

PricewaterhouseCoopers report to the Department of Transport

Greater Melbourne Taxi Industry Overview

June 2010

Contents

Disclaimer	2
Acronyms	3
1 Purpose of this paper	4
2 Descriptive statistics regarding the sector	5
3 Revenue data	16
4 Costs	26
5 Factors influencing revenue and costs	29

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Acronyms

Acronym	Full text
ABS	Australian Bureau of Statistics
ATO	Australian Taxation Office
BSX	Bendigo Stock Exchange
CPI	Consumer Price Index
DoT	Department of Transport
ESC	Essential Services Commission
ETS	Emissions Trading Scheme
HOV	High Occupancy Vehicles
LPG	Liquid Petroleum Gas
MPTP	Multi-Purpose Taxi Program
NPV	Net Present Value
PMI	Private Motoring Index
PwC	PricewaterhouseCoopers
VTA	Victorian Taxi Association
VTD	Victorian Taxi Directorate
WAT	Wheelchair Accessible Taxi
WPI	Wage Price Index

1 Purpose of this paper

This paper collates publicly available information about taxi licences currently on issue in Victoria and is intended to inform prospective applicants.

Existing licences differ from those to be issued through the Greater Melbourne Taxi Licence Release (or the Application Process). The existing licences are perpetual and the majority can be assigned to an operator, whereas those released through the Application Process will have a fixed term and are not assignable. Applicants are strongly encouraged to familiarise themselves with the respective terms and conditions of the Greater Melbourne Taxi Licences and ensure they understand the key differences.

The information presented in this report is provided only as a guide and is not intended to illustrate the likely returns for taxi operations for successful applicants. Interested parties are encouraged to undertake their own financial analysis when deciding whether to participate in the Application Process.

For example, this report includes publicly available information about estimated average values for the most significant cost and revenue items for incumbent Victorian taxi operators. PwC collected this information through a survey of Victorian taxi operators for the purposes of the Essential Services Commission's (ESC's) fare review.

It is likely however, that actual values will differ from the averages in many instances. The size of various cost items will be influenced by each operator's individual business structure while revenue will depend on factors such as driver knowledge and ability to collect fare revenue, and the periods – including time of day – over which an operator chooses to operate their vehicle. Indeed, we are aware of other estimates of cost items – by the Victorian Taxi Association (VTA), for example.

Publicly available information was used in preparation of this report, including:

- Revenue and cost data from PwC survey completed for the ESC fare review 2007/08
- Australia Bureau of Statistics, Consumer Price Index (CPI) (*6401.0 Consumer Price Index, Australia*)
- Licence transfer and assignment prices (Bendigo Stock Exchange (BSX) and the Department of Transport (DoT))
- Australian Taxation Office (ATO) Taxi Ruling TR96/11
- Subsidy data provided by DoT (Multi-Purpose Taxi Program (MPTP) and lifting subsidies)
- Information on MPTP from DoT.

2 Descriptive statistics regarding the sector

2.1 Metropolitan and Outer Suburban

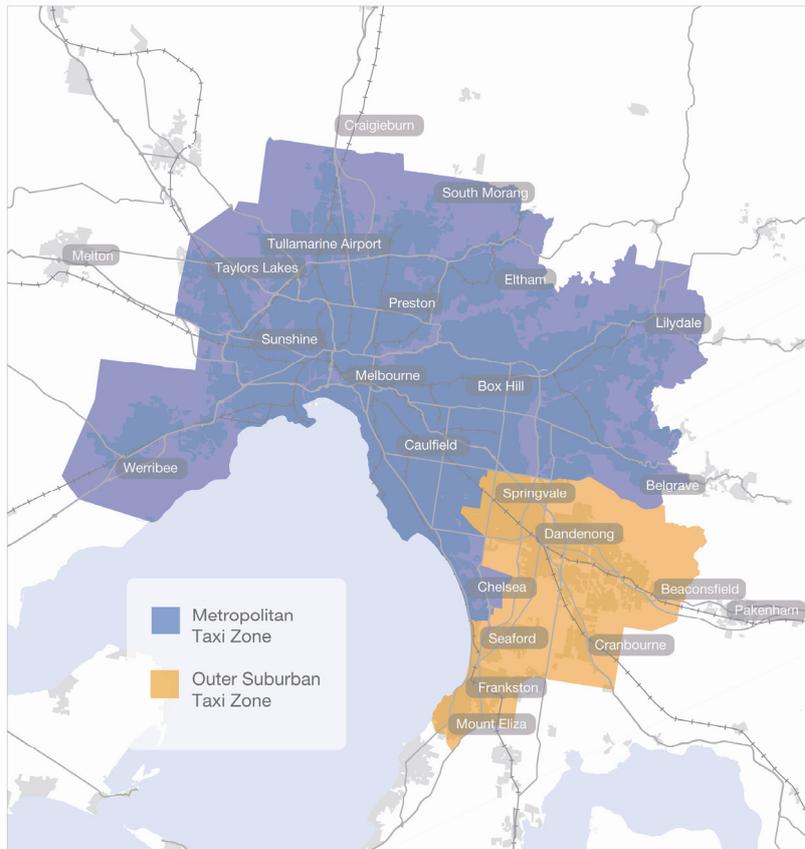
The Victorian taxi industry is regulated by a range of State laws and standards, in particular the:

- Transport Act 1983 (Part IV)
- Road Safety Act 1986
- Transport (Taxi-cabs) Regulations 2005
- Transport (Taxi-cab Licences – Market and Trading) Regulations 2005
- Transport (Taxi-cab Industry Accreditation) Regulations 2007
- Taxi-cab Industry Accreditation Business & Service Standards
- Taxi-cab Licence Conditions
- Vehicle Specification Standards.

Participation in the industry requires accreditation and successful applicants for Greater Melbourne Taxi Licences will need to be accredited before a licence can be granted.

Existing Melbourne taxi licences allow for operation in either metropolitan Melbourne or outer suburban licence areas. The map below illustrates how the Greater Melbourne area is divided between a metropolitan licence area and an outer suburban area. Licence holders are prohibited from undertaking rank and hail work outside defined areas, depending on the type of licence they hold.

