

Independent Pricing and Regulatory Tribunal  
New South Wales

# Review of taxi fares in NSW and taxi licences outside Sydney from 1 July 2018

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## Tribunal Members

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chair

Mr Ed Willett

Ms Deborah Cope

Enquiries regarding this document should be directed to a staff member:

Jennifer Vincent (02) 9290 8418

Heather Dear (02) 9290 8481

Justin Robinson (02) 9290 8427

## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

### Submissions are due by 3 February 2018

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#### **Taxi review**

Independent Pricing and Regulatory Tribunal

PO Box K35

Haymarket Post Shop NSW 1240

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# 1 Executive summary

Since 1 November 2017, the taxi industry in NSW has been regulated under a new framework that also covers other point to point transport service providers. This regulatory framework no longer makes distinctions between taxis and ‘hire vehicles’, which include vehicles used for ridesharing, as well as those previously regulated as hire cars or tourist vehicles.

Under the new framework, both taxis and hire vehicles can provide booked trips anywhere in the state, and the fares they charge for these trips are not subject to regulated maximums. However, only taxis can provide rank and hail services, and they can only provide these services in the operating area specified on their licence. Maximum fares for these services continue to be regulated.

In the context of this new framework, the Government has asked IPART to review and make recommendations on:

1. The maximum fares for rank and hail taxi services both **in Sydney** and **outside Sydney** from July 2018.
2. The number of new annual taxi licences to be released **outside Sydney only** from July 2018.<sup>1</sup>

To inform our decision-making, we assessed the current level of competition in the rank and hail market to consider whether it is sufficient to move to a less prescriptive approach to fare regulation. We also gathered information, conducted analysis, and considered stakeholder submissions.

This report sets out our draft findings and recommendations, discusses the supporting analysis, and seeks further submissions from all interested stakeholders.

## 1.1 Major findings and recommendations

We found that competition in the rank and hail market is not yet sufficient to remove fare regulation for rank and hail services, or move to a less prescriptive approach to this regulation, in most parts of NSW. However, services in remote areas and small towns, where there is little rank and hail business, could be exempted from maximum fare regulation.

We also found that there is a shortage of taxi licences outside Sydney and releasing a small number of new annual licences would help to improve taxi services and help the taxi industry to transition to and compete in the new regulatory environment.

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<sup>1</sup> The Government has previously announced that it will not issue any new “growth” annual taxi licences in Sydney in 2018-19, although it may issue replacements. (NSW Government, *Point to point transport – The NSW Government response to the taskforce report*, p 2).

In addition, we are recommending that, for these new annual licences, the operating areas be classified into two zones: a Designated Zone that covers most of the existing operating areas outside Sydney and an Exempt Zone that covers the rest of NSW outside Sydney. We are recommending the Government release 124 licences in the Designated Zone and 13 licences in the Exempt Zone.

Further, we found that current maximum fares are above the efficient cost of providing taxi services in most parts of NSW. We are recommending a nominal maximum fare freeze in Sydney and the Designated Zone, and an exemption from fare regulation for the Exempt Zone. This would mean that the current urban area maximum fare schedule would stay the same in nominal terms and continue to apply to rank and hail fares in all current urban operating areas, the current country area maximum fare schedule would stay the same in nominal terms and would apply to rank and hail fares in some current country operating areas, while other current country operating areas would be newly exempt from maximum fare regulation for rank and hail as well as booked fares. Current exempt area fares would continue to be exempt from maximum fare regulation. Our draft recommended maximum rank and hail fare schedules are set out in Table 1.1.

**Table 1.1 Draft recommended maximum rank and hail fares from 1 July 2018**

Fare component	Urban <sup>e</sup>	Country <sup>e</sup>
Hiring charge	\$3.60	\$4.10
Peak time hiring charge payable in addition to the hiring charge <sup>a</sup>	\$2.50	n/a
Distance rate	\$2.19/km	\$2.26/km for the first 12km and \$3.13/km thereafter
Night distance rate <sup>b</sup> (and holiday distance rate <sup>c</sup> country areas)	\$2.63/km	\$2.71/km for the first 12km and \$3.75/km thereafter
Waiting time charge	94.4c/minute	96.0c/minute
Waiting time threshold speed	26km/h	26km/h
Maxi-taxi surcharge <sup>d</sup>	150% max fare	150% max fare

<sup>a</sup> Charged between 10pm and 6am on Friday and Saturday nights and the night before a public holiday.

<sup>b</sup> The night distance rate is calculated as a 20% surcharge on the distance rate. It applies between 10pm and 6am.

<sup>c</sup> In country areas, the holiday distance rate applies between 6am and 10pm on Sundays and public holidays.

<sup>d</sup> The maxi taxi surcharge may only be charged if a maxi-cab is requested upon booking (regardless of the number of passengers) or if it is hired from a taxi zone or street hail to carry 5 or more adult passengers.

<sup>e</sup> Urban and country areas are defined in the November 2017 Fares Order.



Our major recommendations for new licences and for maximum fare regulation, and the areas to which they apply, are summarised in Table 1.2

**Table 1.2 Major recommendations for new licences and maximum fares, by area**

	Existing operating areas	Draft recommendations - new taxi licences	Draft recommendations - rank and hail taxi fares
<b>Sydney</b>	Metropolitan Transport District. <sup>a</sup>	n/a	Nominal fare freeze
<b>Designated Zone</b>	All other 'urban areas', and some 'country areas'. <sup>b</sup> See Appendix E.	New annual licences permit taxis to provide rank and hail services anywhere in NSW outside Sydney.	Nominal fare freeze
<b>Exempt Zone</b>	All areas outside Sydney and the Designated Zone. Includes some existing 'country areas', as well as areas already exempt from maximum fares. <sup>b</sup> See Appendix E.	New annual licences permit taxis to provide rank and hail services anywhere in the Exempt Zone.	Exempt from maximum rank and hail fares

<sup>a</sup> Metropolitan Transport District is defined in the *Transport Administration Act 1988*.

