Review of the

Taxi and Luxury Hire Car Industries Act 1995

Paper 2 – Taxi Fare Setting Mechanisms

and

Driver Pay and Conditions

Department of Infrastructure, Energy and Resources

December 2005

This is the second in a series of discussion papers to be produced by the Department of Infrastructure, Energy and Resources about the taxi industry.

These papers will address issues that were identified during the work of the Taxi Industry Review Group established in 1999 to review Tasmania's taxi legislation, as well as issues of ongoing interest.

The purpose of these papers is to seek input on these issues from members of the taxi industry, through the Taxi Industry Reference Group, and other interested stakeholders.

The issues in this paper are presented for discussion and do not represent Government policy.

The work of the Reference Group and the input from stakeholders will contribute to a process of rewriting the Taxi and Luxury Hire Car Industries Act 1995 *and making new regulations to replace the* Taxi Industry Regulations 1996 *and the* Taxi Industry (Taxi Areas) Regulations 1996, *proposed for 2007*.

APPENDICES

1. Introduction

This paper is one of a series of discussion papers addressing issues that were identified during the work of the Taxi Industry Review Group, which was established in 1999 to review Tasmania's taxi legislation, and other issues of ongoing interest.

Recommendations from the Review Group resulted in the development of the *Taxi and Luxury Hire Car Industries Amendment Act 2003*, which was enacted in December 2003. During the review there were several issues identified that were outside the scope of the Review Group's terms of reference. These issues were to be addressed after the commencement of the new Act.

The Department of Infrastructure, Energy and Resources (DIER) has established a Taxi Industry Reference Group to provide advice on a range of issues affecting the industry, including the issues identified by the Review Group. Initially the issues considered by the Reference Group will be those which will inform a process of rewriting the *Taxi and Luxury Hire Car Industries Act 1995,* the *Taxi Industry Regulations 1996* and the *Taxi Industry (Taxi Areas) Regulations 1996* proposed to be completed in 2007. Further information on the Reference Group's work can be found in Section 6.

This discussion paper relates to the setting of taxi fares, an issue that was identified by the Taxi Industry Review Group as a matter to be addressed outside of the review[1]. The paper will discuss issues such as the role of the Government as the fare regulator, and the mechanisms used in the setting of fares. It will also consider the issues of taxi driver pay and conditions, and their relationship to taxi fares.

DIER commissioned a report into taxi fare setting and review mechanisms in 2004[2]. This included an overview of fare setting mechanisms in other states and territories and examined possible role for the Government Prices Oversight Committee (GPOC) in setting taxi fares. The findings of this report will inform the discussion on this issue.

1.1. Legislative basis for taxi fares

The Taxi and Luxury Hire Car Industries Act 1995 (the Act) allows regulations to be made that provide for the calculation of payment of fares and charges and the operation of fare schedules3. Taxi fares are therefore specified in the Taxi Industry Regulations 19964, which prescribe the fares to be charged, the manner in which they are applied and extra charges that can be applied.

[1] Taxi Industry Review Group: *Taxi Industry Act 1995 and luxury hire car legislation Final Report*, April 2000, page 17.
[2] Pearson's Transport Resource Centre Pty Ltd: *Taxi Fare Setting/Review Mechanism Project Final Report*, August 2004.
[3] *Taxi and Luxury Hire Car Industries Act 1995* (Tas), Schedule 3(h).
[4] *Taxi Industry Regulations 1996* (Tas), Regulations 21, 21A, 24A and Schedule 4.

The Regulations also outline the requirements for taximeters[5], which is the instrument by which fares are calculated, including the installation, testing, sealing and use of these meters.

Regulation 24A provides for a driver, a responsible operator or an accredited taxi group to apply to the Commission for registration of a discount fare – i.e. a fare that is less than the standard fare. The details of the discount fare must be displayed on the outside of the taxi.

The Regulations relating to fares are reproduced at Appendix 2.

In addition to the provision for discount fares in the Regulations, the Act provides for groups of taxi operators to apply for accreditation[6], and enables accredited groups to specify their own fares, charge different fares, use different tariff hours, and seal their own meters. These provisions are reproduced at Appendix 3.

1.2. Role of Government

1.2.1. Regulation of fares

In its regulatory impact statement on the taxi and luxury hire car legislation, the Taxi Industry Review Group stated that taxi and luxury hire car industries have been subject to high levels of regulation due to there being a number of imperfections or 'market failures' within the market for taxi services. It listed a number of reasons that have typically been given by governments for regulating the industry, including reasons relating to safety, basic quality and service provision[7].

Specific reasons for regulating taxi fares included to: "avoid situations where passengers were exploited because they were not fully informed about the fares available from other taxis; [and] ensure fare levels strike a suitable balance between returns to industry and a fair price for consumers"[8].

In Tasmania fare regulation is by means of a prescribed maximum fare, and specified times at which the different tariffs can be charged. This reflects the Government's obligation under the Act to:

- ensure the availability of adequate standard taxi services at reasonable prices; and
- enable variation in taxi services to meet community demands at prices determined by market forces[9].

[5] [5] ibid.,: Regulations 23, 24(2), 24(3), 24(4), 25, 26, 27 and 28.
[6] Accreditation of groups of taxi operators under section 24 of the Act is different to the safety-related accreditation under the *Passenger Transport Act 1997.*
[7] Taxi Industry Review Group: *Taxi Industry Act 1995 and luxury hire car legislation Regulatory Impact Statement*, April 2000, page 4.
[8] ibid.
[9] Taxi and Luxury Hire Car Industries Act, Section 4(2)(c).

As a maximum fare has been set by the legislation, taxi customers are assured that there will be consistency in the maximum price they will have to pay when taking any taxi in their taxi area at any time. In practice, however, the maximum prescribed fare is the normal fare charged by all taxis, other than for work undertaken by agreement or contract.

1.2.2. Review of regulation of fares[10]

The Review Group's review, conducted in 1999, was part of a broader review of Tasmania's legislation undertaken in accordance with the State's obligations under National Competition Policy (NCP). These reviews of legislation were founded on the principles that the free operation of markets is generally regarded as the most effective way of allocating resources, and that any form of regulation that restricts competition must be justified as being in the public benefit[11].

Prior to 2003, the taxi legislation set the absolute fare to be charged, as opposed to a maximum fare. This was in contrast to all other jurisdictions other than Victoria. The Review Group noted that setting absolute fares "[restricted] operators from competing on fares and therefore [prevented] buyers and sellers from trades at mutually agreed rates".

The Review Group concluded that regulation of fares strongly benefited:

- ***users and industry*** by minimising the potential for disorderly conduct that could otherwise arise from over zealous competition; and

- ***users*** through the certainty it provides about the level of fare they will incur. The Review Group felt this was particularly important for visitors to the State who may lack sufficient knowledge to negotiate effectively.

The Review Group identified the following main costs of having set fares.

- Users and industry do not have the ability to negotiate fares, depriving users of potential savings that may arise from the flexibility to negotiate fares on an individual basis, and preventing operators from obtaining business that would otherwise be available.

- The inability to negotiate fares may impose a significant cost to the industry where there is competition with luxury hire cars that will be free of fare controls. However, the cost to industry of the inability to negotiate fares in peak periods was not considered high given the lack of peak periods compared with other States.

---

[10] Information concerning the work and considerations of the Review Group in this section is taken from the Taxi Industry Review Group: Regulatory Impact Statement, pages 37–39.

[11] Taxi Industry Review Group: Regulatory Impact Statement, page 4.

- The inability to negotiate fares may be a significant cost to users as potential customers may be excluded from the market because of cost.

The Review Group also felt there was little evidence to support an argument that the current controls over fares led to drivers favouring more profitable longer trips (e.g. to and from the airports) at the expense of being available for short trips.

Taking the above costs and benefits into account, on balance, the Review Group concluded that control over fares provided a net benefit to the public.

Outcomes of the review

Under the Review Group's terms of reference, it was required to consider alternative means for achieving the same benefit. In this case, the Review Group considered that price regulation by maximum, rather than absolute, fares was a less restrictive alternative that would still maintain this benefit. This would reduce the potential for exploitation of consumers, and also allow the industry to compete on an equal footing with the luxury hire car industry, where fares were not regulated.

Absolute fares were replaced with maximum fares in the Taxi Industry Regulations in 2000[12].

Discount fares

The Review Group considered that the ability for customers and operators/drivers to negotiate lower fares would result in innovation in the industry and contribute to some increase in demand for taxi services. It suggested that claims by the taxi industry that there were too many taxis in the urban areas and that there were significant idle periods indicated that there was potential for both industry and consumers to benefit from fare discounting at such times.

The Review Group noted concerns about disorderly market behaviour that might stem from a system that relied on negotiation of fares for individual trips.

It suggested that to overcome this a revised fare control structure would need to facilitate negotiation of fares in an orderly manner. This was introduced in 2000 through amendments to the Taxi Industry Regulations, which provided for drivers, operators or accredited taxi groups to apply to the Transport Commission for the registration of a discount fare[13]. The requirement for the discount fare to be agreed with the Commission and to be displayed on the outside of the taxi/s, was intended to address the concerns about the potential for disorderly market behaviour.

---

[12] Taxi Industry Regulations, Regulation 21A.
[13] ibid., Regulation 24A.

Opportunities to charge different fares

Other provisions relating to charging fares other than the regulated fares have been available to operators since the introduction of the Act in 1995. Under section 25, accredited taxi groups are able to make an agreement with the Transport Commission to specify their own fares, charge different fares, use different tariff hours and seal their own meters. To date only one company has been accredited under these provisions, and it has not used the provisions to establish an alternative fare structure. In respect of this low level of take-up, the Review Group noted that:

> "[the] fact that more companies have not been active in developing alternative fare structures under accreditation may reveal that the industry is fairly conservative in respect to change of this nature."[14]

It recommended that contracts might be negotiated on a commercial basis between a licensee or group of licensees and users (individual or corporate) without the approval of, or lodgement with, the Transport Commission. This recommendation was not progressed and the provisions requiring accredited groups to reach agreement with the Commission has been retained in the legislation.

1.2.3. Market and competition

In its discussion paper[15], the Review Group identified the following advantages and disadvantages of having a system of set fares and tariff times:

Advantages

- it provides certainty to taxi users about the price that will be charged, thus eliminating exploitation;
- it prevents abuse of market power where there are dominant taxi companies setting maximum fares;
- it ensures that customers across the state generally pay the same fare; and
- it means that fares do not need to be displayed on the outside of taxis and enables customers to use the cab at the head of the rank.

Disadvantages

- it prevents the capacity for consumers to benefit from competition on the price of fares;

---

[14] Taxi Industry Review Group: Regulatory Impact Statement, page 40.
[15] Taxi Industry Review Group: *Review of Taxi and Luxury Hire Car Legislation in Tasmania – Discussion Paper,* July 1999, page 25.

- it prohibits a multiple hirer tariff rate;
- it limits the ability of prices to properly reflect costs; and
- it leads to drivers favouring more profitable longer trips (e.g. to and from the airports) and neglecting short trips[16].

These perceived advantages and disadvantages are explored in more detail below.

Certainty for taxi users, consistent fares and 'fare shopping'

Set fares and tariff times provide certainty to taxi users about the price that will be charged and ensures that customers across the state generally pay the same fare for a journey of the same distance. Regulated fares are displayed inside taxis and are calculated by a sealed taximeter. This provides reassurance to customers that the fare they pay is the fare that has been endorsed by the Government. It also eliminates the ability for taxi companies and or drivers to potentially exploit users by charging higher fares. For example, drivers could charge excessive fares at times when taxis are in short supply, such as when it is raining in peak periods[17].

It also means that users will not have to 'haggle' with drivers about the fare, which could occur if fares were not regulated. Many users, particularly more vulnerable users, might be reluctant or unable to negotiate a reasonable fare with a driver. They might feel forced into accepting a higher fare than they might otherwise have paid, or might be so intimidated by the haggling process that they stop using taxis. Haggling on ranks might also result in drivers aggressively competing with each other for fares in times of lower demand. This might result in lower fares for customers, but in much lower returns for operators and drivers in an environment when returns for some sections of the industry are acknowledged as being low.

It has been noted that if fares were not regulated, customers could not know what a taxi's fares were before getting into the vehicle and that there would need to be some means by which this could be publicised, for example displaying fares on the outside of the vehicle. As noted above, the Taxi Industry Regulations currently provide for this to occur in relation to discount fares, although the provisions have not been used to date.

It has been suggested that displaying fares on the outside of the vehicles could result in passengers 'shopping' up and down a rank to find the taxi with the cheapest fares rather than taking the first taxi on a rank. There is no legislated requirement for passengers to take the first taxi, although there is agreement amongst taxi operators that this is the case and anecdotal evidence of sanctions being imposed against drivers that accept jobs from the middle of the

[16] Taxi Industry Review Group: Discussion Paper, page 25.
[17] Productivity Commission: *Regulation of the Taxi Industry*, Commission Research Paper, Ausinfo, Canberra, 1999, page x.

rank. If discount fares were available, a customer may not want to take the first taxi on a rank. It would therefore be necessary to ensure that the other taxis allowed a taxi to leave the rank from the middle of the rank to commence the journey, without repercussions. The Review Group recommended that this issue be addressed as part of the development of an industry code of conduct[18]. This issue will be considered in a later discussion paper about such a code.

In areas of high demand where turnaround needs to be efficient, in particular at airports, 'shopping' on ranks would result in a significant slowing down of loading and dispatching vehicles. In its report on taxi industry regulation, the Productivity Commission suggested that a fixed regulated fare could be warranted at airport ranks and/or that a separate area could be set aside to be used by taxis that offered discount fares, which would give airport users the opportunity to take advantage of lower fares[19].

For the phone booked market, the Productivity Commission noted that users are at less of a disadvantage in relation to unregulated fares than in the rank and hail markets. They can phone around for the best price and may be less vulnerable to drivers exploiting taxi shortages in peak times[20].

Benefits to consumers from competition on the price of fares

The introduction of the ability for operators to set fares other than the maximum fare is designed to allow customers to purchase a higher quality service at a higher price, or conversely a lower quality 'basic' service for a lower fare. For instance, there is a range of taxi vehicle models, standards and quality currently in the fleet. Some vehicles used as taxis are higher quality vehicles such as Fairlanes and Statesmans, which are maintained at a very high standard, by operators who seek to deliver a 'premium' taxi service. Under the current arrangements, customers pay the same price for this service as they do for a journey in an older base model vehicle with an inexperienced driver. Likewise, a driver will receive the same payment for providing a basic taxi service in an older vehicle as a driver who might provide a higher standard service (e.g. wearing a formal uniform and driving an immaculately maintained, prestige vehicle). It could be argued that the 'value added' by the second driver should translate to higher returns.

It is likely that there are some taxi users that would be prepared to pay a higher fare for a higher quality of service, especially in the business sector and on special occasions. 'Premium' taxis would be competing with luxury hire cars, which do not have regulated fares, for this market.

[18] Taxi Industry Review Group: Regulatory Impact Statement, page 39.
[19] Productivity Commission: loc. cit.
[20] ibid., page 20.

Likewise, there might be some low frequency users and people that currently do not use taxis because of the cost, who might use taxis more often if a basic standard service was available at a lower cost. For these users, cost rather than quality would determine whether they would use a taxi, and if so, which taxi. As noted above, lowering fares in non-peak times has the potential to attract more customers, who might otherwise not travel in a taxi. It would also be possible for taxis to offer specialised services at different fare rates to attract specific business. Further investigation could be carried out to determine possible niche markets – for example, trips to and from shopping centres during the day. There might even be scope to offer different types of vehicles to accommodate the different market sectors.

Without the current controls on fares, there might also be scope for operators and taxi companies to set different fares for different segments of the market; for example, charging discount fares for taxi-reliant customers, and higher fares or surcharges for business customers and in peak times. Operators could also make use of the existing accreditation provisions of the Act to do this. In addition to this, there is the ability of operators to provide taxi style services to clients at a negotiated rather than metered fare using the limited passenger service provisions of the *Passenger Transport Act 1997*.

There is potential for radio rooms or operators to charge the higher fares for all taxi services. This would mean that access to taxi services would be reduced, especially for those on lower incomes or those who rely heavily on taxis. This is a major reason for setting maximum fares. However, the benefits from setting significantly higher fares would need to be offset against the likely loss of patronage.

Potential abuse of market power

The Review Group also noted that if fares were not regulated, there would be the potential for dominant taxi companies to abuse their market power by setting maximum fares[21]. It could be argued that if larger companies set fares that could not be matched by smaller operators, there would be no protection for these operators and they could be driven out of the industry. This would limit consumer choice, as well as reducing diversity in the industry.

This is normal behaviour in a non-regulated market, where market participants compete against each other and need to be able to differentiate themselves to attract customers. In the taxi industry this might be achieved by competing on price (e.g. promotional fares, discount fares for pensioners, lower fares at off peak times etc) or on service (e.g. providing different types of vehicles, additional services such as carrying luggage into the customer's house and so on).

[21] Taxi Industry Review Group: Regulatory Impact Statement, page 39.

However, the scope for larger companies to set prices that would undermine the viability of smaller operators is questionable. While some costs might be reduced for larger fleets due to economies of scale, smaller enterprises might have lower costs in other areas due to their smaller operations. For example, they may not be affiliated with a radio room and might have lower administration costs, or might choose to operate their taxi on a part-time basis. Independent owner-operators may not incur costs associated with leasing their taxi licence, which alone is a potential saving of about $800 per month in Hobart. Smaller operators therefore might have the scope to undercut larger companies significantly, while still remaining profitable.

