Proposed changes to the Victorian Taxi and Hire Care Industry

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10/18/2016

Abstract

This proposal has been prepared for the purpose of providing the State Government with an alternative option to the current proposal put forward to the Victorian Taxi and Hire Car Industry. This proposal is on behalf of licence holders, operators and drivers within the commercial passenger vehicle industry.

This report highlights the negative impact the current government proposal has on the Victorian economy and how this can be a further burden the Victorian State government.

We wish to extend our thanks to the Parliamentary committee for allowing us the opportunity to prepare this report and with this, we are hopeful that we can come to a fair and equitable agreement.

This report has been prepared with consultation of all major stakeholders – licence holders, operators, and drivers within the Commercial Passenger Vehicle Industry (CPV).

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1. Introduction

The Victorian Taxi industry has a proud history of servicing Victorians and tourists by providing millions of safe trips every year. The taxi industry has been an icon within the State of Victoria for many decades.

Significant reforms were made to the industry in 1994 under the Kennett government, in order to enhance customer experience. Under the Kennett reforms, the industry standards lifted, consumer experience improved and the confidence in the industry saw a substantial uplift.

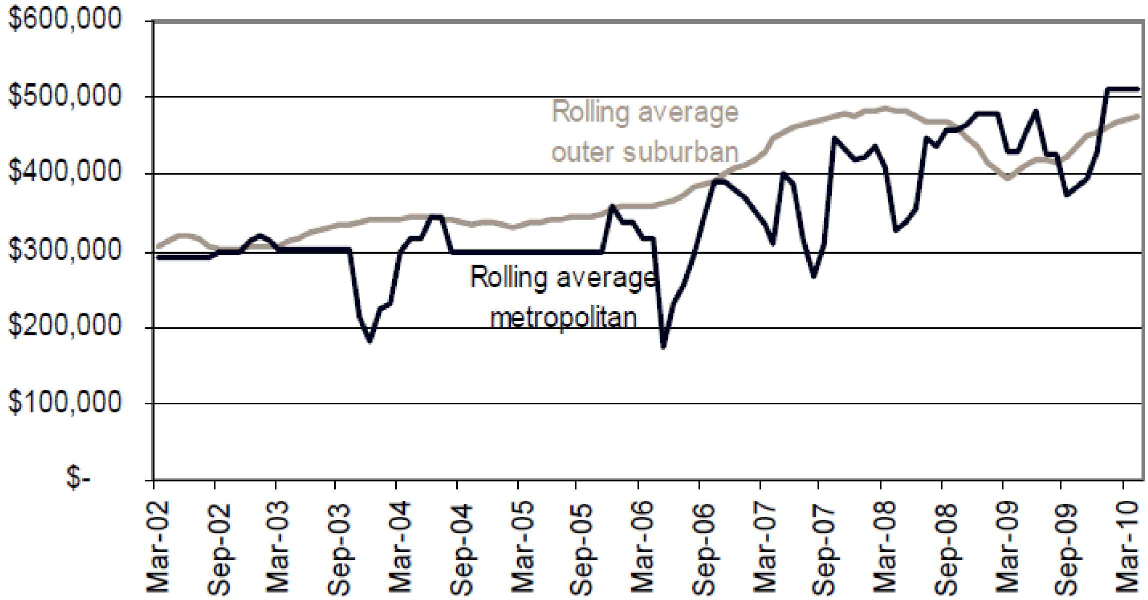
In 2011, the taxi industry in Victoria was the subject of a major government inquiry, the *Taxi Industry Inquiry, The Fels Inquiry* and in turn, significant negative changes impacted the industry. In April 2011, metropolitan taxi licenses had an approximate market value of $512,500 post the inquiry they dropped to a staggering $300,000.

Over the past few years, the Commercial Passenger Vehicle (CPV) industry has been rapidly evolving, and with these changes, current industry participants have been obligated to adapt and innovate in order to remain competitive in this rapidly changing environment. The taxi industry does not seek protection from competition. On the contrary, we urge regulatory reform, including the introduction of new competitors in the CPV market to more actively compete on equal terms. We want to see a dynamic and diverse industry in which companies must vigorously compete for the consumers. This vision can only be realised if everyone is operating under the same rules. With this in mind, considerations need to be in effect that incumbents can only compete if everyone has the same advantages and opportunities and if all legacy costs are removed from the industry.

