Submission to
the
Essential Services Commission

Subject: Response to the Draft Report 2008

Author: Wally Hunt, a Melbourne Taxi Driver

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The preliminary report of the ESC is deeply disturbing. The report acknowledges that there as a significant profit distribution problem in the industry, but makes many recommendations that in my opinion, are likely to exacerbate the problem. In particular, issuing more licences to cause a "downward auction" on assignment values. Given the entrenched power of those seeking to monopolise the industry, assignment values will not start to reduce if any existing assignee continues to realise a profit at all!

The report is full of measures to minimise the costs of the service to the end user. It further goes on to use complex reasoning that minimises the implied costs, using accounting methods not comprehensible to ordinary people. The concept of returning the savings of any (theoretical) productivity gains to the service users is errant, in particular in an un-profitable industry.

The government has created, or allowed to be created, a system which it regulates, but only at the consumer end, and allowed the profits of the industry to be significantly captured by the richest investors at the "top" of the industry. The government therefore has an obligation to protect those in the industry in the weakest bargaining position.

In the report, the costs used in the reckoning, are minimised to such an extent, that with very good sound planning, and better than average luck, a profit **might** be generated. The reckoning in the report, does not recognise that bad luck can indeed play a part in business. There is therefore limited scope to recover from bad luck. An un-scheduled engine replacement is one example of bad luck. In this case, the cost is likely to be around $2,500 to $3,000. Another example of bad luck is an accident, and insurance claim. Typical insurance excesses are of the order of $2,000 to $3,000, and I have heard of an excess as high as $15,000!! A question which now begs to be asked, is "Do the costings allow for one accident excess per car per year?" In a recent conversation with an operator of about 12 taxis, he says that he has about one claim per car per year, or slightly more.

One other distortion in the figures derived from the surveys, is the presumption that all taxis are operated by people who can take advantage of "economies of scale". The Commission should produce another set of figures, on the assumption that an operator operates only one taxi, and therefore does not enjoy any benefits of an "economy of scale".

A major disadvantage of assuming an "economy of scale" is that it could become fairly profitable to operate many taxis, and very costly to operate one taxi. This will tend to concentrate the economic power of the industry in the hands of few people who each own many taxis. The result will be to lower service standards, and disenfranchise the small operator. This industry already is held to ransom by those with the strongest economic leverage. This leads to

uneven bargaining powers within the industry, and the tendency of the strongest players, to over play their market power.

An approach to "Market Power"

Could the Commission consider imposing a tax on licence assignors, calculated for example, as function of the square of the number of licences assigned by that assignor?

An example might be a tax of $100 per year for one licence assigned, $400 per year for each of two licences assigned etc.

T$ = $100 * N² per licence.
Tax would be $100 pa for one licence assigned.
$800 for two licences.
$2,700 for three licences.
$100,000 for ten licences.
Where T is Tax, and N is number of licences assigned.

The purpose of such a tax should not be to punish those who have made a commitment to, and investment in the industry. It should be the aim of the tax to spread the ownership and profits of the industry to more people, and to reduce the concentration of market power. The Commission has strongly identified concentration of market power as one of the biggest problems in the industry.

With the existance of such a tax, would come "creative bahaviour" to disguise the concentration of licence holding. eg. A person holding many licences, may try to create many shelf entities to "hold" one or two licences each. A true test of multiple holding would be to apply an "arms length" test to establish independence of licence holders from each other.

This proposed tax should not be applied in respect of any licences that are directly operated by the holder. If such a tax is applied only to assigned licences, this would not impact owner operators at all, and have a minimal impact on those assigning a single licence. Such a tax would have the greatest impact on those seeking to take most profits out of the industry, without being prepared to "do the hard yards".

The BSX should be required to keep a publicly accessible register of the holders of taxi licences. The concept of the identities of the licence holders being in "Commercial Confidence" is errant. The publication of the licence holder identities would give greater transparency to the system of assignment, and would allow the greater likelehood of detection of "concentration of ownership", as other members of the industry having access to the information, would help to detect un-declared "non arms length" relationships in the industry.

