



TAXI FARE MONITORING ANNUAL REPORT 2014-15

Regional and Country taxi zones

November 2015



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MESSAGE FROM THE CHAIRPERSON

As part of the recent reforms to the taxi industry, taxi fares in regional and country Victoria have been deregulated. Taxi service providers (operators and networks or co-operatives) are permitted to set their own maximum fares, which must be notified to the Taxi Services Commission.

The Essential Services Commission has a new role in monitoring taxi fares in the Victorian regional and country taxi zones. Our role is to monitor prices, costs and return on assets, and to identify potential misuse of market power.

Monitoring recently deregulated taxi fares is a complex task, requiring a significant amount of information and data. To minimise the regulatory burden on the industry, we have adopted an approach which makes use of publicly available information and data. Specifically, we have developed a taxi cost index to estimate the changes in the costs of providing country and regional taxi services. We then compare changes in notified maximum fares against changes in the taxi cost index.

For the first year of deregulation, 2014-15, we observe large increases in taxi fares by some service providers. These increases significantly exceed our estimated change in taxi costs. The majority of increases are between **10 to 20 percent**. Conversely, about 70 per cent of operators left their tariffs unchanged in 2014-15.

It is too early to tell whether observed fare increases suggest a potential emergence of market power. We will continue to monitor and analyse fare increases in future years.

Dr Ron Ben-David
Chairperson

GLOSSARY

Australian Bureau of Statistics (ABS)	The statistical agency of the Government of Australia.
Consumer price index (CPI)	An ABS measure of changes in the prices of a basket of goods and services representative of consumption expenditure in Australian metropolitan areas.
Cost inflation measure	A measure used to estimate the change in a specific cost item over time (e.g. the consumer price index and wage price index).
Cost weight	The share of the total cost of providing taxi services that a specific cost item represents.
Country zone	The taxi zone comprised of all areas not included in the metropolitan, urban and regional taxi zones.
Fare	The price of a taxi trip, i.e. the amount paid by the passenger(s).
Fare notification scheme	The scheme in which operators and networks in the regional and country taxi zones are able to set their own maximum fares, and are required to notify the industry regulator and passengers of their fares.

Fare structure

Refers to the system by which fare components apply to calculate the fare of a trip. Individual fare components include the flagfall, distance rate, waiting time rate and booking fee.

High occupancy vehicle (HOV)

A class of taxi which can carry up to 11 passengers. Higher taxi fares usually apply to HOVs if carrying at least five passengers or if the hirer requests a HOV. The higher rate does not apply when the hirer is a wheelchair passenger.

Licence

The right to provide a taxi service in Victoria is held in the issue of a licence (one vehicle per licence). Each licence on issue specifies the conditions under which the taxi service is to be provided.

Licence holder

A person who acquires the right to provide a taxi service, as specified in the issue of a licence. They may assign their licence to an operator who operates a taxi on their behalf.

Operator

A person who purchases, maintains and operates a taxi. They may also be a licence owner or may lease their licence from a licence owner or government.

Regional zone

The taxi zone comprised of service areas of population sizes around 10,000 to 20,000, such as the Latrobe Valley, Shepparton, Swan Hill, Echuca, Horsham, Colac, Ocean Grove and Warragul.

Return on assets	A measure of profitability calculated as revenue divided by total assets.
Taxi cost index (TCI)	Consists of cost items incurred in providing taxi services and is used to measure changes in the costs of providing taxi services over time.
Taxi zone	<p>Taxi licences are attached to certain geographic areas (zones) in Victoria, limiting the area within which they can operate. There are four taxi zones in Victoria – metropolitan, urban, regional and country.</p> <p>A taxi cannot accept rank or hail work outside its zone, but can take pre-booked trips from other zones (although there are some limits on pre-booked trips which can be undertaken – these limits vary depending on whether the licence is a metropolitan, urban, regional or country licence).</p>
Taxi Services Commission (TSC)	The industry regulator responsible for the taxi and hire car industry.
Wage price index (WPI)	An ABS measure of changes over time in wages and salaries for employee jobs.
Wheelchair accessible taxi (WAT)	Taxis with WAT licences are designed to transport people in wheelchairs. WATs may also operate as high occupancy vehicles (HOVs) that can carry up to 11 passengers when not carrying people in wheelchairs.

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SUMMARY

THE TAXI FARE MONITORING REGIME

Under the reforms to the taxi industry, fares in the regional and country taxi zones are deregulated. We are required to publish an annual monitoring report on notified taxi fares, which will include:

- monitoring and reporting on prices, costs and return on assets, and
- identifying potential misuse of market power.

This is our first report on regional and country taxi fares. We have assessed changes in taxi fares against changes in the costs of operating a taxi.

Box 1 describes our methodology in more detail.

BOX 1 OUR METHODOLOGY

Our methodology is to compare changes in service providers' notified maximum fares against the estimated changes in the costs of operating taxi services in country and regional Victoria. By comparing these changes over time, we can identify cases of potential emergence of market power for further investigation.

Costs – we estimate the changes in the costs of operating a taxi using a composite *taxi cost index* (TCI). To calculate the TCI, we developed *taxi cost profiles* from a survey of regional and country operators.

Fares – we measure changes to service providers' fare structures from multiple aspects to allow us to compare fare levels and fare changes across service providers and over time. For example, we estimate the average change in fares for service providers who notified, as well as calculating changes in individual fare components.

Return on assets – for the time being, we will not report on return on assets, as it would impose significant reporting requirements on service providers. As we continue to undertake our monitoring role, we will consider whether other measures are appropriate.

FARE OBSERVATIONS

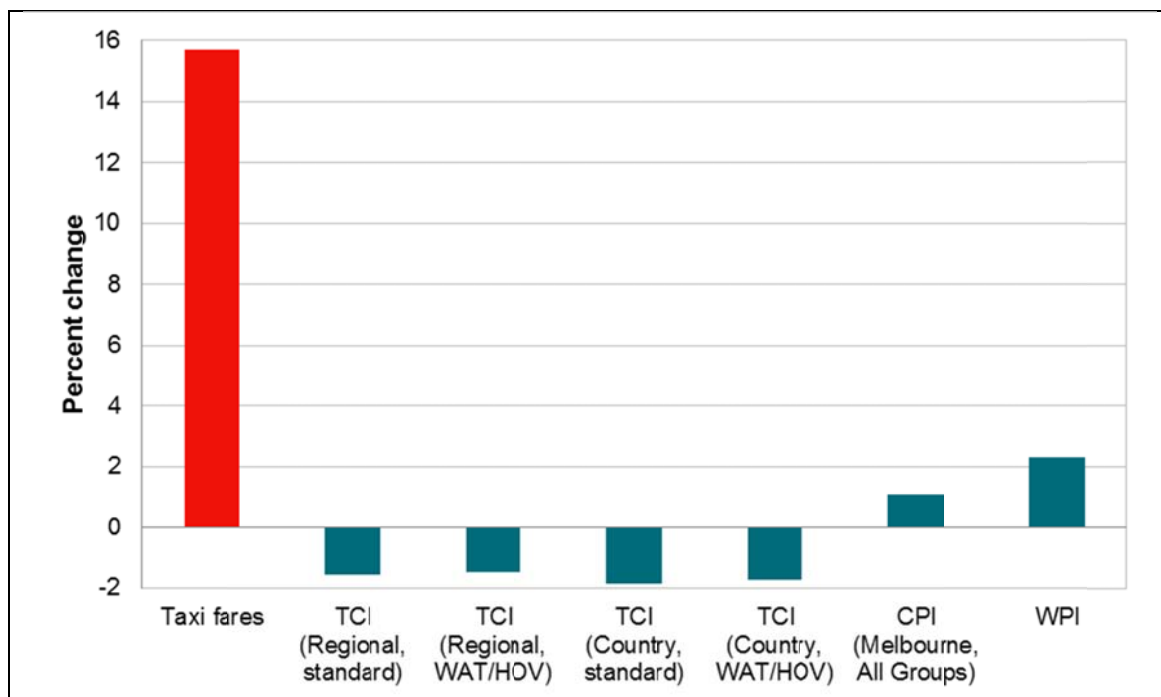
Seventeen service providers¹ notified new fare structures. These fares apply to 176 out of the 484 taxis in the regional and country zones.

Of those service providers who notified fares, the average fare increase of 15.7 per cent exceeded the change in the taxi cost index (TCI) as well as broader

¹ Service provider is defined to include independent taxi operators, networks and co-operatives. We refer to service providers throughout the report by their main town of operation rather than by the operator's name. For example, Colac refers to the service provider operating out of the Colac area.

measures of inflation including the consumer price index (CPI) and wage price index (WPI) (figure 1).

FIGURE 1 AVERAGE FARE INCREASE
Percent change, 2014-15



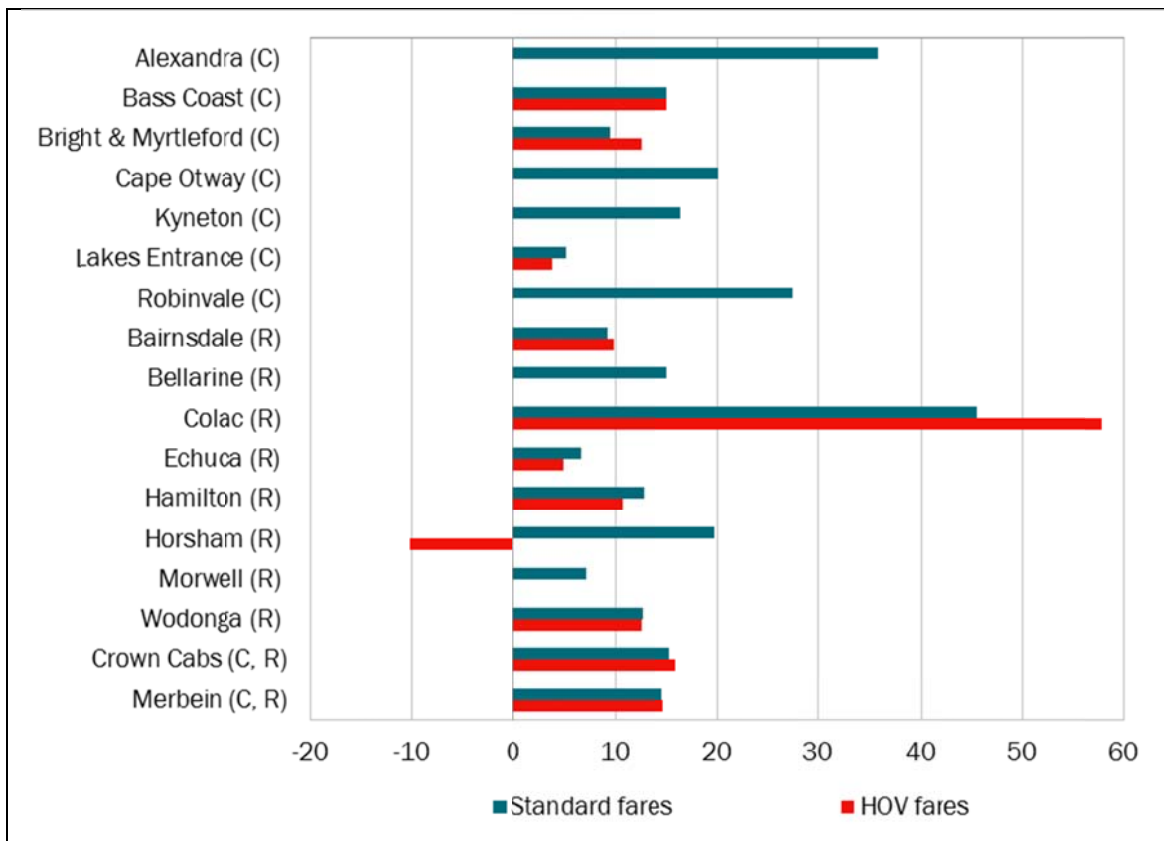
Data source: Commission analysis and ABS data.

The majority of service providers who notified fare increases, increased their fares between 10 and 20 per cent (figure 2). Four service providers notified fare increases of greater than 20 per cent: Colac (45.5 per cent²), Alexandra (35.9 per cent³), Robinvale (27.3 per cent) and Cape Otway (20.1 per cent).

² Colac also introduced a special rate for “Whole of Community Discount Shopping Days”, with a heavily discounted flagfall and slightly higher distance rate. This special rate is not taken into account in estimating the weighted average fare increase as it is unclear how often it will apply during any given year. The effective fare increase is likely to be lower than our estimate weighted average fare increase of 45 per cent.

³ Alexandra introduced flat fares for all trips within the township of Alexandra (\$10 during the day and \$15 during the night). These flat fares are not taken into account in estimating the weighted average fare increase as we do not have data on the proportion of trips for which the fares would apply. The effective fare increase could be higher or lower than our estimated weighted average increase of 35 per cent depending on the distance of flat fares trips.

FIGURE 2 WEIGHTED AVERAGE FARE INCREASE BY SERVICE PROVIDER
Percent change, 2014-15



Note: C denotes that the service provider operates in the country taxi zone; R denotes that the service provider operates in the regional taxi zone.

Data source: Taxi Services Commission and Commission analysis.

Service providers tended to increase the flagfall by more relative to other fare components, affecting shorter trips more than longer trips. They also tended to increase fares more during the evening (6pm to 10pm) and night (10pm to 6am) compared to daytime fares.

Notable changes to maximum fares include:

- Alexandra introduced a flat fare of \$10 during the day and \$15 during the night for trips within the township of Alexandra.

- Colac replaced the late night and holiday surcharges with a new \$5 fee that applies all weekend and during late night and holidays.
- Lakes Entrance kept all fares at the previously regulated level, but extended the period for the late night surcharge to apply from 6pm to 6am (it previously applied between 12am and 6am).
- Crown Cabs (operating in various locations) introduced a fuel levy of \$0.30 per kilometre (effectively increasing the distance rate).
- By removing the booking fee and only slightly increasing the other components of its day fare, Morwell's estimated fares for benchmark day trips⁴ actually decreased in comparison to the previously regulated fares. This was offset by significant increases in night fares.

OUR FINDINGS

Service providers notifying maximum fares in 2014-15 have notified large fare increases compared to the change in the TCI and other inflation measures. In some cases, fare increases exceeded all of our inflation measures (TCI, CPI and WPI) by a large percentage. It is too early to tell whether observed fare increases suggest a potential emergence of market power.

POTENTIAL EXPLANATIONS FOR LARGE FARE INCREASES

There are a number of potential explanations for the large fare increases:

- **Fare correction:** service providers who notified large fare increases may be adjusting their fares in response to industry reforms and the most recent fare increase in May 2014.
- **Periodic increase:** service providers who notified large increases may have favoured an increase in fares that now allows them to hold fares constant for a number of years, or

⁴ We have used available trip data to select a series of benchmark trips taken by passengers in the regional and country zones. These benchmark day fares represent short and long trips taken at midday on a weekday.

- ***Transient market power:*** market entry and competition may take some time to develop in response to large fare increases, and in the interim, incumbent service providers may benefit from transient market power.

Whether any of these potential explanations are correct will become more evident in future monitoring reports.

MONITORING OF FUTURE FARE INCREASES

In future years, we will measure service providers' cumulative and annualised fare increases since deregulation. This is important in analysing the longer term trend in fares and how fare levels measure against trends in costs.

We will also review market entry and the state of competition in regional and country submarkets. We would expect to see market entry and increased competition in response to unreasonably large fare increases (that is, fare increases well in excess of costs).

1 OUR MONITORING APPROACH

This chapter provides an overview of the fare notification scheme in the regional and country taxi zones and our fare monitoring role.

1.1 THE FARE NOTIFICATION SCHEME

Under the Victorian Government's reforms of the taxi industry, taxi service providers in regional and country taxi zones are able to set their own taxi fares. The *Transport (Compliance and Miscellaneous) Act 1983* (the Act) sets out a notification, publication and monitoring regime that applies to taxi fares in these zones.

Service providers are defined to include independent taxi operators, taxi networks and taxi co-operatives. Service providers that choose to participate in the fare notification scheme are required to notify the Taxi Services Commission (TSC) of their maximum fares. The TSC is required to publish maximum fares within 5 business days of receiving notification. Service providers are also required to ensure that passengers are notified of the maximum fares through notices that are fixed on the outside and on the inside of the taxi.

The notified fares are the *maximum* fares that can be charged to passengers – service providers are able to charge passengers fares lower than their notified fares. If a service provider wishes to increase its maximum fares, it is required to submit a new notification to the TSC.

Service providers that choose not to participate in the fare notification scheme are required to continue charging no more than the maximum fares determined by the Minister for Roads on 19 May 2014¹.

1.1.1 OUR MONITORING ROLE

Under the fare notification scheme, we have a role in:

- monitoring and reporting on prices, costs and return on assets, and
- identifying potential misuse of market power.

We will publish an annual fare monitoring report on these matters and any other observations as part of our monitoring role.

The TSC provides us with all fare notification data on a regular basis for the purpose of our fare monitoring role.

1.2 HOW WE WILL MONITOR THE INDUSTRY

Our approach is to compare changes in service providers' notified maximum fares against the estimated changes in the costs of providing taxi services. Comparing how service providers have changed their maximum fares over time in comparison to changes in costs will help us to identify whether service providers have 'market power' (that is, the ability to raise and maintain price above the level that would prevail under competition).

COSTS

To estimate the changes in the costs of providing taxi services, we use a **taxi cost index (TCI)**. This TCI measures the overall change across the key cost items related to providing taxi services in the regional and country taxi zones.

¹ Prior to deregulation of regional and country taxi fares, the Minister implemented the fares by amending licence conditions from 19 May 2014.

We have chosen to use a cost index approach as it is easy to understand and it does not subject service providers to excessive reporting requirements. Our cost index approach includes all the major costs of operating a taxi and reflects the changes in each of these costs more appropriately than any existing measures of inflation (e.g. the Australian Bureau of Statistics' consumer price index). That is, our index approach better reflects changes in the specific costs of operating a taxi compared to other measures of inflation.

To estimate the changes in the TCI, we developed **taxi cost profiles** based on results from a survey of regional and country taxi operators undertaken in May 2015. We estimated separate cost profiles for standard taxis and for wheelchair accessible taxis (WATs) and high occupancy vehicles (HOVs), within both the regional taxi zone and the country taxi zone. These cost profiles were used to derive cost weights, which were multiplied by appropriate inflation measures (relevant to each specific cost item in the cost profile) to calculate the change in the TCI.

The change in the TCI is our measure of the change in the costs of providing taxi services in the regional and country taxi zones. It is a representative measure of overall movement in costs.

FARES

Given taxi fare structures can take many forms, it is not simple to analyse and compare fare structures directly. To allow us to compare fare levels and fare changes across service providers and over time, we have developed a methodology to measure changes to service providers' fare structures in three ways:

- estimating a weighted average change using a trip profile based on available meter data for the regional and country taxi zones
- estimating fares for benchmark trips, and
- calculating changes in individual fare components.

As this is our first annual monitoring report, it focuses only on the change in fares over the reporting period. Future reports will also measure the cumulative and annualised changes over time and since deregulation.

MONITORING RETURN ON ASSETS

Under section 162ED of the Act, we are required to monitor return on assets (ROA), a measure of profitability. ROA is calculated as net revenue divided by total assets. Total assets are the sum of tangible assets and intangible assets: tangible assets are physical, while intangible assets are non-physical and difficult to measure.

In the taxi industry, a significant share of total assets is comprised of intangible assets (e.g. licence plate, networks²). Therefore, it is difficult to calculate and interpret ROA for the taxi industry and it would not be the most appropriate measure for our role in monitoring the industry and identifying potential emergence of market power. In addition, reporting on ROA would require service providers to be subject to onerous reporting requirements.

In future reports, we will consider the appropriateness of alternative measures of profitability for our analysis.

1.3 STRUCTURE OF THE REPORT

The remainder of this report is structured as follows:

- Chapter 2 sets out how we will monitor costs, and the development of a taxi cost profile and taxi cost index (TCI) for the regional and country taxi industry.
- Chapter 3 sets out how we will monitor prices through changes to service providers' fare structures, including estimating weighted average changes, estimating fares for benchmark trips and calculating changes in individual fare components. We present our analysis of the fare data for 2014-15.
- Chapter 4 discusses our observations and findings from our monitoring of taxi fares and costs in 2014-15.

² A taxi network is a body that provides network services to taxi operators i.e. access to centralised booking and dispatch and networked security alarms. A network itself is largely intangible (i.e. non-physical).