<sup>b</sup> Urban areas, country areas and exempt areas are defined in the November 2017 Fares Order.

## 1.2 Competition is not yet sufficient to remove maximum fare regulation

In our view, the most effective way to encourage the efficient supply of taxi services and protect customers from abuses of monopoly power is through competition. In workably competitive markets, businesses cannot set prices above the efficient costs of supply without losing customers to their competitors or new entrants. The level of competition also influences the type of fare and licence regulation that is necessary.

For many years, the taxi industry was the predominant provider in NSW of point to point transport services, and the level of competition was quite low. Taxi fares and the supply of taxi licences were both tightly regulated.

However, recent technological and regulatory changes have increased the potential for competition. To assess the extent to which this potential is being realised, we considered what substitutes are available for rank and hail services, and we looked at the market share and market concentration of taxi service providers. We also considered barriers to entering the rank and hail market (which is restricted to taxis) and the point to point transport market (where taxi service providers compete with all other providers of point to point transport).

We found that taxi service providers have dominant positions in point to point transport markets in many parts of NSW, both the narrow rank and hail market and the broader point to point transport market. Taxi licence values are very high in many operating areas, creating a barrier to entry to new taxi service providers, and a barrier to incumbent taxi service providers if they want to expand their fleets to compete more effectively with other providers.

Therefore, we concluded that competition is not yet sufficient to remove maximum fare regulation for rank and hail services.

### **1.3 But some areas could be exempted from fare regulation**

We also found that in remote areas and small towns, rank and hail services are a very small proportion of work undertaken by taxis. In these areas, booked trips (for which there is no maximum fare regulation) can substitute for most rank or hail trips. Hire vehicles can readily enter the market to compete for booked trips. Taxi licence values are low so they have been less of a barrier to new taxi service providers entering the market or to incumbent taxi service providers adding vehicles.

Therefore, we concluded that in remote areas and small towns, the potential for competition is sufficient to exempt rank and hail fares from maximum fare regulation.

### **1.4 Information should be used to monitor and facilitate competition**

Together with technology change, the recent regulatory change in NSW has lowered the barriers to entry to the point to point transport market, and increased the capacity for different types of services to compete with taxis. Therefore, we consider that the market power we observed in our competition assessment could dissipate quite quickly once market participants and potential new entrants adjust to the new regulatory framework.

One key remaining barrier is the constraint on taxi licence supply which has led to high licence values, prevented new taxi service providers entering markets and limited taxi service providers' ability to compete. We have factored this in to our recommendations on the number of new licences to be released outside Sydney. (We also note that this continues to be an issue in Sydney, where there has been a freeze on issuing new licences and the number of licences has fallen, and licence values remain high.)

We also consider it would be beneficial to collect information to monitor the development of competition. The Point to Point Transport Act already requires authorised taxi service providers to collect and keep a range of trip and network data. We consider the additional cost involved in transmitting that data to the regulator would be outweighed by the benefits of improved understanding of the emergence of competition. Therefore, we are recommending that the Point to Point Commissioner collect trip data annually for three years or until competition is effective, whichever comes first.

In addition, we consider it would be beneficial to provide information to facilitate competition. In particular, we consider making information on rank and hail fares more readily available to consumers would promote competition between taxi service providers. We are recommending that taxis be required to display rank and hail fare schedules outside as well as inside the vehicle.

### **1.5 A small number of new annual licences to be released outside Sydney**

The Point to Point Transport Taskforce recommended, and the Government supported, offering by periodic tender a small number of annual taxi licences that can be used anywhere in the state outside Sydney.

We consider there is a shortage of taxi licences outside Sydney, based on our findings that:

- ▼ Taxi licence values remain high in some areas, indicating an imbalance between supply of licences and demand for taxi services in these areas.
- ▼ The population has grown faster than the supply of taxi licences, and we would expect the demand for taxi services to increase in line with the population.
- ▼ The use of alternative point to point transport services such as hire cars and, in some areas, rideshare has grown faster than the supply of taxi licences. This suggests that while hire vehicles have been able to expand supply relatively simply, taxi services have been limited by their ability to obtain new licences.

There are currently 1,378 taxi licences operating outside Sydney. We benchmarked NSW against New Zealand, where there have been no restrictions on taxi licence numbers since 1989, and estimated that about 4,274 new taxi licences would be required outside Sydney to achieve the same ratio of taxis to population. (We note, however, that some of the demand for additional point to point transport has likely been met in NSW by alternative services such as hire cars and more recently rideshare, so the ratio of taxis to population in NSW would be expected to be somewhat lower even if NSW removed all restrictions on taxi entry).

## 1.6 New licences should be issued based on two operating zones

We consider that, ideally, there would be no operating area restrictions on rank and hail services, just as there are no operating area restrictions on booked services. In that way, taxis could operate wherever there is demand for rank and hail services. Similarly, if there were no restrictions on issuing new taxi licences, new taxis could be added where there is unmet demand for rank and hail services.

However, in the current operating environment, operating area restrictions remain on existing licences,<sup>2</sup> and the total number of licences will still be constrained even if a small number of new licences is released. In these circumstances, we would expect the new licences to flow to the areas with the current highest licence value, and winning tender bids would reflect those higher values. This creates a risk that other parts of NSW have no opportunity to access the new taxi licences.