Multiple hirer tariff rate

The Review Group also noted that regulated maximum fares prohibit a multiple hirer tariff rate[22]. These tariffs enable more than one hirer to hire the same taxi to different destinations at the same time. The meter is set at a lower tariff (for example, 25 per cent of the applicable tariff) and each party pays the fare on the meter at their destination. This normally results in cheaper fares for passengers.

It is particularly used in peak times, for example after special events or at airports, and enables more efficient use of taxis, as customers do not have to wait as long for a taxi. It also benefits drivers, who receive a greater fare than they would have by undertaking only one hiring at a time.

The Review Group considered that the absence of a range of formal fare categories, such as multiple hire, was not a high cost to users because of the limited peak demand in the Tasmanian taxi market[23].

Prices don't reflect costs

A major criticism of the current fare setting mechanism is that it does not reflect the costs of operating a taxi. The Review Group noted that regulating maximum fares limits the ability of prices to properly reflect costs. It is reasonable to expect that the price paid by consumers should, at least to some degree, reflect the cost of providing the service. However, it is important to note that it is only the efficient costs associated with service provision that consumers should reasonably expect fares to cover. If there were inefficiencies within the industry that contributed to high operating costs, the onus should be on the industry to address these issues, rather than seeking to pass on the costs to consumers through higher fares.

Operating costs and the relationship of these costs to fares are discussed in greater detail in section 3.4.1.

[22] Taxi Industry Review Group: Discussion Paper, page 25.
[23] Taxi Industry Review Group: Regulatory Impact Statement, page 38.

Favouring more profitable longer trips and neglecting short trips.

In its discussion paper, the Review Group noted that maximum fares could have the effect of drivers favouring more profitable longer trips at the expense of shorter trips [24]. Under the Regulations, this is not permitted from ranks[25], but bookings made through radio rooms can be refused by drivers. If this was the case, it could be a major problem for consumers, particularly those who are mobility-impaired and rely on taxis to travel even a very short distance. However, the Review Group felt that there was little evidence to support the argument that controls over fares resulted in shorter trips being neglected[26].

The issue of non-cost effective short trips, particularly where there is a high degree of 'dead running' is of concern to the industry. Some possible solutions are raised in section 3.5.3. For example, accredited groups of operators might introduce a minimum fare for all trips, so that shorter trips could become more cost effective and less likely to be refused by drivers.

1.2.4. Implementing different fare structures

A number of operational issues would arise if fares were to vary across operators and taxi companies, such as in the manner described above. It is likely that there would still be a need for the Government to regulate a 'standard' fare, which operators could apply, exceed or discount. For example, they could discount the fare by a set percentage or by a dollar amount, or add a surcharge on top of the standard fare. This would enable consumers to choose the taxi service that best met their needs, by allowing them to compare a particular taxi's fares to the standard fare.

One way of applying this in practice would be for all meters to be set to the standard fare, with any adjustments to be made to the fare at the conclusion of the journey. However, drivers would need to inform users before a journey commenced of the discount or surcharge that would be applied and that the metered fare would be used only as the basis on which the actual fare would be calculated.

There might be problems with this approach. A driver and passenger might disagree on the fare at the conclusion of the journey, with the passenger refusing to pay more than the metered fare, despite having agreed to this before the journey commenced. The passenger might argue that they had not understood that a higher fare would be charged, or that the driver had simply not informed them.

[24] Taxi Industry Review Group: Discussion Paper, page 25.
[25] Taxi Industry Regulations, Regulation 24 (6) (a).
[26] Taxi Industry Review Group: Regulatory Impact Statement, page 38.

Mechanisms to overcome such problems would need to be developed. At the very least, all taxis would need to clearly display their fares, and there would need to be consistency in the way in which fares were posted and described, to provide consumers with the opportunity to compare fares. There might be other ways in which drivers and customers could be safeguarded – such as providing customers with a card outlining the taxi's fare structure as soon as they enter the taxi.

Taxi fares in New Zealand

New Zealand's *Transport Services Licensing Act 1989* removed quantitative controls on taxi licences and fares. Under the legislation individual taxi companies set their own fares, which must be registered with the Director of Land Transport, calibrated on the taximeter and displayed both inside and outside the taxi. Customers cannot be charged more than the registered fare[27].

It has been reported that fares in New Zealand have fallen since deregulation[28]. There has also been evidence that more flexible practices have been introduced as a result of deregulation. For example, in Wellington a number of new specialised taxi type services were introduced, including taxi vans and executive cabs, and some taxi companies began tendering for public bus routes. Customers are reported to have benefited from deregulation through reduced waiting times and an increased range of services[29].

These changes have been the result of deregulation of most aspects of the New Zealand taxi industry, including the number of licences issued. These changes resulted in, among other things, a large increase in the number of taxi operators, taxi companies and taxis. There have been mixed views on the success of these measures, with particular concerns being raised by the New Zealand Controller and Auditor-General in relation to the effectiveness of entry controls, monitoring and enforcing of compliance, and sharing information with other agencies[30].

1.2.5. Financial interest of Government

In addition to its regulatory interest, the Government has a significant financial interest in the taxi industry due to the funding it provides through the Transport Access Scheme (TAS). This scheme assists people who have a permanent and severe disability that prohibits independent access into the community. Under the TAS, eligible members pay a reduced fare, with the

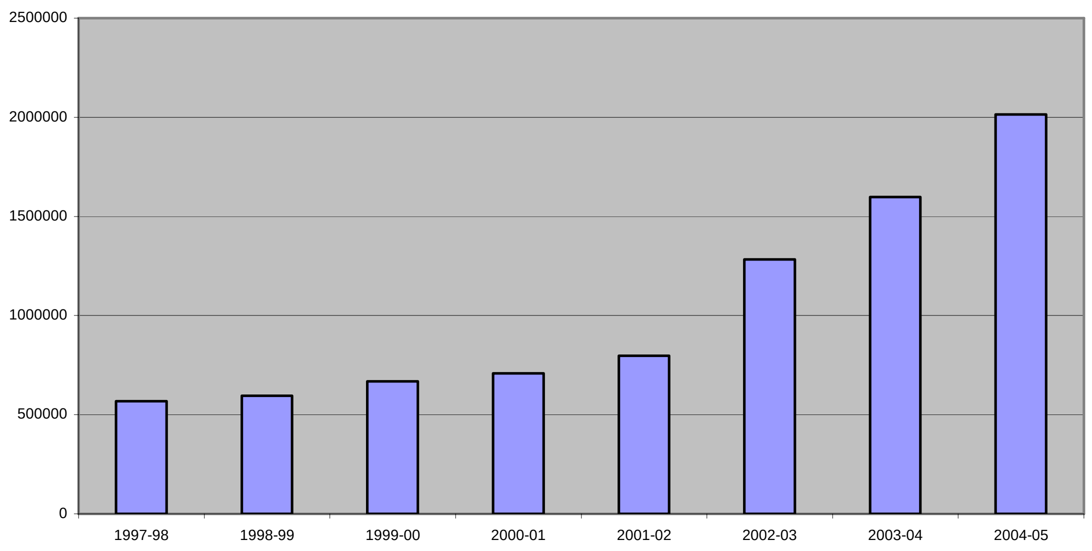
---

[27] *Transport Services Licensing Act 1989* (NZ), Schedule 3.
[28] Soon, Jason: "Taxi!! Reinvigorating competition in the taxi market", The Centre for Independent Studies, *Issue Analysis*, No 7, 5 May 1999. (www.cis.org.au/IssueAnalysis/ia7.pdf) and Office of Fair Trading: *The regulation of licensed taxi and PHV services in the UK*, OFT676, November 2003. (http://www.oft.gov.uk/NR/rdonlyres/C309CE26-2D4E-46A6-8C1F-11B06BA8338B/0/OFT676.pdf)
[29] Soon, Jason: op. cit., page 9.
[30] New Zealand Controller and Auditor-General: *Effectiveness of controls over the taxi industry*, June 2005. (http://www.oag.govt.nz/2005/taxis/default.htm)

balance – 50 per cent for trips in standard taxis and 60 per cent in wheelchair accessible taxi (WATs) – paid by the Government. The scheme also pays a trip fee to WAT operators for each trip undertaken by a wheelchair-reliant TAS member. A large number of regular taxi users are TAS members. At 30 June 2005 there were over 12,000 TAS members eligible for taxi fare concessions.

From 1997–98 to 2004–05 government payments in the form of subsidised taxi fares and trip fees paid to WAT operators has grown from $568 000 to $2 015 000 (refer to Chart 1). Based on current demand trends, this is projected to increase to $2.5 million in 2005-2006. Given that the TAS pays only 50 to 60 per cent of fares, taxi travel undertaken by TAS members represents about $5 million to the taxi industry every year.

Chart 1 – Transport Access Scheme Actual Expenditure 1997-98 to 2004-05



As the Government makes a significant financial contribution to the taxi industry through the TAS, it is important from the Government's perspective that it receives good value for money for the taxi services it subsidises.

The options for enabling operators to set different fares, both higher and lower, have implications for the TAS. For instance, the Government would not consider it appropriate to pay fares in excess of the regulated maximum fare for TAS members. On the other hand, it might be appropriate to negotiate a lower fare for TAS members based on the high volume of use. Multiple-hire journeys are unlikely to be suitable for the TAS, as the Government would be paying more than once for the same journey. Ways in which these issues could be addressed would need to be considered further.

1.2.6. Questions

1. In which ways can taxis effectively compete and differentiate themselves in relation to price and service?

2. Why is this not happening at present?

3. How can this be achieved while ensuring sufficient protection for operators/driver and customers?

2. Background

2.1. Current fare setting mechanism

Under the current arrangements DIER reviews taxi fares at the request of industry or in response to special circumstances, such as the introduction of the Goods and Services Tax (GST) in July 2000. Usually fare adjustments occur either in line with movements in the Consumer Price Index (CPI) or through the use of a 'taxi cost model'.

There is no formal mechanism for requesting such a review, although past requests have been made by representative bodies such as the former Taxi Industry Association of Tasmania (TIAT), the Tasmanian Taxi Association (TTA) or Taxis Tasmania (TT).

Historically, applications by taxi industry representative groups for fare increases based on movements in the CPI have been granted.

2.1.1. Fare components

Taxi fares include three components:

- a flagfall (i.e. a set rate charged at the commencement of a hiring)
- a kilometre rate (a set amount per unit of distance); and
- a waiting time component (an amount per unit of time).

Depending on the time and day of hiring, the distance rate is charged at one of two possible tariffs.

- Tariff 1 operates on Mondays to Fridays between the hours of 6:00 am and 8:00 pm.
- Tariff 2 operates during times not covered by tariff 1 as well as on public holidays.

Tariff 2 provides an increase in the distance rate of approximately 20 per cent. This results in an increase in fares during the night and early mornings and on weekends and public holidays. This increase in fares leads to a corresponding increase in driver revenue, which may serve to offset the negative aspects of working at less attractive times.

The current fares (at 2 November 2005) are presented at Appendix 4.

2.1.2. Recent fare movements

The following table outlines the fare increases implemented since July 2000:

Table 1 – Taxi Fare Increases (July 2000 – November 2005)

Date	Increase	Basis for increase
July 2000	16.9%	7.15% – Goods & Services Tax 9.7% – Taxi Cost Model for the period December 1993 to March 2000
December 2000	3.8%	CPI June 2000 to September 2000
April 2002	2%	CPI September 2000 to December 2001
July 2003	5.79% (metro) 4.55% (non-metro)	CPI December 2001 to March 2003 Additional 1.24% increase to offset the cost of implementing security cameras (Hobart, Launceston, Devonport, Burnie & Ulverstone only)
December 2004	3.1%	CPI March 2003 to June 2004
November 2005	7.3%	Taxi Cost Model

The most recent taxi fare increase, of 7.3 per cent, was implemented from 2 November 2005. This was greater than the increase in CPI from the twelve months to the June quarter 2005, which was 3.1. In response to concerns from the industry that CPI was insufficient to cover increasing costs, particularly fuel costs, DIER applied the taxi cost model to calculate the increase.

As the increase was greater than CPI, an RIS would normally have been required. DIER sought an exemption from the Department of Treasury and Finance from this process on the grounds that increased fuel prices were having a significant negative impact on the industry and that the increase needed to be implemented quickly. At the same time, DIER indicated that it would continue to monitor fuel prices and that if there was a long term reduction in the price of fuel, the current increase would be offset against requests for future fare increases, to ensure that fares do not remain higher than can be justified.

2.2. Fare setting in other jurisdictions

DIER commissioned a review of taxi fare adjustment mechanisms in other jurisdictions in 2004[31]. This review was undertaken as a result of concerns about the appropriateness and effectiveness of the Tasmanian taxi cost model.

Summaries of the approaches used by the States and Territories are provided below. Where a jurisdiction uses a cost model or index, the components of these models are summarised at Appendix 5.

2.2.1. New South Wales

Taxi fares in New South Wales (NSW) are set by the Minister for Transport Services. In determining the fares, the Minister takes advice from the Independent Pricing and Regulatory Tribunal (IPaRT), which reviews taxi fares annually. Key stakeholders and members of the public are invited to make submissions to the reviews.

In 2001 IPaRT recommended the introduction of a taxi cost index to adjust fares. It noted that a key advantage of the index is its relative simplicity, as the actual items to constitute the index are unchanged from year to year. However, a range of disadvantages were also identified, including the argument that if an operator was compensated for all cost increases, there would be little incentive to seek efficiency gains. It was also noted that if revenue had increased to a greater extent than costs, a fare increase would not be appropriate.

NSW taxis are classified either as 'urban' or 'country' and different fare structures are applied. The taxi cost indices used in reviewing fares differ in the two areas.

2.2.2. Victoria

The Minister for Transport is responsible for determining taxi fares in Victoria. Legislation has recently been introduced that provides for an independent assessment by the Essential Services Commission (ESC).

The ESC completed a review of Victorian fare setting mechanisms. The final report, which was submitted to the Minister on 30 June 2005, recommended that a CPI-X model be used to set taxi fares, both to give an immediate increase and then applied annually for the next two years. The 'X' factor is an adjustment to the CPI for productivity improvements.

As there were no reliable data or measures of actual productivity improvements available to the ESC, it made a conservative estimate of the X factor of one per cent for 2005 to 2007,

[31] Pearsons Transport Centre Pty Ltd: op. cit..

recommending that the Victorian Taxi Directorate commence collecting relevant industry data to support that approach[32].

The outcome of this was an immediate increase of eight per cent followed by automatic CPI less one per cent increases for the years 2006 and 2007. The Victorian Taxi Association (VTA) had sought a 23.4 per cent increase to make up for the lack of any fare increases since 2000. This claim was subsequently modified to 14.43 per cent.

2.2.3. Queensland

Queensland uses a taxi operating cost model to establish changes in taxi fares for the 12 months ending September each year. It calculates percentage changes in costs for each of eight centres, and these changes are averaged to provide movement for an average taxi in Queensland. Costs are determined from industry and government sources, as well as the Brisbane CPI, Transport Cost Index and Average Weekly Earnings.

Queensland introduced a new fare structure for regional metered areas in December 2005. As a result the fares for metered taxis in metropolitan South East Queensland areas are slightly lower than for metered taxis in regional areas. This is largely due to the fact that urban taxis in general use LPG, whereas the predominant fuel in the regional areas is unleaded petrol, which is more expensive than LPG. In very small taxi areas, taxis are exempted from the requirement to have meters installed. Fares in these ‘exempted’ areas are higher than in metered areas.

2.2.4. South Australia

South Australia uses a cost model comprised of eight taxi operating cost components to determine fares for taxis operating in Adelaide. Country taxis are licensed by local councils, which are responsible for setting fares.

Where possible, costs are based on actual values and, where actual costs are not obtainable, Australian Bureau of Statistics (ABS) indexes are used. Fares are reviewed at the request of the industry, and this is normally on an annual basis.

2.2.5. Western Australia

Fares in Western Australia are reviewed in September each year using changes in a variation of the ABS Private Motoring Index (PMI). The PMI is a component of *Transportation* in the CPI but is favoured, among other reasons, because it weights fuel more heavily than does the CPI.

[32] Essential Services Commission Victoria: *Final Report of the Taxi Fare Review 2005*, June 2005, page 8.

A variation to the published PMI is used because vehicle insurances, once a component of PMI, are now part of the CPI. The ABS recalculates the index for the Western Australian Department for Planning and Infrastructure to include these insurances.

WA has a separate fare structure for the metropolitan and each of its six regional areas.

2.2.6. Northern Territory

The Northern Territory has five taxi areas, with different fare structures applying to each. NT uses a 'basket of costs' approach, similar to a cost model. This approach has been used for a number of years. Fares are reviewed annually. Prices are surveyed to obtain actual prices, while changes in the ABS Average Weekly Earnings are used for the change in a number of labour components.

2.2.7. Australian Capital Territory

Until recently, maximum taxi fares in the ACT were determined by a Weighted Cost Index (WCI). In its 2004 Final Determination, The Independent Competition and Regulatory Commission (ICRC) proposed a new index to calculate taxi fare increases. This index, the Taxi Cost Composite Index (TCCI), attempts to overcome difficulties in measuring changes in cost levels for an 'average taxi' by combining a number of ABS indices to represent various cost components. Some elements of the WCI were retained where the costs were uniform across the industry and verifiable.

