"Asset Return" Industry Adjustment Assistance Model

TCQ - Technical Research Report
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1.0 Introduction

1.1 Submission Context

RPS has been engaged by TCQ to prepare a technical research report on a proposed Industry Adjustment Assistance Package model. This technical report forms an appendix to TCQ's submission to the Queensland Parliamentary Committee investigating the Heavy Vehicle National Law and Other Legislation Amendment Bill 2016 tabled in Queensland Parliament on Tuesday 13 September 2016.

The TCQ submission examines and comments on elements of the Bill that seek to amend the Transport Operations (Passenger Transport) Act 1994 to create a head of power for the Government to establish a transition fund. This follows the release of the Five Year Strategic Plan for Personalised Transport and the announcement of the Government’s intentions to implement wide-ranging reforms to the taxi and personalised transport sectors.

1.2 Report Context

As part of this submission, TCQ proposes an uncapped Industry Adjustment Assistance Package model that is more equitable and responds more directly to Queensland’s unique regulatory, service delivery and industry structure characteristics and impacts. This model is referred to as the “Asset Return” Model (“the Model”) in this Report.

This Technical Research Report outlines the mechanics of the Model, including its core rationale, key inputs and calculations. RPS has run the Model using data for Taxi Service Areas where there is currently sufficient data in the form of licence sales. However, the Model is appropriate for use in determining a valuable all taxi and limousine licences across the State impacted by the regulatory reforms in the Five Year Strategic Plan for Personalised Transport.

1.3 Report Structure

This report compiles the results of technical research and analysis of the size of the impact of the illegal operation of “ridesharing” and the announced regulatory reforms of the Queensland Government. It also outlines the methodology for calculating an appropriate value, in each Service Area of a Queensland-centric and equitable Industry Adjustment Assistance Package for Licence Owners and the mechanisms for distributing this value across different package components. It is comprised of the following sections.

- **Model Rationale** – outlines the logical rationale for the proposed Model including its key characteristics and assumptions.
- **Calculating Loss of Licence and Return Values** – outlines the methodology for assessing the impact on licence values.
- **Estimate of Total Package Value** – summarises the methodology for calculating the appropriate value of the Package for each Licence Owner in each Service Area. Takes into consideration nominal and present value.
- **Distribution of Package Value** – outlines the approach to distribute the appropriate value of the package between different licence owners based on their relative need and the timing of the impacts.
- **Recommendations and Key Steps** – outlines a range of key recommendations regarding the use of the Model and key steps required for it to be formally developed and implemented by Government.
1.4 Author Profile

1.4.1 RPS

RPS is an international consultancy providing world-class local solutions in infrastructure, urban growth, energy, mining and natural resource management.

RPS employs some 5,000 people in the UK, Ireland, the Netherlands, the United States, Canada, Brazil, Africa, the Middle East, Australia and Asia and undertake projects in many other parts of the world. In the Australia and Asia Pacific region our 1,000 professional and technical staff work from offices in 26 locations, including metropolitan and regional centres in high growth areas.

The geographic spread and experience in these strategic locations means our on-the-ground staff have a strong understanding of the local environment and can be mobilised quickly to respond to client’s needs. RPS has a reputation for meeting the challenges posed by large, complex projects and for conducting business in an open and responsible manner.

1.4.2 Mark Wallace

Mark Wallace is the Regional Technical Director and head of Economics Advisory Services for RPS in Australia Asia Pacific.

He is one of Australia’s leading economics consultants and strategic advisor, providing market research, project evaluation, policy development and reform and detailed economic analysis for a wide range of public and private sector clients across Australia.

His career has included time with the Queensland Government, Brisbane City Council, the employment and training sector and economic consultancies.

Over the past decade as an economic consultant, Mark has developed nationally recognised expertise in a range of areas including:

- innovation policy and implementation
- regulatory reform in major public utilities
- property development economics
- major project evaluation and cost benefit analysis
- health economics
- regional and local economic development

Mark was also the principal author of the submission by TCQ to the OPT Review and associated Technical Research Reports.

1.5 Glossary and Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ATIA</td>
<td>Australian Taxi Industry Association</td>
</tr>
<tr>
<td>SEQ</td>
<td>South East Queensland</td>
</tr>
<tr>
<td>TBC</td>
<td>Taxi Booking Company</td>
</tr>
<tr>
<td>TCQ</td>
<td>TCQ</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
</tr>
<tr>
<td>TMR</td>
<td>Department of Transport and Main Roads</td>
</tr>
<tr>
<td>WAT</td>
<td>Wheelchair Accessible Taxi</td>
</tr>
</tbody>
</table>
2.0 Model Rationale

2.1 Causes of the Fall in Licence Values

The “Asset Return” Model proposed by TCQ and developed by RPS, recognises that considerable impact has been caused to the property rights of Queensland taxi licence owners from:

- the illegal operations of “ridesharing” in the State since April 2014,
- the uncertainty caused by the Government through the failure to effective police breaches of the laws of the State, and
- the announced regulatory reforms in the Five Year Strategic Plan for Personalised Transport.

