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Queensland Taxi Industry Review
Policy Considerations
Department of Transport & Main Roads
24 August 2010

The materials contained in this document are intended to supplement a discussion between Department of Transport and Main Roads and L.E.K. Consulting on 24 August 2010. These perspectives are confidential and will only be meaningful to those in attendance.

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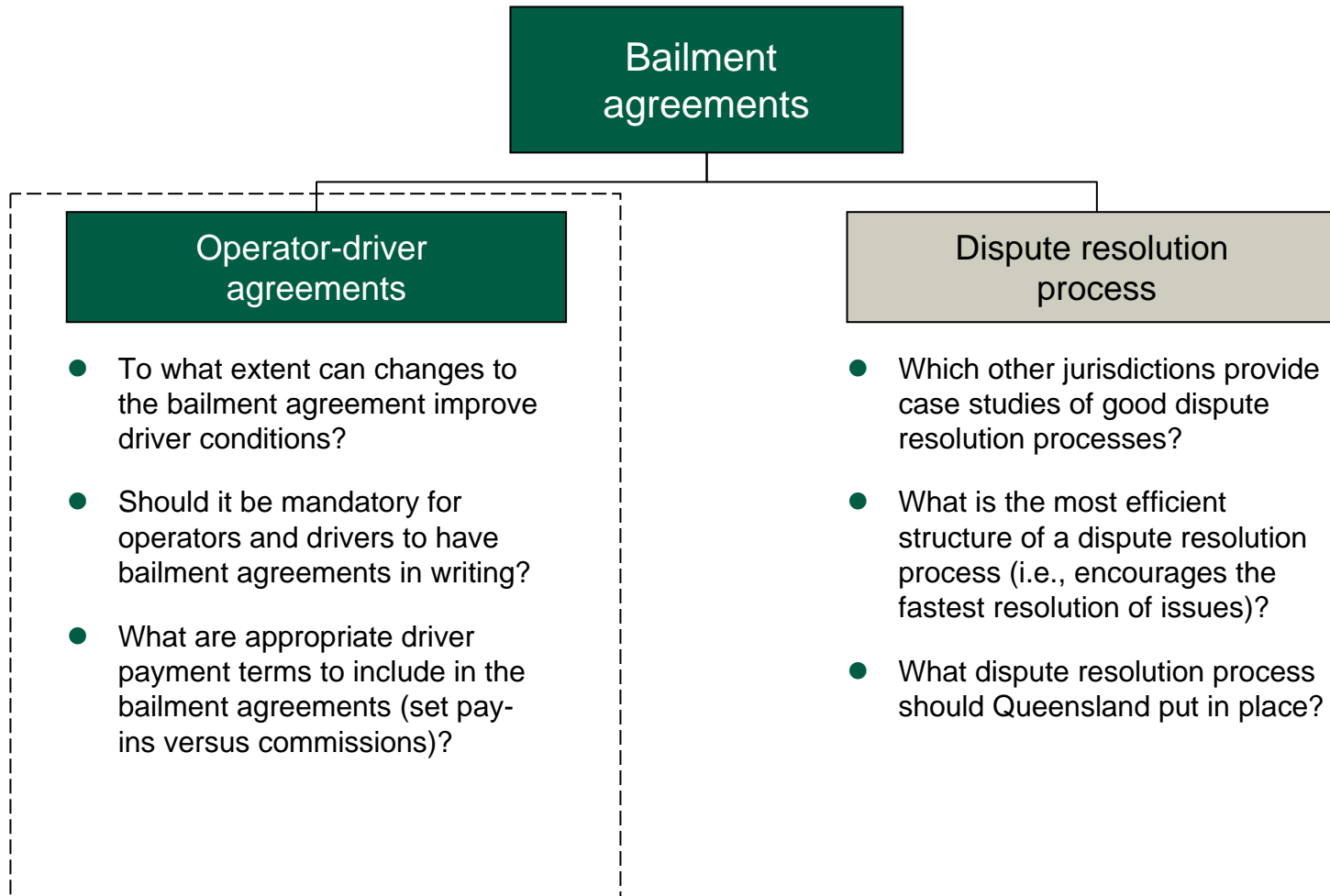
Context and objectives

- L.E.K. has been engaged by DTMR to assist with research and analysis to complement the development and testing of taxi industry reform
- The work has focused on six key themes:
 - operator-driver agreements and dispute resolution
 - licence sub-leasing
 - taxi licence supply and licensing approaches
 - fare level setting and increases / appropriateness of the existing fare review model
 - affiliation fees
 - testing of service level standards / mystery shopper program
- An important focus of the work has been the comparison of reforms and regulations across jurisdictions
- This review has been conducted over an eight week period and based on industry interviews across Australia and analysis of publicly available information

Agenda

- Bailment agreements
- Sub-leasing
- Taxi licence supply
- Fare review model
- Affiliation fees
- Mystery shopper program

The review has focused on both operator-driver agreements and the dispute resolution process



L.E.K. Recommendation – Operator-driver agreements

Elements of Recommendation	Rationale
Provide a model bailment agreement, but do not mandate it	<ul style="list-style-type: none"> ● A model bailment agreement provides useful guidance for all parties. However, mandating and enforcing it might result in more burden than benefit <ul style="list-style-type: none"> - interviewees suggest few agreements use the Government’s model as most parties tend to create workable agreements amongst each other - forcing mandatory bailment agreements would place a significant paperwork and compliance burden on both operators and the Government, without necessarily guaranteeing any clear benefits such as more equitable financial agreements as specific commission and set pay-in terms would likely still be negotiated
Bailment agreements should not be a lever for driver earnings	<ul style="list-style-type: none"> ● The nature of a bailment agreement is that a driver takes on revenue risk; guaranteeing a certain wage would require fundamental changes to how the industry operates <ul style="list-style-type: none"> - currently, the Government can only increase driver earnings (outside of the bailment agreement), either by increasing the total fares collected or reducing driver supply to improve their negotiating position - whether agreements are in writing or verbal is unlikely to have a substantial impact on earnings
Treat drivers as independent contractors	<ul style="list-style-type: none"> ● The provision of entitlements such as annual pay / sick leave for permanent drivers is challenging in an environment where pay can be determined through negotiations (e.g., pay-ins) <ul style="list-style-type: none"> - the operators will likely factor the cost of providing added benefits into the price negotiations - it creates administrative burdens (such as identifying which drivers qualify as “permanent”) and increases the potential for disputes between drivers and operators

States propose similar revenue sharing arrangements in the bailment agreements, but allow for drivers and operators to negotiate the actual terms

Bailment terms		Queensland	New South Wales	Victoria
Basis		<ul style="list-style-type: none"> Transport Operations (Passenger Transport) Act (Qld) 1994 	<ul style="list-style-type: none"> Industrial Relations Act (NSW) 1996 	<ul style="list-style-type: none"> Transport Act (Vic) 1983
Bailment fee structure	Commission structure	<ul style="list-style-type: none"> Either the driver receives set commission rates on gross fares, and pays 0% of fuel cost or the driver receives higher commission rate, but pays a set percent of the fuel cost 	<ul style="list-style-type: none"> 1st year permanent driver: 45% All other permanent drivers: 50% All casual drivers: 50% (includes compensation for not having sick, annual, or other leave) 	<ul style="list-style-type: none"> Driver receives 50% commission on gross fares, plus any late night / public holiday surcharges
	Set pay-ins	<ul style="list-style-type: none"> Driver and operator can set the terms of a pay-in, with the driver paying for all the fuel Bailment recommends against this approach for new drivers 	<ul style="list-style-type: none"> Driver and operator can agree to a set pay-in up to the levels set in the bailment agreement Agreement sets maximum pay-ins for day shifts and each night shift 	<ul style="list-style-type: none"> Driver and operator can include details of a set pay-in for a shift in the bailment fee section
Fuel payment		<ul style="list-style-type: none"> Responsibility for fuel depends on terms agreed upon (see above) 	<ul style="list-style-type: none"> Driver responsible for fuel only in the case of a set-pay in 	<ul style="list-style-type: none"> Operator is responsible for paying for fuel under all agreements

While both NSW and Vic have suggested commission structure splits, these are only guidelines and different splits can be entered into by the parties

Sydney Transport District drivers have historically worked under pay-in arrangements, while Melbourne drivers have only recently begun to move to pay-in terms