The process for reviewing fares for 2005–2006 is for the industry to make a submission to the ICRC, which outlines any request to change the weighting or components of the TCCI, provides cost and other input data to calculate the index, provides information on service levels, and outlines how the industry would like any change to fares to be implemented across the fare components. The ICRC then makes a determination in relation to new fares.

The ICRC proposed to undertake a detailed major review of taxi service quality and the fare setting process if it was asked to determine fare levels from 2007. This would include an evaluation of the effectiveness of the TCCI.[33]

---

[33] Independent Competition and Regulatory Commission Final Report *Determination of taxi fares for the period 1 July 2004 to 30 June 2007*, May 2004, page 69.

3. Issues

3.1. Issues for consideration

The Taxi Industry Review Group observed that the current fare setting mechanism is slow to respond to changes in industry costs, and noted that this had the potential to adversely impact the viability of the industry[34]. It recommended that this issue be considered by a working party proposed to be established after the review to follow up a number of issues that were not considered in the review.

The first major issue to be considered in this paper is whether it is appropriate for fares to continue to be specified in regulations. The following section outlines the process for implementing a fare increase through an amendment to the regulations. This process can potentially take a number of months to complete, especially if the proposed increase is greater than CPI.

Whether or not fares are specified in regulations, consideration of where the responsibility for determining fares should lie is a further matter for consideration. Some taxi operators have called for greater involvement by a peak industry representative body in the fare setting process, while others have suggested that fares should be set by an independent government body.

Finally, the paper will review the methodology used to determine taxi fares. Currently fares are reviewed on an ad hoc basis at the request of industry, and increases are based on changes to the CPI, changes in operating costs (through the taxi cost model), or a combination of the two. This methodology might not be appropriate, as by its nature, CPI is not reflective of the costs of providing taxi services, and the cost model is, at best, an approximation of these costs.

3.2. Taxi Industry Regulations 1996

As noted above, taxi fares are specified in the *Taxi Industry Regulations 1996.* Any change to fares and charges, and any new charges, can only be introduced by amending the Regulations. The process by which this is achieved is outlined below.

[34] Taxi Industry Review Group: Final Report, page 17.

3.2.1. Process for changing taxi fares through amending Regulations

If, after a request from the industry for a fare increase, DIER considers that an increase is warranted, it will make a recommendation to the Minister for Infrastructure, Energy and Resources to this effect. Following the Minister's agreement, DIER provides instructions to the Office of Parliamentary Counsel (OPC) to draft amending regulations for the Taxi Industry Regulations. The time taken to complete the drafting can vary, depending on the workload of the OPC and the priority it gives to this issue. The Department of Treasury and Finance is then required to review the amending regulations to determine whether any part would impose a significant cost, burden or disadvantage on any sector of the public.

Under normal circumstances, when the proposed increase is equivalent or less than the CPI, the amending regulations are then signed off by the Minister and forwarded to Executive Council for approval by the Governor. Once approved by the Governor, the new regulations are notified in the next week's Government *Gazette*, and will normally be effective seven days after the date of gazettal. This approval process could result in a four to six week delay before the increase can be implemented, depending on the priority it is given.

If the proposed increase is greater than the increase that would occur based on the CPI, the Department of Treasury and Finance would normally require that a Regulatory Impact Statement (RIS) process be undertaken in respect of the regulations giving effect to the increase. The RIS process is a requirement of the *Subordinate Legislation Act 1992* (SLA).

The SLA provides that new subordinate legislation (e.g. regulations) that imposes a significant cost, burden or disadvantage on any sector of the community should not be introduced unless it can be justified as being in the public benefit. In these cases, an RIS must be prepared to demonstrate that the cost, burden or disadvantage can be justified as being in the public benefit.

Through the RIS process consultations must take place with appropriate representatives of consumers, the public, relevant interest groups, and any sector of industry or commerce, likely to be affected by the proposed subordinate legislation. All comments and submissions received must be appropriately considered. The RIS process requires that the proposed regulations are made available to the public for comment for a minimum of 21 days. This will delay the implementation of the fare increase, possibly by more than two months, due to the time taken to draft and circulate the RIS and to receive and consider comments.

3.2.2. Issues

The benefits of retaining taxi fares within the regulations might also be seen as disadvantages. Firstly, because of the lengthy process undertaken to change the regulations, fares cannot be changed at very short notice. This means that careful consideration must be given to whether fares need to be increased, including possible negative effects on the industry and consumers. This is especially true if a greater than CPI increase is proposed, when an RIS must normally be undertaken and both consumers and members of the industry given the opportunity to make comments.

There is thus a degree of protection for consumers in retaining fares within regulations, as they can be assured that fare increases are only implemented after due consideration. Also, although not guaranteed, it is unlikely that fares would be increased more than once every twelve months. Annual fare reviews are common in other jurisdictions and an annual increase is consistent with many other service sectors. Although it is possible to amend the regulations more frequently to give effect to increased fares, it is unlikely that government would seek to do so unless there were exceptional circumstances.

The time taken to change fares by amending the regulations is a significant disadvantage. While this helps in ensuring that fares are not changed without justification, it also means that by the time fares are increased, they could already be out of date with respect to operating costs and/or the CPI movements.

The process of amending the regulations to give effect to fares might also result in government resources being diverted away from other legislative drafting. This might result in delays to the development of legislation. Alternatively if workloads in the OPC are high and amending the Taxi Industry Regulations is not given a high priority, the fare increase can be delayed.

The final decision on a fare increase is made by the Governor, who must approve the amendments to the regulations, and then ultimately by Parliament. Because the regulations are a disallowable instrument, there is potential for them to be disallowed by Parliament, although this is not known to have happened in the past.

3.2.3. Questions

4. Should taxi fares be mandated in regulation?

5. What are the alternatives?

3.3. Responsibility for setting fares

At present, requests from the industry for a review of fares are directed to the Minister through DIER. As noted above, while the Minister can endorse a fare increase, the final decision on approving the increase rests with the Governor, who must sign off on the amended regulations.

The use of regulations to set taxi fares could continue, but with recommendations for new fares to be made to the Minister from a body other than DIER. The Minister would then have to decide whether or not to accept this recommendation. It is likely that the Minister would seek DIER's advice on such recommendations, prior to making a decision. This would increase the time taken to implement new fares. It would also mean that the process would not differ significantly from the current process.

Alternatively, fares could be removed from the regulations and set outside this process. Bodies that might be given this responsibility include DIER, the Transport Commission or the Government Prices Oversight Commission (GPOC). The use of GPOC to set taxi fares would follow the precedents set in NSW, Victoria and the ACT, where independent review bodies are engaged for this task.

3.3.1. Government Prices Oversight Commission

GPOC is established under the *Government Prices Oversight Act 1995*. It is an independent body with responsibility for conducting investigations into the pricing policies and practices of Government Business Enterprises (GBEs), Government agencies and local government bodies that are monopoly, or near monopoly, suppliers of goods and services in Tasmania. The intent of the legislation is to protect consumers from excessive prices arising form monopoly pricing or from the effects of higher costs due to inefficiency of operations. Organisations whose pricing regimes are investigated by GPOC include Hobart Regional Water Authority, Hydro Electric Corporation, Metro Tasmania and the Motor Accidents Insurance Board. Further information on the work of GPOC can be found at www.gpoc.tas.gov.au

GPOC does not have power under its Act to investigate taxi fares but its ability to conduct *other reviews as required by the Government* suggests that it could be asked to undertake an investigation into taxi fares, should the Government determine that GPOC should be used.

Possible role in relation to taxi fares

If GPOC was requested to investigate taxi fares, being an independent body it would be free to establish its own methodology. If the methodology used by NSW's IPaRT and the ACT's ICRC is any guide, it is likely that GPOC would develop a taxi cost index for reviewing taxi fares. This would be consistent with the approach taken by GPOC in relation to Metro's fares, which are determined by the Metro Index, comprising fuel, labour, bus capital, parts and materials, and 'other' costs, including non-bus capital, workers compensation expenses etc.

If a fare rise determined by GPOC was greater than CPI and was to be given effect through the regulations, the rise would still need to be supported by a Regulatory Impact Statement in accordance with the Subordinate Legislation Act. If fares were to be removed from the regulations, the increase could be approved by the Minister.

Using GPOC would follow the trend in NSW, the ACT and more recently Victoria to use independent agencies to review taxi fares. It would also relieve DIER of the need to negotiate methodology with the industry and undertake reviews of prices and indices, as the investigations would be undertaken by an independent agency experienced in examining and recommending prices. The process of increasing fares might also be seen as being more transparent than the current process and the outcomes more defensible both to industry and to customers, given the independence of GPOC.

The major disadvantage of using GPOC would be funding the cost of the investigations. If reviews were undertaken on a similar basis to other reviews, a major investigation would be required every three years, with updates in between. It is understood that the recent major investigation into Metro bus fares incurred a cost of about $100 000. Consideration would need to be given to how this work should be funded – i.e. whether DIER would be in a position to provide funding or whether the taxi industry should be required to make a contribution.

3.3.2. Transport Commission

An alternative to referring the matter of taxi fares to GPOC would be for fares to be determined by the Transport Commission. Under section 8 of the Taxi and Luxury Hire Car Industries Act the Transport Commission is subject to the control of the Minister and must exercise its powers under the Act in accordance with a written direction from the Minister, should the Minister choose to make such a direction. However, the Minister is not able to direct the Commission to do something that it is not empowered to do under the Act, to prevent the Commission from performing a function that is required of it under the Act or to interfere with the Commission forming an opinion that is required to carry out its functions.

Responsibilities of the Commission under the Act include issuing taxi licences[35], including wheelchair accessible taxi licences[36], issuing luxury hire car licences[37], accrediting taxi groups[38], and making agreements with accredited taxi groups, including authorising them to

[35] Taxi and Luxury Hire Car Industries Act, Section 19.
[36] ibid., Section 23M.
[37] ibid., Section 23B.
[38] ibid., Section 24.

specify their own fares[39]. The Commission is also responsible for administering the provisions of the Regulations, in relation to such things as maintaining a register of taxi licences and other records relating to licences, issuing licence plates, and approving taximeters.

Possible role in relation to taxi fares

The Transport Commission could set fares on an ad hoc basis, as currently occurs, either at the request of industry or of its own volition. It could also review fares on a regular (e.g. annual) basis. Reviewing fares on an annual basis would have the advantage of providing the industry and consumers with a degree of certainty about, if not the quantum then at least the timing, of future fare increases. Frequent changes to fares are seen as undesirable as every fare change requires taximeters to be reset and resealed at a cost to taxi operators. With annual increases this cost could be factored in to operators' budgets with a higher degree of certainty than is presently available.

The current ad hoc arrangements rely on the industry to put forward a submission to DIER seeking an increase. This is an unsatisfactory arrangement, as it does not provide certainty for the government, industry or consumers and relies on the industry to put forward a submission that is acceptable to the government. There is then pressure on the government to respond to the request quickly.

An annual review could be implemented, whereby the industry would be required or invited to submit a request for a fare review to the Commission, providing evidence to support its claim, in a manner similar to that used in the ACT (see section 2.2.7). A difficulty with this approach is that there is no single representative industry body for the Tasmanian taxi industry. The industry would need to nominate a representative or representative body, which would canvass the views of the industry and present an industry position on fares to the Commission.

Alternatively, the Commission could itself review fares and seek any specialist input required from the industry and from DIER. This would be resource intensive for the Commission and, without a firm industry position, might not achieve an outcome acceptable to the industry. The Commission could seek input from across the industry, but this would be likely to attract a divergence of views, without any clear industry position as to how fares needed to be changed. This was apparent during the consultation process for the fare increase introduced in November 2005, where a number of different positions were suggested, both from individuals and the industry associations, ranging from a reduction in fares to a 20 per cent increase, with no distinct preference for how any increase might be applied across the fare components.

---

[39] ibid., Section 25(2).

3.3.3. Questions

6. Which body should determine taxi fares and why?

7. How often should taxi fares be reviewed? Should it be done on an annual basis or on an ad hoc basis? Why?

8. If GPOC were to undertake investigations into taxi fares, should it make its recommendations about fares to the Minister or to the Transport Commission?

9. If GPOC were to undertake investigations into taxi fares, how would the investigations be funded? Should the taxi industry contribute to funding GPOC investigations?

10. If the Transport Commission were to set fares, should this be done through formal requests from industry, a scheduled annual submission from the industry, or through an annual review by the Commission itself with input from the industry?

11. If the taxi industry is required or invited to make a submission in relation to reviewing fares, which body or bodies should be responsible for coordinating and making the industry's submission?

3.4. Options for fare setting

This section outlines a number of mechanisms that might be able to be used in setting taxi fares.

3.4.1. Cost based mechanisms

There are two major mechanisms that review fares on the basis of changes in the cost of providing taxi services.

- A *cost model* measures the change in total cost for a range of cost items involved in operating a taxi. The items included may or may not represent all cost items, but the total costs at a particular point in time are compared to the similar cost of the previous investigations and the percentage change for the period in question is calculated.

- A *cost index* uses weightings of various cost items, calculates the percentage change in those cost items and the sum of the various percentage changes are added to give the percentage change. The CPI is the best known of all indexes.

Both methods enable increased costs to be passed onto users as fare increases. The Victorian ESC noted that by passing cost increases through to prices in this way, the rate of profit earned by businesses will be maintained[40], assuming that revenue remains constant.

With this method of increasing fares, no consideration is given to offsetting any productivity gains or revenue increases against cost increases. It also reduces the incentive for the industry to minimise its costs or to introduce innovations that would further reduce costs or increase revenue. If costs increase, under this method, fares will increase accordingly, regardless of whether this is warranted or not. This means that any costs associated with inefficiencies in the industry are passed onto consumers through higher fares. As noted in the discussion on the CPI–X method of fare setting, fares would ideally be based on the efficient, rather than the actual, cost of providing the service.

A further disadvantage of this method is its arbitrary nature. For instance, it is necessary to decide on which expenses to include in the index and provide justification for including them. It would be impractical to include all expenses, some of which would be quite small. In an index, it is also necessary to weight the expenses appropriately. This could be subject to significant disagreement. The weights applied to various components of the index in NSW and the ACT are different. For instance network costs are weighted at 6.6 per cent in the ACT index and 3.41 per cent in the NSW urban index. In the NSW index repairs are weighted at 9.28 per cent and in the ACT index only 8.4 per cent. Labour costs are much higher in the ACT index at 50 per cent, compared to 36.14 per cent in NSW[41].

Furthermore, the figures used in the model cannot always be representative, and this might depend on where they are sourced. Some figures will have to be sourced from the industry (for example, vehicle equipment and radio network fees), whereas other figures can be obtained from DIER (e.g. registration costs, licence and inspection fees).

Other costs cannot always readily be obtained accurately specifically for the taxi industry. For instance the cost of tyres can only be obtained from tyre retailers and vehicle repairs and maintenance costs are sourced from the ABS Transportation Index, which might not be representative of the costs incurred by the taxi industry. Maintenance and repair costs could be expected to be higher for taxis than for privately used vehicles, due to the higher proportion of time spent on the road. However, in the past the taxi industry has reported to have been reluctant to share that information.

Average petrol prices had been sourced from the GPOC monthly petrol price report, but this only provided average prices for the three major regions in the state. GPOC ceased producing

[40] Essential Services Commission, Victoria: op. cit., page 54.
[41] Pearsons Transport Resource Centre Pty Ltd: op. cit., page 9.

this report in July 2004. A useful source of data would be the change in fuel prices charged to the Government under its fuel contract. As only the changes in prices, rather than the absolute prices, are used in the index, the fact that Government prices might not be the same as retail prices would not be a significant problem. However, the fact that about half of Tasmanian taxis run on petrol and half on LPG makes it extremely difficult to determine how to include fuel costs, which represent a significant proportion of industry costs, in a cost model.

Furthermore, not all costs will apply to all operators. Those who are not members of networks, for instance, would not incur the radio network fees. It is understood that not all taxis are comprehensively insured. Owner-drivers with only one or two bailee drivers might pay less for workers compensation than owners who do not drive their own vehicle. The existing model does not include costs associated with leasing a licence. Lease rates vary between areas and can be a significant cost for operators. However, not all operators incur this cost, with about one-third of Tasmanian taxi licences not being leased.

Maintaining a taxi cost model or index is very resource intensive. Costs need to be monitored and updated on a regular basis to ensure that the costs used in the calculation are not collected at an unusual peak or trough, which would distort the calculations. Costs would need to be sourced from a large number of operators, businesses and so on, to ensure that a representative sample was being used in the calculations. It might be argued that the resources required to maintain the model or index are too great to justify the use of a model that has severe shortcomings.

Taxi cost model

The purpose of a cost model is to measure the level of ***change over time*** of the individual and total costs associated with the operation of a hypothetical taxi (as defined by the model's components).

The Tasmanian taxi cost model was last reviewed in 2003. It comprises 11 basic cost components:

- vehicle lease cost;
- vehicle equipment (i.e. meter, top light, radio, on board computer);
- vehicle registration, MAIB premium, motor tax, stamp duty;
- annual licence and inspection fees;
- radio network fees;
- comprehensive vehicle insurance;
- workers compensation insurance;
- personal accident insurance (applies mainly to self employed drivers);
- fuel;
- vehicle repairs and maintenance; and
- tyres.

The weighting given to each item is based on its contribution to the overall cost of operating the 'average' taxi. Costs of the 11 components can be measured at any point in time. The resulting total can then be compared with a total from any other point in time to determine the amount of movement between the two time points.

