



BRIEFING

Impacts on taxi stakeholders of the ACT on-demand transport reforms

Issues to consider

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1 Considerations for assistance for taxi industry stakeholders

Changes to regulations in the on-demand transport sector will, like all government policy changes, have differing impacts on stakeholders. This briefing considers the case for possible assistance to stakeholders in transitioning under the on-demand transport reforms.

Who is impacted?

Those impacted from changes to on-demand transport regulation in the ACT could include:

- taxi drivers — who might find that their net earnings are lower
- taxi operators — who might find their earnings are lower (and/or costs reduced); and
- holders of perpetual licences — who might find that the payments they receive for the use of their licence fall over time, and the trading value of their licence falls.

Investment and stranded assets

Assistance is only relevant where a person or business has made an investment that was expected to have long-term returns. For example, taxi operators and bailee taxi drivers that experience lower net earnings can choose to leave the industry and obtain employment elsewhere. Few would consider there to be a need to compensate these stakeholders, because they have invested comparatively little in their occupation.

Further, the basis for assistance may reflect whether the investments made become stranded as a result of regulatory changes. For example, an investment in driving skills and knowledge of the region served can be used for another service other than taxis. Similarly, an investment in a vehicle has some dimensions specific to taxi services, such as signage and metering, but the vehicle itself can be used outside of providing taxi services. Further, investment in the vehicle is relatively short term (the life of a taxi is generally ~5 years).

The investment that is most specific to providing taxi services, and potentially stranded by regulatory changes, is a taxi plate licence. Because this does not represent any underlying asset (such as a vehicle) its trading value is almost completely determined by government regulations.

1.1 Taxi licence returns

Perpetual licences, which were issued prior to 1995, are, as their common name implies, operational for an unlimited period. The holder of an ACT perpetual taxi licence can receive an annual return. This return is generally in the form of lease payments for those who lease their licence to a taxi operator. The return can also be in the form of revenue from fare paying passengers for those licence holders that either operate (in which case the revenue is paid to operators by drivers) or operate and drive using the licence.

These licences would be most affected by the release of new Government-issued licences and other regulatory changes.

Licences released over the last 22 years are leased from the ACT Government at prices determined by the Government. As part of recent reforms, lease fees have been reduced from \$20,000 to \$5,000 per annum. The operator leasing the licence has the option to discontinue the lease if they so choose (but is limited in their ability to take up the lease of government licence [for specified period] and subject to waiting list arrangements with capped supply).

If the market lease value falls below the amount an operator is paying to the Government, the operator of a leased licence could effectively hand in their licence and lease a new one at the market rate from a perpetual licensee (subject to availability given capped supply). This has not yet actually occurred.

The operators leasing from the Government have clearly benefited from other regulatory changes to reduce costs, and would therefore not be significantly and directly affected by the release of new licences (though increased supply may result in greater competition for work).

Perpetual taxi licences have a positive trading value because their number, and the number of Government-issued licences, are restricted by the ACT Government below the level that the market would otherwise provide.

Similar to financial assets, the trading value of a perpetual taxi licence reflects:

- the current level of lease payments
- expectations about future lease payments (and implicitly expectations about future licence numbers), and
- the expected risks around future asset returns.

Before regulatory changes, licences traded for around \$250,000 and obtained an annual lease payment of around \$22,000. Licence lease payments are therefore around 8.8 per cent of the trading value of the asset. As a comparison, the Australian Prudential Regulation Authority notes that annualised returns across superannuation funds for the ten years to June 2016 was 4.6 per cent.¹

¹ Australian Prudential Regulation Authority 2017, *Annual superannuation bulletin: June 2016*, February.

For the above reasons, this briefing focuses on assistance for perpetual licence holders, rather than operators and drivers.

Should perpetual licence holders be assisted?

The more aggressively licence leases are reduced (through new licences being made available), the greater the scope for fare decreases and the more even the playing field between taxis and ridesharing. There would also potentially be benefits to taxi passengers through this approach.

- Fare decreases would deliver significant benefit to taxi passengers.
- Increased availability may also decrease wait times.

On the other hand, the more aggressive the cuts in licence leases, the greater the reduction in returns to holders of perpetual taxi licences.

The validity of assistance claims is ultimately a subjective judgement.

- Where perpetual licence holders suffer reduced lease rates and/or lower asset values from a government decision to reduce lease payments on government licences or release more licences, it can be argued that government assistance may be warranted. That said, the evidence suggests that to date, lease fees for the holders of ACT perpetual taxi licences have been maintained, suggesting that the regulatory changes are yet to have a significant negative impact on perpetual licence holders.
- It can also be argued that even where regulatory changes negatively impact on perpetual licence holders, these investors have undertaken a risky investment, the value of which is highly sensitive to future government decisions as well as the emergence of new technologies, such as ridesharing. It is not unusual for investors to lose money on their investments for a range of reasons, including the emergence of new technologies.
 - The potential for deregulation and impacts on trading values has been evident in the ACT (and other) markets for decades, and recognised by market participants as a business risk through various inquiries and reviews.
 - The reforms undertaken by the ACT Government were in part based on the proposition that the Government was adjusting regulatory settings for the unavoidable commencement of rideshare activity in the Territory.

Different perspectives on the basis for licence lease assistance

There are a number of very different perspectives about the conceptual basis for assisting of perpetual taxi licence holders.

- 1 Taxi licence holders will generally contend that they own an asset with a value attached to it. Regulatory changes impact on the value of their asset. This change in value should be the basis for assistance.
 - a) This may only be targeted at those for whom the change in value will have a substantial impact on their livelihood.

- 2 An alternative view is that taxi licence holders have already made substantial returns from holding a licence, because of government protection (through regulatory settings over time). This could then mean:
- Only some taxi licence holders who have not made sufficient returns would require assistance, so their returns achieved this benchmark.
 - No taxi licence holders should receive assistance. Consumers have been required to pay economic rents to taxi licence holders for many years, so why would further assistance be provided.

To give an example of the different impacts of these approaches, consider two hypothetical licence holders, A and B.