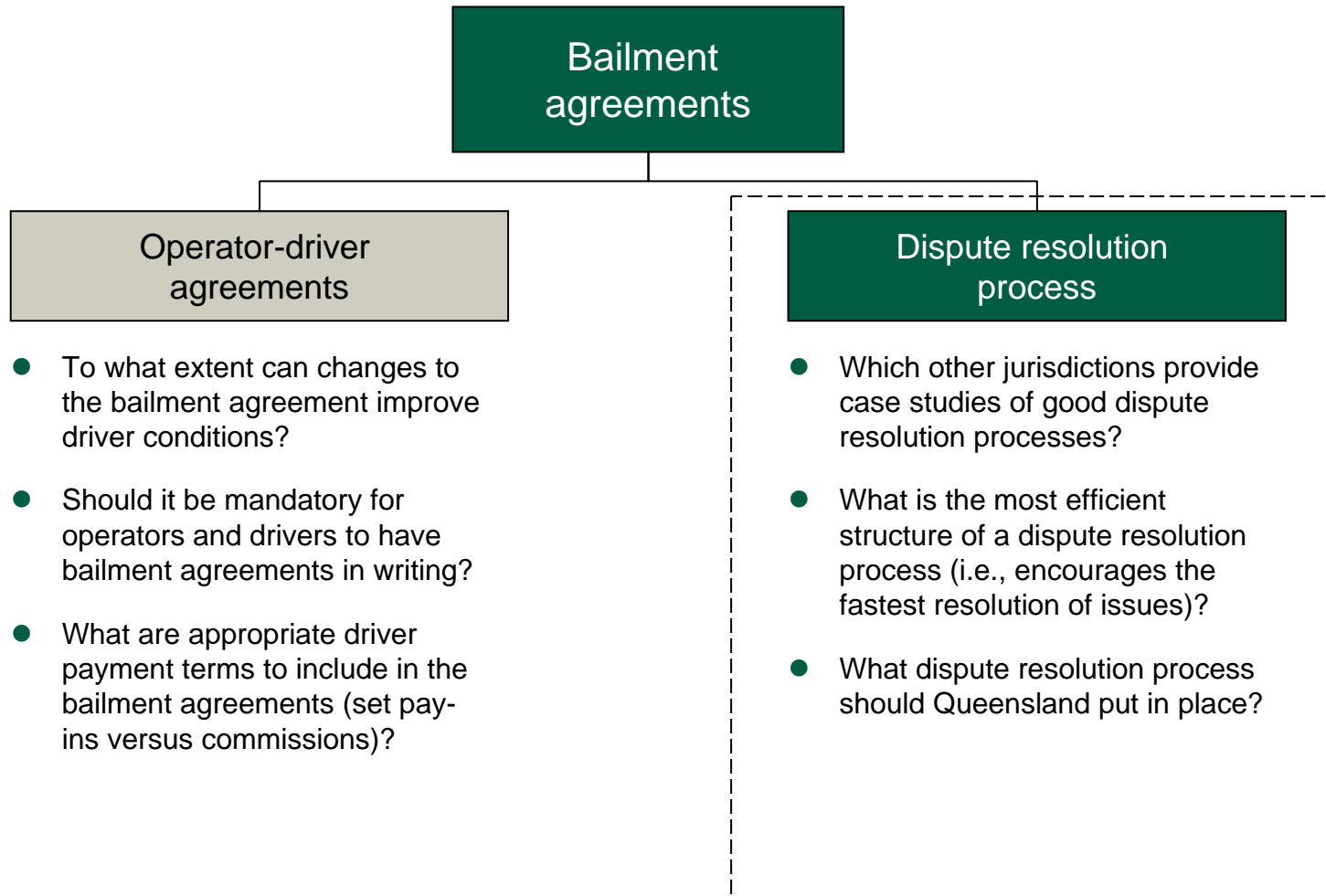
Each revenue sharing arrangement comes with its own risks

	Commission (e.g., 50:50)	Set pay-ins
Relationship	<ul style="list-style-type: none"> ● Entails a partnership between the driver and the operator, where both parties share the risk and reward of each shift <ul style="list-style-type: none"> - there are no guaranteed earnings, and the operator has a stake in the driver's performance in each shift 	<ul style="list-style-type: none"> ● Set pay-ins are transactional, where drivers pay for the use of an asset and are responsible for their own earnings <ul style="list-style-type: none"> - operators are paid regardless of the driver's success; the driver is more of an independent entity
Risk and reward	<ul style="list-style-type: none"> ● Commissions arrangements ensure drivers and operators both take a fair share, but do not help operators recover their fixed operating cost on a bad shift <ul style="list-style-type: none"> - operators pay for all operating costs and rely on driver performance to recover their fixed costs; operators risk losing money on a bad shift - additionally, drivers are not properly incentivised to work harder for high revenue shifts, increasing the revenue of both the operator and the driver 	<ul style="list-style-type: none"> ● Drivers take on all the downside risk, however, the arrangement provides greater incentives for drivers in an upside scenario <ul style="list-style-type: none"> - regardless of the arrangement, drivers, not operators, are primarily responsible for being productive during a shift - operators can take advantage of inexperienced drivers through set pay-ins that would not adequately compensate them
Potential solutions	<ul style="list-style-type: none"> ● Commission arrangements can be restructured to cover operators in the downside while providing upside incentives for the driver <ul style="list-style-type: none"> - graded commissions can offer drivers a greater revenue share for high earning shifts 	<ul style="list-style-type: none"> ● Set pay-in terms can also be structured so drivers do not lose money, but have operators take 100% of earnings up until the agreed upon set-pay in <ul style="list-style-type: none"> - while this scenario would force operators to share the downside risk with no additional upside, rules could restrict set pay-ins to drivers of a certain tenure or who achieve a certain performance level

Bailment responsibilities are generally similar across states, however, New South Wales is unique in that it treats drivers more like employees

Bailment terms	Queensland	New South Wales	Victoria
Driver responsibilities	<ul style="list-style-type: none"> ● Ensure has proper driver licence, accreditation, and endorsement ● Conduct pre and post shift inspections ● Pay contributions to operator for taxi vehicle insurance, personal accident insurance, and public liability insurance on per shift basis, as agreed upon between the driver and operator 	<ul style="list-style-type: none"> ● Ensure has proper driver licence, accreditation, and endorsement ● Conduct pre and post shift inspections 	<ul style="list-style-type: none"> ● Ensure has proper driver licence, accreditation, and endorsement ● Pay any fines incurred during shift ● Ensure communication equipment is connected to service network ● Provide bond payment prior to first shift as a cover for failed bailment payments or equipment damages ● Conduct pre and post shift inspections
Operator responsibilities	<ul style="list-style-type: none"> ● Comply with vehicle registration and insurance requirements ● Indemnify driver in the event of an accident ● Cover repairs, oil, and maintenance, and provide surveillance and safety equipment 	<ul style="list-style-type: none"> ● Comply with vehicle registration and insurance requirements ● Cover repairs, oil, and maintenance, and provide surveillance and safety equipment 	<ul style="list-style-type: none"> ● Comply with vehicle registration and insurance requirements ● Indemnify driver in the event of an accident and provide WorkCover ● Cover repairs, oil, and maintenance, and provide surveillance and safety equipment
Long term employee benefits	<ul style="list-style-type: none"> ● n/a <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><i>Benefits designed only for permanent drivers (presumably to encourage career drivers) is a feature unique to NSW</i></p> </div>	<ul style="list-style-type: none"> ● Permanent drivers are entitled to 5 weeks annual leave and 5-8 days of sick leave under the commission method ● Agreement sets rates of pay for leave for permanent drivers under the pay-in method 	<ul style="list-style-type: none"> ● n/a

The second area of review focussed on the dispute resolution process



L.E.K. Recommendations – Dispute resolution process

Elements of Recommendation	Description	Rationale
Multi-stage process	<ul style="list-style-type: none"> ● Install a three stage process: <ol style="list-style-type: none"> 1) encourage independent resolution 2) offer mediation with third parties 3) engage deciding tribunal 	<ul style="list-style-type: none"> ● Most bailment disputes are of relatively minor value and can be more easily resolved early in the process ● A staged process with escalating costs and time commitments encourages simple disputes to be settled prior to a tribunal
Trust mediation process	<ul style="list-style-type: none"> ● Allow bailment issues to be worked through existing mediation channels (e.g., QCAT) ● Do not make bailment agreements compulsory to ease the dispute process 	<ul style="list-style-type: none"> ● The nature of most disputes, and the ability of drivers to move freely between operators, discourages the burden of seeking administrative intervention ● Mandatory bailment agreements would have a minor impact at best on the number of disputes
Apply under existing legislation	<ul style="list-style-type: none"> ● Allow QCAT and the Department of Fair Trading to hear disputes under existing legislation not specific to the taxi industry 	<ul style="list-style-type: none"> ● Issues within NSW highlights the problems with moving the process under Industrial Relations, and developing new legislation would not necessarily improve driver outcomes ● The volume and monetary value of bailment disputes does not justify the creation of new dispute resolution infrastructure ● Keeping the process outside the Transport Department preserves the Department's impartiality as a regulator
Communicate to industry	<ul style="list-style-type: none"> ● Communicate dispute resolution mechanisms through driver accreditation process, details in model bailment agreement, and other forms of visual communication 	<ul style="list-style-type: none"> ● Victoria sees transparency and communication as focal points in the dispute resolution process ● QCAT can hear disputes, but the industry does not take advantage (potentially due to a lack of awareness; a similar issues that the VSBC has seen since its inception)