Figure 2.1 Map of Metropolitan and Outer Suburban Taxi-cab Zones



Source: Department of Transport

2.2 Melbourne taxi licences

In terms of vehicle type, the current licences in Melbourne are split into four main types:

- **Conventional taxis** – defined as a commercial passenger vehicle available on-demand for public hire. A condition of conventional taxi licences is that operators must maintain regular and continuous service. Conventional licences are held in perpetuity. The holder of a conventional taxi licence can transfer (or sell) their licence and can also assign their licence for a fee, through an assignment agreement, to an operator who operates the licence on their behalf and assumes all licensing and regulatory responsibilities. Conventional taxis operating in Melbourne cannot be older than six and a half years from the date of manufacture.
- **Peak service taxis** – otherwise known as green top taxis. These taxis are allowed to operate in the Metropolitan Taxi-cab zone between 3pm and 7am, and 24 hours during specified major events (which include Australian Formula One Grand Prix, Melbourne Cup and Oaks Day). These licences have

been released to successful applicants who met particular selection criteria at a rate of 100 per year for the last six years. Licence holders pay an annual fee to Government and are prohibited from transferring or assigning the licence to another operator (although they can be bailed to a driver).

- *Wheelchair accessible taxis (WATs)* – designed for the purpose of transporting wheelchairs and are required to give priority to wheelchair bookings. They are, however able to carry non wheelchair passengers if they are not otherwise booked. Similar to conventional licences, WAT licences are held in perpetuity. Most WAT licences can be transferred (or sold) by the licence holder. The majority of licences can also be assigned to an operator who operates the licence on their behalf. WATs cannot be older than ten and a half years from the date of manufacture and must only be driven by someone who has completed the approved course on Wheelchair Accreditation Taxi Services.
- *High Occupancy Vehicles (HOV)* – otherwise known as maxi-taxis. HOVs can carry larger numbers of people, between 6 and 11, or can hold 2 occupied wheelchairs. There is a regulated fare that is applied when there are more passengers than a standard taxi. This, however does not apply when carrying wheelchairs. Similar to WAT licences, HOV licences are held in perpetuity and the majority of HOV licences can be transferred (or sold). Most licences can also be assigned, through an assignment agreement, to an operator who operates the licence on their behalf.

These licences are different from those licences offered as part of this Application Process. For example, conventional licences are perpetual and can be assigned to a third party, while the licences issued through the Application Process will operate for a fixed term and cannot be assigned.

The terms and conditions of the licences released through this Application Process are set out in the Application Pack. Potential applicants should consider the difference between the current and the proposed licences in setting the level of their bid.

The number of each type of licence in metropolitan and outer suburban taxi cabs currently on issue has been provided by the Victorian Taxi Directorate (VTD) and is set out in the table below.

Table 2.2 Number of Metropolitan and Outer Suburban taxi licences on issue

Licence Type	Conventional	WAT	HOV	Peak Services	Total
Metro	3,048	128	96	599	3,871
Outer Suburban	126	25	-	-	151
Total existing	3,174	153	96	599	4,022
New licences	200	330	-	-	530
Per cent increase in licences	6%	216%	-	-	13%

Source: Victorian Taxi Directorate

2.3 Structure of the industry

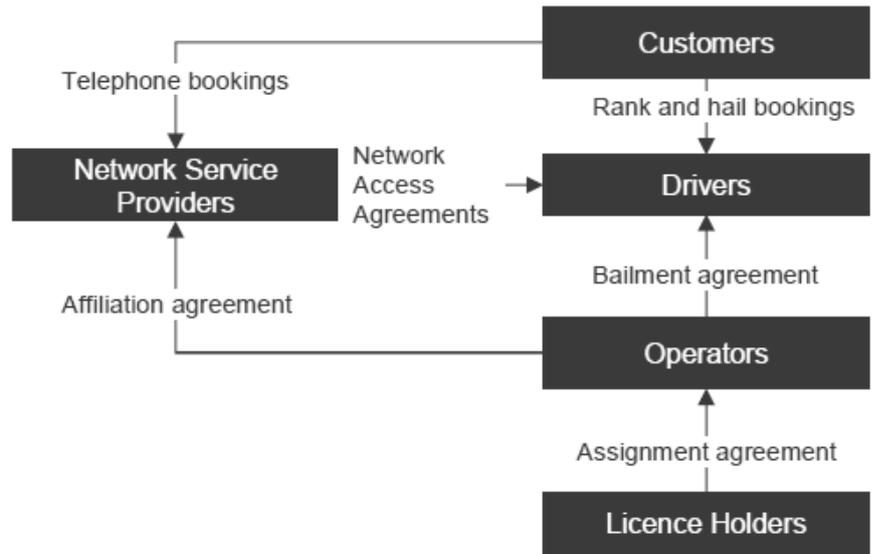
The following diagram illustrates the structure of the metropolitan taxi industry. Each type of industry participant – licence holder, operator, network service provider and driver – must seek accreditation from the VTD before they commence operations.

Licence holders can earn revenue either from operating and driving the taxi themselves or by assigning the right to operate their taxi to an operator.

An operator – an assignee or licence holder – can either drive the taxi themselves or make arrangements with shift drivers who are self-employed. Many operators choose to engage drivers to cover shifts that they are unable or unwilling to cover themselves, typically through a bailment agreement, which allows the taxi to be hired to a driver for an agreed period on agreed conditions. Bailment agreements are a civil matter between the operator and the driver.

Operators are required by law to affiliate with an accredited Network Service Provider (NSP), who provides communication facilities and acts as a conduit between taxi drivers and potential travellers. The NSPs provide a centralised booking and dispatch service for customers as well as safety services such as Global Positioning System (GPS) facilities to monitor and locate the movement of each taxi while in service.

Figure 2.3 Structure of the Melbourne taxi industry



Source: PricewaterhouseCoopers analysis

The VTD has provided information on the number of assignments per operator and the number of licences per licence holder. The majority of operators hold only one assignment as set out in the table below.

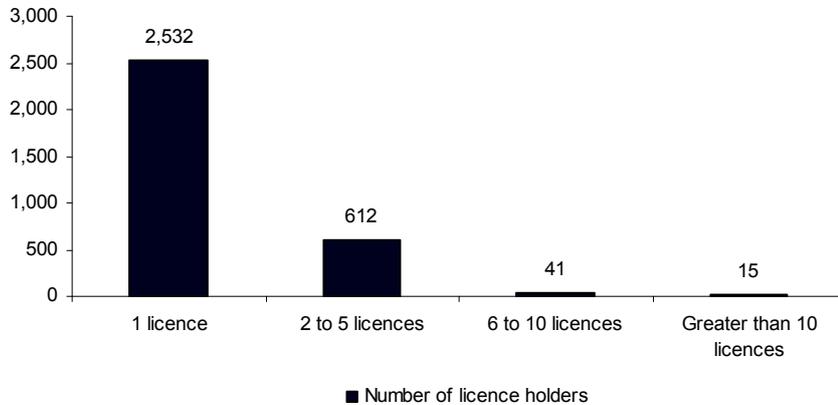
Table 2.4 Number of assignments

	Number of operators who hold no licences and are assignees of:	Number of operators who also hold licences and are assignees of:
1 licence	785	131
2 to 5 licences	137	34
6 to 10 licences	24	7
11 to 20 licences	17	3
21 to 30 licences	7	
31 to 30 licences	3	
41 to 50 licences	2	
51 to 60 licences	2	
61 to 70 licences	4	

Source: Victorian Taxi Directorate

As shown in Figure 2.5 the majority of licence holders hold one licence.