Each of these factors have contributed to a fundamental change in the risk profile of taxi licences as a financial investment and property right and has resulted in a substantial fall in taxi licence values in the States.

Falls in licence values have been significant in all jurisdictions internationally where taxi licences have existed and have remain (i.e. not extinguished) by the relevant regulatory reforms. However, Queensland’s unique characteristics has meant that falls in local licence values have far exceeded those in other Australian jurisdictions, exceeding 60% in many Service Areas.

![Figure 1 Licence Value Falls, QLD, NSW and VIC, 2015](image)

There are a number of reasons for this larger impact. Namely, the regulatory framework governing the Queensland taxi industry since 1994 was regarded as world’s best practice. Similarly, the qualitative and quantitative characteristics of Queensland taxis are far superior to that of other jurisdictions, underpinning a high usage rate (particularly in the booked market) by Queenslanders.

1 Derived from ATIA and TCQ data sets.
Details on the characteristics of the Queensland taxi market can be found in the RPS Technical Research Reports supporting the TCQ submission to the Varghese Review into Personalised Transport\(^2\).

This strong performance and a robust and transparent regulatory framework underpinned higher licence values than in other States. This has meant that the removal of many of the consumer protections and industry efficiencies imbedded in the previous regulatory framework has negatively impacted the value of licences.

### 2.2 Capital Loss and Loss in Return

The loss in value of taxi licences in the State represents a capital loss to the property rights of many Queensland households. This loss in capital value is however currently unrealised for most licence owners. Unlike State’s such as NSW and Western Australia, Queensland’s licences are primarily perpetual in nature. The lack of liquidity at present in the secondary market means that for Queensland licence owners to realise their loss, they would have to hand back the licence to the Government (100% loss in value).

It is also recognised that the loss in the capital value of the licences will likely recover in the medium term. In other jurisdictions where “ridesharing” has been introduced, the immediate fall in licence values has recovered over time in response to improvements in the attractiveness of licences as an investment asset in comparison with current “ridesharing” platforms\(^3\). As such, RPS acknowledges that it would be difficult to devise a mechanism for compensating licence owners for the loss of capital in licence values in circumstances where that loss has not been realised.

Despite this, it is possible to estimate the foregone financial return (through leasing of the licence), which would have been earned by the owner on the licence value that has been lost. This represents a real loss, as it reflects the reduced earning capacity of a taxi licence as an financial asset and property right, due to the expected reduction in lease fees.

Historically, lease fees have provided a return at a standard (although not fixed) yield to licence values. As such, when licence values fall significantly the value of leases are also expected to decline.

This loss in the return of the asset represents the appropriate and equitable basis for calculating the value of the Industry Adjustment Assistance Package for licence owners.

\(^2\) Available at http://www.tcq.org.au/queensland.html

\(^3\) In particular, medallion values in San Francisco returned to similar levels as before the introduction of “ridesharing”. This occurred over a 4 year period, though is not consistent across all licence types and remains volatile.
3.0 Calculating Licence Value and Return Loss

The following calculations should be undertaken for each Service Area in Queensland and across all taxi and limousine categories.

3.1 Loss of Licence Values

The impact on licence values of the illegal operation of “ridesharing” and the announced reforms of the Queensland Government is estimated by subtracting the licence value prior to April 2014 (commencement of Uber in Queensland) from the current licence value.

\[
\text{Loss in Licence Value} = \text{Present Licence Value} - \text{Licence Value Preceding April 2014}
\]

This calculation provides an estimate of the loss in licence values incurred by licence owners since the commencement of

Current and historical licence values can be estimated in a number of ways.

1. The sale and transfer value of licences are held by the Department of Transport and Main Roads. This includes data from both the tender of licences by the State Government and the transfer of licences between licence owners (the secondary market). This represents the most direct and accurate data on licence values. However, the lack of licence tendered by the Government and the small size and lack of liquidity in the secondary market (particularly at present and in regional Service Areas) means that current data is not always available.

2. Stamp duty payable on licence transfers must provide a notion market value of the licence, even where no money was paid for the licence. Stamp duty records on licence transfer can provide an estimate of the value of the licence at the time of the transfer.