2. Price paid per licence

Figure 1 illustrates the ever increasing value of Taxi Licence prices from a period of 2002-2010. Having this view in mind, one can only come to the conclusion that significant investments have been made to acquire these licences. With these significant investments, debt still remains in place, not only for the taxi licence loans but also for the vehicles. Therefore, when taking into consideration the new entrants to market and the low barrier to entry, where there had been no capital outlay to enter the industry, there has been a substantial unfair competitive advantage over the incumbent.

Figure 1. Metropolitan and outer suburban conventional licence prices (since 2002)

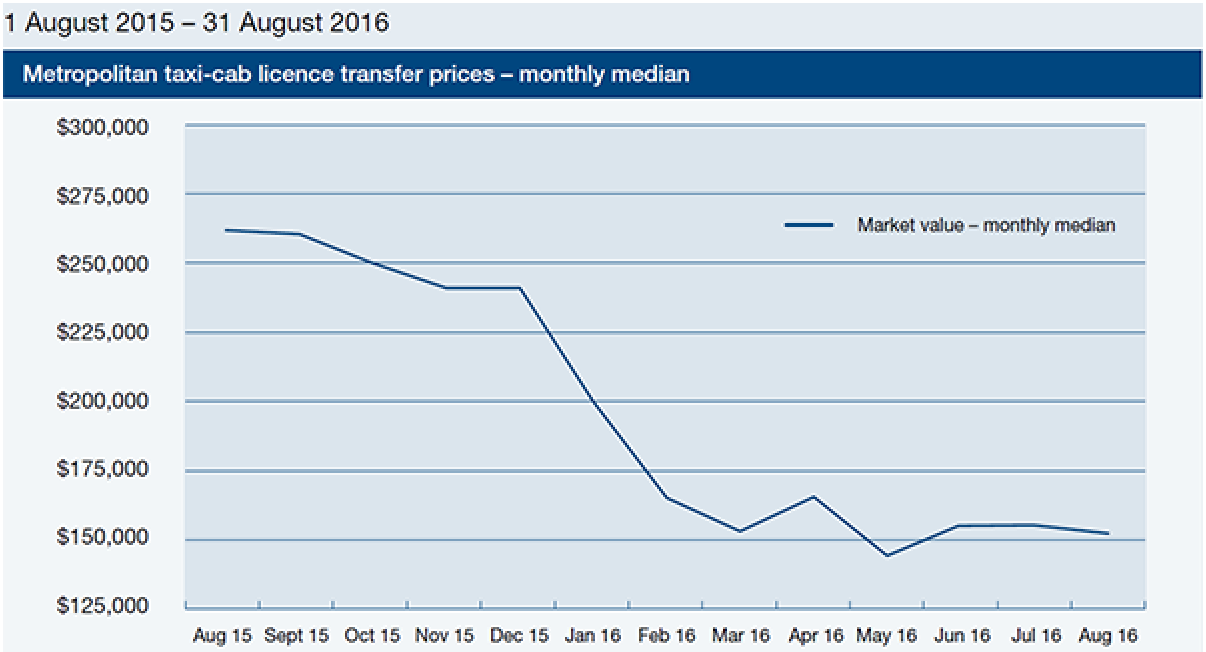


Source: Victorian Taxi Directorate, Bendigo Stock Exchange (metropolitan licence since March 2006)

3. Investments

Figure 2 shows the rapidly dropping transfer prices of Victorian Taxi Licences over the last 12 months (August 2015-August 2016). Prior to this period, many licence holders have invested upwards of $500,000 and there are considerable outlying debts to financial institutions that must be repaid. Victorian financial institutions, up until recent years, have lent upwards of 75% of the value of these licences. With the recent changes, financial institutions have crossed secured debts with owners' primary resident which poses a substantial risk of people losing their homes. With the current government proposal, paying out these debts is an impossibility with the cancelling of licences and assignment income concurrently.