Figure 2.5 Number of licence holders



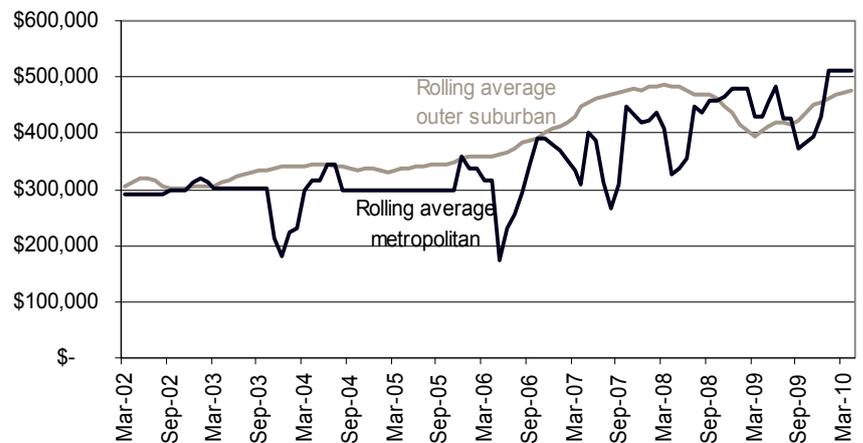
Source: Victorian Taxi Directorate

2.4 Price paid for each licence

This section contains details of the prices paid for licences that are currently on issue, illustrating movements in the value of different licence types over recent years. Reported values represent the expected capitalised value of returns to the respective taxi licence holders.

Figure 2.6 sets out the price for each licence type (conventional and WAT/HOV licences for metropolitan and conventional licences for outer suburban area) for transactions since 2002 as reported to the VTD. There is substantial fluctuation and volatility in these reported values. We have used a three month rolling average in an attempt to represent an overall trend rather than the volatility of each licence value reported.

Figure 2.6 Metropolitan and outer suburban conventional licence prices (since 2002)



Source: Victorian Taxi Directorate, Bendigo Stock Exchange (metropolitan licence since March 2006)

Care should be taken in comparing these historic movements in licence prices with possible changes in the value of fixed term, non assignable licences issued through this Application Process as the former are perpetual licences and can be assigned to another party to operate.

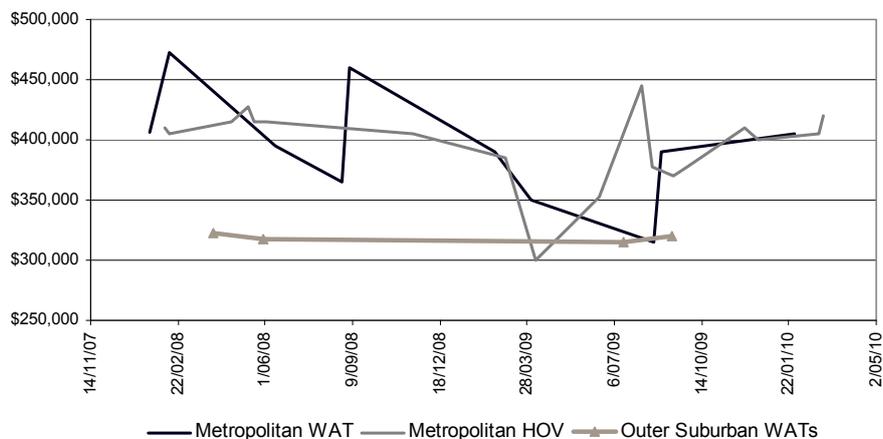
Unlike other licence types, trades in metropolitan conventional licences have been reported to the BSX since March 2006. The average licence value in April 2010 was \$487,000, approximately 40 per cent higher than the average licence value in April 2002. The licence values since 2002 are set out in Figure 2.6 above. Each data point represents a rolling average of the previous three months of data.

There are fewer licence transfers in the outer suburban market, and as such there are fewer points of comparison. Outer suburban licences are not traded on a recognised trading platform and thus the figures reported are those reported by the VTD.

Figure 2.6 above also sets out the licence values for licences associated with the Dandenong and Frankston network service providers. It shows that the average price of the metropolitan licences is similar to that of the outer suburban licences. Licence prices in the outer suburban zone averaged \$302,600 in 2002. In 2009, the average licence price was \$425,873, a 29 per cent increase from the 2002 average. Although the figure shows a trend line of the three month rolling average, it illustrates substantial variation in reported prices over that period.

There have only been nine reported metropolitan WAT (M50) sales and 20 recorded transfers in metropolitan HOVs since the start of 2008. The average price of a WAT in 2009 was \$361,250. The average price of a HOV licence in 2009 was \$375,773. These values are set out in Figure 2.7 below.

Figure 2.7 Metropolitan WAT & HOV licence prices (since January 2008)



Source: Victorian Taxi Directorate

Figure 2.7 also shows outer suburban WAT licence transfers. Only four outer suburban WAT licences have been transferred since 2008. These prices have ranged from \$315,000 to \$323,000 over the period, with an average transfer price over the last two years of \$318,750.

Peak taxi licences were first introduced in 2003 for a government-prescribed of around \$5,000; the Government has since adjusted the licence fee marginally each year and prescribed licence fees in 2009 were around \$6,000. Licence fees for Peak taxi licences differ from those for tradable licences as they are prescribed by Government rather than determined through a market mechanism.