Such a tax would be likely to yield about $1,000,000 annually, based on the 2,800 assigned licences attracting an average of $300 tax each annually. With the aggressively increasing application of such a tax on multiple licence assignors, the effect would either “encourage” the direct involvement in the industry of large holders, or perhaps encourage them to divest licences to people who intend to operate them.

Driver Income:

The report also suggests that the average driver is receiving of the order of $13 per hour. In our experience, this level of income is not regularly achievable by typical drivers. This brings into question, the size of the sample (about 420). My suspicion is that the sample overly represents Silver Service drivers, and drivers from Secondary Networks. The drivers at the lower end of the income scale are less likely to have the skills necessary to respond to the PwC survey.

In my submission, I did not mention my own income level, which is above the $8 to $9 considered typical, but well below the $13 reported by Mr. Griffiths. In my opinion, my professional services as a driver are worth at least $22 to $25 per hour. I therefore conclude that I am receiving less than half of the income I rightly deserve.

Driver Training:

In the report, the suggestion that an increase in driver training to 115 hours is likely to give the drivers better bargaining power is, at best, far fetched. The RTOs delivering taxi driver training are largely controlled, and significantly influenced by those representing taxi companies and plate holders. The result will almost certainly be that the RTOs will “educate” the new drivers to accept deals with lower returns, and with bigger levies imposed on them.

A better system that would give drivers more bargaining power, would be for the Victorian Taxi Drivers' Association to operate a “driver bank”, which negotiates the bailments for most drivers in the industry. In this way, it would be possible to have better information on what drivers pay for their cars, and from whom cars can be obtained on more favourable terms.

Distortion and Extortion:

With the system as it currently is, we have a “downward auction” on returns to determine which drivers get a taxi to drive, and to determine who gets a licence on assignment. This means that those who get the plates, are those who are prepared to accept the lowest returns. We are in fact seeing a system of rampant extortion in relation to plate assignments. What is in fact happening is that when an assignment period nears its end, and the assignee needs to negotiate a renewal with the assignor, what appears to be happening is that the assignor will demand a “renewal levy” of around $10,000 per year

of the assignment. These payments are normally “up front” payments, and not reported to the BSX. The reported assignment fees are also dramatically increasing. The system as it stands, shows little or no concern for the economic well being of the assignees or drivers. It would appear that the system is driven by fear of the assignees that they may be left without a plate. The driving force in this system is that it is better to have “self determination” by having control of a business, despite the lack of profitability of that business. Another aspect of this problem is that as the “renewal levies” are not documented with receipts, the assignees are not able to claim these “levies” as business inputs, so can't get the tax rebates to which they might otherwise be entitled. On the other side of this the assignors are receiving “tax free” income.

Rorting the Booking Fee:

One sugggestion made in one of the submissions indicated that the dispatch systems of the taxi companies be connected to the taxi meter to control whether or not a booking fee can be applied when starting the meter.

While this suggestion has merit, the effect would be to disadvantage the many drivers who respond to direct booking requests from their clients. The fare structure is that any pre booked booking attracts a booking fee (extra), not just bookings originating from accredited taxi networks. Any driver in the regular habit of servicing “own bookings” is likely to be putting in greater vacant kilometres to pick up his clients, and given that his clients choose to ring him, in preference to the existing networks, is an indication that his “customer service ethic” is set at a higher standard than most drivers. The booking fee should not be “regulated” by the major networks, but should apply to any genuine pre-booking. The issue of some drivers routinely overcharging their clients by incorrect use of a booking fee should be investigated in response to complaints, and persistent offenders be detected and dealt with according to enforcement and complaint handling policies. The suggestion that the dispatch systems of secondary networks be connected to the meters is errant, because the secondary networks dispatch most of their work by voice over a radio system, and occasionally by mobile phone. The secondary networks, do not use any form of “central control system”.

Fare Structures:

Given our current fare structure, there does not appear to be enough scope to properly remunerate good drivers. The problem is exacerbated by the findings of the PwC survey, that each taxi is hired for about one third of the time. This estimate is optimistic! The reality is that one quarter of the time is probably nearer the truth.

