

Submission to
the
Essential Services Commission

Subject: Taxi Fare Review 2007-08

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SUMMARY OF QUESTIONS

1. Are there any other market issues the Commission has not identified, that should be considered under the specific 'terms of reference'?

The really big issue is the appallingly low returns to bailee drivers, and assignee operators.

2. How effective has the CPI-X approach and determination of the productivity X factor been as a method for determining Victorian taxi fares?

The CPI-X approach has not been effective for the taxi industry, and in fact, has been quite damaging and hurtful to the industry, particularly the drivers. While typical wage increases exceed the CPI, and are therefore an indicator of an improving standard of living for the community generally. The objective of the CPI-X model is negated by both the loss of market share, and specific industry costs such as fuel, are increasing at a higher rate than the CPI. The loss of market share, and diluting the market by adding more taxis has the greatest impact on driver incomes.

3. Are there any specific reasons that justify a change in the Commission's adoption of a conservative approach towards setting an X factor?

The X factor of 1% does not reflect reality. In truth, the efficiency gains in the taxi industry are negative. The X factor is in fact a large negative number, which would produce an outcome, in reality of $CPI + X$.

Since 2005, the following events have affected efficiency in the taxi industry:

- Lowering of speed limits
- Traffic flow restrictions, including, but not limited to "super tram stops"
- Road workers now occupy increasingly more of the road with "warning cones". In fact, last week, workers presumably from the Hume Council, closed one entire lane of the Tullamarine Freeway with traffic cones, reducing the freeway to one lane near Mickleham Rd. This added about 15 minutes to the trip to the airport. The apparent purpose of this restriction of the road, was to cut the grass beside the freeway.
- Introduction of 500 Green Tops
- Migration of many of the best taxi drivers (and their clients) to Hire Cars
- Increases in vacant kilometres by the entire taxi fleet.
- An increase in the number of no-jobs dispatched by the taxi depots.
- An increasing percentage of the taxi fleet are now "Premium Service" taxis, which have purchase prices nearly double that of Falcons, slightly higher maintenance costs, and use about 10% more fuel than Falcons.
- Premium Service taxis, driven by better drivers, have proven to have better returns than other cars.
- The 2005 ESC final report identified a possible saving to be made by changing to cheaper, smaller and more fuel efficient cars, like the Avalon. Avalons are no longer produced by Toyota, and in any case, they have not stood the test of time. That the smaller and cheaper cars are more fuel efficient, is negated by their lack of durability.

The issues paper also identifies in point 7.6, that profits in the industry are mostly captured by the licence holders and depots. For this reason, I make the observation that: "It is not in the interests of the taxi depots (Accredited Networks) to improve efficiency, because the networks would be able to function with less taxis, resulting in the loss of depot fees for those depots".

4. Given the available information on costs and productivity movements tend to be limited, what additional sources of data should the Commission consider, in order to improve the use of the CPI-X regulatory approach?

- Vic Roads Travel time studies.
- A weighted index, that includes industry specific costs like fuel, vehicle costs and maintenance, insurance and depot fees.

5. What other approaches or variations to those listed, if any, should the Commission also consider?

The Commission should consider ways to prevent profits of the industry "migrating upwards".

This could include:

- Regulating maximum licence assignment fees.
- Introducing a significant "driver only" component to the fare structure.
- Regulating bailment agreements.
- Striking out automatic escalation clauses in assignment contracts.
- Removing fuel costs from the calculation of assignment rates.
- The Commission should set a target of \$22 per hour for driver net earnings, and either by regulatory force, or re-structuring the industry try to achieve this earning rate.

6. Are any of the three CPI-X methods identified inconsistent with the requirement to establish a model to provide for automated fare setting over a 3 to 5 year period?

No CPI – anything method is ever likely to produce just wage outcomes for drivers. Any CPI-X approach is totally unsuitable.