2.5 Assignment values

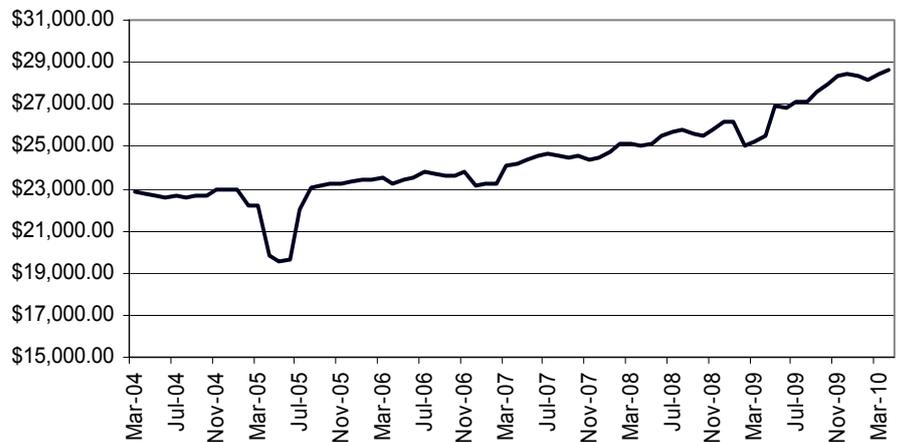
Reported assignment values represent an important reference point for potential applications of licences released through this Application Process. Seeking an assignment of an existing licence represents the closest alternative to purchasing a licence through this Application Process. Furthermore assignment contracts bear *some* similarities to licences issued through the Application Process as they operate for a finite period (albeit for three years in most cases for the former, as opposed to ten years).

The BSX has licence assignment transaction data for the past year. The average assignment value for the past year was \$2,303 per month or \$27,709 per year. However, in the past 12 months this value ranged from \$17,400 per year to \$37,200 per year.¹ Figure 2.8 shows assignment prices from March 2004 as a rolling three month

¹ The average is calculated from 1 May 2009 to 30 April 2010. Note that one reported assignment value from 5 November 2009 of \$150 per month has been excluded as it is unlikely to be representative of a typical assignment value.

average, noting that data not available on the BSX (prior to May 2009) was provided by the VTD. Figure 2.8 shows that assignment prices have increased by about 25 per cent since March 2004.

Figure 2.8 Metropolitan conventional licence assignment values (since March 2004)



Source: Victorian Taxi Directorate (2002 – April 2009), Bendigo Stock Exchange (May 2009 - April 2010)

2.5.1 Net present value assignment costs

A sum of money now is not the same as the same sum of money in the future. For example, \$1,000 now could be invested with an assumed 7 per cent return each year and it would grow to almost \$2,000 in ten years time.

As the conventional licences released through this Application Process will be for a fixed ten year term, it is important to consider the value of the investment over a ten year period. An alternative to the upfront payment is to pay an assignment to an operator or licence holder which would be due monthly.

If a bidder is to provide a sum of money upfront for a conventional licence then they should consider the time value of money. A bidder could either pay upfront now, or gain an assignment on a monthly basis and invest any excess money elsewhere. A future sum of money is often expressed in today's dollars using a discount rate which can reflect the return on money which would have otherwise been invested. The higher the discount rate the lower the value of the current sum of money.

The average annual assignment values over the past 12 months reported on the BSX (\$27,709)² can be used as an example of an alternative cost to an upfront payment through this Application

² This is the average assignment fee from 1 May 2009 to 30 April 2010, reported on the BSX Taxi Market and multiplied by 12 to make an annual figure. The exact figure is \$27,079.07. In Table 4.1 the assignment cost is inflated from ESC values used in 2007/08, this assignment cost is \$26,069 and therefore is similar to reported values on the BSX.

Process. The estimated Net Present Value (NPV) of assignment costs for the next 10 years applying different discount rates are set out in Table 2.9.³ For example, if the discount rate is zero, then the NPV will simply be 10 times the assignment costs or \$277,091. If the applicant believes that an alternative investment will return 6 per cent, then a 6 per cent discount rate could be used and the NPV will discount the assignment cost by 6 per cent each year for 10 years at a compounding rate⁴ and at the current average assignment rate, the NPV will be \$216,178.

Table 2.9 Estimated net present value of assignment costs based on different discount rates

Discount rate	NPV: \$27,709 pa for 10 years
0%	\$277,091
2%	\$253,877
4%	\$233,735
6%	\$216,178
8%	\$200,805
10%	\$187,286
12%	\$175,350
14%	\$164,768
16%	\$155,352

The table above does not reflect actual values for a licence. Applicants should note that conventional licences will involve an upfront payment and therefore may want to consider some inflation impacts over the ten year period. Each applicant should determine their own view as to the value of a licence based on their own view of revenue and costs over this period and their own discount rate. The above numbers do not take into account each applicant's cost of capital. For example, if the applicant is financing the upfront cost through debt, then the interest repayments will need to be considered. If the applicant is financing the upfront cost through equity, then the investment should be considered in terms of alternative investments based on a risk rated return.

The estimated cost structure and fare revenue for a typical or median taxi operator and actual costs and revenues will differ for each operator. For example, operators will retain a greater proportion of fare revenue if they drive their vehicle themselves. Furthermore, operators who obtain a licence through this Application Process will not pay assignment fees but will want to earn sufficient returns given the funds they have invested in the licence.

³ Note that no indexation of numbers have been used (eg. no increase by Consumer Prices (CPI)).

⁴ For example, the NPV is the sum of the assignment price multiplied by the discount rate in each year. If we demonstrate this using a 6 per cent discount rate, the first year value is \$27,709 (as the licence will be paid upfront, there is no discount rate in the first year), in the second year it is discounted by 6 per cent i.e. \$26,141, in the third year the value is \$24,661 as it is discounted by a further 6 per cent from year two, in the fourth year the value is \$23,265 as it is discounted by a further 6 per cent from the third year, and so on, in the tenth year is discounted to \$16,401. If all of the discounted values are added together we obtain \$216,178.

2.5.2 Other cost estimates

PwC is also aware of other cost and revenue estimates that potential applicants may want to consider in determining whether to bid for a taxi licence through this Application Process.

For example, the ESC's report to the Minister for Transport included cost estimates that were based on PwC's survey results but inflated in line with its Composite Price Index.

Interested parties may also want to familiarise themselves with cost estimates developed by some taxi industry participants and contained in submissions to the ESC's fare review. The most notable are the submissions to the ESC's review of regulated fares from the VTA – which contains estimates of the value of individual cost items – and from individual drivers and operators.⁵

These estimates illustrate differences – sometimes substantial – in the size of individual cost items. Moreover, actual costs and revenues for individual operators, including those who acquire their licence through this Application Process, are likely to differ from those calculated on the basis of the 2007 survey results. Accordingly, applicants should form their own view about the reliability and usefulness of the various estimates.

