



TAXI FARE METHODOLOGY INQUIRY

FINAL REPORT

FEBRUARY 2022

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EXECUTIVE SUMMARY

In July 2021, the Regulator was directed by the Minister of Finance to undertake an inquiry, under the *Economic Regulator Act 2009*, to recommend an appropriate methodology for the setting and adjusting of taxi fares to the Transport Commission. The full terms of reference can be found in Appendix 1.

To assist in the inquiry, the Regulator engaged the services of the consultancy firm, the Centre for International Economics (CIE). The CIE has prepared a draft report and a final report during the inquiry process.

The Regulator released a Consultation Paper and the CIE's draft report for public consultation on 19 November 2021. The public consultation ended on 17 December 2021. Officers in the Regulator's Office discussed taxi fare-related issues with operators of taxi businesses and taxi radio rooms and sought submissions on the Consultation Paper. The CIE also consulted with these operators and was also provided with data on taxi operating costs and other matters that it used in preparing its final report. Only one submission was received, however, which was from the Department of State Growth.

In preparing the Final Report, the Regulator took into consideration the CIE's final report, the discussions with stakeholders and research conducted by the Regulator's Office and the Department's submission. The release of this Final Report and the CIE's final report completes this inquiry.

The Regulator has also taken into consideration the issues considered during the investigation into reserve prices for Owner-Operator Taxi Licences and the Regulator's determination, which was made on 30 November 2021. This includes the emergence of ride sourcing platforms as a major competitor to the taxi industry in the major taxi areas, especially Hobart and Launceston.

The Regulator notes that the *Taxi and Hire Vehicle Industries Act 2008* does not include objectives for the regulation of taxi fares. As general rule, in cases where there is economic regulation, including setting maximum prices, the decisions and determinations of the economic regulator are guided by a set of objectives, or matters that the economic regulator must take into account. These typically cover matters such as promoting efficiency, safety and competition in the relevant industry, supporting the long term sustainability of the industry and protecting the interests of consumers. These objectives are usually set in legislation.

The Regulator recommends that the Department of State Growth recommend to the Minister for Transport that the *Taxi and Hire Vehicle Industries Act 2008* be amended to include objectives to guide the Transport Commission in setting maximum taxi fares. The Regulator also recommends that the Department consider whether promoting the supply of taxi services is included as an objective as no taxi services are currently available in some parts of Tasmania.

Use of taxi cost models

For most businesses that are subject to price regulation, the costs a business faces are not directly determined by the prices charged by the regulated business. That is, the costs are set by external conditions. In the case of the taxi industry in the major taxi areas, however, licence-

related costs are linked to the taxi fare. This is because these costs tend to vary according to the difference between taxi fares and other operating costs. For example, if, with a given level of taxi fares, the revenue of operators is greater than operators' costs, licence prices tend to increase, together with taxi lease rates. The result is that the average cost for many operators tends to reflect the level of taxi fares.

In addition, the number of taxis operating may also vary according to the profitability of the industry if there is spare capacity in the industry, such as at the current time. If returns are increasing, this will encourage more taxis being on the road. Taxis would, on average, have fewer trips per hour and the average cost of providing taxi services, on a per trip basis, increases. This also results in the average cost for many operators tending to reflect the level of taxi fares.

Under these circumstances, there is no single 'cost reflective' price for taxi services. The level of taxi fares will determine, instead, the returns to licence holders and the quantity of taxi services that are offered in taxi areas. Over the longer term it may also affect the rate at which new taxi licences are taken up, namely Owner-Operator Taxi Licences and Wheelchair Accessible Taxis. This in turn affects customer waiting times and potentially the range of taxi services that are offered.

For this reason, the Regulator considers that it is not necessary for the Transport Commission to apply a taxi cost model to review the level of taxi fares in the major taxi areas to assess whether the level is appropriate.

The Regulator considers, however, that using a taxi cost model to assist in indexing taxi fares across Tasmania remains appropriate. Almost 80 per cent of taxis in Tasmania operate in the Hobart and Launceston taxi areas, with around three times as many taxis in Hobart as in Launceston. The Regulator recommends that the Transport Commission adopt the CIE's proposed composite or weighted taxi cost model, which includes estimates of the operating costs for taxis in the Hobart taxi area (75 per cent) and the Launceston taxi area (25 per cent).

Table E.1: Recommended taxi cost model

Cost categories	Taxi costs	Weights
	\$/year	Per cent
Vehicle including stamp duty	3 613	4.2
Registration, motor tax, and MAIB	1 545	1.8
Network fees	7 579	8.8
Operator labour	6 552	7.7
Servicing, maintenance and repairs	5 440	6.3
Workers compensation	2 582	3.0
Inspections	360	0.4
Fuel	5 764	6.5
Licence-related costs	9 600	11.3
Driver labour	43 034	50.0
Total costs	86 070	100.0

The Regulator considers that, unlike the Transport Commission's current model, driver labour costs and taxi licence lease costs should be included in the taxi cost model together with operator labour, which includes the management and administration costs incurred by operators and may include a return to operators. The cost model in Table E.1 above has been prepared by the CIE. The Regulator's recommends this model, which reflects costs after a return to more normal conditions post -COVID, unless the Transport Commission chooses to update the values to take into account the recent increase in fuel prices.

The Regulator also recommends that the Transport Commission use the inflators as set out in Table E.2 below.

Table E.2: Recommended inflators for the taxi cost categories

Cost category	Inflators
Vehicle including stamp duty	CPI Motor Vehicles
Registration, motor tax, and MAIB	Use change in actual prices, set by the Tasmanian Government
Network fees	CPI Communications
Operator labour	Tasmanian Wage Price Index
Servicing, maintenance and repairs	CPI Maintenance and Repair of Motor Vehicles
Workers compensation	Not required - fixed cost weight
Inspections	CPI All Groups
Fuel	CPI Automotive Fuel
Licence lease	To be determined by the Transport Commission
Driver labour	Not required - fixed cost weight

The Regulator recommends that driver labour costs and taxi licence lease costs are included in the taxi cost model. A feature of the taxi industry is that driver income is typically a share of the fare box, usually 50 per cent. This arrangement has been long standing and there is no basis for expecting any change in the near term. The 'cost' to operators that use drivers is therefore not a dollar amount that is known in advance, but is instead a share of the revenue earned over the taxi shift.

As a result, broader changes in labour costs, such as those measured by the Wage Price Index, do not affect labour costs of taxi operators. For this reason, it is recommended that labour costs are fixed at one half of all other costs in the taxi cost model and, in dollar terms, adjust in line with changes in all other costs. It is recommended, however, that the Hobart Wage Price Index is the inflator for operator labour costs.

Taxi operators are responsible for workers compensation costs even though they do not formally employ drivers or pay them wages. As workers compensation premiums are around six per cent of wages and salaries, a fixed three per cent cost weighting to workers compensation is recommended.

As it is recommended that the weights to driver labour and workers compensation components are fixed, the dollar values would vary with changes in the other cost components and no separate inflators are required.

While licence-related costs may be significant, and may represent a significant source of income for taxi licence owners, taxi licence costs are not considered efficient costs as taxi services could be supplied without a licence, or if licences are free, under a different regulatory regime. As noted above, the size of these costs tends to vary with the profitability of providing taxi services.

The Regulator is required to consider the efficient cost of providing taxi services in this inquiry. If prices were efficient, there would be no allowance for licence-related costs in a taxi cost model. This could have a potentially severe impact on licence holders. The Regulator recommends instead that a deflator is applied to licence-related costs to reduce their importance over time, such as a five per cent or 10 per cent reduction in licence-related costs annually. The Regulator considers that the Transport Commission is best placed to determine what deflation rate is appropriate.

A consequence of the revenue sharing arrangement between taxi operators and drivers is that when taxi fares increase, due to higher costs, only around one half of the additional revenue accrues to the taxi operator. If fares were increased to allow taxi operators to recover the entire cost increase, the fare increases would be around twice the cost increase. In practice, it is likely that the taxi industry adjusts, over time, to this partial cost recovery through changes in taxi lease costs and in the number of taxis that are operated.

Taxi fare review processes

The Regulator also recommends that a major fare review is conducted every four years following the approach that is similar to the Essential Services Commission's model and the Regulator's price investigation model. If a body other than the Transport Commission were to conduct the review, this may require amendments to the *Taxi and Hire Vehicle Industries Act 2008*.

The review would take into account changes in fuel efficiency, other observed productivity changes and also vehicle utilisation rates. The review would likely also consider trends in the passenger transport market, including for ride-sourcing services. The Commission may also choose to include a separate productivity factor to encourage increased efficiency in the taxi industry. It is expected that maximum taxi fares would change following a major review.

It is also recommended that the taxi cost model is updated two years after each major review by using the inflators and deflators as discussed above and the Transport Commission would apply taxi fare changes based on the estimated taxi cost changes.

The Regulator has not been provided with any evidence to suggest that the current balance between the flag fall rates, the distance rates and waiting time rates is inappropriate or requires change. The Regulator recommends that the current balance is retained.

In eight of the 24 taxi areas in Tasmania, including King Island and Flinders Island, the mid-east coast of Tasmania and the Central Highlands, no taxis are operating. While demand is likely to be much lower than in other taxi areas, the local population is at a disadvantage in not having taxi services available and there is also no taxi-related income for potential operators or drivers.

It is unclear whether the current level of fares has contributed to this outcome. The Regulator therefore recommends that the Transport Commission investigate, at a high level, whether different levels of taxi fares in mainland Tasmania and on King Island and Flinders Island could encourage the supply of taxi services where no taxis currently operate.

Depending on the outcome of this investigation, the Transport Commission may consider whether there is merit in developing a new taxi cost model to estimate taxi costs in these areas. This could potentially be quite different from the model used for all other taxi areas in Tasmania reflecting, for example, much lower vehicle utilisation rates. This would inform a decision on whether a different level of taxi fares could enable taxi operators to provide taxi services on a commercial basis.

I INTRODUCTION

I.1 Inquiry process and timelines

On 2 July 2021, the Tasmanian Economic Regulator received a direction from the Minister for Finance under the *Economic Regulator Act 2009* to undertake a taxi fare methodology inquiry. The Regulator is required to consider methods for setting maximum fares and calculating maximum annual increases in fares and the relative weighting of fare-related components. The terms of reference can be found in Attachment 1.

The Transport Commission is responsible for setting taxi fares in Tasmania's 24 taxi areas. The Regulator's final reports contain recommendations only. This is the second taxi fare methodology inquiry the Regulator has undertaken; the first was completed in 2012-13.

The Regulator engaged the Centre for International Economics (the CIE) to assist in the inquiry. The CIE has prepared a final report to accompany this Final Report.

A summary of the inquiry milestones is provided below. The completed milestones are highlighted in grey.

Milestone	Investigation timeframe
Release of Terms of References	2 July 2021
Engage the Centre for International Economics	23 August 2021
Initial stakeholder consultation	August/September 2021
Regulator releases its Consultation Paper and the CIE's Draft Report for public consultation	19 November 2021
Public consultation period on the Consultation Paper and the CIE's Draft Report closes	17 December 2021
Regulator provides its Final Report and the CIE's Final Report to the Transport Commission, the Minister for Finance and the Minister for Transport	28 February 2022

Since the release of the Consultation Paper, the Regulator has published its final reserve price determination for Owner-Operator Taxi Licences. The determination sets out the minimum prices that new Owner-Operator Taxi Licences can be purchased from the Transport Commission between 1 December 2021 and 31 December 2025 in each of the 24 taxi areas in Tasmania.

Officers in the Regulator's Office discussed taxi fare-related issues with operators of taxi businesses and taxi radio rooms and sought submissions on the Consultation Paper. The CIE also consulted with these operators and was also provided with data on taxi operating costs and other matters that it used in preparing its final report.

The Regulator received one submission on the Consultation Paper, which was from the Department of State Growth. Several issues were covered in the submission; these are discussed in the relevant chapter of this Final Report.

