

Inquiry into the operation of the Point to Point Transport (Taxis and Hire Vehicles) Act 2016 - Post-hearing response – Graeme Harris

The Point to Point Transport Act ended the monopoly on point to point transport for immediate bookings of less than eleven people that taxi plates conferred. This disrupted the Taxi business model and as Warren Buffett has said you can tell who is not wearing shorts at the beach when the tide goes out.

What has been termed investment by Taxi License or plate owners relates to them purchasing a plate from a plate owner. The purchase is based on the cash flow from the renting of the plate by the various networks who are dominated by plate owners to operators who in turn rent the plate on a fully outfitted car to drivers on a shift basis or now during the COVID 19 pandemic weekly.

What plate owners term an investment in the Taxi Industry, is really a purchase of a cash flow from the traveling public to them.

The money invested by purchasing the plate does not go into any research, innovation, safety, or marketing for the taxi industry in Sydney. The investment is most like a bond that had considerable value while the plate had a monopoly right. The Point to Point Transport Act ended this monopoly.

The bond was owned by the plate owners and for the plate owners' benefit. The traveling public nor drivers gained no benefit from the plate owners' bond.

With the ending of the monopoly it is surprising that values of plates have not settled to a more realistic value, a great disincentive to invest in the Taxi business model that currently exists, now. The more that is paid for a former monopoly rent is less to invest in operations particularly safety, marketing, and increased driver benefits.

There has been little investment in the Taxi business model directly by the plate owners for many decades. The networks that they control has invested some funds in improving dispatch systems over the decades. There has been no appreciation of the need to invest in marketing, driver engagement and now social media in particular.

The networks have used their cash flow to support limited investment from the radio fees paid by the operators paid from shift pay ins from fares collected by the drivers of Taxi passengers.

Another disincentive to invest in the Taxi business model is the constant threat of change. The incumbents, the plate owners, control the management of at least half of the networks in Sydney. I have formed the opinion that this management varies between competent pedestrian to inexperienced uneducated management that has resulted in at least one Taxi company being liquidated recently. In the last five years the management of the co-operative half of the Sydney taxi industry has failed dismally to become competitive in the new Point to Point regimen.

Disrupted competitive fields are always of interest to experienced investors with a high appetite for risk. However, to mitigate the risk it is necessary for the disrupted incumbents to fail or at least witness the failure of several their peers to appreciate their position and the need for changing their business model. This is starting to happen now and would be causing any experienced sophisticated investor to consider an investment when the networks start to realise that the competitive environment was changed in 2015.

The level of free cash flow to plate owners that could be redirected to support investment into the industry as opposed to a monopoly rent is considerable.

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My own experience indicating the level of free cash flow going to the plate owners bond indicates this as detailed below.

		Plate Lease Fee Monthly		
Shifts Driven		\$1,400	\$1,500	\$1,600
		Pay in expressed as percentage of monthly lease		
Day	0	66%	71%	76%
Night	46			
Day	23	60%	64%	68%
Night	46			
Day	46	55%	58%	62%
Night	46			

Before Covi19 pandemic I was working 4 nights a week, there was a day driver paying \$120 a shift Monday to Friday. My total pay in (cost of car for shifts) for Thursday to Sunday night was \$550 for the four nights.

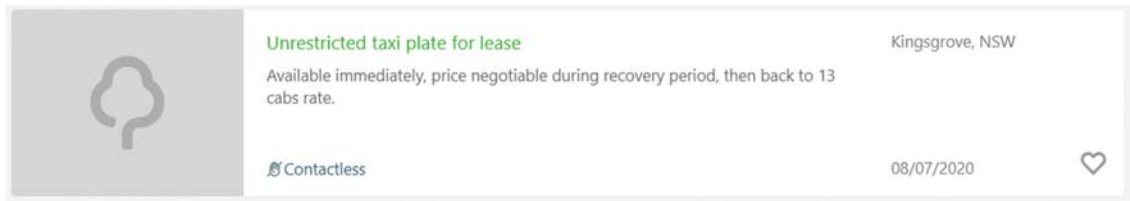
In the calculations above I have assumed that there are 46 weeks a year driven for each driver, allowing for four weeks of annual leave and full sick leave of two weeks taken for day and night shifts.

Weekend day shifts are difficult to fill and it has been my experience and understanding that an operator will rarely fill these shifts.

There has always been a premium paid for Thursday through Sunday shifts paid as these are the busiest night shifts available.

The range of the plate lease fees to my knowledge was been \$1,400 to \$1,600 per month. There seems to be a belief generally and as exhibited by an advertisement on Gumtree that the pre-COVID-19 rates will return.

What 13CABS expects the monthly rate to be can be found by review of the tender rates that 13CABS successfully achieved unfortunately these are no longer available of the web.



13CABS was the majority successful tenderer in the latest 2019 tender for plate leases from the NSW State Government, the results that I reviewed soon after the tender determination are no longer available on the web but from memory were in the range of monthly lease fees used in the calculations above.

This rate was determined, as described to me by two directors of the co-operative I work for, by ringing the now 13CABS base and being given the range used in the above calculations. This was believed by one a former and the other a current director to be a fair reflection of a market value. I believe that this not the description of a true market.

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Instead of a considerable sum going to the plate owners for a monopoly rent a sophisticated investor could make capital investments in better vehicles, better systems and provide cash flow for a marketing push to increase driver activity and hence income.

Friends of mine who own two plates were sent a letter or email saying that their lease return from plates place with 13CABS would be dropping to \$250 a month for May and would remain at that level for the foreseeable future. This is considerably above the average plate lease fee detailed by 13CABS. Perhaps this average has been decreased by Nexus plates that were provided to the networks at no cost many years ago being leased out for a nominal cost of \$1 per month.

Volatility in returns can be a disincentive to invest in an industry.

As to investment in an approved booking service the risk of fines of up to \$110,000 for an infraction of the many rules that must be enforced by the Approved Booking Services now doubt decreases the appetite for investment.

As does the arbitrary and non-science backed fatigue rules that may be breached in their proscription without any actual harm occurring to any person or property.

The willingness of the Point to Point Commissioner to pursue Taxi drivers for minor infractions such as not displaying an Authority card where every shift every driver observes non retro reflective signs in various positions on the front, side and rear of vehicles that choose to display the signs that identify their vehicle as a rideshare. Many vehicles that are most likely rideshare are observed continuously throughout a shift not displaying retroreflective signs in any position.

Arbitrary and unequal enforcement of regulations on participants is a great disincentive to investment.

At ranks stopping around cab drivers they see many vehicles that are ride share most likely acting as ride hailing services with devastating effect on the earnings of drivers. Who among the drivers would encourage or support any investment in the Cab industry in this circumstance?

Ride share companies enabling their drivers to act as ride hailing services discourage any investment in the Taxi business model as the regulatory burden on Taxi drivers is heavy. Apparently light on rideshare operators.

There appears to be no appetite to enforce regulations on the ride share companies who are enabling their drivers to act as ride hailing services. Discriminatory regulatory appetites generally lowers investment appetite.

The monopoly rights of plate owners were ended starting July 2015. Until that time plate owners had invested extraordinarily little in the industry but to trade the rights of a monopoly bubble and provide training for new drivers coming into the industry.

There appears to be a number entities who are providing on a rental basis fully serviced, maintained vehicles with twenty-four-hour roadside assistance to ride hailing drivers. Some of these entities were former operators of taxi fleets that they may or may not have swapped entirely over to ride hailing drivers.

Previous participants leaving the Taxi business model for the ride share model would make any sophisticated investor very wary.