- Appendix A provides a list of service providers and whether they notified fares in 2014-15. For service providers who did notify fares, we provide a list of areas in which they operate.
- Appendix B provides a copy of the operator survey for regional and country taxi service providers.
- Appendix C discusses the cost items used to develop the taxi cost profile and the selected inflation measures for each cost item.
- Appendix D provides a series of fare comparisons for each service provider who notified fares in 2014-15.

2 TAXI COSTS

This chapter explains how we monitor changes in the costs of providing taxi services in the regional and country taxi zones. It sets out how we have constructed a taxi cost index (TCI) to estimate the changes in taxi costs, and how the change in the TCI will be calculated each year.

We have adopted a cost index approach to estimate changes in taxi industry costs over time. Under the approach, we:

1. estimate **cost profiles** for the regional and country taxi zones, i.e. estimate the key cost items (via a survey) of providing taxi services for standard taxis, and for wheelchair accessible taxis (WATs) and high occupancy vehicles (HOVs)
2. use the cost profiles to derive the **cost weights** for each cost item that makes up the cost profile (i.e. the share of each cost item as a proportion of the total cost profile), and
3. multiply each **cost weight** by an appropriate **cost inflation measure**. The cost inflation measures estimate the change in specific cost items, while the cost weights estimate the impact of those individual changes on total taxi costs. The total change in costs across all cost items represents the **taxi cost index** (TCI).

The estimated change in our TCI is what we use to measure the change in taxi costs over time.

2.1 CONSTRUCTING THE TAXI COST PROFILES

The first step in estimating the change in taxi costs is developing appropriate cost profiles. The cost profiles represent an estimate of the typical costs involved in supplying taxi services in the regional and country taxi zones.

2.1.1 OPERATOR SURVEY

We commissioned the Centre for International Economics (CIE) to develop the taxi cost profiles through an operator survey. The survey was issued to taxi operators licensed in the regional and country taxi zones on 20 May 2015. The survey identified key cost items of operating a taxi. The survey is attached at appendix B.

Table 2.1 identifies and explains each operational cost item associated with providing taxi services.

TABLE 2.1 TAXI COST ITEMS

Cost item	Description
Vehicle	Includes costs associated with purchasing or leasing a vehicle, including fit-out.
Licence	Costs associated with purchasing or leasing a licence.
Network fees	Costs associated with network affiliation. Operators receive access to services such as centralised booking and dispatch and networked security alarms.
Insurance	Includes compulsory third party insurance (Transport Accident Charge), comprehensive insurance and workers' compensation insurance.
Maintenance and repairs	Includes cost of operators' own time, staff costs and cost paid to other businesses for maintenance and repairs.
Fuel	Total fuel costs incurred by a taxi.
Wash/cleaning	Costs associated with washing/cleaning a taxi.
Administration	Includes cost of operators' own time, staff costs and costs paid to other businesses for administration (e.g. accountant).

SURVEY RESPONSES

We received 46 survey responses¹ from regional and country taxi operators. There are approximately 220 operators in the regional and country taxi zones, so our sample size represents a reasonable basis to assess industry costs.

Of the 46 responses:

- 28 responses were from regional operators
- 10 responses were from country operators, and
- 8 responses identified as operating in both zones or failed to specify a zone.

Due to the variation in the reported costs between different types of taxis, we have chosen to develop separate TCIs for standard taxis and for wheelchair and high occupancy taxis, in addition to distinguishing between the regional and country taxi zones.² Box 2.1 outlines the reasons why costs may vary between taxis.

¹ Five additional responses were received from operators outside the regional and country zones – these responses have been excluded from our analysis.

² Overall, there is significant variation in the survey responses. This variation may reflect systematic variation between the taxi zones, and within the taxi zones. Based on the small sample size and variation, we note that the sample mean is not necessarily representative of the whole regional and country taxi zone population – that is, the cost profiles we have constructed will not accurately reflect each and every operator in the regional and country taxi zones, but is intended to be representative of a typical operator only.

BOX 2.1 VARIATION IN COSTS

Operating costs can vary significantly across operators due to a number of factors including: the zone of operation, the type of vehicle used and the type of licence.

For example, annual licence costs are approximately \$8,000 higher in the regional zone compared to the country zone (\$11 247 in the regional zone and \$3 476 in the country zone). This has a significant impact on overall cost weights for each cost item, and is why we have separate cost profiles for the regional and country zones.

In addition, standard taxis have a different cost structure to wheelchair-accessible taxis (WATs) and high occupancy vehicles (HOVs). Therefore, we have constructed cost profiles for standard taxis and WAT/HOV taxis separately.

The costs of hybrid taxis are similar to those of standard taxis (with the exception of vehicle costs and fuel costs). We therefore have not constructed a separate profile for hybrid taxis.

2.1.2 TAXI COST PROFILES

To develop cost profiles representative of the regional and country taxi industry, we use the *mean* (i.e. average) of the survey responses. We prefer to use the mean as it uses all of the available information; however, we recognise that the results may be influenced by outliers. While we would usually use a trimmed mean³ to minimise the impact of outliers, it is not practical given the small sample size in this case.

Table 2.2 summarises the cost estimates for standard taxis and WAT/HOV taxis operating in the regional and country taxi zones that were derived from the operator survey. All costs presented exclude GST. A more detailed explanation of how each cost item was estimated is discussed in appendix C.

³ A specified percentage of responses are trimmed from the tails of the distribution.

Cost profiles are intended to be representative of a typical operator based on our survey results. We do not suggest that these profiles reflect the costs of any individual regional or country taxi operator.

TABLE 2.2 TAXI COST PROFILE 2014-15 (\$ EXC GST)

	Regional zone		Country zone	
	Standard	WAT/HOV	Standard	WAT/HOV
Vehicle	\$6 058	\$9 656	\$6 058	\$9 656
Licence ^a	\$11 247	\$11 247	\$3 476	\$3 476
Network fees	\$8 478	\$7 902	\$8 478	\$7 902
CTP insurance	\$1 269	\$1 676	\$1 269	\$1 676
Comprehensive insurance	\$2 198	\$2 539	\$2 198	\$2 539
Workers compensation	\$1 744	\$2 940	\$1 744	\$2 940
Maintenance and repairs	\$10 459	\$10 063	\$10 459	\$10 063
Fuel	\$15 125	\$15 178	\$15 125	\$15 178
Wash/cleaning	\$1 209	\$1 259	\$1 209	\$1 259
Administration	\$12 932	\$12 932	\$12 932	\$12 932
Total	\$70 719	\$75 392	\$62 948	\$67 621

^a Licence costs are the regulated fees to obtain an annual licence from the Victorian Government.

2.2 DERIVING THE TAXI COST WEIGHTS

The second step in estimating the change in taxi costs is determining the cost weights.

The cost weights represent an estimate of the **share of total costs** contributed by each cost item, and thus measures how changes to those cost items will impact on total taxi costs.

The cost profiles in table 2.2 were used to derive the cost weights – that is, the share of each cost item as a proportion of the total cost profile.

TABLE 2.3 COST WEIGHTS (%)
2014-15

	Regional zone		Country zone	
	Standard	WAT/HOV	Standard	WAT/HOV
Vehicle	8.57	12.81	9.62	14.28
Licence	15.90	14.92	5.52	5.14
Network fees	11.99	10.48	13.47	11.69
CTP insurance	1.79	2.22	2.02	2.48
Comprehensive insurance	3.11	3.37	3.49	3.75
Workers compensation	2.47	3.90	2.77	4.35
Maintenance and repairs	14.79	13.35	16.62	14.88
Fuel	21.39	20.13	24.03	22.45
Wash/cleaning	1.71	1.67	1.92	1.86
Administration	18.29	17.15	20.54	19.12
Total	100.00	100.00	100.00	100.00

Each year, the TCI will be updated by applying the relevant escalation factor to the corresponding component in the preceding year's TCI. The Commission will periodically review the make-up of the TCI to assess whether the assumed weights continue to reflect each component's share of the total costs of operating a taxi.

Cost items that increase relatively more than other cost items will make up a higher share of the revised cost index (i.e. have a higher cost weight) compared to the previous year.

2.3 ESTIMATING THE TAXI COST INDEX

The final step in estimating the change in taxi costs is to multiply the cost weights by appropriate cost inflation measures to calculate the change in the TCI.

2.3.1 TAXI COST INFLATION MEASURES

To estimate how each of the individual cost items has changed over time we use existing measures of inflation. Each cost item has its own **cost inflation measure**, being the most relevant measure of inflation that may apply to that cost item.

Table 2.4 summarises the cost inflation measures we use for each cost item. The cost inflation measures for each cost item are discussed in appendix C.

TABLE 2.4 COST INFLATION MEASURE

Cost item	Cost inflation measure
Vehicle	Change in: <ul style="list-style-type: none">• The motor vehicle component of the Melbourne CPI, and• Lending rates for small business (RBA)
Licence	Change in the Melbourne CPI less 0.5 percentage points ^a
Network fees	Change in the telecommunications equipment and services component of the Melbourne CPI
Insurance	Change in: <ul style="list-style-type: none">• The ICA comprehensive car insurance index• The Transport Accident Charge (applied to taxis), and• The Wage Price Index
Maintenance and repairs	Change in the repairs component of the Melbourne CPI
Fuel	Change in the FUELtrac index
Wash/cleaning	Change in the Melbourne CPI
Administration	Change in the Wage Price Index

^a As per legislation, the Government increases licence fees annually by CPI minus 0.5 percentage points.

Note: Where multiple cost inflation measures are used, each inflation measure is applied to the relevant proportion of the cost component.

TIMING AND AVERAGING OF COST INFLATION MEASURES

It is important that we measure changes in costs over the *same period* over which we compare changes in fares. We will consider changes in fares over the reporting period (i.e. the year ending June 30) and changes in fares since deregulation. Therefore, our approach to measuring changes in costs should reflect this.

Price or cost indices are generally published on a quarterly basis. There are two approaches to measure annual changes:

- Year-average approach – the change for the year to June 2015 is measured as the average for the four quarters to June 2015 compared to the average for the four quarters to June 2014.
- Year-ended approach – the change for the year to June 2015 is measured as the June quarter 2015 compared to the June quarter 2014.

The year-average approach tends to be less volatile as it uses multiple data points rather than just the June quarter of each year. Further, the year-average approach takes into account the costs experienced by service providers over the entire year rather than at specific points in time, and the costs on which service providers base their pricing decisions. For these reasons, we believe the year-average approach is more appropriate for our purposes.

2.3.2 CALCULATING THE CHANGE IN THE TAXI COST INDEX

The cost inflation measures estimate the change in specific cost items. The cost weights are used in combination with the cost inflation measures to estimate the impact of those individual changes on total taxi costs. Therefore, to calculate the change in the TCI, we weight the change in each *cost inflation measure* by the *cost weights* to estimate the overall change in the costs. To do this:

- The change in each cost inflation measure is multiplied by the cost weight for each cost item. This provides the percentage point contribution of each cost item to the change in the TCI.
- The percentage point contribution of each cost item is summed to provide the total change in the TCI (i.e. the estimated change in taxi costs).

Table 2.5 shows the change in the TCI for standard taxis and WAT/HOV taxis in the regional and country zones, reflecting differences in cost structures across types of vehicle and zones of operation.

TABLE 2.5 ESTIMATING THE CHANGES IN THE TAXI COST INDEX
2014-15

	Standard	WAT/HOV		Standard	WAT/HOV
	Weight	Weight	Change in inflation measure	Contribution	Contribution
	%	%	% change	Percentage points	Percentage points
Regional taxi zone					
Vehicle	8.57	12.81	-1.45	-0.12	-0.19
Licence	15.90	14.92	0.90	0.14	0.13
Network fees	11.99	10.48	-3.20	-0.38	-0.34
CTP insurance	1.79	2.22	1.43	0.03	0.03
Comprehensive insurance	3.11	3.37	-1.42	-0.04	-0.05
Workers compensation	2.47	3.90	2.56	0.06	0.10
Maintenance and repairs	14.79	13.35	0.90	0.13	0.12
Fuel	21.39	20.13	-8.75	-1.87	-1.76
Wash/cleaning	1.71	1.67	1.40	0.02	0.02
Administration	18.29	17.15	2.56	0.47	0.44
Total	100.00	100.00		-1.56	-1.50
Country taxi zone					
Vehicle	9.62	14.28	-1.45	-0.14	-0.21
Licence	5.52	5.14	0.90	0.05	0.05
Network fees	13.47	11.69	-3.20	-0.43	-0.37
CTP insurance	2.02	2.48	1.43	0.03	0.04
Comprehensive insurance	3.49	3.75	-1.42	-0.05	-0.05
Workers compensation	2.77	4.35	2.56	0.07	0.11
Maintenance and repairs	16.62	14.88	0.90	0.15	0.13
Fuel	24.03	22.45	-8.75	-2.10	-1.96
Wash/cleaning	1.92	1.86	1.40	0.03	0.03
Administration	20.54	19.12	2.56	0.53	0.49
Total	100.00	100.00		-1.86	-1.74

2.3.3 TAXI COST INDEX – RESULTS

The final results in measuring the change in the TCI are:

- **decreases of 1.56 per cent** for standard taxis and **1.50 per cent** for WAT/HOV taxis in the regional taxi zone, and
- **decreases of 1.86 per cent** for standard taxis and **1.74 per cent** for WAT/HOV taxis in the country taxi zone.

These estimated changes in the TCIs are our measure of the change in the costs of providing a taxi in the regional and country taxi zones, which we will compare against the estimated change in fares notified by service providers.

2.4 LIMITATIONS OF THE TAXI COST INDEX

While the TCI is a useful tool for monitoring taxi costs in regional and country taxi zones, it has a number of limitations.

- *The TCI is only as accurate as the individual cost inflation measures* – constructed cost indices use other published price or cost indices to measure the inflation in a cost item or category. Although these cost inflation measures have been specifically selected, if they do not accurately reflect the actual changes in costs that they are intended to represent then the TCI will not be an accurate measure of the changes in the cost of operating a taxi in regional and country Victoria.
- *The TCI does not allow for productivity improvements* – the cost of operating a taxi depends on both input prices and productivity changes. The TCI captures changes in input prices only.
- *The TCI assumes a fixed quantity of inputs* – the quantity of inputs may change over time, e.g. an operator may switch to a hybrid taxi so the vehicle purchase cost will be higher, but the fuel cost will be lower. The TCI assumes the quantity of inputs is fixed over time.

We note these limitations but have concluded in favour of adopting the TCI as the most appropriate measures of changes in costs in the industry and is suitable for our

purposes. A more tailored approach would increase enormously the information operators would be required to report to us.

3 TAXI FARES

This chapter analyses changes in fares across the regional and country taxi industry and across individual service providers that have notified maximum fares. It also provides a comparison of fares for benchmark trips across individual service providers. The analysis applies only to service providers in the regional and country taxi zones who notified new fares in 2014-15.

3.1 FARE NOTIFICATION SCHEME

Under the fare notification scheme, service providers (operators, networks and co-operative networks) in the regional and country taxi zones are able to set their own fares. Service providers that choose to participate in the scheme are required to notify the Taxi Services Commission of their maximum fares.

Operators who are members of co-operative networks are authorised by the Australian Competition and Consumer Commission (ACCC) to set consistent maximum fares (box 3.1).

Operators who did not notify new fares are required to continue charging the previously regulated fares (i.e. the fares determined by the Minister on 19 May 2014).

Appendix A sets out a list of current country and regional operators and whether or not they have notified new fares.

BOX 3.1 ACCC AUTHORISATION FOR CO-OPERATIVE NETWORKS

In response to fare deregulation, the Victorian Taxi Association (VTA) lodged an application to the ACCC for authorisation to allow regional and country zone co-operative members to agree on fares for booked and contract work. The VTA argued that co-operative members cannot operate with fare competition as it would compromise network operations and service efficiency and quality.

The ACCC granted authorisation until 31 December 2017. The authorisation protects operators within co-operative networks from legal action for conduct that may otherwise breach the competition provisions of the CCA Act (that is, operators agreeing to a consistent maximum fare).

Source: Australian Competition and Consumer Commission 2014, *The Victorian Taxi Association – Authorisation – A91428*, Final Determination, 9 October.

3.2 FARE NOTIFICATIONS 2014-15

Fare notifications can be made by independent taxi operators, by operators that are part of co-operatives or by networks on behalf of their operators. We refer to these independent operators, co-operatives and networks collectively as “service providers”.

In 2014-15, fares notifications were made by 17 separate service providers. These 17 service providers represent 66 out of 222 of the individual taxi operators in the regional and country taxi zones. The notified fares apply to 176 taxis operated by these 66 operators, out of a total of 484 taxis across the two zones.¹

The 17 service providers who did notify new fares consist of:

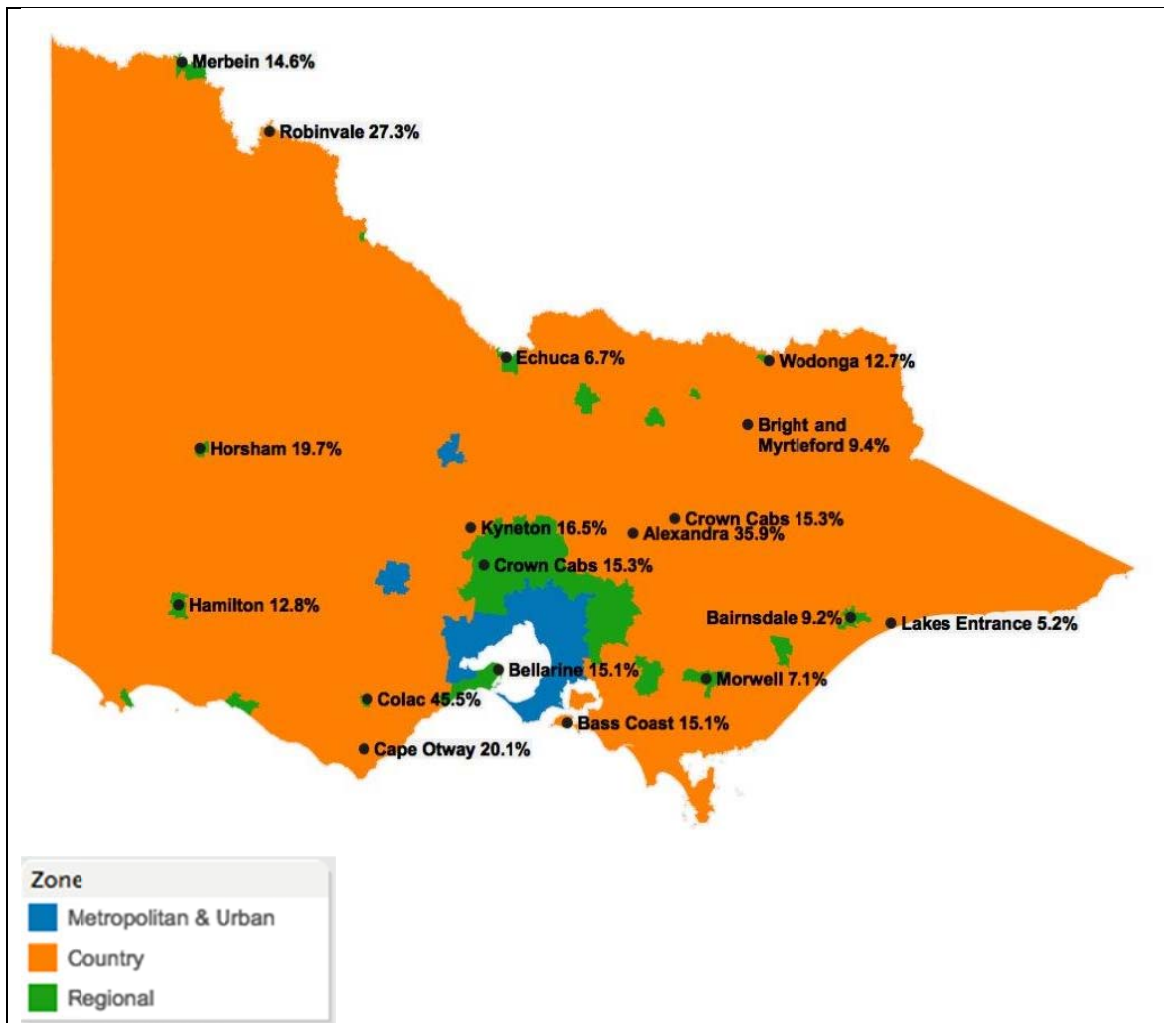
- eight service providers in the regional zone (with a total of 83 taxis)
- seven service providers in the country zone (with a total of 40 taxis), and
- two service providers that operate in both the regional and country taxi zones (with a total of 48 regional taxis and 5 country taxis).