In preparing the Final Report, the Regulator took into consideration the CIE's final report, the discussions with stakeholders and research conducted by the Regulator's Office and the Department's submission.

The Regulator has also taken into consideration the issues considered during the investigation into reserve prices for Owner-Operator Taxi Licences and the Regulator's determination, which was made on 30 November 2021. This includes the emergence of ride sourcing platforms as a major competitor to the taxi industry in the major taxi areas, including Hobart and Launceston.

This Final Report contains the Regulator's recommended methodology for the setting and adjusting of taxi fare, as well as issues associated with the current fare setting approach and discussion on the options for setting and adjusting taxi fares considered by the Regulator in the process of the inquiry.

2 TASMANIA'S TAXI INDUSTRY AND CURRENT FARE SETTING ARRANGEMENTS

This chapter provides a brief overview of the Tasmanian taxi industry and the Transport Commission's current approach to adjusting taxi fares.

2.1 The taxi industry

Taxis are the only public passenger transport providers that are permitted to provide rank and hail services. Taxis also offer pre-booked services in competition with other passenger transport providers such as ride-sourcing businesses.

The number of taxi licences is restricted and taxi fares are regulated by the Transport Commission, which sets maximum fares. Taxi drivers must receive accredited training before being authorised to drive a taxi by having a taxi ancillary certificate. Taxi regulation also covers where taxi services may be offered, how they may be offered (soliciting passenger trade is not allowed, for example), and safety-related vehicle requirements.

In Tasmania, 625 taxi licences have been issued. There are 24 taxi areas and taxis are licenced to operate within their taxi area, unless they provide trips to a neighbouring taxi area, or from a neighbouring taxi area to their area. In northern Tasmania, some taxi areas overlap. For example, part of the West Tamar and Perth taxi areas are also in the Launceston taxi area. A list of Tasmania's taxi areas is presented in Appendix 2, together with the number of taxi licences issued in each area.

The characteristics of these taxi areas vary significantly. The Hobart taxi area, which extends from Hobart to Brighton, Margate and Sorell, contains around 44 per cent of Tasmania's population and 358 or around 57 per cent of all taxi licences issued are for the Hobart taxi area.¹ A further 119 licences (19 per cent) are for the Launceston taxi area. Around three quarters of all taxi licences are therefore licensed for operations within, or to or from, these two taxi areas, with the remaining one quarter of all licences distributed among the other 22 taxi areas. By contrast, the population is very small in some rural taxi areas and in two taxi areas, Kentish and Central Highlands, no taxi licences have been issued.

Taxi services are currently available in 16 of the 24 taxi areas. Taxi services are not currently available, for example, in the two Glamorgan/Spring Bay taxi areas, in the Central Highlands and on King Island and Flinders Island.

¹ As at 9 September 2021.

In Tasmania, the majority of the taxi services are provided through bookings. Based on information the Regulator received from the taxi industry, this proportion can vary from 50 to 60 per cent in large metropolitan taxi areas² to close to 100 per cent in rural taxi areas.

In urban areas, taxi network companies provide booking and dispatch services to taxis operators with nationally recognised telephone numbers such as 131 008 or 132 227. As a substantial share of taxi services is pre-booked, access to these booking and dispatch services can be important, or even necessary, for urban-based taxi businesses. In rural areas, taxi operators tend to rely on their mobile phone number for pre-booked work.

Four types of taxi licences are administered by the Transport Commission:

- Perpetual taxi licences (PTLs) - PTLs are the personal property of the owner and may be sold or leased to accredited operators. The issue of new PTLs ceased in 2008.
- Owner-Operator taxi licences (OOTLs) - introduced in 2008. OOTLs can be sold but cannot be leased. The owner of OOTLs must be the accredited operator of the taxi business (though not necessarily the taxi driver). The standard release arrangements for new OOTLs has been suspended from 2020 to 2024. The reserve prices for new OOTLs to 31 December 2025 have been determined by the Regulator.^{3,4}
- Wheelchair-accessible taxi (WAT) licences - introduced in 2005. WAT licence numbers are uncapped and there are no licence prices. WAT may only be operated by an accredited operator that also holds the licence. WAT vehicles may be operated for a maximum of 12 years.
- Temporary taxi licences (TTL) - a TTL is similar to an OOTL, but issued for a short period only, at the discretion of the Transport Commission.

Depending on the type of taxi licence, owners of taxi licences can either operate a taxi themselves or receive an income by leasing their licence to an accredited operator.

The operator of a taxi or taxi business is responsible for the costs associated with the operation of a taxi, including the cost of obtaining a vehicle, maintenance of the vehicle, the vehicle registration and insurance, drivers' workers compensation and network cost. Some taxi operators drive the taxi themselves, while others hire drivers (or both drive their taxi and hire drivers).

In taxi areas with a very small number of taxi licences, there is often a single taxi business and the licence owner, the operator and in some cases the driver may be the same person. In these cases, the operator will take all bookings via a mobile or landline number.

² The Hobart, Launceston, Devonport, Burnie, West Tamar, Ulverstone and Perth taxi areas are defined as metropolitan taxi areas.

³ The arrangements for the release of new owner-operator taxi licences are set out in the Regulator's final report and final determination as part of its investigation into the reserve prices of these licences: <https://www.economicregulator.tas.gov.au/taxis/2021-owner-operator-taxi-licence-reserve-price-investigation>.

⁴ The Transport Commission may issue new OOTLs before 2025 if the Commission believes there are insufficient taxis available to adequately meet passenger demand.

The costs that taxi operators face in the different taxi areas can vary significantly. In metropolitan taxi areas such as Hobart, taxi operators generally have to cover the costs of membership of a taxi network and may have relatively high taxi lease costs if the licences are PTLs. They usually provide 50 per cent of the fare total revenue to the driver who is often not the operator.

By contrast, in the low population rural taxi areas, OOTL prices and taxi lease costs are very low and the taxi operator may take bookings and drive the taxi for some or all of the time. The operator therefore incurs lower total costs. Against this, however, is that the demand for taxi services in many rural taxi areas is very low, resulting in low taxi utilisation rates. Furthermore, the costs of driving to the start of a taxi service or to return after the service can also be higher in low population areas. As a result, the operator's cost per taxi trip can be significantly higher than for operators in metropolitan taxi areas.

Taxi businesses in different taxi areas are also subject to differing levels of competition for pre-booked work. These include:

- ride-sourcing platforms such as Uber;
- community transport services;
- hire cars, both luxury and standard;
- public transport, especially buses;
- deliveries to the home offered by supermarkets and other retailers that reduce the demand from shoppers for taxi services;
- taxis from neighbouring taxi areas; and
- unlawful passenger transport services .

Ride-sourcing platforms tend to have a strong presence in and around large population centres, including Hobart, Launceston and the surrounding taxi areas. In these taxi areas, ride-sourcing is the strongest source of competition for taxi businesses, both for passengers and drivers. In the more rural areas, ride-sourcing may not be offered but community transport services may compete strongly with taxi businesses.

The prices charged by ride-sourcing platforms are not regulated, unlike the taxi fares and are often below taxi fares. However, these platforms may impose a minimum fare per trip and apply surge pricing to an area when demand is high, relative to supply.

No ride-sourcing services are offered in the eight taxi areas without taxi services.

The restrictions imposed by governments as a result of the COVID-19 virus since March 2020 have had a very significant impact on the taxi industry. In taxi areas that contain an airport, the large reduction in passenger numbers to and from airports has had a major impact on the overall demand for taxi services, especially when restrictions on interstate travel are imposed. When lockdowns were imposed in Tasmania in late 2019-20, the demand for taxi services fell to very low levels.

This accounts, at least in part, for the large number of taxi licences (around 100) that are not currently being used. It also suggests that, for some taxi businesses, taxi fares have not been sufficient to cover their variable costs. With the removal of some restrictions, the outlook for the taxi industry has been improving. However, the future remains uncertain and the extent to which the taxi industry will recover is unclear at this stage.

It is also not known whether further technological advances will result in additional competition for the taxi industry, or alternatively enable the taxi industry to compete more effectively with other passenger transport providers, especially ride-sourcing platforms.

2.2 Structure of current taxi fares

The Transport Commission has the power to set maximum taxi fares under section 66A of the *Taxi and Hire Vehicle Industries Act 2008* by way of a Taxi Fare Order.

The current Order classes the 24 taxi areas into three groups:

- a) Hobart, Launceston, Devonport, Burnie, West Tamar, Ulverstone and Perth
- b) King Island and Flinders Island; and
- c) all other taxi areas.

The taxi fares for WATs in any taxi area, when at least one passenger requires a wheelchair, are the same as for fares on King Island and Flinders Island.

The current taxi fares are set out in Table 2.1.

Table 2.1: Current taxi fares in Tasmania

	Metropolitan taxi areas (Hobart, Launceston, Devonport, Burnie, West Tamar, Ulverstone and Perth)	Other mainland Tasmania taxi areas	King Island, Flinders Island and WATs with at least one wheelchair passenger
Flag fall	\$3.90	\$3.90	\$5.30
Tariff 1 (per km)	\$2.02	\$1.99	\$2.30
Tariff 2 (per km)	\$2.42	\$2.39	\$2.76
Waiting time (per minute)	\$0.64	\$0.62	\$0.73

Tariff 1 applies between 6:00am and 8:00pm on weekdays (except public holidays).

Tariff 2 applies between 8:00pm and 6:00am on weekdays and all day on weekends and public holidays.

The Regulator understands that the difference in taxi fares between the metropolitan taxi areas and other mainland Tasmania taxi areas were introduced to reflect the additional cost imposed on taxis in the metropolitan taxi areas through the security camera requirement.

2.3 Current methodology for setting taxi fares

The Transport Commission reviews the level of taxi fares from time to time by applying a cost index model to assess whether there has been a significant change in the cost of providing taxi services that justifies a change in taxi fares.

The cost index model comprises a set of fixed cost and variable cost components as listed below which are used to estimate the changes in the annual cost of operating a taxi under a

set of assumptions, as set out below. The set of cost components have been largely unchanged since the Transport Commission first began using the cost index model in 2003.

The Transport Commission reviews this estimated annual cost by applying inflators to the cost components, using the previous estimate of the cost of that component, to derive a revised annual cost estimate.⁵ The weights for each cost component were initially set in 2003 and are revised when each estimate is made.

The Transport Commission applies a set of assumptions to estimate annual taxi costs including:

- fuel efficiency,
- annual travel distance,
- driver availability hours,
- the average number of fares per hour, and
- average fare per trip.⁶

Table 2.2: Taxi cost components and their respective weights as at February 2019

Cost categories	Cost weight (per cent)
Fixed costs	
Vehicle lease cost	7.7
Vehicle equipment	3.8
Vehicle registration	1.9
Annual licence and inspection fees	1.5
Network fees	11.6
Vehicle insurance	6.5
Workers compensation insurance	6.6
Personal accident & sickness insurance	2.2
Accreditation costs	0.6
Total fixed costs	42.4
Variable costs	
Fuel	30.2
Vehicle maintenance labour & parts	25.8
Tyres - new	1.6
Total variable costs	57.6
Total costs	100.0

Source: Department of State Growth Taxi Cost Index Model

A feature of the cost model is that driver costs, operator costs (including operator profit) and licence-related costs, such as lease costs for PTLs, are not included. The cost model also does

⁵ An inflator does not necessarily increase the cost. It may be less than 1 and reduce the cost or be equal to 1 and result in no change in cost.

⁶ This is needed to estimate driver income, which affects worker compensation costs.

not allow for changes in technology, such as dual fuel or electric vehicles. These matters are discussed in more detail in subsequent chapters.

The Transport Commission then applies the inflators in Table 2.3 below to each cost component, and sums these cost components to calculate the change in total cost compared to a base year, which is around the time taxi fares were last changed.