- Holder A purchased his licence 20 years ago for \$100,000. He has made returns of over 20 per cent a year even if he gets no more lease payments from now. He is a retired taxi operator/driver and the taxi licence, which was worth \$250,000 on the traded market before regulatory reforms were introduced, is a substantial part of his wealth.
- Holder B purchased his licence 2 years ago for \$200,000. He has made little return so far, because he has only held the licence for 2 years. He is younger and wealthy and does not drive or operate his taxi. His licence was also worth \$250,000 before regulatory reforms were introduced.

Table A shows how different approaches would compensate holders A or B. Different ways of viewing assistance will lead to very different patterns of assistance.

1.2 Applying assistance approaches to different licence holders

Compensation approach	Holder A	Holder B
Change in value of licence	Yes	Yes
Change in value of licence, targeted at those most impacted	Yes	No
Based on how much historical return has been achieved	No	Yes
Combination of historical return achieved and most impacted	No	No

Source: The CIE.

Information available to investors

The consideration of assistance is also tied into the risks that buyers should be aware of in purchasing a taxi licence. A key part of this is the National Competition Policy reviews undertaken nationally and the timing of these reviews. In 2000, a NCP staff discussion paper considered issues around right to assistance² as part of reforms to remove restrictions on taxi numbers. The National Competition Council (NCC) considered that

² National Competition Council, 2000, Reforming the Taxi Industry in Australia, Staff Discussion Paper, November, p. 15.

how and when a licence was sold would be relevant— licences purchased many years ago may have already earned a reasonable return on the purchase price, through years of lease payments. Further, the NCC considered that where a licence was sold by the government there would be a clearer case for assistance.

The NCC noted that, in Australia, governments have generally allocated licences at minimal cost, rather than sold them. In the ACT, there have been no perpetual licences released since 1995. Many licence holders may have subsequently purchased a perpetual licence from an existing holder. The NCC argued that taxi licence holders have invested in an asset with considerable sovereign risk in the pursuit of high returns. Generally, assets with high expected returns are riskier. A key risk attached to a taxi licence is the sovereign risk associated with the government changing the regulatory environment.

The NCC argued that the signing of the National Competition Policy (NCP) agreements in 1995 was a clear signal that the prevailing regulatory regime was not likely to endure. Taxi licence plate investors therefore made their investment decisions in the clear knowledge of the strong possibility that current regulatory arrangements will not endure.

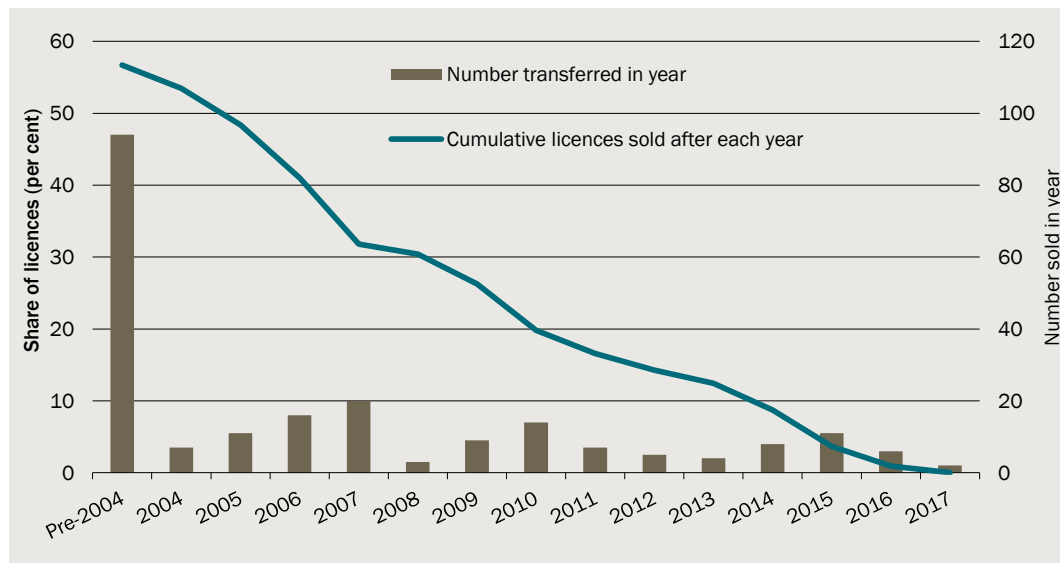
In this regard, any purchasers of licences since the Taxi Industry Innovation Review was announced on 28 January 2015 could reasonably have foreseen that the regulatory arrangements were likely to change. Any purchasers of licences since the reforms were announced on the 30 September 2015 would have explicitly understood that there were changes that would be expected to affect the licence trading values and lease rates.

2 *Historical returns earned by licence holders*

Licence transactions

Taxi licences are a risky investment. As such, it would be expected that some purchasers would earn high returns and others lower returns. While there is variation in the licence payments paid by operators to licence holders, and in the sale prices obtained, the main driver of differences in returns for current taxi licence holders will be when these were purchased. Around 20 per cent of current licence holders would have purchased their licences since 2010 (chart 2.1). Around half have purchased their licence since 2005.

2.1 Licence transaction history



Data source: ACT Government; CIE analysis.

Historical returns to date for licence purchasers

The return to each licence holder will depend on the following factors.

- The price paid for the licence
- The income earned from the licence, including both:
 - income already earned — the longer the current holder has held the licence, the more income they will have already earned. While the lease on perpetual licences can vary from the lease on government-non-perpetual licences, the modelling assumes that each perpetual licence holder has received the average lease fee per year in every year since the asset was purchased. We use the assumption that annual lease rate, starting at \$26 000 in 2002 and declining in a straight line

towards the lease fees observed in 2017, of \$22,000. This is based on observing samples of historical lease rates.

- future income from the asset — unless the Government chooses to reduce the government licence lease to zero, holders of perpetual licences will continue to receive some income from the licence, albeit potentially lower than current income. Future income will depend on the future decisions made by the ACT Government on licence releases.