Victoria provides a useful model, although its full effectiveness is not yet known

Victorian Process	Commentary
<p>Step 1</p> <p>Independent resolution</p>	<ul style="list-style-type: none"> ● The VSBC was introduced in 2003 to facilitate a competitive and fair business environment for small businesses to operate <ul style="list-style-type: none"> - while the VSBC has been available to taxi drivers since 2003, its role in the dispute resolution process was only officially outlined when the Victorian Model Bailment Agreement was introduced in 2009
<p>Step 2</p> <p>Victorian Small Business Commissioner</p>	<p>“... the VSBC really only entered the taxi industry when it was included in the Model Bailment Agreement in December 2009. Since then it has not dealt with any pure bailment disputes ...”</p> <ul style="list-style-type: none"> ● However, the process is not necessarily easy for drivers to navigate, especially given the cost and time commitments associated with bringing a matter before VCAT or the VSBC
<p>Step 3</p> <p>Victorian Civil and Administrative Tribunal</p>	<p>“... very few bailment disputes are sent forward to VCAT or the VSBC. The main reason, certainly with VCAT, is the cost of proceedings...”</p> <ul style="list-style-type: none"> - the VSBC costs \$195 per mediation per party and VCAT application fees range from \$37 to \$300 depending on the level of compensation sought, but this does not include costs of a hearing or any legal fees if the dispute goes to a full hearing

QCAT could be considered as the authority to hear bailment disputes as a “one stop” dispute resolution body

Function & Jurisdiction

- QCAT has the jurisdiction to hear a range of civil disputes, including bailment disputes, valued up to and including \$25K, even if no specific legislation has been breached in relation to the dispute
 - “... bailment disputes between a driver and an operator would be heard under the civil disputes list of QCAT ...”
 - QCAT is also responsible for reviewing decisions previously made by a Government or regulatory authority, e.g., licence cancellation or suspension decisions made by the Transport Department

Mediation

- Parties are encouraged to use a mediation service prior to the matter proceeding to a full hearing
 - “... parties to a bailment dispute would be provided with an independent QCAT mediator at no extra charge ...”
 - QCAT fills the role of the VSBC in the intermediate step in the resolution process, providing drivers access to independent mediation and the option of a tribunal hearing, without the need to make multiple applications

Tribunal

- In the event of unsuccessful mediation, or where parties choose to progress the matter without mediation, the Tribunal has the power to hear the matter and make a binding determination (as would VCAT)
 - the power to make this final decision on a bailment dispute, combined with the provision of an independent mediation service, makes QCAT the most efficient and cost-effective dispute resolution body for bailment disputes

Industry Communication

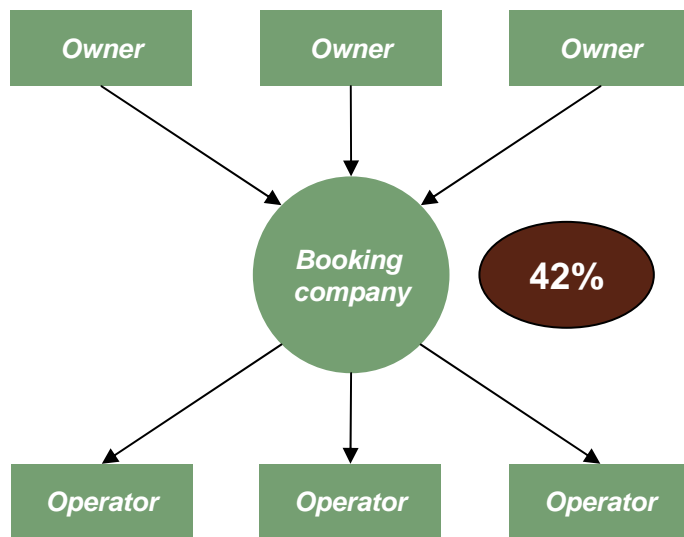
- There might be a lack of industry awareness about the services that QCAT could provide as a forum for both mediation and hearings of bailment disputes
 - better industry communication is needed to ensure drivers are aware they can access QCAT as an appropriate dispute resolution channels
 - the available bailment dispute process can be communicated during driver training, printed on suggested bailment agreements, and posted at operator depots

Agenda

- Bailment agreements
- Sub-leasing
- Taxi licence supply
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- Mystery shopper program

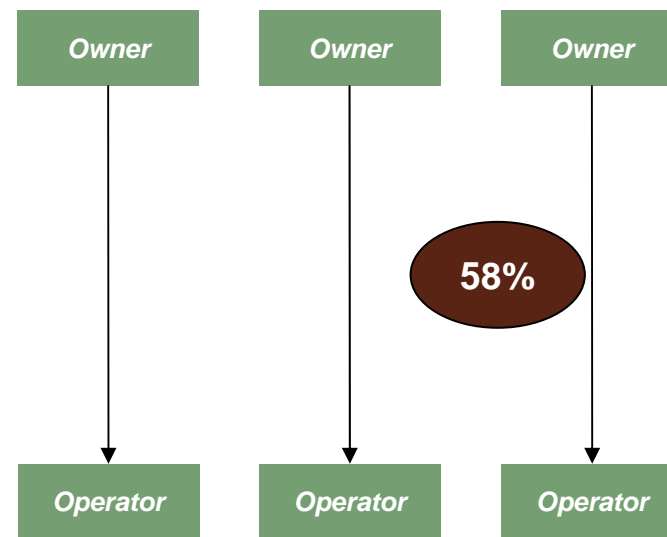
~42% of conventional licences in Brisbane are operated under sub-lease arrangements with booking companies

Sub-lease arrangement



- Operator leases licence from booking company that leases it from owner
- Booking company provides “matching” service between owner and operator
- Service is being provided at no or minimal fee

Direct lease (or owner/operator businesses)



- Operator owns the licence or leases the licence directly from the owner

This arrangement provides industry stability, but has the potential to reduce operator autonomy. In balance, the case for restricting sub-leasing does not seem strong

Discussion of Sub-lease arrangement

Benefits

- Owners have greater certainty around lease payments (as provided by booking company)
- Booking companies have greater certainty about the number of taxis in their fleet, which stabilises affiliation fees for operators
- More stable lease values and consequently reduced likelihood that inexperienced operators would agree to excessive lease payments



Stabilises taxi industry...

Concerns

- Booking companies have a lot of power over operators (eg can threaten to keep licence, if operator moves to other booking service provider)
- Therefore, it restricts operator's ability to move to other booking company
- Removes accountability of the owner in respect to the operation of the taxi



... but reduces operator autonomy

To ensure any justified driver concerns are appropriately dealt with, a well-defined dispute resolution process is important.