¹ Note: individual taxi operators may have more than one taxi.

Figure 3.1 illustrates the location of the service providers who have notified new fares. We refer to these 17 service providers by their main area of operation, however we note that they are able to operate in a wider area, as specified by their licence type.

A full list of areas of operation for each service provider is provided in appendix A.

FIGURE 3.1 SERVICE PROVIDERS WHO HAVE NOTIFIED NEW FARES
Percentage increase in fares^a, 2014-15



^a Fare increases presented are the estimated weighted average fare increase for each service provider using a trip profile based on available meter data for regional and country taxis (see section 3.3.2).

Note: The figure highlights the location where a service provider is based. Crown Cabs operates in various areas in both the regional and country taxi zones. Merbein also operates both regional and country taxis.

Data source: Taxi Services Commission.

3.3 FARE ANALYSIS METHODOLOGY

In this section, we discuss our methodology for estimating and analysing fare changes across the industry (for those regional and country service providers that notified fares) and for individual service providers.

3.3.1 CHALLENGES IN CALCULATING FARE CHANGES

To compare changes in fares against the TCI, our measure of changes in the costs of providing taxi services, we calculate changes in taxi fares for individual service providers.

There are a number of challenges associated with these calculations, particularly due to the potential variation in fare structure across service providers and over time.

Fare structure refers to the various components that make up the fare charged to passengers and the time periods in which these fare components apply. The fare components typically include:

- a flagfall: a fixed charge incurred for hiring a taxi
- a distance rate: a per kilometre charge which applies when the taxi is travelling above 21 kilometres per hour, and
- a waiting time rate: a per minute charge which applies when the taxi is stationary or travelling at less than 21 kilometres per hour.

The fare components may also include components based on specific characteristics of the trip, including:

- whether the trip is booked e.g. booking fee
- the time of day e.g. late night surcharge, and
- the day of the week e.g. holiday surcharge.

Service providers have complete flexibility to set their fare structure. Therefore, service providers can apply any combination of fixed and variable fare components, and can apply different fare structures at different time periods (e.g. different fare structures during daytime hours and during evening hours). Each time service providers notify

new fares, they have the flexibility to change the level and balance of fare components, as well as change the time periods.

This potential variation in fare structures across service providers and in an individual service provider's fare structure over time make the task of calculating fare changes complex.

Changes to fare structures can also affect different types of trips differently. For example, if a service provider rebalances the fare structure towards fixed fare components, there will be a greater relative impact on shorter trips compared to longer trips. In contrast, if a service provider rebalances the fare structure towards variable fare components, there will be a greater relative impact on longer trips.

3.3.2 OUR METHODOLOGY

We have developed a methodology to measure the impact of changes to a service provider's fare structure. We analyse these changes from multiple aspects including:

- a) estimating changes in average fares,
- b) estimating fares for benchmark trips and monitoring changes in fare components (i.e. flagfall, distance rate, waiting time rate, booking fee, late night surcharge and holiday surcharge), and
- c) comparing average fares and fare changes across service providers, and over time.

Each of these issues are discussed below.

A) ESTIMATING CHANGES IN FARES

To monitor changes in fares, we estimate a *weighted average* change in fares to account for variation in fare structure across the day and week.

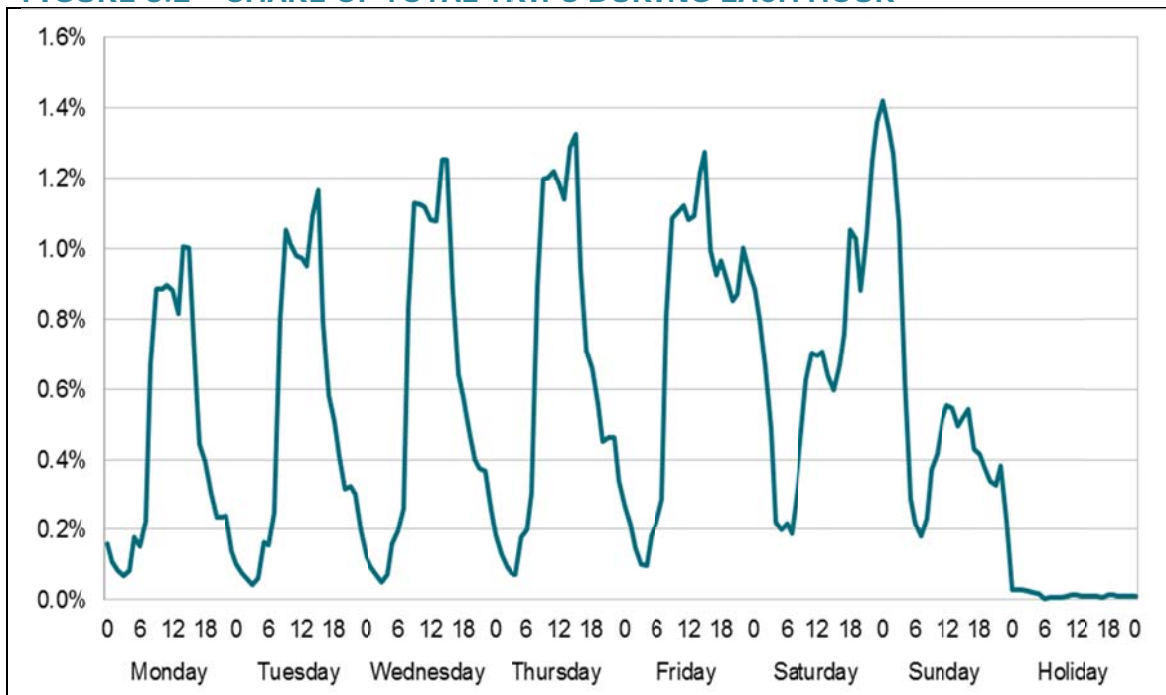
We have taken a three step approach to estimate the weighted average change in fares for each service provider.

1. Estimate the average trip for each hour block through the week across the year (including holidays) and the share of total trips which occur during each hour block

(this is the 'trip profile'). The average trip is based on meter data obtained by the Taxi Services Commission for a selection of service providers in the regional and country taxi zones.

2. Estimate the change in the fare for the average trip during each hour block.
3. Estimate the average change in fares as the weighted average change across each hour block. The weights are based on the share of total trips which occur during each hour block. Figure 3.2 shows the share of total trips during each hour across the week.

FIGURE 3.2 SHARE OF TOTAL TRIPS DURING EACH HOUR



Data source: Taxi Services Commission

This approach allows us to analyse how fares have changed across the day and week and how fares have changed overall.

B) ESTIMATING FARES FOR BENCHMARK TRIPS

To estimate fares for service providers at different times of the day and week, we use benchmark trips. Benchmark trips have defined trip characteristics, e.g. time of day, length of trip, distance, waiting time and whether the trip is booked (these are the 'benchmark trips').

To make the fare comparison as meaningful as possible to the widest range of possible consumers, we select a series of benchmark trips that reflect the type of trips taken by passengers in the regional and country taxi zones.

The benchmark trips allow us to capture and compare variation in fare structures across service providers.

Time period for benchmarking

Based on these usage patterns observed in the regional zone, we note that:

- on weekdays, peak usage generally occurs between 9am and 4pm (40 per cent of trips occur during this period), and
- on weekends, peak usage generally occurs between midnight and 1am on Sunday (i.e. Saturday night).

Based on these taxi usage patterns, we have chosen two time periods for the benchmark trips:

- midday on a weekday – 'weekday day', and
- midnight on Sunday (i.e. Saturday night) – 'weekend night'.

Trip characteristics for benchmarking

The differences in the balance between fixed and variable fare components (e.g. flagfall, distance rate, waiting time rate, booking fee) across service providers imply different impacts on trips of different lengths. To account for this we calculate fares for a shorter trip and a longer trip.²

² The trip length is calculated based on meter data collected by the Taxi Services Commission from regional areas including Bairnsdale, Horsham, Mildura, Portland, Swan Hill, Wodonga and Warrnambool.

A relatively high proportion of weekday day trips in the regional and country taxi zones are booked. Therefore, we assumed the weekday day benchmark trips are booked.

Table 3.2 provides a summary of the characteristics of the four benchmark trips.

TABLE 3.2 BENCHMARK TRIPS

	Weekday day		Weekend night	
	Short	Long	Short	Long
Distance (km)	1.5	4.2	2.0	8.6
Waiting time (minutes)	2.6	3.7	2.8	5.4
Day	Weekday	Weekday	Sunday	Sunday
Time	12pm	12pm	12am	12am
Booked	Yes	Yes	No	No

C) ANALYSING FARE CHANGES ACROSS SERVICE PROVIDERS

We analyse fare changes by service providers individually, and collectively across all service providers that have notified fares in 2014-15.

For notifying service providers collectively, we calculate:

- the simple average of the weighted average fare changes across all service providers
- the average change in the flagfall, distance rate, waiting time rate, late night surcharge and holiday surcharge across all service providers, and
- the average change in the fare for the day period (6am to 6pm), evening period (6pm to 10pm) and night period (10pm to 6am) across all service providers.

For Individual service providers:

- we calculate the weighted average change in fares for individual service providers using the trip profile
- we compare fares for the benchmark trips across individual service providers
- we compare the contribution of individual fare components for a benchmark trip across individual service providers, and

- we consider how fares vary across the week for individual service providers and compare this to the previously regulated fares and average fares for service providers who have notified fares in 2014-15.

Time period for analysing fare changes

This is our first annual monitoring report and fare notification data is available for one year only. Therefore, in this report, we are reporting only on changes in fares over the 2014-15 reporting period.

In future, as more fare notification data becomes available, we will analyse changes in fares in two ways:

- changes in fares over the annual reporting period, and
- cumulative changes in fares since deregulation.

We recognise that cumulative changes in fares will be a more informative and appropriate reflection of changes in fares over time. For example, a service provider may increase their fares annually by 2.5 per cent, broadly in line with inflation. Another service provider may keep their fares constant for four years and then increase their fares by 10 per cent. Therefore the overall fare increase is also broadly in line with inflation, but we can only capture this by presenting the cumulative change in fares.

3.4 FARE CHANGES

In this section we present our analysis of notified fares. We present fare analysis for notifying service providers collectively (i.e. the average for service providers that have notified fares) and for individual service providers who have notified fares.

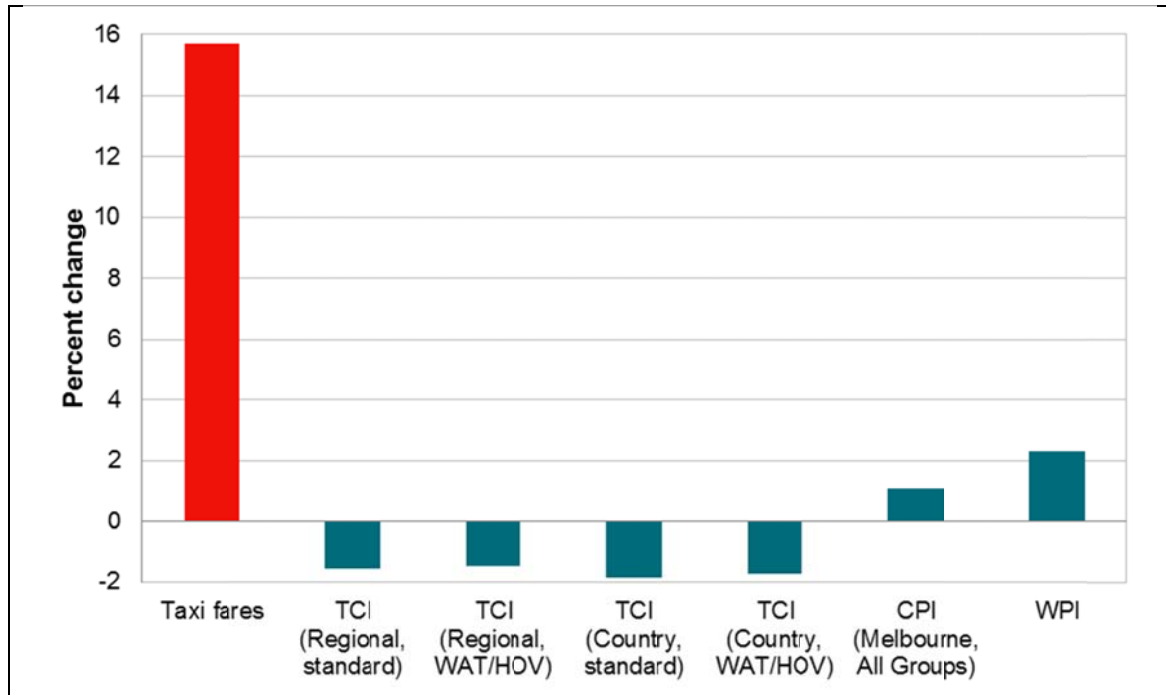
3.4.1 AVERAGE FARE CHANGES ACROSS SERVICE PROVIDERS

To analyse how fares have changed across the industry, we estimate the average change in fares across all service providers who notified fares in 2014-15. We also consider changes in individual fare components and changes at different times of the day, across all service providers.

AVERAGE FARE INCREASE

The average fare increase across all service providers who notified fares was 15.7 per cent.³ The average fare increase exceeded the taxi cost index (TCI) by over 17 percentage points and the consumer price index (CPI) and wage price index (WPI) by 14.6 percentage points and 13.4 percentage points, respectively (figure 3.3).

FIGURE 3.3 AVERAGE FARE INCREASE
Percent change, 2014-15



Data source: ABS data and Commission analysis.

³ This is calculated as a simple average of the weighted average fare increase of service providers that notified fares in 2014-15.

AVERAGE CHANGE IN FARE COMPONENTS

In this section, we consider the change in individual fare components that make up the fare structure, across all service providers that notified fares.

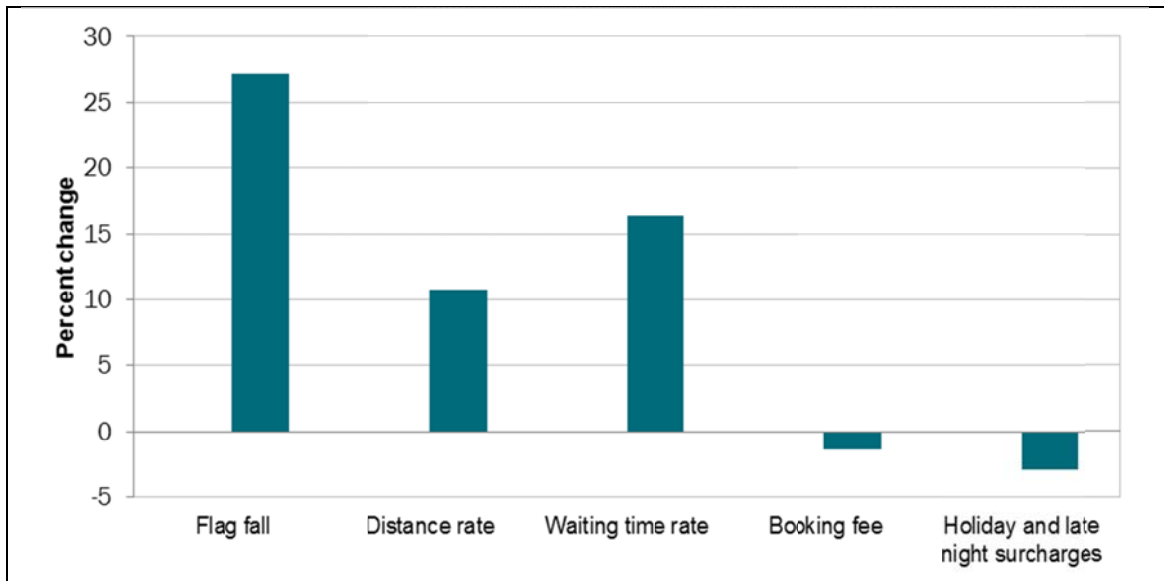
Flagfall, waiting time and distance rate

On average, the flagfall increased most significantly (27.2 per cent) followed by the waiting time rate (16.3 per cent) and the distance rate (10.7 per cent) (figure 3.4).

Booking fee and late night/holiday surcharge

On average, the booking fee and late night/holiday surcharge decreased (1.3 per cent and 2.9 per cent, respectively) – this reflects that several service providers removed these fees and charges. Service providers that removed the late night or holiday surcharge replaced it with a fare structure applying during late night and holiday periods, and in some cases also applying in the evening period.

FIGURE 3.4 AVERAGE CHANGE IN FARE COMPONENTS
Percent change, 2014-15



Data source: Taxi Services Commission and Commission analysis.

AVERAGE FARE CHANGE BY TIME OF DAY

In this section, we consider the change in fares at different times of the day, across all service providers who notified fares.

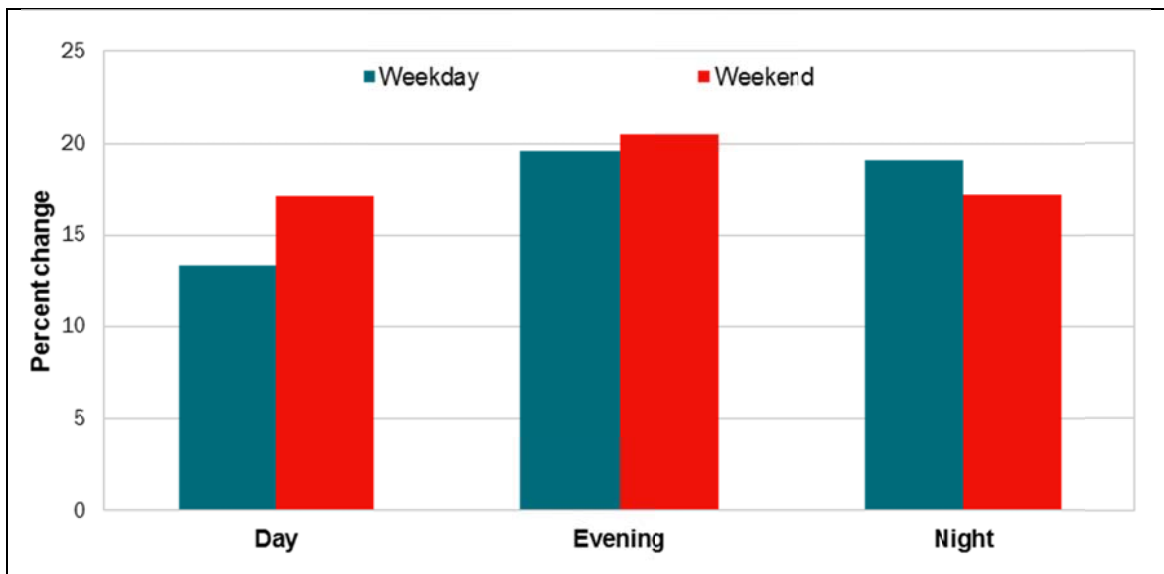
Evening and weekend

On average, fares increased most significantly in evening periods (19.6 per cent on weekdays and 20.5 per cent on weekends) (figure 3.5). This reflects that some service providers introduced a fare structure applying for a longer period, covering evening hours, than the previously regulated late night surcharge.

Daytime

On average, fares increased least during daytime periods (13.4 per cent on weekdays and 17.1 per cent on weekends).

FIGURE 3.5 AVERAGE FARE CHANGE BY TIME OF DAY
Percent change, 2014-15



Note: The day period is defined as 6am to 6pm, the evening period is defined as 6pm to 10pm and the night period is defined as 10pm to 6am.

Data source: Taxi Services Commission and Commission analysis.