The returns to date that licence holders would have received if they had purchased a licence at the average price for a particular year and obtained an average lease value are shown in table 2.2. (These are nominal returns.) For those who purchased in 2004, they have achieved returns to-date of 4.5 per cent per year, even if they get no further lease payments at all. In comparison, those purchasing in 2010 would face an annual negative return of 12.0 per cent per year if they received no future licence payments. Those who have purchased licence most recently would see the biggest reductions in lease payments from their current level, in terms of annualised returns since the licence was purchased.

2.2 Returns achieved to date

Tax licences by year of purchase	Cumulative licences sold after each year	Average price paid	Return achieved to date
	Per cent	\$/licence	Per cent per year
Pre-2004	56.7	na	na
2004	53.5	253 611	4.5%
2005	48.4	264 548	2.5%
2006	41.0	281 113	-0.1%
2007	31.8	296 713	-3.0%
2008	30.4	299 857	-5.5%
2009	26.3	277 591	-6.9%
2010	19.8	294 462	-12.0%
2011	16.6	267 143	-14.8%
2012	14.3	260 167	-20.9%
2013	12.4	257 500	-30.2%
2014	8.8	244 900	-42.8%

Source: The CIE.

Future returns under different licence lease paths

Future returns will depend to a significant extent on the ACT Government's decisions on licence releases. These decisions are yet to be made.

Nevertheless, we can calculate returns to perpetual licence holders under various future lease rate scenarios for perpetual licences. Specifically, we calculate returns to perpetual licence holders with lease rates for these licences going to the government lease rate of \$5000 per year, or alternative scenarios for market leases for perpetual licences of

\$10 000, \$15 000 or \$20 000 per year (table 2.3). In general, returns are higher for licences that have been held for longer. This reflects higher annual returns in previous periods, relative to expected returns in the future under the various scenarios considered.

However, in some cases returns are slightly higher for licences purchased in later periods, due to lower purchase prices.

- With a \$5000 per year lease fee for the next 25 years, any purchase in 2012 or before would have a positive nominal return, using historical purchase prices.
- With a \$10 000 per year lease fee for the next 25 years, all purchasers would have a positive nominal return.

2.3 Nominal returns achieved under different future perpetual licence lease fees

Tax licences by year of purchase	Return achieved to date	With \$5000 per year from 2018 onwards	With \$10000 per year from 2018 onwards	With \$15000 per year from 2018 onwards	With \$20000 per year from 2018 onwards
	Per cent per year	Per cent per year	Per cent per year	Per cent per year	Per cent per year
Pre-2004	na	na	na	na	na
2004	4.5%	6.6%	7.9%	8.9%	9.7%
2005	2.5%	5.4%	7.0%	8.1%	9.0%
2006	-0.1%	3.9%	5.8%	7.1%	8.1%
2007	-3.0%	2.6%	4.7%	6.2%	7.3%
2008	-5.5%	1.7%	4.2%	5.8%	7.0%
2009	-6.9%	1.9%	4.5%	6.3%	7.7%
2010	-12.0%	0.4%	3.4%	5.4%	6.9%
2011	-14.8%	0.6%	3.9%	6.1%	7.8%
2012	-20.9%	0.0%	3.6%	6.0%	7.9%
2013	-30.2%	-0.8%	3.1%	5.7%	7.8%
2014	-42.8%	-1.3%	3.0%	5.9%	8.2%
2015	-63.3%	-2.2%	2.3%	5.5%	8.0%
2016	-89.6%	-2.7%	2.1%	5.6%	8.4%
2017	-100.0%	-2.0%	3.5%	7.7%	11.3%

Source: The CIE.

3 *Expectations for licence plate leases*

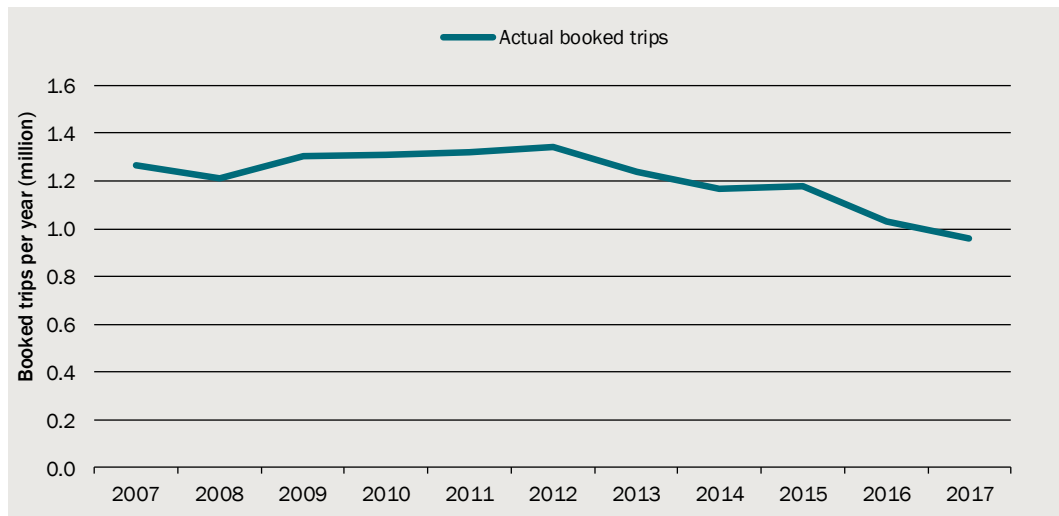
The returns earned by perpetual licence holders is not accurately known and will depend on government non-perpetual licence releases.

- If the Government allows unrestricted access to Government non-perpetual licences at the announced rate of \$5000 per year, then the lease rate for perpetual licences will be expected to adjust to a similar level. This adjustment would occur over a relatively short period; as soon as existing leases expire, licence holders will need to reduce the lease rate to a level matching the Government non-perpetual lease rate, otherwise operators will be able to switch to leasing a Government non-perpetual licence.
- If the Government maintains restrictions on Government non-perpetual licences, then the future path for perpetual licence lease returns will depend on:
 - how many perpetual and non-perpetual licences are released
 - demand for taxi services
 - the price of taxi services
 - transition issues related to contracts being in place, and time for new market equilibria to occur.

