Department of Transport and Main Roads

Queensland Good jobs Better services Great lifestyle

Future Licensing Review Part 2 – Future Options

Presentation written version

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Queensland Government

Options to determine the most suitable future regulation

Given the key issues, the Review has focused on the current restrictions that limit supply in the taxi market.

Options have been developed and cover three key areas:

- the cap placed on the number of taxi licences
- the operating area restrictions placed on taxis through the declaration of taxi service areas, and
- flexible fleet management and the current arrangements for dealing with periods of peak demand for taxis.

These issues are interrelated and often the choice of a preferred option for one issue is closely aligned with the choice of a preferred option on another issue. Consequently, the options have been grouped into five overall options — A, B1, B2, C and D — across the three restrictions.

The options are being assessed to determine the most suitable future regulation to enable the taxi industry to effectively compete in the market and meet customer needs.

In assessing the suitability of the options, TMR has considered the extent to which they would lead to:

- a greater level of service provision
- greater access to services by customers
- greater service innovation in the industry, and
- support the Government's social justice objectives.

The impact of each option for customers, industry and government has also been considered.

Option A: issuing new licences under the current framework

Purpose

The first option involves preserving stability and operationalising the current approach to taxi licences. This would see TMR balance the supply and demand for taxi licences in the more competitive contemporary personalised transport market. It will also provide certainty about peak demand arrangements and move away from the current transitional approach.

Approach

These purposes will be achieved by fully operationalising the current framework that exists in the legislation. Under this option:

- the supply of conventional and WAT licences in each taxi service area would remain capped
- TMR would determine the appropriate number of licences for each area periodically and would develop an approach for this based on key indicators and measures of supply and demand. TMR would consult with the taxi industry as part of developing an appropriate approach.
- new taxi licences would be issued where necessary through a public tender process, with the duration of new licences being set by TMR up to a maximum of five years
- taxis would continue to be limited to picking up passengers in the area for their licence, and
- current peak demand management arrangements would be made permanent through legislative changes and substitute taxis would be retained to replace licenced vehicles that are off the road and supplement the licenced fleet at approved peak times.

Benefits

Some of the key benefits from this option include:

- It would give TMR the ability to increase licence supply by issuing new licences as local populations grow and age and in line with demand.

- There would be minimal impacts on existing licence holders and perpetual licences would retain some value.

- TMR would have the ability to prioritise the issuing of WAT licences under this option and we consider that there would be some minor improvements in service levels, for example, in regional centres and/or during peak times in larger population centres. These improvements are likely to be driven by an increase in taxi utilisation in response to the increasing passenger demand flowing from population growth.

- This option allows for booking entities to manage periods of peak demand through existing peak demand arrangements at no cost.

Costs and risks

We think the option would come with more potential costs and risks than benefits which include.

- Significant market entry barriers would remain under this option and result in high operating costs for taxi operators.

- The five-year maximum duration of new licences might generate little interest from operators because of the relatively short time it provides to recover their costs, with no guarantee that they would get another licence in the future.

- Operators would largely continue to rely on the leasing and subleasing of existing licences which as outlined earlier can lead to higher operating costs and a lack of flexibility for taxi operators, and higher fares for passengers.

- The regulatory imbalance in the industry would remain and it would continue to be easier for ride booking services to obtain a licence and enter the personalised transport market. There would also be different entry costs within the taxi sector, between operators who purchase a new licence and those who bought a perpetual licence or who lease or sublease a perpetual licence.

- TMR considers that this option would provide limited triggers for innovation in the taxi industry.

- The current peak demand arrangements are not a robust solution for the taxi industry to manage periods of high demand as it relies on the availability of substitute vehicles.

Option B1: modest changes

The following two options B1 and B2 are similar. Both options involve some modest changes to the current arrangements.

Purpose

The purpose of option B1 would include preserving stability and operationalising the current approach to taxi licences, as with option A.

It differs from option A by providing efficiencies for drivers in taxi service areas with higher levels of trips that occur across the area border and end in an adjoining taxi service area or an area that is otherwise close by.

This option would also provide a permanent solution to peak demand management that is consistent with the existing approach to licensing vehicles to provide personalised transport trips.