3. A formal valuation of the licence can also be undertaken by a qualified financial expert. This valuation will likely be based on the expected return of the financial asset and its relative risk profile and regulatory environment.

The results for select Service Areas for conventional taxis is summarised in the figure below.

<table>
<thead>
<tr>
<th>Contract Areas</th>
<th>Licence Value (March 14)</th>
<th>Licence Value (Latest)</th>
<th>Loss in Licence Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brisbane</td>
<td>$525,000</td>
<td>$175,000</td>
<td>-$350,000</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>$580,000</td>
<td>$230,000</td>
<td>-$350,000</td>
</tr>
<tr>
<td>Sunshine Coast</td>
<td>$455,000</td>
<td>$410,000</td>
<td>-$45,000</td>
</tr>
<tr>
<td>Mackay</td>
<td>$400,000</td>
<td>$280,000</td>
<td>-$120,000</td>
</tr>
<tr>
<td>Cairns</td>
<td>$590,000</td>
<td>$444,700</td>
<td>-$145,300</td>
</tr>
</tbody>
</table>

3.2 Lease Yield

RPS has analysed the current and historical gross yield on taxi licences across select Service Areas. This yield was calculated by multiplying the monthly lease fees payable to the licence owner by 12 (to get an annual figure) and then dividing this value by the value of the licence at the same point in time.
Average Lease Yield = \( \frac{(Monthly Lease Fee \times 12)}{Licence Value} \)

RPS calculated the Lease Yield in the select Service Areas for, at a minimum, the December 2013 and March 2014 quarters (preceeding the commencement of “ridesharing”) and in the June 2016 quarter (present). This data was provided by the Taxi Booking Companies.

From this analysis, a historical average lease yield was calculated for each of the select Service Areas. Across Queensland, conventional taxi licences have historically yielded between 6% and 7%. Lease yields are current significantly higher as lease returns tend to lag falls in licence values. However, RPS regards the use of long-term average lease yields as appropriate in calculating the annual return on the lost capital value.

The lease yields calculated by RPS for the select Services Areas are outlined below.

![Figure 3 Long-Term Average Lease Yields for Conventional Taxi Licences, Select Queensland Service Areas](image)

### 3.3 Annual Loss in Lease Returns

This Lease Yield is then applied to the loss in Licence Value to calculate the annual return on the value of the licence lost between April 2014 and the present.

\[ Loss\ in\ Annual\ Return = Loss\ in\ Capital\ Value \times Average\ Lease\ Yield \]

This provides an estimate of the annual value in lease returns has been foregone to the licence owner from the loss in capital value of the licence.

The value of the loss in annual return is calculated below for select Service Areas.
### Figure 4 Annual Return on Lost Capital Value of Conventional Taxi Licences, Select Queensland Service Areas

<table>
<thead>
<tr>
<th>Contract Areas</th>
<th>Loss in Licence Value</th>
<th>Historical Licence Lease Yield</th>
<th>Annual Return on Lost Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brisbane</td>
<td>-$350,000</td>
<td>7.20%</td>
<td>-$25,200</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>-$350,000</td>
<td>7.00%</td>
<td>-$24,500</td>
</tr>
<tr>
<td>Sunshine Coast</td>
<td>-$45,000</td>
<td>7.40%</td>
<td>-$3,330</td>
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<tr>
<td>Mackay</td>
<td>-$120,000</td>
<td>7.80%</td>
<td>-$9,360</td>
</tr>
<tr>
<td>Cairns</td>
<td>-$145,300</td>
<td>7.00%</td>
<td>-$10,171</td>
</tr>
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### 3.4 Summary

The steps required to estimate loss in the value of licences and the corresponding loss in annual return is summarised in the figure below.

**Figure 5 Summary of Steps – Loss in Licence Values and Annual Lease Returns**

**Loss in Licence Values**
- Subtract Licence Values in March 2014 from Licence Values at Present

**Estimate Lease Yield**
- Multiply monthly lease return by 12 months
- Divide annual lease return into corresponding licence value

**Annual Loss of Return**
- Multiply Average Lease Yield by the Loss in Licence Values
4.0 Estimate of Total Package Value

4.1 Duration of Loss in Lease Return

RPS has undertaken case study analysis of international jurisdictions that have undergone taxi market deregulation to the extent and degree equivalent to that of Queensland. The benchmark locations selected are also all of similar populations to that of Queensland (small size economies) and possess Developed Economies.

The duration of the adjustment and transition period is measured from the point at which the de-regulation effectively commenced to when the industry returned to a point of comparable operational sustainability.