Some differences in ESC and industry cost estimates might be explained by the following issues:

- differences in the terms and conditions of agreements between operators and other taxi industry participants, such as bailment and network affiliation agreements
- terms and conditions for the purchase or lease of prescribed taxi equipment, such as meters and security cameras
- financing arrangements and interest rates. Successful applicants under this Application Process will not pay assignment fees but are likely to have financing costs relating to the upfront payment for a conventional ten year licence or annual payments to Government for WATs
- choice of vehicle (long wheelbase, leased, purchased, new or second-hand, for example)
- differences in the frequency of maintenance, including the frequency of replacement for tyres and their type
- choice of fuel type
- differences in operator business model and size of operations. For example, larger fleet operators may benefit from economies of scale in some areas but may struggle to bail a sufficient number of drivers to fully utilise their vehicles.

⁵ The ESC's report to the Minister and submissions to its review from interested parties are available in the Transport References section of the ESC's website, available at www.esc.vic.gov.au.

3 Revenue data

3.1 Introduction

Regulated fares provide the primary source of revenue for taxi operators.⁶ Operator revenue will depend on factors such as the period over which they choose to operate their vehicle and the revenue earning ability of the drivers they bail.

Prior to 2002, fares were prescribed by the Secretary of the Department of Infrastructure and adjusted on an ad hoc basis. Legislative amendments in 2002 granted the Minister for Transport the power to determine the level of taxi fares and hiring rates. Section 186(1) of the *Transport Act 1983* also requires the Minister to seek formal advice from the ESC on the need for variations to the individual fare components prior to any actual adjustment. There is, however, no obligation on the Minister to assess and seek to adjust their level (after a defined period of time or in response to a specific event, for example).

Fares are typically adjusted on an annual basis but this depends on the ESC's advice about the need for regular adjustments and whether the Minister accepts this advice.

Fares consist of a fixed flagfall component and a variable distance and waiting component. Additional elements of regulated fare revenue include a phone booking surcharge, a late night surcharge and a public holiday surcharge. Premium taxis – those with a larger wheelbase, for example – may charge an additional \$10 per pre-booked fare provided they have obtained prior authorisation from the VTD, and wheelchair fares may incorporate a lifting fee.⁷ HOV may charge a higher rate when carrying six or more passengers.

3.2 Sources of revenue

Customers can either hire a taxi off the street, via a rank, or request service through a NSP. The ESC's most recent review of regulated taxi fares estimated the following:

- 60 per cent of business was derived from phone bookings (this includes prebookings and requests for immediate dispatch)
- 20 - 25 per cent of business was derived from street hails (although this figure will be higher around central Melbourne)

⁶ Most operators have a bailment agreement with a driver which splits fare revenue on a 50/50 basis. While not common in Victoria, operators may agree on a fixed pay-in bailment agreement whereby a driver pays a fixed fee per shift which is not dependant on the amount of fare revenue. Other sources of revenue may include a portion of the credit card surcharge, or may extend to a premium booking fee.

⁷ The VTD generally grants authorisation to an operator to impose an additional charge for premium services for a period of 12 months. The operator can reapply at the end of that 12 month period.

- 15 – 20 per cent of business was derived from taxi ranks.⁸

The ESC also reported three broad categories for demand:

- *Corporate demand*: around 30 per cent of taxi revenue
- *Private or social demand*: comprising leisure or commuting journeys and likely to account for around 50 per cent of taxi revenue
- *Tourism demand*: comprising for approximately 20 per cent of revenue.⁹

3.3 ESC fare reviews

The current level of prescribed fares is set out in the table below.

Table 3.1 Fare components as at 1 January 2010

	Metro & outer suburban
No more than five passengers	
Flag-fall	\$3.20
Distance ¹⁰	\$1.617 per km
Waiting ¹¹	\$0.566 per min
Carrying five or more passengers	
Flag-fall	\$3.20
Distance	\$2.42 per km
Waiting	\$0.85 per min
Extras	
Wheelchair lifting fee	\$7.10 - \$14.20
Phone booking	\$2.00
Late night surcharge ¹²	20%
Public holiday surcharge ¹³	20%
Premium surcharge	\$10 per booked trip for premium cabs

Source: Essential Services Commission 2007/08 Fare Review Report

⁸ Essential Services Commission (2008), Taxi Fare Review 2007-08: Final Report, August, page 56-57

⁹ Essential Services Commission (2008), Taxi Fare Review 2007-08: Final Report, August, page 57

¹⁰ Distance-based charges apply when the taxi is travelling at 21 km/h or faster.

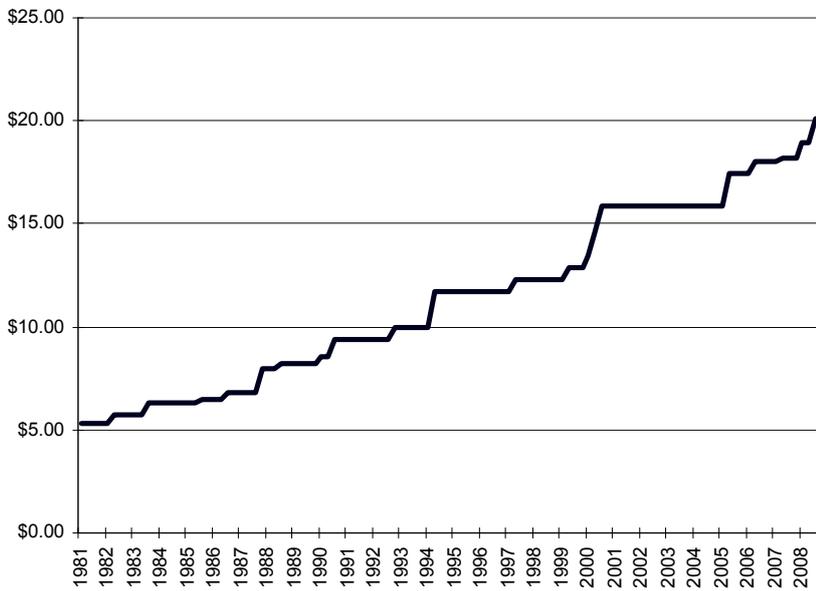
¹¹ Waiting time-based charges apply when the taxi is travelling at less than 21 km/h.

¹² Applies from midnight to 5am

¹³ If it is a late night (midnight to 5am) and a public holiday only one 20% surcharge will apply.

The graph below shows a general upward trend in nominal fares since 1981. Data on historical fares has been provided by DoT.