The model is not an attempt to accurately model the costs as experienced by individual taxi operators. To develop a model that was an accurate reflection of all taxis operating in Tasmania would be an impossible task given the large number of operating variables, including:

- the area of operation and the associated value/lease costs associated with the taxi plate;
- distance travelled by the vehicle and maintenance undertaken;
- whether the operator is a plate owner or lessee;
- whether the taxi is radio room affiliated or independent operator;
- whether the taxi is a 24-hour or limited hours operation;
- the insurance claims history of the taxi operator; and
- the age, make and model of the vehicle and whether the vehicle operated is of an ordinary or prestige standard.

The existing taxi cost model is seen as being too slow to respond to the increase in the costs of operating taxis. The taxi industry has indicated that components of the model require reviewing to make it move relevant to the current costs of currently operating a taxi.

Taxi cost index

The advantage of a cost index, as used in NSW and the ACT, is that it does not purport to represent the actual cost of operating a taxi, thereby avoiding the problems associated with a cost model as outlined above. In these jurisdictions the percentage change in the costs of a basket of expenses is measured and then applied to taxi fares.

An index can be as simple or complex as required. In indexes such as the CPI, it is not necessary to include all the items people buy since many related items are subject to similar prices changes. Therefore only the most important and representative items need be included so that the index reflects price changes for a much wider range of goods and services than is actually priced[42].

[42] Australian Bureau of Statistics: *A Guide to the Consumer Price Index*, 14th Series, Catalogue 6440.0, December 2000, page 5.

Similarly, any taxi index should not need to contain all cost items, although it could be argued that there is a much smaller range of cost items to include in a taxi index than a larger index such as the CPI, and that therefore each individual item will have a greater impact on the index as a whole than will an individual item in a larger index. The indexes used by both IPaRT and ICRC include most taxi related costs, some of which are very small. For example ten of the seventeen items in the NSW taxi cost index (cleaning, government charges, establishment costs, uniforms, tyres, network fees etc) account for less that 20 per cent of the index, leading to resource intensive data gathering for seemingly very little effect on the index change[43].

3.4.2. Index-based mechanisms

The ABS publishes a number of indices that might be appropriate to use in reviewing taxi fares. The best known is the Consumer Price Index (CPI), which has been used as the basis on which fares in Tasmania have been increased in recent years.

The Victorian Taxi Association's submission to the ESC's Taxi Fare Review stated:

> Using authoritative indices published by the ABS . . . as a basis for taxi fare adjustments also has minimal subjectivity and eliminates the inherent difficulty in accessing and collecting reliable industry cost data on a regular basis. It also removes the necessity to make arbitrary assumptions about the relative weightings of individual cost items and repeatedly revisit those assumptions and weightings.[44]

The independence and objectivity of the ABS indices, together with the fact that the component data are collected by the ABS, means that they are a far simpler and more readily available tool that can be used in setting fares than are industry specific cost models or indices.

Consumer Price Index[45]

The Consumer Price Index (CPI) is regarded as Australia's key measure of inflation. It is designed to provide a general measure of price inflation for the Australian household sector as a whole. The CPI measures changes over time in the prices of a wide range of consumer goods and services acquired by Australian metropolitan[46] households. It is published quarterly.

The CPI measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e. metropolitan households). This 'basket' covers a wide range of goods and services, arranged in the following eleven groups:

---

43 Pearsons Transport Resource Centre Pty Ltd: op. cit., page 15.
44 Victorian Taxi Association: Submission to the Essential Services Commission Taxi Fare Review 2005, 3 May 2005, page 21.
45 Information on the CPI derived from Australian Bureau of Statistics: op. cit.
46 'Metropolitan' refers to the six State capital cities, Canberra and Darwin. The current CPI population group represents about 64% of Australian households.

- food;
- alcohol and tobacco;
- clothing and footwear;
- housing;
- household furnishings, supplies and services;
- health;
- transportation;
- communication;
- recreation;
- education; and
- miscellaneous.

The capital city indexes measure price movements over time in each city individually. They do not measure differences in retail price levels between cities. Recent taxi fare increases have been based on the Hobart All Groups CPI, i.e. the overall (all eleven groups) CPI for Hobart in the relevant period.

Prices of some items are volatile (i.e. they can change upwards and downwards rapidly), and for these items frequent price observations are necessary to obtain a reliable measure of the average price for the quarter. Each month prices are collected at regular intervals for goods such as milk, bread, fresh meat and seafood, fresh fruit and vegetables, alcohol, tobacco, women's outerwear, project homes, motor vehicles, petrol and holiday travel and accommodation. For most other items, price volatility is not a problem and prices are collected once a quarter. There are a few items where prices are changed at infrequent intervals, for example education fees, where prices are set once a year. In these cases, the frequency of price collection is modified accordingly.

The taxi industry has argued that CPI is not representative of the costs of operating a taxi, as it measures changes in prices of household goods and services. Most of these, such as food items, are not relevant to the operation of a taxi, and those that are relevant (fuel, parts and repairs etc) make up a much higher proportion of taxi operating costs than they do of household expenditure. Therefore significant changes to the prices of these items are not reflected to the same magnitude in the CPI. The CPI does not include Liquefied Petroleum Gas (LPG), which is used by about 50 per cent of Tasmanian taxis. Therefore for those taxi operators, a significant component of their operating costs is not reflected in a CPI-based fare increase.

The reasons for using the CPI are that it is a widely accepted index that represents the 'cost of living'. As the value of fixed payments (such as social security payments) can be reduced over time as prices rise, CPI is often used to adjust these payments to counter the effects of inflation – i.e. the payments are 'indexed'. Indexation is often applied to things such as the value of items covered by insurance policies, and child support payments. This ensures that these items maintain their value despite increasing prices.

The CPI provides a defensible mechanism to calculate taxi fare increases that will be acceptable to the travelling public and are relative to other price increases in other goods and services. If taxi fares rose at a rate greater than CPI other forms of transport, such as private cars or buses, might become more competitive as substitutes.

CPI – X

The Victorian Essential Services Commission recommended the use of CPI less an 'X' factor for increasing fares in Victoria. This was accepted by the Victorian Government. The CPI-X (or price capping) methodology aims to reward performance against the price cap.

The ESC noted that the extent of the reward depends on how well a firm is able to manage its costs. This is in contrast to using a cost model or cost index, which allows for costs to be passed through to customers and creates incentives to overcapitalise. Its major argument for preferring this method was that it attempts to overcome problems of 'information asymmetry' between the regulator (in this case, the Government) and the industry. If the regulator knew the efficient (as opposed to actual) cost of providing services, it would mandate prices at that level. However, it is unlikely that the regulator could know the efficient cost, so this method aims to encourage efficient operation by providing an incentive to minimise costs.

The fundamental objective of CPI-X regulation is to encourage a regulated firm to behave in the same way as a competitive firm. This means that to the extent that the operator's cost performance is better than that of the industry as a whole, his or her profits can be improved. Conversely, cost under-performance relative to the industry worsens returns for an operator[47]. This is consistent with the Tasmanian Government's desire for the taxi industry to make a transition to more market-based arrangements.

In recommending this model, the ESC noted that:

> "A systematic process of fare adjustment based on a CPI-X model . . . balances the interests of consumers and the regulated industry by mimicking the outcome of a competitive market. It provides for fare increases in line with the general price index with an adjustment to account for industry productivity gains.
>
> "However, it also provides the industry with a strong incentive to pursue productivity gains as an individual operator retains the benefit of any actual gains that exceed industry wide productivity gains. It can also be accompanied by incentives to maintain or improve the quality of service."[48]

---

[47] Essential Services Commission, Victoria: op. cit., pages 51–52.
[48] ibid., pages 3–4.

In relation to the 'X' factor the ESC noted that:

> ". . . if it is set too high and the industry struggles to achieve it, then its long term viability may be threatened. If it is too low, then productivity improvements are retained by the industry at the expense of consumers." [49]

As outlined in section 2.2.2, there were no reliable data or measures of actual productivity improvements available to the ESC to assist it in recommending a fare increase. It therefore made a conservative estimate of the X factor of one per cent. The ESC recommended that the Victorian Taxi Directorate commence collecting relevant industry data to support that approach, including the development of an objective and transparent index that captures industry costs and productivity trends [50].

Transportation Index

It has been suggested that the transportation index and/or the private motoring index might be more appropriate indices on which fare increases could be based. The Transportation Index (TI) accounts for approximately 15 per cent of the CPI. The TI comprises the following indices:

Private Motoring (PMI)

- motor vehicles (purchase and long-term lease of new cars and motor cycles);
- automotive fuel (leaded and unleaded petrol and diesel);
- motor vehicle repair and servicing (crash repairs, panel beating, tune ups and maintenance);
- motor vehicle parts and accessories (parts and accessories, motor oils and tyres); and
- other motoring charges (registration, parking, driving lessons, tollway charges, but does not include insurance).

Urban Transport Fares

- bus, train, ferry, tram and taxi fares (other than holiday travel).

The Urban Transport Fares index accounts for less than one per cent of the CPI, with the balance of the 15 per cent spread across the other components of the TI. For instance, automotive fuel accounts for approximately four percent of the CPI, while parts and accessories account for one per cent.

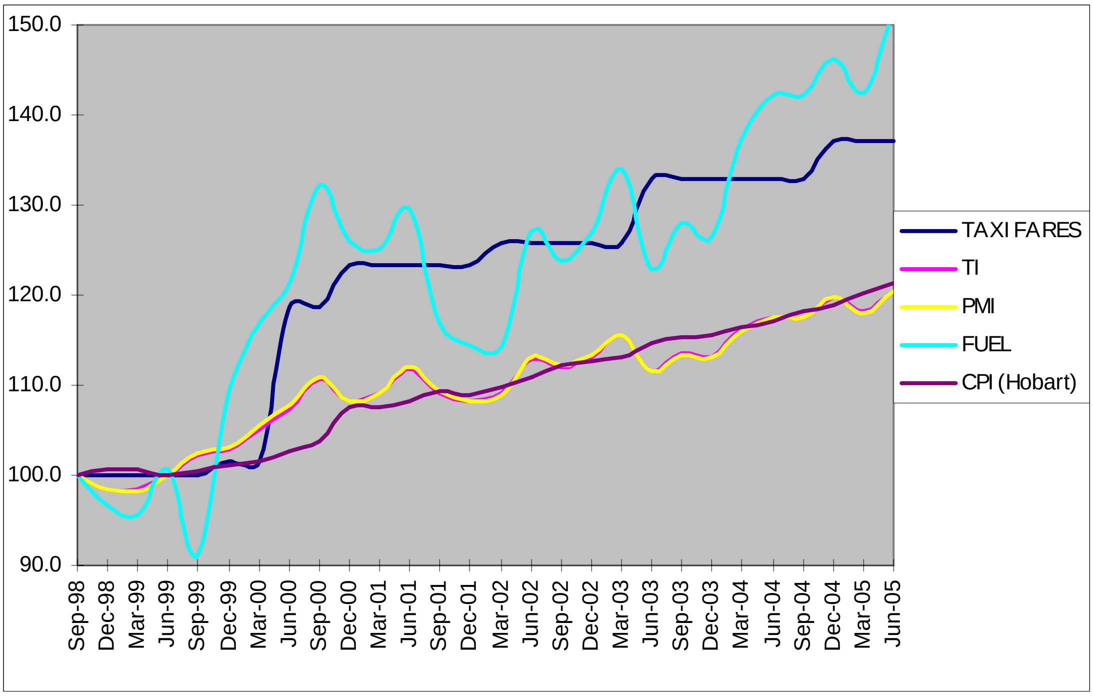
---

[49] ibid., page 4.
[50] ibid., page 8.

Western Australia uses a modified PMI, which includes an insurance component, to adjust its taxi fares.

The transportation and private motoring indices are much more volatile than the CPI, largely because of the more significant contribution to these indices of fuel prices, which may vary many times each quarter. This is demonstrated in the following chart.

Chart 2 – Hobart Consumer Price Index, Transportation Index, Private Motoring Index and Fuel Index compared to Taxi Fares – September 1999 to June 2005 (Sept 1999 = 100)



Notable in the above chart is:

- the volatility of the price of fuel;
- the steady increase in the CPI; and
- the more volatile PMI and TI, which mirror (with dampened effect) changes in the fuel index.

The chart also shoes the fairly consistent 'stepping' in taxi fares over this period. This indicates that fares have increased on average every 16 months. The large increase in fares in 2000 was as a result of the GST and cost model increase being applied in one increase. There was a further fare increase about six months after this as a result of a significant (3.8 per cent) increase in the CPI.

Table 2 demonstrates the change in various transport indices, the CPI and metropolitan areas since September 1998.

Table 2 – Percentage Change – Transport Indices (September 1998 – March 2005)

Index	Percentage change
Transportation Index	+ 18.2%
Private Motoring Index	+ 18%
Fuel	+ 42.4%
CPI (Hobart)	+ 20.2%
Taxi Fares	+ 37.1% (metropolitan taxi areas)

Applying the PMI instead of the CPI for fare increases from 2000 onwards (excluding the 16.9 per cent GST and cost model increase of July 2000) would have resulted in fares being 4.8 per cent lower than the current level. This is due to the fact that the CPI very rarely decreases but the PMI often does – usually in response to reductions in the price of fuel.

Average weekly earnings

In its submission to the Victorian Taxi Fare Review, the Victorian Taxi Association[51] proposed the use of the weighted average of two ABS indices – CPI (40 per cent) and average weekly earnings (AWE – 60 per cent). This reflected its view that 60 per cent of the costs of providing taxi services are labour costs. Fifty per cent accounts for driver labour and 10 per cent is the labour component of the operator's role, including a notional salary and labour associated with maintaining vehicles etc.

The advantage of using AWE is that it recognises that for most operators, labour costs are a significant part of their business.

It could also be argued that a wages component could be justified from the consumer's perspective on the grounds that as average wages increase, so too does the capacity to pay increased taxi fares. However, this would not hold for taxi users who received government payments in lieu of wages, as these payments are adjusted in accordance with the CPI.

[51] Victorian Taxi Association: loc. cit.

3.4.3. Questions

12. Should fares be adjusted according to changes in operating costs? If so should this be by reference to one or more indices, changes in industry costs, or a combination of the two?

13. Is CPI an appropriate index by which fares should be increased? Does it adequately balance consumers' need for a reasonably priced service with the costs to taxi operators of providing the service?

14. Would an index, such as the Transportation Index or Private Motoring Index, be more appropriate than CPI to determine fares? Why?

15. Would a CPI-X approach be appropriate? Why? How would the 'X' factor be determined?

16. Should average weekly earnings be taken into consideration when adjusting taxi fares?

17. How can productivity improvements and changes in revenue in the industry be factored in to future fare increases without discouraging the industry from pursuing such improvements?

18. If a cost model or a cost index were to be used, how could it be designed to better reflect the costs of operating taxis, given the wide variation across operators and taxi areas?

3.5. Options for more flexible fares

This section discusses some options that might be considered in making fares more flexible and responsive to the needs of industry and consumers.

3.5.1. Fare structures

Tasmania currently has four different fare structures. These apply to:

1. taxis in security camera areas (Hobart, Launceston, Devonport, Ulverstone and Burnie). Fares were increased by an additional 1.24 per cent in 2003 in these areas only to cover the costs associated with installing mandatory security cameras;

2. non-metropolitan taxis (all areas outside the Hobart, Launceston, Devonport, Ulverstone and Burnie taxi areas and King Island and Flinders Island);

3. King Island and Flinders Island. These areas have a higher flagfall and a distance rate approximately ten per cent higher than the relevant metropolitan tariff; and

4. wheelchair accessible taxis (currently only in Hobart, Launceston, Devonport and Burnie) – when transporting wheelchair-reliant travellers or more than five passengers, these taxis operate under a high occupancy tariff, which has a higher flagfall and a distance rate that is approximately 20 per cent higher than the applicable tariff at the time.

This approach is consistent with that taken in other states. Table 3 outlines the standard taxi tariffs for each state.

Table 3 – Standard Taxi Tariffs at 2 November 2005

State	Areas/Fare zones	Tariffs
Tasmania	Metropolitan Non-metropolitan Islands	Tariff 1 (Weekdays) Tariff 2 (Nights & weekends) Tariff 3 (WATs– weekdays) Tariff 4 (WATs– nights & weekends & High Occupancy – any time)
New South Wales	Urban Country	Day Night
Victoria	Metropolitan Regional Urban Country	Day Night (surcharge) High Occupancy – Day High Occupancy – Night
Western Australia	Metropolitan Regions (6)	Tariff 1 (Weekdays) Tariff 2 (Nights & weekends) Tariff 3 (High Occupancy)
South Australia	Metropolitan*	Tariff 1 (Weekdays) Tariff 2 (Nights & weekends)
Queensland	Metered taxi service areas (South East Qld) Metered taxi service areas (Regional Qld) Exempted taxi service areas **	Standard Tariff (Weekdays) (Surcharge applies to nights & weekends)
ACT	ACT	Tariff 1 (Weekdays) Tariff 2 (Nights & weekends)
Northern Territory	Darwin Regions (4)	Tariff 1 (day) Tariff 2 (Night) Tariff 5 (High Occupancy – weekdays) Tariff 6 (High Occupancy – nights & weekends)

* Country taxis in South Australia are regulated by local councils rather than the state government

** Exempted taxi service licences are issued in areas with small populations that would be unlikely to support a full metered taxi service. They are not required to fit a taximeter and may be exempted from the six year age limit on their vehicle. Fares for exempted areas are higher than for metered taxi service areas.