Approach

The approach to option B1 would involve:

- extending the maximum term of new taxi licences from five years to 10 years.
- new licences would still be issued by public tender and TMR would determine the appropriate number of licences for each area periodically and would develop an approach for this based on key indicators and measures of supply and demand.
- some current taxi service areas in the south-east, central and northern areas of the state would be merged and existing licences for those areas would be able to operate in the new, larger area. TMR would develop an approach to deciding which areas to merge based on key metrics, and
- current peak demand arrangements would be replaced with a new peak demand licence that would be issued by TMR.

The merging of some taxi service areas is being considered because the review analysis found that drivers in some areas spend a higher than average amount of their time providing trips that end in another service area. When drivers drop off passengers in a service area that is not the one for their licence, they must return to the boundary of their service area before they can pick up another passenger. This reduces their trip efficiency and the analysis indicated that trip efficiency would be improved by merging some existing areas — for example, the Rockhampton and Yeppoon taxi service areas.

Benefits

Some of the key benefits from this option include:

- A 10-year term for new licences might make new licences more commercially attractive to operators because it would provide more time for them to recover their costs.

- Existing perpetual licences would retain some value.

- Merging some taxi service areas would benefit drivers and operators by reducing dead running and providing more trip flexibility and efficiency. For example, it would provide flexibility for drivers in the merged areas to increase their income by picking up passenger in the enlarged area for the return leg of long trips such as a trip between Brisbane Airport and the Gold Coast.

- The changes are likely to lead to some limited improvements in service levels in the merged areas, with some reduction in wait times at certain times. These would be in addition to the limited improvements that would also occur under option A as a result of an increase in taxi utilisation that is likely to occur because of population growth.

Costs and risks

Many of the costs and risks of this option are consistent with those identified under option A and include:

- There would still be significant market entry and cost barriers for operators. The taxi industry would continue to rely on the leasing and subleasing of existing licences. There would continue to be regulatory imbalance in the industry and limited triggers for innovation in the taxi industry.

- In addition, there would be a new cost to the taxi industry for the new peak demand licence. The fee level and issuing arrangements for such a licence would need to be designed as part of implementation planning in the event this is the preferred approach. At this stage, TMR has presumed that there would be a fee for the licence, as opposed to the current free approach to peak demand management plans.

- There is also the risk that merging some taxi service areas might lead to service levels declining in some areas of lower demand as drivers move to areas of higher demand that they previously didn't have access to.

Option B2: fixed costs for new licences

Purpose

This option is similar to option B1 with a stronger focus and purpose on balancing supply and demand for taxis. To do this, it would operationalise an approach to managing surplus taxi licences and their cancellation.

Like option B1, its purpose would also include providing efficiencies for drivers in taxi service areas with higher levels of trips that occur across the area border and end in an adjoining taxi service area or an area that is otherwise close by.

Approach

Under option B2:

- new licences or leases would have a maximum duration of 10 years

- the supply of conventional and WAT licences in each taxi service area would remain capped, with TMR determining the appropriate number of licences for each area periodically and TMR would develop an approach for this based on key indicators and measures of supply and demand

- some current taxi service areas in the south-east, central and northern areas of the state could be merged with existing licences for those areas being able to operate in the new, larger area. TMR would develop an approach to deciding which areas to merge based on key metrics, and

- when new licences were deemed necessary, TMR could issue new licences or lease new licences at a fixed price – for example, $10-15,000 annually. In the

event that this is the preferred future option, TMR would develop an approach for setting the price based on key metrics which would need to be determined.

- Funds from the sale of new licences would be used by TMR to support owners of perpetual taxi licences that are deemed excess or surplus to current need – such as licences in service areas like Brisbane.

The proposed approach to dealing with surplus licences is similar to the approach that existed before the Personalised Transport Reforms. Under that approach, taxi service areas reviews included identifying whether an area had excess taxi licences. Individual licences were not identified as surplus; instead, a review would identify that if, for example, an area had five licences but only required four, one of the licences is excess.