<table>
<thead>
<tr>
<th>Market</th>
<th>Type of Reform</th>
<th>Duration of Transition</th>
<th>Indicator of End of Transition</th>
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<td>San Francisco</td>
<td>Introduction of “Ridesharing”</td>
<td>3.5 years (2012-2015)</td>
<td>Return of Medallion values to pre-ridesharing levels. Broader regulatory changes and reforms are ongoing.</td>
</tr>
<tr>
<td>Ireland</td>
<td>De-Regulation of market entry, fares and other regulations.</td>
<td>10 years (2000-2010)</td>
<td>Market entry restrictions were re-imposed on the SPSV sector by way of an indefinite prohibition on issuance of new licences and a prohibition on trading of licences.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>De-Regulation of market entry, fares, affiliation and other regulations.</td>
<td>9 years (1989-1997)</td>
<td>Reintroduction of very strict driver training, vehicle age and quality and consumer protection regulations.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>De-Regulation of market entry, fares, affiliation and other regulations.</td>
<td>9-11 years (2000/02-2011)</td>
<td>Reintroduction of fixed fares, compulsory affiliation, strict vehicle and driver standards.</td>
</tr>
<tr>
<td>Sweden</td>
<td>De-regulation of market entry, service areas, affiliation, fares and other regulations.</td>
<td>8 years (1989-1997)</td>
<td>Reintroduction on service restrictions on independent taxi drivers prohibiting them from important areas such as airports and train stations. Swedish Government became principal funder of taxi services.</td>
</tr>
</tbody>
</table>

This research shows that the average period in which a taxi market is in “transition” is approximately 8-9 years. San Francisco is the main outlier as its transition was solely in the form of the introduction of “rideshare” services and continues to undergo major transition reforms in the form of increased regulation/re-regulation.

Interestingly the research revealed that the most common indicator of the end of the “transition” period is some form of re-regulation of taxi services. With the exception of Sweden, where the major indicator was the emergence of the Swedish Government as the primary procurer of taxi services in that country, all other jurisdictions analysed in this research and profiled as part of the TCQ submission to the Varghese Review reintroduced major regulations on the supply, quality or availability of taxi services.

Based on this analysis, RPS recommends that a transition period of 8 years be utilised in estimating the total loss of lease return in the section below.

4.2 Total Loss in Lease Return

The total loss in lease return likely to be incurred by licence owners as a result of the announced reforms is calculated by multiplying the annual return on the lost capital value of a licence by 8 years.

\[
\text{Total Loss in Lease Returns} = \text{Annual Loss in Lease Returns} \times 8 \text{ years}
\]
This represents an appropriate value of an Industry Adjustment Assistance Package for licence owners in each Service Area. This value has been calculated for select Service Areas in the figure below.

Figure 7 Total Loss in Lease Return for Conventional Taxi Licences over 8 Years, Select Queensland Service Areas

4.3 Summary

The steps required to estimate loss in the value of licences and the corresponding loss in annual return is summarised in the figure below.

Figure 8 Summary of Steps – Estimate of Total Loss of Lease Returns

Duration of Transition

• Estimate the likely duration of the transition period.

Total Loss in Lease Return

• Multiply annual lease return by duration of transition (e.g. 8 years)
5.0 Package Composition and Distribution

5.1 Need for an Equitable Package

The Industry Adjustment Assistance Package must be equitable if it is to provide genuine support for the impacts caused by the announced reforms. An equitable package should take into consideration the different capacities of the licence owner to continue to operate throughout the transition period until a new position of operational sustainability is reached.

The needs of and impacts on licence owners also differ. Some licence owners are dependent on the lease returns to fund basic health, accommodation and living expenses and so therefore have the potentially to experience drastic reductions in their quality of life. Other licence owners have leveraged the value of their licence for other investments, including investment in a taxi vehicle (e.g. owner operators).

5.2 Package Components

The Industry Adjustment Assistance Package needs to be comprised of two core components:

- **Hardship payments** - short-term cash payments for a fixed period or in lump sum to industry stakeholders experiencing personal or financial hardships as a result of the reforms.

- **Transition support** - may take the form of the waiving or reduction of fees, annual tax rebates or other forms of support linked to ongoing operations.

The equity of the “Asset Return” Model is that the composition of these two package components in the assistance received by individual licence owners can vary depending on their circumstances, needs, loss and capacity.

*The total value of the assistance received by each licence owner should be the same. However, the ways in which this assistance is provided and the timing of the assistance can vary.*

5.3 Licence Owner Categories

RPS has identified four broad categories of licence owners to whom different composition of assistance apply.