Recent developments in taxi-related markets in the ACT

Preliminary evidence made available to the CIE suggests that since mid-2015, demand for taxi services measured through the number of booked trips has fallen (chart 3.1). As there have been no changes to regulated fares during this period, this would imply a similar reduction in taxi revenue (assuming the types of trips have been roughly the same). However, this follows a broader trend of reductions in booked trips since 2012, making it difficult to determine the particular impact from the on-demand transport reforms.

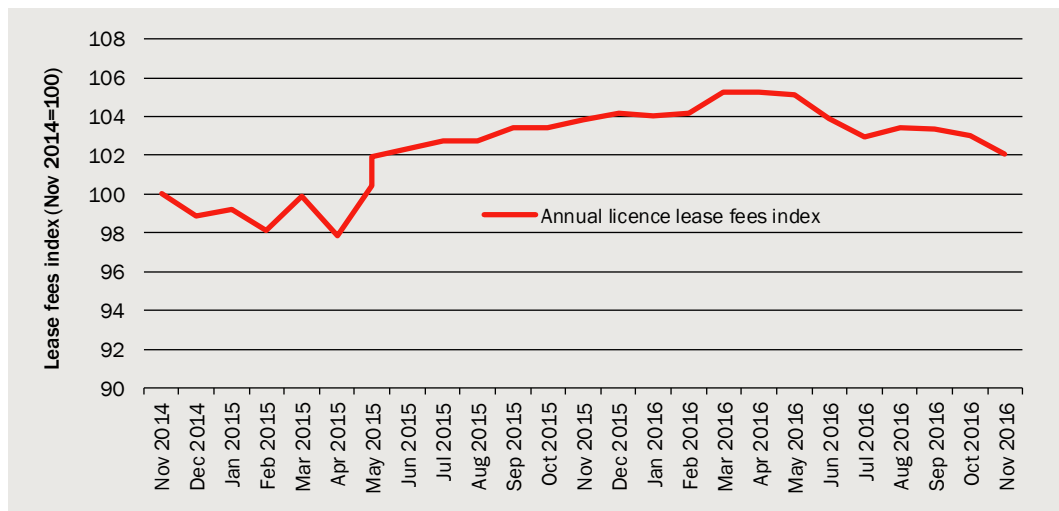
3.1 Demand for booked taxi services



Note: Years are financial years.
Data source: ACT Government.

We would expect that the observed reduction in demand would lead to lower taxi lease payments. However, the preliminary evidence does not support this view. Taxi lease rates have not as yet fallen much and remain above 20 000 per year, which is well above the Government lease rates (chart 3.2).

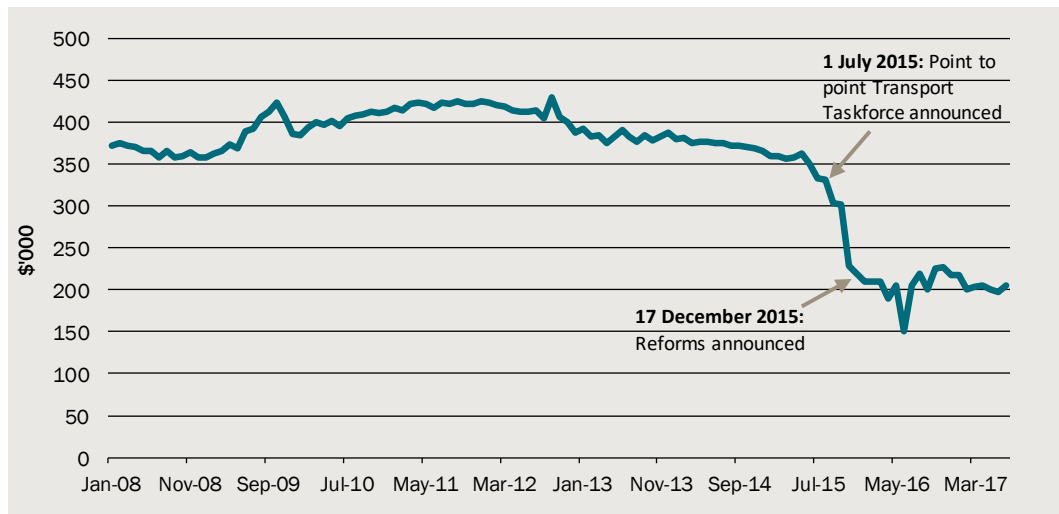
3.2 Perpetual licence lease rates index



Data source: Aerial Taxi Network.

There is limited evidence from the trading of perpetual licences suggesting a reduction in the value of perpetual taxi licences. However, only one trade has been made in 2017, which indicates a very thin market, and the reduction in price from this trade was not as significant as has occurred in other markets. For example, perpetual licences in Sydney were trading at around \$350 000 prior to the announcement that a Point-to-point Transport Taskforce would review regulatory arrangements for taxis, but are now trading at around \$200 000 (chart 3.3).

3.3 Sydney taxi licence value



Data source: Roads and Maritime Service website, <http://www.rms.nsw.gov.au/about/corporate-publications/statistics/public-passenger-vehicles/licence-transfers/sydney.html>, accessed 30 August 2017.

Further, trading values for perpetual licences may reflect expectations about government assistance, rather than just the underlying cash flow impacts of the regulatory changes. However, to-date, the Government has not publicly advised any intentions for assistance, and nor for licence holders who have acquired their interest since the reforms commenced.

Implications for assistance

The evidence to-date suggests that lease rates on perpetual licences have been maintained and therefore holders of these licences are no worse off as a result of the reforms.

Consequently, the case for government assistance for perpetual licence holders based on observed developments to date is weak.

While the evidence available points to licence lease rates being maintained to date, this is likely because the market is taking some time to adjust. Even if no further licences are released, lease rates are expected to decline in the period ahead as:

- the market adjusts to lower demand for taxis; and
- the ongoing uptake of ridesharing continues to reduce demand for taxis (although demand appears to have stabilised in recent months).