Table 2.3: Taxi cost component inflators used by the Transport Commission

Cost categories	Inflator
Vehicle lease cost	Hobart CPI — Motor vehicles component
Vehicle equipment	Industry quotes
Vehicle registration	Change in actual charges
Annual licence and inspection fees	<ul style="list-style-type: none"> Change in actual charges Industry quotes
Network fees	Industry quotes
Vehicle insurance	Hobart CPI — insurance component
Workers compensation insurance	Estimate based on six per cent of estimated driver income
Personal accident & sickness insurance	Hobart CPI — insurance component
Accreditation costs	Hobart CPI
Fuel	<ul style="list-style-type: none"> Based on estimated fuel consumption Price based of 6-week average using Australian Institute of Petroleum retail price data for Tasmania.
Vehicle maintenance labour & parts	Hobart CPI — Transportation
Tyres	Industry quotes

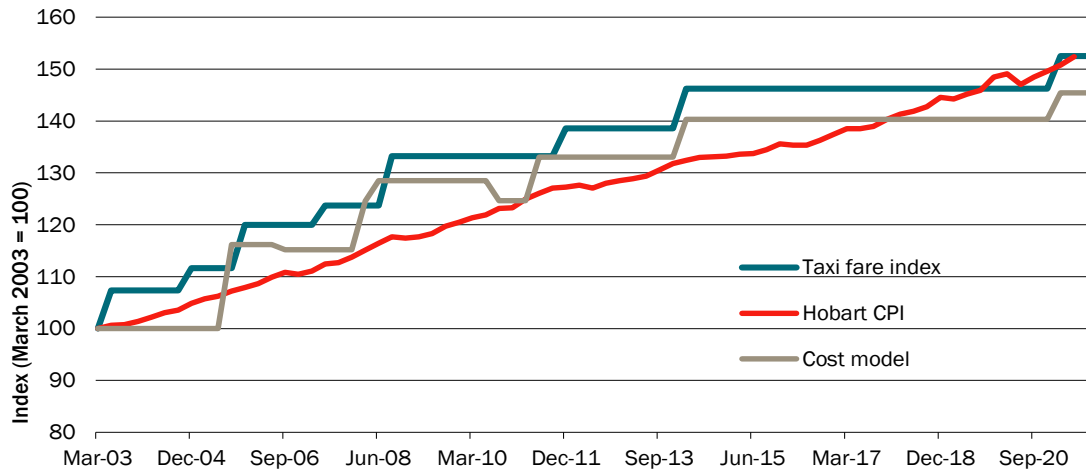
Once an update of the taxi cost model has been completed, the Transport Commission considers whether a changes in fares is justified. If so, the Commission circulates a proposal for fare changes to the taxi industry for comment and takes into account any comments before deciding whether or not to change taxi fares. To date, all fare changes have been fare increases.

2.4 Changes in taxi fares

There have been around 10 reviews by the Transport Commission over the past 20 years but these have not been conducted at regular intervals. In the 2000s, these fares were adjusted quite frequently and occurred over a period when there were large increases in some cost components, particularly fuel prices.

The most recent increase was in February 2021, following a period of just over seven years with no changes in taxi fares. In February 2021, all taxi fares increased by five per cent, which was matched by a five per cent reduction in fares for those who pay by card through a reduction in the Cabcharge fee.

Figure 2.1: Taxi fare increases since 2003 compared with changes in the Hobart CPI and taxi costs from the Transport Commission's taxi cost model



Source: Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE)

Figure 2.1 above shows the years since 2003 when taxi fares were increased. In real terms, taxi fares are currently at similar levels as in 2003, though there have been intervening periods when the growth in taxi fares was greater than CPI growth.

The Commission has generally increased taxi fares in line with changes in costs, as measured by the Commission, though there have been extended periods when the increase in fares has been above the Commission's estimates of increases in costs.

Over the past two decades there were periods when fuel prices fell significantly. Despite the large weighting applied to fuel costs, the Transport Commission did not reduce taxi fares over this period.

While the fares in the Taxi Fare Order are maximum fares only, there are a few cases where fares are set below these maximum levels. In some cases, a taxi business may not increase fares when a new Order is made. In other cases, a network company may offer a rebate to some customers, even though the maximum fare is paid to the operator by the customer.

It has also been reported that drivers will accept a passenger for a trip at an agreed fare but the taximeter is not activated and all fare revenue is retained by the drivers.

3 OBJECTIVES OF TAXI FARE REGULATION

The *Taxi and Hire Vehicle Industries Act 2008* does not set out any objectives that the Transport Commission must seek to achieve in setting maximum taxi fares. The terms of reference for this inquiry also do not include objectives, though they do contain matters the Regulator is to consider including:

- the efficient cost of providing taxi services;
- the need for greater efficiency in the supply of taxi services so as to reduce costs for the benefit of consumers and taxpayers;
- the protection of consumers from abuses of monopoly or cartel power in relation to prices and standards of service;
- the social impact of the setting of taxi fares; and
- the degree to which the structure of taxi fares, set in accordance with the results of the Inquiry, is comprehensible to passengers and operators of taxi services.

If the objectives for the pricing of taxi fares are not defined, it is not possible to assess whether any particular set of taxi fares, including the current fares, is appropriate and preferable to any other set of fares.

The CIE considers that some overarching objectives would include:

- customer protection, including ensuring that taxi fares move towards levels that reflect efficient costs;
- a viable taxi industry;
- there are sufficient taxis to meet demand in order to avoid excessive waiting times for passengers.

The Regulator suggests that the objectives of the Transport Commission in setting taxi fares can be summarised as protecting the long term interests of Tasmanian customers and promoting the efficient provision and use of taxi services.

3.1 Efficient taxi service costs

As noted above, the terms of reference require the Regulator to consider the efficient taxi supply costs and need for greater efficiency.

In its final report, the CIE notes that in other regulated industries “it is well established that pricing at a level that reflects the efficient cost of providing the services delivers the most efficient outcomes for the community (including an efficient price signal to consumers and a fair rate of return on capital for service providers)”. The CIE suggests that one component of customer protection is ensuring that taxi fares move towards efficient costs.

One key determinant in how efficiently taxi services are provided is the utilisation rate of taxis, namely the percentage of time over a period such as a week or ultimately a year that a taxi is

providing taxi services rather than not being operated, waiting for a customer or being driven to or from a passenger trip (non-fare travel). This is because there are high fixed costs in providing taxi services. In addition to the fixed costs listed in Chapter 2, such as many vehicle-related costs, insurance and network fees, the driver time over the period of a shift can also be considered a fixed cost (at least to the driver).

The greater the number of hours a taxi is providing services, the more efficiently the taxi is being operated and the lower the average cost of each trip. Costs are also lower if there is less non-fare travel as fuel and vehicle usage costs and other variable costs cannot be recovered for this travel.

In setting taxi fares to promote efficiency in taxi services, a key factor is the assumed level of vehicle utilisation. This is ultimately determined by the level of demand for taxi services at an individual taxi level. The CIE has prepared two sets of costs that are calculated by using different cost weights under:

- COVID market conditions, with low vehicle utilisation rates due to the COVID-related restrictions ; and
- post-COVID market conditions with higher vehicle utilisation rates once restrictions are removed.

Actual average costs can vary substantially between taxi areas. Vehicle utilisation rates tend to be higher in metropolitan taxi areas, leading to lower taxi costs per trip. Another issue in many rural taxi areas is the large amount of non-fare travel. It may be that taxi operators in many non-metropolitan taxi areas cannot achieve the levels of efficiency of operators in metropolitan taxi areas.

The CIE's final report identified an additional matter associated with efficient costs relating to taxi licence costs. Almost all of the costs that taxi operators incur are for the goods and services required to provide taxi services. Many operators face a significant additional cost, the purchase or lease of a taxi licence. PTLs have been purchased for up to \$150 000 for Hobart and lease costs have reached around \$250 a week. For most years since 2007, the Transport Commission has issued new OOTLs, which were sold at \$60 000 each for Hobart, \$35 000 for Launceston and \$23 000 or less in other taxi areas (including \$1 000 in some remote taxi areas).

This represents a significant investment cost for investors and operators from which they expect to make a return. These licences allow operators to participate in the taxi industry and their value reflects the restrictions in the supply of taxi licences. However, taxi services could be supplied without a licence, or if licences are free, under a different regulatory regime. This is unlike other inputs such as fuel, vehicle use and driver labour which are always necessary and therefore their costs are unavoidable. In this respect, taxi licence costs are not considered efficient costs.

A further feature of these licence-related costs is that in taxi areas where the demand for taxis is high, or when market conditions strengthen, they tend to be high. This is evident across Tasmania, for example, as taxi licence prices and PTL lease costs are highest in the metropolitan areas. However, licence prices and lease costs have fallen sharply in some areas, especially Hobart, as a result of increased competition from ride-sourcing platforms and the COVID-19 restrictions.

The CIE's final report referred to IPART's 2018 review of the NSW taxi industry, where it considered the presence of positive taxi lease values was sufficient to conclude that fares recovered more than the efficient costs of taxi services.

The CIE's final report also stated that the value of taxi licences reflects the level of returns that operators can potentially obtain and that, from this perspective, the current level of fares is too high in all taxi areas where licences have a significant value.

As noted above, the inquiry is required to consider the need for greater efficiency in the supply of taxi services so as to reduce costs for the benefit of consumers. Setting taxi fares closer to efficient costs would encourage the taxi industry to improve its level of efficiency, or productivity. It may be, for example, that a certain type of vehicle is substantially more fuel efficient. If the estimate of efficient cost includes a high level of fuel efficiency and this is reflected in taxi fares, this may encourage operators to use these vehicle types.

Equally, if the estimate of efficient costs has a small or declining allowance for licence-related costs such as PTL lease costs and this is also reflected in taxi fares, this would ultimately drive down these costs. It is recognised, as explained below, that this would have some adverse impacts on some industry participants.

Similarly, if efficient costs and taxi fares are based on a high level of vehicle utilisation, this may result in those taxi businesses with low levels of utilisation leaving the industry, which would improve overall industry efficiency. Against this, however, is that these exiting businesses would incur significant financial losses and some drivers would lose their income. Also, the reduced supply would result in longer taxi waiting times in peak periods.

3.2 Social impacts

The terms of reference also require the Regulator to consider "the social impact of the setting of taxi fares in accordance with the results of the Inquiry".

The level of taxi fares, and changes to those fares, have different impacts on different sectors of the community. Consumers of taxi services are directly affected by the level of taxi fares, though for pre-booked trips they now have close substitutes with ride-sourcing services where they are available. A sharp increase in fares would likely lead to increased demand for ride-sourcing services but would adversely affect consumers reliant on rank or hail taxi services as there are no close substitutes.

One reason that is offered for fare increases is improving driver incomes. The CIE's final report, however, suggests that fare increases are unlikely to have a significant impact on driver incomes under current market conditions. This is because there is substantial excess capacity in the industry and higher fares would encourage increased supply of taxis. According to the CIE, together with some reduced demand, the net effect would be fewer passenger trips per hour or shift and little change in driver income per shift, even though more drivers would be required. The CIE suggested that the main beneficiaries would be taxi licence holders, through higher licence values and licence lease rates.

The CIE noted, though, that as higher taxi fares encourage increased supply, this could reduce taxi waiting times in busy periods and therefore benefit those consumers who seek taxi services at those times.

Large changes in taxi fares are likely to affect taxi licence values. If taxi fares are set around the level of efficient costs, the market value of PTL leases would be very low as operators would make losses if they also had to pay high taxi lease costs. This would lead to low PTL prices, and also low OOTL prices. This would have a significant impact on the income and wealth of taxi licence holders, some of whom may be unsophisticated investors and would have purchased the licences from the Tasmanian Government on the expectation that they would be an important source of investment income, including for superannuation, and remain valuable assets.

3.3 Industry viability

A key objective of economic regulation is the long term sustainability of the industry that is regulated. The CIE suggested that industry viability appears to be a key objective of the broader regulatory framework for Tasmania's taxi industry and that setting maximum fares at a level where the industry becomes commercially unviable would be a poor outcome.