When another review for another taxi service area identified that an additional licence was required, as part of their tender for that new licence, tenderers had the option of negotiating to buy one of the five licences from the first area and including the cost of that and an additional, bonus amount in their offer. If TMR accepted their offer for the new licence, the tenderer would complete the purchase of the licence from area one and surrender that licence to TMR. TMR would then issue them with a new licence for area two and collect the balance of their offer amount.

Under Option B2, there would be a similar approach to identifying excess licences. It's likely that it would be more complicated for TMR to identify excess licences in the contemporary market where there is more competition for booked trips. Instead of tenderers dealing with the owners of excess licences, TMR would develop a process for doing that directly.

Benefits

Some of the key benefits from this option include:

- Setting a higher price for new, shorter-term taxi licences could increase the leasing and utilisation of existing perpetual taxi licences. The price for new licences could stimulate the value of existing licences if the lease fees for existing licences were lower than the issue cost of new licences.

- Existing licence owners could then see an increase in the value of their licences and a higher level of income from lease fees for their licences.

- As with option B1, merging some taxi service areas would benefit drivers and operators by reducing dead running and providing more trip flexibility and

efficiency. The change is also likely to lead to some limited improvements in supply and service levels in the merged areas.

- This option would address issues with the current level of issued licences in areas through government intervention.

Costs and risks

Key costs and risks of this option include:

- There would still be significant market entry and cost barriers for operators. Potentially, there could be increased entry costs for operators through the cost of new licences and/or increased leasing costs for existing licences. There would be a continued reliance on the leasing and subleasing of existing licences with the costs that brings for operators and passengers.

- Licence cancellations and support to licence owners would only apply to licences that TMR determines to be surplus. Cancellation and support would not be available to other existing licence holders.

- Government would intervene to set the market value for new licences, rather than operators or other market participants being able to do this through their tender offer. The cost set would have to balance maintaining a cost to enter the industry with not making it impossible to enter the market and with the need to address surplus licences and achieve other government priorities for the industry.

- It would be difficult and expensive for TMR to design and administer this option. A complex model would be required to enable local area and whole of state issues to be addressed. TMR would likely need access to a range of information and data that it does not currently have, including lease fee and operator income levels. Collecting and reporting this information would impose further costs on industry participants.

- High fees for new licences and increased lease fees might not be commercially viable or achievable in many areas and would likely lead to higher taxi fares. Areas with a high level of competition in the booked hire market and a large number of surplus licences are unlikely to be able to sustain higher operating costs.

- Regulatory imbalance in the industry, including differential entry costs between taxi and rideshare operators would continue and could worsen.

- It is also likely that opportunities for innovation would be limited.

- The approach has not been used in any other state or territory and it has not been the best practice regulatory approach implemented in other jurisdictions.

Option C: more significant changes

Purpose

Option C involves more significant changes to the current arrangements.

The purpose of this approach would be to allow market participants to determine supply and demand for WAT licences and to provide easier access to WATs to help address current issues in the WAT and TSS markets and improve the level of service for WAT passengers.

TMR would develop and implement an approach to balancing the supply and demand for conventional taxi licences in the more competitive contemporary personalised transport market.

As with Options B1 and B2, this option would provide efficiencies for drivers in taxi service areas with higher levels of trips that occur across the area border and end in an adjoining taxi service area or an area that is otherwise close by.

Approach

Under Option C, the approach would:

- remove the cap on the supply of WAT licences in each taxi service area and these licences would be issued on demand for a set administrative fee

- the supply of conventional taxi service licences in each taxi service area would remain capped and new conventional licences would be issued through public tender, and they would have a maximum term of 10 years

- TMR would determine the appropriate number of conventional licences for each area periodically and would develop an approach for this based on key indicators and measures of supply and demand

- some current taxi service areas in the south-east, central and northern areas of the state would be merged and existing licences for those areas would be

able to operate in the new, larger area. TMR would develop an approach to deciding which areas to merge based on key metrics, and

- peak demand arrangements would no longer continue, with operators instead being able to obtain flexible access to fleets via purchasing a WAT or booked hire service licence which would be available on demand.