This would be hastened by the release of additional licences at the Government announced rate of \$5000 per licence.

It is therefore suggested that any assistance package could be based on future expected changes, rather than any changes observed to-date.

- **Future perpetual licence lease rates are not certain. It is therefore difficult to form potential assistance arrangements at the present time. Providing assistance once impacts are identified on perpetual licence leasing rates would be subject to less**

error than seeking to provide assistance based on expected changes in leasing rates.

Modelling of perpetual licence leases

CIE's ACT On-Demand Transport model suggests that perpetual licence lease rates will remain substantially higher than the lease rate on government non-perpetual licences of \$5000 per year if the cap on taxi plate numbers remains in place, either at 358 plates (current cap) or 328 plates (current licences on the road as at July 2017).

That is, taxi licences in the ACT are likely to remain sufficiently scarce to support lease rates for perpetual licences that are higher than the lease rate on government licences. Plausible estimates based on preliminary modelling suggest leases on perpetual licences in the order of \$10 000 per year.

Scenarios for perpetual licence leases and the level of assistance

To test possible costs of assistance we consider a number of future lease path scenarios, summarised in table 3.4, similar to the pathways shown in the previous chapter.

- Scenario 1 represents a transition to an end-point of \$15 000 per licence per year, which would likely occur with continued fairly stringent caps on taxi numbers.
- Scenario 2 represents a transition to an end-point of \$10 000 per licence per year, which would likely occur with some additional licences released.
- Scenario 3 represents an immediate move to \$5 000 per licence per year from February 2019, which would occur if licences were made unrestricted at the Government rate.

3.4 Price path scenarios

	Price from 1 February 2017	Price from 1 February 2018	Price from 1 February 2019	Price from 1 February 2020	Price from 1 February 2021
	\$	\$			
Scenario 1	21 744	17 500	15 000	15 000	15 000
Scenario 2	21 744	17 500	15 000	12 500	10 000
Scenario 3	21 744	21 500	5 000	5 000	5 000

Source: The CIE.

Note that the Government does not directly control the lease rate for perpetual licences, but can exert significant influence on the lease rate through decisions on the number of licences to be released.

Implications for other stakeholders

As taxi revenue appears to be declining and lease rates on perpetual licences have been maintained, this implies that either:

- operator margins have been squeezed; and/or

~~taxi driver earnings have declined.~~

~~Although it appears that operators and/or drivers may have borne a cost from the reforms, this does not necessarily imply that government assistance is warranted.~~

These negative impacts may be temporary, while the market adjusts. If drivers earnings decline, operators may need to increase the driver share of taxi revenue in order to attract bailee drivers. This would further reduce operator margins.

Where operator margins are squeezed, we would expect there to be reduced demand to lease perpetual licences. Licence holders would therefore need to lower the lease rates in order to find a willing operator. Ultimately, licence lease rates would be expected to decline to a level that restores operators' margins.

Furthermore, as discussed above, drivers and operators have invested comparatively little in their business/occupation. ~~Unlike licence holders, their assets (mainly the vehicle) and skills could have alternative uses~~ (such as ridesharing). With no stranded assets, the case for government assistance in the form of cash payments to operators (or drivers) is weaker.

Balancing community interests

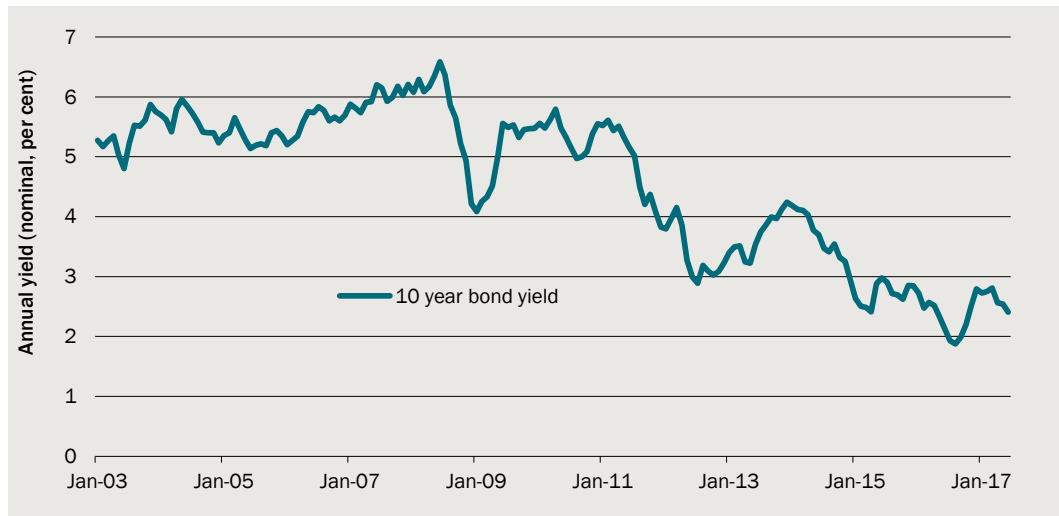
In making a decision on the extent to which licence lease values are affected, the ACT Government might weigh up the interests of holders of perpetual licences against the interests of consumers and the community, more broadly (including taxpayers). Deciding whether or what is an appropriate level of assistance for perpetual licence holders is ultimately a subjective judgement. Reflecting this, we show the amount of compensation under different levels of return benchmarks.

Benchmarks for modelling assistance levels

Benchmark rates of return used in the modelling include:

- zero nominal return — this benchmark implies that the licence holder would get their money back in nominal terms. For example, if a licence holder paid \$200 000 for a licence and received \$20 000 each year for 10 years, then they would have received the same amount of money as they paid for the licence, and achieved a nominal return of zero;
- zero real return — this benchmark implies that over the period, the licence holder would receive back the value of the licence in real terms. This is the same concept as above, except that the impact of inflation is taken into account;
- ten year Australian Government bond rate — this benchmark implies that the licence holder receives the same return on the licence that they would have had they invested in a ten year Australian Government bond (see chart 3.5).