Agenda

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L.E.K. Recommendations – Taxi licence supply

Elements of Recommendation	Commentary
Lowering barriers to licence ownership	<ul style="list-style-type: none"> ● Terms included in new issues of Victoria and New South Wales taxi licences may help lower the financial investment needed to operate a new taxi and move towards greater alignment of objectives (i.e., providing a taxi service) between licence owners and drivers <ul style="list-style-type: none"> - new licences issued in Victoria and New South Wales will have useful lives of ~10 years, with additional restrictions on an owner's ability to transfer licences (New South Wales) or assign operations to third parties (Victoria) - these restrictions will help lower the barriers to entry that previously could have blocked career drivers, or other industry-focused players, from entering the market - they will also remove the attractiveness of the licences to investors and skew them towards owner / operators who are focussed on working in the industry
Setting appropriate levels of supply	<ul style="list-style-type: none"> ● L.E.K. believes that the licence supply model is a reasonable tool for analysing taxi demand, however, certain assumptions should be revisited periodically <ul style="list-style-type: none"> - the model is appropriate in trying to identify the range of new licences needed - it will be important to periodically review assumption values, along with updating key inputs

Market conditions have allowed taxi licence values to appreciate creating a number of issues within the industry

Situation

- The capital value of licences has steadily increased over time as the supply of licences is controlled
 - the majority of licences in circulation are conventional, unrestricted, perpetual licences, which can be traded on a secondary market
 - the supply of licences has grown slowly as the Government is reluctant to increase the supply given the likely negative impact on existing licence holders and the potential degradation of service quality

Complications

- The appreciation of licence values has had a number of negative consequences
 - licences can be purchased as a pure financial investment without the intention of operating the taxi service, impacting the profitability for the operator and creating a disconnect between owners, operators, and drivers, increasing the potential for a lack of accountability for service levels
 - the cost also becomes potentially prohibitive for any career drivers who want to operate their own taxis; these are drivers who may be more customer focused, enhancing the service quality of the industry
- Additionally, the fundamental objective of the issuing of taxi licences, which in some instances was for free or a nominal fee, was to allow for the operation of taxis to serve the community
 - the focus on also requiring a financial return on the significant capital investment is in conflict with the original intent of why the licences were issued

Starting in 2010, New South Wales and Victoria are both issuing additional taxi licences with restrictions that may help address these issues

Finite lifetimes

- NSW will issue licences with 10 year fixed lives to be renewed annually to try and contain licence values and reduce barriers to entry for career drivers
 - adding finite terms to licences will lower the initial investment for drivers looking to purchase their own licences at a reasonable cost; this could also work to improve the economic position for career drivers
 - finite terms will also work as a disincentive to investors looking to purchase taxi licences purely for their capital appreciation

Non-transferable restrictions

- NSW will also add terms to the licence, restricting the transfer of ownership
 - the new batch of licences are also non-transferable, meaning owners cannot sell the licence on a secondary market and cash in on any market value appreciation; the licences are still assignable, so the licence holder can lease the operation to a third party
 - the goal of the non-transferability clause is to ensure future taxi licences will not be treated as financial instruments, and potentially depress assignment fees as the licence holder will not have to pay a premium on the secondary market to get the licence

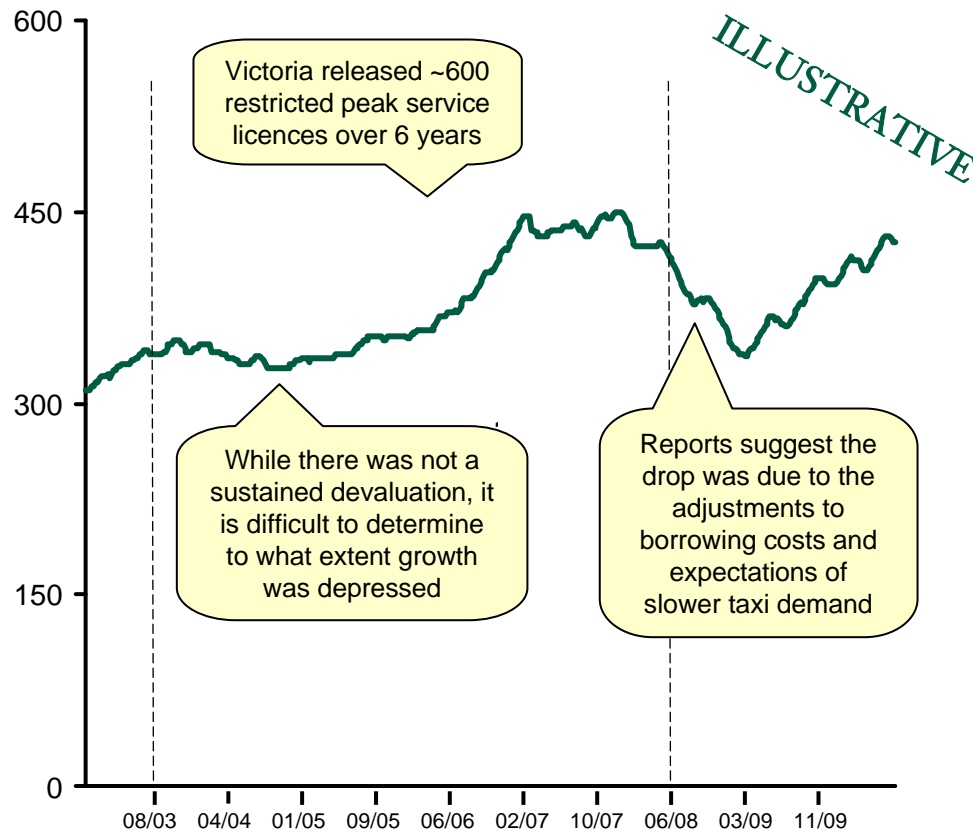
Non-assignable restrictions

- Similarly, Victoria will issue 530 non-assignable, 10-year fixed-life licences
 - the licence must be operated by the owner, deterring pure financial investors with no interest in operating a taxi. New owners will be actual participants and Government will have more control over the new licences
 - the licence could be sold (providing an exit opportunity), but the fixed term removes the conditions allowing licence values to appreciate and the non-assignable clause ensures new owners are involved operationally

From 2003 to 2009, Victoria also issued restricted, limited-life licences to try and address these same issues

Average licence prices for Victorian taxi licences in 2003 dollar terms (2002- 09)

Thousands of dollars



- Victoria issued 100 peak service licences per year for six years to increase career opportunities for taxi drivers and promote more reliable services
 - licences were offered to existing drivers and single vehicle operators who had held a taxi driver's certificate for at least five years
 - licences were valid for six years, not assignable or transferable, and required an annual fee
- The reform succeeded in lowering barriers of entry for taxi drivers without wiping out the market value of other licenses
 - despite the value of installed licenses, drivers were afforded the opportunity to operate their own business without having to finance the same heavy investment
 - the value of licences from 2003 to 2008 show owners invested in the perpetual licences were not financially harmed, however, it is difficult to determine the extent to which the new licences have depressed the value of licenses

Source: BSX Equity market; OECD policy roundtables report 2007; Victorian Public Transport Report; ACT taxi industry review (2010); Ian McIlwraith, The Age, 'Taxi licences a make or break affair' 18 October 2008, L.E.K. Analysis

Other taxi markets have attempted to control licence values through other drastic reforms

	<u>Reform initiative</u>	<u>Impact on licence market</u>
Northern Territory (NT)	<ul style="list-style-type: none"> In 1998, the Government repurchased perpetual licences from owners at the prevailing market value (~\$A228k) and starting issuing annual taxi licences for a fee of ~\$A16k p.a. 	<ul style="list-style-type: none"> The market value effectively disappeared as a fixed life asset has a depreciating value, as opposed to the expected appreciation of a perpetual asset Owners with a financial interest were compensated for their assets, however it required a significant capital outlay from the Government
Western Australia (WA)	<ul style="list-style-type: none"> New licences were issued to address taxi availability issues while upholding guarantees that there would be no deregulation or licence buy backs 42 conventional, 39 peak period and 8 multi purpose plates were issued in 2004, and 185 conventional plates in 2008 	<ul style="list-style-type: none"> In 2002, licence were valued at ~\$192k, with 60% owned by absentee' investors. The current value is ~\$300k Availability issues were only partially addressed by the release of new licences in 2004. In 2008, the Government aimed for a 15% increase in taxi supply
Ireland	<ul style="list-style-type: none"> In 2000, the Government deregulated the taxi industry by eliminating perpetual licences without compensating taxi drivers for loss of license value 	<ul style="list-style-type: none"> The price of a taxi licence in Ireland dropped from \$108k to \$5.6k in the three years following reform The number of taxis in Dublin more than doubled in the two years immediately following deregulation, while increases in other Irish cities ranged from 110% to 258%
Berne (Switzerland)	<ul style="list-style-type: none"> In 1995, Switzerland deregulated the taxi industry by eliminating perpetual licences The Government issued more stringent licence criteria including 1,500 hours of proven experience as a taxi driver and €500 annual licence fee 	<ul style="list-style-type: none"> The market value of licences were eliminated when licences became non-tradeable Since 1995 there has been a continual and steady increase in the number of Swiss taxi licences

The model is a reasonable tool for analysing taxi demand, however, certain assumptions should be revisited periodically

