Review of the

Taxi and Luxury Hire Car Industries Act 1995

Paper 12A – Revised Proposals for Perpetual Licensing

Department of Infrastructure, Energy and Resources

August 2007

1. Introduction

In March 2007, the Department of Infrastructure, Energy and Resources (DIER) released *Paper 11 – Discussion Paper, Draft Policy Proposals* (Paper 11), setting out draft recommendations resulting from a review of the *Taxi and Luxury Hire Car Industries Act 1995* (the Act). Those recommendations were arrived at after an extensive process of review, which involved the development of ten discussion papers relating to the operation of the Act and a series of meetings with the Taxi Industry Reference Group (which was established as the primary point of consultation with the industry) and groups of individual taxi and luxury hire car operators.

Over 50 submissions were received in response to the draft proposals. To respond fully to these submissions, DIER prepared *Paper 12 – Submissions in Response to Paper 11*, which outlined the objections to the draft proposals and the suggested alternatives (in boxes at the commencement of each section). The paper considered the case put forward by the industry for and against changing the draft proposals. Consequently, several alternative proposals submitted by respondents were adopted, and the relevant draft proposals were amended accordingly.

Other than the changes made to the proposals and outlined in Paper 12, the remainder of the proposals in Paper 11 continue to be the preferred position from DIER's perspective.

The Taxi Industry Reference Group met on Thursday 2 August 2007 to discuss the submissions on Paper 11 and DIER's response to those submissions in Paper 12.

The issues that the Group chose to focus on were:

- the proposal for all new standard taxi licences to be non-leasable owner/operator licences;
- the number of taxi licences to be issued in future; and
- the price at which taxi licences would be issued.

These were the main issues of concern raised in the submissions to Paper 12. DIER considers that it is extremely important that agreement is reached with the industry on these proposals to ensure that the entire package of reforms proposed for the industry can be progressed.

2. Proposals

2.1 Type of Licence

Proposal

It is proposed that all future standard taxi licences issued will be required to be operated by the licence owner – i.e. the owner must be an accredited taxi operator. These licences will not be able to be leased, and penalties will apply for illegal leasing, including cancellation of the licence. These licences will be able to be suspended and cancelled for breaches of licence conditions or of the operator accreditation requirements.

This has been proposed to address the industry's concerns about the high number of licences that are owned by investors. In particular the industry has expressed concern about the recent significant increases in licence values, which have put ownership of a taxi licence out of the reach of many operators. The corresponding high lease fees serve to reduce the income of those with a direct interest in providing taxi services.

Discussion

At the 2 August meeting the Reference Group made it clear that changing to an owner/operator licence for the future would be of substantial benefit to the industry. The Tasmanian Taxi Association indicated firm support for this proposal both in its written submission and at the meeting.

Conclusion

The meeting supported the introduction of owner/operator licences.

2.2 Number of Licences

Proposal

It is proposed that the new licences will be made available annually at the rate of five per cent of the number of licences currently on issue in the relevant taxi area or one licence, whichever is greater.

Discussion

The Reference Group expressed the view that the current mechanism for issuing licences at the rate of five per cent of the existing number of licences, with a further five per cent if the issue price exceeds the Assessed Market Value (AMV) by ten per cent, would lead to an excessive number of licences being released. The Group indicated a preference for the issue of licences based on some other mechanism, such as response times and/or population growth.

Discussion revealed that there was no consensus as to how many licences should be on issue per 1000 population. At present, Tasmania has 0.88 standard taxis per 1000 population or 0.95 per 1000 population if standard taxis and WATs are combined (based on numbers of taxis following the latest release of perpetual taxi licences and the recent completion of the second Expression of Interest process for the issue of WATs in 2006). In Hobart there are about 1.2 taxis per 1000 population. In Paper 12 this was compared to other metropolitan centres such as Melbourne and Darwin (both 1.1 taxis per 1000 population).

With regard to response times, the lack of data capture for the entire taxi industry represents a major barrier to using any such measure as the basis for assessing licence numbers. Other deficiencies in the use of response times were detailed in Paper 12.

Some members of the Reference Group were of the view that there was scope for some more licences in Hobart. However, as has occurred with the 2007 licence release, the issue of ten per cent of the existing number of licences in one year was seen as too abrupt and rapid an increase. Restricting any increase to five per cent in any one year was seen as a more manageable level of increase.

Given the difficulty of using a specific reference such as numbers per 1000 of population or response times or any other such mechanism, the position put by DIER is that the market should determine the number of licences that are on issue. Under such an arrangement, there will be no licences issued where the demand for additional licences, as assessed by the industry, is not there. However, the industry representatives suggested, and DIER agreed, that investors might not reach the same conclusion.

Therefore, restricting licences to owner/operators would be more likely to ensure that only as many licences as could be genuinely supported by the market would be purchased. It is acknowledged that the industry's concerns of a ten per cent increase in the number of licences in a single year, as can occur at present, is possibly too great, given the relatively small size of the market.