I would encourage the Commission to view the occupancy rate of about 30% of the time, as they would if they were in business employing skilled trades people. The parallel here is that if a taxi is hired for about 30% of its

time on shift, this would equate to skilled trades people employed in a workshop, who were only billing one third of their time to clients.

In my opinion, rate 2 (night rate) should be extended to 10:00PM to 6:00AM as it is in other states in Australia (notably NSW).

Rate 2 should also apply during the hours identified in the “Accreditation – Business & Service Standards document” as “peak periods”. These times are Monday – Friday 07:30am to 09:30am and 03:30pm to 07:30pm

Rate 2 should also apply all day on Saturday, Sunday, and public holidays.

Rate 2 is the only method currently available to pay drivers “penalty rates”, and should apply when other workers are commonly being paid weekend or holiday rates. The 20% penalty applying during this time represents a 40% penalty rate for a driver on a 50:50 agreement. This is significantly lower than penalty rates paid to other workers, which usually start at 1.5x (50%) and rise to 2.0x (100%), or even 2.5x (150%).

The rationale of this suggestion is that because there is a peak demand for taxi services during “peak periods”, that those who want a taxi service at a peak time, but don't really need it, might choose to travel at another time. This would improve responsiveness of the system to customer demand at peak times, and shift some of the unmet peak demand to off-peak times. This would be better than adding more taxis to service the peak demands. Adding more taxis does two things, firstly, it shares the available revenue more thinly among more taxis, and secondly, burdens the industry with more sets of standing costs.

Another available strategy, would be to promote multi-hiring during peak times.

The VTDA Submission:

I broadly support the submission of the VTDA, but in my opinion, would want a significant fare increase, because I believe that there is not sufficient earning potential in the current fare structure to properly remunerate good drivers. In my suggestion above, that I am getting less than half of my deserved income, there needs to be more money available.

Submitted with this document, is a spreadsheet which calculates aproximate fares likely to be typical over a range of different fare structures existing in several Australian jurisdictions, ranges of distance, and some experimental proposed fare structures.