To address this risk, we are recommending that, for new annual licences, the operating areas outside Sydney should be classified into two zones:

1. **A Designated Zone** that covers most of the existing operating areas outside Sydney. New licences for this zone would be permitted to provide rank and hail services anywhere in NSW outside Sydney.
2. **An Exempt Zone** that covers all other parts of NSW outside Sydney. The Exempt Zone includes small towns and remote areas where licence values are low and most taxi services are booked trips, or there may be no existing taxi services. New licences for this zone would be permitted to provide rank and hail services anywhere in the Exempt Zone.

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<sup>2</sup> Although they may be reviewed by the Point to Point Transport Commissioner (*Point to Point Transport (Taxis and Hire Vehicles) Act 2016*, s 56).

We consider that 10% of the number of existing licences should be issued as new annual licences. We are recommending that 124 of the new annual licences would be allocated to the Designated Zone, and should be released by tender with the fee determined by the amount bid. This is the way in which annual licences have been released in Sydney since 2009.

We are recommending that 13 of the new annual licences should be allocated to the Exempt Zone, and should be available on request at a cost-reflective administration fee. If demand exceeds supply, TfNSW should undertake a new determination for the Exempt Zone.

## **1.7 NSW-ACT cross-border arrangements require further area restrictions**

Current cross-border arrangements between NSW and the ACT for the existing Queanbeyan operating area allow taxis from each jurisdiction to provide rank and hail services in the other. This agreement is based on a fixed number of taxis in the Queanbeyan area. If new licences for the Designated Zone are able to provide rank and hail services anywhere in NSW outside Sydney including Queanbeyan, this could result in a flow of taxis into the ACT.

To address this, we are recommending new Designated Zone licences be restricted from operating in Queanbeyan. Those wishing to obtain a new licence to operate in Queanbeyan would have to nominate this upon bidding, and would only be able to operate in Queanbeyan (and the ACT by virtue of the cross-border arrangements).

It is open to the NSW Government to change the current arrangement with the ACT. If this were to occur, it might not be necessary to restrict new licences for Queanbeyan, allowing operation anywhere outside Sydney.

## **1.8 Maximum rank and hail fares do not need to change**

Our analysis indicates that current maximum fares are above the efficient cost of providing taxi services in most parts of NSW where there are taxi services. This is evident by the high prices of licences in these areas. In addition, our assessment of competition (discussed above) suggests it is currently insufficient to put pressure on fares and bring them closer to efficient costs.

Therefore, we are recommending a nominal fare freeze in Sydney and the Designated Zone, covering all existing urban area operating areas (which would continue with the same urban area fares) and some existing country area operating areas (which would continue with the same country area fares). We consider this will transition fares closer to the efficient costs of providing rank and hail taxi services without excessive impacts on the licence values of taxi industry incumbents.

We considered recommending a nominal fare decrease. However, we expect that the monopoly rent component of fares may decline due to increased competition and improved services over time, without a reduction in nominal maximum fare levels.

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We considered changing the tariff components so that they include distance and duration rates.<sup>3</sup> This could be more intuitive to customers than the existing tariff structure and also could result in a tariff structure that is more cost-reflective. However, it may be difficult to transition to this structure in the short term as it is unfamiliar to the industry.

Overall, we found there is no strong case for tariff structure or regulated non-tariff components of fares to change.

## **1.9 Some areas of NSW should be exempted from maximum fare regulation**

As discussed above, we are recommending the operating areas outside Sydney be classified into two zones. One of these, the Exempt Zone, includes remote areas and small towns where:

- ▼ demand for taxi services is low (because of small populations)
- ▼ licence values are low or unknown (so we are less confident that maximum fares exceed efficient costs), and
- ▼ most taxi trips are booked (so very little of their work is subject to maximum fare regulation following the 1 November regulatory changes; there is also more potential for competition from other hire vehicles).

As previously noted, we found that the potential for competition in these areas is sufficient to exempt rank and hail fares from maximum fare regulation under these conditions.

## **1.10 As competition develops, maximum fares could be set differently**

As competition develops, it may be appropriate for the Government to adopt less prescriptive fare regulation. For example, within the current regulatory framework, it could continue to regulate maximum fares but allow authorised taxi service providers more flexibility to set fares that better respond to their operating environment, their customers' needs and their willingness to pay.

This flexibility could be suitable when competition is at a stage where we would expect most providers to set fares below the regulated maximums, or to increase the quality of services they provide to customers, but not yet at a stage where maximum fare regulation can be removed entirely. We have analysed several options along these lines, for illustrative purposes.

As competition becomes more effective, and customers become more familiar with the concept of different taxi brands offering different fares, it may be appropriate to move to a notification and/or monitoring system with no regulated maximum fares.

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<sup>3</sup> The distance rate would apply to the total distance of the trip (unlike the distance rate for taxis, which applies when the taxi is travelling at or above 26km/h) and the duration rate would apply to the total duration of the trip (unlike the existing waiting rate, which applies only when the taxi is travelling below 26km/h).

## 1.11 Non-tariff charges should remain at their current levels

The non-tariff components of a rank and hail fare apply to only certain trips. They currently include road tolls, the Sydney airport rank fee, additional charges for hiring a maxi-cab and for multiple hiring, and a cleaning fee. In addition, a surcharge may apply for non-cash payments. Drivers may accept tips or gratuities but cannot demand that they are paid.

Road tolls and the Sydney airport rank fee are passed through to the customer (ie, the customer pays the actual toll or fee incurred by the driver). Prior to 1 November 2017 drivers could charge a return toll when travelling northbound across the Sydney Harbour Bridge or Sydney Harbour Tunnel. This is no longer the case.

The November 2017 Fares Order sets the maximum amounts for the other non-tariff components. We are not recommending any changes to these amounts.