3.5 Return on ten year government bond



Data source: RBA website, www.rba.gov.au/statistics/historical-data.html,

Modelling results

The modelling results are summarised in table 3.6. We have estimated:

- The number of perpetual licences in the sample that will not achieve the benchmark rate of return.
- The number of perpetual licence holders that will not achieve the benchmark rate of return as a share of the total number of licences in the sample, as well as a share of the total number of perpetual licences. In most cases, the licences that were last transferred prior to 2004 for which no data are available, will achieve the benchmark rate of return. However, this is not necessarily the case in all scenarios.
- The assistance that would be required for each licence holder to achieve the benchmark rate of return. **Note that only those licence holders that do not achieve the benchmark rate of return would receive assistance.**

For example, under Scenario 3, where lease rates for perpetual licences fall to the level of Government non-perpetual licences:

- 83 per cent of perpetual licences purchased since 2004 would achieve a return lower than the Government bond rate without assistance, since their purchase
- 36 per cent of all perpetual licences would achieve a return lower than the Government bond rate without assistance, since their purchase
- the total assistance for all licence holders to achieve at minimum the ten-year Government bond rate is \$4.35 million.

3.6 Modelling results

	Zero nominal return	Zero real return	Ten year bond rate
Rate of return (nominal, per cent)	0.00	2.50	Ten year bond rate
Scenario 1			
Number below benchmark	0	0	2
Share of sample below benchmark (per cent)	0	0	2.2
Share of total perpetual licences below benchmark (per cent) ^a	0	0	0.9
Assistance (\$ million)	0	0	0.01
Scenario 2			
Number below benchmark	0	1	49
Share of sample below benchmark (per cent)	0	1.1	52.7
Share of total perpetual licences below benchmark (per cent) ^a	0	0.5	22.6
Assistance (\$ million)	0	0.00	1.26
Scenario 3			
Number below benchmark	14	51	77
Share of sample below benchmark (per cent)	15.1	54.8	82.8
Share of total perpetual licences below benchmark (per cent) ^a	6.5	23.5	35.5
Assistance (\$ million)	0.28	2.01	4.35

Note: Modelled over a 25 year period from 1 February 2017. This uses the Government bond rate for an average over the period. An alternative is to use the 10 year bond at the time the purchase was made.

Source: CIE.

Impacts per taxi licence holder

The estimated assistance for people who purchased at different points in time and to achieve different benchmarks are shown in table 3.7 and table 3.8.

- To achieve a real return of zero, which is a good benchmark for someone not losing from their purchase of a licence, almost no assistance might be required under Scenarios 1 and 2. Under Scenario 3, assistance could range between zero for licences purchased prior to 2007 up to around \$71 000 for licences purchased in 2013.
- To achieve a real return equal to the average Government bond rate would increase assistance amounts and extend it to a broader set of licences.

Note that the anomalies in 2007 and 2012 reflect higher licence plate purchase prices in those years.

3.7 Assistance per taxi licence — to achieve a real return of zero

	Scenario 1	Scenario 2	Scenario 3
	\$/licence	\$/licence	\$/licence
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	12 696
2008	0	0	23 003
2009	0	0	23 347
2010	0	0	46 724
2011	0	0	50 506
2012	0	247	67 729
2013	0	0	71 087
2014	0	0	67 939

Source: CIE.

3.8 Assistance per taxi licence — achieve a real return equal to average Government bond rate

	Scenario 1	Scenario 2	Scenario 3
	\$/licence	\$/licence	\$/licence
2004	0	0	5 018
2005	0	0	11 633
2006	0	0	16 572
2007	4 505	13 413	49 264
2008	0	34 590	67 299
2009	0	16 134	57 087
2010	0	31 361	82 317
2011	0	28 512	82 259
2012	1 932	40 314	96 510
2013	0	38 371	97 128
2014	0	30 051	91 485

Note: This uses the Government bond rate for an average over the period. An alternative is to use the 10 year bond at the time the purchase was made..

Source: The CIE.

The modelling above allows for:

- assistance to be paid to all licence holders regardless of their personal circumstances — a scheme that sought information on personal circumstances would reduce these costs, probably substantially (although administrative costs could be significantly higher);
- licence transfers from deceased estates, court settlements, property settlements and exchanges where no payment was made (such as transfers within families) have been excluded as returns received by the original purchaser should be taken into account when considering the appropriate level of assistance; and

- no assistance to be paid to those who have purchased licences since the Taxi Innovation Review was announced on 28 January 2015, as these purchasers could have reasonably foreseen changes to the regulatory arrangements for taxis.

Alternative approaches to industry assistance

A discussion on some alternative approaches to industry assistance is provided below.

Assistance arrangements in other jurisdictions

A range of alternative approaches to industry assistance has been taken in various Australian jurisdictions (table 3.9 for a summary).

3.9 Taxi industry assistance packages in other Australian jurisdictions

Jurisdiction	Details of assistance package
New South Wales ^a	<ul style="list-style-type: none"> ■ Transitional assistance — a \$20 000 payment per eligible ordinary transferable licence up to two licences for licence holders who held a licence before 1 July 2015 and continued to hold that licence up until the payment of the transitional assistance ■ Additional assistance (details yet to be released), including for: <ul style="list-style-type: none"> — Eligible taxi licence holders — Eligible hire car licence holders ■ Business advisory services — specialised business advisory services to the taxi and hire car industries.
Victoria ^b	<ul style="list-style-type: none"> ■ A total assistance package of \$494 million ■ A Fairness Fund to provide targeted financial support to taxi and hire car licence holders facing significant financial hardship as a result of the proposed reforms, including where it can be demonstrated that: <ul style="list-style-type: none"> — A lack of current income or the loss of a future income stream that is significantly impacting on household spending capacity — Significant difficulty in meeting ongoing debt obligations related to the licence(s) held — A lack of available funds to meet financial commitments ■ Industry Transition Assistance, including: <ul style="list-style-type: none"> — \$100 000 for the first licence — \$50 000 for the second, third and fourth licences. ■ Taxi Reform Hardship Fund (this was established to assist perpetual taxi licence holders experiencing severe financial distress as a result of reforms following the 2012 Taxi Industry Inquiry).
Queensland ^c	<ul style="list-style-type: none"> ■ Industry Hardship Assistance — for eligible taxi and limousine licence holders and operators experiencing hardship as a result of the structural re-adjustment of the personalised transport markets. <ul style="list-style-type: none"> — Payments from the Industry Hardship Fund are available to: taxi service and limousine service licences (immediately before 11 August 2016 and continued to hold that licence until 9 March 2017); the ultimate lessee of a taxi service licence (immediately before 11 August 2016); or the ultimate lessee of a limousine service licence (immediately before 11 August 2016 and continued to be the ultimate lessee immediately before 9 March 2017).