Figure 2. Metropolitan taxi-cab licence Transfer Prices

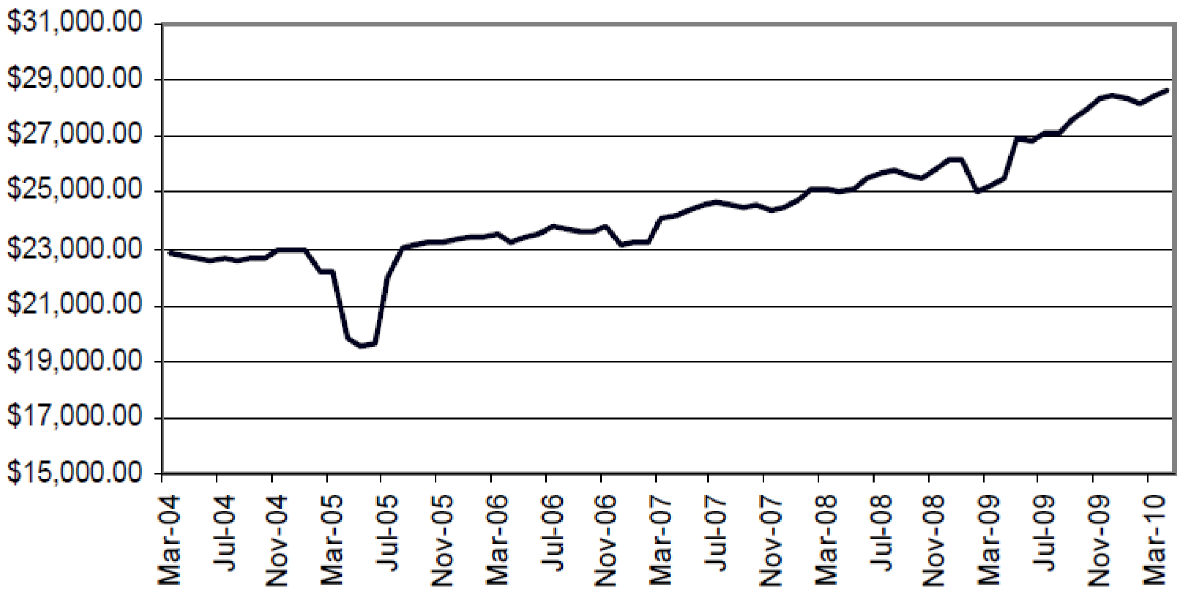


Source: http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/licence-transfer-and-assignment/metropolitan-taxi-licence-transfer-prices

When taking all factors into consideration, one must be aware that a majority of licence holders rely on the assignment income to survive and have no other means of an income. Other licence holders also use licences as superannuation and rely on their income in their pension years. Investing in an industry that was promoted by many as a 'safe' and 'reliable' industry have left individuals and organisations severely impacted with the current proposal put forward by government. Approximately 65% of licence holders assign the right of their licence to an operator, where the operator pays them a monthly assignment fee.

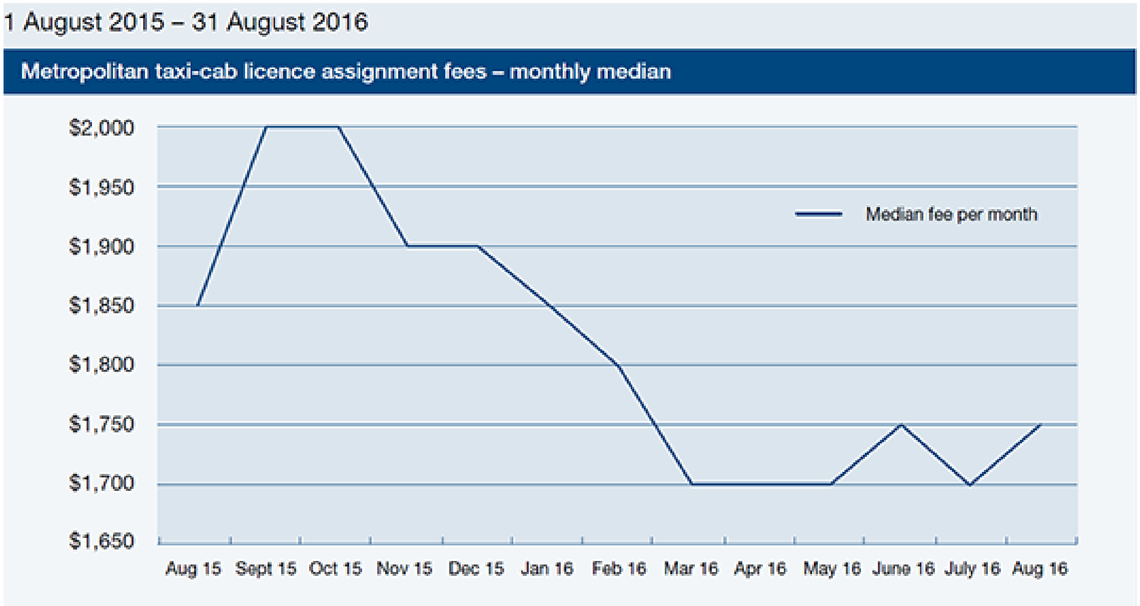
Not only has the value of taxi licences dropped substantially, but also the assignment values. Figure 3 shows the assignment values from March 2004- March 2010. Figure 4 highlights the significant drop of assignment values over the past 12 months (August 2015 – August 2016). The Taxi Industry has taken a big hit and there has been no support to assist people in sustaining a business or transitioning out. Licence assignments are already being returned to licence holders in anticipation of the $538.40 licence.