Fare zones

The difference between metropolitan and non-metropolitan fares in Tasmania is due to the mandatory introduction of security cameras into taxis in Hobart, Launceston, Devonport, Burnie and Ulverstone in 2003. When fares were increased in July 2003, an additional 1.24 per cent added to fares in these areas to compensate operators for the cost of purchasing and installing cameras. Prior to this, fares were the same in all Tasmanian taxi areas, other than on King Island and Flinders Island, where higher fares reflect the significantly higher costs associated with operating a business in these areas.

Other states have a range of different area-based fare structures. In other states with numerous zones, the rate for the country zones tends to be higher than for the metropolitan zones. This is likely to reflect the higher per kilometre costs associated with operating country taxis and the lower demand for taxi services.

In Victoria, there is a metropolitan zone, for the Melbourne area, a regional urban zone (Ballarat, Bendigo and Geelong) and a country zone. The distance rate is about five per cent higher in the regional urban zone than in the metropolitan zone and about seven per cent higher in the country zone. The flagfall and waiting time rates are the same across all zones.

In NSW, which has an urban zone and a country zone, the flagfall is 50 cents higher in the country zone. The distance rate is slightly higher in the country zone for the first twelve kilometres ($1.69 in the country and $1.62 in the urban zone), but increases significantly (to $2.36) after this. As noted above, NSW has a separate cost index for the country zone, which reflects the different costs associated with operating a country taxi.

Some states also have a ‘return to boundary’ or country running fare. For example Queensland taxi drivers that have a hiring finish outside their taxi’s licensed area are entitled to charge an additional fare to cover the trip back to their licensed area. This is charged at 70 cents per kilometre. In Western Australia the return journey to the metropolitan area is 75 cents per kilometre. The off-metered rates in the country areas range from 68 cents per kilometre to 92 cents per kilometre. This issue will be considered in further detail in the discussion paper about taxi areas.

Night rates

In Tasmania Tariff 2, which applies from 8:00 pm to 6:00 pm Monday to Friday and on weekends and public holidays, is 20 per cent higher than Tariff 1. The higher fares applied during evenings and on weekends are in recognition of the fact that these hours are outside ‘standard’ hours. This is consistent with other service industries that pay penalty rates and/or over time to employees working outside the standard operating hours.

While the work available for taxis on weeknights, particularly near the beginning of the week, is normally very low, Friday and Saturday nights are normally times of high demand. Combined with the higher fares applied at those times, this means that these times can be very profitable for drivers and operators. DIER has no evidence as to whether demand is adequately catered for at these times. While the National Taxi User Survey[52] covered this issue, the results were reported at a very high level, and did not provide conclusive evidence on whether this demand is being met in Tasmania. Anecdotal evidence of difficulties for operators in engaging drivers at these times, despite the potential for high earnings, and from users unable to obtain a taxi suggests that there might be times when there is a level of unmet demand.

3.5.2. Surcharges

In Tasmania's non-metropolitan taxi areas a surcharge of $2.60 is added to the fare for journeys undertaken between midnight and 5:00 am.

Queensland recently introduced a $2.00 levy for taxi journeys undertaken in the Brisbane area between midnight and 5:00 am every day (except Anzac Day). Some of the money from the surcharge will be used to fund security officers on taxi ranks near major nightspots, with the balance being split between operators and drivers. This is to encourage more drivers to work the late night shifts[53].

In inner Melbourne a 20 per cent surcharge is applied to the distance and time rates between midnight and 6:00 am. This surcharge is replaced by a flat surcharge in other areas. In the outer suburban zone of Melbourne and regional urban areas (Bendigo, Geelong and Ballarat) the surcharge is $1.20 and in country areas it is $2.40. Under Victorian legislation the late night surcharge is retained by the driver, not shared with the operator as part of the bailment agreement.

Western Australia has a surcharge of $3.65 for all hirings on 25 December (midnight to midnight) and a surcharge of $4.10 for all hirings between 6:00 pm on 31 December and 6:00 am on 1 January. This presumably provides an incentive for drivers to work at these times, when demand is likely to be very high, and especially on Christmas Day, drivers might be less willing to work.

In response to increasing fuel costs, the Northern Territory introduced a 50 cent fuel levy on all taxi journeys undertaken in taxis not fitted to use LPG. The surcharge will be reviewed by 30 January 2006, or earlier if there is a significant decrease or increase in fuel prices before this date.

---

[52] Colmar Brunton: *2002 National Taxi Users Survey Report*, February 2003.
[53] The Courier Mail: *Hefty fare rise for early morning cabs* by Malcolm Cole, 2 November 2005. (www.thecouriermail.news.com.au/printpage/0,5942,17111495,00.html)

3.5.3. Fare components

The application of fare increases across the three components (flagfall, distance rate and waiting time) has been subject to some debate. While increases are normally spread as evenly as possible across the components, there is scope to vary this if the need arises. Submissions to DIER in relation to the 2005 increase varied in their views about how the increase should be applied.

Some respondents thought that a higher proportion should be applied to the kilometre rate to help offset increased fuel costs. One view was that the flagfall should not be changed as the cost to operators to rechip taximeters is greater if the flagfall is changed than if the kilometre rate only was changed.

Others thought that a higher proportion should be applied to the flagfall, for the following reasons:

- Increasing the kilometre rate would further disadvantage country passengers and those travelling long distances, especially those isolated people who rely on taxis. These users are already paying high fares due to the distance they travel, so increasing the distance rate would impose a much higher cost on them.
- Short trips are more costly to undertake, especially in city traffic, as they cause more wear and tear on the vehicle. An increased flagfall would help in offsetting this.
- Increasing the flagfall would make short trips more cost effective, especially where there is a long ‘dead running’ period to pick up the passenger and complete the job. One respondent suggested that a $5.00 minimum charge be applied to all fares to make such jobs more cost effective.

One respondent wanted to see the increase applied evenly across the components of the fare, as a higher increase to the flagfall would not compensate operators for increased fuel costs. He suggested that the flagfall is already sufficient to compensate for shorter trips. Applying the increase evenly means that the increase will affect all consumers in the same way, whereas a disproportionate increase would favour either those taking longer trips (if the flagfall was increased at a greater rate) or those taking shorter trips (if the distance rate was increased at a greater rate).

3.5.4. Questions

19. Should Tasmania continue to have different fares for different zones (i.e. metropolitan, non-metropolitan and islands)?

20. Should there be more or fewer fare zones?

21. Are the current zones appropriate (metropolitan (security camera areas), non-metropolitan and islands)? Which taxi areas should belong in which zones? (Note that there is likely to be further discussion on this issue in relation to taxi areas and regional transport.)

22. Should there be a different fare structure for the different zones (e.g. metropolitan and non-metropolitan)?

23. Is the night tariff (and higher workload on weekend evenings) sufficient to attract drivers to work night shifts? Are there peak times when the demand for taxis is not being met that could be eased by introducing surcharges to encourage more drivers to work at those times?

24. Should the use of surcharges or levies be considered as a way to compensate the industry for unexpected cost increases that occur before a scheduled fare review?

25. Should a minimum fare be introduced to compensate operators for undertaking very short trips?

26. Should increases be applied proportionately across all fare components, or should there be a heavier emphasis on the distance rate or flagfall? If so, why?

4. Stakeholder Perspectives

4.1. Customers

As noted earlier in this paper, taxi users are provided with a level of protection when purchasing taxi services, as the Government sets taxi fares. The Government undertakes to set a reasonable fare, then enforces this fare through sealing of the taxi meters to ensure no more then the maximum fare is charged. Without this process, customers would be in a vulnerable situation and would have no means of verifying that a fare was reasonable for the journey they had undertaken. Under the present arrangements, users can be assured that the maximum fare is consistent regardless of which taxi they get into in the taxi fleet and whether they book a taxi through a dispatch network, hire it from a taxi rank or hail it on the street. Users are provided with information on the cost of the fare by means of labels positioned in the taxi, which outline the maximum fares that can be charged.

4.1.1. Users needs and expectations

There is currently no formal user group with which DIER consults about taxi fares. However, the Government receives very little correspondence from customers of taxi services in relation to fares, and there appears to be no pressure to establish such a group. DIER would normally consult with consumers in relation to fares only if an increase greater than the CPI was proposed. This would be done through a Regulatory Impact Statement (although DIER was exempted from this for the November 2005 increase).

The most recent consultation with users to determine their needs and expectations was the 2002 National Taxi Users Survey[54]. This survey involved 226 Tasmanian taxi users, 120 in Hobart and 106 in Launceston. It found in general that users were highly satisfied with taxi services. Areas where satisfaction was lowest were in relation to the cost of the most recent taxi trip and the value for money[55]. This was consistent with the results for all other states. About 20 per cent of respondents indicated that the cost of the trip was below their expectations and 13 per cent said that the value for money was below their expectations[56]. These results would indicate that customers are generally satisfied with taxi fares, although there is some degree of dissatisfaction among some users.

---

[54] Colmar Brunton: op. cit.
[55] ibid., Table 15 (page 27).
[56] ibid., Table 16 (page 28).

4.1.2. Household expenditure

DIER does not have any detailed recent data on household expenditure on transport services. The ABS 1998-99 Household Expenditure Survey[57] indicates that the average Tasmanian household weekly expenditure on taxi fares is $1.01 per week, which is equivalent to 0.13 per cent of household income. This is slightly less than the national average of $1.35 per week (0.15 per cent). On a national basis, households with the lowest 20 per cent incomes spend about twice the proportion of their weekly incomes on taxi fares than do other households. This could indicate that people on very low incomes rely more heavily on taxis than do the general population[58]. This might be due to lower levels of car ownership in the lower income brackets.

Any fare increase will naturally have a greater impact on frequent taxi users. Although many frequent users are likely to be high income households and corporate clients, as noted above, lower income earners are also likely to be frequent users. These users, due to their higher use of taxis, are likely to be disproportionately affected by increases in taxi fares.

4.1.3. Taxi-reliant customers

In addition to users on low incomes, a significant number of people rely on taxis for transport because other forms of transport, including private vehicles and buses are impractical, unavailable or not suitable. This applies particularly to people with restricted mobility, including some elderly people and people with disabilities. As many of these people might be expected to be on relatively low incomes or government pensions, increases in taxi fares might have a significant impact on them.

The Victorian ESC noted this issue, but in its report agreed that fares should not be kept artificially low for all users in order to meet social or equity policy objectives for particular user groups. It noted that such an approach could have a negative impact on investment in and the financial viability of the taxi industry. The ESC stated that direct subsidies for dependent users would be a more effective and efficient mechanism for ensuring that vulnerable members of the community are able to access taxi services[59].

As noted in section 1.2.5, TAS provides subsidised taxi fares for over 12 000 people with a permanent and severe disability that prohibits independent access into the community.

Other users that depend on taxi services are people who live in areas where public transport is not available or who want to travel at a time of day when public transport services are not generally operating, such as late at night. This obviously applies to regional areas where taxis

[57] Australian Bureau of Statistics: Household Expenditure Survey 1998-99 Detailed Expenditure Items (cat 6535.0), 27 September 2000.
[58] Australian Bureau of Statistics: Household Expenditure Survey 1998-99, Tables 1 (page 6), 2 (page 12), 4 (page 17) and 5 (page 23).
[59] Essential Services Commission, Victoria: op. cit., page 100.

effectively function as public transport providers. Subsidies under the TAS would not be normally available to these people unless they were eligible as the result of a disability. The issue of public transport in regional areas is the subject of DIER's Rural Transport Solutions project, and taxi services in regional areas will be considered in a later discussion paper.

4.1.4. Questions

27. To what extent should taxi users' circumstances be taken into account when setting fares?

28. How can the users who are heavily reliant on taxis be protected from the effects of fare increases?

4.2. Taxi industry

Members of taxi industry have differing opinions regarding fares and how they should be increased. This is evidenced by the range of comments provided to DIER in relation to the November 2005 increase. These comments are summarised at Appendix 6.

4.2.1. Relationship of fares to costs

The industry has highlighted the inability of the current fare setting mechanism to respond to changes in operating costs. In particular, the industry largely believes that the CPI is not appropriate as a mechanism for determining fares, as it is not representative of the costs of operating a taxi. This is discussed further in section 3.4.2.

Recent fuel price rises have led the industry to suggest that the cost of fuel should be more heavily weighted in calculating fare increases, as it is a significant proportion of total operating costs. However, as noted in section 3.4.2, heavily fuel-weighted indexes will be subject to extreme positive to negative variations over time.

4.2.2. Effects of increases on patronage

Whilst some members of the taxi industry welcome fare rises, others raise concerns when fares increase. An unattributed comment has been that a five per cent increase in fares results in a five per cent decrease in patronage.

At least one respondent to DIER's request for submissions into the 2005 fare increase argued against increasing fares on the grounds that an increase might harm the industry, as it would result in a loss of customers. One respondent stated that if measures could be taken to reduce costs, there might be a case to revise fares downwards to try and regain some of the customers lost due to previous fare increases.

The suggestion that fare increases result in a reduction in patronage and a corresponding reduction in driver and operator income has been argued by several parties. The Queensland Taxi Council[60] conducted an investigation into the elasticity of demand (i.e. the amount demand for a service decreases as fares increase) in the taxi industry. This investigation concluded that fare increases should not be greater than five per cent to ensure that there is a net benefit to operators and drivers.

The Victorian ESC, on the other hand, said that in general, the demand for taxi services as a whole is likely to be relatively inelastic – i.e. that an increase in the cost of taxi services will lead to a reduction in demand, but not to the extent that total industry revenue is reduced. It concluded that a significant fare increase would be expected to increase total industry revenue[61]. The ESC also stated that it was not aware of any official research or estimates of the elasticity of demand for taxis in Victoria, although it cited a common estimate of -0.8[62]. This figure means that a one per cent increase in fares would result in a 0.8 per cent decline in the total number of taxi trips. Overall, if this were correct, total industry revenue and profitability would increase[63].

4.2.3. Cost reductions

One respondent to DIER in relation to the November 2005 fare increase stated that if measures could be taken to reduce costs, there might be a case to revise fares downwards to try and regain some of the customers lost due to previous fare increases.

There is a range of costs associated with operating a taxi. Many of these are fixed, regardless of the distance travelled by the taxi. Fixed costs include vehicle equipment (i.e. meter, top light, radio, computer); vehicle registration, MAIB premiums, motor tax and stamp duty; annual licence and inspection fees; radio network fees; and insurances. Other costs, such as fuel, tyres, repairs and maintenance, will vary according to the time the vehicle is on the road and the distance travelled.

Figures sourced by DIER to calculate the fare increase applied in November 2005 show that the most significant costs associated with operating a taxi are the variable costs of fuel and

---

[60] Queensland Taxi Council: Queensland Taxi July–August 2005 page 5, *Passenger assistance fee to be trialled*, by Max McBride, President, QTC.
[61] Essential Services Commission, Victoria: op. cit., page 93.
[62] Booz Allen Hamilton: *Appraisal of Taxi Fare Structure Issues* (Research Paper RP22), July 2003 suggested that –0.8 appeared on the high side, but concluded that based on international evidence, average taxi fare elasticities are likely to be in the range of –0.3 to –0.8.
[63] Essential Services Commission, Victoria: op. cit, page 32.

maintenance, repairs and parts. The scope to reduce these costs could be explored – for example bulk purchasing arrangements for fuel and for repairs and maintenance.

Of the fixed costs, the two most significant contributors are radio network fees and lease costs. Neither of these costs is regulated by the Government. They are set by the radio network and the licence owner respectively. Government regulation in relation to this type of cost could be considered. For example, maximum lease rates might be introduced. If radio rooms were to be regulated (to be discussed in a later discussion paper), controls on radio rooms' fees could also be considered. However, such restrictions are likely to conflict with the principles of the National Competition Policy and/or could be considered to be restrictions on trade. These are factors that would need to be taken into account in any discussion about regulating these fees.

The cost of vehicle registration is high in comparison to private cars, and the industry has argued that they should be reduced. For example at 1 December 2004, the MAIB premium for a taxi was $986.00 compared to $338.00 for a standard car (and $864.00 for a large public passenger vehicle). However, insurance premiums are risk-based, and reflect the claims record of the industry. Premiums would be expected to be higher for taxis (and indeed other commercially operated vehicles) than for private motor vehicles because taxis are on the road for much longer periods and drivers are at the wheel for longer. The chance of an accident occurring is greater by virtue of the length of time the vehicle is on the road.

However, these cost contribute a relatively small amount to the overall cost of operating a taxi, about two per cent. Reducing the MAIB cost to that of a standard car would result in only a one per cent reduction in overall costs. Given the reported low operating margins of some operators, this might prove to be significant. It is not clear whether MAIB premiums could be reduced. This would need to be raised with the MAIB. The taxi industry has the opportunity to contribute to investigations into the MAIB's pricing policies, which are undertaken every three years by GPOC. The last such review was undertaken in 2003. Further information on the GPOC reviews is available at www.gpoc.tas.gov.au/domino/gpoc.nsf/investigations-v/001.

4.2.4. Non-metropolitan taxi areas

The issues facing regional operators might be different to those facing metropolitan operators. In its submission to the ESC's review of taxi fares, the Victorian Taxi Association highlighted the difference between regional and metropolitan taxi operations and noted that country taxis in Victoria operate in a different environment and under different conditions to those that exist in metropolitan Melbourne and urban areas[64]. Hobart's taxi industry, with its much smaller market and smaller geographic size than Melbourne, is unlikely to face the same issues faced by the metropolitan Melbourne industry, but could be compared to some of Victoria's larger regional

[64] Victorian Taxi Association Inc: op. cit., page 29.

centres such as Ballarat, Bendigo or Geelong. Issues facing smaller taxi areas in Tasmania, possibly including Burnie and Devonport, are likely to be similar to those faced by country taxis in Victoria.