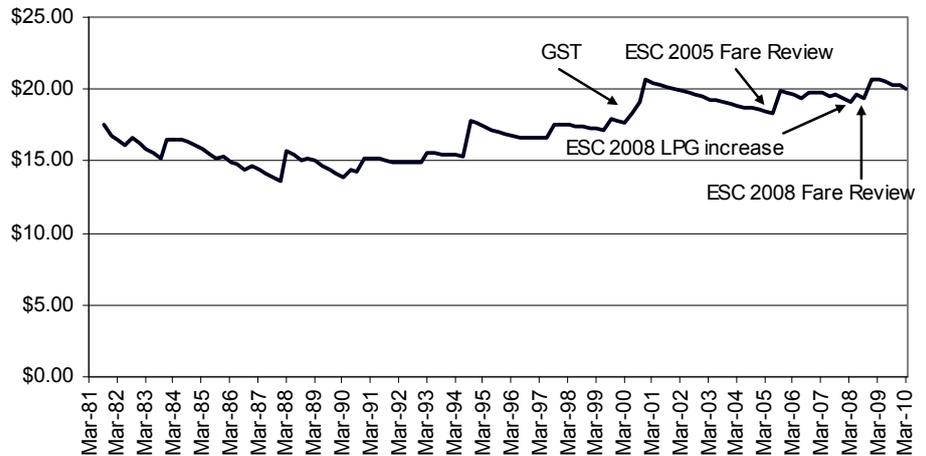
Figure 3.2 Average Metropolitan Melbourne taxi fare (1981 - 2008)



Source: Department of Transport, Note that the average fare is calculated on the basis of an estimated trip distance of 8.4 km.

Real taxi fares (that is, taking into account the increase in consumer prices over time) have also risen over the same period, by approximately 15 per cent since 1981. This is shown in Figure 3.3 below.

Figure 3.3 Average Real Metropolitan Melbourne taxi fare (1981 - 2010)¹⁴



Source: Department of Transport, Australian Bureau of Statistics Consumer Price Index

The ESC has undertaken fare reviews in 2004/05 and 2007/08. In 2004/05 the ESC recommended an 8.0 per cent increase in fares and subsequent annual increases on a CPI-X basis.¹⁵ This resulted in further increases of 3.0 per cent in September 2006 and 1.1 per cent in September 2007.

In the 2007/08 fare review the ESC recommended fare adjustments on a formula based on a composite index which includes:

- the Australian Bureau of Statistics (ABS) Wage Price Index (WPI) for the transport sector used as the input price index for driver incomes
- the ABS Private Motoring Index (PMI), a component of the Melbourne CPI, used as the input price index for motor vehicles, repairs and maintenance, tyres and washing and other on-road costs, including a component of the fuel costs (noting that the automotive fuel price index has a 30.5 per cent weighting in the PMI)
- FuelTrac reported LPG retail prices used for fuel (taking into account the fuel component in the PMI)
- the Insurance Index in the CPI Melbourne used as the price index for insurances such as comprehensive, income protection and WorkCover
- the CPI – All Groups, Melbourne used for network fees, office, uniform and other costs, including licence assignment fees, which are included in the index at an estimated 2002 amount.

¹⁴ Taxi fares have been reported with a base period of March 2010.

¹⁵ ESC determined "X" to be 1 per cent

The Essential Services Commission's *Review of Taxi Fares 2007/08 Interim Report, March 2008* recommended an increase of 4.2 per cent in April 2008 to reflect unforeseen increases in LPG prices.¹⁶

In addition to the interim price increase, the Commission's 2007/08 review of taxi fares recommended a fare increase of 6.1 per cent from December 2008. Prices during the regulatory period are to be set using the composite index set out above. The use of the composite index in 2009 did not lead to a fare increase in December 2009.¹⁷

There is not a set period in which taxi fares will be reviewed by the Commission; it is at the Minister for Transport's discretion.

3.4 ATO ruling regarding the declaration of taxi revenue

Since 2005 the ATO has prescribed a cents per kilometre rate to estimate the average revenue earned by a taxi for the total kilometres travelled by the taxi in a year.

The ATO's small business benchmarks are intended to provide an indication of the likely revenue from particular activities and serve two purposes:

- allowing businesses (or potential entrants to the market) to assess a business' performance, and
- assist the ATO by identifying businesses that may be avoiding tax obligations.

The benchmarks represent the ATO's expectations of business income and expenditure (i.e. what the ATO expects to be reflected in businesses' tax returns). Businesses reporting outside these benchmarks are likely to attract the ATO's attention.

Benchmarks are developed based on information provided to the ATO via income tax returns and/or business activity statements, or provided by industry participants/trade associations and they are Australia-wide averages.

In relation to the Australian taxi industry, the ATO has published benchmarks that provide expectations of:

- operating expenditure, including the level and price of certain expenditure items (Table 3.4), and

¹⁶ Essential Services Commission (2008), *Review of Taxi Fare 2007/08 Interim Report*, March 2008

¹⁷ Minister for Public Transport (2009), *TAXI PASSENGERS BENEFIT FROM NO FARE INCREASE*, 6 December, site: <http://www.premier.vic.gov.au/newsroom/8989.html> (accessed 15 April 2010)

- operating income, including the level of business activity and expected revenue (Table 3.5).

Table 3.4 Australian Taxation Office – expenditure based on Australian wide benchmarks for taxi operators (2009)

Category	Benchmark
Fuel consumption (LPG) – litres per 100km	18
Total litres of fuel (LPG) consumed during year	27,000
Fuel consumption (ULP) – litres per 100 kilometres	13.3
Total litres of fuel (ULP) consumed during year	20,000
Fuel cost – % of gross taxi income	8% - 16%
Total kilometres travelled during year	150,000
Total litres of fuel per shift (LPG)	54
Total litres of fuel per shift (ULP)	40

Source: Australian Taxation Office

Table 3.5 Australian Taxation Office – income based on Australian wide benchmarks for taxi operators (2009)

Category	Benchmark
Total kilometres travelled during year	150,000
Fare rate – cents per kilometre	\$1.18
Total fares	\$177,000
Total shifts worked during year	500
Bailment arrangement – % of total fare	50%
Income from bailment	\$88,500

Source: Australian Taxation Office

These estimates produce an average fare per kilometre, currently \$1.18 per kilometre (which has increased annually from \$1.01 in 2005, when the ATO first introduced benchmarks for the taxi industry).

In contrast, the ESC's 2007/08 report estimated the total kilometres for the median metropolitan and outer suburban taxi as 112,971 per year¹⁸, and also included a benchmark of 140,000 kilometres, provided by a large metropolitan fleet operator.¹⁹ These estimates are lower than those generated by the ATO (7 per cent and 25 per cent respectively).