## 1.12 Passenger Service Levy should be a separate non-tariff charge

As part of the point to point transport reforms, the NSW Government announced a \$250 million industry adjustment assistance package funded by a levy of \$1 on all passenger service transactions. This levy will be payable by authorised taxi service providers and booking service providers. The levy will start on 1 February 2018.

We expect that there is sufficient scope in current fare levels for taxi service providers in most, but not all, areas to absorb the cost of the levy. However, on balance, we are recommending that the fares order include the levy as a separate fare component because:

- ▼ This would increase the transparency of the levy and provide a clear signal that fares should be lower when the levy ceases.
- ▼ There is a risk that taxi service providers in some areas could find it difficult to absorb the full amount of the levy.

Under our recommended approach, an authorised taxi service provider could still choose not to charge the levy, or charge less than the maximum amount.

## 1.13 Have your say on our draft recommendations

For this review, we are conducting public consultation as well as detailed analysis. To date, we have:

- ▼ released an **Issues Paper** in **September 2017** outlining our proposed approach to the review and invited comment
- ▼ commissioned consultancies to gather information about taxi services, and
- ▼ considered all submissions to our Issues Paper and undertaken analysis to develop our **Draft Report**.

We are now inviting submissions on the recommendations in this Draft Report. Submissions are due by **3 February 2018**. Information on how to make a submission is provided on page iii at the front of this report.



We will hold public forums in **Sydney on 30 January, Coffs Harbour on 1 February** and **Dubbo on 6 February**. These forums will provide the opportunity to comment on our draft recommendations. We invite any interested person to register to attend these forums on the IPART website: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

We will consider submissions, comments at public forums and submissions to our Draft Report in preparing our Final Report and recommendations for the Minister for Transport and Infrastructure in **March 2018**.

## 1.14 The structure of this report

The rest of this report explains our draft findings and recommendations in more detail:

- ▼ Chapter 2 outlines key contextual information relevant to our review of taxi fares and licences including the new regulatory framework, current licensing arrangements for taxis, how regulated maximum fares work, and other relevant reviews.
- ▼ Chapter 3 explains the approach we have used to develop our recommendations for this review, including our objectives and the issues we considered.
- ▼ Chapter 4 discusses our draft findings and recommendations on competition, and the ongoing need for some fare regulation as competition develops.
- ▼ Chapter 5 presents our draft recommendations on the number of new licences needed in different parts of the state.
- ▼ Chapter 6 presents our draft recommendations on maximum rank and hail taxi fares.

## 1.15 List of all draft findings and draft recommendations

### Draft findings

- |   |   |    |
|---|---|----|
| 1 | Competition in the rank and hail market in most of NSW is not yet sufficient to remove maximum fare regulation for rank and hail services. However, workable competition in the rank and hail market could develop quickly. | 31 |
| 2 | High licence values and restricted supply of taxi licences continue to be a barrier to entry to the rank and hail market. Releasing additional licences would reduce this barrier to entry.                                 | 31 |
| 3 | In remote areas and small towns, taxi service providers do not have the ability to exercise market power. Therefore there is no need to regulate maximum fares in these locations.  | 31 |
| 4 | There is a shortage of taxi licences in areas of NSW outside Sydney.  | 38 |

### Draft recommendations

- |   |  |    |
|---|--|----|
| 1 | Taxis be required to display their rank and hail fares on the outside of the vehicle to facilitate fare competition. | 32 |
|---|--|----|

2	The Point to Point Transport Commissioner collect trip data annually for three years or until competition is effective, whichever comes first, from all taxi and booking service providers with annual revenue over \$1 million.	33
3	Taxi operating areas outside Sydney be classified into Designated and Exempt Zones.	51
4	A moderately small number of new licences be released in 2018, equal to 10% of existing licences in the Designated Zone.	51
5	For the year commencing 1 July 2018, Transport for NSW (TfNSW) issue:	51
	– By tender, 124 annual licences to operate anywhere in NSW outside Sydney. These licences should be issued in several tranches throughout the year.	51
	– On request for an administration fee, annual licences to operate anywhere in the Exempt Zone in NSW with the initial determination to be 13 licences, equal to 10% of existing licences in the Exempt Zone. Uptake of these on demand licences to be monitored by TfNSW and further licences released under section 71(5) of the <i>Point to Point Transport (Taxis and Hire Vehicles) Act 2017</i> if demand exceeds the initial allocation.	51
6	New annual licences for the Designated Zone be permitted to provide rank and hail services anywhere in NSW outside Sydney except Queanbeyan.	53
7	New annual licences issued for the Queanbeyan operating area not be able to provide rank and hail services in the rest of NSW.	53
8	New annual licences for the Exempt Zone be permitted to provide rank and hail services anywhere in the Exempt Zone.	53
9	Maximum fares for rank and hail taxi services remain unchanged in nominal terms for Sydney and areas outside Sydney in the Designated Zone from 1 July 2018.	57
10	Areas in the Exempt Zone be exempted from maximum fares for rank and hail taxi services specified in the fares order for 1 July 2018.	58
11	The next fares order include a separate charge for the passenger service levy.	66



## 2 Context

On 1 November this year a new regulatory framework came into effect for taxi and other point to point transport service providers in NSW. The new framework builds on earlier reforms and responds to the increasing competition in the point to point transport industry, spurred by technologies such as smartphones. These technologies have changed the ways people obtain information about, and access to, point to point transport services, and have enabled the development of commercial ridesharing as a new option.

The new framework is provided by the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* (Point to Point Act) and the *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017* (Point to Point Regulation). It clarifies and simplifies the primary service and regulatory responsibilities for point to point transport and the entities responsible for them. The new framework affects how taxi fares are regulated across NSW and the way that taxi licences are issued outside Sydney.