The CIE assessed that the taxi industry must be viable at current fare levels in all taxi areas where licences retain a significant value. As discussed above, the value of taxi licences is an indicator of the level of returns that are potentially available. This does not imply, however, that the current industry participants are necessarily making high profits. For example, an investor may have purchased a PTL at a high price, expecting a lease income of \$200 per week and may now be receiving only \$100 a week due to weaker market conditions. That \$100 a week is still a measure of the returns even though the current licence holder may be making a poor return and the operator may be making only a modest profit.

The CIE proposes to use the value of taxi licences as an indicator of commercial viability and that while some level of viability is necessary, if taxi licence values are observed to rise, this suggests greater returns are being made and taxi fares are too high.

In most areas of economic regulation, a particular (often very large) business may be subject to price regulation. The costs, demand and market conditions of that business would be well understood by the economic regulator. The prices (often maximum prices) that are set for that business take into account the circumstances of that particular business. Estimates of efficient costs may also use benchmark costs from similar businesses in other jurisdictions.

By contrast, the taxi industry in Tasmania comprises a large number of small firms with very different costs and business operating models. It has also been reported that there can be substantial differences in the earnings of individual drivers, as some drivers actively seek to secure high incomes while others may settle for much lower incomes. The overall industry in some taxi areas may be considered viable but there may be large differences in the profitability of individual businesses.

In taxi areas where few taxis operate, the continued provision of taxi services may be quite sensitive to the level of maximum taxi fares. In 15 of the 24 taxi areas, there are currently five or fewer taxis in operation. A small change in taxi fares, or no increase in the face of rising taxi costs, may be sufficient for some or all taxi businesses in these areas to cease operating.

As discussed above, in eight of these 15 taxi areas no taxis services are currently provided, except if they are offered by taxis in a neighbouring area, which cannot occur in some areas such as in the King Island and Flinders Island taxi areas. It may be that there is no level of taxi fares that enables businesses to be viable in some of these areas. As discussed later in this report, it may be worth examining whether some major changes to the current fares in those

areas should be considered, based on their average costs, to increase the likelihood of taxi services in these areas.

Until quite recently, the taxi industry was the monopoly or near monopoly provider of on-demand passenger transport services, with the only major source of competition from luxury hire cars in locations such as airports. Demand for taxi services, especially in the metropolitan areas was generally strong and also relatively unresponsive to taxi fare prices. Taxi operators could therefore expect that if taxi prices increase, their returns would also increase, especially if there had not been a large increase in costs.

The introduction of ride-sourcing services has substantially changed the public passenger transport market. For much of the day, the price of trips offered by ride-sourcing services such as Uber may be 30 per cent or so below the cost of a taxi fare.⁷ There has also been increased competition from community transport providers, which receive subsidies and may have volunteer drivers and are able offer trips at prices well below taxi fares.

The fares set by the Transport Commission are maximum fares only. However almost all operators set their fares at this maximum level. There may be a risk that setting taxi fares at too high a level in some taxi areas could impact on the viability of the taxi industry, especially where there is low demand for rank and hail services, due to these competitive forces. An issue that was not considered in the 2013 inquiry into taxi fare methodologies is whether the level and structure of taxi fares need to take into account the pricing policies of other public passenger transport providers to ensure that the taxi industry can compete effectively and remain viable.

3.4 Consultation

The Regulator invited submissions on the following matters with respect to the objectives of taxi fare regulation:

- What objectives should the Transport Commission seek to achieve in setting taxi prices?
- Are the current taxi fares too high, too low or about right for Tasmania's 24 taxi areas and what indicators or measures should be used to make this assessment?
- What role can taxi fares have in improving efficiency in the supply of taxi services in Tasmania?

3.5 Submission

The Department of State Growth considers that the objectives of fare regulation should be the protection of consumers, ensuring an appropriate level of service is provided to consumers and an appropriate return to an efficient operator, but not a return that underpins economic rents.

⁷ One reason for the difference in prices is that ride-sourcing businesses do not have licence-related costs.

3.6 Regulator's conclusion

The Regulator recommends that the Department of State Growth recommend to the Minister for Transport that the *Taxi and Hire Vehicle Industries Act 2008* be amended to include objectives to guide the Transport Commission in setting maximum taxi fares.

The Regulator also recommends that the Department consider whether promoting the supply of taxi services is included as an objective, given that in some parts of Tasmania, no taxi services are currently available. It is also recommended that the Department consider whether reducing waiting times for customers is also included.

4 APPROACHES FOR SETTING AND ADJUSTING TAXI FARES

This chapter discusses possible approaches for setting and adjusting taxi fares.

4.1 Full cost taxi model

Under a full cost taxi model, an estimate is made of the cost components required to provide taxi services. The cost items that the CIE identify in its proposed cost index model, discussed in section 4.2, would be an appropriate set of cost components under a full cost model, with some additional allowance for residual costs.

Labour costs can be estimated as equal to the sum of all other costs, reflecting the general practice that drivers receive one half of the fare revenue of each taxi shift, or be based on estimates of average hourly driver earnings.

Some taxi prices are similar or identical for all operators, such as fuel price and MAIB premiums. However, this is not the case for licence-related costs. An operator may own a PTL or an OOTL, for which \$150 000, \$50,000 or \$1 000 may have been paid depending on the type of licence, the taxi area and the date when it was purchased. That operator would have no ongoing licence-related costs but would expect some return on that purchase. If the taxi is a WAT, there are no licence costs (though the vehicle operating costs are higher as shown above).

If a PTL is leased, the weekly costs have been as high as around \$250 a week in Hobart. It is reported that PTL lease costs were recently around \$60 a week in Hobart, up to \$120 a week in Launceston but very much lower in some other taxi areas where PTLs are leased. The estimate of licence-related costs therefore does not reflect the actual cost for many operators.

The costs to operators of bookings and dispatching taxis also varies significantly. As discussed in Chapter 2, in the metropolitan and some other larger areas, taxi network companies operate, which may charge around \$600 to \$700 a month, while in the more rural taxi areas bookings and dispatches may be managed by the operator using a mobile or landline phone.

As discussed earlier, estimating taxi costs per trip requires assumptions relating to vehicle utilisation, namely the total travel distance of the taxi and number and type of passenger trips per shift, and ultimately per year. This produces an estimate of the average cost of providing a representative taxi trip. The total fare for that trip can then be calculated so that the annual fare revenue equals the estimated annual cost. The fare can then be structured as a flag fall rate, tariff and the waiting time allowance accordingly. This can be adjusted to allow for weekday daytime rates and weekend/night rates as under the current tariffs in Tasmania.⁸

⁸ The method needs to ensure consistency between the assumed number and distance of trips and the estimates of some variable costs such as fuel and vehicle costs.

Again, however, the actual utilisation rate for taxis, even within a taxi area, varies significantly such that for many businesses the actual average cost per trip may be significantly higher or lower than the estimated cost.

The Transport Commission has the power under the *Taxi and Hire Vehicle Industries Act 2008* to obtain information from taxi operators and network companies on taxi operations, including the number of taxi trips provided and fare revenue of taxi operators. However, the Regulator understands that the Transport Commission does not have recent information in these areas. This information would need to be collected before a full taxi cost model is developed.

This annual cost estimate can be prepared for each taxi area or for groups of taxi areas. Some costs, such as fuel costs, licence-related costs and potentially labour costs, may vary across taxi areas and the assumptions regarding the number and type of passenger trips may also be different.

For metropolitan taxi areas, if the annual cost estimates and assumed vehicle utilisation rates reflect current levels, the fares that are calculated are likely to be similar to current fares. For some non-metropolitan taxi areas, however, the average cost estimates and the fares that would be set could be significantly different from current fares.

As discussed in Chapter 3, if the intention is set prices towards more efficient costs, a higher rate of vehicle utilisation could be assumed, and/or lower licence-related costs, which would result in lower taxi fares but reduce the supply of taxis. Alternatively, if an objective is to increase taxi supply and reduce waiting times for customers, a lower rate of vehicle utilisation would be assumed, which would lead to higher fares.

Once the initial costs are estimated, this provides a base year against which changes in costs in future years can be measured. A review of taxi costs involves estimating the percentage change in the cost, for each component, and applying cost weights to each component to calculate the overall change in costs. The review would also factor in changes in fuel efficiency, other productivity changes and also vehicle utilisation rates. The CIE does suggest, however, that if there a major technological changes, it may be necessary to set a new base year.

An alternative to adopting a cost index approach is to re-estimate the full cost for each review, which includes reviewing the estimates of fuel efficiency, productivity levels and also vehicle utilisation rates.

4.2 Taxi cost index models

An alternative approach is to develop a cost index model just to estimate changes in taxi costs. This is to assess whether taxi fares should be adjusted, without using this model to set an initial level of fares.

An example is provided in the CIE's final report, which is similar to its draft estimates that was included in the Regulator's Consultation Paper, with some updates reflecting cost estimates for fuel for Hobart and Launceston and servicing for Hobart. The CIE's final estimate for the total cost under the COVID-restriction market conditions is reproduced in Table 4.1 below.

Table 4.1: CIE final estimates of the total costs of operating a taxi under current (COVID restrictions) market conditions in Hobart and Launceston⁹

Cost category	Hobart	Hobart	Launceston	Launceston
	Standard	WAT	Standard	WAT
	\$/year	\$/year	\$/year	\$/year
Vehicle including stamp duty	3 386	11 123	4 294	14 104
Registration, motor tax, and MAIB	1 545	1 545	1 546	1 546
Network fees	7 332	7 332	8 320	8 320
Operator labour	6 552	6 552	6 552	6 552
Servicing, maintenance and repairs	5 000	5 000	6 760	6 760
Workers compensation	1 908	2 539	2 429	3 095
Inspections	360	360	360	360
Fuel	3 122	7 860	6 628	10 851
Licence lease	2 600	0	3 600	0
Driver labour	31 805	42 310	40 489	51 588
Total	63 610	84 620	80 978	103 176

The base year estimate produces a set of cost weights for the different cost components. The final CIE report includes the weights for the costs in Table 4.1, reproduced in Table 4.2 below.

⁹ Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE), page 69.

Table 4.2: CIE final cost weights for the costs of operating a taxi under current (COVID restrictions) market conditions in Hobart and Launceston¹⁰

Cost categories	Hobart	Hobart	Launceston	Launceston
	Standard	WAT	Standard	WAT
	Per cent	Per cent	Per cent	Per cent
Vehicle including stamp duty	5.3	13.1	5.3	13.7
Registration, motor tax, and MAIB insurance	2.4	1.8	1.9	1.5
Network fees	11.5	8.7	10.3	8.1
Operator labour	10.3	7.7	8.1	6.4
Servicing, maintenance and repairs	7.9	5.9	8.3	6.6
Workers compensation	3.0	3.0	3.0	3.0
Inspections	0.6	0.4	0.4	0.3
Fuel	4.9	9.3	8.2	10.5
Licence lease	4.1	0.0	4.4	0.0
Driver labour	50.0	50.0	50.0	50.0
Total costs	100.0	100.0	100.0	100.0

The CIE also prepared cost estimates and cost weight for Hobart and Launceston under post-COVID market conditions, reproduced in Tables 4.3 and 4.4 below.

¹⁰ Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE), page 70.

Table 4.3: CIE final estimates the total cost for operating a taxi under post-COVID market conditions¹¹

Cost category	Hobart	Hobart	Launceston	Launceston
	Standard	WAT	Standard	WAT
	\$/year	\$/year	\$/year	\$/year
Vehicle including stamp duty	3 386	11 123	4 294	14 104
Registration, motor tax, and MAIB	1 545	1 545	1 546	1 546
Network fees	7 332	7 332	8 320	8 320
Operator labour	6 552	6 552	6 552	6 552
Servicing, maintenance and repairs	5 000	5 000	6 760	6 760
Workers compensation	2 435	2 739	3 024	3 442
Inspections	360	360	360	360
Fuel	4 371	11 004	9 942	16 277
Licence lease	9 600	0	9 600	0
Driver labour	40 580	45 655	50 397	57 360
Total	81 161	91 309	100 795	114 720

These revised estimates reflect more favourable market conditions, with stronger demand for taxi services resulting in higher fuel costs due to greater vehicle utilisation rates, increased drive earnings and higher licence lease costs.