I support the suggestion made by the VTDA in their submission, that the

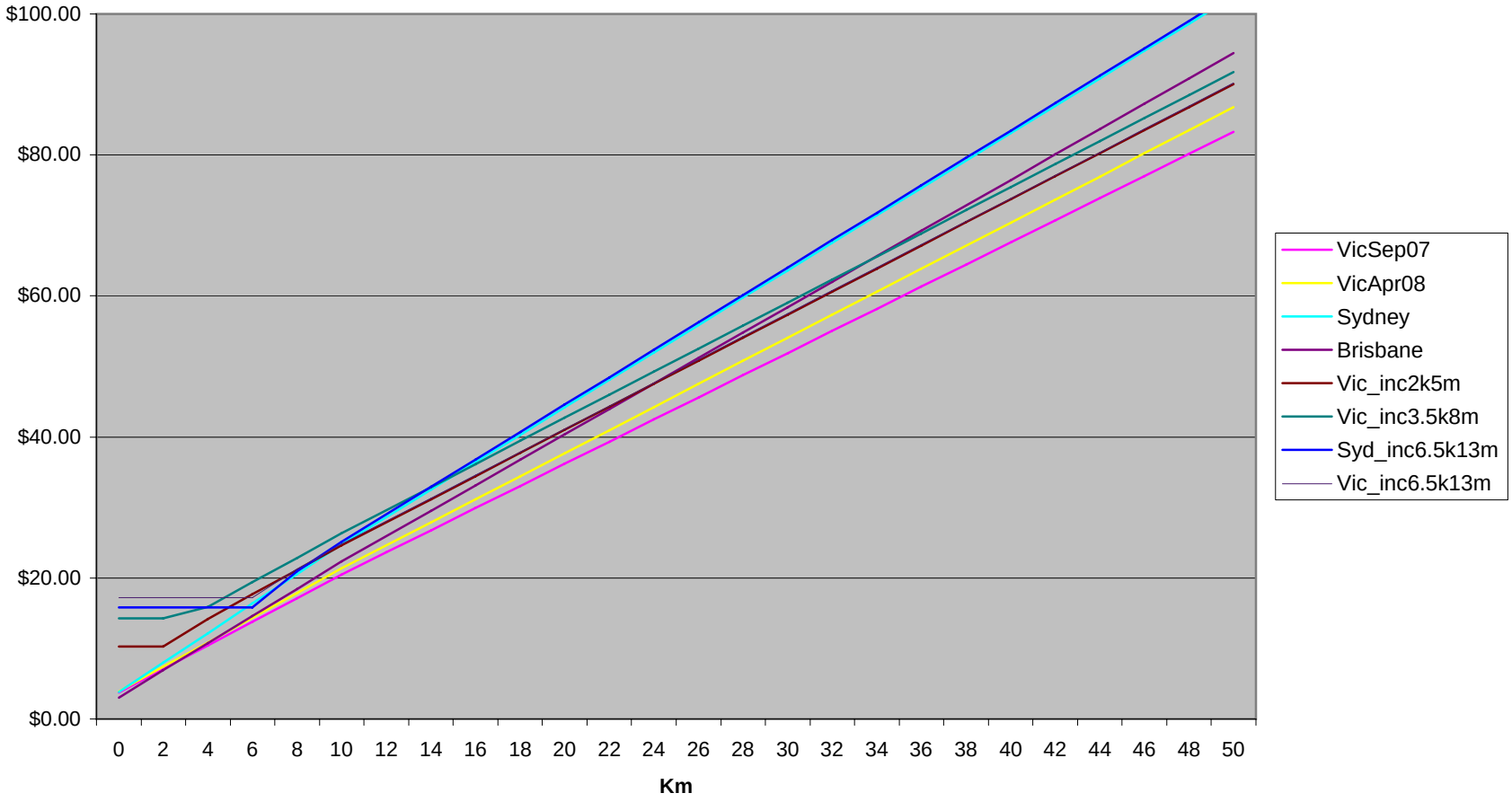
flagfall should be increased to about $10, or more likely, support the submission of CARA that the flagfall be as high as $15 as this would help to address the problem that the short fares do not justify their costs. The cost of a short fare includes a car (and driver) standing idle for a period, figuratevely 20 minutes before each hiring. This level of vacancy is built into the system, so as to allow sufficient responsiveness to demand, and availability when required. Unlike either submission, I would support the higher flagfalls including a time/distance component, so as to create a "useful" basic minimum fare. This would give better predictability to the cost of a fare, and improve driver responsiveness to such requests.

In the attached spreadsheet, the graph shows that on some of the possible fare structures, designed to improve responsiveness to short fare demands, are several fare structures with high flagfalls, but including significant included distances. In the $15 flagfall examples, 6.5Km, or 13 minutes are included, whichever is first. Such a fare structure would give the same fare for any "short locals", possibly during off peak times would go from Collingwood to Albert Park, Collingwood to Port Melbourne etc. The purpose of this is to not significantly increase fares overall, but, as was expressed at the January public meeting, to make the short fares pay for their costs.

My recommendations are:

- Mandating that no driver shall retain any less than 50% of the revenue.
- Improved driver training, including removing the RTOs in the industry from the effective control of "entrenched industry powers"
- Extend Tarriff 2 to peak demand times during day shift.
- Use Tarriff 2 to effectively give drivers penalty rates for working weekends and public holidays.
- Significantly increase the flagfall component of every fare, but include a significant "basic minimum" of time and distance in that charge.
- The government to review the subsidy formula if high flagfalls would be a barrier to the disadvantaged. It is not the role of taxi drivers to supply cheap labour to facilitate a service for the disadvantaged, or poor.
- A system of taxation on licence assignment, to discourage significant licence holding by people not interested in service delivery