Jurisdiction	Details of assistance package
	<ul style="list-style-type: none"> – The assistance amounts are: \$9000 for a taxi service licence; and \$4500 for a limousine service licence. – Entitlements are: \$9000 as both the relevant holder and operator of a taxi service licence; \$4500 as the relevant holder or operator of a taxi service licence; \$4500 as both the relevant holder and operator of a limousine service licence; \$2250 as the relevant holder or operator of a limousine service licence. – A cap of 10 payments applies to ensure equity between eligible recipients. Applications are open between 24 April 2017 and 28 July 2017. ■ Counselling services to manage personal impacts. ■ Business advisory services — this includes: <ul style="list-style-type: none"> – Free counselling to help taxi and limousine owners adapt to and make the most of opportunities provided by the new regulatory framework. – Grants of up to \$5000 for taxi and limousine licence holders and operators to access professional financial, operational and legal advice to help transition. – Mentoring and support services. ■ Transitional assistance payments — eligible licence holders received payment of: <ul style="list-style-type: none"> – \$20 000 per taxi licence capped at two licences per licence holder – \$10 000 per limousine service licence with no licence cap.
South Australia ^d	<ul style="list-style-type: none"> ■ Assistance package includes: <ul style="list-style-type: none"> – \$30 000 per taxi licence for licence holders (as at 12 April 2016) – Lessees are eligible for \$50 per week assistance payments for the remainder of their lease for a maximum of 11 months (provided as lump sum payment).
Western Australia ^e	<ul style="list-style-type: none"> ■ The previous government announced a transition assistance package, which included: <ul style="list-style-type: none"> – \$20 000 assistance payments for conventional taxi licence holders; and – Funding for advice and support. ■ This has been supplemented by a buyback scheme for all taxi plates, where the buyback price will be set equal to the price paid less profits since purchase less grants, with a minimum of \$100,000 less hardship fund assistance for each Perth conventional plate ■ The assistance will be funded by a 10 per cent levy on revenue in on-demand transport applied for four years
Tasmania	<ul style="list-style-type: none"> ■ No industry assistance package has been announced. ■ We understand that the Tasmanian Government is proposing to freeze licence releases, rather than offer assistance.
Northern Territory	<ul style="list-style-type: none"> ■ No industry assistance package has been announced.

^a Transport for NSW website, https://www.transport.nsw.gov.au/programs/point-to-point/point-to-point-industry-assistance#Business_advisory_services, accessed 27 July 2017; ^b Department of Economic Development, Jobs, Transport and Resources, <http://economicdevelopment.vic.gov.au/transport/rail-and-roads/taxis/support-package-taxi-and-hire-car-reform>, accessed 27 July 2017. ^c Queensland Government website, <http://personalisedtransport.tmr.qld.gov.au/transitional-assistance>, accessed 27 July 2017. ^d Department of Planning, Transport and Infrastructure website, https://dpti.sa.gov.au/__data/assets/pdf_file/0016/321217/PT_FAQ_Factsheet-Industry_Assistance_Package-IAP.pdf, accessed 27 July 2017. ^e ABC website, <http://www.abc.net.au/news/2016-05-18/government-moves-to-scrap-taxi-provisions-legalise-uber/7426910>, accessed 28 July 2017; WA Government Media Release, <https://www.mediastatements.wa.gov.au/Pages/McGowan/2017/03/Fresh-start-for-taxi-and-on-demand-transport-reform.aspx>, 31 March 2017, accessed 28 July 2017; <https://www.mediastatements.wa.gov.au/Pages/McGowan/2017/11/Major-reform-to-on-demand-transport-industry-a-step-closer.aspx>.

Source: Websites as specified above.

Key points from this table are as follows.

- Most other Australian jurisdictions have announced (or already provided) some form of industry assistance.
 - The key exceptions are Tasmania and the Northern Territory; however, these jurisdictions are still working through the details of their reforms.
 - The previous Western Australian Government announced an industry assistance package (largely involving \$20 000 assistance payments to licence holders). The new Government has announced an industry-funded buyback scheme, with a minimum of \$100 000 to conventional licence holders in the Perth metropolitan area.
- Where assistance has been provided, this has mostly been in the form of direct assistance payments to licence holders.
 - These payments have generally only partially offset the reduction in licence values and have ranged between \$20 000 in NSW and Queensland up to \$100 000 in Victoria (for the first licence) and WA and \$50 000 for subsequent licences up to a maximum of four. Note that in Victoria, licensing requirements will be replaced by a vehicle registration process. Existing licences are therefore likely to have no value. By contrast, licences in NSW, Queensland and South Australia will continue to have some value, albeit lower than previously.
 - In several states (except South Australia) payments have been capped. The caps range from two licences in NSW and Queensland to four licences (at reduced amounts) in Victoria.
 - Eligibility for these payments is generally restricted to licence holders on the day the reforms were announced (who still held the licence when the payments are made).
 - In general, these payments have not been particularly well-targeted because licences that were purchased many years ago (possibly at very low prices or in some cases provided for free) and have already achieved high rates of return receive the same assistance as more recent purchases.
- Several states (NSW, Victoria and Queensland) have also included some form of 'hardship fund', which appear to target industry stakeholders suffering financial hardship (although the eligibility criteria are not always clear).
- NSW and Queensland have also provided funding for business counselling and other advice to assist stakeholders to adapt to the new environment. There may be some merit in this approach as it focuses on assisting industry participants to adapt, rather than simply providing cash payments.
- Industry assistance has generally focused on licence holders, although several states have included other stakeholders.
 - In South Australia, lessees (operators) are provided with assistance until the expiry of their current lease.
 - Queensland operators are eligible for payments from the Industry Hardship Fund.
 - Operators are eligible for business advice in NSW and Queensland.
- Only the new Western Australian Government has committed to a licence buyback (similar to the proposal from the ACT Taxi Plate Owners' Association), although at a rate that is reduced by profits made since the licence was purchased.