As this is the first review under the new framework, both the old and new frameworks provide important context for this review. The sections below outline the current regulatory arrangements, how they differ from previous arrangements, and sets out some information about other reviews of aspects of point to point transport that may be relevant to this review.

### 2.1 Regulation is focused on safety and consumer protection

The new regulatory framework focuses on driver and passenger safety and consumer protection outcomes rather than unnecessarily prescriptive requirements

#### 2.1.1 Many prescriptive requirements were removed and ridesharing legalised

Until 2015, commercial ridesharing was illegal in NSW and the taxi and hire car industries were highly regulated. From December 2015, the Government introduced the first set of changes to the point to point transport industry. Commercial rideshare was legalised, and rideshare drivers were required to obtain a hire car driver authority and register their car as being used for business purposes.<sup>4</sup> In addition, some of the more prescriptive requirements were removed:

- ▼ for taxi drivers (such as wearing a uniform) and taxi operators (such as completing an operators' training course), and
- ▼ for hire cars (such as minimum vehicle size and value specifications) and the requirement for a hire car licence.<sup>5</sup>

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<sup>4</sup> These arrangements were superseded on commencement of the relevant parts of the Point to Point Act on 1 November 2017.

<sup>5</sup> Minister for Transport and Infrastructure, *A New Transport Economy: Consumer Choice, Competition And Downward Pressure On Fares*, Media Release, 17 December 2015.

## 2.1.2 The regulatory framework differentiates taxis and hire vehicles

Under the framework:

- ▼ A taxi is a vehicle used to provide a taxi service. A taxi service is a rank and hail service, or a booked service provided in a vehicle that is authorised to provide rank and hail services.
- ▼ A hire vehicle is any vehicle used to provide a point to point transport service that is not a taxi service.

Both taxis and hire vehicles can provide booked point to point transport services, but only taxis can provide rank and hail services. Taxis have additional regulatory requirements related to the identification of drivers and vehicles, security arrangements and for fares applying to rank and hail work. This is because the drivers and customers of rank and hail services are not identified by a booking process, and because customers have less information about the availability of alternative services and alternative prices than those who make bookings.

A **taxi**:

- ▼ must be licensed (with a T or TC number plate)
- ▼ can be used to provide rank and hail services only within the operating area specified in the licence
- ▼ can be used to provide booked services anywhere within NSW
- ▼ requires a roof light and a sign that says “TAXI”, and, in some areas, specified security equipment, and
- ▼ must have seating accommodation for the driver and for at least four and not more than 11 other adults.<sup>6</sup>

A **hire vehicle (eg, hire car and rideshare car)**:

- ▼ does not require a specific licence
- ▼ can be used to provide booked services anywhere within NSW, and
- ▼ requires signage that clearly identifies it as a hire vehicle while providing a passenger service (except for motor cycles).<sup>7</sup>

## 2.1.3 Both taxi service providers and booking service providers must be authorised

To provide a **taxi service**, a person, company or partnership must be an authorised taxi service provider or be affiliated with one:

- ▼ **An authorised taxi service provider** transports passengers in a taxi for a fare<sup>8</sup>, sets their own fares and has their own branding. The fares for rank and hail trips must be the same as or less than the regulated maximums in the Fares Order.

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<sup>6</sup> Point to Point Act, s 7 and s 56; Point to Point Regulation, Pt 2, Div 3.

<sup>7</sup> Point to Point Regulation, cl 20.

<sup>8</sup> The Point to Point Act (s. 5) defines an authorised taxi service provider as a person who facilitates the provision of a taxi service, for example by coordinating the provision of taxi services, providing or coordinating security monitoring services for taxis and setting fare.

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- ▼ **An affiliated taxi service provider** provides a taxi service and adopts the branding and fares of the authorised provider with which they are affiliated. Affiliated taxi service providers must ensure that their fare calculation devices (meters) calculate fares as set by the provider with which they are affiliated.

To provide bookings for a point to point transport passenger service – whether in a taxi or hire vehicle - a person, company or partnership must be an **authorised booking service provider**.

On 1 November 2017, most taxi operators who were authorised under the *Passenger Transport Act 1990* automatically transitioned to the new regulatory system as **affiliated** taxi service providers. **Taxi networks** that were authorised under the *Passenger Transport Act 1990* automatically transitioned to being authorised taxi service providers **and** authorised booking service providers.<sup>9</sup>

The conditions for authorised taxi service providers and authorised booking service providers are outlined in Table 2.1. The Point to Point Transport Commissioner may also impose additional conditions.

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<sup>9</sup> Point to Point Transport Commissioner, *Taxi service providers fact sheet*, August 2017, p 2; *Affiliated taxi service providers fact sheet*, August 2017, p 1; and *Booking service providers fact sheet*, August 2017, p 3.

**Table 2.1 Conditions for authorised taxi and booking service providers**

<b>Authorised taxi service providers and authorised booking service providers must:</b>	
<ul style="list-style-type: none"><li>▼ comply with safety standards (including having a safety management system in place to manage and eliminate risk)</li><li>▼ keep records to demonstrate compliance with safety standards</li><li>▼ keep a record of registration details for all cars in fleet</li><li>▼ keep a record of full names and driver licence numbers of all drivers</li><li>▼ keep a record, for at least two years of the date, start and end time of each journey, and the start and final location of each journey, and</li><li>▼ pay the Passenger Service Levy (from February 2018) to the NSW Government to fund the adjustment package for taxi and hire car licence owners.</li></ul>	
In addition, <b>authorised taxi service providers</b> must:	In addition, <b>authorised booking service providers</b> must:
<ul style="list-style-type: none"><li>▼ keep contact information for affiliated providers</li><li>▼ for each journey, keep a record for at least two years of the fare amount</li></ul>	<ul style="list-style-type: none"><li>▼ give passengers driver and vehicle details at the time of booking</li><li>▼ ensure hire vehicles have signage that clearly identifies them while providing a passenger service.</li><li>▼ for each booking, keep a record for at least two years of<ul style="list-style-type: none"><li>– the date and time of the booking</li><li>– contact information for at least one of the passengers, or the person who made the booking or the person who paid for the journey.</li><li>– if the booking was passed on to another booking service provider, the name of the booking service provider</li></ul></li></ul>

**Source:** Point to Point Act and Point to Point Regulation. See also <https://www.pointtopoint.nsw.gov.au/conditions-authorisation>, and <https://www.pointtopoint.nsw.gov.au/safety-standards-taxis>.