7. Of all the approaches considered which is the most appropriate for setting Victorian taxis fares? Why?

WPI is probably the most suitable method, because the taxi industry is a labour intensive industry. If wage justice is ever considered relevant for taxi drivers, then adjustments of the driver's share of the fare should be at least twice WPI for the next five years.

8. In what ways, if any, should the Commission account for productivity gains when setting taxi fares?

All productivity gains should be returned to drivers, on account of their poor earning capacity under the current system, and their weakness in bargaining power within the industry.

9. How should the Commission assess the specific components of the current fare structure? Should their relative weightings be altered?

The flagfall should be increased in weighting, such that the driver's share represents at least 20 minutes of fair income. The booking fee should be equal to 3Km at the distance rate.

10. How effective have the surcharges on phone-bookings, late nights and New Year's Eve been in encouraging the operation of more taxis? How have they affected demand?

The late night surcharge in Victoria hardly replaced the late night "extra", that was removed. Drivers were lucky to recover \$2.00 per hour in addition to the "extra" that they lost.

11. Should the surcharges on phone-bookings, late nights and New Year's Eve form a permanent part of the Victorian taxi fare structure? If so, what should the surcharges be?

Yes, and the New Year's Eve surcharge should be re-introduced for metropolitan taxis.

New Year's Eve, \$5.50 from 6.00PM on 31 December, to 12noon on 1 January.
Phone Booking, 3Km at the distance rate.
Late Night Surcharge: 20% 10PM – 6AM, and all day Saturday, Sunday and Public Holidays.

When the New Year's Eve surcharge did apply, it did not appear to stifle demand. Demand was high for most of the night, particularly from 0:30 to 08:00 the next morning. I am a day driver, but did on two occasions, work NYE night. On two fares, I didn't collect the surcharge which applied, just because I was happy enough to get the people home when their money had just about run out.

12. What methodologies and approaches should the Commission consider when addressing the balance between fixed and variable elements of the tariff structure?

The charges should all relate to the costs of supplying the service, notably including driver's labour, and including the cost of taxis sitting vacant between hirings. The booking fees should represent the distance rate of the average "pickup distance" (3Km)

13. What considerations are relevant to the balance between day-time and nighttime taxi fares? Should these fares vary between peak Friday and Saturday night periods and other nights of the week?

Rate 2 (night rate) should apply at all times identified as "peak demand times" in the Accreditation "Business & Service Standards" document. This might have the effect, that clients who are price sensitive, would choose to travel at low demand times.

14. How should the Commission assess the specific components that differentiate Country from Metropolitan fare structures?

Not qualified to answer this question.

15. What other considerations, if any, should be included in a country and regional taxi fare assessment?

Not qualified to answer this question.

16. How should the Commission assess the impacts of changes in fare structures on taxi demand and revenue?

When fares are increased, there can be expected to be some drop in demand, due to "price sensitivity". The total revenue of a representative sample (about 100) of cars, and number of hirings should be recorded, in the month prior to the increase. Six months after the fare increase, the same data should be collected from the same sample of cars. If a lowering of demand is measured by this method, the Government should buy back a proportion of the licences representing the lowering of demand, and remove them from service. If an increase in demand is measured, then no more licences should be introduced until such time as the usage in Victorian taxis approaches the usage in NSW metropolitan taxis, or at least significantly exceeds the Metropolitan QLD figures. (Issues Paper 08, p29 table 3.3)

17. What other sources of data might the Commission consider, in its assessment of the impacts of changes in taxi fare structures?

The Commission should ignore data from sources where there may be a temptation to "fiddle the books".

18. Should a surcharge for pre-booked premium taxi services form a permanent part of the Victorian taxi fare structure?

Yes

If so, what should each surcharge be?

The current charge is \$11.00, and has been unchanged since 2000.

It should be increased either to \$13.75 or \$16.50.