Based on these ESC kilometre estimates and the ATO published rate, annual revenue per taxi would range from \$133,306 to \$165,200.²⁰

¹⁸ PricewaterhouseCoopers (2008), *Review of Victorian Taxi Costs*, 7 May, site: <http://www.esc.vic.gov.au/NR/rdonlyres/FC5816BA-FCDB-45F4-8E4C-95824087DAD9/0/PricewaterhouseCoopersReviewofVictorianTaxiCosts7May2008.pdf>

¹⁹ Essential Services Commission (2008), *Taxi Fare Review 2007-08: Final Report*, August, page 99

²⁰ Australian Taxation Office (2009), *Taxi cents per kilometre rates*, <http://www.ato.gov.au/businesses/content.asp?doc=/content/38263.htm>

The ATO estimate applies to all Australian taxis rather than those licensed to operate in Melbourne. Earnings are likely to differ across jurisdictions in line with differences in the relative demand for and supply of taxis, the extent of competition with other transport modes, and different approaches to fare determination. Earnings also differ significantly between drivers based on factors such as driver understanding of demand flows and communication skills.

Therefore, prospective applicants are encouraged to consider such differences when developing their own estimates of the likely returns to taxi operations in Melbourne.

3.5 PricewaterhouseCoopers Review of revenue and costs

The ESC commissioned PwC to undertake a survey of drivers and operators for the purposes of its 2007/08 ESC fare review. This survey – published in May 2008 – provides some information to prospective applicants about the size of various cost and revenue items associated with taxi operations in Victoria. Actual costs and revenues will depend on a range of factors, including individual business models and cost structures.

The PwC survey incorporated responses where:²¹

- 65 per cent of operators only operated one taxi
- 83 per cent of operators operated a conventional taxi licence, 6 per cent operated a WAT or HOV and the remaining 11 per cent operated a Peak taxi licence

PwC's key assumptions in preparing this data are reproduced in the table below.

²¹ Note that these values are typical of the whole survey, not just for metropolitan and outer suburban respondents.

Table 3.6 Key assumptions relating to PwC Revenue and Cost survey for ESC fare review

Category	Key Assumptions	Median metro and outer suburban taxi
Drivers & fleet	Permanent drivers per taxi	1.2
	Taxis per operator fleet	1
Shifts & jobs per annum	Shifts per year	470
	Jobs per shift	15
	Jobs per year	6,915
	Length of weekday shift (hrs)	12
	Length of weekend shift (hrs)	11
Kilometres	Total km per year	112,971
	Total km per month	9,414
	% of total km that are paid (i.e. generate fares)	51%
	Total paid km per year	57,197
	Paid km per job	8.3

Source: PricewaterhouseCoopers Report for Essential Services Commission's Taxi Fare Review

Survey responses from 132 metropolitan drivers and 113 metropolitan operators resulted in estimated annual median trip revenue per taxi of \$143,235. This translates into annual trip revenue of \$158,355 in March 2010 when adjusted by the percentage increase in regulated fares.

Actual revenue for successful applicants under this Application Process will depend on factors such as the intensity of vehicle utilisation and driver capability and may differ substantially to these reported median values.

3.6 Multi-purpose taxi program

Taxis also receive revenue from a subsidy provided through the MPTP. In 2008/09 there were over 180,000 MPTP members with 26,000 being wheelchair and mobility scooter members.²² Table 3.7 sets out the average subsidy and number of trips in metropolitan and outer suburban areas in 2009, as provided by DoT.

²² Department of Transport

Table 3.7 Total MPTP trips Victorian in 2009 calendar year

	Average subsidy per trip ²³	Number of trips
Metropolitan non-wheelchair	\$9.81	1,928,747
Metropolitan wheelchair	\$27.17	271,026
Outer suburban non-wheelchair	\$7.80	325,027
Outer suburban wheelchair	\$23.14	70,227
Total MPTP trips	-	2,595,027

Source: Department of Transport

Other factors which impact on WAT licence holders are set out below.

3.6.1 November 2008 reforms

In November 2008, the Victorian Government announced substantial reforms to WATs and the MPTP to improve accessibility and reduce wait times, including:

- doubling the MPTP maximum subsidy value per trip (from \$30 to \$60) and annual cap (from \$1,090 to \$2,180).
- introducing 330 new WAT licences (as part of this Application Process). This will more than double the current number of WATs in metropolitan Melbourne
- increasing the lifting fee that passengers pay to drivers when loading and unloading wheelchairs from WATs from \$10 to \$14.20 and from \$5.00 to \$7.10 for loading wheelchairs into the boot of conventional taxis in non-metropolitan Melbourne (these figures are indexed and include CPI adjustment). These lifting fees are paid to operators with a minimum of two thirds being returned to drivers (\$9.50 for WATs and \$4.73 for conventional taxis)
- a six-month pilot of a Performance Based Booking System (PBBS) to make NSPs more accountable for the provision of WAT services.

In terms of the changes to the MPTP wheelchair passengers are exempt from the MPTP annual cap. They are able to receive the trip cap subsidy (up to \$60) every time they travel in a WAT.

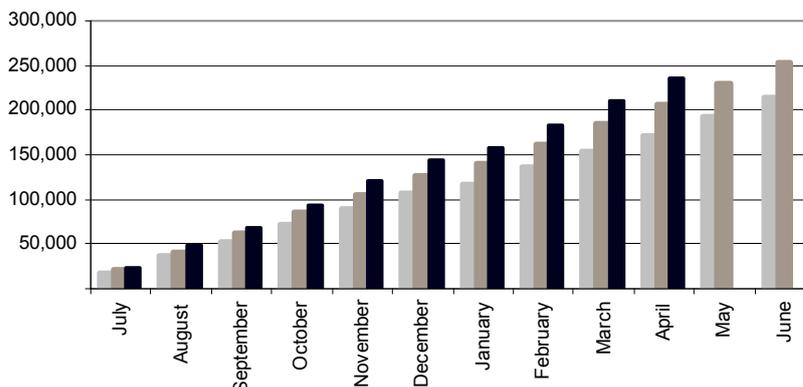
There is also a requirement that all bookings for passengers requiring transport in a WAT are undertaken regardless of whether the passenger is in receipt of an MPTP wheelchair card.

²³ Wheelchair subsidies include lifting fee

3.6.2 Demand for WAT services

DoT reported a 19 per cent increase in the number of WAT trips between 2007/08 and 2008/09 in metropolitan Melbourne. As shown in Figure 3.8 this trend continues in 2009/10 with data to date (from July 2009 to April 2010) indicating a further 14 per cent increase in trips this financial year.