¹¹ Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE), page 71.

Table 4.4: CIE final cost weights for the costs of operating a taxi under current (COVID restrictions) market conditions in Hobart and Launceston¹²

Cost categories	Hobart	Hobart	Launceston	Launceston
	Standard	WAT	Standard	WAT
	Per cent	Per cent	Per cent	Per cent
Vehicle including stamp duty	4.2	12.2	4.3	12.3
Registration, motor tax, and MAIB	1.9	1.7	1.5	1.3
Network fees	9.0	8.0	8.3	7.3
Operator labour	8.1	7.2	6.5	5.7
Servicing, maintenance and repairs	6.2	5.5	6.7	5.9
Workers compensation	3.0	3.0	3.0	3.0
Inspections	0.4	0.4	0.4	0.3
Fuel	5.4	12.1	9.9	14.2
Licence lease	11.8	0.0	9.5	0.0
Driver labour	50.0	50.0	50.0	50.0
Total costs	100.0	100.0	100.0	100.0

The CIE's final report also proposed a set of cost that are the composite of the estimated standard cost for Hobart and Launceston.

The CIE's proposed composite cost and the corresponding cost weights are 75 per cent Hobart and 25 per cent Launceston, with the ratio based on the total number of all current taxi licences in Hobart and in Launceston.

¹² Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE), page 71-72.

Table 4.5: CIE recommended final taxi costs for Hobart, Launceston and a composite of Hobart and Launceston

Cost categories	Hobart	Launceston	Composite
	\$/year	\$/year	\$/year
Vehicle including stamp duty	3 386	4 294	3 613
Registration, motor tax, and MAIB	1 545	1 546	1 545
Network fees	7 332	8 320	7 579
Operator labour	6 552	6 552	6 552
Servicing, maintenance and repairs	5 000	6 760	5 440
Workers compensation	2 435	3 024	2 582
Inspections	360	360	360
Fuel	4 371	9 942	5 764
Licence lease	9 600	9 600	9 600
Driver labour	40 580	50 397	43 034
Total costs	81 161	100 795	86 070

The corresponding cost weights for the taxi cost estimated in Table 4.5 is presented below in Table 4.6.

Table 4.6: CIE recommended final cost weights for Hobart, Launceston and a composite of Hobart and Launceston¹³

Cost categories	Hobart	Launceston	Composite
	Per cent	Per cent	Per cent
Vehicle including stamp duty	4.2	4.3	4.2
Registration, motor tax, and MAIB	1.9	1.5	1.8
Network fees	9.0	8.3	8.8
Operator labour	8.1	6.5	7.7
Servicing, maintenance and repairs	6.2	6.7	6.3
Workers compensation	3.0	3.0	3.0
Inspections	0.4	0.4	0.4
Fuel	5.4	9.9	6.5
Licence lease	11.8	9.5	11.3
Driver labour	50.0	50.0	50.0
Total costs	100.0	100.0	100.0

¹³ Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE), page 48.

4.2.1 Indexing taxi fares to cost-specific inflators

Cost adjustments can be made using publicly available data, such as data from the Australian Bureau of Statistics (ABS) for the different cost categories, such as relevant components of the Hobart CPI. For some cost categories, however, such as network fees, tyres and vehicle-related costs, seeking quotes and other information from businesses within and outside the taxi industry may provide more accurate information.

The CIE recommended a set of inflators as set out in Table 4.7 below.

Table 4.7: Inflators proposed by the CIE for taxi cost categories¹⁴

Cost category	Inflators to be applied
Vehicle including stamp duty	CPI Motor Vehicles
Registration, motor tax, and MAIB	Use change in actual prices, set by the government
Network fees	CPI Communications
Operator labour	Wage Price Index
Servicing, maintenance and repairs	CPI Maintenance and Repair of motor vehicles
Workers compensation	Wage Price Index
Inspections	CPI All Groups
Fuel	CPI Automotive Fuel
Licence lease	Discussed below
Driver labour	Wage Price Index

Under the taxi cost index model approach, it is not strictly necessary to include all taxi costs as the model is not used to set the initial level of fares. The Transport Commission has adopted this approach. As discussed in Chapter 2, the Transport Commission's cost index model does not include some important costs such driver and operator costs and taxi licence-related costs.

The taxi licence lease costs and driver costs have been excluded by the Commission because of the concern of creating circularity in the fare setting process. The issue is that a fare increase, assuming little or no change in taxi demand and utilisation rates, would lead to an increase in driver revenue and lease costs, which would result in higher estimated taxi costs and potentially to further increases in taxi fares. The same argument (in the opposite direction) would apply to a fare decrease.

Whilst the concerns identified above are valid, they can be addressed by applying pre-specified indices for these components which would break the circularity.

As some very significant costs are omitted in the Transport Commission's cost index model, the remaining costs have higher weights than in a full cost model. For example, the Transport

¹⁴ Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE), page 48.

Commission's model sets the weight of the fuel component at 30.2 per cent, as shown in Table 2.2 in Chapter 2. By contrast, the CIE sets the weight of the fuel component at 6.5 per cent in its proposed composite cost weights (Table 4.6). A further example is that workers compensation costs are estimated at 6.6 per cent of taxi costs under the Commission's cost index model but only 3.0 per cent under the CIE draft cost model.

A significant fuel price increase, such as Tasmania has experienced in recent months, would lead to a much larger estimated increase in taxi costs (and therefore potentially a larger increase in taxi fares) under the Transport Commission's model than under the cost model proposed by the CIE.

It is likely that if fares were adjusted by the Commission to reflect this fuel price increase, this would lead initially to increased returns to taxi operators, as their total costs would not have increased by the same percentage as the fare increase. As the CIE points out, it is likely the main beneficiaries would be taxi licence holders, including through higher taxi lease rates. The CIE considers that the fuel price increases between 2000 and 2013 tended to drive taxi fare increases over this period. This may have contributed to the large increases in PTL values and lease rates over this period.

The issue of higher weights under the Transport Commission's cost model can be addressed by the Commission scaling down any calculated percentage annual cost change using its estimate of the percentage of all cost costs that are included in its model (or reducing each weight by the same percentage).

As an example, the Commission may assess that by excluding driver, operator and licence-related costs, its model only accounts for 45 per cent of all taxi costs. If a review of annual taxi costs under the Commission's model results in an estimated 12 per cent cost increase, the final estimate could be a 5.4 per cent cost increase (12 per cent multiplied by 0.45). Alternatively, each cost weight could be multiplied by 0.45. The Regulator has been advised that Transport Commission does not apply such an adjustment when assessing the results of its cost index model and considering changes in taxi fares.

An advantage of the Transport Commission's approach is that a price increase using its cost model would allow the operator to recover the additional fuel costs. It would also, however, result in increased driver income per fare, as the driver receives a fixed share of the fare revenue. If a scaling factor is applied as discussed above, the operator would only recover around one half of the increase in fuel costs, with the other half becoming extra income for the driver. This problem arises due to the practice of the driver receiving a fixed share of fare revenue.

The weights listed in Tables 4.2, 4.4 and 4.6 are the initial weights derived from the cost estimates for relevant components, except for labour costs and workers compensation costs which are pre-set at 50 per cent and three per cent and remain. As individual costs changes, their weightings would be updated

The CIE advises that there are some limitations to using a cost index model as a basis for adjusting taxi fares, including:

- the application of a cost index does not consider whether the existing level of taxi fares is appropriate;

- cost indices reflect input cost changes and not necessarily the actual cost changes (which could arise from productivity improvements, including technological changes such as the introduction of dual fuel, and more recently electric vehicles);
- a cost based approach may no longer be appropriate when there is close competition, such as from ride-sourcing platforms.

The benefits from continuing to use a cost index model are that the taxi industry is already familiar with the cost index model and that cost and other data can be available from the taxi industry to estimate taxi costs and changes in those costs.

Also, the taxi fares set by the Transport Commission are maximum fares and taxi operators can offer lower fares to attract more customers, including to compete with ride-sourcing platforms.

However, the CIE points out that there are some practical constraints on individual taxi operators setting lower taxi fares. For example, if they belong to a network, the fare must be the same as those charged by other network members.

4.2.2 Licence-related costs

The CIE recommended that licence-related costs, such as lease costs, are included in the taxi cost model. The CIE also stated that the treatment of these costs depends on the objectives of the taxi fare regulation. The CIE proposed two approaches for treating licence values in its final report, based on different objectives:

- maintaining the status quo, which would include maintaining taxi licence values around the current level such that no inflator needs to be applied to the licence lease component of the index; or
- setting licence value targets, such as reducing licence values over time, or even setting a target licence value of zero at some future time period. This would require deflating the licence lease component of the index.

As noted above, taxi licence-related costs are not considered efficient costs. The terms of reference require the Regulator to take into account the 'efficient cost of providing taxi services', which cannot be achieved if taxi licence-related costs have a high, or even a constant, share in a cost index. This can be addressed by applying a pre-set deflator to taxi licence-related costs such as reducing these costs by five or 10 per cent per year.

4.2.3 Indexing taxi fares to movements in the Consumer Price Index

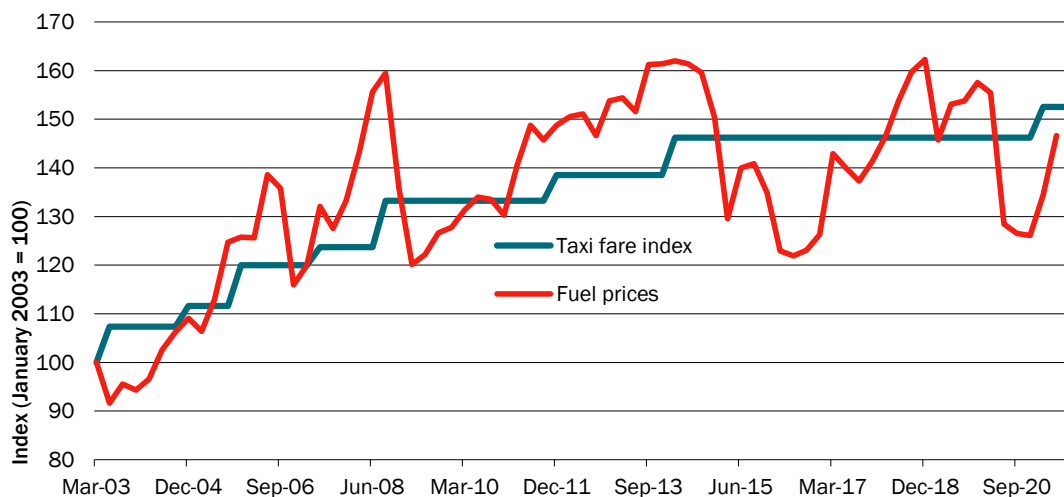
An alternative approach is to index taxi fares to changes in consumer prices. As Table 2.1 in Chapter 2 shows, maximum taxi fares set by the Transport Commission have broadly followed movements in the Hobart CPI since 2013. By linking taxi fares to Hobart CPI changes, the real price to customers would remain constant. It would also be possible to index taxi fares under a CPI-X approach which would reflect, and may encourage, productivity gains in Tasmania's taxi industry.

This indexation could be annual, such as the indexation of Tasmania Government fees and of penalties for offences in Tasmania's legislation.

A drawback of this approach is that the taxi fare changes resulting from CPI changes may not reflect the actual cost changes faced by taxi operators. Some costs, such as fuel, can be quite volatile. If taxi fares changes do not reflect cost changes, there would be changes in the profitability of operating a taxi and this would impact on drivers, operators, and potentially on the supply of taxi services and on taxi waiting times, unless there is no spare capacity and the returns to taxi operators increase.

However, there have been periods where taxi fares have not reflected changes in taxi costs under the Commission's current approach. As one example, PTL lease costs have changed markedly in Hobart over the past decade while taxi fares have been little changed. Also, the change in fuel costs has not been reflected in fare changes, as the CIE has shown in Chart 4.7 in its final report, reproduced in Figure 4.1 below.