19. What issues, if any, should the Commission consider in relation to the proposed surcharge for premium taxi services?

The "premium service surcharge" has not changed since 2000.

20. Should the Commission consider recommending the adoption of mandated bailment agreements? If so, which type of arrangement?

The Commission should consider banning any agreement which results in the driver retaining less than 50% of the total revenue. The driver's share should be increased by 2.5% per year for the next five years. This would reflect the decline in real terms of the cost of owning and operating cars over the last 20 years, and help to redress the current problem of low driver incomes. In particular, "Option 2" (percentage of revenue, plus a fixed charge, ostensibly for "insurance") agreements should be struck out.

21. Given the varying degrees of regulation and industry practice, how valid are comparisons with bailment arrangements in other jurisdictions?

Not able to say.

There are significant conditions enjoyed by NSW drivers, like annual leave and sick pay, that are not available to Victorian drivers. This may be possible because the revenue of NSW metropolitan taxis is 115% higher (Issues paper table 3.3) than Melbourne taxis.

22. What changes, if any, should the Commission consider recommending in relation to the present arrangements for taxi network fees and insurance?

The Commission should consider striking out the requirement for taxis to be affiliated with an "accredited network", and only require taxi owners to be monitored for driver alarms. The networks should be mandated to supply alarm monitoring at not more than \$50 per month, plus \$25 per alarm activation. The taxi owners and drivers would then have the freedom to operate under the livery of a "Secondary Network". The taxi owners should also be free to contract their alarm monitoring to security companies like Chubb, or Courier networks.

23. What impact, if any, does Cabcharge have on bailment revenue and driver income?

Because, when fares are paid via the Cabcharge system, and a 10% merchant fee is effectively borne by the client, fares are now effectively 10% below what the market will bear.

The 10% Cabcharge levy has acted as an effective barrier to tipping for the following reasons:

- Many people think that the Cabcharge impost of 10% is excessive.
- Many think it is somehow paid to the drivers, and therefore replaces tips.
- As the Cabcharge system has become more automated in recent years, any client wishing to tip a driver, has to tell the driver to take a tip, and how much. Previously on a paper based system, the client would often have tipped, without comment, by writing a higher amount on the paper docket. Politeness prevents drivers from asking for a tip, it may also be an offence for a driver to ask. A tip is in fact an un-prompted free will payment from the client to the driver. The automation of the system has become a significant barrier to tipping.
- The Commission should consider striking out any requirements for the fitment of an electronic terminal in any taxi. The Commission should also strike out any regulations, or clauses that compel a driver to use the electronic system.
- "The payment of a taxi fare is a debt owed by the hirer to the driver. The driver should have absolute discretion to decide how that debt will be traded, and with whom." It should also be noted that the failure of a hirer to pay the required fare is always a loss borne by the driver.

24. Should assignment fees be included in decisions regarding taxi fare adjustments?

Yes, and they should be restricted to set maximum rates, and fare increases related directly to operating costs, maintenance, depreciation, costs of complying with laws or regulations, and driver payments be excluded from the calculations for assignment fees.

25. What approaches, if any, might the Commission consider in order to break the circularity between fare increases and assignment fees?

Strike out price escalation clauses from assignment agreements. Require all people who acquire taxi licences to be accredited drivers, at the time of acquisition of any licence. Require all people who have acquired licences, who do not themselves directly operate at least the same number of taxis, within 12 months, to drive three twelve hour shifts (at least), for each licence held. This would make taxi licences less attractive to passive investors, and bring with it a set of conditions that few prospective investors would be prepared to meet. Any licence holder failing to drive the required number of shifts, should be given 12 months to divest any excess licences. The issues paper has very strongly identified passive licence investors as a drain on the industry revenue.

Passive licence investors would be better investing in Grange Hermitage.

Tas Revis:

http://www.bsxtaximarket.com.au/brokers_info.aspx?view=102

"Victorian Taxi Licences have outperformed every other asset other than Grange Hermitage since 1981."