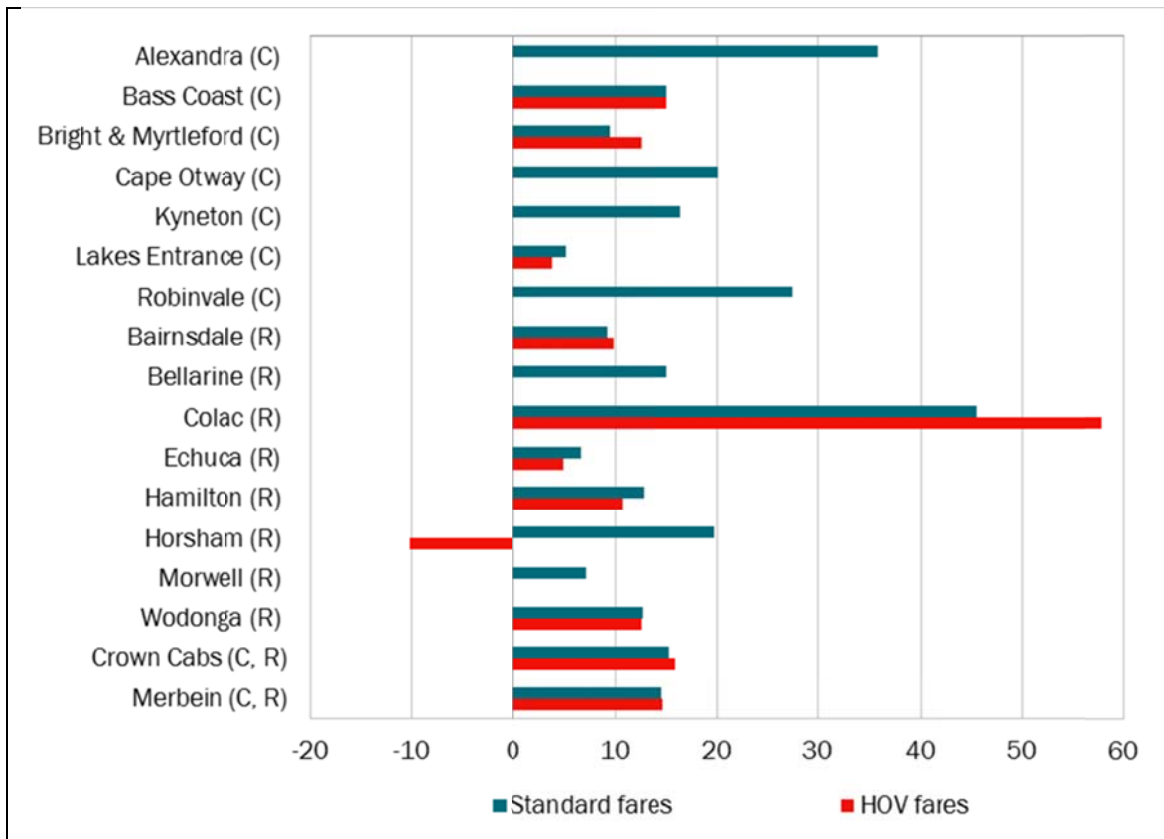
3.4.2 FARE CHANGES BY SERVICE PROVIDER

In this section, we analyse fare changes for individual service providers. We estimate the weighted average fare change for each individual service provider and consider changes in individual fare components.

WEIGHTED AVERAGE FARE INCREASE

Figure 3.6 shows the weighted average fare increase estimated for each service provider for standard taxis and HOVs. The weighted average fare increase is the average fare change estimated across the whole week, based on the fare change for each hour of the week and the share of total trips which occurs within each hour.

FIGURE 3.6 WEIGHTED AVERAGE FARE INCREASE BY SERVICE PROVIDER
Percent change, 2014-15



Note: C denotes that the service provider operates in the country taxi zone; R denotes that the service provider operates in the regional taxi zone.

Data source: Taxi Services Commission and Commission analysis.

Standard fares

Weighted average fare increases for standard taxis range from 5.2 per cent to 45.5 per cent. The majority of service providers notified increases of between 10 per cent and 20 per cent.

Service providers in Bairnsdale, Bright & Myrtleford, Morwell, Echuca and Lakes Entrance notified weighted average fare increases of less than 10 per cent. Service providers in Colac, Alexandra, Robinvale and Cape Otway notified weighted average fare increases of greater than 20 per cent.

For these four latter locations, we consider:

- how their fare structure compares to the previously regulated fare structure (table 3.2)
- the contribution of each fare component to the overall fare increase (table 3.3).

TABLE 3.2 COMPARISON OF FARE STRUCTURES

At 30 June 2015

Service provider	Flagfall	Distance rate	Waiting time rate	Booking fee	Late night surcharge	Holiday surcharge
Previously regulated fares (regional and country taxi zones)						
Tariff 1	\$3.70	\$1.879	\$0.658	\$2.10	\$3.40	\$4.20
Colac						
Tariff 1	\$10.00	\$1.800	\$1.000	NA	\$5.00	\$5.00
Alexandra						
Tariff 1 (day)	\$4.90	\$2.440	\$0.850	\$4.00	NA	NA
Tariff 2 (night)	\$5.60	\$3.200	\$0.850	NA	NA	NA
Robinvale						
Tariff 1	\$6.70	\$2.066	\$0.756	NA	\$3.80	\$5.00
Cape Otway						
Tariff 1 (day)	\$4.80	\$2.067	\$0.850	NA	\$4.00	\$6.00
Tariff 2 (night)	\$3.70	\$2.250	\$0.850	NA	\$4.00	\$6.00

TABLE 3.3 WEIGHTED AVERAGE CHANGE^a IN FARE COMPONENTS
2014-15

	Average ^b	Colac	Alexandra	Robinvale	Cape Otway
	Per cent	Per cent	Per cent	Per cent	Per cent
Flagfall	27.2	220.0	38.7	81.1	18.6
Distance rate	10.6	-4.2	43.2	10.0	13.7
Waiting time rate	16.3	52.0	29.2	14.9	29.2
Booking fee	-1.3	-100.0	90.5	-100.0	90.5
Holiday/late night surcharge	-2.8	-13.1	-13.1	1.7	9.9

^a To calculate the weighted average change in each fare component, we calculate the change in each component for each hour of the week, weight the change for each hour based on the share of total trips for each hour, and take the average of these changes. ^b Regional and country average for service providers who notified new fares in 2014-15.

COLAC

The weighted average fare increase for Colac was 45.5 per cent (figure 3.5). The main contributor to the fare increase was a 220 per cent increase in the flagfall. This was partly offset by decreases in the distance rate (4.2 per cent) and the holiday/late night surcharge (13.1 per cent) and removal of the booking fee.⁴

ALEXANDRA

The weighted average fare increase for Alexandra was 35.9 per cent (figure 3.5). The main contributor to the increase was a 43.2 per cent increase in the distance rate.⁵ The flagfall, waiting time rate and booking fee also increased, while the holiday and late night surcharge were decreased.

We note that the service provider in Alexandra also offers special flat fares of \$10 during the day and \$15 at night for trips within the Alexandra township. We do not have sufficient information to incorporate these flat fares into the weighted average change to fares.

⁴ Colac has a special rate for *whole of community shopping day*. The flagfall is heavily discounted and the distance rate is slightly increased.

⁵ The booking fee increased by a higher percentage (90.5 per cent) compared to the distance rate (43.2 per cent). However, the booking fee makes up a small proportion of the total fare, therefore we consider that the main contributor to the fare increase is the distance rate.

ROBINVALE

The weighted average fare increase for Robinvale was 27.3 per cent (figure 3.5). The main contributor to the increase was an 81.1 per cent increase in the flagfall. The distance rate, waiting time rate and holiday/late night surcharge increased by 1.7 per cent, while the booking fee was removed.

CAPE OTWAY

The weighted average fare increase for Cape Otway was 20.1 per cent (figure 3.5). The increase was spread relatively evenly across fare components. The flagfall was increased by 18.6 per cent, the distance rate increased by 13.7 per cent, the waiting time rate increased by 29.2 per cent, the holiday/late night surcharge increased by 9.9 per cent and the booking fee increased by 90.5 per cent.

HOV fares

Fourteen service providers notified a new fare structure for high occupancy vehicles (HOVs). Service providers who did not notify a separate HOV fare structure may not operate HOVs (or, alternatively, may choose to provide HOV trips at their standard taxi rates).

The weighted average fare increase for HOVs was broadly consistent with the fare increase for standard taxis. There were two exceptions:

- Colac notified a fare structure that implied a weighted average fare increase of greater than 58 per cent compared to 45.5 per cent for standard taxis.
- Horsham notified a fare structure that implied a weighted average fare *decrease* of 10 per cent compared to a 19.7 per cent increase for standard taxis.

3.5 BENCHMARK FARE COMPARISONS

In this section, we analyse differences in fares across individual service providers for a series of benchmark trips (see section 3.3.2) to identify the implications of changes in fare structures.

3.5.1 FARE COMPARISON BY SERVICE PROVIDER

Table 3.3 compares the estimated fare for each of the benchmark trips across individual service providers in the regional and country taxi zones. Differences in fares reflect differences in fare structures (i.e. the level of different fare components).

TABLE 3.3 FARE COMPARISON BY SERVICE PROVIDER (\$)
At 30 June 2015

Service provider	Weekday day fare		Weekend night fare	
	Short	Long	Short	Long
Alexandra (C)	14.77	22.28	14.38	37.74
Cape Otway (C)	14.11	20.61	14.58	31.67
Colac (R)	13.38	18.95	19.41	33.03
Horsham (R)	12.25	19.00	14.80	31.30
Bass Coast (C)	11.96	18.61	14.69	30.95
Merbein (C, R)	11.81	18.45	14.54	30.79
Robinvale (C)	11.76	18.16	16.75	32.38
Kyneton (C)	11.67	18.67	14.26	31.39
Crown Cabs (C, R)	11.45	18.38	12.43	29.39
Wodonga (R)	11.11	17.93	13.68	30.34
Echuca (R)	11.03	16.81	12.70	26.84
Bellarine (R)	10.97	17.25	11.55	28.62
Hamilton (R)	10.96	17.88	14.14	31.06
Bright & Myrtleford (C)	10.80	16.92	19.09	15.23
Bairnsdale (R)	10.76	16.83	11.46	28.54
Lakes Entrance (C)	10.33	16.11	12.70	26.84
Previously regulated fares	10.33	16.11	12.70	26.84
Morwell (R)	8.79	15.04	17.35	32.62

Note: C denotes that the service provider operates in the country taxi zone; R denotes that the service provider operates in the regional taxi zone. Benchmark weekday day fares include any applicable booking fees. Booking fees are not included in the benchmark weekend night fares.

The service providers with the highest weighted average fare increase (figure 3.4) generally have the highest estimated fares across most of the benchmark trips.

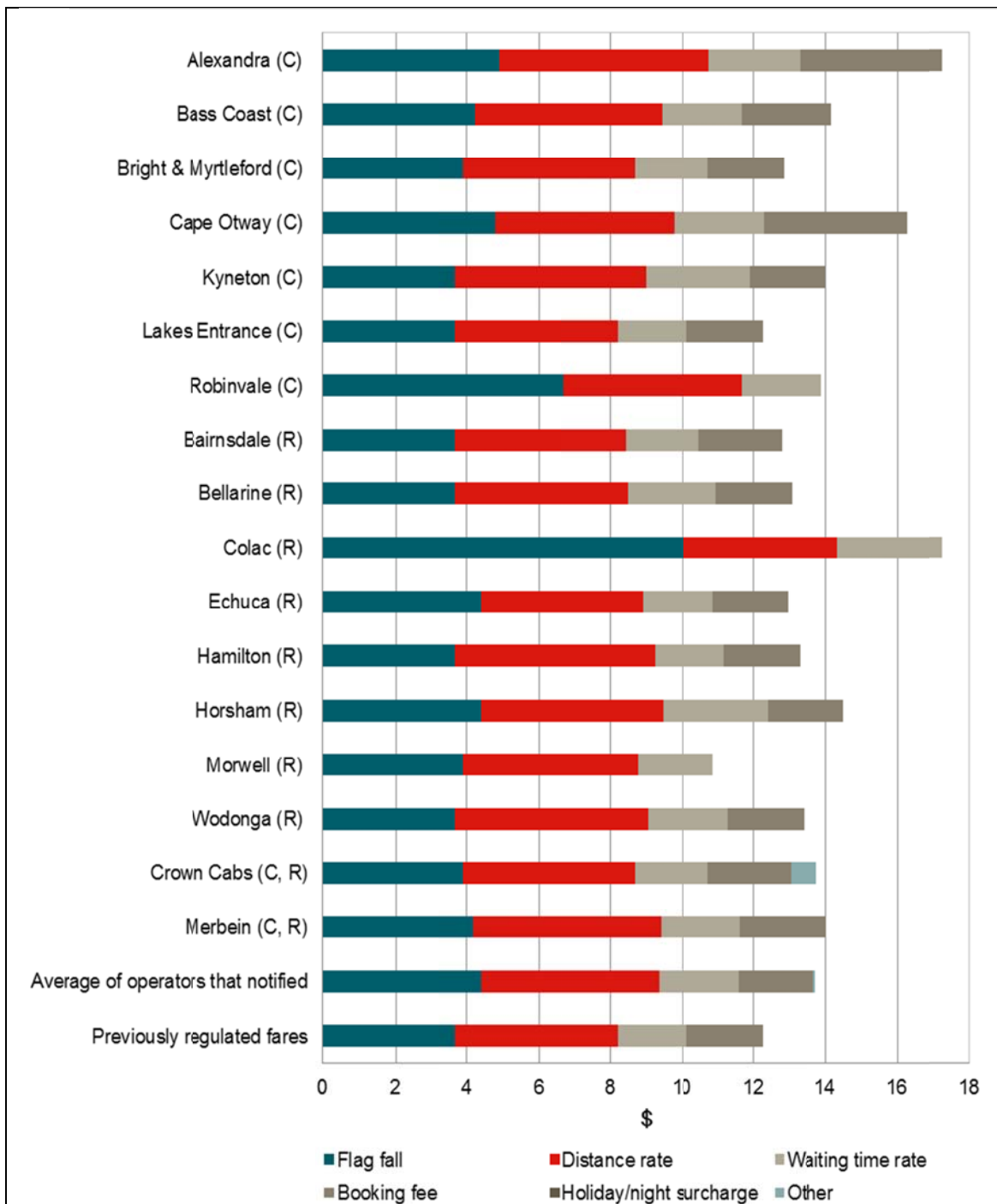
3.5.2 BENCHMARK FARE BY COMPONENT BY SERVICE PROVIDER

To analyse the variation in contribution of each fare component to the total fare across service providers, we have chosen to look at a short weekday day benchmark trip.

Figure 3.7 shows the breakdown of fare components for each service provider for this benchmark trip.

We note the significant contribution of the flagfall in Colac (over half of the total fare) and Robinvale.

FIGURE 3.7 BENCHMARK FARE BY COMPONENT
At 30 June 2015



Note: C denotes that the service provider operates in the country taxi zone; R denotes that the service provider operates in the regional taxi zone. The 'other' fare component for Crown Cabs is a fuel levy of \$0.30 per kilometre.

Data source: ESC analysis.

3.5.3 FARE COMPARISON ACROSS THE WEEK BY SERVICE PROVIDER

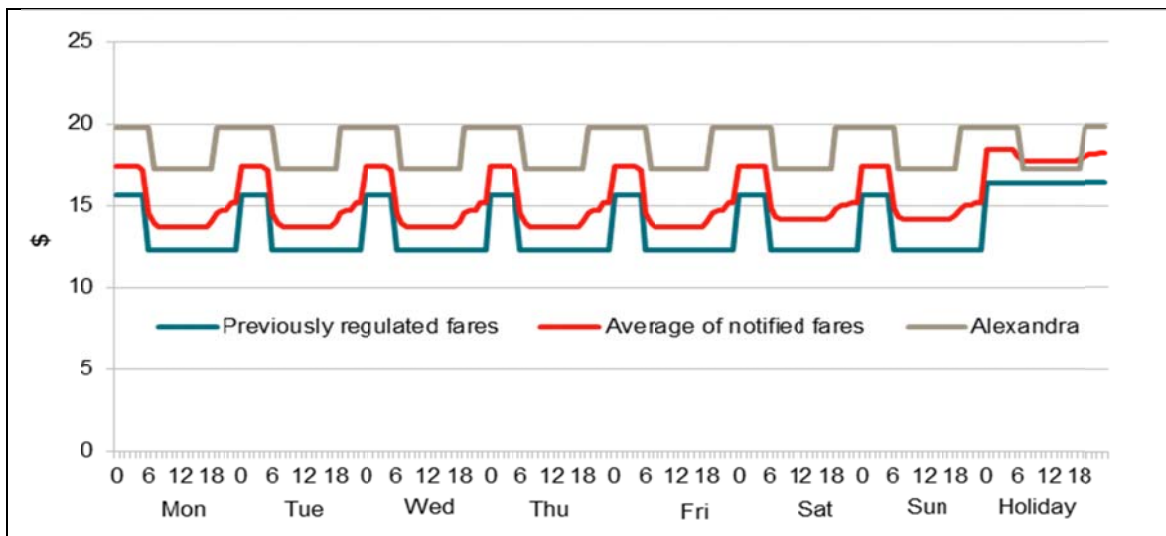
Figures 3.8 to 3.11 compare estimated fares for selected service providers for a benchmark trip across all hours of the week with the previously regulated fare and average fares across all service providers that notified fares in 2014-15. These service providers have been selected for the notable changes to their fare structure. Fare comparisons for all notifying service providers are provided in appendix D.

The benchmark trip is defined as a booked trip of 2.4 kilometres with 3 minutes of waiting time. For the purposes of this analysis, the day period is defined as 6am to 6pm, the evening period is defined as 6pm to 10pm, and the night period is defined as 10pm to 6am.

ALEXANDRA

Fares in Alexandra are higher than previously regulated fares across all time periods. Fares are higher than the average of service providers that have notified across all time periods except the holiday day period where fares are lower. (Figure 3.8)

FIGURE 3.8 ALEXANDRA FARE COMPARISON
Benchmark trip across the week

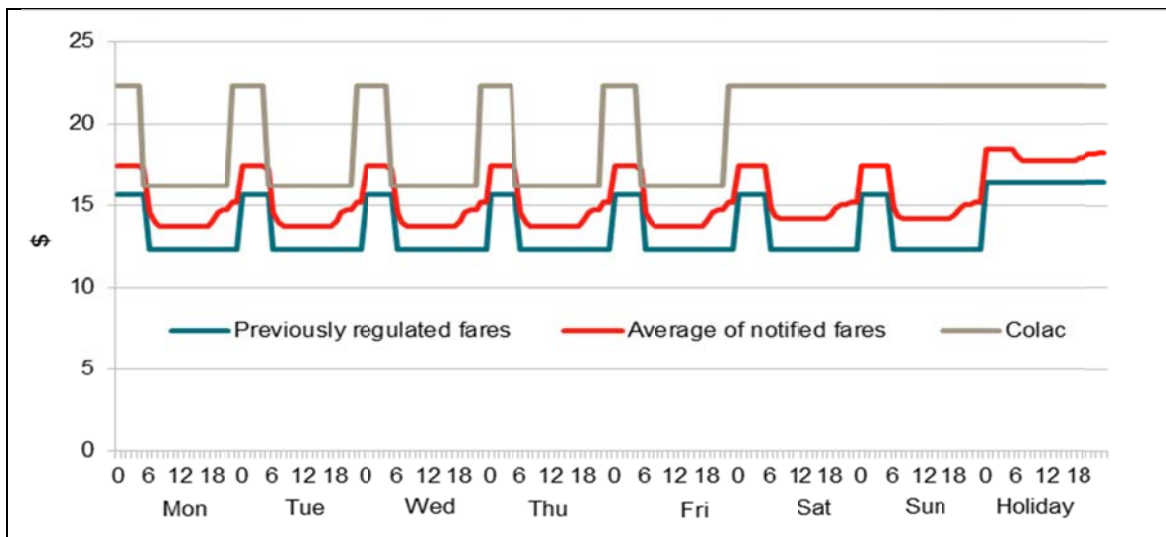


Data source: Taxi Services Commission, ESC analysis.

