places the ethical and moral decision with taxi owners and operators.

That need not concern the Essential Services Commission for it is not the keeper of the ethics or morals of others.

The Essential Services Commission may take a different view (from those doing well from the provision of Victorian taxi services) and decide to find some of the money by encouraging savings to be found somewhere in the supply chain.

Clearly, those savings will not be derived by reducing the number of taxi drivers. There has been a shortage of drivers for a long time.

Hopefully, it will not be found by reducing the hourly income of bailee drivers (as has been done during the long period since taxi fares were last reviewed).

Indeed, some solution needs to be found to *attract and retain* taxi drivers and the solution to that 'difficulty' needs no further canvassing. The 'success' of the new maximum taxi fare-setting will be measured and one of the most telling benchmarks will be the increasing length of active service among taxi drivers.

If taxi driving remains a transient occupation, it will be because the rewards for drivers are poor.

If taxi services being received by passengers does not improve greatly, it will be because the rewards for drivers are poor.

The single owner/driver model has much merit and will reduce the number of people involved in the supply of taxi services.

If the taxi industry cannot afford to pay wages, it cannot afford to pay licence (permit) rents as these are *not required at all* to provide taxi services.

If the taxi industry cannot afford to pay wages, it must reduce costs elsewhere.

If the taxi industry cannot afford to pay wages it should cease trading under the existing model.

The alternative is to dramatically change the supply chain.

If taxi services are to be improved, there is no middle-ground.

Experience has shown, and it has been widely documented, that increasing taxi fares mostly benefits those (other than bailee drivers) elsewhere in the supply chain.

Before one can advance any meaningful and constructive suggestions concerning how taxi occupancy, consumer demand, taxi affordability, reliability and accessibility can be significantly improved we need to settle the matters around “What is the most efficient model for the provision of taxi services in Victoria?”

Until that matter is determined, it is premature to even begin to consider many of the questions posed by the Essential Services Commission in its “Call for ideas paper.”

It is not possible to set taxi fares by following the sequential steps normally used by the Essential Services Commission when reviewing charges for other industries.

In those industries there are audited and verifiable data, personal agendas have less impact on good pricing outcomes, everyone in the supply chain is paid wages and/or salaries (with full entitlements) and the business models are efficient and have matured over time.

The Victorian taxi industry is in a state of wild flux and, even today, we face great uncertainty about government policy. We have a few industry participants who do not agree with legislative and regulatory changes made by government and we need to take the time and wait and see what happens.

The government may move the goal posts to accommodate the few and alienate the many.

However, as in most good endeavours, *there is no rush* and the mantra SLOWLY, SLOWLY, SLOWLY is a wise exhortation.

What is urgent is that the Essential Services Commission set forth its views on the level of driver remuneration – a simple question “Are taxi drivers worth (at least) wages?”

If not, we need to embrace other solutions that will ensure that the Victorian taxi industry is no longer reliant on a driver-provided subsidy of nearly \$400 million each year.

The Victorian taxi industry (as is common in most world taxi markets) is a very inefficient industry that carries much baggage. That burden cannot continue to be borne if we are to improve taxi services.

The recipe for providing efficient taxi services where 'value' and 'value-for-money' are both features must include large reward for the front-line service providers.

The single owner/driver model for taxis has been proven to deliver the “best taxi service in the world” and is the model that has always been used in London where the Black cabs are considered the “world's best” and taxi licences (permits) have always been free.

Some criticism has been levelled at those who hold the London model as an example of best practice. Could it be that those who deride this view are those who do too well under our inefficient Victorian model?

Soon it should be possible to provide wide-ranging, well-supported and unique suggestions for greatly increasing the demand for taxi services and this will include documenting ideas around new revenue streams for taxis, clever pricing strategies and an aggressive marketing programme.

We will soon be able to answer questions around the “airport problem” (if there is one!), short fare refusals (are the only fare refusals *short* fares?), should there be minimum/set fares from (say) the airport and a number of other questions raised by the Essential Services Commission in its 'Call for ideas paper.'

It is also important to ensure that any 'preserved' revenue components (such as late-night surcharges and fees, WAT lifting fees, etc. are all deemed inalienable amounts that must be passed in entirety to the drivers performing the front-line service role – not to taxi owners and operators.

It is clear that taxi owners and operators should be responsible for all taxi expenses.

However, before meaningful progress can be made, we need to see the current up-rising against industry reforms settled and we must decide about the structure of the future Victorian taxi industry.

Do we retain the current structure and provide wages for drivers under that structure or do we opt for something else that will vastly improve driver income and, consequently, taxi services?

It is not *yet* required that the Essential Services Commission declare its hand on the matter of “What is the most appropriate model?”

However, it is important that this debate be started now and argued extensively with the view to reaching an unequivocal position as it will not be possible to set taxi fares until the matter is settled.

The role of the Essential Services Commission is to set maximum taxi fares but, in doing so, it cannot rely on the continued subsidisation of the Victorian taxi industry by taxi drivers.

It is quite possible that industry leaders have already supplied expansive ideas to the Essential Services Commission. Indeed taxi companies, taxi associations, taxi licence holders and taxi owners and operators have long experience in the industry and, based on that decades-long involvement, are well placed to guide the industry on a path of sustainable growth characterised by a real increase in taxi passenger numbers, enhanced profitability for taxi owners and operators and a big increase in driver remuneration.

Adopting a “wait and see” stance at this early stage will allow those industry experts opportunity to publicise their wide-ranging ideas for a measurable, significant and great increase in taxi trip numbers. Those ideas need to be put in the public arena and may provide a launching pad for the introduction of reform initiatives and should aid the fare-setting task.

Then it will be possible for others to add to those ideas and to suggest fare-setting initiatives to capitalise opportunities.

There is no suggestion that owners and operators of taxis or, indeed, holders of existing taxi licences are not entitled to a decent income.

Even they may have innovative ideas to justify and fund their continued rewards.

There is much travelling yet to be done as the journey is a long one. The road has never been traversed before which means much learning will occur.

The Essential Services Commission can take much comfort from a quote discovered recently (and which has been *slightly* edited):-

“May your taxi fare-setting proceed with good fortune and steadfast fortitude.”

D.K Clark

Melbourne

8th October 2013.