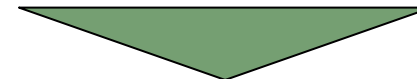
INDICATIVE

License model methodology (Brisbane example)	2009 / 10
<u>Growth rates in key inputs</u>	
Real fares	1.2%
Employment	0.2%
Gross state product	1.0%
Passenger vehicle per capita	1.9%
Tourism	3.0%
X <u>Elasticity of key inputs</u>	
Real fares	(0.40)
Employment	0.30
Gross state product	0.05
Passenger vehicle per capita	(0.25)
Tourism	0.05
= Weighted average change	(0.7%)
X Prior year bookings per capita	4.71
= Adjusted bookings per capita	4.67
X Expected population	1.61M
= Total bookings	7.52M
/ Prior year bookings per taxi	3,988
= Total taxi demand (wheelchair + standard)	1,886
= Incremental new taxi demand	19

Adjusted to a range of conventional and WAT licences and debated among key stakeholders

L.E.K. commentary

- Elasticity inputs are held constant, suggesting a constant slope across the entire elasticity curve
 - this implies that the price elasticity for customers would be constant no matter how high fares were raised
- The model assumes inputs have the same impact on bookings as on hail and rank demand
 - it could be argued that growth in tourism has a heavier impact on hail and rank taxi demand than booking, at least compared to growth in passenger vehicles
- The prior year's bookings per taxi are assumed to be at an acceptable ratio, which raise two hypothetical questions:
 - do taxis receive enough bookings to cover affiliation fees, or would they benefit from additional bookings?
 - is the demand for bookings concentrated at peak periods, resulting in a scarcity of hail and rank taxis?



The model mechanics are fair and reasonable, but it will be important to periodically review assumption values, along with updating key inputs

Note: L.E.K. has not questioned the philosophy behind licence rationing
 Source: Department of Transport & Main Roads, L.E.K. analysis
 DTMR. Taxi Industry Policy Considerations.

Agenda

- Bailment agreements
- Sub-leasing
- Taxi licence supply
- Fare review model
- Affiliation fees
- Mystery shopper program

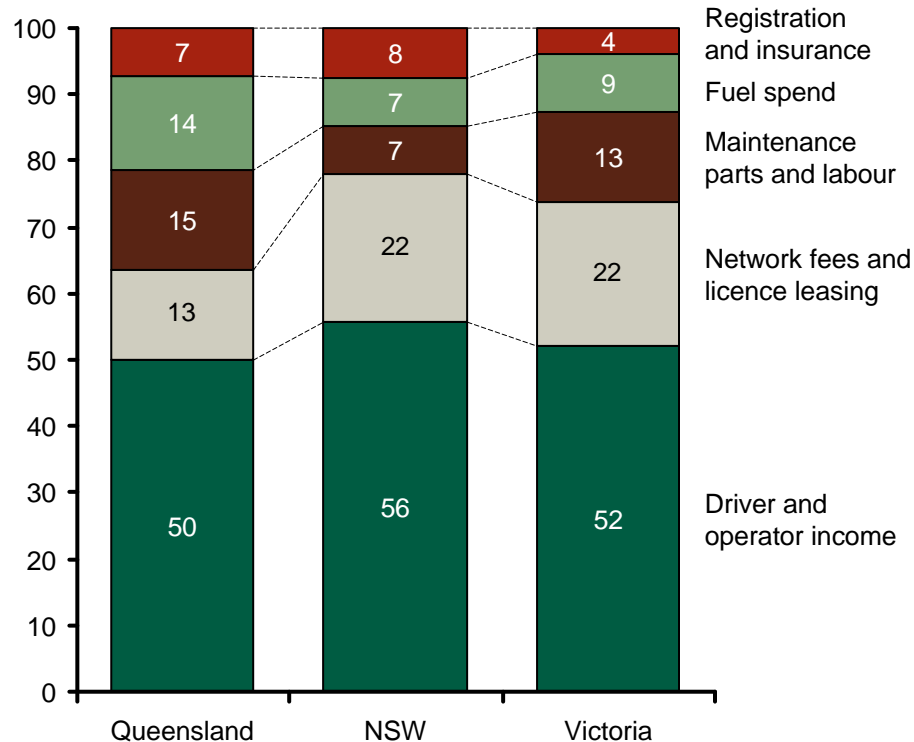
In reviewing Queensland's fare model, we have looked at whether it has produced reasonable fare changes relative to other states

- The fare review model adopted by Queensland is methodologically appropriate and, historically, has produced overall outcomes that have been relative consistent with other states
 - Queensland and NSW use an industry based cost index methodology, Victoria currently uses the composite indices model, and WA uses the Private Motoring Index (PMI)
 - despite employing slightly different price review methodologies, NSW and Victoria have similar cost weightings to Queensland when looking at inputs in broader buckets
- Compared to other states, Queensland's model provides the greatest level of granularity and is used to track costs more specific to the taxi industry
 - the industry model provides a breakdown of costs into operator versus driver costs, urban versus country costs and costs by vehicle type
- While the specific components (e.g., flagfall versus distance rates) might change at different rates from year to year, the overall average fares are rising at a comparable pace
 - Queensland's average fare has been moving in line with New South Wales
 - Victoria has seen more fluctuation in its fare growth, as they have switched models over the past few years

Queensland is generally similar to the other states in terms of the input buckets and weightings used to calculate new taxi fares

Factor weightings in fare pricing model, by state (2009)

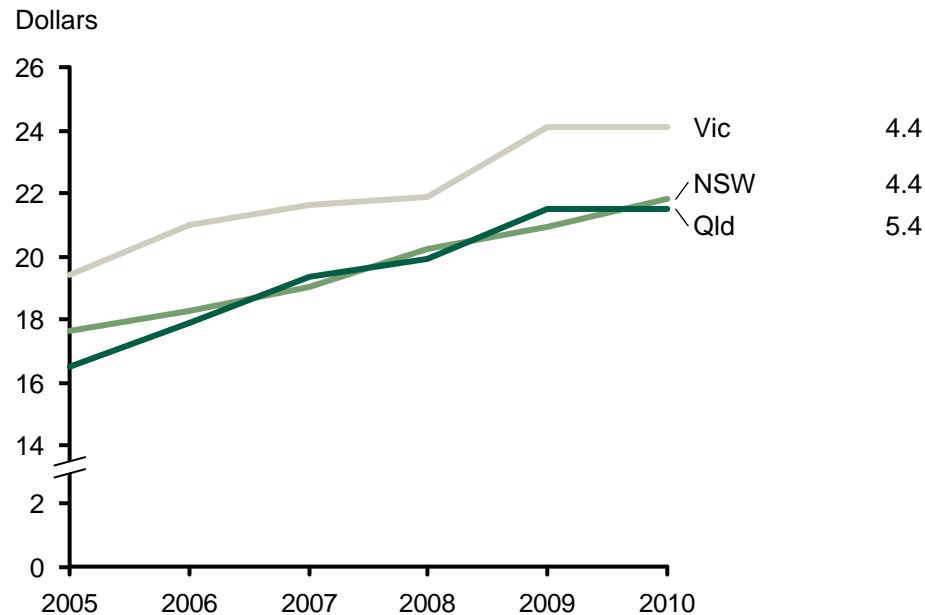
Percent



- Each model measures the increase in each cost of providing a taxi service over a particular time period
 - they assess the annual movements in each key cost weighted by each cost's contribution to the total cost of operating a taxi service
 - inputs and weightings are similar across states
- The purpose of the model is to provide a fare adjustment recommendation
 - the models are designed to determine the overall "average" fare increase, not an adjustment to each separate component (i.e., flagfall rates, waiting time, and distance rates)
 - to achieve the targeted increase, states have the flexibility to increase each lever to different degrees, meaning that individual component should not be expected to track against the proposed fare increases
- States are not bound to accept the output from the fare review model
 - the final decision maker would be the Minister or Director General, and can use the model as more of a guideline
 - the state can also reject the fare increase if the change is too small to warrant its implementation

Overall, average taxi fares have increased in Queensland at similar rates to NSW and Victoria

Average fares and increases by state (2005 - 10)