26. On what basis should the Commission assess the adequacy of returns to drivers and operators at present?

The commission should not rest till at least 80% of drivers with three or more years experience, have incomes of \$22 per hour (based on 2005 figures), plus allowances for non-wage entitlements, and net of expenses like uniforms, tools and car washing.

The VTA "Taxi Cab Bailment Agreement" 12/02

States:

"6.3 The bailor agrees, at its own expense, to:

(b)carry out all necessary repairs and maintenance to the Taxi-Cab and external washing and cleaning;"

In reality, few operators wash their taxis, and leave this to the drivers. Many will not pay any costs that a driver incurs washing a taxi, and some don't even supply a tap for the purpose of washing their taxis.

The typical costs of washing a taxi are:

\$4.00 or \$5.00 at a coin operated washing booth. (most common).

\$1.00 vacuum.

Valet service, (minimum \$12.00, maximum \$25.00), \$15.00 (typical)

Best practice requires that a taxi is washed at least four times per week. Some drivers, particularly in premium service taxis, wash their taxis every day.

27. What are the most relevant factors for affecting changes in the distribution of income between drivers, operators and licence holders?

That licence assignment costs approximate 20.6% of total revenue. (Ref Issues paper p32 and issues paper, table 3.3). This is a greater return than that of the operator, at around 3%.

Traditionally, the owner gets 50%, then pays for fuel. Over the last few years, fuel has been about 10% of revenue. In the current round of profiteering by the oil companies, the cost of LPG has reached 17% of revenue.

Table showing the typical breakup of the Operator's 50% share of the revenue

	October 2007	January 2008
Assignment Costs	20.6%	20.6%
Fuel	10%	17%
All other costs	16.4%	16.4%
Profit	3%	-4% (loss)

28. What other sources of data might the Commission consider, in its approaches to the measurement of performance and market research in the Victorian taxi industry?

The Commission should take a long look at the data in table 3.3, which strongly shows that Victoria's taxi fleet is grossly under utilized compared to NSW and QLD, and the reasons for this disparity. This data would suggest that the Victorian market is significantly over supplied with taxis.

Sydney is commonly believed to be a more difficult city to drive in than Melbourne, and is more congested. In other ways it is demographically similar to Melbourne. It should therefore have been expected that utilization of the Melbourne fleet would have been higher, and more efficient than that of Sydney.

The only conceivable reason for the disparity between Sydney, and Melbourne, is a significant over supply in Melbourne.

Ref Issues Paper p40

Potential sources of productivity gain

Productivity refers to the ratio of outputs to inputs used, and improvements in productivity may come about by reducing input requirements, or improving the utilisation and service outputs per cab. General principles for measuring productivity gain are outlined in Appendix B.

Some of the opportunities for realising productivity gains in the taxi industry include improvements in technology and the reduction in fixed costs by expanding fleet sizes. Other specific examples where taxi industry efficiency or productivity gains might be made include:

- use of network global positioning systems (GPS) to allocate jobs and reduce dead running when the closest taxi does not accept the closest available booking*

Over the years, I have made a number of approaches to Silvertop to discuss the operation of their GPS system, including several well constructed letters, and a visit to their call centre for a few hours. One of the points I was trying to make was that latency in their system resulted in jobs frequently dispatched to cars that had significantly passed the pickup point, instead of to those cars approaching the pickup point.

- expanded use of the existing automated Short Message Service (SMS) booking service for taxis, which would provide the network with some cost savings by reducing the number of staff required to operate call centres.*

Automated booking has tended to result in a significantly high incidence of "no-jobs", and may save a minute or so of staff time. The no-jobs occur because the client either:

- Rings a second time "just to be sure", thereby booking a second cab.
- Gets into the first passing taxi.
- The caller recognition data is wrong, and automatically sends a taxi to the wrong place.