In most of the Tasmanian non-metropolitan areas, taxi licences are not leased, but owned by the operator. This changes the cost structure of operating a taxi. Licence costs in regional areas are significantly less than in metropolitan areas, but this reflects the lower income earning potential of those licences due to lower levels of demand. Likewise, under the *Taxi Industry Regulations 1996*, taxis in regional areas can be operated as taxis to a maximum age of ten years, as opposed to eight years in the metropolitan areas[65], which means a lower annual capital cost for the operators of country taxis. Maintenance costs might be lower if country taxis undertake fewer annual kilometres than do their metropolitan counterparts.

The small number of taxis in most regional areas indicates that there may be a low level of demand for taxi services. The low level of take-up of new licences made available by the Government in 2004 and 2005 indicates that taxi operations may not be particularly profitable. This is the case in Victoria, where the ESC suggested that returns to country operators are very low[66]. The VTA's submission to the ESC indicated that operators often run another business, as taxi operations of themselves do not generate sufficient returns[67].

Regional taxi operators might be called on to undertake significantly longer trips than their metropolitan counterparts, often with a high degree of dead running involved. This could be costly for the operator, as the taxi is not deriving an income during this time, but is incurring costs. Some other states (e.g. Queensland and Northern Territory) impose out of zone surcharges on taxi journeys that end outside of the zone in which the taxi is licensed to operate. This would compensate the operator to some degree for long journeys with dead running time involved in returning to the area.

The VTA suggested that in country Victoria, average taxi journeys tend to be shorter than in urban areas – involving trips in and around town perimeters. It also noted that the lack of nightlife activities in country areas means that there is less call for taxis at night, and that taxis in country areas service a higher proportion of people who are elderly, frail or have a disability. These clients are more likely to be on lower incomes and more dependent on taxis for transport[68].

These issues will be considered in more detail in later discussion papers.

---

[65] Taxi Industry Regulations, Regulation 16(3).
[66] Essential Services Commission, Victoria: op. cit., page 104.
[67] Victorian Taxi Association Inc: op. cit., pages 29-30.
[68] ibid., page 30.

4.2.5. Alternatives to increasing fares

It is not mandatory for operators to increase their fares. The Taxi Industry Regulations enable a driver, a responsible operator or an accredited taxi group to apply to the Transport Commission for registration of a discount fare[69]. Operators that were opposed to a fare increase could use this provision, which would enable them to compete for business on the basis of price.

In addition to discount fares, the Act provides taxi operators with the ability to establish an accredited group[70] and for these accredited groups to set fares that they deem appropriate[71], which could be above or below the fares regulated by the Department.

The Act provides that the Transport Commission can enter into an agreement with an accredited taxi group requiring it to present annual business plans and to maintain records and establish rules as to its membership, customer response times, vehicle standards and discipline[72]. Accredited groups are also able to provide taxi services under a temporary taxi licence as agreed with the Commission[73].

To date these provisions have not been used by the industry, and it could be argued that many of the items covered by agreements between the Commission and accredited taxi groups would be addressed by the arrangements for operator accreditation under the Passenger Transport Act, which was introduced in late 2005. The relationship between the two forms of accreditation will be explored further in a later discussion paper, but is raised here as an alternative for operators that oppose fare increases.

4.2.6. Questions

29. Do fare increases result in a loss of patronage? If so, is this sufficient to reduce overall industry revenue?

30. To what degree could operating costs be reduced to an extent that would increase returns to operators?

31. If the industry were able to reduce its operating costs, would it be reasonable to pass on these reductions to consumers in the form of reduced fares?

[69] Taxi Industry Regulations, Regulation 24A.
[70] Taxi and Luxury Hire Car Industries Act 1995, Section 24.
[71] ibid., Section 25(2).
[72] ibid., Section 25(1).
[73] ibid., Section 25(1)(e).

32. Are there particular issues in relation to the operation of taxis in smaller and more remote regional areas that need to be considered in setting fares? Are the operations of taxis in non-metropolitan areas different to that in metropolitan areas to the extent that there should be a different fare structure in regional areas?

33. How could the provisions for the accreditation of taxi groups be simplified to enable more groups to become accredited and to set their own fares?

5. Driver Pay and Conditions

5.1. Background

Much of the discussion in this section is based on the final report of the Essential Services Commission Victoria's Taxi Fare Review 2005[74]. This report identifies a range of issues in relation to driver income and conditions that are likely to be relevant to Tasmania.

The Government is not responsible for driver pay and conditions. The Government's role as regulator means that it is responsible for licensing drivers and for ensuring that adequate training is available. Solutions to the issues identified in relation to driver conditions will therefore need to be driven by the industry and any role that DIER might play would be facilitative rather than directive.

5.1.1. Engagement of drivers

Taxi drivers can be engaged in several ways. Some operators drive their own taxis, and will often engage drivers to cover shifts they are unable to cover themselves. A driver can also be engaged by a fleet manager, on behalf of a licence owner or operator, or by a single responsible operator.

Taxi drivers who do not operate their own taxi are usually bailee drivers. These drivers are self-employed rather than being employees, although for the purposes of the *Workers Rehabilitation and Compensation Act 1988*, they are treated as the employees of the responsible operator[75]. In other respects they are considered to be small business operators and must be registered for the Goods and Services Tax.

A bailment agreement allows an operator to hire his or her taxi to a driver for an agreed period on agreed conditions. The bailment agreement provides for fare revenue collected by the driver to be shared, generally on a fifty-fifty basis, with the operator. For his or her 50 per cent, the operator must cover the costs of running the taxi, including assignment payments to the licence holder. Bailment agreements are not regulated by the government and are a matter for agreement between the driver and the operator.

In some other jurisdictions, drivers can enter into a shift agreement with an operator, whereby they negotiate a shift fee, which might vary according to the time and duration of the shift, with the operator. The fee is paid at the beginning of the shift. Any income earned by the driver

---

[74] Essential Services Commission, Victoria: op. cit.
[75] Taxi and Luxury Hire Car Industries Act, Section 26A.

during the shift is retained by the driver, which means that the driver retains the fares earned over and above the shift fee. This provides certainty for the operator in terms of being able to cover their costs for that shift, as well as providing incentive for the driver to generate as much income as possible.

There is a view that this sort of arrangement gives the driver a more active interest in, and a greater degree of responsibility for, the operations of the taxi, as they effectively 'own' the business for the duration of the shift. Their 'ownership' might provide them with more of an incentive to provide a high standard of service and to build a good reputation and strong client base than might be the case for a bailee driver.

There would be risks for drivers with entering into such agreements. Most notably, if they did not do sufficient work to generate the shift fee during their shift, they would lose money, whereas if they were driving under a bailment agreement, they would be guaranteed to earn at least some money.

5.1.2. Questions

34. Should agreements between operators and drivers be regulated?

35. How could drivers negotiate more favourable agreements with operators?

5.2. Driver income

5.2.1. Payments to drivers

Members of the taxi industry have stated at various times that driver payments are very low. The Victorian Taxi Association estimates a self-employed taxi driver retains earnings varying between \$8.50 and \$15.00 per hour[76]. Other estimates are much lower, with the ESC citing a figure of \$7.50 to \$8.00 per hour[77]. Once factors such as superannuation, sick leave and other expense items such as uniforms, training, fare evasion and so on are accounted for, some parties have argued that the true level of remuneration could be as low as \$5.00 to \$6.00 per hour[78] . This compares to the Australian minimum wage of \$12.75 per hour. DIER does not have any reliable estimates of driver income for Tasmania and is therefore not a position to make an estimate of rates in Tasmania.

[76] Victorian Taxi Association: *A Snapshot of the Victorian Taxi Industry 2005,* http://www.victaxi.com.au/
[77] Essential Services Commission, Victoria: *Issues Paper – Taxi Fare Review 2005*, April 2005, page 9.
[78] ibid, page 43.

Income will vary significantly between drivers. The day of the week and time of day will have a significant impact on a driver's income, with times of high demand, such as Friday and Saturday nights being the most lucrative shifts. Other times of high demand would coincide with the beginning and end of the school and normal business day, with demand, and therefore income, at its lowest in the early hours of most weekday mornings.

Passengers may also tip drivers, which can increase a driver's income. Tips are probably more likely to be provided where the driver has provided a high standard of service, so there may be a link between service standards and income, an issue that was discussed in detail in section 1.2.3. However, it is not reasonable to assume that drivers should rely on tips to earn a reasonable income, as tipping is not expected from Australian consumers.

In 2005 the Western Australian Department for Planning and Infrastructure commissioned a survey of current and former Perth taxi drivers. The report of this survey found that 'financial issues' was the area of greatest dissatisfaction for drivers[79]. Over 50 per cent of current drivers said that the financial aspects of taxi driving were less than what they had expected, with only five per cent of drivers reporting that their financial expectations were exceeded. Among the former drivers surveyed, over half left the industry because the money was inadequate. Current drivers also identified better money as being the major factor that would encourage more people to stay on as taxi drivers[80].

5.2.2. Findings of ESC in relation to total industry revenue

The Victorian ESC's report discussed the impact of a fare increase on industry revenue. It concluded, as noted in section 4.2.2, that while a fare increase would lead to some reduction in the level of demand, this would not be such that total industry revenue was reduced. This would mean that drivers' and operators' revenue could be expected to increase as a result of fare increases. However, a substantial proportion of the increase would also be returned to licence owners through assignment fees for licences. With this in mind, the ESC reported that it

> ". . . was not convinced that aggregate returns to the taxi industry were inadequate when returns to the high and increasing value of licences were taken into account. Productivity gains, increases in real taxi fares and the increasing relative scarcity of taxi licences have resulted in higher licence values and assignment fees as the revenue earning potential of each taxi licence has increased."[81]

The situation in Tasmania, at least in Hobart and Launceston, appears to be similar, especially in relation to increasing licence values. The assessed market value of a Hobart taxi licence at 1 July 2003 was $81,750 and for a Launceston licence $43,800. Recent trading data supplied to

---

[79] Market Equity Research and Strategy: *Increasing Retention of Perth Taxi Drivers*, report for the Department for Planning and Infrastructure, Government of Western Australia, 2005.
[80] ibid., pages 28-29.
[81] Essential Services Commission, Victoria: Report of the Taxi Fare Review, page 92.

DIER shows that the average trading price of licences in Hobart has increased from $81,766 for the six months to December 2003, to $95,429 in 2004 and $99,923 to September 2005, with only two licences traded under $100,000 in 2005 (in January), and one licence traded for $130,000. This is a 60 per cent increase on the 2003 assessed market value. Licence prices have also increased in Launceston.

The ESC noted that the result of this is that the benefits associated with increased earning potential of taxi licences has largely accrued to licence holders, with the shares distributed to drivers and operators remaining low. With this in mind, the ESC argued that the reason for low driver incomes is not because fares are low in relation to the cost of providing the service, but is due to the way in which revenue is distributed among industry participants. As a result, fare increases would be unlikely to improve revenue earned by drivers and operators. The major beneficiary of any fare increase would probably be the licence holders, who would be more likely to receive a significant proportion of a fare increase through higher assignment fees flowing from higher licence values[82].

The effect of this is that customers (and the Government through its funding of the Transport Access Scheme) are contributing to the increased returns of licence holders through paying higher fares. Some have argued that this is inappropriate, as users should be paying for a service, not scarcity rents to investors.

5.2.3. Returns to operators and drivers

A significant conclusion of the Victorian ESC's report was that "substantial fare increases do not constitute a feasible means of addressing acknowledged low rates of return to drivers and operators"[83]. It calculated that a fare increase of approximately 54 per cent would be needed to raise driver incomes to the minimum wage level, and that this was before additional expenses such as superannuation and annual leave were accounted for[84]. An increase of this magnitude would have significant implications for consumers and would not be sustainable. This is clearly not a practical solution.

The current structure of the industry, with its high proportion of leased licences (about two-thirds of all licences, mostly in urban areas), means that fare increases of a magnitude that would not reduce demand (and thus overall industry revenue) are unlikely to deliver significantly improved returns to operators or drivers. The issue therefore needs to be considered from perspectives relating to costs, productivity and to the distribution of revenue.

[82] ibid.
[83] ibid., page 94.
[84] ibid., page 95.

Costs

Operating costs and the potential for reducing them are discussed in more detail in section 4.2.3. In general, there does not appear to be scope for significantly reducing these costs.

Productivity

Productivity within the taxi industry is not defined and it is not clear in the first instance how it might be 'improved' in order to increase returns to operators.

The nature of the industry means that taxis are not used to generate revenue for significant periods of time, such as when they are waiting on ranks for fares or undertaking non-paid kilometres (i.e. to and from jobs). One way in which productivity could be improved would therefore be to reduce idle time, by increasing the number of jobs undertaken.

It could be argued that there is only a limited amount of work in total and if one taxi increased its workload, this would take work away from other taxis. The challenge is therefore to increase the total pool of work available. Strategies that might be considered include better marketing of the industry, as well as looking at the needs and expectations of users and seeking to address these.

The 2002 National Taxi Users Survey[85] would be a good starting point for identifying areas of the industry that are of concern to users and that might be able to be improved in order to build the market. While this survey indicated a generally high level of satisfaction from Tasmanian taxi users, there were some issues highlighted. For instance a small number of respondents indicated that they would not use a taxi because of safety concerns during particular periods[86]. Further research could be undertaken to determine users' views on the taxi industry and to look at reasons why people don't use taxis.

There might be scope to improve aspects of the industry that are rated poorly by users and potential users and there might be links to accreditation and regulation of radio rooms, which will be considered in later discussion papers. There is also scope to improve public perceptions of the industry. Such a campaign might also focus on improving the profile of the industry and educating the public about the industry. This might include informing users of their rights and responsibilities in relation to using taxis, for example letting them know that they are not required to take the first taxi on the rank and informing them of how to make a complaint or pass on positive feedback.

[85] Colmar Brunton: op. cit.
[86] ibid., page 34.

Distribution of revenue

The ESC noted that the way in which revenue is distributed among its participants is determined solely by the industry itself, based on the relative bargaining power of the parties[87].

An example of a way in which revenue distribution might be changed in favour of the driver is found in Victoria, where the legislation requires that the late night surcharge (20 per cent in metropolitan areas and a flat $1.20 in regional urban and country areas for hirings between midnight and 5:00 am) is retained by the driver. The reason for this would seem to be that the operating cost of a taxi per hour is the same regardless of the time of day, so there is no reason for the operator to receive this surcharge. Rather it would act as an incentive for drivers to work late night shifts in the same way that shift penalties and overtime are paid to workers in other industries. This is not the case in Tasmania, where the higher return is still split fifty-fifty between the driver and the operator.

5.2.4. Questions

36. What is a reasonable level of income for a taxi driver?

37. What is the relationship between assignment fees and driver income?

38. Would an increase in fares lead to an increase in driver income?

5.3. Driver conditions

The Victorian Taxi Association (VTA) claims that poor returns to drivers and operators have significant implications for the taxi industry. In its submission to the ESC's review, the VTA identified a number of problems for drivers that could stem from the low rate of pay. These are summarised below.

As taxi drivers are largely self-employed, they have no access to standard working conditions such as holiday pay, sick leave or long service leave[88]. These must be funded out of the driver's share of the taxi's revenue, which means that their hourly rate is even lower than might be first assumed. There is also no provision for superannuation contributions in the arrangements between drivers and operators, as drivers are not employees of the operators. They would therefore need to fund their own superannuation, which would also reduce their net hourly rate.

[87] Essential Services Commission, Victoria: Report of the Taxi Fare Review, page 48.
[88] Victorian Taxi Association Inc: Submission to the Taxi Fare Review, page 16.

Work hours

There are several issues associated with low rates of pay for drivers. For instance, low earnings can result in drivers working longer hours or taking on a second or part-time job to supplement their income. A significant problem associated with working long hours is that drivers are more likely to suffer fatigue and lower levels of concentration. This has safety implications for passengers and other road users, as well as for the drivers themselves[89].

Long hours and driver fatigue are issues common to other sectors of the transport industry. At present there are no restrictions on the number of hours that drivers can drive a taxi, whereas other sectors of the transport industry impose such restrictions. For example, in the heavy vehicle industry, drivers are not permitted to drive for more than 12 hours in a 24 hour period or for more than 72 hours in a seven-day period[90].

Other workforce issues

The VTA highlighted a number of other issues associated with a highly transient, low paid workforce, including problems with driver attitudes, appearance and demeanour towards customers; escalating tensions between drivers and operators, as well as between drivers themselves; no shows, circuitous routings, a lack of relevant geographical and local knowledge; and poorly maintained vehicles[91]. The VTA asserted that:

> "Without sufficient returns to operators and drivers, there is little to encourage higher service standards, better training and driver knowledge, more positive attitudes, regular cleaning and maintenance of vehicles and other forms of investment in the industry."[92]

The likely result of this would be lower service standards to customers, both in terms of vehicles and drivers' manner; potential risks to the safety of customers, other road users and drivers; and little incentive to make improvements.

The extent to which these issues are experienced in Tasmania has not been measured. However, some respondents to DIER's request for comments in relation to the 2005 fare increase suggested that returns to operators and drivers were suffering as a result on increasing costs. In addition, increased costs were said to be leading to deterioration of the quality of the taxi fleet as operators were forced to work longer hours for smaller returns, with less attention being paid to maintenance.