It is, therefore, proposed to remove the 'trigger' for a second allocation of licences would mean that the maximum number of licences that could be released in any one year is only five per cent of licences currently operating, or one licence, whichever is greater.

Conclusion

The industry's position that an annual increase in the number of licences of ten per cent may be excessive is accepted. It is also accepted that licences should be made available without a trigger for the release of an additional licences.

Therefore, in order to meet National Competition Policy provisions a single release of five per cent of licences on issue is proposed. The impact of the new licences should be subject to a periodic review in line with the National Competition Council's requirements.

2.3 Reserve Price

Proposal

In Paper 11 it was proposed that the new licences would be made available by tender with no reserve tender price, unlike at present, where licences cannot be sold below the AMV.

Discussion

The Reference Group noted that this proposal was the most significant issue of concern for the industry, which was reflected in a large number of submissions.

The major concern from industry was that the absence of a reserve tender price would potentially allow licences to be issued at very low cost. By allowing such ease of entry to the industry, there was the danger that new entrants may lack a longer-term commitment to the industry. Further, these new entrants may lack an understanding of the industry, which may cause them to fail financially. The Reference Group considered that a number of new operators cycling through the industry on a short-term basis would damage the remainder of the industry. There was agreement that this is not a desirable outcome for either the industry or its customers.

The Reference Group considered that there should be a greater hurdle to industry entry to avoid this problem, but that the price should not be so high as to prevent entry by suitably capable and motivated owner/operators. The views expressed by the Group were that these licences, which differ substantially from existing perpetual licences in that they are not leasable and are cancellable, would be unlikely to sell at the AMV or even 80 per cent of the AMV, as (at least in Hobart) this would be beyond the financial means of the majority of potential owner/operators. Further, an owner/operator may have difficulty financing a significant proportion of any capital cost due to the new type of licence being subject to cancellation. It was considered that a bank would be unlikely to lend more than 40 or 50 per cent of the purchase price.

On the other hand, it was suggested that people entering the industry for low cost would have less incentive to provide a service in period of low demand. The absence of a significant investment in a licence would be likely to result in reduced customer service, especially in country areas. Any reserve price would have to be high enough to provide an incentive for an owner/operator to provide appropriate hours of service.

The Group discussed various minimum prices for the Hobart taxi area, and a sum of $60 000 was generally accepted as being sufficiently high so as to require a substantial level of commitment from the purchaser but not so high that it would be out of the reach of the majority of operators. A price of about $30 000 to $35,000 in Launceston was generally accepted. However, some members of the Reference Group stated a preference for a higher amount in both areas.

As the preferred price equates to about 50 per cent of the current AMV for a Hobart taxi licence, it was suggested that the hurdle price should be linked to the AMV. However, 50 per cent of the existing AMV in many country areas would be a very low amount, and in some areas a higher price would be appropriate. Accordingly, it was agreed that a specific amount should be struck for each taxi area rather than the blanket application of a set formula to all areas so as to ensure that there was an effective hurdle in the market.

The following table outlines the proposed reserve price for a new owner/operator licence in each taxi area compared to the current AMV.

Taxi Area	**Current AMV ($)**	**Proposed Reserve Price ($)**
Hobart	120,000	60,000
Launceston	57,000	35,000
Burnie	46,000	23,000
Devonport	46,000	23,000
Ulverstone	34,500	17,250
George Town	25,000	12,500
Perth	25,000	12,500
West Tamar	25,000	12,500
Circular Head	22,500	11,250
Meander Valley	25,000	12,500
Break O'Day	21,600	10,800
New Norfolk	21,600	10,800
Huon Valley	15,000	11,250
Glamorgan/Spring Bay North	5,000	3,750
Kentish	5,000	3,750
Penguin	5,000	3,750
Tasman	5,000	3,750
Dorset	3,000	2,250
Glamorgan/Spring Bay South	2,500	1,875
Bruny Island	1,000	1,000
Central Highlands	1,000	1,000
Flinders Island	1,000	1,000
King Island	1,000	1,000
West Coast	1,000	1,000

These prices have the following relationship to the existing AMV:

AMV of taxi area	Proportion of 2006 AMV
> $20,000	50 per cent
$1,000 – $20,000	75 per cent
$1,000	100 per cent

Launceston has a slightly higher price than 50 per cent of the AMV ($35,000 compared to $28,500), as this was the amount generally agreed by the Reference Group.

The Reference Group discussed how the reserve price should continue to be set for the future. One member put forward the view that the rate should be fixed at a set dollar amount and should not be subject to indexation or revaluation. The remainder of the Reference Group did not express an objection to such a proposal, but firmly requested that it be reviewed after three years. Such periodic review of the licensing arrangements is accepted.

Conclusion

DIER accepts the industry's position that the new licences should have a designated reserve price. This will be a fixed price.