COLAC

Fares in Colac are higher than previously regulated fares across all time periods. Fares are also generally higher than the average of service providers that have notified. A \$5 late night, weekend, and public holiday fee applies from 10pm to 5am, all weekend and public holidays, respectively, so that fares across the entire weekend have significantly increased. (Figure 3.9)

FIGURE 3.9 COLAC FARE COMPARISON
Benchmark trip across the week



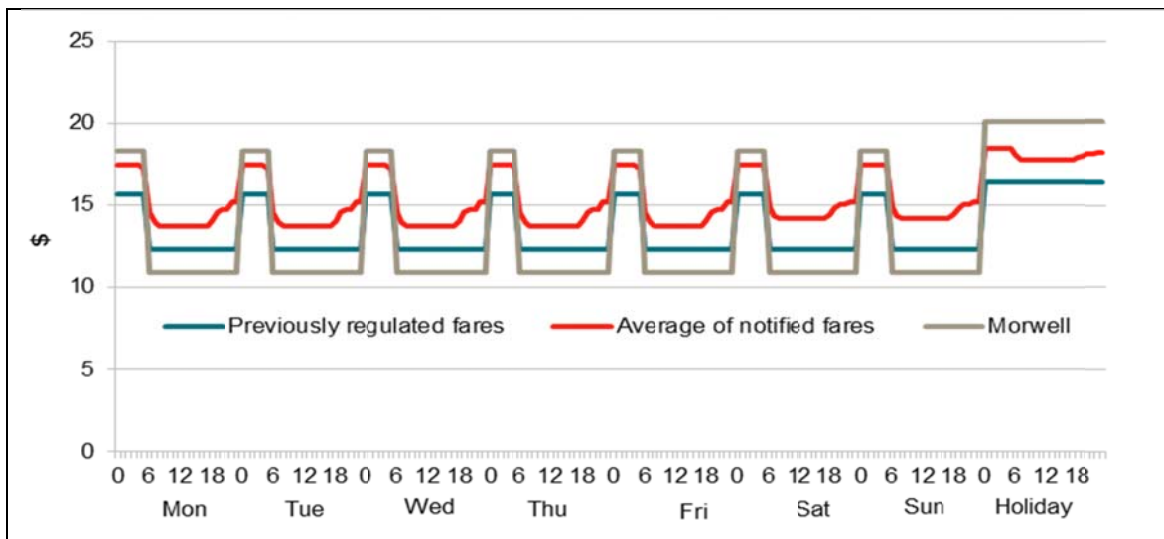
Data source: Taxi Services Commission, ESC analysis.

MORWELL

Fares in Morwell are lower than the previously regulated fares and the average of service providers that have notified during day periods. This reflects the removal of the booking fee (the benchmark day trip is defined as a booked trip).⁶ In contrast, fares are higher during night periods than the previously regulated and the average of service providers that have notified. This reflects a significant increase in the flagfall during night periods. (Figure 3.10)

FIGURE 3.10 MORWELL FARE COMPARISON

Benchmark trip across the week



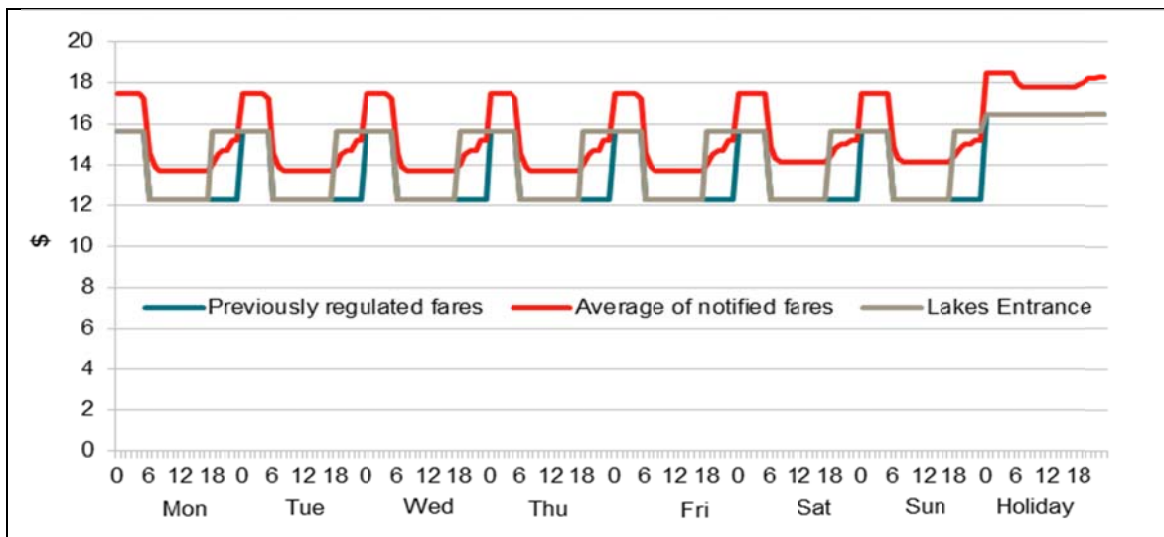
Data source: Taxi Services Commission, ESC analysis.

⁶ If the benchmark day trip is assumed to not include a booking fee, then day fares in Morwell are higher than the previously regulated fares.

LAKES ENTRANCE

Fares in Lakes Entrance have remained the same as previously regulated fares. However, the period during which the late night surcharge applies was extended, commencing at 6pm rather than midnight (as under the regulated fare). This shift in the late night surcharge period is reflected in the increase in fares between 6pm and midnight (figure 3.11).

FIGURE 3.11 LAKES ENTRANCE FARE COMPARISON
Benchmark trip across the week



Data source: Taxi Services Commission, ESC analysis.

4 OUR OBSERVATIONS AND FINDINGS

4.1 SUMMARY OF FARE OBSERVATIONS

Seventeen service providers notified new fare structures. The average fare increase from these service providers of 15.7 per cent exceeded the change in the taxi cost index (TCI) by over 17 percentage points. It also well exceeds broader measures of inflation including the consumer price index (CPI) and wage price index (WPI).

The majority of service providers notified fare increases of between 10 and 20 per cent. Four service providers notified fare increases of greater than 20 per cent: Colac (45.5 per cent¹), Alexandra (35.9 per cent²), Robinvale (27.3 per cent) and Cape Otway (20.1 per cent).

Service providers tended to increase the flagfall more relative to other fare components (e.g. distance rate, waiting time rate), and tended to increase fares more during the evening (6pm to 10pm) and night (10pm to 6am).

Given the lack of time-series data, it is too early to tell whether observed fare increases suggest a potential emergence of market power. We also note that a divergence between prices and costs will not necessarily evidence market power, as there may be other reasons for this to occur.

¹ Note: Colac also introduced a special rate for “Whole of Community Discount Shopping Days”, with a heavily discounted flagfall and slightly higher distance rate. This special rate is not taken into account in estimating the weighted average fare increase as it is unclear how often it will apply during any given year. The effective fare increase is likely to be lower than our estimate weighted average fare increase of 45 per cent.

² Note: Alexandra introduced flat fares for all trips within the township of Alexandra (\$10 during the day and \$15 during the night). These flat fares are not taken into account in estimating the weighted average fare increase as we do not have data on the proportion of trips for which the fares would apply. The effective fare increase could be higher or lower than our estimated weighted average increase of 35 per cent depending on the distance of flat fares trips.

4.2 POTENTIAL EXPLANATIONS FOR THE FARE CHANGES

There are a number of potential explanations for the observed large fare increases:

- large fare increases could be a fare correction
- they could be intended as a periodic increase to apply for an extended period of time, or
- they could be the result of transient market power due to time required for market entry to occur.

4.2.1 FARE CORRECTION

In May 2014, a 12.5 per cent increase was applied to the regulated fares in the regional and country zones. This was the first fare increase in six years. The fare increase was intended to address this lack of an increase in fares over the previous six years, as well as taking into account the effects of reforms to the taxi industry that were being implemented (such as the introduction of the mandated 45-55 revenue sharing arrangement in the new driver agreement and the removal of mandatory affiliation).

However, the fare increase may not have reflected the required increase in the regional and country zones for a number of reasons:

- The 12.5 per cent increase was based on metropolitan data only – in advising on the appropriate fare increase, our focus was on the metropolitan and urban zones. It was for these zones only that we were to have a fare determination role and for which we had obtained costs data. We did not have access to cost data for the regional and country zones, and therefore chose to apply the same uplift as for the metropolitan and urban zones – this 12.5 per cent increase may not have accurately reflected the level or variability in regional and country taxi costs.
- Potential cost savings from industry reforms may not have applied equally in all zones – the removal of mandatory affiliation³ provides cost savings for operators

³ Before the recent reforms to the industry, taxi operators were required to be affiliated with a Network Service Provider. In exchange for paying network fees, operators receive various services such as job dispatch and security cameras. Mandatory network affiliation was removed as part of the reforms to the industry, and operators are no longer required to be affiliated with a network.

who choose to no longer affiliate with a network. However, removal of mandatory affiliation may not have provided cost savings to regional and country operators, where reliance on network provided jobs may be higher.

It is possible that regional and country service providers that have notified large fare increases may be adjusting their fares to correct for these issues.

4.2.2 PERIODIC INCREASE

In stakeholder consultations, service providers have suggested to us a reluctance to increase their fares due to the costs in reprogramming meters. In order to minimise these costs, service providers may avoid regular or frequent fares changes. Service providers that notified large increases may have favoured an increase in fares that now allows them to hold fares constant for a number of years.

4.2.3 TRANSIENT MARKET POWER

The recent reforms to the taxi industry were intended to lower market entry costs, for example by introducing as-of-right licences. The intention of these reforms was to stimulate market entry and enhanced competition in the market. However, market entry may take some time. In the meantime, prices (fares) may diverge from costs. In future reports, we will monitor the divergences as well as signs of new entry in response.

4.3 MONITORING OF FUTURE FARE INCREASES

Service providers who have notified fares have increased their fares substantially more than cost movements as measured by the TCI, as well as other measures of inflation. It will be important to closely monitor these fares in future years.

In future years, we will be able to measure service providers' cumulative and annualised fare increases since deregulation. This is important in analysing the longer term trend in fares and how fare levels measure against trends in costs.

Furthermore, we will review market entry and the state of competition in regional and country submarkets. The recent reforms to the taxi industry were intended to reduce

the barriers to entry and allow for competition. Fares were deregulated in the regional and country zones on this basis. As such, we would expect to see market entry or increased competition in response to unreasonably large fare increases (that is, fares increasing well in excess of costs).

APPENDIX A - TAXI SERVICE PROVIDERS IN THE REGIONAL AND COUNTRY TAXI ZONES

SERVICE PROVIDERS WHO NOTIFIED FARES IN 2014-15

TABLE A.1 SERVICE PROVIDER OPERATING AREAS

Service provider	Operators	Operating areas
Alexandra (Alexandra Taxis)	Cunningham, Cinamon & Dimech, David	Acheron, Alexandra, Break O'Day, Burnt Bridge, Buxton, Castella, Cathkin, Caveat, Dairy Creek, Devils River, Devlin Bridge, Dropmore, Eildon, Fawcett, Flowerdale, Ghin Ghin, Glenburn, Gobur, Granton, Hazeldene, Highlands, Homewood, Kanumbra, Karralika Heights, Kerrisdale, Killingworth, Koriella, Limestone, Maintongoon, Marysville, Molesworth, Murrindindi, Narbethong, Pheasant Creek, Rubicon, Snobs Creek, St Fillans, Strath Creek, Taggerty, Taylor Bay, Terip Terip, Thornton, Toolangi, Torbreck Station, Whanregarwen, Wilks Creek, Woodbourne, Yarck, Yea
Bairnsdale (Cullcabs Pty Ltd; Riviera Taxis & Hire Cars Pty Ltd; Bairnsdale Taxis, Paynesville Taxis)	ARMSTRONG, Peter W & Cheryl A; Bruthen Pty Ltd; Bruthen Trans Ag Pty Ltd; Riviera Taxis & Hire Cars Pty Ltd; Cullcabs Pty Ltd	Bairnsdale, Bengworden, Boggy Creek, Broadlands, Calulu, Clifton Creek, Clifton Waters Village, Eagle Point, East Bairnsdale, Ellaswood, Fernbank, Flaggy Creek, Forge Creek, Goon Nure, Granite Rock, Hillside, Iguana Creek, Johnsonville, Lindenow, Lucknow, Melwood, Mount Taylor, Newlands Arm, Nicholson, Paynesville, Raymond Island, Sarsfield, The Fingerboards, Walpa, Waterholes, Wuk Wuk, Wy Yung, Metung, Mossiface, Swan Reach, Tambo Upper, Fairy Dell, Bruthen
Bass Coast (Coastal Taxis; Phillip Island Taxi Service; South Coast Taxis)	Apimor Pty Ltd	Anderson, Archies Creek, Bass, Cape Woolamai, Churchill Island, Corinella, Coronet Bay, Cowes, Grantville, Kilcunda, Newhaven, Powlett River, Pioneer Bay, Queensferry, Rhyll, San Remo, Silverleaves, Smiths Beach, Summerlands, Sunderland Bay, Sunset Strip, The Gurdies, Ventnor, Wimbledon Heights, Dalyston, Dudley, Glen Alvie, Ryanston, South Dudley, Wattle Bank, Wonthaggi, Inverloch, North Wonthaggi, Cape Paterson, Harmers Haven
Bellarine (Bellarine Peninsula Taxis Pty Ltd)	Bellarine Peninsula Taxis Pty Ltd	Barwon Heads, Bellarine, Breamlea, Clifton Springs, Collendina, Curlewis, Drysdale, Fenwick, Indented Head, Mannerim, Marcus Hill, Murradoc, Ocean Grove, Point Lonsdale, Port Bellarine, Portarlington, St Leonards, Swan Bay, Wallington, Bellbrae, Bellbrae West, Bells Beach, Connewarre, Jan Juc, Mount Duneed, Torquay, Queenscliff, Swan Island

Service provider	Operators	Operating areas
Bright & Myrtleford (Wilson, Colin D & Margaret A)	Wilson, Colin D & Margaret A	Bright, Myrtleford
Cape Otway (Philip Bartlett & Alan Dow)	Philip Bartlett & Alan Dow	Aire Valley, Apollo Bay, Beech Forest, Cape Otway, Ferguson, Forrest, Glenaire, Grey River, Hordern Vale, Johanna, Johanna Heights, Kennett River, Killala, Lavers Hill, Marengo, Separation Creek, Skenes Creek, Skenes Creek North, Tanybryn, Weeaprounah, Wongarra, Wye River, Wyelangta, Yuulong
Colac (Harrison Enterprises (vic) Pty Ltd; Mr Michael N Harrison)	Harrison Enterprises (vic) Pty Ltd; Mr Michael N Harrison; Mr Francis M Harrison	Alvie, Balintore, Barongarook, Barongarook West, Charleys Creek, Beech Forest, Birregurra, Bungador, Carlisle River, Chapple Vale, Colac, Colac East, Colac West, Coragulac, Cororooke, Corunnun, Cressy, Cundare, Cundare North, Dreeite, Dreeite South, Elliminyt, Eurack, Ferguson, Forrest, Gellibrand, Gerangamete, Irrewarra, Irrewillipe, Irrewillipe East, Johanna, Johanna Heights, Kawarren, Larpent, Lavers Hill, Mount Sabine, Murroon, Nalangil, Ondit, Pennyroyal, Pirron Yallock, Swan Marsh, Tomahawk Creek, Tulloh, Upper Gellibrand, Warncoort, Warrion, Weeaprounah, Weering, Whoorel, Wool Wool, Yaughar, Yeo, Yeodene, Yuulong
Crown Cabs – various locations (Crown Cabs Taxi Service; Crown & Company Pty Ltd; Yellow Cabs Victoria Pty Ltd)	Crown & Company Pty Ltd; La Naturale Ambience Pty Ltd; Mr Tuna Guclu; Freedom by Design Inc.; G Abbott Engineering Pty Ltd; Mr Graeme Keith Deal; Mr Harmandeep Singh; Mr Hugh Turner; Romyco Pty Ltd; Ross Anderson & Wendy Anderson; She He Me Pty Ltd	Drummond, Drummond North, Trentham, Trentham East, Tylden South, Bulla, Goonawarra, Kalkallo, Mickleham, Oaklands Junction, Sunbury, Wildwood, Yuroke, Ashbourne, Baynton, Baynton East, Benloch, Bald Hill, Barringo, Bolinda, Bullengarook, Cadello, Carlsruhe, Cherokee, Chintin, Clarkefield, Cobaw, Couangault, Darraweit Guim, Edgecombe, Gisborne, Gisborne South, Goldie, Goldie North, Greenhill, Heskett, Kerrie, Lancefield, Macedon, Monegeetta, Monegeetta North, Mount Macedon, New Gisborne, Newham, Pastoria, Pastoria East, Pipers Creek, Romsey, Rosewall, Springfield, Woodend, Tylden, Woodend North, A1 Mine Settlement, Barjarg, Barwite, Bonnie Doon, Boorolite, Brack Bridge, Bridge Creek, Delatite, Goughs Bay, Howes Creek, Howqua, Jamieson, Kevington, Knockwood, Macs Cove, Maindample, Mansfield, Matlock, Merrijig, Merton, Mountain Bay, Paradise Point, Piries, Sawmill Settlement, Tabletop, Tolmie, View Point, Woodfield, Woods Point, Diggers Rest, Beveridge, Broadford, Bylands, Clonbinane, Coulson Crossing, Emu Flat, Dysart Siding, Forbes, Glenaroua, Glenhope, Glenhope East, Granite, Heathcote Junction, Heathcote South, High Camp, Hilldene, Kilmore, Kilmore East, Nulla Vale, Pyalong, Reedy Creek, Sugarloaf Creek, Sunday Creek, Tallarook, Tyaak, Upper Plenty, Wallan, Wallan East, Wandong, Waterford Park, Willowmavin, Mount Buller, Mirimbah, Arthurs Creek, Cottles Bridge, Eagle Nest, Knobs Junction, Mittons Bridge, Nutfield, Smiths Gully, St Andrews, St Andrews North, Donnybrook, Eden Park, Glenvale, Humevale, Merriang, Whittlesea, Wollert, Woodstock, Yan Yean
Echuca (Echuca Moama Taxi Group Pty Ltd)	Echuca Moama Taxi Group Pty Ltd; Gerard James Devlin and Rosemary Devlin; Gunnaroo Pty Ltd; Mr Barry Mc Phee; Mr Glenn R Pascoe; Mr Leigh D Tait; Mr William C Westrup	Echuca

Service provider	Operators	Operating areas
Hamilton (Taxis Of Hamilton Pty Ltd)	Mr Wayne H Uebergang; Mrs Janet Evelyn Uebergang; Taxis Of Hamilton Pty Ltd; Wayne H & Janet E Uebergang	Hamilton, Dunkeld, Penshurst, Glenthompson, Byaduk, Coleraine, Tarrington, Gazette, Purdeet, Tabor, Karabeal, Mirranatwa, Victoria Point, Victoria Valley, Woodhouse, Bochara, Buckley Swamp, Hensley Park, Morgiana, Mount Napier, Strathkellar, Wannon, Warrayure, Yatchaw, Yulecart, Branxholme, Bulart, Glenisla, Casterton, Chetwynd, Minjah, Macarthur, Warrabkook, Nareeb, Narrapumelap South, Moutajup, Broadwater, Corxton East, Tahara, Grassdale, Tahara West, Warrock, Moorally, Harrow
Horsham (Horsham Taxi Service Pty Ltd)	Horsham Taxi Service Pty Ltd; Mr Maxwell J Hood	Horsham
Kyneton (Kyneton Country Cabs Pty Ltd)	Kyneton Country Cabs Pty Ltd	Kyneton
Lakes Entrance (Silver Hill & Co. Pty Ltd)	Gregory J & Susanne Ackling; Mr Gregory John Ackling	Lakes Entrance
Merbein (J Halacas & M T Halacas & J A Rankin & M J Rankin)	Mr David Andrew Leersen; Mr Mark A Ratcliffe; Mr Ross W Missen; Ms Leanne Mc Donald; Slate Beach Pty Ltd	Merbein
Morwell (Morwell Taxis Pty Ltd)	Blair, Gavin & Vicki Miss Christine Judith Zarb; Morwell Taxis Pty Ltd; Mr Raymond J Vardy; Mr Rodney P Whykes; Mr Steven Bruce Lane; Mrs Carmen L Giddens; Mrs Sylvia Brandon	Morwell
Robinvale (Gregory J & Susan D Kelly)	Gregory J & Susan D Kelly	Robinvale
Wodonga (Amalgamated Taxis Wodonga Co-operative Limited)	Amalgamated Taxis Wodonga Co-operative Limited; Cullen, Neil Patrick & Sherree Ann; Fitz, John F & Eleanor L & Warren A; Lansdown Nominees Pty Ltd; Mark L & Janice L Vogel; Mr Damian John O'Connor; Mr Donald J Thompson; Mr Robert Peter Salisbury; Mr Scott James Cowie; Mrs Marie J Thompson; Mrs Sharon L Symes; R.J. Cowie Nominees Pty Ltd	Wodonga