Other operators claimed that rising costs were forcing them to operate for fewer hours and to cut back their operations, meaning that services to customers were being reduced. Some

[89] ibid.
[90] *Vehicle and Traffic (Vehicle Operations) Regulations 2001* (Tas), Regulation 36.
[91] Victorian Taxi Association Inc: Submission to the Taxi Fare Review 2005, page 17.
[92] ibid.

operators have claimed that it is difficult to attract and retain drivers. Fewer drivers and shorter operating hours means that there are fewer taxis on the road, especially at times of lower demand, when it is less attractive for drivers to be on the road. This will be especially inconvenient for users that have no alternative means of transport [93].

In addition to working long hours, by the nature of the work, drivers are in contact with members of the public for most of the day. They are expected to behave courteously and professionally towards their customers. As noted above, the effects of long work hours and low pay have the potential to negatively affect drivers' behaviour towards customers. However, it may also be the case that customers' behaviours and attitude to drivers is equally unprofessional. Anecdotal evidence suggests that drivers must regularly deal with rude, and sometimes aggressive, customers, who do not appreciate the challenges associated with driving a taxi. This would add to the pressure on drivers, especially when they are driving and having to concentrate on the road.

There is a view among some users that taxi driving is not a 'serious' career, and that people only drive taxis because they can't get another job. While this might be true for some, generally short-term, drivers, there are many long-term drivers (including individual owner-drivers), who are committed to the taxi industry and often have a significant investment in the industry. The WA Government's driver survey identified three broad groups of drivers[94]. Short-term drivers are those who are not intending to stay in the industry in the long term. They are normally driving taxis due to short-term financial needs (e.g. students). Long-term drivers are unlikely to leave the industry and have learned to survive in the industry. The report noted that they often "recognise the financial challenges of the job, but appreciate the personal and lifestyle benefits that come from being [their] own boss and meeting new people". They will often see taxi driving as a long-term full time career. There are also undecided drivers who might want to remain in the industry, but have not yet committed to this. The survey found that they might be unhappy with their work conditions and might be seeking other employment, but often want to make taxi driving work for them.

The report noted that

> "taxi driving is a career in the sense that there is a gradual build-up of knowledge and experience over time as drivers establish themselves within the industry. There is a pride that develops in drivers who can survive and prosper in the job. . . . [It] is not a career in the sense of a path to financial success or promotion, other than becoming a plate owner. The rewards from driving come from doing the job well and getting the most out of it in the here an now."[95]

[93] ibid., page 16.
[94] Market Equity Research and Strategy: op.cit., page 57.
[95] ibid., page 58.

A low opinion of taxi driving as an occupation from some members of the public and of poor behaviours towards taxi drivers from some users, in combination with long hours and low pay, would contribute to low morale among drivers and to the problems identified by the VTA, such as poor service standards and unacceptable behaviour.

To assist in addressing these issues, the industry could consider ways in which members of the public could be better educated both about the responsibilities of taxi users, as well as the role of the taxi industry in providing a supplementary public transport service.

5.3.1. Questions

39. Are long hours a significant issue for Tasmanian taxi drivers? How might the issue of long driver hours be addressed?

40. What are some ways in which the professionalism of taxi drivers could be enhanced? How could taxi driving as a career be promoted?

41. How can members of the public be better informed about the roles and responsibilities of taxi drivers and the work of the taxi industry?

6. Further information

The *Taxi and Luxury Hire Car Industries Act 1995* Review Project is managed by the Passenger Transport Policy Branch of the Department of Infrastructure, Energy and Resources (DIER).

DIER has established a Taxi Industry Reference Group that is meeting over the course of 2006 to consider a range of issues that will inform the rewriting of the *Taxi and Luxury Hire Car Industries Act 1995,* the *Taxi Industry Regulations 1996* and the *Taxi Industry (Taxi Areas) Regulations 1996.* The issues being considered are:

- Fare setting mechanisms and driver pay & conditions
- Links between taxis and community transport
- Wheelchair accessible taxis
- Taxi and luxury hire car accreditation under the Passenger Transport Act/ Industry code of conduct
- Interaction between taxis and luxury hire cars
- Taxi areas
- Role of radio rooms
- Review of National Competition Policy changes to the *Taxi and Luxury Hire Car Industries Act 1995*
- Technical and other amendments to the *Taxi and Luxury Hire Car Industries Act 1995*

The discussion papers are available on DIER's website at www.transport.tas.gov.au/miscellaneous/taxi_review.html Members of the taxi industry wishing to contribute their views to the project can contact one of the industry representatives on the Reference Group or can make a written submission to DEIR. Members of the public are also invited to contribute. Submissions can be emailed to taxi.review@dier.tas.gov.au or sent in hard copy to the address below.

Further information on the project can be obtained from:

Taxi Industry Legislation Review

Passenger Transport Policy Branch

Department of Infrastructure, Energy and Resources

GPO Box 936

HOBART TAS 7001

Phone: (03) 6233 2865

Email: taxi.review@dier.tas.gov.au

Review of the

Taxi and Luxury Hire Car Industries Act 1995

Taxi Fare Setting Mechanisms and Driver Pay & Conditions

Appendices

Appendix 1 – Glossary of Terms

Legislation	
The Act	*Taxi and Luxury Hire Car Industries Act 1995*
The Amendment Act	*Taxi and Luxury Hire Car Industries Amendment Act 2003*
The Regulations	*Taxi Industry Regulations 1996*
Taxi Area Regulations	*Taxi Industry (Taxi Areas) Regulations 1996*
Passenger Transport Act, PT Act	*Passenger Transport Act 1997*

Acronyms	
ABS	Australian Bureau of Statistics
DIER	Department of Infrastructure, Energy and Resources
ESC	Essential Services Commission (Victoria)
GPOC	Government Prices Oversight Committee
ICRC	Independent Competition and Regulatory Commission (ACT)
IPaRT	Independent Pricing and Regulatory Tribunal (NSW)
MAIB	Motor Accident Insurance Board
OPC	Office of Parliamentary Counsel
RIS	Regulatory Impact Statement
TAG	Taxi Advisory Group (inactive)
TIAT	Taxi Industry Association of Tasmania (now disbanded)
TT	Taxis Tasmania
TTA	Tasmanian Taxi Association
VTA	Victorian Taxi Association

Appendix 2 – *Taxi Industry Regulations 1996*

(as at 15 December 2005)

PART 5 – Operation of taxis

21. Standard fares and charges

(1) The standard fares and extra charges for the hire of a taxi are as set out in Schedule 4.

21A. Charging of fares

(1) In this regulation –

"**fare**" includes extra charges;

"**passenger**" means a person hiring a taxi;

"**standard fare**" includes extra charges allowable under regulation 21.

(2) A driver must not charge a passenger more than the standard fare for a hiring unless –

(a) a higher fare is authorised by a fare agreement; or

(b) a higher fare is authorised by a special agreement entered into, and approved by the Commission, before the hiring.

Penalty:

Fine not exceeding 10 penalty units.

(3) A driver operating under a fare agreement must not charge a passenger more for a hiring than the fare authorised by that agreement.

Penalty:

Fine not exceeding 10 penalty units.

(4) A driver must not charge a passenger for any period during which the taxi is delayed because of any of the following causes:

(a) a lack of fuel for the taxi;

(b) a mechanical breakdown of the taxi;

(c) a traffic accident involving the taxi;

(d) the lawful closure of a road or bridge, being a closure that was publicly notified in a newspaper before the hiring;

(e) the directions or other actions of a police officer or authorised officer who is investigating the commission or possible commission of an offence involving the driver or taxi;

(f) an event that the driver, with reasonable foresight, could have prevented or avoided.

Penalty:

Fine not exceeding 10 penalty units.

(5) A driver may, before accepting any hiring, request the payment of a deposit not exceeding the expected cost of the hiring.

22. Duties of responsible operators and drivers

(1) A responsible operator must cause to be carried in the taxi prominent notice of the standard fares and charges or any alternative fares approved in respect of the taxi.

Penalty:

Fine not exceeding 10 penalty units.

(2) The responsible operator of a taxi must ensure that any alternative fares approved in respect of that taxi are displayed in a manner acceptable to the Commission.

Penalty:

Fine not exceeding 10 penalty units.

(3) A driver who accepts a hiring must travel by –

(a) the route nominated by the passenger; or

(b) if no route is nominated, the most direct route that may reasonably be used from the point at which the taxi was hired to the destination stated by the passenger.

Penalty:

Fine not exceeding 10 penalty units.

23. Taximeters and taxi signs

(1) The responsible operator of a taxi must ensure that the taxi is fitted with –

(a) a taximeter that complies with the requirements of this Part; and

(b) a taxi top-light that complies with the requirements of Schedule 2; and

(c) if the taxi is required to operate on more than one tariff, external tariff indicator lights that comply with Schedule 2.

Penalty:

Fine not exceeding 10 penalty units.

(2) Subregulation (1)(b) does not apply if the taxi is being used –

(a) for the carriage of passengers in order to attend a wedding or funeral; or

(b) for the carriage of passengers under a contract or agreement that is –

(i) in a form approved by the Commission; and

(ii) entered into between the licensee or his or her agent and any other person; or

(c) for the carriage of passengers in accordance with a term of an accreditation agreement; or

(d) to provide a limited passenger service in accordance with the Passenger Transport Act 1997.

(3) If a taxi is required to operate on more than one tariff, the driver must not operate the taxi while the taximeter is operating in the wrong tariff for the time of operation.

Penalty:

Fine not exceeding 10 penalty units.

(4) The driver of a taxi must not operate the taxi while the taximeter is operating on the third or fourth tariff if the taxi is not operating under a WAT licence.

Penalty:

Fine not exceeding 10 penalty units.

23A. Taximeter sealers

(1) A person may apply to the Commission to be appointed as a taximeter sealer.

(2) An application for appointment as a taximeter sealer is to –

(a) be in writing; and

(b) include any information or evidence required by the Commission.

(3) The Commission is to appoint a person as a taximeter sealer –

(a) as necessary for the exercise or performance by the Commission of its powers and functions with respect to the testing, sealing and calibration of taximeters; and

(b) on such terms and conditions as it thinks fit.

(4) The Commission is to issue a taximeter sealer with a pair of sealing pliers on payment of the prescribed fee.

(5) If a pair of sealing pliers is lost, destroyed or damaged, the taximeter sealer who was issued with those pliers is to pay the prescribed fee to the Commission for replacement sealing pliers.

(6) Sealing pliers issued under subregulation (4) remain the property of the Commission.

(7) A taximeter sealer must surrender the sealing pliers issued under subregulation (4) if requested to do so by the Commission.

Penalty:

Fine not exceeding 10 penalty units.

(8) A taximeter sealer must not, in giving any information to the Commission for the purposes of this regulation –

(a) make a statement knowing it to be false or misleading; or

(b) omit any matter from a statement knowing that without that matter the statement is false or misleading.

Penalty:

Fine not exceeding 10 penalty units.

24. Use of taxis

(1) A driver must not, without lawful excuse, operate a taxi from a taxi zone that is not within the taxi area to which the taxi licence number-plate affixed to the taxi relates.

Penalty:

Fine not exceeding 10 penalty units.

(1A) A driver must not, without lawful excuse, operate a taxi so that a hiring is commenced and completed wholly outside the taxi area to which the taxi licence number-plate affixed to the taxi relates.

Penalty:

Fine not exceeding 20 penalty units.

(2) Subject to subregulations (3) and (4), if a taxi is hired for the carriage of passengers, the driver –

(a) as soon as the taxi is hired and not before, must start the taximeter; and

(b) immediately at the end of the hiring, must stop the taximeter or operate it to hold the reading constant.

Penalty:

Fine not exceeding 10 penalty units.

(3) Subregulation (2) does not apply to a taxi being used for the carriage of passengers –

(a) in order to attend a wedding or funeral; or

(b) under a contract or agreement that is –

(i) in a form approved by the Commission; and

(ii) entered into between the licensee or his or her agent and any other person; or

(c) in accordance with a term of an accreditation agreement.

(4) Subregulation (2) does not apply to a taxi that is being used to provide a limited passenger service in accordance with section 15A of the Passenger Transport Act 1997.

(5) A driver must not stand a taxi in a public street when the taxi is not being used for the carriage of passengers under the authority of a licence unless –

(a) the place where the taxi is standing is a taxi zone within the taxi area for which the taxi is licensed; or

(b) In any other case, a sign with the words "not for hire" is prominently displayed on the taxi and neither the driver nor any person known to the driver solicits or accepts any immediate hiring of the taxi.

Penalty:

Fine not exceeding 10 penalty units.

(6) A driver must not –

(a) refuse to accept a hiring while the driver's taxi is in a taxi zone; or

(b) permit a person to ride in or on the driver's taxi without the consent of the hirer of the taxi; or

(c) when the driver's taxi is in a taxi zone, fail to stand the taxi in the foremost vacant space within that zone; or

(d) leave his or her taxi unattended in a taxi zone without reasonable grounds for doing so.

Penalty:

Fine not exceeding 10 penalty units.

(7) It is a defence in proceedings under subregulation (6)(a) for the defendant to show that he or she had reasonable grounds for believing that the intending hirer –

(a) would not be able to pay for the hiring; or

(b) represented a real or potential threat to the defendant's physical safety or to the safe operation of the defendant's taxi.

(8) The responsible operator or driver of a taxi must not solicit, in a public place, a person to hire that taxi.

Penalty:

In the case of –

(a) a first offence – a fine not exceeding 10 penalty units; and

(b) a second or subsequent offence – a fine not exceeding 20 penalty units.

(9) The responsible operator or driver of a taxi must not cause or permit a person to solicit, in a public place, another person to hire that taxi.

Penalty:

In the case of –

(a) a first offence – a fine not exceeding 10 penalty units; and

(b) a second or subsequent offence – a fine not exceeding 20 penalty units.

(10) Nothing in subregulation (8) or (9) is to be taken as preventing a taxi from being hired when it is standing for hire on a taxi zone, or from being hailed.

24A. Discount fares

(1) A responsible operator may apply to the Commission for the registration of a fare that is lower than the standard fare to be charged in respect of a taxi or a group of taxis.

(2) The Commission may register a fare that is lower than the standard fare as a discount fare if the Commission is satisfied with the terms and conditions of the lower fare.

(3) A driver or responsible operator of a taxi may only charge a discount fare if –

(a) details of the terms and conditions of that discount fare are displayed in the taxi so that those details are legible from the outside of the taxi; and

(b) the fare is charged in accordance with those terms and conditions.

Penalty:

Fine not exceeding 10 penalty units.

(4) A driver or responsible operator must charge a discount fare if –

(a) details of that discount fare are displayed in his or her taxi; and

(b) the terms and conditions of the hiring of the taxi meet the displayed terms and conditions of the discount fare.

Penalty:

Fine not exceeding 10 penalty units.

(5) A driver or responsible operator must not display in a taxi the details of a discount fare if the taximeter installed in the taxi is not calibrated to charge the discount fare.

Penalty:

Fine not exceeding 10 penalty units.

(6) This regulation does not apply to a driver or responsible operator who charges a fare that is authorised by a fare agreement or special agreement.

25. Approval, testing and setting of taximeters

(1) A taximeter is to be –

(a) of a type approved by the Commission; and

(b) installed in a manner approved by the Commission; and

(c) mounted so as to be clearly visible to passengers; and

(d) capable of displaying the figures relating to –

(i) the standard fares and charges as set out in Schedule 4; and

(ii) if a discount fare is registered by the Commission under regulation 24A in respect of the taxi, that discount fare; and

(e) capable of being switched to a position so that the figure relating to the charge for the hire of that taxi is held constant; and

(f) tested and sealed in accordance with regulation 26; and

(g) capable of being set in motion by the driver of a taxi immediately a hiring commences.

(3) Where in respect of the use of a taxi it is desired to calculate fares on more than one tariff specified in Schedule 4, the taxi's taximeter is to be adjusted so that each position on the meter operates as follows:

(a) the first position is to be used for the first tariff;

(b) the second position is to be used for the second tariff;

(c) the third position is to be used for the third tariff for wheelchair-accessible taxis;

(d) the fourth position is to be used for the fourth tariff for wheelchair-accessible taxis;

(e) the fifth position, if any, is to be used to record extra charges;

(f) the sixth position, if any, is to be used for any applicable discount fare.

26. Evidence of testing

(1) A taximeter installed in a taxi is to be tested under regulation 27 before it is used under these regulations.

(1A) If sealing, testing or calibrating a taximeter, a taximeter sealer is to provide to the responsible operator of the taxi a test certificate, or similar document, that –

(a) states whether or not the taximeter is correctly calculating, measuring and displaying fares and charges in accordance with –

(i) the standard fares and charges as set out in Schedule 4; and

(ii) if a discount fare is registered by the Commission under regulation 24A in respect of the taxi, that discount fare; and

(b) sets out any other information that the taximeter sealer considers relevant.

(1B) A taximeter sealer is to provide a copy of a test certificate, or other document, provided under subregulation (1A) to the Commission on the request of the Commission.

(2) A responsible operator must produce the most recent test certificate, or similar document, provided under subregulation (1A) if requested to do so by an authorised officer or police officer within 7 days after receiving that request.

Penalty:

Fine not exceeding 2 penalty units.

(3) A taximeter that is tested and found to be correct must be sealed by that authorised officer, police officer or taximeter sealer in such a manner so as to prevent any interference with the internal parts without breaking the seal.