Benefits

Some of the key benefits from this option include:

- There would be unrestricted entry to the WAT market and some of the entry costs would be reduced.
- There would be opportunities for new and innovative WAT operators to enter the market.
- The higher barriers to entry for conventional taxis may incentivise operators to take up WAT licences. Operators who currently have a substitute WAT vehicle would be able to obtain a new WAT licence at a low cost to increase the utilisation of these vehicles.
- There is likely to be an improvement in the ratio of WATs to population in some areas.
- As with option B1 and B2, the merging of some service areas is likely to reduce dead running and improve trip efficiency and flexibility for drivers.
- Overall, this option would lead to some improvements in service supply, accessibility and service levels, with decreases to passenger wait times in some areas and at some times.

Costs and risks

Key costs and risks of this option include:

- There would be a continued reliance on leasing and subleasing for conventional taxis, with the associated costs this brings for operators and passengers.
- The higher operating costs for WATs would still be a barrier to entry. The high cost of WAT vehicles might limit the uptake of new, cheaper WAT licences.

- At the same time, the value of existing perpetual WAT licences would be adversely affected, and values would probably fall to a level similar to the cost of new licences. It may also eliminate lease payments for existing perpetual WAT licences, removing their ongoing income-generating opportunity.

- There is the risk under this option that operators might invest in WATs to enter the industry without a commitment to provide quality wheelchair accessible services.

- As with options B1 and B2, there is a risk that merging taxi service areas might lead to service levels declining in some areas as drivers move to areas of higher demand that they previously didn't have access to.

- There would also continue to be some regulatory imbalance in the industry with different entry costs between conventional taxis and rideshare services and between conventional taxis and WATs.

- Other Australian jurisdictions have moved away from this approach. Most notably, NSW which implemented such an approach before the emergence of ride-booking services when there were limited opportunities to enter the market other than by purchasing a WAT licence.

Option D: removing constraints on supply

Purpose

The purpose of this approach would be to move away from government balancing supply and demand for taxi licences, with this determined by the market instead. Market participants would have flexibility to enter or exit the market based on the demand for their services.

This option would also provide efficiencies for all drivers who provide trips across taxi service areas.

The approach would also remove the regulatory imbalance in the licencing approach that currently exists in the industry.

Approach

The option would remove all the constraints on taxi licence supply by:

- removing the cap on the supply of all types of taxi licences, with TMR issuing conventional and WAT taxi service licences with a term of 12 months on demand for a set administrative fee

- removing operating area restrictions for all taxis, enabling taxis to pick up passengers for both rank and hail and booked hire trips anywhere in Queensland, and

- removing substitute taxis and peak demand management plans, as they would no longer be necessary given the removal of licence supply restrictions.

Benefits

Some of the key benefits from this option include:

- Entry to the rank and hail market would be unrestricted, which would result in lower licensing and operating costs for taxi operators and drivers.

- There would be more flexibility for operators to increase or decrease their fleet size to meet demand.

- Issuing taxi licences on demand for an application fee would enable drivers and operators to choose when and where to obtain their own licence and enable operators to streamline their business structure.

- Abolishing taxi service areas will reduce dead running and improve trip efficiency and flexibility for drivers.

- Improved service levels and an increased number of taxi trips are likely to result in regional and remote areas of the state. There is also likely to be increased taxi supply in the south-east Queensland as operators compete more effectively with ride-booking.

- There is higher potential for innovation to occur in the taxi industry and for the changes to encourage new operators, services and fare structures.

- The approach would reduce red tape as the market directs the supply of licences and regulation is more balanced and equitable across the personalised transport industry.

Costs and risks

Key costs and risks of this option include:

- The high vehicle and operating costs for WATs would remain a barrier to entry. There would be a risk that operators shift towards providing conventional taxi services because of their cheaper licence acquisition and operating costs. As such, there is a risk that WAT supply and service levels for passenger with disability would not improve or could get worse.

- The demand for existing perpetual licences would be adversely affected and their licence value would probably fall to a level similar to the cost of new licences.

- As with both B options and option C, there is a risk that merging taxi service areas might lead to service levels declining in some areas as drivers move to areas of higher demand that they previously didn't have access to.

- There could also be an increase in congestion in some areas and demand for road and taxi infrastructure, particularly at times of higher passenger demand.

- The Government would potentially have less levers to shape service levels and other customer outcomes through supply controls.