## 2.2 A taxi must be licensed

In NSW, a taxi licence authorises its holder to use a vehicle as a taxi; that is, they can supply booked services and accept hires from taxi ranks and street hails. Every taxi must have a taxi licence to operate. The Government controls the number of taxi licences that are available.<sup>10</sup>

A range of different types of taxi licence are currently valid. Licences can be categorised by where, when and how the taxi concerned can be operated, as well as by how long the licence is valid and whether or not it can be sold or leased.

All new taxi licences are issued as annual licences, renewable for up to 10 years. The annual fee for the licence is determined by a tender process (except for Wheelchair Accessible Taxi (WAT) licences), although TfNSW has the power to determine the fee differently.<sup>11</sup>

<sup>10</sup> Section 71 of the Point to Point Act requires Transport for NSW to determine the number of taxi licences to be issued during the year.

<sup>11</sup> Point to Point Act, Divisions 1 and 2.

## 2.2.1 Licences restrict where rank and hail services can be provided

Taxi licences can specify an operating area that restricts where taxis can provide rank and hail services.<sup>12</sup> This means drivers who drop passengers at a destination outside their taxi's operating area cannot pick up a return fare at a rank or in the street (until they re-enter their operating area). However, the driver can charge a fare that exceeds the authorised maximum if agreed by the hirer before the start of the trip.<sup>13</sup>

There are around 170 operating areas specified in existing licences, though many overlap. The operating areas with the most licences are the Metropolitan Transport District (Sydney), Newcastle Transport District, Wollongong Transport District and Central Coast (Gosford, Wyong and Wyee). Existing licences also have specified operating areas defined as a certain town, locality or Local Government Area.

The Point to Point Transport Taskforce recommended that new annual licences released outside Sydney be able to provide rank and hail services anywhere in this area.<sup>14</sup> We discuss this further in Chapter 5.

## 2.2.2 Some taxi licences are subject to conditions

Some taxi licences place conditions on how a taxi can be operated. Examples include<sup>15</sup>:

- ▼ *Peak Availability Licences (PALs)* – Sydney only – can only be operated between 12 noon and 5 am, and are typically driven for a single shift per day.
- ▼ *Fringe Area Licences* – are authorised for rank and hail hire only within the area of operation.
- ▼ *Wheelchair Accessible Taxi (WAT) licences* – must be operated to give preference to transporting wheelchair users.<sup>16</sup>

## 2.2.3 The Government will issue only new annual licences

The Government has issued some taxi licences for a certain timeframe, and issued some types of licence that may be traded and others which may not. The different kinds of licence in NSW, by tenure category, are:<sup>17</sup>

- ▼ **Annual licences** – are valid for a year, but are renewable nine times for a total period of up to 10 years. The ownership of these licences cannot be transferred; however, the holder may lease them to someone else.
- ▼ **Ordinary licences** – can be freely traded and, in effect, last forever.<sup>18</sup> The Government no longer issues these licences.

<sup>12</sup> Point to Point Act s56. A taxi may be used to provide a taxi service anywhere in New South Wales if no area of operation is specified in the taxi licence. The Point to Point Transport Commissioner may amend a licence or a class of licence to vary the operating area of that licence or class of licence.

<sup>13</sup> Point to Point Regulation cl 57.

<sup>14</sup> Point to Point Transport Taskforce, *Report to the Minister for Transport and Infrastructure*, (November 2015, p 91).

<sup>15</sup> Secretary of Department of Transport, *2017/18 Sydney Annual Taxi Licence Determination*, 29 March 2017.

<sup>16</sup> Point to Point Regulation, cl 65.

<sup>17</sup> Point to Point Act, Schedule 2, Part 2.

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- ▼ **Short-term licences** – are valid for a term of up to six years. The ownership of these licences cannot be transferred; however, the holders may lease them to someone else. The Government no longer issues these licences.

Until 2009 in Sydney and 2015 elsewhere in NSW, new ordinary or short-term licences were available on application from the Government at the ‘current market value’.

Since December 2009, Transport for NSW (TfNSW) has controlled the number of taxis in Sydney through an annual determination of the number of annual licences (other than WAT licences)<sup>19</sup> to be released through a public tender process. The Government asked IPART to recommend the number of licences that TfNSW should determine for release each year between 2013 and 2015. In 2015, the Government announced that no “growth” annual licences (except WAT licences) would be issued for four years in Sydney, although an annual determination of the number of replacement licences would continue.<sup>20</sup>

Outside Sydney, ordinary licences and short-term licences continued to be issued by the Government, with prices set at the ‘market value’ by a variety of methods.<sup>21</sup> However, in a similar way to Sydney, a mismatch of supply and demand emerged in some areas outside Sydney, where licence prices are as high as, or even higher than, Sydney.

In 2015, the NSW Government decided to apply the same process as in Sydney to issuing licences in areas outside Sydney. TfNSW must make its first Determination under the new arrangements prior to 1 July 2018, for the year commencing 1 July 2018.<sup>22</sup> It can make additional determinations during the year.