Figure 3. Metropolitan conventional licence assignment values, per annum (since March 2004)



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

Figure 4. Metropolitan taxi licence assignent values per month



Source: http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/licence-transfer-and-assignment/metropolitan-taxi-licence-assignment-prices

The current Government proposal, unfortunately, seems to be favoured towards new entrants with the incumbent's investments being disregarded. One must also be aware that it has not only been financial investments but also the emotional investment from operating a CPV business.

The current compensation packaging put forward by the Government represents a grossly unjust resolution and the full consumer benefits to the proposed reforms may be hindered. There is always a solution to every problem and there may be some middle ground to ensure that licence holders who have purchased licences, not based on speculation, but rather because regulations required them to do so, are not severely impacted. Majority of licence holders, over the years have complied with regulatory requirements, and as such, the investments made should be respected.

Current operators within the industry are fearful of how the reforms will impact their businesses. The driver pool will be severely reduced under the proposed changes when most drivers will be able to purchase a licence at a small administrational cost. Should the government push forward with the proposal announced on the 23rd of August 2016, the Taxi Industry will not survive, immediately being impacted. The incumbent taxi industry will have high costs associated with the running of their businesses, new entrants will enter the market at little to no cost and the number of taxis will significantly reduce.

We request that the legislation covering compensation or the buy-back package be passed with the legislation legalising ride sharing.

4. Proposal

<u>Proposal: A full buy back of each and every licence</u>

If the Government believes that is more beneficial for current licence holders to exit the industry, moving forward with no licences, we propose that each and every licence is bought back, this should be immediate and tax free. Also the buy-back should be at a fair and at an equitable level to allow the incumbent licence holder to be relieved from the majority of their debts.

In order to level the playing field, each and every licence should be bought back so that they have access to capital should they wish to invest in technology and infrastructure in order to better consumer experience, or to exit the industry should they chose to do so. Unless the compensation package is fair and reasonable owner drivers of CPV will not be able to compete against new comers who enter at little to no cost.

We also believe that all licence holders should receive the money up front, in a lump sum, and tax free - this will ensure that there is no significant hardship to current licence holders. Our proposal is comprehensive will attempts to have no impact on the State budget as the industry is able to fund their own buy-back, over time.

Previous and current Governments have cancelled or bought back licences in other industries and they are treated far more favourably than the licence holders in the CPV industry. Some examples of this are The Kennett Government's cancelation or acquisition of scallop licences and most recently the Andrew's Government cancelation or acquisition of fishing licences in Port Phillip Bay. The Andrews Government is offering $500,000 to $1,600,000 on each licence. All licence holders, regardless of what industry they are in, follow a set of rules and regulations set out by successive governments, it would be grossly unjust if certain industries were treated more favourably than others.

Proposal:

A buy-back of each and every licence, with no restrictions and the package funded by a $2.00 levy on all CPV trips in Victoria.