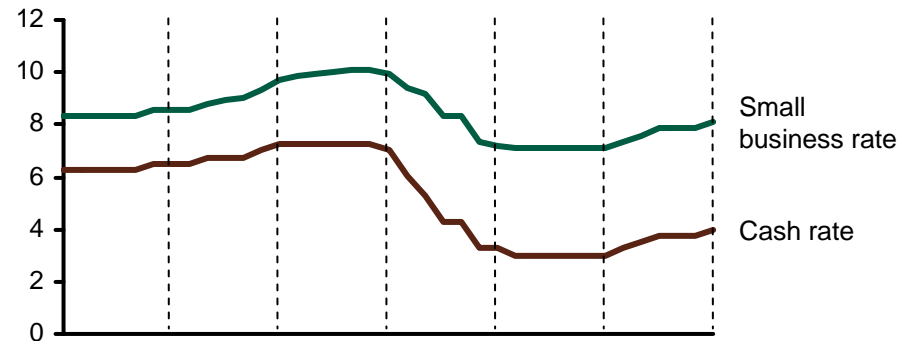
N/A	3.6%	4.2%	6.1%	3.7%	4.3%	NSW (%)
N/A	8.0%	9.4%	1.1%	10.1%	0.0%	Vic (%)
N/A	8.2%	8.3%	3.1%	7.6%	0.0%	Qld (%)

- Overall Queensland has increased average fares at slightly higher rates than Victoria and NSW
- Rate rise variations between states in particular years are due to fare structure readjustments, timing issues and implementation methodologies
 - Victoria operated a CPI-1% model prior to 2008 which, combined with extraordinary upward rate adjustments, resulted in highly volatile rate movements from 2006 – 09 (characterised by over adjustment and correction)
 - Queensland, NSW and Victoria have differing review periods (and implementation dates) which impacts the timing of cost readjustments
 - Victoria and Queensland deemed cost increases in 2009 insufficient to warrant a rate rise; however rate rises in 2011 will simply compensate for cost increases not passed on in 2010 (this will re-align overall fare increases to NSW)
- Fare review model inputs and weightings are now similar in Queensland, Victoria and NSW (bar timing and marginal input differences) and it is likely that fare increases will align across states from 2012

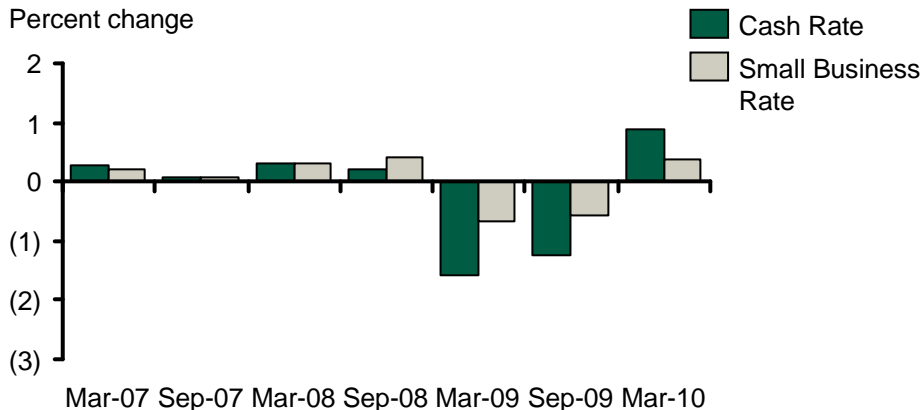
The small business rate is less volatile than the cash rate and could result in more stable model outputs, if used in the fare model

Small business rates and RBA cash rates (2006 - 10)

Percent



Percent change



- Both the cash rate and the small business rate are set by the Reserve Bank of Australia (RBA)
 - the cash rate represents the cost of overnight interbank borrowing
 - the small business rate represents a standard residentially secured term loan
- The current Queensland Model uses the cash rate as an inflator for the vehicle leasing component of the review model
 - the model measures change in the cash rate for the period March-September and September-March
 - the change is then fed into the model (and weighted according to overall cost importance) to determine the appropriate fare increase
- If DTMR were to adopt the small business rate, the input's volatility could decrease
 - a more stable model output could be realised during periods of frequent rate movements

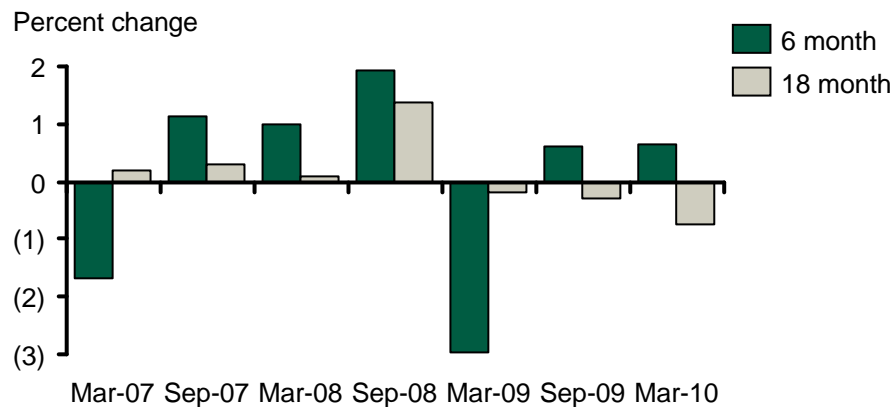
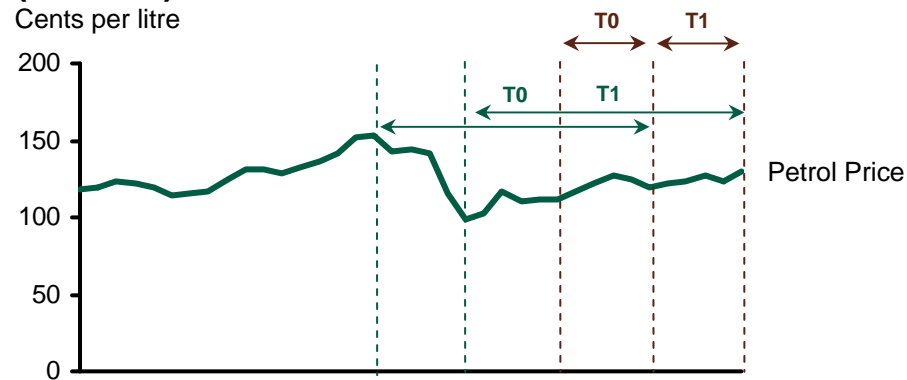
Note: * change is calculated as current 6 month trailing average divided by 6 month trailing average of prior period

Source: RBA; L.E.K. Analysis

DTMR. Taxi Industry Policy Considerations.

An 18 month trailing average for LPG prices would minimise short term fare fluctuations but result in fuel price movements not being captured as quickly

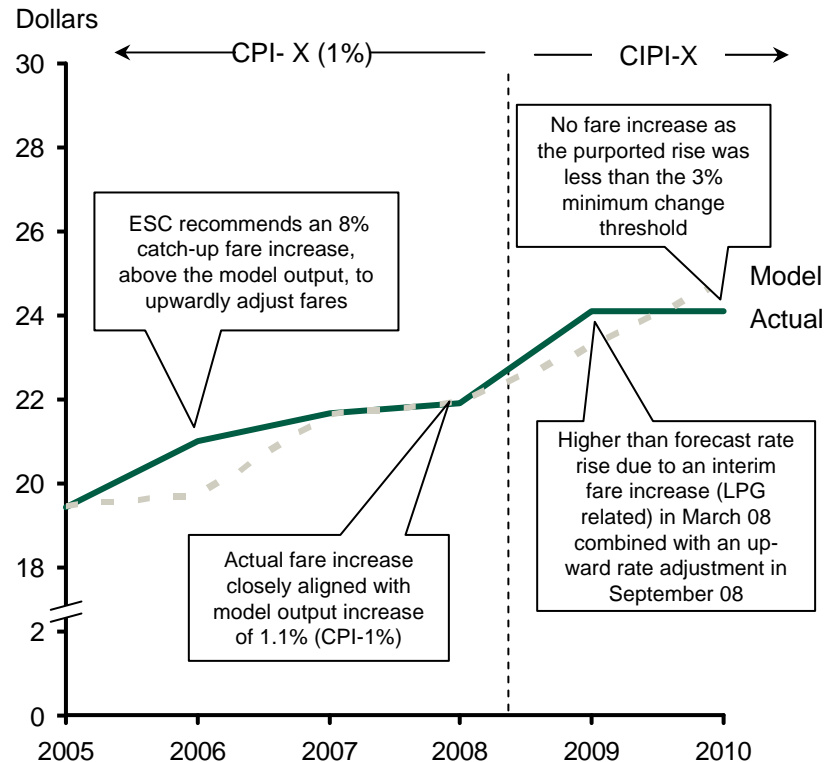
Unleaded petrol prices in Brisbane (2007-10)