27. Testing and sealing of taximeters

(1) he responsible operator of a taxi must –

(a) ensure that the taximeter is correctly calculating, measuring and displaying fares and charges in accordance with –

(i) the standard fares and charges as set out in Schedule 4; and

(ii) if a discount fare is registered by the Commission under regulation 24A in respect of the taxi, that discount fare; and

(b) submit the taximeter to an authorised officer, police officer or taximeter sealer for testing at a time specified by the Commission.

Penalty:

Fine not exceeding 10 penalty units.

(2) The Commission, an authorised officer or police officer may require a person to produce a taxi at any time and place the Commission, authorised officer or police officer directs, for the purpose of inspecting and testing the taximeter fitted to it.

(3) In testing a taximeter, the authorised officer, police officer or taximeter sealer may allow a limit of error not exceeding 1.5 per cent.

(4) The responsible operator must pay to the Commission the appropriate fee specified in Schedule 1 on every occasion on which the taximeter affixed to the taxi is tested under this Part by an authorised officer or police officer.

(5) A person must not test, seal or calibrate a taximeter unless that person is an authorised officer, police officer or taximeter sealer.

Penalty:

Fine not exceeding 10 penalty units.

28. Interference with taximeters

The responsible operator or driver must not operate a taxi if the affixed taxi meter is not registering correctly, is out of order or has a broken seal.

Penalty:

Fine not exceeding 10 penalty units.

SCHEDULE 4 – Standard taxi fares

1. Standard taxi fares for taxis operating under a licence that relates to the Hobart, Launceston, Burnie, Devonport or Ulverstone taxi area

(1) *First tariff*: Between the hours of 6 a.m. and 8 p.m. on any weekday that is not a public holiday in the place where the taxi is hired, the following tariff (called the first tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $3.00 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 31.7m travelled, or the first 5.7 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 63.4m travelled or each 11.4 seconds of time elapsed, whichever is the greater.

(2) *Second tariff*: During the times when the first tariff does not apply, the following tariff (called the second tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $3.00 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 26.4m travelled, or the first 5.7 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 52.9m travelled or each 11.4 seconds of time elapsed, whichever is the greater.

2. Standard taxi fares for King Island and Flinders Island taxi areas

(1) *First tariff*: Between the hours of 6 a.m. and 8 p.m. on any weekday that is not a public holiday in the place where the taxi is hired, the following tariff (called the first tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $4.40 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 28.3m travelled, or the first 5 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 56.6m travelled or each 10 seconds of time elapsed, whichever is the greater.

(2) *Second tariff*: During the times when the first tariff does not apply, the following tariff (called the second tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $4.40 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 26.3m travelled, or the first 5 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 47.2m travelled or each 10 seconds of time elapsed, whichever is the greater.

3. Standard taxi fares for taxis operating under a licence that relates to a taxi area other than the Hobart, Launceston, Burnie, Devonport, Ulverstone, King Island or Flinders Island taxi area

(1) *First tariff*: Between the hours of 6 a.m. and 8 p.m. on any weekday that is not a public holiday in the place where the taxi is hired, the following tariff (called the first tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $3.00 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 32.3m travelled, or the first 5.7 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 64.6m travelled or each 11.4 seconds of time elapsed, whichever is the greater.

(2) *Second tariff*: During the times when the first tariff does not apply, the following tariff (called the second tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $3.00 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 27m travelled, or the first 5.7 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 53.8m travelled or each 11.4 seconds of time elapsed, whichever is the greater.

4. Extra charges

(1) In the case of trips originating outside the Burnie, Devonport, Hobart or Launceston taxi area as described in Schedule 1 to the *Taxi Industry (Taxi Areas) Regulations 1996* between the hours of 12.30 a.m. and 5.00 a.m., a surcharge of $2.60 is to apply.

(2) In the case where credit arrangements have been made with the hirer, an accounting fee not exceeding 10% of the metered fare may be charged.

(3) In the case where a taxi has been soiled or befouled by a person using the taxi, the responsible operator or driver may charge that person a fee of up to $25.00, being the amount that the responsible operator or driver estimates to be the reasonable costs of cleaning the taxi.

(4) The responsible operator or driver may charge the hirer an additional charge for road tolls, ferry charges and entry or exit fees, if the responsible operator or driver –

(a) is able to produce a receipt demonstrating payment of that toll, charge or fee; or

(b) has incurred, or will incur, a liability to pay that toll, charge or fee.

5. Standard taxi fares for wheelchair-accessible taxis while conveying a wheelchair passenger in any taxi area

(1) *Third tariff*: Between the hours of 6 a.m. and 8 p.m. on any weekday that is not a public holiday in the place where the wheelchair-accessible taxi is conveying a wheelchair passenger, the following tariff (called the third tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $4.50 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 28.6m travelled, or the first 5 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 57.3m travelled or each 10.0 seconds of time elapsed, whichever is the greater.

(2) *Fourth tariff*: During the times when the third tariff does not apply, the following tariff (called the fourth tariff) is to be charged:

(a) the amount recorded on the taximeter, that meter being calibrated to record –

(i) the sum of $4.50 on the taxi being set in motion; and

(ii) the sum of 10 cents for the first 23.9m travelled, or the first 5 seconds of time elapsed, whichever occurs first; and

(iii) after the distance travelled or, alternatively, time elapsed as specified in subparagraph (ii), the sum of 10 cents for each complete 47.7m travelled or each 10 seconds of time elapsed, whichever is the greater.

6. High-occupancy vehicle tariff

The operator of a wheelchair-accessible taxi, when carrying 5 or more passengers, may, at any time of day, charge a high-occupancy vehicle tariff equivalent to the fourth tariff, set out in clause 5(2).

Appendix 3 – Taxi and Luxury Hire Car Industries Act 1995

(as at 15 December 2005)

PART 5 – Accreditation of Taxi Groups

24. Accreditation of groups of taxi operators

For the purposes of this Part, where the Commission is satisfied that any persons holding perpetual taxi licences are able to operate as an organised group ensuring an acceptable level of taxi services in the whole or a part of a taxi area, that group is taken to be an accredited taxi group.

25. Agreements with accredited taxi groups

(1) The Commission may make an agreement with an accredited taxi group requiring it –

(a) to present annual business plans; and

(b) to maintain records and establish rules as to its membership, including rules as to –

(i) average maximum customer response times, membership fees and charges; and

(ii) any measures taken to maintain or assess standards for vehicles and drivers consistent with standards prescribed under the *Vehicle and Traffic Act 1999*; and

(iii) discipline, control and compliance with any human rights legislation; and

(c) to provide taxi services of such types and standards as may be agreed with the Commission; and

(d) to satisfy the Commission as to the group's compliance with that agreement; and

(e) to provide taxi services under a temporary taxi licence on terms and conditions specified by the Commission.

(2) The Commission may make an agreement with an accredited taxi group authorising it –

(a) to specify its own fares; and

(b) to charge different fares; and

(c) to use different tariff hours; and

(d) to seal its own meters; and

(e) to specify standards as to taxi drivers and vehicles used for the provision of taxi services so long as the standards are approved by the Commission and it is satisfied as to how the standards will be maintained.

(3) Subsection (2) does not prevent the Commission from regulating a standard fare or from continuing to inspect taxis, both as provided by the *Vehicle and Traffic Act 1999* and randomly, in accordance with the prescribed standards or such alternative standards as may be agreed with the accredited taxi group.

(4) The Commission may make different agreements with different accredited taxi groups in order to provide an appropriate level of benefits and responsibilities as to self-regulation for each group.

(5) If an accredited taxi group fails to discharge its responsibilities arising from an agreement made under this Part, the agreement may be cancelled or varied by the Commission.

Appendix 4 – Tasmanian Taxi Fare Structure

The taxi fare structure for **standard taxis** and wheelchair accessible taxis when undertaking non-wheelchair work with fewer than five passengers from 2 November 2005 is as follows

Fare Component	**Tariff 1** *6.00 am to 8.00 pm Monday–Friday other than public holidays*	**Tariff 2** *All other times*
Flagfall	\$3.00 \$4.40[A]	\$3.00 \$4.40[A]
Waiting Time (per hour)	\$31.50 \$36.00[A]	\$31.50 \$36.00[A]
Non Metropolitan Taxi Area Surcharge (midnight to 5:00 am for all areas outside Hobart, Launceston, Devonport and Burnie)	–	\$2.60
Distance Rate (per kilometre)	\$1.58 \$1.54[B] \$1.79[A]	\$1.89 \$1.86[B] \$2.13[A]

[A] Applies to taxis operating on King Island or Flinders Island

[B] Applies to taxis operating under licences relating to taxi areas other than Hobart, Launceston, Burnie, Devonport, Ulverstone, King Island and Flinders Island.

The taxi fare structure for **wheelchair accessible taxis** when undertaking wheelchair work or when carrying five or more passengers from 2 November 2005 is as follows

Fare Component	**Tariff 3** *WAT work 6.00 am to 8.00 pm Monday–Friday other than public holidays*	**Tariff 4** *WAT work all other times; High occupancy work at all times*
Flagfall	\$4.50	\$4.50
Waiting Time (per hour)	\$36.00	\$36.00
Distance Rate (per kilometre)	\$1.76	\$2.10

Appendix 5 – Components of cost models/ indices used in other states

NSW Taxi Cost Index[96]

Fixed Costs

- Vehicle Lease payments
- Insurance
- Government Charges
- Network Fees
- Plate Lease
- Annualised Establishment Costs

Variable Costs

- Maintenance Labour
- Vehicle Parts & Panels
- Cleaning
- Tyres
- Operator Salary Equivalent [A]
- Driver entitlements
- Uniforms
- Other Costs

Driver Expenses

- LPG Fuel [B]
- Notional Driver's Wages
- Cleaning [A]

A – Not included in country taxi cost index

B – Classified as a variable cost in the urban taxi cost index

[96] Independent Pricing and Regulatory Tribunal of New South Wales: *Review of Fares for Taxis in New South Wales in 2005* Report to the Minister for Transport, 9 June 2005, page 6.

Queensland Taxi Operating Cost Model

- running costs – fuel, repairs and maintenance, cleaning, administration;
- set up costs – vehicle set up, vehicle leasing charges;
- on road costs – registration and 3rd party, comprehensive vehicle insurance, other Government charges; and
- other – workers compensation, disability insurance, superannuation, base fees.

SA Cost Model

- fuel;
- tyres, parts and maintenance labour;
- capital (both initial cost of buying a vehicle and vehicle lease costs);
- accreditation/registration and licensing;
- network fees;
- insurances (compulsory third party, public liability, third party property and comprehensive, workers compensation);
- inspection; and
- wages.

NT Basket of Costs

- vehicle lease cost;
- maintenance labour;
- administration;
- operators salary;
- establishment costs;
- fuel;
- parts;
- insurance;
- superannuation;
- other;
- tyres;
- cleaning;
- government charges; and
- network fees.

ACT Taxi Cost Composite Model

- Labour costs
- Interest rates (see note)
- Network costs
- Insurances
- LPG
- Vehicle costs
- Repairs and servicing
- Tyres
- Registration and 3rd party
- Administration/other

Appendix 6 – Comments from industry on fare increase November 2005

DIER wrote to taxi operators in August 2005 advising them of a proposed fare increase. Operators were invited to express their views as to the increase, in particular in relation to how it should be apportioned across the fare components (flagfall, distance rate and waiting time).

DIER received 13 responses from across the industry, including responses from the two industry groups, operators and drivers. A further response was elicited through a letter from an operator to the editor of *The Mercury*, and one of the 14 respondents also wrote to the Minister.

The overwhelming view was that the 3.1 per cent proposed increase was inadequate to cover the increased costs of operating a taxi, in particular increased fuel costs. Several respondents indicated that increasing costs were severely impacting on the industry and that returns to operators and drivers were suffering as a result. In addition, increased costs were leading to deterioration of the quality of the taxi fleet as operators were forced to work longer hours for smaller returns, with less attention being paid to maintenance. Other operators claimed that rising costs were forcing them to operate for fewer hours and to cut back their operations, meaning that services were being reduced.

Comments on the November 2005 increase

In terms of how the increase should be applied, there were conflicting views. Some respondents thought that a higher proportion should be applied to the kilometre rate to help offset increased fuel costs. One view was that the flagfall should not be changed as the cost to operators to rechip taximeters is greater if the flagfall is changed than if the kilometre rate only was changed.

Others thought that a higher proportion should be applied to the flagfall, for the following reasons:

- Increasing the kilometre rate would further disadvantage country passengers and those travelling long distances. They are already paying high fares due to the distance travelled, and this would be unfair on those isolated people who rely on taxis.

- Short trips are more costly to undertake, especially in city traffic, as they cause more wear and tear on the vehicle. An increased flagfall would help in offsetting this.

- Increasing the flagfall would make short trips more cost effective, especially where there is a long ‘dead running’ period to pick up the passenger and complete the job. One respondent suggested that a $5.00 minimum charge be applied to all fares to make such jobs more cost effective.

- In contrast to this, one respondent wanted to see the increase applied evenly across the components of the fare, as a higher increase to the flagfall would not compensate for increased fuel costs. He suggested that the flagfall is already sufficient to compensate for shorter trips.

- The Tasmanian Taxi Association also suggested that tariff 2 should be used at all times, thereby increasing fares without having to change the meters.

- A small number of respondents indicated that an increase might harm the industry, as it will result in a loss of customers. One respondent stated that if measures could be taken to reduce costs, there might be a case to revise fares downwards to try and regain some of the customers lost due to previous fare increases.

Alternatives

A number of alternatives to increasing fares as a way of improving returns to the industry were put forward by respondents. These included:

- Replace the two tariff system with a single tariff between the current two tariff rates and add a surcharge for travel between the hours of 6:00 pm and 6:00 am. This would provide a fairer return to drivers working hours that in many industries pay penalty rates.

- Impose a temporary fuel surcharge onto the flagfall similar to that imposed by airlines, which could be added and removed at DIER's discretion.

- Remove the fuel excise for public transport providers, or altogether.

- Reduce the registration fee for taxis and reduce the MAIB premium to that of a private vehicle.

- Legislate to reduce the lease rate charged by the owners of taxi plate or have all plates leased from the Government rather than being privately owned.

- Increase fares by 15 per cent and encourage operators to change the payment to drivers from 50 per cent of takings to 45 per cent. This would result in a 3.5 per cent increase to drivers (consistent with CPI) and a 12 per cent increase to operators, which would be sufficient to cover the increased costs.

- Stop issuing new WAT licences.

Appendix 7 – Resources

Booz Allen Hamilton: Final Report: *Appraisal of Taxi Fare Structure Issues for the NSW Independent Pricing and Regulatory Tribunal*, July 2003 (sourced from www.ipart.nsw.gov.au/Taxi.asp)

Colmar Brunton: *2002 National Taxi Users Survey Report*, February 2003.

Essential Services Commission, Victoria: *Final Report of the Taxi Fare Review 2005*, June 2005 (sourced from www.esc.vic.gov.au).

Essential Services Commission, Victoria: *Issues Paper – Taxi Fare Review 2005*, April 2005 (sourced from www.esc.vic.gov.au).

Government Prices Oversight Committee: Annual Report 2003–2004, October 2004 (sourced from www.gpoc.tas.gov.au/domino/gpoc.nsf/annual-v/001)

Independent Competition and Regulatory Commission: Final Report *Determination of taxi fares for the period 1 July 2004 to 30 June 2007*, May 2004 (sourced from www.icrc.act.gov.au/transport/taxis.html)

Independent Pricing and Regulatory Tribunal of New South Wales: *Review of Fares for Taxis in New South Wales in 2005* Report to the Minister for Transport, 9 June 2005 (sourced from www.ipart.nsw.gov.au/Detailedsearch.asp?InquiryName=Review%20of%20Fares%20for%20Taxis%20in%20NSW%202005

Market Equity Research and Strategy: *Increasing Retention of Perth Taxi Drivers*, report for the Department for Planning and Infrastructure, Government of Western Australia, 2005.

New Zealand Controller and Auditor-General: *Effectiveness of controls over the taxi industry*, June 2005. (sourced from www.oag.govt.nz/2005/taxis/default.htm)

Pearson's Transport Resource Centre Pty Ltd: *Taxi Fare Setting/Review Mechanism Project*, Final Report to the Department of Infrastructure, Energy and Resources Tasmania, August 2004.

Taxi Industry Review Group: *Taxi Industry Act 1995 and luxury hire car legislation Discussion Paper*, July 2000.

Taxi Industry Review Group: *Taxi Industry Act 1995 and luxury hire car legislation Final Report*, April 2000.

Taxi Industry Review Group: *Taxi Industry Act 1995 and luxury hire car legislation Regulatory Impact Statement*, April 2000 (available at www.transport.tas.gov.au/miscellaneous/index.html).

Transconsult Pty Ltd: *Taxi Operating Maintenance Model*, for the Department of Infrastructure, Energy and Resources Tasmania, July 2002.

Victorian Taxi Association Inc: *Snapshot of the Victorian Taxi Industry 2005*, (sourced from www.victaxi.com.au/index.htm).

Victorian Taxi Association Inc: Submission to the Essential Services Commission Taxi Fare Review 2005, 3 May 2005 (sourced from www.esc.vic.gov.au/attachmentviewer3589.html)

Wise, Lord & Ferguson Chartered Accountants: *1998 Review of Standard Fares*, for the Taxi Industry Advisory Board, 22 February 1999.