How this will work:

- We propose a buy-back on each and every licence in Victoria and table 1 illustrates the figures and the total costs associated with a full buy-back:

Table 1: Cost of proposed compensation

	Number of Licences	Proposed Buy Back	Cost
Metropolitan Taxi Licences	3073	$250,000	$768,250,000
Ten year licences that were paid up front	200	$70,000	$14,000,000
Urban Taxis	413	$250,000	$103,250,000
Reginal Taxis	303	$125,000	$37,875,000
Country	153	$37,500	$5,737,500
Metropolitan Hire Care	1126	$37,500	$42,225,000
Country Hire Care	64	$18,750	$1,200,000
Special Purpose Vehicle	1514	$1,250	$1,892,500
Hardship Package			$50,000,000.00
			Total: $1,024,430,000

From table 1, it clearly establishes that the full buy-back of every licence in Victoria will potentially cost $1,024,430,000. This cost can be recouped by the government collecting a $2.00 on each CPV fare in Victoria over an eight and a half year period. The ATIA statistics state there were 42,000,000 taxi passengers in Victoria in 2014, the Victorian Taxi Industry Inquiry claimed there were 35,000,000 fares in Victoria in 2011. Based on our own research and knowledge we believe there are approximately 55,000,000 CPV trips in Victoria per annum, 45,000,000 of these being taxi trips. We can safely assume that ride sharing vehicles together with hire cars complete 10,000,000 trips per annum.

Pre Victorian Taxi Industry Inquiry, the value of a metropolitan taxi licence was $536,000, after the inquiry the value fell to $300,000. We have proposed a $250,000 buy-back on Metropolitan taxi licences as this is somewhat of a compromise ensuring an acceptable buy out figure to the industry. We do, however, have concerns about the significant debt levels of individuals and entities which should be addressed with a $50,000,000 hardship package. The hardship criteria should not be too prohibitive and allow people and organisations, with debt to apply and access the money in order to repay their loans so that they can move on with their lives how they choose.

We accept the theory of a levy, if and only if the industry is bought back and paid up front on each and every licence in the CPV market.

Table 2: The table below shows how the prosed revenue generated from the $2.00 levy.

Year	Number of CPV Fares	Levy	Revenue Raised
2018	55,000,000.00	$ 2.00	$ 110,000,000.00
2019	56,100,000.00	$ 2.06	$ 115,566,000.00
2020	57,222,000.00	$ 2.12	$ 121,310,640.00
2021	58,366,440.00	$ 2.18	$ 127,238,839.20
2022	59,533,769.00	$ 2.25	$ 133,950,980.25
2023	60,724,444.00	$ 2.32	$ 140,880,710.08
2024	61,938,933.00	$ 2.39	$ 148,034,049.87
2025	63,177,712.00	$ 2.46	$ 155,417,171.52
			Total: $1,052,398,390.92

Assumptions:

1. *55,000,00 CPV trips in Victoria each year (based on ATIA statistics and presuming ride sharing operators and hire cars complete 10,000,000 fares annually)*
2. *2% growth each year in the number of CPV trips (based on the Victorian Taxi Industry Inquiry)*
3. *The $2.00 levy will be indexed with CPI (as stated in the government's proposal)*
4. *We assume that CPI will average at 3% over the course of the eight years.*
5. *It is highly likely that with population growth coupled with a growing tourism industry, that the number of CPV trips will grow significantly meaning that the repayment period may be shorter.*

<u>How can the Government buy-back each and every licence without impacting the budget?</u>

One strategy is for the Government is to borrow the funds from the market. Ten year TCV Bond Rate is currently 2.10%. We have factored a 2.25% interest rate below.

(https://www.tcv.vic.gov.au/page/Market_Activity/Interest_Rates/Current_Interest_Rates/)