The Government announced that the new licences will be valid for operation anywhere outside Sydney, unless determined otherwise. The Government has asked IPART to advise on whether operating areas should be specified or not, and we will consider that as part of this review. Chapter 5 discusses issues around issuing licences in more detail.

The Point to Point Act requires the fee for new annual licences to be determined by auction or tender<sup>23</sup>. However, if TfNSW is of the opinion that the service concerned would, for economic or other reasons, be unlikely to be provided if the full licence fee were to be imposed, TfNSW can set a different licence fee.<sup>24</sup> Chapter 5 discusses circumstances where this might be the case.

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<sup>18</sup> Ordinary licences have 50-year terms; however, they come with a right of renewal, so they are effectively perpetual.

<sup>19</sup> Annual WAT licences are available for free on application to the Point to Point Commissioner. Previously there was a \$1000 per year licence fee in Sydney, Newcastle and Wollongong. They are not subject to supply restrictions.

<sup>20</sup> NSW Government, *Point to point transport – The NSW Government response to the taskforce report*, December 2015, p 2.

<sup>21</sup> *Passenger Transport Act 2014*, s 107.

<sup>22</sup> In future years TfNSW must make the determination before 31 March in each year, for the year beginning 1 July. See Point to Point Act s 71 and Schedule 2, cl 17.

<sup>23</sup> Point to Point Act s 63(2)

<sup>24</sup> Point to Point Regulation, cl 47.

## 2.3 Rank and hail taxi fares cannot exceed regulated maximums

TfNSW has specified maximum fares for rank and hail taxi services in a fares order.<sup>25</sup> The current taxi Fares Order took effect on 1 November 2017. Most fare components and maximums are the same as in the previous Fares Order issued in 2014, although the current Fares Order applies only to rank and hail trips and consequently there is no regulated maximum booking fee.

One of the issues we consider in this review is whether the fare components should continue to be specified in the fares order, or whether taxi service providers should have flexibility to offer different fare structures, which may or may not include the traditional flag fall/distance rate/waiting time rate structure. This issue is discussed in Chapter 6.

The regulatory framework no longer prescribes taxi meters but a “fare calculation device”. In the short term, we expect taxi service providers will continue to use the existing meters installed in the taxis.<sup>26</sup>

### 2.3.1 There are no longer maximum fares for booked services

Under the new regulatory framework, fares for all booked trips, **including those in taxis**, are not subject to maximum fare regulation. Booked service providers must provide a fare estimate to prospective passengers before their trip commences.<sup>27</sup>

Although booked taxi fares are not subject to maximum fare regulation they may charge metered rank and hail fares for booked trips if they choose to. We also note that, for Taxi Transport Subsidy Scheme bookings,<sup>28</sup> fares must be calculated using the fare calculation device as if the trip were a rank or hail service.<sup>29</sup>

### 2.3.2 Authorised taxi service providers must set rank and hail fares

Authorised taxi service providers are required to publish and display a “taxi fare structure” setting out all their fees and charges for rank and hail services, in the same way they were previously required to display the maximum fare schedule. Taxi fares are not permitted to exceed the maximum fares set out in the fares order. This process is summarised in Figure 2.1.

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<sup>25</sup> The fares order is made under section 76 of the Point to Point Transport (Taxis and Hire Vehicles) Act 2016.

<sup>26</sup> TfNSW advise that taxis may continue to use existing meters until 1 November 2018.

<sup>27</sup> Point to Point Act, s 79.

<sup>28</sup> The Taxi Transport Subsidy Scheme (TTSS) provides support for NSW residents who are unable to use public transport because of a disability. The subsidy covers 50 per cent of the total fare with a maximum subsidy of \$60 per journey and is claimed using travel dockets. See, TfNSW, 2017, *Taxi Transport Subsidy Scheme*, at, <https://www.transport.nsw.gov.au/community/concessions-and-schemes/taxi-transport-subsidy-scheme>, accessed on 29 August 2017.

<sup>29</sup> Point to Point Regulation, cl 81(2).



**Figure 2.1**

<b>TfNSW</b>	Determines maximum fares by publishing a <b>fares order</b> under section 76 of the Point to Point Act.
<b>Authorised taxi service provider</b>	Sets fares for their brand. They must not exceed the regulated maximums in the <b>fares order</b> .
	Taxi <b>networks</b> that were authorised under the <i>Passenger Transport Act 1990</i> automatically transitioned to the new regulatory system as authorised taxi service providers.
<b>Affiliated taxi service providers</b>	Must ensure the taxi's fare calculation device (meter) calculates fares in accordance with the fares set by the authorised taxi service provider with which it is affiliated.
	Most taxi <b>operators</b> accredited under the <i>Passenger Transport Act 1990</i> transitioned to the new regulatory system as affiliated taxi service providers.

Source: IPART

### 2.3.3 There are currently two fare areas

There are two fare areas: urban and country. The urban area is specified as<sup>30</sup>:

- ▼ Metropolitan Transport District (Sydney)
- ▼ Newcastle Transport District
- ▼ Wollongong Transport District
- ▼ Blue Mountains Local Government Area
- ▼ Central Coast Local Government Area
- ▼ Shellharbour Local Government Area
- ▼ The townships of Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo.

The country area is all areas in NSW excluding Urban Areas and Exempt Areas.

Exempt Areas are the townships of Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin. Taxis in exempt areas can set fares at any level as they are not bound by the maximum fares set in the determination. However, they may not charge more than 5% surcharge for non-cash fare payments.

Current urban and country fare schedules are set out in Table 2.2.

<sup>30</sup> See Point to Point Transport (Fares) Order 2017 made under the Point to Point Act, s 76.