Figure 3.8 WAT trips between 2007-08, 2008-09 and 2009-10



Source: Department of Transport

3.7 Factors influencing revenue per taxi

Revenue per taxi is expected to vary from taxi to taxi. While not an exhaustive list, it is likely that revenue will vary according to:

- factors that drive the demand for transport services (such as population, disposable income, unemployment, airport passengers etc.)
- availability and cost of substitutes for taxi services (such as public and private transport) as well as competition for booked services from Victoria's 900 hire cars and potential competition from over 700 restricted hire vehicles (such as vintage and tour vehicles) and over 1,000 special purpose vehicles
- different licence types (conventional vs. peak vs. WAT vs. HOV)
- experience of driver (eg. ability to develop contacts and win repeat business)
- vehicle utilisation (eg. if one licence is operated only on week days they may not make as much money when compared to a taxi that is utilised 24 hours a day. It could also depend on what time of the day the taxi is operated and what days of the week).

4 Costs

4.1 Taxi cost components

Operating costs are commonly separated into the following components:²⁴

- *Driver payments*: represent the value of the payments to the driver, typically 50 per cent of fare revenue. Driver payments are not wages and are based on a typical 50/50 split of fare revenue, and therefore, if the vehicle is driven by the licence holder or operator these driver payments would represent additional revenue for them
- *Vehicle lease/funding payments*: include cost of vehicle and costs associated with funding arrangements to fund vehicle purchases
- *Assignment costs*: is the cost of leasing a licence plate. This item only applies to licences that can be assigned to a third party, an option that will not be available to operators who acquire their licence through this Application Process
- *Liquid petroleum gas (LPG)*: is the cost of LPG fuel; 98 per cent of survey respondents use LPG fuel
- *Network costs*: taxis are obligated to affiliate with an authorised taxi NSP, this is the cost associated with this affiliation
- *Repairs, maintenance and cleaning*: this component includes the cost of labour to maintain the taxi, the repair and maintenance costs and the cleaning costs
- *Tyres*: is the cost to replace a tyre. It is estimated that each set of tyres needs to be replaced approximately every 40,000 kilometres driven (or 2.2 and 3.7 times per year)
- *Insurance and registration*: this includes the cost of registration, compulsory third party and insurance costs
- *Office/miscellaneous*: this includes expenditure on items such as phone, electricity, accountant fees, administrative staff wages, rent and computer costs
- *Variable labour/other driver costs*: this includes workers compensation payments, driver uniforms and driver entitlements (sick leave and holiday pay).

The median values for costs per taxi for 2007 for metro and outer suburban operators are set out in Table 4.1 below.

²⁴ For further detail regarding what is meant by each of these cost components see: <http://www.esc.vic.gov.au/NR/rdonlyres/FC5816BA-FCDB-45F4-8E4C-95824087DAD9/0/PricewaterhouseCoopersReviewofVictorianTaxiCosts7May2008.pdf>

In the absence of a further survey of costs and revenue, PwC has adjusted these estimated median values from 2007 to their equivalent in the March quarter of 2010 (6.9 per cent) in line with movements in the Melbourne CPI since the collection of survey data. It should be noted that the use of CPI to escalate the figures is a simplified adjustment to the 2007 estimates and actual movements in the individual cost items to March 2010 are likely to differ. For example, assignment costs have been recently reported to values as high as \$37,200.

The estimated amount for March 2010 for driver payments has been inflated using the actual movement in regulated fares since the 2007 review (10.5 per cent, in line with ESC recommendations). These adjusted values are also included in Table 4.1.

Table 4.1 Cost components for metro / outer suburban taxis (2007 and 2010)

	2007	2010	Adjustment
Vehicle lease payments/finance	6,648	7,199	6.9%
Licence assignment fees ²⁵	24,055	26,049 ²⁶	6.9%
LPG	12,079	13,080	6.9%
Network fees	6,247	6,765	6.9%
Repairs/maintenance and cleaning costs	7,183	7,779	6.9%
Tyres costs	1,078	1,167	6.9%
Registration & insurance	4,479	4,850	6.9%
Office / miscellaneous costs	2,422	2,623	6.9%
Variable labour / other driver costs	786	851	6.9%
Total costs (less driver payments)	64,977	70,363	-
Driver payments	71,618	79,178	10.5%
Total outgoings	136,595	149,541	-

Source: PricewaterhouseCoopers' Report for Essential Services Commission Taxi Fare Review, Australian Bureau of Statistics Melbourne CPI

²⁵ Note that an assignment fee only applies to licences that can be assigned to a third party, an option that will not be available to operators who acquire their licence through this Tender Process.

²⁶ As noted in 2.5.1 the average assignment cost as reported on the BSX from 1 May 2009 to 30 April 2010 was \$27,709.

These cost estimates for 2007 and 2010 can be compared with revenue estimates from the previous chapter for the same period to generate an estimated operator margin per taxi, as identified in Table 4.2.²⁷

Table 4.2 Estimated operator margin per metropolitan and outer suburban taxi (2007 and 2010)

	2007	2010
Total revenue	143,235	158,355
Total operating costs	136,595	149,541
Operator margin per taxi	6,640	8,814

Source: PricewaterhouseCoopers' Report for Essential Services Commission Taxi Fare Review

We note that the estimated operator margin incorporates assignment fees. In contrast, operators who acquire their licence through this Application Process – which will operate for a fixed term and are non assignable – will be subject to an upfront fee in the case of conventional licences and an annual fee in the case of WAT licences. Applicants should take this into account when considering their own revenue and cost structure.

²⁷ The ESC developed a Composite Price Index to estimate movements in individual cost items and produced cost estimates for 2008 based on this estimate. These estimates can be found on the ESC's report to the Minister.

5 Factors influencing revenue and costs

Looking forward, there are a number of factors that are likely to influence the future revenue and cost components for a metropolitan or outer suburban taxi. These include the following:

- demand for services, including:
 - population
 - economic growth
 - unemployment / employment
 - tourist and airport passenger numbers
- future releases of additional taxi licences
- Government policies regarding the MPTP, including eligibility criteria and applicable caps on payments
- changes to Government transport policies, including the extent of effective competition between taxis and other forms of transport
- future price reviews and amendments to prescribed fare components
- a future Emissions Trading Scheme (ETS), albeit deferred, which may affect the cost components and customer demand for transport
- changes in individual cost components: affiliation costs, payment systems, insurance, LPG, driver costs.