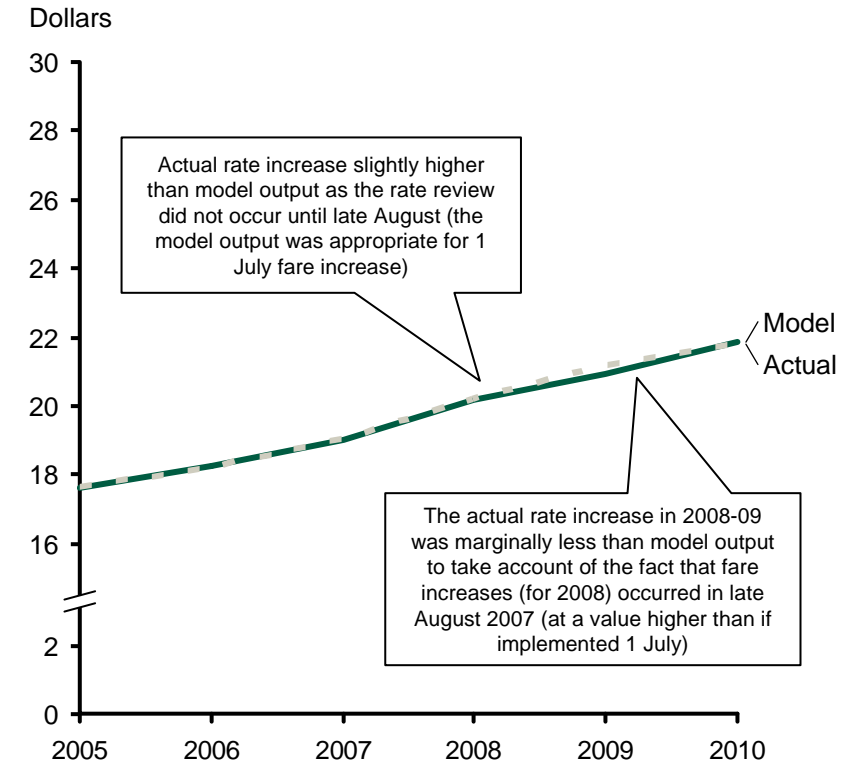
- The current Queensland Model uses the LPG price as an inflator for the fuel component of the fare review model
 - under the current model, fuel price increases are calculated on the basis of 6 month trailing averages
 - under an 18 month trailing average, fuel price increases would be calculated based on average prices over 18 months
- LPG prices track very closely to petrol prices and, for this analysis, average unleaded petrol prices have been substituted for LPG prices
- Using the 18 month average has two implications on the fuel model which would result in skewing the fuel impact in a given period
 - the volatility in a single period is reduced (not capturing full impact)
 - price swings are not realised as sharply due to long term averaging impacts

While NSW average fares have closely followed the IPART model, actual fares in Victoria have fluctuated around those determined by the review model

Average fare increases in Victoria (as at 1 Jan) (2005-10)



Average fare increases in NSW (as at 1 Jan) (2005-10)



N/A	8.0%	3.2%	1.1%	10.1%	0.0%	Actual
N/A	1.4%	3.0%	1.1%	6.1%	2.9%	Model

N/A	3.6%	4.2%	6.1%	3.7%	4.3%	Actual
N/A	3.1%	4.0%	5.9%	4.7%	4.2%	Model

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Booking companies provide a good value-for-money service to operators

Are affiliation fees set at appropriate levels?

Does the affiliation provide a value-for-money service to the operator?



Each taxi receives an average of more than 8 jobs per shift from the booking companies for a net cost of \$6 per shift, which seems to be good value

Are the affiliation fees in line with other jurisdictions?



Affiliation fees in Brisbane are within the range observed in other jurisdictions

Do the booking company returns appear appropriate?



*Booking company's financials have not comprehensively been reviewed**

Network affiliation fees appear well justified by the number of jobs provided through the networks

Per shift economics of affiliation fees *ESTIMATED*

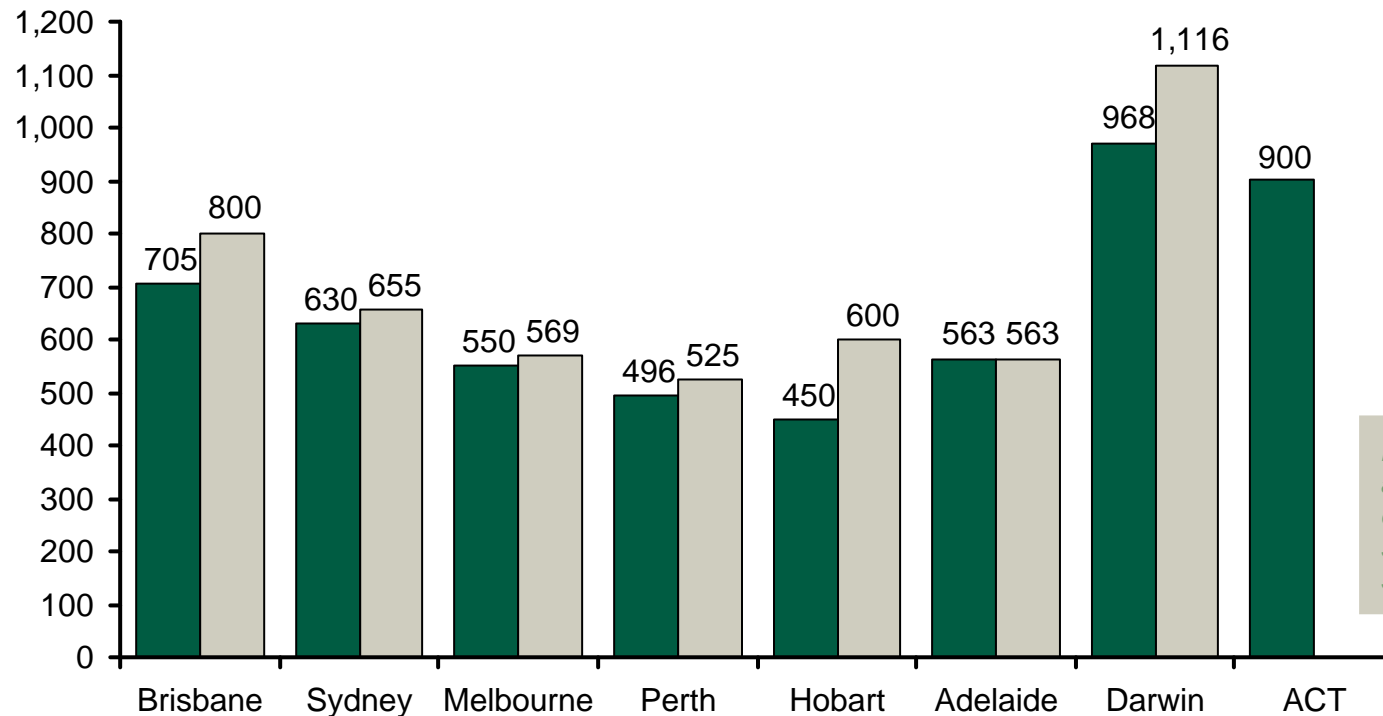
Methodology	Value
Affiliation fees per year	(\$8,460)
Shifts per year	~700
Affiliation fee per shift	(\$12.10)
Jobs per shift	17
Booking charge	\$1.40
Number of jobs booked	~50%
Gross booking fee revenue per shift	\$11.90
Operator commission of booking fee	50%
Operator booking fee revenue per shift	\$5.95
Net cost of network affiliation fee per shift	(\$6.15)

- An operator's network affiliation cost is partially offset by surcharges for jobs booked through a network
 - operators are recouping at least 50% of the affiliation costs on booking surcharges alone
- Operators also capture the revenue benefit of having networks work to efficiently allocate drivers to supply
 - ~50% of all jobs in Queensland are booked through a network, suggesting networks provide value by bringing together supply and demand
 - without networks dispatching drivers across jobs, drivers may not complete 17 jobs per shift

Less than two jobs per shift provided though the booking company would justify the affiliation fees. In average more than 8 out of the 17 jobs per shift are dispatched though the network

Affiliation fees for Brisbane are broadly in line with those observed in other jurisdictions

Comparison of monthly affiliation fees,
by city
(2009/2010)
Dollars



Sources:

- ATIA (2009)
- QTAI (2010)

Note: Differences in affiliation fees are explained by differences in scale economies, call centre utilisation, service levels, demand profile, local staff costs etc.