Fare Modeling



	VicSep07	VicApr08	Sydney	Brisbane			Vic_inc2k5m	Vic_inc3.5k8	Syd_inc6.5k1	Vic_inc6.5k13m
	Vic 07	Vic 4_08	Sydney	Brisbane			Example A	Example B	Example C	Example D
Flagfall	$3.10	$3.20	$3.00	$2.50			$8.00	$12.00	$15.00	$15.00
Distance	$1.465	$1.526	$1.790	$1.680			$1.526	$1.526	$1.790	$1.526
Time	$0.525	$0.547	$0.770	$0.620			$0.547	$0.547	$0.770	$0.547
Booking	$1.30	$1.40	$1.60	$1.10			$4.50	$4.50	$1.60	$4.50
						Included dist	2	3.5	6.5	6.5
						Included time	5	8	13	13
Standard F	$20.50	$21.35	$24.78	$22.33						
Km					Est Delay					
0	$3.75	$3.90	$3.80	$3.05	0		$10.25	$14.25	$15.80	$17.25
2	$7.10	$7.39	$8.00	$6.91	0.8		$10.25	$14.25	$15.80	$17.25
4	$10.45	$10.88	$12.19	$10.76	1.6		$14.18	$15.89	$15.80	$17.25
6	$13.80	$14.37	$16.39	$14.62	2.4		$17.67	$19.38	$15.80	$17.25
8	$17.15	$17.86	$20.58	$18.47	3.2		$21.16	$22.87	$20.95	$21.29
10	$20.50	$21.35	$24.78	$22.33	4		$24.65	$26.36	$25.15	$24.78
12	$23.64	$24.62	$28.67	$25.94	4.4		$27.92	$29.63	$29.03	$28.05
14	$26.78	$27.89	$32.56	$29.55	4.8		$31.19	$32.90	$32.92	$31.32
16	$29.92	$31.16	$36.44	$33.15	5.2		$34.46	$36.17	$36.81	$34.59
18	$33.06	$34.43	$40.33	$36.76	5.6		$37.73	$39.44	$40.70	$37.86
20	$36.20	$37.70	$44.22	$40.37	6		$41.00	$42.71	$44.59	$41.13
22	$39.34	$40.97	$48.11	$43.98	6.4		$44.27	$45.98	$48.47	$44.40
24	$42.48	$44.24	$52.00	$47.59	6.8		$47.54	$49.25	$52.36	$47.67
26	$45.62	$47.51	$55.88	$51.19	7.2		$50.81	$52.52	$56.25	$50.95
28	$48.76	$50.79	$59.77	$54.80	7.6		$54.08	$55.79	$60.14	$54.22
30	$51.90	$54.06	$63.66	$58.41	8		$57.35	$59.07	$64.03	$57.49
32	$55.04	$57.33	$67.55	$62.02	8.4		$60.62	$62.34	$67.91	$60.76
34	$58.18	$60.60	$71.44	$65.63	8.8		$63.90	$65.61	$71.80	$64.03
36	$61.32	$63.87	$75.32	$69.23	9.2		$67.17	$68.88	$75.69	$67.30
38	$64.46	$67.14	$79.21	$72.84	9.6		$70.44	$72.15	$79.58	$70.57
40	$67.60	$70.41	$83.10	$76.45	10		$73.71	$75.42	$83.47	$73.84
42	$70.74	$73.68	$86.99	$80.06	10.4		$76.98	$78.69	$87.35	$77.11
44	$73.88	$76.95	$90.88	$83.67	10.8		$80.25	$81.96	$91.24	$80.38
46	$77.02	$80.22	$94.76	$87.27	11.2		$83.52	$85.23	$95.13	$83.65
48	$80.16	$83.49	$98.65	$90.88	11.6		$86.79	$88.50	$99.02	$86.92
50	$83.30	$86.76	$102.54	$94.49	12		$90.06	$91.77	$102.91	$90.20

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	Typical 07						
Increase %		10	10	10	20	20	20
Sensitivity		0	-0.8	-1	0	-0.8	-1
Revenue							
Total	122000	134200	124440	122000	146400	126880	122000
Driver	61000	67100	62220	61000	73200	63440	61000
Fuel	12200	13420	12444	12200	14640	12688	12200
Assignmen	25132	27645.2	27645.2	27645.2	30158.4	30158.4	30158.4
Operator	23668	26034.8	22130.8	21154.8	28401.6	20593.6	18641.6
Total	122000	134200	124440	122000	146400	126880	122000
Driver		50	50	50	50	50	50
		0	0	0	0	0	0
Fuel		10	10	10	10	10	10
Assignment		20.6	22.21568627	22.66	20.6	23.76923	24.72
Operator		19.4	17.78431373	17.34	19.4	16.23077	15.28