Figure 4.1: Fuel price changes compared to the fare changes in Tasmania



Source: Tasmanian Taxi Fare Methodology Inquiry - Final Report (CIE)

It is not evident, therefore, that by indexing fares to CPI changes there would be any greater divergence between taxi fares and taxi costs than under the Transport Commission's current approach.

4.3 Balance of supply and demand model

The CIE has presented an alternative approach under which taxi fares should be set to seek to balance supply and demand. This reflects how prices are set in competitive markets and this approach, according to the CIE, has been used in other jurisdictions including New South Wales

Under this approach, the Transport Commission would examine key features of the taxi industry, across Tasmania's taxi areas, to assess whether there is excess demand for taxi services or excess supply of taxi services.

The CIE has proposed some relevant indicators that can be used for the balance of supply and demand approach:

- taxi utilisation - where taxis are driving around for much of the time without any passengers, or there are large queues at airports or on ranks, this indicates the supply of taxi services exceeds demand. Under the balance of supply and demand model, taxi fares should be reduced;
- waiting time for customers - when passengers cannot obtain a taxi with minimal waiting time, this indicates that supply is plentiful and taxi fares should be reduced. If, however, waiting times are frequently very long, or taxis are not available, taxi fares should be increased;
- licence values - high and/or rising taxi licence values would indicate that fares are set at a level where revenue is over-recovering costs for supplying the taxi services. Under the balance of supply and demand model, taxi fares would be reduced.

As noted above, the Transport Commission does not currently have data on indicators, though it can require operators to provide these data under the *Taxi and Hire Vehicle Industries Act 2008*. It is unclear, however, whether the data would necessarily be accurate for some smaller operators that are not members of a network.

A further problem identified by the CIE is that if supply is restricted due to regulation or other barriers (such as not being able to join a network) it would not be appropriate to increase fares on the basis that demand exceeds supply. Against this however, is the fact that if there is a supply shortage for this reason, it is usually evident in high taxi licence prices and lease rates.

Based on the data available, the CIE has recommended that taxi licence values be used as an indicator in the balance of supply and demand model. This approach could lead to higher taxi fares in those taxi areas where no taxi services are currently provided as the demand for taxi services, even if it is small, clearly exceeds the zero supply.

The 'supply and demand' model need not be an alternative to a cost-based model. The Transport Commission could estimate changes in taxi costs and, before determining whether or not to adjust fares in a taxi area (or by how much), it could examine the supply/demand balance and make a decision based on both factors. Equally, if the Transport Commission adopted a CPI-based index, it could identify some taxi areas where the increase may not be applied, based on excess supply.

4.4 The fare review process

The CIE recommends that taxi fares should be reviewed regularly without necessarily adjusting taxi fares each time, depending on the outcome of the review. A regular fare review process has the following advantages over the current, ad hoc approach:

- a regular timetable for fare reviews with decisions fully explained to industry stakeholders improves transparency and predictability for industry participants;
- regular fare reviews would avoid the influence of industry lobbying on the timing of fare reviews and avoid the risk of asymmetrical fare changes (i.e. a fare review and fare increase when fuel prices or other costs increase, but no fare decline when costs fall);
- if fares are reviewed regularly, it is less likely that large fare changes will be needed:
 - some industry stakeholders indicated a preference for more frequent incremental fare changes;

- it is generally easier for both passengers and industry to adjust to smaller incremental fare adjustments over time, rather than large sudden changes; and
- a formal transparent explanation of the reasons to keep fares unchanged over a period of time may avoid the expectation of a later large “catch up” increase.

A major fare review would consider how factors such as productivity increases or changes in technology would be reflected in maximum fares.

The CIE has provided, as an example, the model of Victoria’s Essential Services Commission, reproduced in Table 4.8 and recommended that the review be conducted by the Regulator.

Table 4.8: The Essential Services Commission’s review process¹⁵

Best practice review process outline
1. Notification of intent — notify stakeholders and public through newsletters and forums, website and other communication channels
2. Engage on the process and invite early input — engage with the sector and other key stakeholders to contribute to thinking about the design of engagement: <ul style="list-style-type: none"> ○ request input to identify relevant issues (could be via online engagement or quick surveys on social media) ○ engage experts to provide specialist advice and potentially engage directly with regulated businesses and key stakeholder groups or peak bodies
3. Release issues paper for comment — presents understanding of the key issues and perhaps offers preliminary options. May also: <ul style="list-style-type: none"> ○ call for submissions ○ hold stakeholder forums and public meetings (where appropriate) ○ consider online engagement promoted via social media.
4. Release draft decision for comment — presents current thinking based on initial stakeholder input, research and analysis. Also at this stage: <ul style="list-style-type: none"> ○ call for further submissions ○ hold stakeholder/public meetings as required ○ test proposals using appropriate, targeted communication channels.
5. Release final decision — responds to stakeholder input and includes expert analysis. Following final decision: <ul style="list-style-type: none"> ○ affected sectors and peak bodies/agencies involved are notified ○ decision published on website and contributors notified (where possible)
6. Advertise final decision — final decision advertised in relevant publications.

A very similar process is used by the Regulator in price determinations, as well as by economic regulators in other jurisdictions.

¹⁵ Essential Services Commission, 2018, Stakeholder Engagement Framework: Charter of Consultation and Regulatory Practice, pp. 12-13.

The CIE considers that the frequency of fare reviews needs to balance the costs of conducting fare reviews for both the government and industry stakeholders against the benefits of fares keeping up with cost changes and avoiding the need for large fare changes.

During the consultation process, the CIE received feedback from industry stakeholders expressing a preference for a review every one to two years. On this basis, the CIE recommended in its draft report that a review be conducted every one to two years. The Department of State Growth's submission indicated a preference for a review every five years, citing the administrative burden associated with more frequent reviews and the risk of consultation fatigue within the Tasmanian taxi industry.

In response to the submission, the CIE proposed in its final report that the body responsible for conducting the fare review:

- conduct a major fare review every four to six years on a clearly specified timetables, which involves broadly following the Essential Service Commission's process and detailed consideration of the existing fare level, clear objectives of fare regulation and public consultation; and
- conduct a minor fare review at least every two years, which would involve indexing the existing taxi fares by applied the current indexation approach and notifying the industry and the public of the fare change.

4.5 Consultation

The Regulator invited submissions on the following matters with respect to the approaches for setting taxi fares:

- Do you support a taxi fare methodology based on estimates of taxi costs? If so:
 - should the cost model seek to include all costs or exclude some costs such as labour and taxi licence lease costs, as in the Transport Commission's cost model?
 - should a cost model be used to inform the Transport Commission on fare changes only or also on the appropriate level of fares?
- Do you support, as an alternative, the annual indexation of taxi fares using changes to the Hobart Consumer Price Index?
- Do you have any comments on the CIE draft cost estimates and cost weights as presented in this Chapter?
- Are there other approaches to setting or adjusting taxi fares that have not been discussed in this Chapter that the Regulator should consider?
- Do you agree that adjustments in taxi fares should take into account whether supply is assessed as being less than, or more than, demand in a taxi area?
- If so, do you consider that taxi fare adjustments should be based solely on the demand/supply model or by also using a cost index model, a CPI-based approach or some other approach?
- Do you support 'ad hoc' or regular reviews of taxi fares?
- If you support regular reviews, should they be annual, biennial, or over longer periods?
- Which regulatory body do you consider should conduct these reviews?
- Do you agree with the CIE's proposal that a formal review process should be implemented for reviews of taxi fares in Tasmania?

4.6 Submission

The Department of State Growth supports adopting a revised taxi cost index model for setting taxi fare, in order to maintain the status quo and opposes utilising a more complex approach such as the balance of supply and demand model, due to the data required under this model.

The Department of State Growth also supports the addition of driver labour costs in the CIE's proposed taxi cost model. The Department expressed a preference for the taxi cost model to continue to exclude taxi licence lease costs on the basis of creating circularity as discussed in section 4.2. And in response to the CIE's proposed taxi cost model that included the licence lease costs at a fixed weighting, the Department of State Growth proposes to deflate these costs over time.

The Department of State Growth is in favour of adopting independent, publicly available estimates as inflators for the indexation of taxi fares, which would reduce administrative complexity, volatility of price changes and increases transparency for the industry and customers. The Commission considers these benefits outweigh the risk that the independent estimates do not capture the different changes in each cost item.

As discussed in section 4.4, the Department of State Growth supports regular reviews of taxi fares but does not support reviews every two years as recommended by the CIE in its draft report. The Department expressed a preference for a review every five years.

The Department considers that a formal review every two years would put significant strain on administrative resources and increase the risk of consultation fatigue with the taxi industry.

4.7 Regulator's conclusion

For most businesses that are subject to price regulation, the costs a business faces are not directly determined by the prices charged by the regulated business. That is, the costs are set by external conditions. In the case of the taxi industry in the major taxi areas, however, licence-related costs are linked to the taxi fare. This is because these costs tend to vary according to the difference between taxi fares and other operating costs. For example, if, with a given level of taxi fares, the revenue of operators is greater than operators' costs, licence prices tend to increase, together with taxi lease rates, to reflect the returns that are available. The result is that the average cost for many operators tends to reflect the level of taxi fares.

In addition, as the CIE pointed out, the number of taxis operating may also vary according to the profitability of the industry if there is spare capacity in the industry, such as at the current time. If returns are increasing, this will encourage more taxis being on the road. Taxis would, on average, have fewer trips per hour and the average cost of providing taxi services, on a per trip basis, increases. This also results in the average cost for many operators tending to reflect the level of taxi fares.

Under these circumstances, there is no single 'cost reflective' price for taxi services. The level of taxi fares will determine, instead, the returns to licence holders and the quantity of taxi services that are offered in taxi areas. Over the longer term it may also affect the rate at which new taxi licences are obtained, namely Owner-Operator Taxi Licences and Wheelchair Accessible Taxis. This in turn affects customer waiting times and potentially the range of taxi services that are offered.

For this reason, the Regulator considers that it is not necessary for the Transport Commission to apply a taxi cost model to review the level of taxi fares in the major taxi areas to assess whether the level of fares is appropriate.

The Regulator does recommend that the Transport Commission apply the composite taxi cost model, based on the data in Tables 4.5 and 4.6, above to assess whether changes in maximum taxi fares are justified. Given the recent large increase in fuel prices, the Commission may consider whether a revised cost model is necessary.

As driver income is typically a share of fare box revenue, broader changes in labour costs, such as those measured by the Wage Price Index, do not affect labour costs of taxi operators. For this reason, it is recommended that labour costs are fixed at one half of all other costs in the taxi cost model and, in dollar terms, adjust in line with changes in all other costs.

Taxi operators are responsible for workers compensation costs even though they do not formally employ drivers or pay them wages. As workers compensation premiums are around six per cent of wages and salaries, a fixed three per cent cost weighting to workers compensation is recommended.

The Regulator recommends that the Transport Commission use the inflators as recommended by the CIE, as set out in Table 4.7, except for driver labour costs and workers compensation where no inflator is recommended as the dollar value in both cases will vary with changes in all other costs.

The Regulator recommends that a deflator is applied to licence-related costs to reduce their importance over time, such as a five per cent or 10 per cent reduction in licence-related costs annually. The Regulator considers that the Transport Commission is best placed to determine what the deflator is appropriate.

The Regulator considers that a supply and demand approach, while attractive conceptually, would be costly to implement and would result in a range of taxi fares across Tasmania. It would also be difficult to justify, especially if there are very different taxi fares in neighbouring taxi areas. The Regulator therefore does not support a supply and demand approach to set or change taxi fares.

The Regulator also recommends that a major fare review is conducted every four years following the approach that is similar to the Essential Services Commission's model set out in Table 4.8. If a body other than the Transport Commission were to conduct the review, this may require amendments to the *Taxi and Hire Vehicle Industries Act 2008*. The review would take into account changes in fuel efficiency, other observed productivity changes and also vehicle utilisation rates. The Commission may also choose to include a separate productivity factor to encourage increased efficiency in the taxi industry. It is expected that maximum taxi fares would change following a major review.

