

## Department of State Growth

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Mr Chris Lock  
Director  
Office of the Tasmanian Economic Regulator

By email: [office@economicregulator.tas.gov.au](mailto:office@economicregulator.tas.gov.au)

Dear Mr Lock

The Department of State Growth appreciates the Tasmanian Economic Regulator providing the opportunity to make comment on the 2021 Tasmanian Taxi Fare Methodology Inquiry Draft Report.

Changes to the on-demand small passenger transport industry recently occurred with the passing by Parliament of the *On-Demand Passenger Transport Services Industry (Miscellaneous Amendments) Act 2020*. These changes are designed to promote safety, increase competition and consumer choice, provide for the delivery of services, accommodate new technologies and, where appropriate, reduce the regulatory burden on industry.

Given that some of the on-demand legislative changes impact on the level and structure of tariffs and taxi operations and will therefore affect revenue earning capacity, as well as other changes which will affect input costs, it is necessary for the Regulator to consider these changes in the context of taxi fares.

### *Objectives of fare regulation*

In the Draft Report, the Centre for International Economics (CIE) state that the objectives of fare regulation are not clearly specified and that the matters that must be considered which are specified in the Terms of Reference are not weighed against each other. State Growth considers that the objectives of fare regulation are that consumers should be protected, an appropriate level of service is provided and that an appropriate return should be provided to an efficient operator. However, State Growth does not support a level of return that underpins economic rents.

### *Recommended process for reviewing regulated taxi fares*

State Growth supports the recommendation in the Draft Report that regulated taxi fares should be formally reviewed regularly, but considers the timing between the reviews to be critical. State Growth recognises that a regular timetable for fare reviews can provide more certainty for industry, as well as improving transparency and minimising the risk of large fare changes.

However, State Growth does not agree with the stakeholder suggestion for reviews to occur every one or two years. Such frequent reviews would put a significant strain on administrative resources, as well as increasing the risk of consultation fatigue within the Tasmanian taxi industry. This could result in the taxi industry becoming less engaged with the review process. With this in mind, State Growth is of the view that reviews should be conducted every five years. This would have the additional benefit of allowing any changes to fare setting to be properly implemented and accepted by both the industry and customers and the effectiveness of a particular approach to be understood before the next review.

#### *Recommended approach to fare regulation*

State Growth agrees with the recommendation in the Draft Report that a revised taxi cost index approach be adopted to maintain the status quo, including maintaining fares at broadly stable levels in real terms between price reviews.

Utilising a more complex approach, such as the discussed supply and demand approach is not recommended. Such an approach is less transparent and not so readily understandable to the taxi industry and customers. A supply and demand-based model would also require a significant amount of data to be collected which is currently not gathered, in order to make the informed judgements necessary for this type of model to work properly. Collecting data on indicators such as waiting times for customers and taxi utilisation would require a significant amount of administrative resources, especially if done for each taxi area.

By contrast, a state-wide supply and demand-based model risks making state-wide determinations that do not reflect the reality for all taxi areas. Yet a supply and demand-based model for each taxi area would be administratively very complex and require a large amount of new data to be collected and dramatically increase the administrative costs of calculating fares.

#### *Reweighting the taxi cost index*

State Growth notes that two of the major new additions suggested in the Draft Report cost index are driver labour and licence plate-related costs. State Growth agrees with the reasoning that while the 50/50 revenue split between operators and drivers is prevalent across the industry, this is not ubiquitous and not regulated. By including labour costs in the cost index, a more accurate accounting will be made of actual costs, rather than risking changes in non-labour costs significantly amplifying total changes because of the lack of labour costs in the index.

State Growth's preference is to continue to have licence plate-related costs excluded from the cost index because, as the Draft Report notes, their inclusion creates circularity in the fare-setting process. However, if licence plate costs are included in the cost index, State Growth is strongly of the opinion that these costs should not be inflated and should be deflated over time, as suggested in the Draft Report.

The Draft Report contains cost indexes for both Hobart and Launceston. While having multiple cost indexes can serve to better reflect operating costs more locally, State Growth suggests that a single state-wide cost model should be retained. This is because multiple regional cost indexes increase administrative complexity and make data collection more difficult, especially given the reasonably similar cost figures provided for both Hobart and Launceston. In addition, the proposed ABS cost inflators are only published at a state-wide level, limiting the utility of differentiated cost indexes.

*Inflators to apply to price changes to the cost index*

State Growth is in favour of adopting independent, publicly available estimates to use as inflators. This has the benefits of reducing administrative complexity and volatility of price changes as well as increasing transparency for the industry and customers in the process. While there is a risk that independent measures may not capture the cost item being measured, State Growth considers advantages listed above to outweigh this risk.

Please contact Babette Moate, Acting General Manager, Road User Services, by email at [babette.moate@stategrowth.tas.gov.au](mailto:babette.moate@stategrowth.tas.gov.au) or telephone on (03) 6166 3332 for more information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gary Swain', written in a cursive style.

Gary Swain  
**Deputy Secretary, Transport and Infrastructure**

21 December 2021