Table 3: Interest Cost and Compensation Recovery Time

Interest Rate		**2.25%**		
Year	**Opening Loan Balance**	**Interest**	**Levy**	**Closing Loan Balance**
2018	$ 1,024,430,000.00	$ 23,049,675.00	$ 110,000,000.00	$ 937,479,675.00
2019	$ 937,479,675.00	$ 21,093,292.69	$ 115,566,000.00	$ 843,006,967.69
2020	$ 843,006,967.69	$ 18,967,656.77	$ 121,310,640.00	$ 740,663,984.46
2021	$ 740,663,984.46	$ 16,664,939.65	$ 127,238,839.20	$ 630,090,084.91
2022	$ 630,090,084.91	$ 14,177,026.91	$ 133,950,980.25	$ 510,316,131.57
2023	$ 510,316,131.57	$ 11,482,112.96	$ 140,880,710.08	$ 380,917,534.45
2024	$ 380,917,534.45	$ 8,570,644.53	$ 148,034,049.87	$ 241,454,129.11
2025	$ 241,454,129.11	$ 5,432,717.90	$ 155,417,171.52	$ 91,469,675.49
2026	$ 91,469,675.49	$ 2,058,067.70	$ 163,036,402.98	-$ 69,508,659.79

Assumptions:

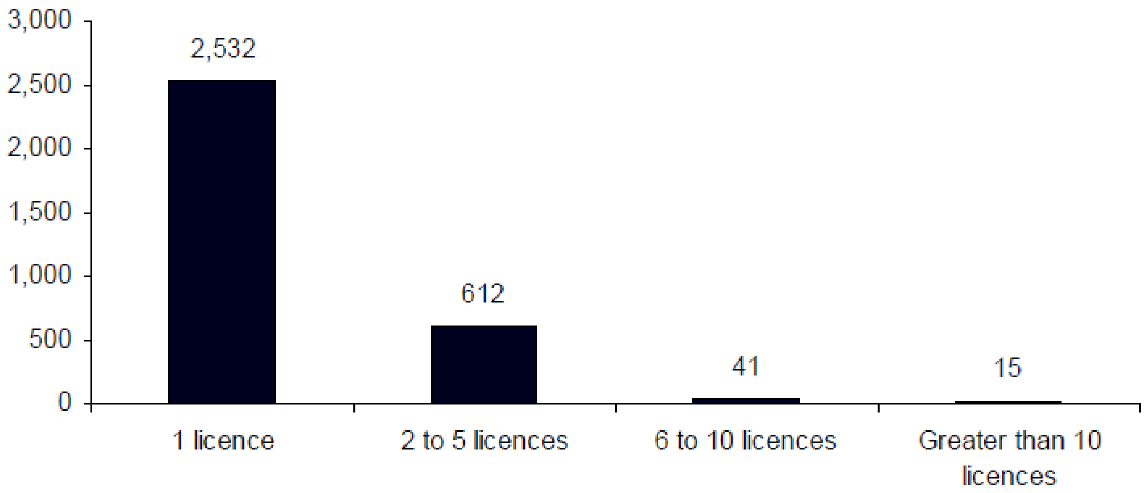
1. *An interest rate of 2.25%*
2. *A loan term of eight years and 6 months*
3. *A loan based on the full amount required for a buy back*

The above table emphasises that the government can buy-back each and every licence at a fair and adequate level over eight years and six months.

The buy-back proposal will significantly reduce the need for any hardship package, however, those that have purchased at the peak of the market (around $500,000), and those that still have significant debts should be taken into consideration. A hardship fund should be set up and an independent body oversee the administration of the fund. Licence holders that have debts, which they cannot pay back, may be financially crippled and we need to consider the unintended consequence on each and every person so that no one is left behind. Any reforms should accurately reflect the investment made by the many in good faith and based on regulations at the time of their purchase. We also feel that once the government has recouped the cost of the buy back and hardship package that the licence fee should be abolished or dramatically reduced to a small registration fee.

Figure 5 outlines the amount of licences held by certain entities. As shown in figure 5, the majority of licence holders hold one to five licences. This further strengthens the case that the costs associated with a full buy-back should include each and every licence as it would not blow costs out significantly. Given the investment and commitments made by licence holders, the just thing for the government to do would be to compensate them accordingly. A just and fair compensation package should include the reimbursement on all licences. The current proposal suggests that the entities' that have invested the most will get the least compensated on a per licence basis. The only way to make this fair and to free incumbent from their debts is to buy-back every licence and not restrict it in any way.