Data source: Taxi Services Commission

LIST OF REGIONAL AND COUNTRY TAXI OPERATORS

TABLE A.2 REGIONAL AND COUNTRY OPERATORS

Operator	Zone	Notified?	Operator	Zone	Notified?
A.c.n. 145 714 352 Pty Ltd	Country	No	Clive Transport Pty Ltd	Regional	No
Amalgamated Taxis Wodonga Co-operative Limited	Regional	Yes	Colin John & Margaret Kay Butcher	Regional	No
Apimor Pty Ltd	Country	Yes	Crown & Company Pty Ltd	Regional & Country	Yes
Ararat Cabs Pty Ltd	Country	No	Cullcabs Pty Ltd	Regional	Yes
ARMSTRONG, Peter W & Cheryl A	Regional	Yes	Cullen, Neil Patrick & Sherree Ann	Regional	Yes
Arnold Boers Pty Ltd	Regional	No	Cunningham, Cinamon & Dimech, David	Country	Yes
Baker, Baker, Betts, Hocking, Arnold, English, Stephens & Stephens	Country	No	Darryl Marks, Garry Ponton, Robyn Ponton	Regional	No
Barry & Annette Hood	Regional	No	Davwill Investments Pty Ltd & Tate, P & M	Regional	No
Barry L & Kazmiera Sullivan	Regional	No	Daylesford Taxi Service Pty Ltd	Country	No
Bbl Management Pty Ltd	Regional	No	Deal, Graeme & Stephen	Regional	No
Beard, Glen & Rebecca	Regional	No	Dennis John & Pauline Frances Cook	Country	No
Beavis, Gavin L & Carmel L	Regional	No	Dimboola Taxi Pty Ltd	Country	No
Bellarine Peninsula Taxis Pty Ltd	Regional	Yes	Echuca Moama Taxi Group Pty Ltd	Regional	Yes
Benalla Taxis Pty Ltd	Regional	No	FINN, Michael J & Cathryn M	Regional	No
Bidwin Pty Ltd	Regional	No	Fitz, John F & Eleanor L & Warren A	Regional	Yes
Blair, Gavin & Vicki	Regional	Yes	Freedom by Design Inc.	Regional	Yes
Breen Michael & Faye	Regional	No	G Abbott Engineering Pty Ltd	Regional	Yes
Bruce & Lorraine Moss	Country	No	Geelong Radio Cabs Limited	Regional	No
Bruce McKenzie & Catherine McKenzie	Regional	No	Geoffrey & Linda Hare	Regional	No
Bruthen Pty Ltd	Regional	Yes	Geoffrey & Maree Pritchett	Country	No
Bruthen Trans Ag Pty Ltd	Regional	Yes	Gerard James Devlin and Rosemary Devlin	Regional	Yes
Campisi, Ann & Brian	Regional	No	Giovanni Nominees Pty Ltd	Country	No
Catrick Pty Ltd	Regional	No	Gippsland Taxi Pty Ltd	Regional	No
Christopher & Susan Huthnance	Country	No	Graeme & Kathleen Gardner	Regional	No

Operator	Zone	Notified?	Operator	Zone	Notified?
Grant & Amanda Pascoe	Country	No	Lodovico & Kaylene H Dalla Santa	Regional	No
Gregory J & Susan D Kelly	Country	Yes	Mackenzie, Gavin J & Joanne M	Country	No
Gregory J & Susanne Ackling	Country	Yes	Mark L & Janice L Vogel	Regional	Yes
Gunnaroo Pty Ltd	Regional	Yes	Maxwell And Maureen Cameron	Regional	No
H H & J N Roberts Pty Ltd	Country	No	Mclanky Pty Ltd	Regional	No
Hantell Pty Ltd	Regional	No	McLURE, Andrea L & Matthew S, McLURE, Catherine C & O'BRIEN, Geoffrey	Regional	No
Harrison Enterprises (vic) Pty Ltd	Regional	Yes	Mclure, Catherine And Lawn, Geoffrey W & Nerelle J And O'bryan, Robert & Diane	Regional	No
Heathcote Transit Pty Ltd	Country	No	Mclure, Matthew S & Andrea L	Regional	No
Hillington Lodge Pty Ltd	Regional	No	McLURE, Matthew S, Andrea L & Catherine C, O'BRIEN, Geoffrey M & PUGLIESE, Damian	Regional	No
Horsham Taxi Service Pty Ltd	Regional	Yes	Mervyn Francis Leitch and Jacqueline Frances Leitch	Regional	No
Howard Webb P/L ATF Howard Webb F/Trust	Regional	No	Michael & Gail Ralston	Regional	No
INSLEY, Ann & John	Regional	No	Michael Dee Pty Ltd	Country	No
J M & S F Zonneveldt Pty Ltd	Country	No	Mildura Taxis Pty Ltd	Regional	No
Jamie G & Jennifer L Bickley	Country	No	Miss Amanda Watson	Regional	No
Jaspri Private Pty Ltd	Country	No	Miss Christine Judith Zarb	Regional	Yes
Jayeight Pty Ltd	Regional	No	Miss Janeece Susan Dineen	Regional	No
JJCZI Taxis Pty Ltd	Regional	No	Miss Sandra Marie Timmins	Country	No
John L & Shirley J Croft	Regional	No	Morwell Taxis Pty Ltd	Regional	Yes
Jomsu Pty Ltd	Regional	No	Mr AMANDEEP SINGH GILL	Regional	No
K & B Larkings Pty Ltd	Regional	No	Mr Andrew J Boram	Country	No
Krieger, Kenneth & Leentje	Regional	No	Mr Andrew W Watson	Regional	No
Kyneton Country Cabs Pty Ltd	Country	Yes	Mr Anthony P Walsh	Regional	No
La Naturale Ambience Pty Ltd	Regional	Yes	Mr Anthony S Savva	Regional	No
Lansdown Nominees Pty Ltd	Regional	Yes	Mr Asif Ali Zafar	Regional & Country	No
Lasorace Pty Ltd	Regional	No	Mr Barry Mc Phee	Regional	Yes
Latrobe Valley Taxi Company Pty Ltd	Regional	No	Mr Brian R Cuffe	Country	No
LAWN, Geoffrey & Narelle	Regional	No	Mr Chashamveer Singh Hear	Regional	No

Operator	Zone	Notified?	Operator	Zone	Notified?
Mr Christopher Leslie Durbridge	Country	No	Mr Noel John Thomas	Regional	No
Mr Damian John O'Connor	Regional	Yes	Mr Paul A O'ryan	Country	No
Mr Damian Peter Murphy	Country	No	Mr Paul R Hornsby	Regional	No
Mr Dane James Hall	Regional	No	Mr Peter Anthony Valentine	Regional	No
Mr Daryl Robert Jenkins	Regional	No	Mr Peter Paul Szmola	Regional	No
Mr David Andrew Leersen	Country	Yes	Mr Rajan Kumar	Country	No
Mr David G Callerame	Regional	No	Mr Raymond D Opie	Regional	No
Mr David J Colvin	Regional	No	Mr Raymond H JACKSON	Regional	No
Mr David James O'donoghue	Regional	No	Mr Raymond J Vardy	Regional	Yes
Mr Dean Raymond Abbott	Regional	No	Mr Rehman Habib	Regional	No
Mr Dharminder Kumar	Regional	No	Mr Richard G Madgwick	Regional	No
Mr Donald J Thompson	Regional	Yes	Mr Robert Eion Barnes	Regional	No
Mr Francis M Harrison	Regional	Yes	Mr Robert J Armstrong	Country	No
Mr Gary J Sinnott	Country	No	Mr Robert N Allen	Regional	No
Mr Gavin John Mackenzie	Country	No	Mr Robert Peter Salisbury	Regional	Yes
Mr Glenn R Pascoe	Regional	Yes	Mr Robin P Hubble	Regional	No
Mr Graeme Keith Deal	Regional	Yes	Mr Rodney P Whykes	Regional	Yes
Mr Graeme R Amor	Regional	No	Mr Ronald Geoffrey Gorringe	Regional	No
Mr Gregory John Ackling	Country	Yes	Mr Ross W Missen	Regional	Yes
Mr Harmandeep Singh	Regional	Yes	Mr Saqib Nazir Gondal	Country	No
Mr Hugh Turner	Regional	Yes	Mr Satwinderjit Singh Gill	Regional	No
Mr Ian Gibson	Regional	No	Mr Scott James Cowie	Regional	Yes
Mr Ian L Sewell	Country	No	Mr Shane G Burke	Country	No
Mr Jack Tumohe Ngatai	Country	No	Mr Stanley John Smith	Regional & Country	No
Mr Joffre Alfred KRISTIANSEN	Regional	No	Mr Stephen Gregory Hardy	Regional	No
Mr John Ariano	Country	No	Mr Steven Bruce Lane	Regional	Yes
Mr Karl R Lintzen	Regional	No	Mr Stewart Angus	Regional	No
Mr Leigh D Tait	Regional	Yes	Mr Stewart S Williamson	Regional	No
Mr Manzoor Ahmad Mian	Country	No	Mr Trevor C Templeton	Country	No
Mr Mark A Ratcliffe	Regional	Yes	Mr Trevor William Loader	Regional	No
Mr Maxwell J Hood	Regional	Yes	Mr Tuna Guclu	Regional	Yes
Mr Michael D Mc Coy	Regional	No	Mr Wayne H Uebergang	Regional	Yes
Mr Michael N Harrison	Regional	Yes	Mr Willem Heidenrijk	Regional	No
Mr Murray John Gardiner	Regional	No	Mr William C Westrup	Regional	Yes
Mr Neville HODGETTS	Regional	No	Mr William Michael Morrissey	Regional	No

Operator	Zone	Notified?	Operator	Zone	Notified?
Mrs Annette Hood	Regional	No	R A Woodbridge Pty Ltd	Regional	No
Mrs Carmen L Giddens	Regional	Yes	R & S Wilkinson Pty Ltd	Country	No
Mrs Evelyn Margaret KRZNARIC	Regional	No	R.J. Cowie Nominees Pty Ltd	Regional	Yes
Mrs Faye Marilyn Breen	Regional	No	Riviera Taxis & Hire Cars Pty Ltd	Regional	Yes
Mrs Janet Evelyn Uebergang	Regional	Yes	Romyco Pty Ltd	Regional	Yes
Mrs Marie J Thompson	Regional	Yes	Rontronics Technical Services Pty Ltd	Regional & Country	No
Mrs Robyn J Petrowsky	Country	No	Ross Anderson & Wendy Anderson	Regional	Yes
Mrs Sharon L Symes	Regional	Yes	She He Me Pty Ltd	Regional	Yes
Mrs Sylvia Brandon	Regional	Yes	Singline Alan And Lynette	Regional	No
Mrs Tania Ann Eastwood	Regional	No	Sixat Services Pty Ltd	Regional	No
Mrs Veronica Maria Clarke	Country	No	Slate Beach Pty Ltd	Regional	Yes
Ms Donna Lee Turner	Regional	No	Stanglis Pty Ltd	Regional	No
Ms Jeanette L Keiller	Regional	No	Stanley & Debra Smith	Country	No
Ms Jennifer K Phillips	Regional	No	Swan Hill Taxi Cabs Pty Ltd	Regional	No
Ms Leanne Mc Donald	Regional	Yes	Taxis Of Hamilton Pty Ltd	Regional	Yes
Ms Lynette Joy Dineen	Country	No	Taxis of Portland Pty Ltd	Regional	No
Ms Mary WEIR	Regional	No	Templeton, Trevor & Donna	Country	No
Murphy Damien & Helen And Keira Gibson	Country	No	Turner, Michael & Karen	Regional	No
Noel S & Margaret C Marriott	Regional	No	Visser Dittmar Pty Ltd	Regional	No
Northcoast Butchery Pty Ltd	Regional	No	Warrnambool Radio Taxis Pty Ltd	Regional	No
Parniak, Jan & Collette	Regional	No	Wayne H & Janet E Uebergang	Regional	Yes
Peter & Sheila Jepson	Regional	No	Wellington Taxis Pty Ltd	Regional	No
Peter G & Barbara L Rhodes	Regional	No	Wilson, Colin D & Margaret A	Country	Yes
Peter R & Natalie J Ellis	Regional	No	WRIGHT, Paul & Annette	Regional	No
Philip Bartlett & Alan Dow	Country	Yes	Yallock Pastoral Co Pty Ltd	Regional	No

Data source: Taxi Services Commission

APPENDIX B - OPERATOR SURVEY

Survey of taxi operators

Your response is anonymous — no personal information will be recorded with your response.
This questionnaire is made up of 13 questions. Please answer all relevant questions.

Date questionnaire completed: _____

1. Now that fares are no longer regulated, have you revised your fare schedule? (<i>choose one</i>)			
<input type="checkbox"/> Yes. Why?	<input type="checkbox"/> No. Why not?		
2. How many taxis do you operate?			
_____ Standard taxi(s)			
_____ Wheelchair accessible taxis (WATs) / High Occupancy Vehicles (HOVs)			
3. What area(s) do your taxi(s) operate in?			
<input type="checkbox"/> Regional zone. Please specify area: _____			
<input type="checkbox"/> Country zone. Please specify area: _____			
4. Do you also drive a taxi? <input type="checkbox"/> No <input type="checkbox"/> Yes, how many hours per week?			
5. This question relates to the revenue each taxi generates per year. Please answer parts (a) (b) and (c).			
a. How much operator revenue does each taxi generate per year? Please include only the 45 per cent of the fare revenue received by the operator. If you also drive the taxi, please exclude the 55 per cent driver share of the fare revenue.			
Standard taxi:	_____	\$ per year	
WAT / HOV:	_____	\$ per year	
b. What share of your revenue is from passengers with a Multi Purpose Taxi Program (MFTP) card?			
_____ %			
c. In most taxi areas, the fare structure varies at different days/times during the week. What is your best estimate of the percentage of total fare revenue earned during:			
Standard fare periods (such as weekday daytime fares): _____ %			
Higher fare periods (such as nights, weekends, public holidays where relevant): _____ %			
6. This question relates to fuel and wash/cleaning costs. For each vehicles type, please provide the information requested in the table below.			
	Standard taxi(s)		WAT(s) / HOV(s)
	Regular (non-hybrid) vehicle(s)	Hybrid vehicle(s)	
Average fuel cost per year (\$)			
Average distance per year as a taxi (Km)			
Average paid kilometres per year (Km)			
Type of fuel (LPG/ULP/Diesel)			
Average wash/cleaning costs per year (\$)			

7. This question relates to your **vehicles**. Please answer parts (a), (b), (c), (d) and (e).

a. Do you own any of your vehicles? Yes No

b. If yes, please provide the information requested below.

	Standard taxi(s)		WAT(s) / HOV(s)
	Regular (non-hybrid) vehicle(s)	Hybrid vehicle(s)	
Average purchase cost of vehicle if owned (\$)			
Average cost of fit-out (if not included in the purchase price) (\$)			
Average age of vehicle at purchase (years)			
Expected life of vehicles as a taxi from date of purchase (years)			

c. Do you lease any of your vehicles? Yes No

d. If yes, what is the **annual** lease cost for each type of vehicle on average?

Regular (non-hybrid) vehicle \$ _____ per year
Hybrid vehicle \$ _____ per year
WAT/HOV \$ _____ per year

e. Please indicate if the vehicle lease costs reported above include other services? (*tick all that apply*)

Licence lease Insurance
 Network fees Other, please specify: _____

8. This question relates to your taxi **licences/licence plates**. Please answer parts (a), (b), (c) and (d).

a. Do you lease any of your licences (including from the Taxi Services Commission)? Yes No

b. If yes, who do you lease your licences from?

Taxi Services Commission Through a licence broker
 Directly from private owner Other, please specify: _____
 Through a network

c. If yes, what is the **annual** lease cost per licence for each type of licence on average?

Standard taxi licence \$ _____ per year
WAT/ HOV licence \$ _____ per year

d. Please indicate if the licence lease costs reported above include other services? (*tick all that apply*)

Lease of the vehicle Insurance
 Network fees Other, please specify: _____

9. In the space provided please indicate what **insurance** you have on your business/vehicles, the **annual** premium (including GST) and the excess on your policy.

	Do you have this type of insurance?		What is the annual premium per standard taxi? \$ (incl. GST)	What is the annual premium per WAT / HOV? \$ (incl. GST)	What is the excess on your policy? \$
	No	Yes			
Compulsory third party insurance	<input type="checkbox"/>	<input type="checkbox"/>			
Comprehensive insurance	<input type="checkbox"/>	<input type="checkbox"/>			
Third party property (if not part of comprehensive)	<input type="checkbox"/>	<input type="checkbox"/>			
Workers' compensation	<input type="checkbox"/>	<input type="checkbox"/>			
General liability insurance (separate to your comprehensive policy)	<input type="checkbox"/>	<input type="checkbox"/>			

10. This question is about costs to access services provided by a network or cooperative. Please answer all parts of this question

a. What is the annual network fee (including GST) that you pay for each taxi that you operate?

Standard taxi \$ _____ per year

WAT / HOV \$ _____ per year

b. Please indicate if the network fees reported above includes services other than standard network services (such as radio bookings, lost property etc.) (tick all that apply)

Lease of the vehicle Insurance

Lease of the licence Other, please specify: _____

11. This question is about repairs and maintenance costs for your vehicle(s). Please include any excess paid on your insurance policy, but do not include costs that were covered by insurance. Please answer all parts of this question — answer **No** if not relevant to your business.

a) Do you spend time on repairs and maintenance yourself?	b) Do you pay staff to undertake repairs and maintenance?	c) Do you pay other businesses to undertake repairs and maintenance (mechanics, parts etc.)?
<input type="checkbox"/> No	<input type="checkbox"/> No	<input type="checkbox"/> No
<input type="checkbox"/> Yes, hours per <u>year</u> ? _____ hours	<input type="checkbox"/> Yes, <u>annual</u> staff costs (including overheads)? \$ _____	<input type="checkbox"/> Yes, <u>annual</u> expenses? (including GST): \$ _____ per Standard taxi
		\$ _____ per WAT / HOV

12. This question is about **administrative tasks** related to your role as an operator. This includes organising drivers, paying bills, organising maintenance for the vehicle, obtaining insurance, completing Business Activity Statements etc. (Do not include administration related to your role as a driver if you also drive your cab.) Please answer all parts of this question — answer **No** if it is not relevant to your business.

a) Do you spend your own time on administration?	b) Do you pay staff to undertake administration?	c) Do you pay other businesses for administration (such as accounting fees)?
<input type="checkbox"/> No	<input type="checkbox"/> No	<input type="checkbox"/> No
<input type="checkbox"/> Yes, hours per <u>week</u> ? \$ _____	<input type="checkbox"/> Yes, staff costs per <u>year</u> (including overheads)? \$ _____	<input type="checkbox"/> Yes, costs per <u>year</u> (including GST)? \$ _____

13. This question is about the average paid trip or journey. Please answer all parts of this question.

a) How many kilometres is the average paid trip?	b) How many minutes of waiting time?	c) What share of all trips are pre-booked?
Standard taxis: Day shifts: _____ Km Night shifts: _____ Km	Standard taxis: Day shifts: _____ mins Night shifts: _____ mins	Standard taxis: Day shift: _____ % Night shift: _____ %
WATs/HOVs: Day shifts: _____ Km Night shifts: _____ Km	WATs/HOVs: Day shifts: _____ mins Night shifts: _____ mins	WATs/HOVs: Day shift: _____ % Night shift: _____ %

Thank you for completing this survey!

Please return this survey in the reply paid envelope provided or mail to:

Essential Services Commission
 Taxi Fare Review — Operator Survey
 Level 37
 2 Lonsdale Street
 Melbourne VIC 2000

APPENDIX C - COST ESTIMATES

VEHICLE

Operators can either purchase a vehicle outright or lease a vehicle. Operators must also pay for the fit-out of the vehicle.

CIE estimated an annualised vehicle cost by amortising the purchase cost of the vehicle plus the fit-out cost over the expected life of the vehicle. CIE estimated purchase cost, fit-out cost and expected life of the vehicle from survey responses, and assumed a real cost of capital of 5.45 per cent.

The survey results suggest that the capital cost and fit-out cost is significantly lower for standard taxis (including hybrids) than WATs/HOVs. However, the higher capital cost and fit-out cost for WATs/HOVs is partially offset by a longer expected life (greater than nine years compared with five to six years for standard taxis).

Cost inflation measure for vehicle costs

The annualised cost of motor vehicles reflects the purchase price of motor vehicles, the financing cost of motor vehicle, the number of years over which costs can be recovered, and the sale value of a vehicle when it is no longer used as a taxi.