ACT Taxi Plate Owners' Association proposal

The ACT Taxi Plate Owners' Association (ACTTPOA) — which represents the holders of 135 perpetual licences — has proposed a buyback scheme, involving the ACT Government purchasing perpetual licences at the market rate prior to the reforms (the average price for perpetual licences sold during 2014 was around \$245 000). The Government would then lease these licences at the current rate for government non-perpetual licences of \$5000 per year. The proposal also involves staggering the buyback, with 25 per cent of licences purchased in each quarter.

- As the ACTTPOA is primarily interested in looking after its own members, it has proposed a 'partial buyback', whereby the ACT Government purchases only the 135 licences held by ACTTPOA members.
- The ACTTPOA also invited the ACT Government to consider a full buyback, whereby the ACT Government purchases all 217 perpetual licences (presumably the Government would need to treat all licence holders consistently).

The ACTTPOA's proposal is based on a buyback of "property", rather than assistance for losses incurred. According to the ACTTPOA, plates were once purchased from the Government with assurance that they were purchasing an ongoing business guaranteed by the Government.

- Under the reforms, licence holders would still be entitled to operate a taxi (or lease the licence to another operator). The Government is therefore not proposing to take away the licence holders entitlement. It is doubtful that the Government would have made any guarantee on the returns licence holders would receive.
- The ACT Government has not issued any perpetual licences since 1995. Around 43 per cent of licences have not changed hands since 1995.
- Licences purchased in 2004 have already delivered a return of 3 per cent, even if no further income is received. There is no information available on return on licences purchased prior to 2004; however, returns on these licences are likely to be higher.
- Furthermore, perpetual licence holders would continue to derive some annual income from their asset (albeit potentially less than they would have received had the reforms not proceeded). Even if the lease rate on perpetual licences falls to \$5000 per year from 2018 from another 25 years (this is likely to require the ACT Government to release significantly more licences or allow anyone to lease a government licence at the current government lease rate), the total return on licences purchased in 2004 would be around 6.6 per cent. This is higher than both the ten year bond rate at that time (and the average ten year bond rate).
- This implies that any licences directly sold by the Government will achieve a return that is higher than the ten year bond rate at that time, even without an assistance package.

Cost of the buyback proposal to the ACT Government

The net cost for the ACT Government from the buyback proposals are as follows.

- The net cost of the partial buyback proposal would be around \$24.7 million in net present value terms over the next 25 years (using a discount rate of 7 per cent).

- The upfront cost of the partial buyback would be around \$33.1 million (based on 135 perpetual licences at a cost of around \$245 000 each).
- Leasing the licences at \$5000 would yield revenue of \$675 000 per year.
- The net cost of the full buyback would be around \$39.7 million in net present value terms over the next 25 years (using a discount rate of 7 per cent), significantly higher than the alternative proposals outlined above.
 - The upfront cost of the full buyback would be around \$53.3 million (based on 217 perpetual licences at a cost of around \$245 000 each).
 - Leasing the licences at \$5000 would yield revenue of \$1.08 million per year.

Impact on licence holders

Table 3.10 compares:

- the annual returns to licence holders under the buyback proposal (for those licence holders that are eligible); with
- annual returns to licence holders with no assistance under the scenario where annual lease rates fall to \$5000 in line with the lease on non-perpetual licences (as noted above, the government is likely to need to release significantly more licences for this to occur).

The table also shows how government funding would be allocated under the full buyback proposal (note that it is not possible to estimate the allocation of Government funding under the partial buyback proposal as the date the licences held by ACTTPOA members were purchased is not known). These calculations assume that all licence holders (including those that have purchased licences after the reforms have been announced) would be eligible to participate in the buyback, in line with the ACTTPOA proposal.

3.10 Annual returns and allocation of Government funding under full buyback proposal

	Number of licences transferred	Annual return with no assistance	Annual return under buyback proposal	Approximate allocation of Government funding under full buyback proposal ^a
	No.	Per cent	Per cent	\$ million
Pre-2004	94			17.22
2004	7	6.6	10.3	1.28
2005	11	5.4	9.5	2.01
2006	16	3.9	8.4	2.93
2007	20	2.6	7.4	3.66
2008	3	1.7	6.9	0.55
2009	9	1.9	8.0	1.65
2010	14	0.4	6.6	2.56
2011	7	0.6	8.3	1.28
2012	5	0.0	8.6	0.92

	Number of licences transferred	Annual return with no assistance	Annual return under buyback proposal	Approximate allocation of Government funding under full buyback proposal ^a
	No.	Per cent	Per cent	\$ million
2013	4	-0.8	8.6	0.73
2014	8	-1.3	10.0	1.47
2015	11	-2.2	10.0	2.01
2016	6	-2.7	13.4	1.10
2017	2	-2.0	49.2	0.37
Total				39.74

^a As the year of purchase for the subset of licences held by ACTTPOA members is not known, it is not possible to provide estimates for the partial buyback proposal.

Source: CIE estimates.

Considerations for the ACT Government

Key points for the ACT Government to consider are as follows.

- Returns to licence holders under the ACTTPOA proposal are significantly higher than the ten year bond rate.
- More than half of the government funding associated with the buyback would go to licence holders that will already achieve an annual return broadly in line with the average ten year bond rate or higher.
- Whether guaranteeing high returns to licence holders on their investment in a risky asset is a good use of taxpayer's funds. More targeted approaches to industry assistance (as outlined above) would significantly reduce the amount of government funding, while still ensuring all licence holders received a return on their investment broadly in line with alternative asset classes.