During the call centre visit referred to in the above paragraph, I also suggested ways to avoid the traps I had identified in the system. To my knowledge, none of those suggestions were seriously considered.

- *reductions in some predominantly fixed costs, such as network services, as a result of the Government's plan to expand the fleet*
- *further improvements in relative service quality and comparative value to increase demand for services and off-peak asset utilisation*

T2 (night rate) should apply to all hirings during the periods of peak demand, as identified in the "Business & Service Standards" document. This move might have the effect of encouraging price sensitive users to choose to travel during off-peak times.

(B&SS2007)

19. An operator will ensure that each taxi-cab is available for hire, or is hired, for 90 per cent of high demand periods (if any) for the service area within which it is licensed to operate, calculated over each quarter in each financial year, subject to any conditions of the relevant taxi-cab licence.

high demand period means, for the service areas known as the metropolitan taxi zone, the outer-suburban taxi zone or an urban taxi zone –

- (a) 7.30 am to 9.30 am Monday to Friday; and
- (b) 3.00 pm to 7.30 pm Monday to Friday; and
- (c) 11.00 pm Friday to 6.00 am Saturday; and
- (d) 11.00 pm Saturday to 6.00 am Sunday;

- *reforms to reduce the cost of insurance to levels achieved in other Australian jurisdictions*⁶⁰.

Improvements in the ratio of paid to total kilometres can arise due to improvements in fleet management, including having the 'right' number of cars in operation in each shift, and a number of the specific productivity initiatives already discussed. However, an improvement in this ratio can also arise simply by constraining the growth in supply of taxi-cabs relative to the growth in demand. Higher taxi-cab productivity can be achieved at the expense of higher user waiting times. However, productivity gains of this kind may not be economically efficient if the imputed cost of waiting time is higher than the cost savings achieved. As customer waiting times are not routinely measured at the present time, and may not in themselves be sufficient to satisfactorily address the question where patrons are discouraged by waiting times and choose other transport modes, there remains a significant

degree of uncertainty about whether observed productivity improvements are 'efficient' improvements or not. For the regulator there is a risk of basing future productivity targets on past trends if those past trends are distorted by constraints on the supply of taxi-cab licences.

The ratio of paid to total kilometres, or as many operators see it, as "cents per kilometre" has not been improving recently, and this can be attributed, at least in part, to the "desperation factor", as drivers who have "bigger bills to pay", and less income to do it with. When there is a lot of work in an area, most drivers try to "hang in there for a piece of the action". Many drivers who have gone for a long period without a job, tend to move on and "search" for work. There is a significant difference between the revenue on a "good day" and a "bad day". The total kilometres between such days does not differ much.

In my opinion, the cost of "waiting time", either of the client waiting for a taxi, or of a driver waiting for a job should be weighted equally, and if a money value is placed on this "waiting time", the meter rate for waiting time would be appropriate. The efficiency issues identified above, should be considered to be under-supplied with taxis if the aggregate waiting times of clients exceeds the aggregate waiting times of the drivers. If the drivers experience more waiting time than that of their clients, this should represent an over-supply of taxis. Supply and demand could fairly be considered to be balanced, if the waiting times on both sides are about equal.

Maximum fare regime

The Government should provide for a maximum fare regime with flexibility to negotiate fares below the maximum in appropriate circumstances by making clarifying amendments to the Transport Act 1983.

As announced in September 2006, Victorian taxi depots and operators now have the flexibility to negotiate fares below the metered rate for permanent and contracted services. This has not been applied to other customers to date.

The Commission should strike out the right of any third parties to negotiate below meter fares on behalf of drivers. In view of the low returns to drivers, any "discount" comes entirely out of the driver's share of the fare. A depot negotiating with a hirer, say offering a discount of \$10 (16.67%) on a \$60 fare, would cost the driver 33.33% of his share. In this example, of the \$50 paid for the job, only \$20 would go to the driver, and the car owner would still get his \$30.