We consider that *the change in motor vehicle component of the Melbourne CPI* is the appropriate cost inflation measure for the purchase price and sale value of a motor vehicle, while *the change in RBA lending rates for small business* is the appropriate cost inflation measure for the financing cost of a motor vehicle.

LICENCE

Taxis operating in Victoria must be licensed. Operators can purchase a transferable licence issued before 30 June 2014 from an existing licence holder, lease a licence from an existing licence holder, or apply to the TSC for a new licence.

CIE estimated licence costs based on the annual fee in 2014-15 for a new taxi licence in regional and country taxi zones. While the licence fee for existing licences is not required to reflect the licence fee for new licences, in practice, the fees are likely to be similar.

Cost inflation measure for licence costs

We consider that the change in *Melbourne CPI minus 0.5 percentage points* is the appropriate cost inflation measure for licence costs as taxi licence fees are increased annually by this amount.

NETWORK FEES

Network fees are costs associated with network affiliation. Operators receive access to services such as centralised booking and dispatch and networked security alarms.

Cost inflation measure for network fees

We have considered two options for the cost inflation measure for network fees:

- the change in telecommunications equipment and services component of the Melbourne CPI, and
- the change in the Melbourne CPI (All Groups).

We note that over the past ten years, the Melbourne CPI has increased at an annual average rate of 2.6 per cent, while the telecommunications equipment and services component of the Melbourne CPI has decreased by an annual average rate of 0.1 per cent.

We consider that the *change in telecommunications equipment and services component of the Melbourne CPI* is the appropriate cost inflation measure as it reflects broad trends in communications pricing.

INSURANCE

Operators are required to have compulsory third party insurance (included in vehicle registration fees and referred to as the Traffic Accident Charge) and workers' compensation insurance (where the operator uses bailee drivers). In addition, operators may have comprehensive insurance or third party property insurance.

CIE estimated insurance costs based on survey responses. CIE assumed operators have comprehensive insurance, compulsory third party insurance and workers' compensation insurance.

Cost inflation measure for insurance costs

There are three components to insurance costs – compulsory third party insurance, comprehensive insurance and workers' compensation insurance. The changes in premiums for these three components are not necessarily closely correlated; therefore we consider it is appropriate to apply separate cost inflation measures for each type of insurance.

- the actual change in the Transport Accident Charge applied to taxis (third party compulsory insurance)
- the change in the Insurance Council of Australia index for comprehensive car insurance premiums (comprehensive insurance), and
- the change in the wage price index (workers' compensation insurance).

MAINTENANCE AND REPAIRS

Operators may choose to undertake maintenance and repairs themselves, hire staff to undertake maintenance and repairs or pay other businesses to undertake maintenance and repairs. The total cost of maintenance and repairs is some combination of these three approaches.

To estimate total maintenance and repairs costs, CIE excluded responses that did not provide an answer for all three approaches, added each category to obtain the total maintenance and repairs cost per vehicle and estimated the average across the sample. CIE valued operator's own labour at \$36.83 per hour based on the median total salary package on an auto mechanic in Victoria (outside of Melbourne) of \$60 733

per year (including 9.5 per cent superannuation) and 1650 working hours per year (220 working days per year multiplied by 7.5 hours per day).

Cost inflation measure for maintenance and repairs costs

We consider that the *change in the repairs component of the Melbourne CPI* is the appropriate cost inflation measure for maintenance and repairs cost as it is likely to be broadly reflective of the change in the cost of maintenance and repairs in the taxi industry.

FUEL

Fuel costs are dependent on the number of kilometres driven per year and the type and fuel efficiency of the vehicle.

The survey results suggest that fuel costs are significantly lower for hybrid vehicles (partially offset by high vehicle costs), while fuel costs are similar for standard taxis and WATs/HOVs.

Cost inflation measure for fuel costs

We consider two options for the cost inflation measure for fuel costs:

- change in the fuel component of the Melbourne CPI, and
- change in FUELtrac price indexes

The Melbourne CPI measures both LPG and petrol prices in Melbourne. We consider that *FUELtrac* is a more appropriate cost inflation measure for fuel costs as it enables us to measure price changes in LPG specifically and in the regional and country areas only.

WASH/CLEANING

Wash/cleaning costs include the costs associated with washing and cleaning a taxi.

Cost inflation measure for wash/cleaning costs

Wash/cleaning costs generally comprise a relatively small share of total operator costs.

We consider that *the change in Melbourne CPI (All Groups)* is the appropriate cost inflation measure for wash/cleaning costs.

ADMINISTRATION

Operators may choose to undertake administration themselves, hire staff to undertake administration or pay other businesses to undertake administration (e.g. accountants). The total cost of administration is some combination of these three approaches.

To estimate total administration cost, CIE excluded responses that did not provide an answer for all three approaches, added each category to obtain the total administration cost per vehicle and estimated the average across the sample. CIE valued operator's own labour at \$36.67 per hour based on a median total salary package for an office manager in Victoria (outside of Melbourne) of \$60 499 and 1650 hours per year (220 days per year multiplied by 7.5 hours per day).

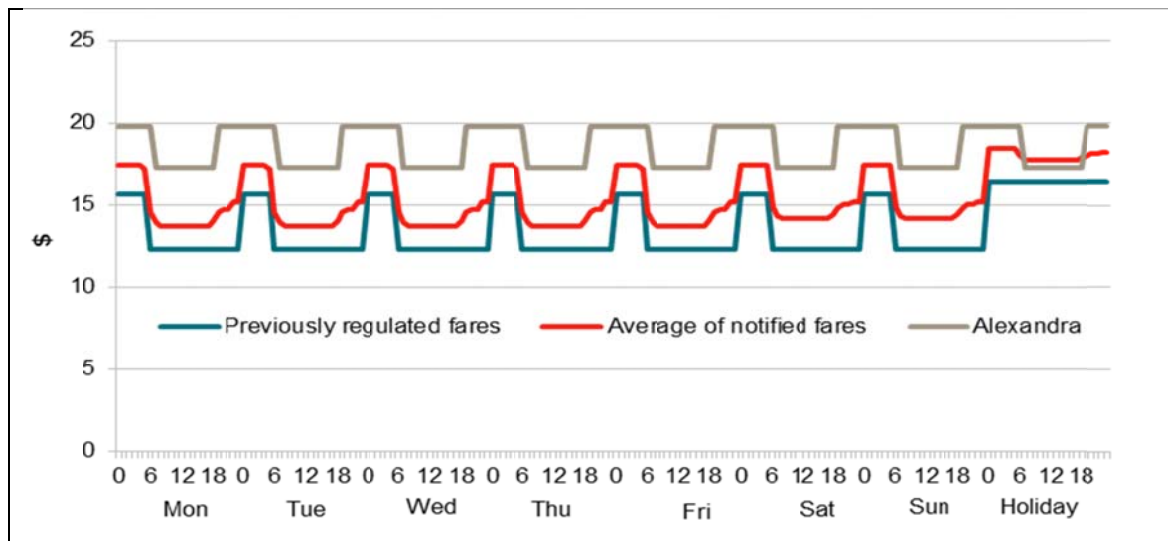
Cost inflation measure for administration costs

Administration costs generally make up a relatively small share of total operator costs and are mainly comprised of operators' own labour. We consider it would be reasonable for operators' compensation to increase in line with broader wage increases.

We consider that the *change in the wage price index* is the appropriate cost inflation measure for administration costs.

APPENDIX D – BENCHMARK FARE COMPARISONS

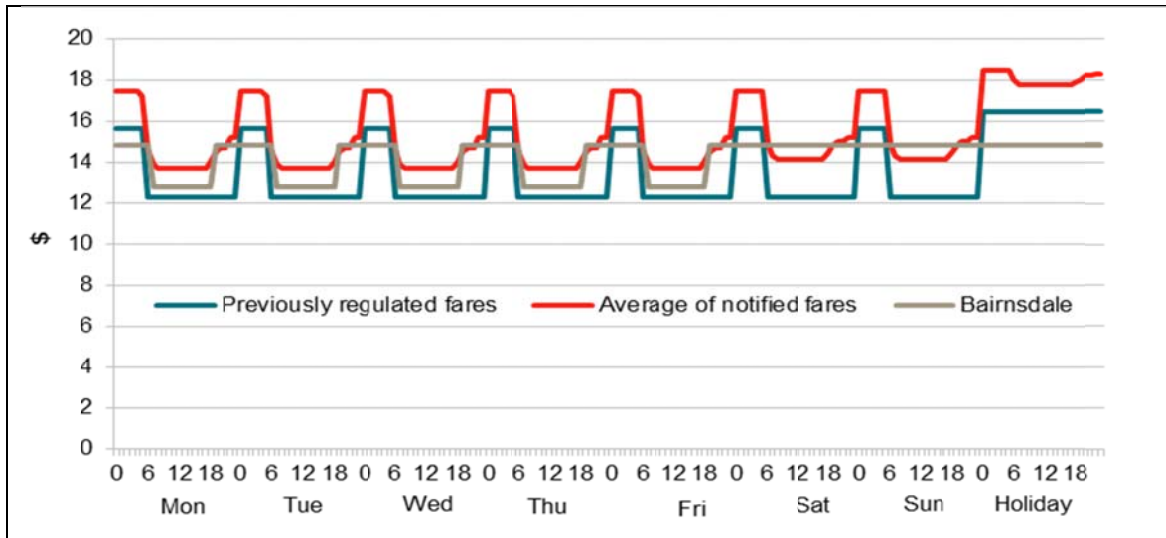
FIGURE D.1 ALEXANDRA FARE COMPARISON
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.2 BAIRNSDALE FARE COMPARISON

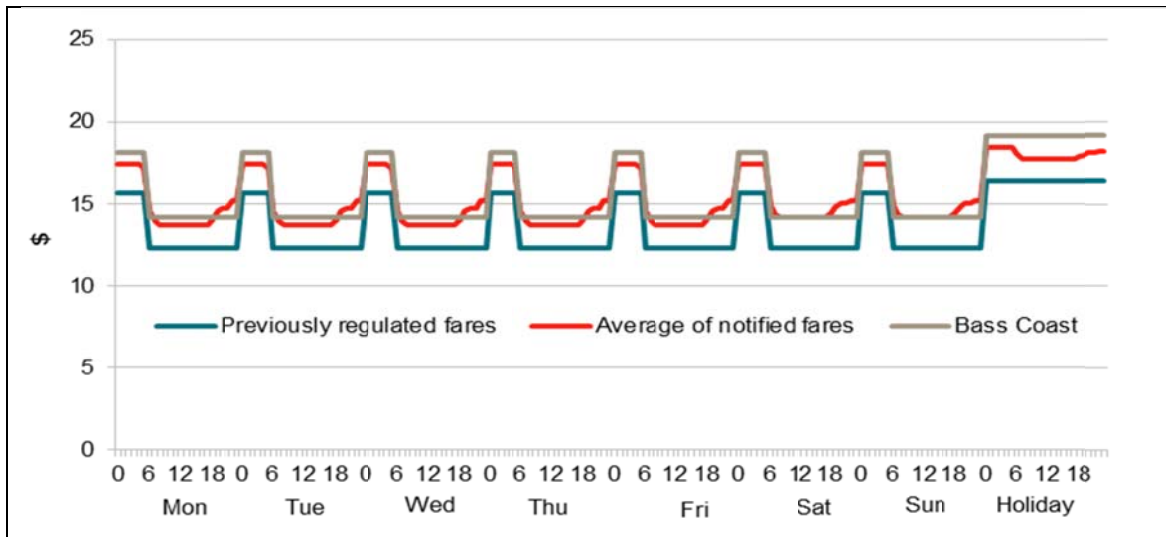
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.3 BASS COAST FARE COMPARISON

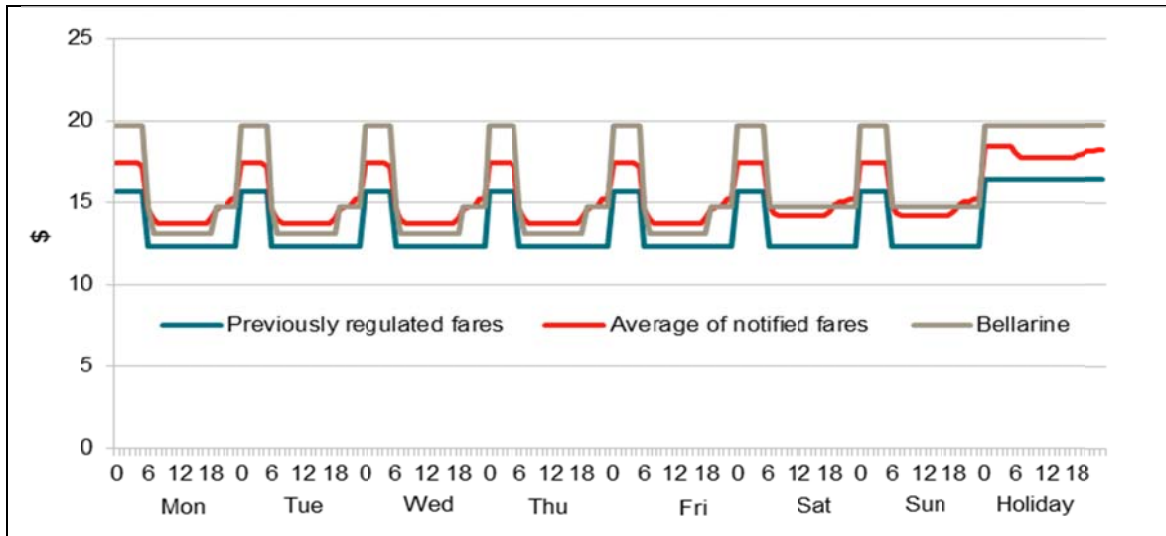
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.4 BELLARINE FARE COMPARISON

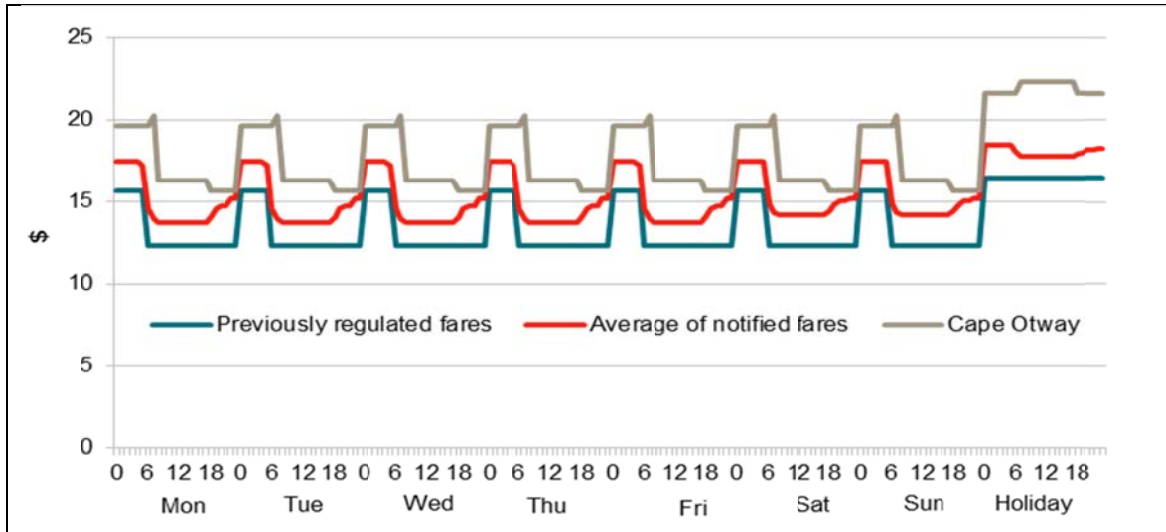
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

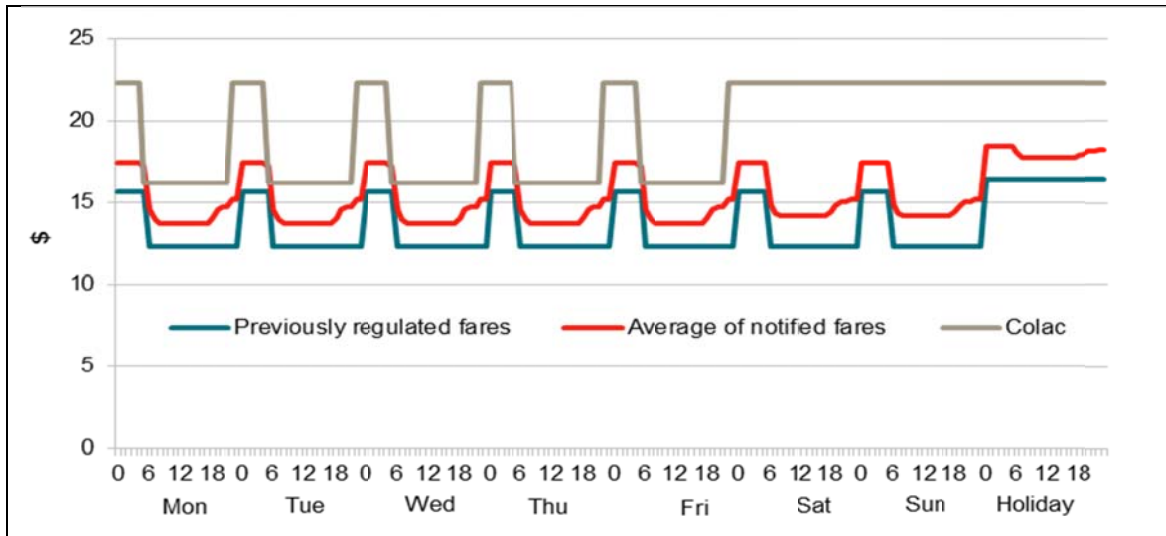
FIGURE D.5 CAPE OTWAY FARE COMPARISON

Benchmark trip across the week



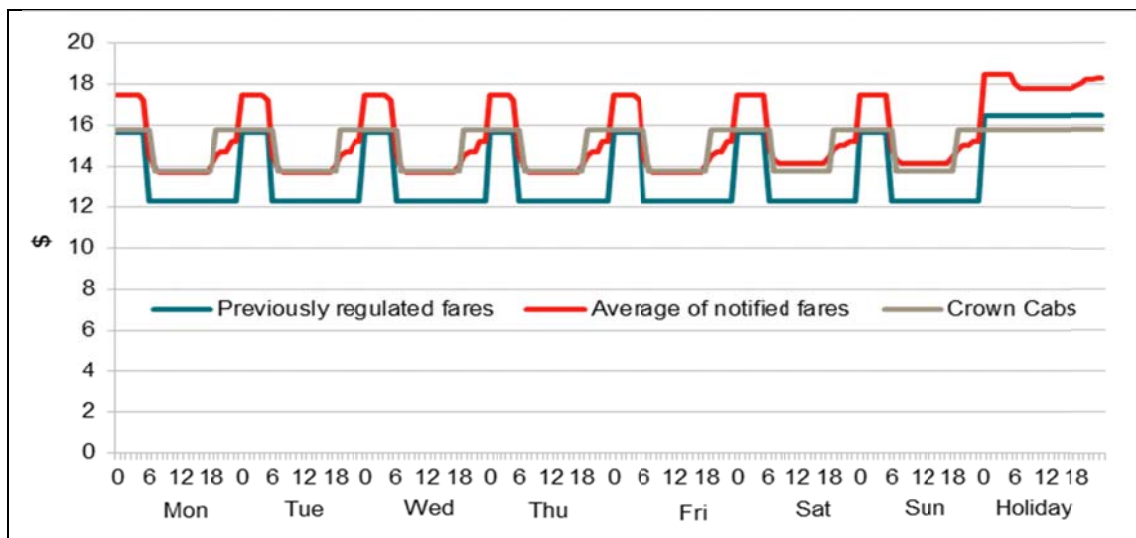
Data source: Taxi Services Commission and Commission analysis.