Agenda

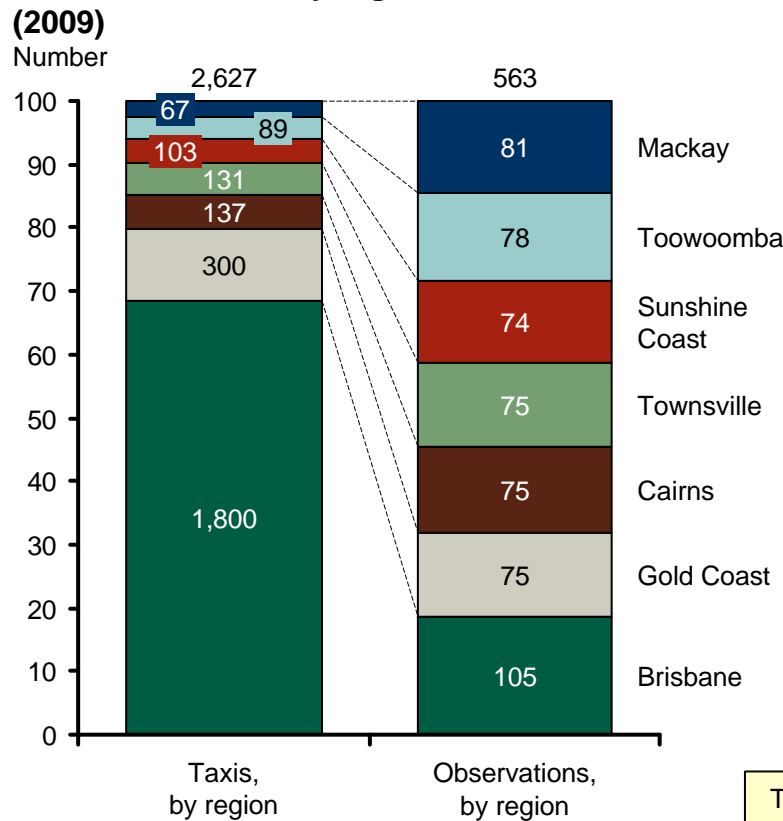
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The appropriateness of Queensland's Mystery Shopper Program has been investigated - is it an effective tool for its purpose?

Appropriateness of the Mystery Shopper Program

- What should be the stated purpose of the Mystery Shopper Program?
- Is the current methodology robust enough to meet the goals of the program
- What programs are in place in other states, and what are their objectives?

Mystery Shopper Program survey sample versus total taxis, by region (2009)

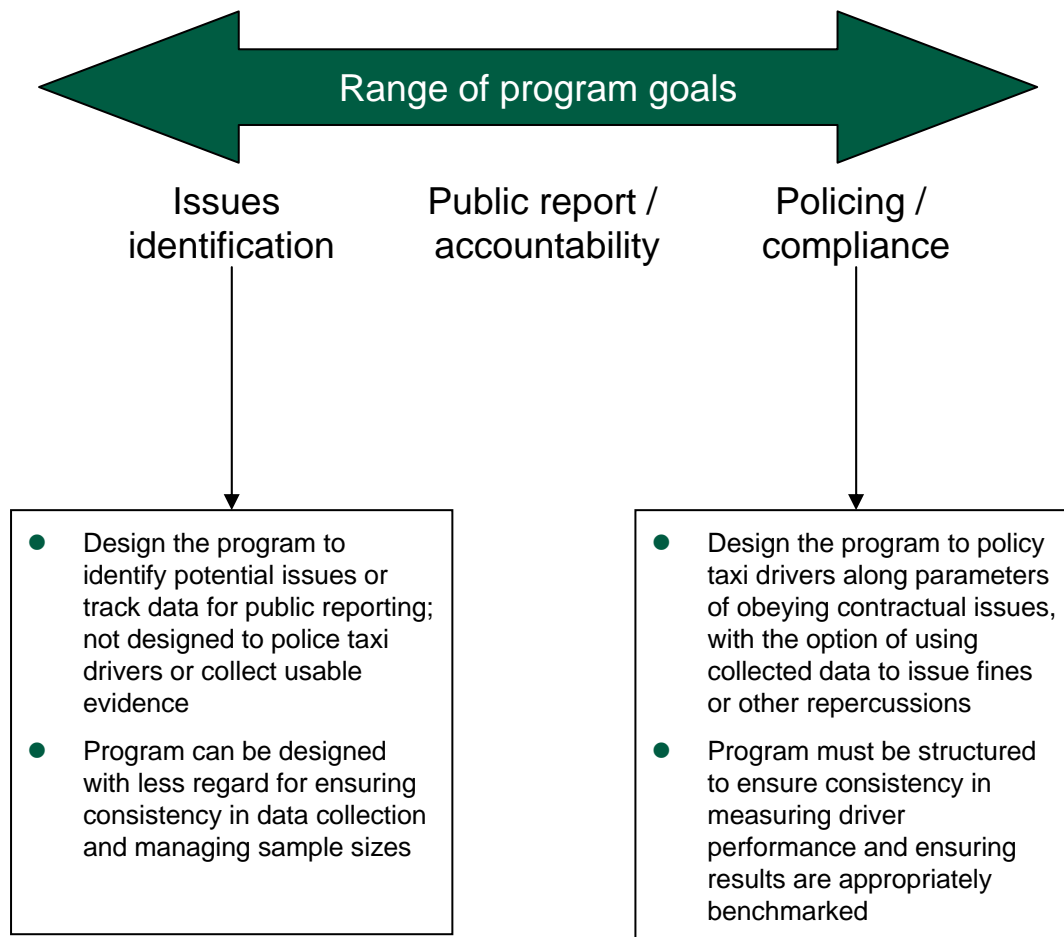


Sample (% of population)	
of drivers*	Margin of error
26.3%	~11%
19.1%	~11%
15.6%	~11%
12.5%	~11%
11.9%	~11%
5.4%	~11%
1.3%	~10%

The current sample size is sufficient if a margin of error of 10-11% on a region by region basis was appropriate

Note: * assumes Qld average of ~4.25 drivers per taxi (2007 ATIA data)
 Source: Queensland Mystery Shopper Program Report (July 2009), L.E.K. analysis
 DTMR. Taxi Industry Policy Considerations.

However, the first step before developing a program's structure, will be to identify the overall purpose of the program



- All states appear to continuously track certain performance standards, tracked either through the department or through networks' booking systems
 - “... there are a number of service level standards that are tracked by the department; response times, wait times, network response times (time left on hold) are collected as they directly feed into the appropriate level of new taxi's that should be issued ...”
Transport Department, South Australia
 - “... wait times are recorded through the WAT booking system. Recently performance based bonuses have been applied which act as an incentive to minimise wait/dwell times ...”
Victorian Taxi Directorate
- Tracking these performance standards are considered an important part of managing the taxi industry, as it is made up of a large, fragmented base of operators and drivers
 - “... taxi performance requires constant vigilance; you need to be on the industry's back all the time with regards to customer service. Because drivers, in many cases, see the job as a job of last resort and there is high turnover, there are no real employee-employer relationships. It is hard to build up a customer service ethos ...”

Across Australia, states have either instituted, or plan to run, similar programs to the Mystery Shopper Program to gauge taxi performance

SA: mystery shopper program

- South Australia operates a mystery shopper program, which is designed to identify issues for compliance officers to investigate, not to gather statistically significant performance data
 - “... We do operate a mystery shopper program but effectively it operates as an audit; it identifies issues that can be raised to compliance officers. Matters such as correctly displaying ID, proper operation of taxis etc will be reported and referred to compliance officers ...”
Transport Department, South Australia
 - “... The biggest difficulty in implementing this program is getting enough compliance offers to follow up on a mystery shopper report ...”
Transport Department, South Australia

Vic: periodic customer surveys

- Victoria uses periodic customer satisfaction surveys in place of a mystery shopper program to gather ongoing data on the public perception of taxis
 - “... Service level statistics are tracked via customer satisfaction surveys ... we have found that this generally provides a good guide to the public’s perception of taxis in Victoria. We don’t currently have a mystery shopper system in place ...”
Victorian Taxi Directorate

NSW: customer feedback system

- While New South Wales is planning to run a mystery shopper program, it currently manages an ongoing Customer Feedback Management system to track data on driver complaints
 - “... We don’t yet have a mystery shopper program. It is being put forward as something to do...”
Transport Department, New South Wales
 - “... There is a system called the Customer Feedback Management System which enables people to lodge complaints about drivers. If a driver receives a certain number of complaints then we monitor them and they might be sent for re-training ...”
Transport Department, New South Wales