It is also recommended that the taxi cost model is updated every two years after each major review by using the inflators and deflators as discussed above and the Transport Commission would apply taxi fare changes based on the estimated taxi cost changes.

5 TAXI FARE STRUCTURE

This chapter discusses the structure of taxi fares and the grouping of taxi areas to allow each group's taxi areas to have different maximum fares from the taxi areas in the other groups.

The current fare structure splits fares between the following items:

- Flag fall - a fixed rate when the passenger first enters the taxi;
- Distance rate - is a per kilometre charge for the distance travelled in a taxi. As shown in Table 2.1, there are two per kilometre charges for different time periods within a week (one for between 6.00 am and 8.00 pm on weekdays, and a second higher one for weekends and all evenings/nights from 8.00 pm to 6.00 am); and
- Waiting time - the rate per hour that applies when the taxi is stationary (including when the passenger may have temporarily left the taxi) or when the taxi has travelled for a specified time below a specified average speed (in which case the distance rate does not apply).

Tasmania's 24 taxi areas are currently categorised into three fare groups:

- King Island, Flinders Island and WATs with at least one wheelchair passenger;
- Hobart, Launceston, Devonport, Burnie, West Tamar, Ulverstone and Perth; and
- the remaining 15 taxi areas.

5.1 Matters to consider in determining the taxi fare structure

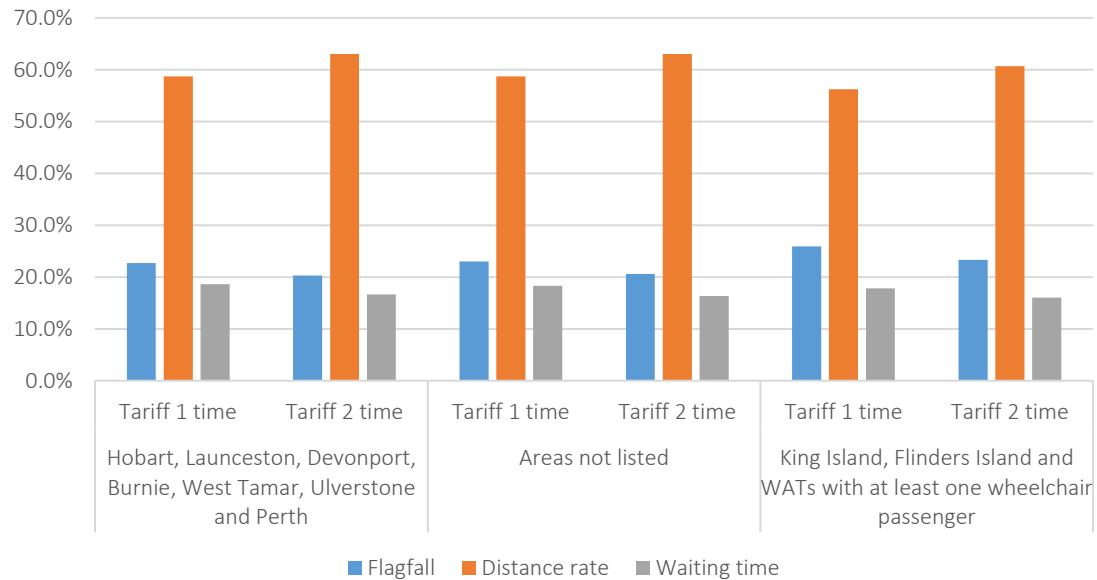
Fare structure refers to the balance between the different fare components listed above. By changing the relativities between the fixed charge (flag fall) and the variable charges (distance rate and waiting time), the fare for a specified trip, and for different types of trips, would vary from the current fares.

Increasing the flag fall relative to distance rate and waiting time would increase the price for shorter trips over longer trips, hence incentivising drivers to be located where more shorter trips may be demanded, such as in urban centres and from taxi ranks. Drivers would have less incentive to be located where longer trips are expected, such as at airports. However, this would reduce the demand for shorter trips due to the higher price and may result in increased demand for competitors to taxis, such as ride-sourcing and bus transport.

Similar issues arise with the waiting time rate. If this rate is very low, this provides a disincentive for drivers to be available at times when traffic is congested, as they may receive a relatively small income for a trip that may take a substantial amount of time. It would also discourage drivers from accepting a passenger, or a group, who are very slow entering a taxi or if the passenger may want the taxi to wait during the trip.

If the waiting time rate is very high, however, (and the flag fall and per kilometre rates are much lower), this is likely to discourage drivers from offering shorter trips outside congestion times as their income per trip would be lower.

Figure 5.1: estimated proportion of flag fall, distance rate and waiting time for a 5 km trip with 5 minutes' waiting time



The distance rate typically accounts for the largest share of a taxi fare and, except for short trips, is likely to account for more than on half of the fare. Figure 5.1 above shows the proportions of the three fare components for a five kilometre trip for taxi areas under the three fare groups.

A further issue is the difference between the per kilometre fare under Tariff 1 (between 6.00 am and 8.00 pm on weekdays) and Tariff 2 (all other times). Again, the setting of the times for two (or more) tariffs and the difference between the tariffs will provide incentives for drivers to work certain shifts, and be located in certain places to seek higher incomes. The setting of the times and rates for these different tariffs does provide an opportunity for the Transport Commission to encourage the supply of taxis at peak demand periods.

The task of determining an optimal or fully efficient fare structure would require large amounts of information and detailed analysis. The CIE suggests that an efficient fare structure may depend on demand and the same fare structure may not be efficient at all times.

In assessing whether the current fare structure should remain, one test is whether it has created any undesirable outcomes. These could include a shortage of taxis in locations and at times when demand is strong because many taxis are waiting elsewhere or are not being operated, or there is an excessive number of taxis at particular locations such as airports.

A second issue is whether the fare structure puts the taxi industry at a competitive disadvantage against its competitors, especially ride-sourcing platforms that may have a very different fare structure and have flexibility in their pricing as it is not regulated.

A third issue is whether the fare structure favours taxi businesses in some taxi areas, such as metropolitan taxi areas where rank and hail accounts for a large share of all taxi work, while the same structure makes it difficult for taxi businesses in other taxi areas to make an acceptable return.

5.2 Taxi fares in different taxi areas

As discussed earlier in this report, Tasmania's taxi areas are classed into three groups for taxi fares as shown in Table 5.1.¹⁶ The key features of the current fares, are:

- for King Island and Flinders Island and for WATs the flag fall is \$1.40 higher than for the other taxi areas and the per distance tariffs and waiting time rates are around 15 per cent higher;
- the per distance tariffs are marginally higher in the metropolitan taxi areas than in the other mainland Tasmania taxi areas (around 1.5 per cent higher for Tariff 1 and 1.2 per cent for Tariff 2);
- the waiting time rate is 3.2 per cent higher in the metropolitan taxi areas than in the other mainland Tasmania taxi areas.

Table 5.1: Current taxi fares in Tasmania

	Metropolitan taxi areas (Hobart, Launceston, Devonport, Burnie, West Tamar, Ulverstone and Perth)	Other mainland Tasmania taxi areas	King Island, Flinders Island and WATs with at least one wheelchair passenger
Flag fall	\$3.90	\$3.90	\$5.30
Tariff 1 (per km)	\$2.02	\$1.99	\$2.30
Tariff 2 (per km)	\$2.42	\$2.39	\$2.76
Waiting time (per minute)	\$0.64	\$0.62	\$0.73

Tariff 1 applies between 6:00am and 8:00pm on weekdays (except public holidays).

Tariff 2 applies between 8:00pm and 6:00am on weekdays and all day on weekends and public holidays.

Together, the metropolitan taxi areas account for around 90 per cent of all taxi licences issued and account for 87 per cent of Tasmania's population. Apart from West Tamar taxi area (which partly overlaps with the Launceston taxi area) for each of these taxi areas at least 11 taxi licences have been issued. Taxi services are well established in all these taxi areas and taxi licence values are much higher than in the other taxi areas.

By contrast, there are currently no taxi services offered on King Island or Flinders Island. For the 15 taxi areas classed as 'other Tasmanian taxi areas', there are between zero to nine taxi licences issued. In six taxi areas, no taxi services are currently offered from within these areas, including two taxi areas where no taxi licences have been issued. It appears that for some taxi areas, taxi services ceased well before the COVID pandemic.

A threshold issue is whether the current arrangements, with the three taxi groups and the current relativities in fares between these groups, are appropriate. If a key objective is to seek to ensure that taxi services are available across Tasmania, the current fare structure has not

¹⁶ This is the same table as Table 2.1.

achieved this, though it may be that no level of fares could achieve this. If, however, a priority is placed on setting taxi fares that are largely similar for consumers across the State, this outcome has been achieved.

If a full cost taxi model is applied to taxi operators in the more rural taxi areas, with much lower vehicle utilisation rates, the results could be very different from the average taxi costs for taxi operators in metropolitan taxi areas. If this were then used to set taxi fares, or to adjust them over time, this could lead to significantly higher fares in non-metropolitan areas than under the current arrangements. This would adversely affect customers in those areas where taxi services currently offered and may be difficult to justify.

A further issue is that taxi drivers in one taxi area are permitted to take a customer to or from a neighbouring taxi area. If, for example, taxi fares in the Huon Valley or New Norfolk were significantly higher than those in Hobart, customers intending to travel between these taxi areas would select a Hobart-based taxi business as the fare would be much cheaper. Higher fares in Huon Valley or New Norfolk could therefore reduce the viability of taxi businesses in these taxi areas.

5.3 Consultation

The Regulated invited submissions on the following matters with respect to the taxi fare structure and the grouping of taxi areas:

- Is the current balance between flag fall, distance rate and waiting time appropriate for Tasmania's metropolitan and non-metropolitan taxi areas?
- Has the current fare structure led to any undesirable or perverse outcomes in terms of balancing taxi supply with demand, including at peak demand periods?
- Does the current fare structure put taxis at a competitive disadvantage against ride-sourcing platforms? If so, how could this be addressed?
- Does the current fare structure favour taxi operators in some taxi areas and disadvantage taxi operators in other taxi areas?
- Do you consider that the current taxi fare arrangements, with the three taxi groups and the current relativities in fares between these groups, is appropriate?
- If not, what alternative fare arrangements would you prefer?
- Should the taxi cost model be applied to taxis in the different taxi areas of Tasmania if the intention is to allow fares in all areas to move towards the costs of providing services in those areas?

5.4 Submission

In its submission, the Department of State Growth did not explicitly express any preference in regards to the structure of taxi fare (balance between flag fall, distance rate and waiting time) or the grouping of taxi areas.

The Department suggested a single state-wide cost model should be retained to avoid the additional administrative complexity and costs of data collection associated with multiple regional cost indices.

5.5 Regulator's conclusion

The Regulator has not been provided with any evidence to suggest that the current balance between the flag fall rates, the distance rates and waiting time rates is inappropriate or requires change. The Regulator recommends that the current balance is retained.

In the eight taxi areas where no taxis are operating, the local population is at a disadvantage in not having taxi services available. There is also no taxi-related income for potential operators or drivers.

It is unclear, however, whether higher fares or a different fare structure would result in taxi services becoming viable in these areas. It is noted, for example, that taxi fares are substantially higher on King Island and Flinders Island, especially the flag fall rate, yet no taxi services are currently offered. It is also noted that no ride sourcing services are offered on these Islands and also in all other taxi areas where no taxi services are provided.

The Regulator notes the preference of the Department of State Growth for a single state-wide taxi cost model, with uniform price changes applied to the three different fare groups and no step changes in fare levels in some taxi areas. The Regulator agrees that in areas where taxi services are offered, there is little benefit in considering different arrangements that could result in higher fare levels or fare changes over time. It would be arbitrary to determine which taxi areas would be selected and very difficult to justify higher fares if services are currently being provided.