FIGURE D.6 COLAC FARE COMPARISON
Benchmark trip across the week



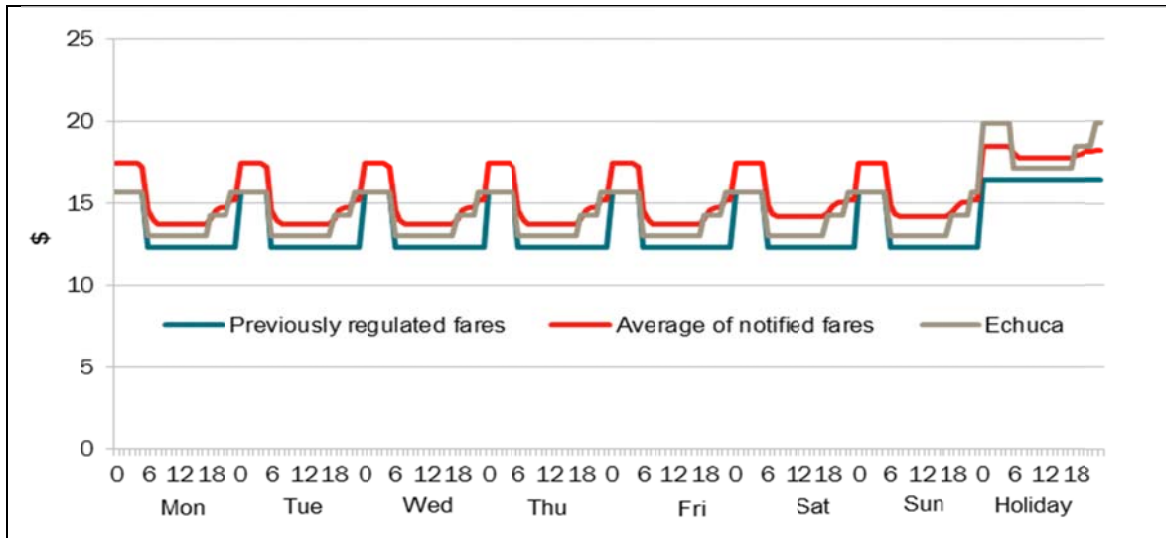
Data source: Taxi Services Commission and Commission analysis.

FIGURE D.7 CROWN CABS FARE COMPARISON
Benchmark trip across the week



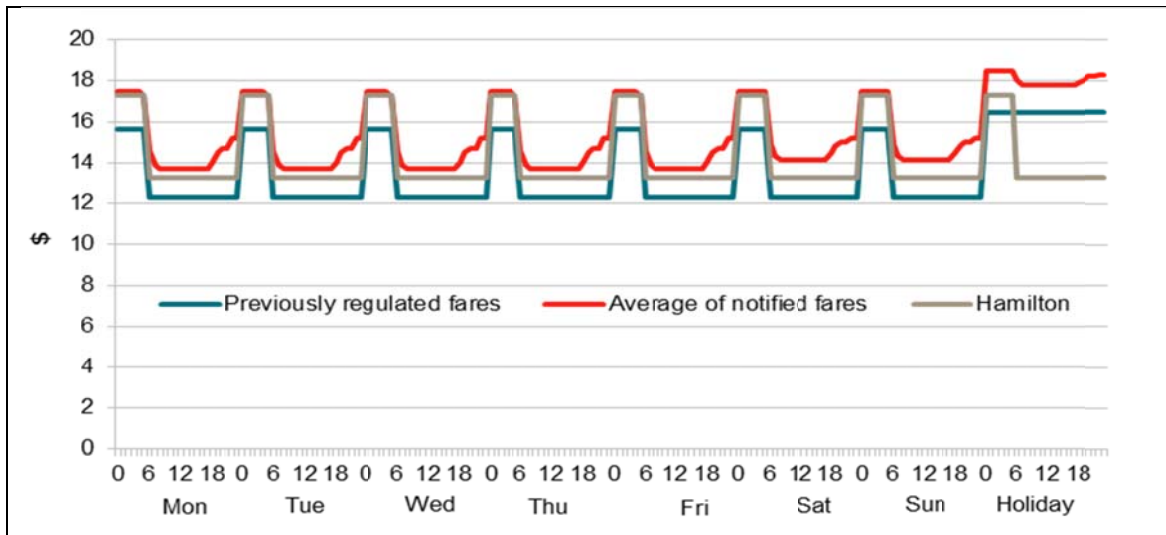
Data source: Taxi Services Commission and Commission analysis.

FIGURE D.8 ECHUCA FARE COMPARISON
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

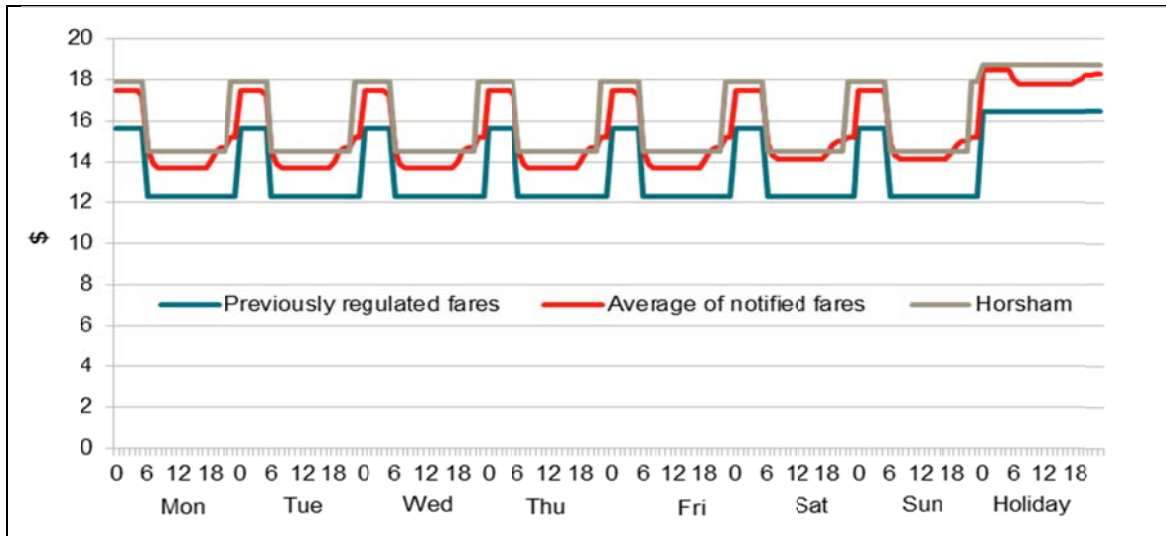
FIGURE D.9 HAMILTON FARE COMPARISON
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.10 HORSHAM FARE COMPARISON

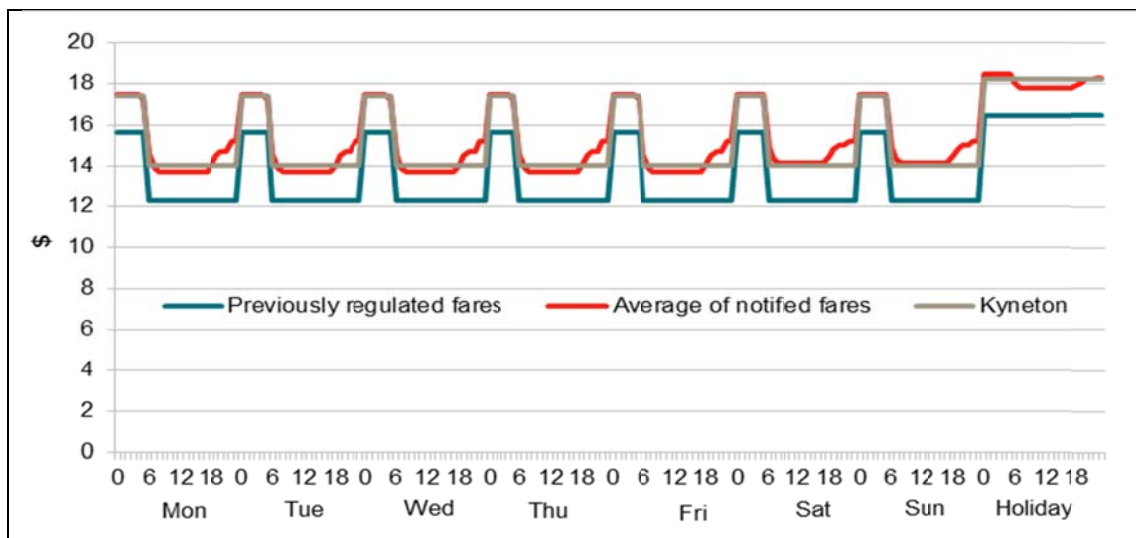
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.11 KYNETON FARE COMPARISON

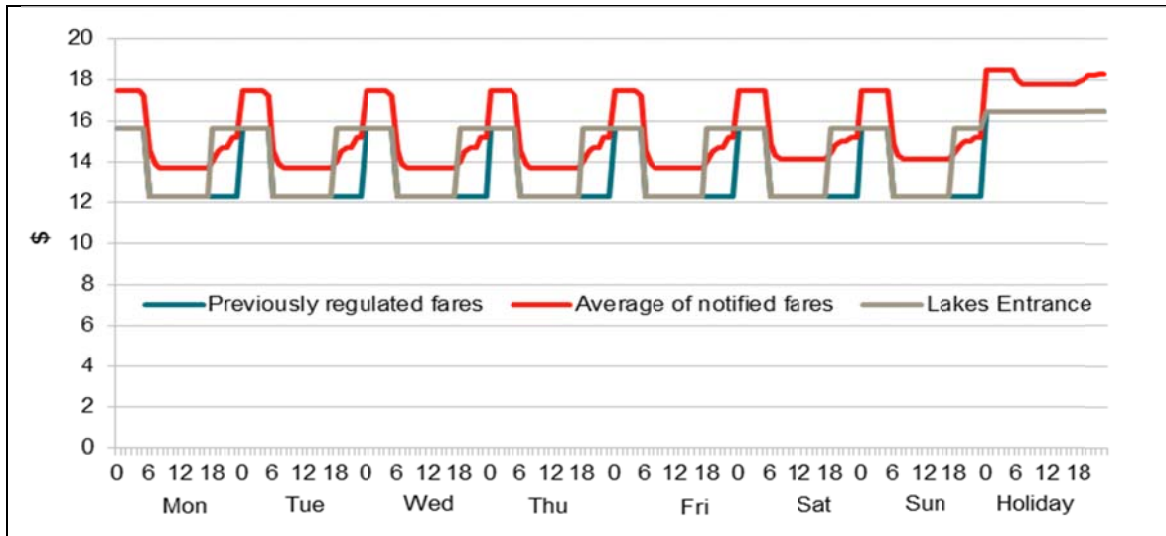
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.12 LAKES ENTRANCE FARE COMPARISON

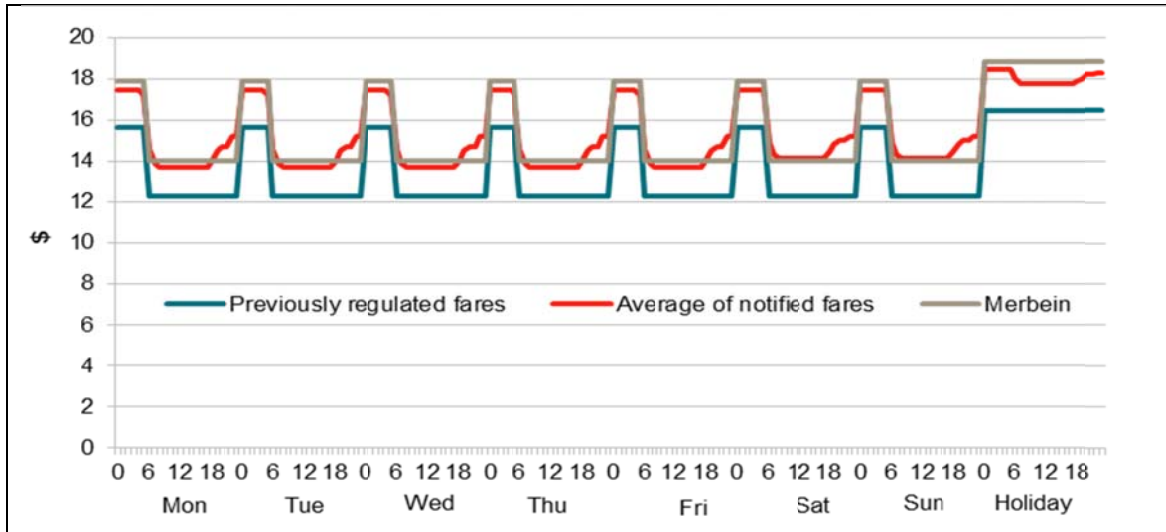
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.13 MERBEIN FARE COMPARISON

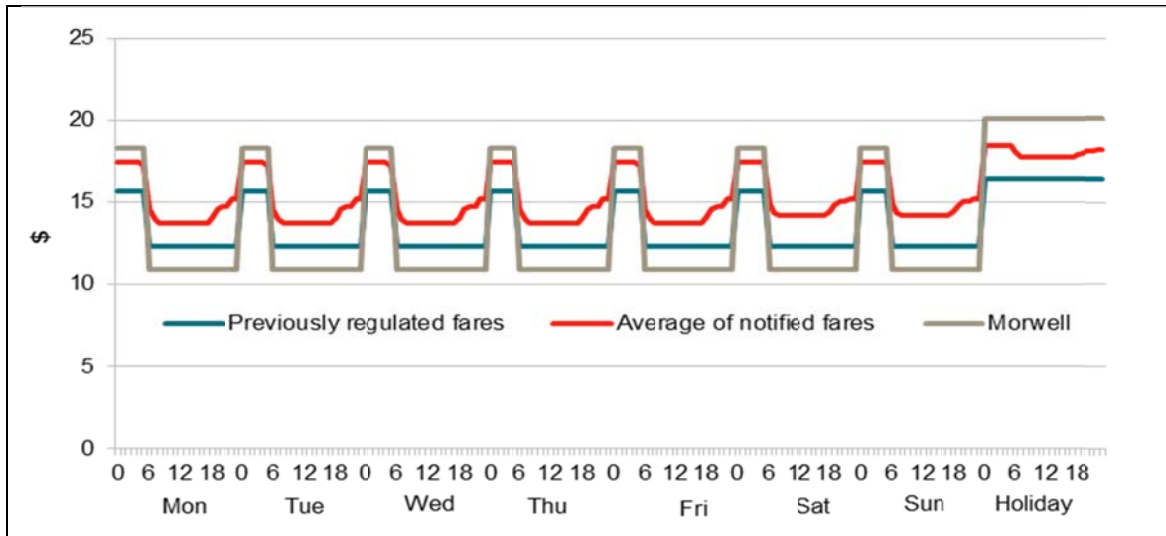
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.14 MORWELL FARE COMPARISON

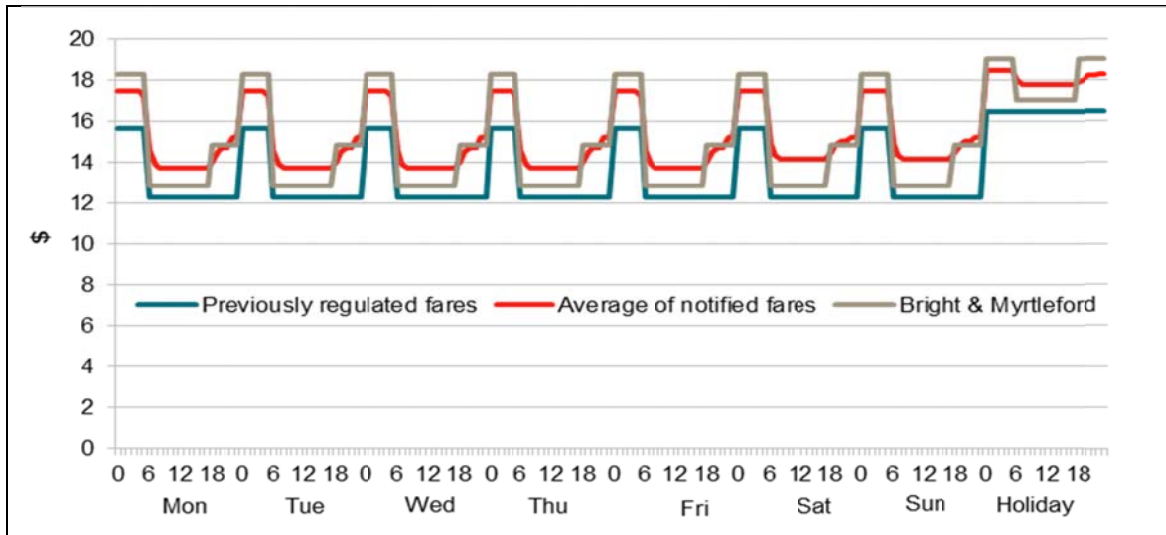
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.15 BRIGHT & MYRTLEFORD FARE COMPARISON

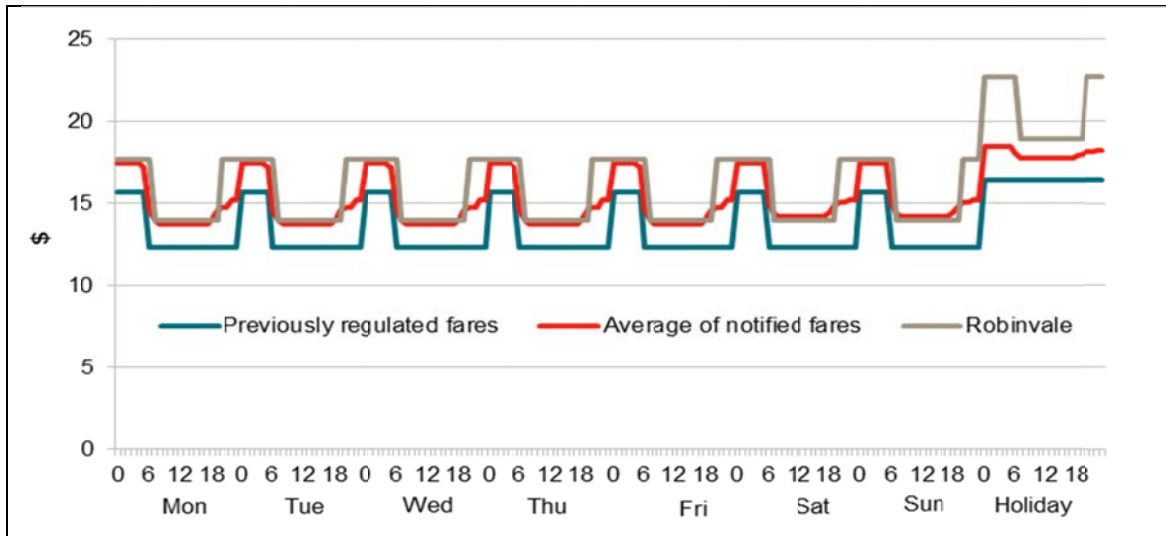
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.16 ROBINVALE FARE COMPARISON

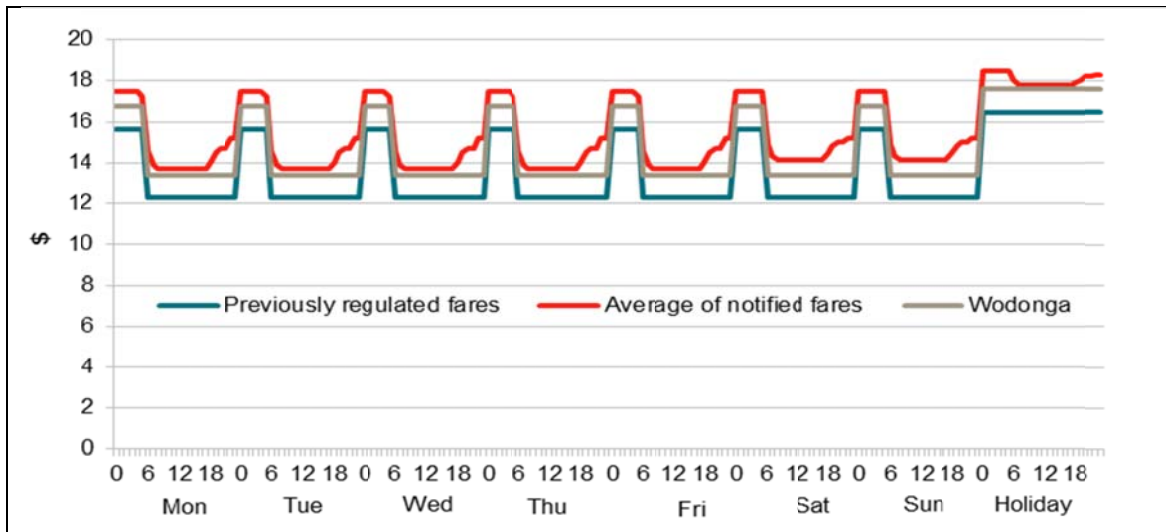
Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.

FIGURE D.17 WODONGA FARE COMPARISON

Benchmark trip across the week



Data source: Taxi Services Commission and Commission analysis.