Figure 5. Number of licence holders



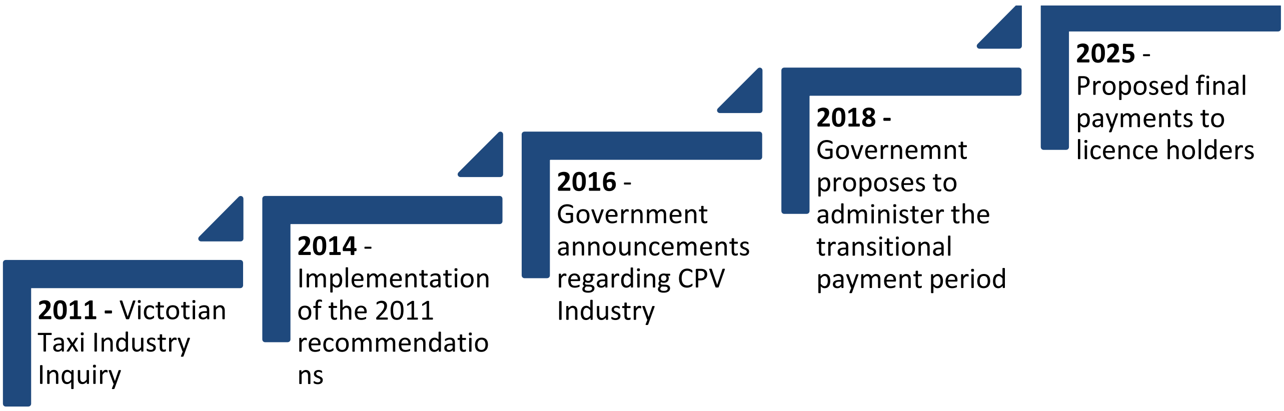
Source: Victorian Taxi Directorate

Reviewing the number of sales after the Victorian Taxi Industry Inquiry, there were 125 genuine based transactions. The government could possibly pay out a refund on these transactions saving approximately $7,583,684. An example would be if someone purchased a licence for $150,000 after the Victorian Taxi Industry Inquiry the licence would only be bought out at $150,000 not the $250,000 proposed, however, if someone purchased at over $250,000 after the Victorian Taxi Industry Inquiry the licence should be bought back at $250,000. The savings could be redirected towards those with debt, in financial hardship and this may help increase the hardship fund pool.

5. Timeline

Figure 6 depicts the length of time the industry has endured reform, both current and proposed. As such, we see no beneficial outcome in prolonging the decision any further. This continues to highlight the justification of urgent financial relief as the CPV industry has endured significant pain and suffering due to the uncertainty in the industry.

Figure 6: Timeline regarding Taxi Industry reforms



6. Mental Health Impact

While the economic ramifications for individuals as a result of the changes proposed to the CPV industry are profound, the mental and emotional wellbeing of current licence holders is worse, for some, life threatening.

Sadly we have seen two cases where people have taken their lives because of the changes. We fear more will follow without reasonable compensation. Many cannot see the pathway to repaying their debts, and fear losing their remaining assets, including their homes.

7. Economic and Social Impact

Another factor that should be taken into consideration with the demise of the taxi and hire car industry, as we know it today, price gouging in times where demand exceeds supply will become the norm. Some examples of this may include Spring Racing Carnival, Grand Final day, New Year's Eve, Saturday nights and many others.

This has already occurred.

Secondly we need to consider the accessibility to the elderly, the infirm and those who do not use a mobile phone to summons a vehicle.

8. Conclusion

Once any legislation to legalise Ride-Sharing is passed, then the Taxi Industry as we know it today is finished.

Drivers will leave the industry to start their own business for $538 pa. Therefore, any Bill to legalise Ride Sharing must only be considered after the terms for compensation/ buy-back has been agreed upon and passed by the Parliament. After all no government legislation should adversely impact on people who have worked all their lives within the Government system- due to these changes people are now contemplating ending their lives.

Let us again take note that under Kennett Government, compensation was paid to those who held scallop fishing licences in Port Phillip Bay when such licences were removed, and currently the buy-back of commercial fishing licences by the Andrew’s Government is seeing compensation paid up to $1.6 Million per licence.

What is being proposed here by way of compensation will not please everyone; however, we have attempted to settle on a compensation level that will satisfy government reduce the incidence of stress and mental health issues amount those who have worked hard, honestly and within government guidelines for decades.

We trust that this will proposal will assist the Parliamentary Committee making recommendations to government for a fair and equitable buy-back plan.