However, the Regulator considers that there is merit in investigating whether the problem of no taxi services in several taxi areas could be overcome. It is not apparent whether or not the level of taxi fares has contributed to a market failure, or whether market conditions are such that no fare levels could enable an operator to provide services as a commercially viable business.

As it is unclear whether the current level of fares has contributed to this outcome, the Regulator therefore recommends that the Transport Commission investigate, at a high level, whether different levels of taxi fares in mainland Tasmania and on King Island and Flinders Island could encourage the supply of taxi services where no taxis currently operate.

The Regulator further recommends that, depending on the outcome of this investigation, the Transport Commission may consider whether there is merit in developing a new taxi cost model to estimate taxi costs in these areas. Such a model would not have the same costs or weights as the composite model as recommended in this report. For example, licence-related costs are much lower, or zero, and annual fuel costs are likely to be lower. The cost estimates for some components may require assumptions if no taxis are currently operating. Obtaining an estimate of taxi costs in these areas would inform a decision on whether a different level of taxi fares could enable taxi services to be provided on a commercially viable basis.

APPENDIX I: TERMS OF REFERENCE

Economic Regulator Act 2009

Taxi Fare Methodology Inquiry

Terms of Reference - 2021

The Tasmanian Economic Regulator (the Regulator) is to conduct an inquiry under Part 5 of the *Economic Regulator Act 2009* and report to the Transport Commission on appropriate methodologies in respect of setting and calculating annual increases in taxi fares in Tasmania.

Background

Under Section 66A of the *Taxi and Hire Vehicle Industries Act 2008*, the Transport Commission may make an order that sets out the maximum fare, or a method for calculating the maximum fare, that may be charged for taxi services to a person including the amount of any tariff that may be charged and any other amounts that may be charged.

In accordance with Section 44 of the Economic Regulator Act, the Minister for Finance, on the request of the Transport Commission may direct the Regulator to inquire into and report to the Transport Commission on appropriate methodologies in respect of the setting of these maximum taxi fares. The Minister for Infrastructure and Transport has approved this request.

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.

These changes include amendments to the *Passenger Transport Services Act 2011*, the *Taxi and Hire Vehicle Industries Act 2008*, and the addition of Section 45A to the Economic Regulator Act.

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.

This will be the second taxi fare methodology inquiry conducted by the Regulator following an inquiry commenced in 2012.

Current fare setting arrangements

A formal process does not currently exist for reviewing maximum taxi fares in Tasmania. The Department of State Growth (State Growth) has an historic taxi cost model, which was developed by State Growth's predecessor, the Department of Infrastructure, Energy and

Resources, in conjunction with the taxi industry, which was used to inform recommendations on maximum fare increases. State Growth periodically updated this model, generally at the request of the industry, to evaluate whether changes in operating costs could potentially justify a fare increase. State Growth also considered changes in the CPI to inform this work.

Once an update of the taxi cost model was completed, it was State Growth's practice to circulate a proposal for a fare increase to the industry for comment. The information provided to industry typically offered a comparison between the change in the cost model and the change in the CPI since the last fare increase. Once industry comments were received, State Growth would review its proposal and makes a recommendation to the Minister for Infrastructure and Transport in respect of the maximum fare increase.

Scope of Inquiry

As set out in Section 45A of the Economic Regulator Act, the Regulator, in conducting the inquiry, is to consider the following matters:

1. the efficient cost of providing taxi services;
2. the need for greater efficiency in the supply of taxi services so as to reduce costs for the benefit of consumers and taxpayers;
3. the protection of consumers from abuses of monopoly or cartel power in relation to prices and standards of service;
4. the social impact of the setting of taxi fares in accordance with the results of the Inquiry;
5. the effect, of the setting of taxi fares in accordance with the results of the Inquiry, on the use of taxis and other modes of passenger transport;
6. standards of quality, reliability and safety in relation to taxis, whether those standards are set by legislation, agreement or otherwise;
7. the degree to which the structure of taxi fares, set in accordance with the results of the Inquiry, is comprehensible to passengers and operators of taxi services;
8. ensuring taxi fares are not discriminatory between classes of consumers and classes of operators of taxi services;
9. any other matter set out in this direction in relation to the scope of the inquiry, and;
10. any other matter that the Regulator considers relevant.

In undertaking the inquiry, the Regulator is to consult with key stakeholders, industry and other persons it considers appropriate.

The Regulator, in undertaking the inquiry, is to consider the following fare-related issues:

- methods for setting maximum fares;
- methods of calculating maximum annual increases in fares;
- the relative weighting of fare-related components; and
- any other matters relating to the matters listed above fares which are raised during the course of the inquiry.

The Regulator, in undertaking the inquiry, is also to consider the Tasmanian Government's policy commitments relating to taxi fares which will potentially impact on industry cost structures. These were reflected either directly in the On-Demand Passenger Transport Services Industry (Miscellaneous Amendments) Act or associated commitments. These commitments are listed in the Appendix to these terms of reference.

The Regulator's Final Report is to include recommendations on:

- the period over which the methodology is to apply; and
- the circumstances under which, and the process whereby, the methodology may be reviewed within that period.

Inquiry methodology

In accordance with Section 45 of the Economic Regulator Act, the Regulator may conduct the inquiry in such manner as it considers appropriate.

Other reviews

With the proclamation of sections of the On-Demand Passenger Transport Services Industry (Miscellaneous Amendments) Act, the Regulator is due to produce its first Reserve Price Determination in respect of Owner-Operated Taxi Licences on or before 1 December 2021.

Following discussions between the Department of State Growth and the Office of the Tasmanian Economic Regulator, it has been decided that there are benefits in conducting the Reserve Price Determination and the Taxi Fare Methodology Inquiry at the same time. Taxi licence values and taxi fares are interrelated to a degree, as taxi licence values are influenced by the level of taxi fares. Conducting the Reserve Price Determination investigation and the inquiry concurrently is also likely to make stakeholder consultation more coherent (as stakeholders would be likely to raise the issue of fares in the Reserve Price Determination investigation as well as raising the issue of the cost of licences in the inquiry) and may deliver savings to the Government.

Date of Completion

The Tasmanian Economic Regulator is to provide a Final Report to the Transport Commission, the Minister for Finance and the Minister for Infrastructure and Transport by 28 February 2022.

Liability for the Costs of this Inquiry

In accordance with Section 44(4) of the Economic Regulator Act, the Transport Commission is liable to pay the costs of this Inquiry.

Appendix

The following is a summary of government policy commitments relating to taxi fares which will potentially impact on industry cost structures. These were reflected either directly in the On-Demand Passenger Transport Services Industry Act or in associated commitments. The Tasmanian Economic Regulator is to consider these commitments in the course of undertaking the Inquiry.

General:

- the ability for taxis to undertake multiple hires (that is passengers who are not associated share a journey in the same general direction) is to be introduced;
- the regulated fare structure for wheelchair accessible taxis is to be made consistent with standard fares (to address existing potential fare discrimination issues);
- the way fares are charged is to be changed so that the meter is activated when the passenger presents for boarding (to take into account loading time for WATs, passenger luggage etc);
- a review is to be undertaken to ensure that all efficient costs are transparently identified and factored into the regulated tariff, and;
- the annual taxi licence fee will be removed, but a new limited accreditation fee will be introduced.

Operators and Booking Service Providers:

- booking service providers are now to be regulated as operators to account for taxi networks/dispatch services;
- an accreditation of operators requiring them to meet certain standards and have systems in place to ensure legislative compliance is to be introduced;
- operators are to be responsible for relevant driver training and competence;
- there is not to be any compulsory affiliation of taxi operators to radio rooms/dispatch networks, and;
- annual fees are to be applied fairly across the industry (including booking service providers).

Vehicles:

- there are not to be any aesthetic or comfort based standards introduced;

- the requirement that Wheelchair Accessible Taxis be brand new when initially authorised to perform a public passenger vehicle service in particular taxi areas is to be removed;
- there is to be an annual inspection for vehicles under 10 years of age and six-monthly inspections for vehicles over 10 years. Existing inspection arrangements for new vehicles are to remain in place;
- vehicles newly entering the market (date stamped within seven years) are to have a 5-star Australasian New Car Assessment Program (ANCAP) or equivalent rating – exceptions can be made by the Transport Commission, and;
- there is a requirement for Wheelchair Accessible Taxis to meet minimum safety standards and the *Disability Standards for Accessible Public Transport 2002* (as opposed to an ANCAP ratings for these vehicles).

Drivers:

- there will be an ongoing evolution of driver authorisation and renewal processes which reflect the activity and risk profile of the service being provided;
- there will be a phased-in and risk-based approach to medical declarations based on evidence. There will be compulsory annual medicals for drivers over 65;
- there is to be an annual training self-declaration process for all drivers which covers legislative obligations, requirements of disability and anti-discrimination legislation and driver behaviours;
- there are to be no mandatory training requirements for an Ancillary Certificate. This involves removing compulsory driver training from the driver authorisation process. Under this model, the operator would be responsible for ensuring that their driver is appropriately trained to operate the vehicles they are using and the service they are providing. Where a taxi operator has Wheelchair Accessible Taxis, all of its drivers must be trained in how to meet the needs of a wheelchair-reliant passenger and to operate the vehicle specific systems, and;
- driver identification, including ancillary certificate number, must be available to passengers, either displayed in the vehicle or made electronically available to the passenger.

Compliance and Enforcement:

- complaints that are not criminal in nature will continue to be directed to taxi operators/booking service providers in the first instance. If consumers remain dissatisfied, they can refer to Transport Commission or Registrar of Motor Vehicles;

- a chain of accountability model will be introduced. Under this model, all parties who have control or influence over the point-to-point transport sector share responsibility for compliance and have a primary duty of care to deliver safe services;
- industry will be expected to manage how to meet its obligations. The Department of State Growth will continue to require systems audits of operators to ensure compliance;
- a reportable incident scheme for operators and drivers will be established, and;
- options to deal with non-compliance will be introduced, including: warning, improvement notices, infringement notices, probation, suspension, cancellation, require additional audits or variation of conditions of accreditation, and a requirement to provide the Transport Commission with evidence and information.

APPENDIX 2: TASMANIA'S TAXI AREAS

Table A.2 below lists Tasmania's taxi areas and the number of taxi licences in each area as at early September 2021.

Table A.2: Tasmanian taxi licences for each taxi area (current and lapsed taxi licences), as at 9 September 2021.¹⁷

	Owner-Operator Taxi Licences		Perpetual Taxi Licences		Wheelchair-Accessible Taxi Licences	
	Current	Lapsed	Current	Lapsed	Current	Lapsed
Hobart	89	0	228	0	41	0
Launceston	3	0	101	0	14	1
Burnie	0	0	21	1	0	0
Devonport	6	0	23	0	11	0
Ulverstone	2	0	7	0	2	0
George Town	0	0	5	0	0	0
Perth	5	0	8	0	0	0
West Tamar	0	0	2	0	0	0
Meander Valley	0	0	2	0	0	0
Circular Head	0	0	5	0	0	0
Break O'Day	0	0	3	0	0	0
New Norfolk	0	0	9	0	0	0
Huon Valley	3	0	5	0	0	1
Glamorgan/Spring Bay North	0	0	0	2	0	0
Kentish	0	0	0	0	0	0
Penguin	0	0	2	0	0	0
Tasman	1	0	2	1	0	0
Dorset	0	0	3	0	0	0
Glamorgan/Spring Bay South	0	0	0	3	0	0
Bruny Island	0	0	0	2	0	0
Central Highlands	0	0	0	0	0	0
Flinders Island	0	1	0	1	0	0
King Island	0	0	1	0	0	0
West Coast	0	0	2	7	0	0
Total	109	1	428	17	68	2

¹⁷ A taxi licence had lapsed if the licence owner had not paid the annual administration fee, in which case the taxi to which the licence applies cannot operate. No fee is now required and if the owner applies for the licence to be active, the Transport Commission will allow the taxi to operate again as soon as possible.