1. **High Need/Short-Term** – stakeholders in this group are experiencing the greatest hardship. This can be influenced by factors such as the age, health or financial circumstances of the licence owner or the financial viability of operator.

2. **High Need/Long-Term** – stakeholders in this group are likely to be reliant on debt financing or have assets that are encumbered and in threat of being repossessed by financial institutions because of the proposed reforms.

3. **Low Need/Short-Term** – stakeholders in this group are experiencing some short-term challenges that require direct financial support but have the capacity to continue to operate in the long-term.

4. **Low Need/Long-Term** – stakeholders in this group have the greatest capacity to continue operating in the short-term but require support to transition from the previous best practice regulatory environment.

These groups are illustrated in the figure below.
### Figure 9 Industry Stakeholder Groups, by Level of Need and Timeframe of Impacts

Note that the percentage shares between hardship and transition support components of the assistance identified in the figure above are indicative only for the purpose of demonstration.

**However, the broad concept remains that shorter and more intensive needs should be met through hardship-based cash payments while longer-term and lower order needs should be met with in-kind, rebate and waived fees assistance.**

#### 5.4 Role of Discounting

The differences in the timing of the assistance components mean consideration should be given to discounting shorter-term cash-related assistance in line with section 4.3. This reflects the time value of money and the fact that cash received in the short term has greater value than the same value, provided in the form of a rebate or in-kind in 8 years-time.

\[
\text{Value of Assistance (Discounted)} = \text{Value of Assistance (Nominal)} \times \text{Discount Rate}
\]

In this instance, the Value of Assistance (Nominal) is equal to the Total Loss in Lease Return calculated in section 4.2.

RPS recommends a discount rate of 7% (real) be utilised. This represents the preferred/medium point for by State and Federal Government project and program evaluation guidelines\(^4\) and is a similar point to the return/cost of capital. It also strikes a balance between the commercial nature of an investment in a taxi

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licences as a financial asset and the historical role of taxis as Queensland’s second largest and most accessible form of public transport.

By applying this discount rate, the discounted value of assistance for an individual licence owner that receives 100% hardship payment in Year 1 can be calculated. This value will be lower than the total value of assistance received by a licence owner who received 100% transition support assistance over the 8-year period.

**Figure 10 Total Loss in Lease Return for Conventional Taxi Licences over 8 Years (Nominal and Discounted), Select Queensland Service Areas**

<table>
<thead>
<tr>
<th>Contract Areas</th>
<th>Low Need/Long-Term</th>
<th>High Need/Short-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brisbane</td>
<td>-$201,600</td>
<td>-$150,477</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>-$196,000</td>
<td>-$146,297</td>
</tr>
<tr>
<td>Sunshine Coast</td>
<td>-$26,640</td>
<td>-$19,884</td>
</tr>
<tr>
<td>Mackay</td>
<td>-$74,880</td>
<td>-$55,891</td>
</tr>
<tr>
<td>Cairns</td>
<td>-$81,368</td>
<td>-$60,734</td>
</tr>
</tbody>
</table>

This approach not only ensures equity but also discounts the cash component of the Industry Adjustment Assistance Package to minimise budgetary impacts and provides an incentive for licence owners to remain in the industry and provide a critical public transport service for Queenslanders.

### 5.5 Summary

The steps required to estimate the discounted value of assistance provided in the form of short-term cash payments is summarised below.

**Figure 11 Summary of Steps – Discounting of Short-Term Cash Payments**

- **Select a Discount Rate**
  - Select a discount rate accounting for financial return, risk and social benefits.

- **Discounted Value of Assistance**
  - Apply selected discount rate to Total Loss of Lease Returns.
  - Apply to
6.0 Conclusions

An equitable Industry Adjustment Assistance Package is needed that responds directly to the unique characteristics of the Queensland taxi industry and the extent of the impact caused by the announced reforms. While it is difficult to estimate and compensate for unrealised loss of capital value in the licence, it is appropriate to calculate the annual return that would be foregone by the licence owner on the value of the licence that has been lost. This “Asset Return” Model should form the basis of an uncapped, equitable, Queensland-centric approach for valuing the Industry Adjustment Assistance Package.

The composition of the Package between Hardship payments and Transition Support also means that level of impact and timing of need of each individual licence owner needs to be taken into consideration. Those with more intensive, short-term needs should receive cash payments while those with longer-term and lower order needs should receive more in-kind, rebate and waived fee support. Both assistance packages should be of equal value, adjusted to present value through discounting for cash payments.