**Table 2.2 Maximum taxi fares from 1 November 2017**

Fare component	Urban	Country
Hiring charge	\$3.60	\$4.10
Peak time hiring charge payable in addition to the hiring charge <sup>a</sup>	\$2.50	n/a
Distance rate	\$2.19/km	\$2.26/km for the first 12km and \$3.13/km thereafter
Night distance rate <sup>b</sup> (and holiday distance rate <sup>c</sup> country areas)	\$2.63/km	\$2.71/km for the first 12km and \$3.75/km thereafter
Waiting time charge	94.4c/minute	96.0c/minute
Waiting time threshold speed	26km/h	26km/h
Maxi-taxi surcharge <sup>d</sup>	150% max fare	150% max fare

<sup>a</sup> Charged between 10pm and 6am on Friday and Saturday nights and the night before a public holiday.

<sup>b</sup> The night distance rate is calculated as a 20% surcharge on the distance rate. It applies between 10pm and 6am.

<sup>c</sup> In country areas, the holiday distance rate applies between 6am and 10pm on Sundays and public holidays.

<sup>d</sup> The maxi taxi surcharge may only be charged if a maxi-cab is requested upon booking (regardless of the number of passengers) or if it is hired from a taxi zone or street hail to carry 5 or more adult passengers.

**Source:** November 2017 Fares Order.

## 2.4 Other reviews are also relevant to the point to point transport industry

As noted earlier, the point to point transport industry is currently undergoing significant change, which has entailed reviewing regulatory, insurance, industrial and funding arrangements, among other things.

### 2.4.1 TfNSW is reviewing subsidies and incentives for disability transport

TfNSW is reviewing the subsidies and incentives for point to point transport services for people with a disability. The review will make recommendations on the future operation of the Taxi Transport Subsidy Scheme and the incentives provided to WAT operators and drivers to provide services to customers with a disability. It will assess the feasibility of moving to a service provider-neutral subsidy scheme, allowing customers more choice through booked service providers other than taxis.<sup>31</sup>

### 2.4.2 CTP insurance reform means premiums will be based on vehicle usage

As part of broader Compulsory Third Party (CTP) reforms, the Government has changed the way insurers must set CTP premiums for owners of point to point transport vehicles.

Premiums paid by point to point transport vehicle owners will include a vehicle usage component. This means that vehicles that are on the road more will pay higher premiums than those that are only used for commercial point to point transport for a limited time each week.

<sup>31</sup> TfNSW, *Disability subsidy scheme to be more efficient and effective*, 11 April 2017, at, <https://www.transport.nsw.gov.au/newsroom-and-events/media-releases/disability-subsidy-scheme-to-be-more-efficient-and-effective>, accessed on 30 August 2017. See also TfNSW, *Transport disability incentives and subsidies review discussion paper*, September 2017.

The State Insurance Regulatory Authority (SIRA) expects that the reforms will result in reduced CTP premiums for taxis of up to 40 per cent.<sup>32</sup> It has the power to collect necessary data from point to point transport providers to assist in setting usage-based premiums.<sup>33</sup>

### 2.4.3 Taxi driver bailment arrangements will continue to be regulated for now

Many taxi drivers enter into contracts of bailment with taxi operators and, as such, are referred to as 'bailee drivers'.

Under Chapter 6 of the *Industrial Relations Act 1996* (NSW), the NSW Industrial Relations Commission (IRC) is empowered to make contract determinations for drivers under a bailment in respect of driver remuneration, annual, sick and long service leave, the minimum and maximum number of bailment hours and other matters it considers necessary.

The *Taxi Industry (Contract Drivers) Contract Determination 1984* regulates driver bailment arrangements for the Sydney Metropolitan Transport District, including the maximum 'pay-in' that drivers make to 'bail' the taxi from the operator for a shift. However, it does not apply to drivers outside the Sydney region, and so in regional and rural areas taxi operators are not obliged to provide annual, sick and long service leave to their permanent bailees.

The Parliamentary Standing Committee on Transport and Infrastructure completed an investigation on industrial relations across the point to point transport industry in October 2016. It recommended that the NSW Government consider amending the *Industrial Relations Act 1996* (NSW) to remove contracts of bailment from the jurisdiction of the IRC.

In response, the Government said that it "will continue to monitor developments in the point to point transport industry to determine whether changes to Chapter 6 of the *Industrial Relations Act 1996* are required at a later time."<sup>34</sup>

### 2.4.4 IPART is reviewing rural and regional bus fares

IPART has been asked to determine the maximum fares for rural and regional bus services from 1 January 2018, and provide advice to the NSW Government on the development of on-demand services in rural and regional areas of NSW.

In our draft report for the review of rural and regional bus fares,<sup>35</sup> we identified taxis and hire vehicles as among potential suppliers of on-demand transport services in regional areas. We made a draft recommendation that in rural and regional areas where there is an identified need for additional transport services in the short term, that TfNSW seek

<sup>32</sup> SIRA website, *What the new CTP scheme means for taxis and ridesharing*, at <https://www.sira.nsw.gov.au/green-slips/ctp-green-slip-reforms/what-ctp-green-slip-reforms-mean-for-taxis-and-ride-sharing-services>, accessed on 28 November 2017.

<sup>33</sup> SIRA, *Outcomes*, at <https://www.sira.nsw.gov.au/consultations/review-of-ctp-motor-vehicle-insurance-point-to-point-transport-vehicles/outcomes>, accessed 30 August 2017

<sup>34</sup> NSW Government response to the Legislative Assembly Committee on Transport and Infrastructure, *Workplace Arrangements in the Point to Point Transport Industry*, 19 April 2017, p 1, at <https://www.parliament.nsw.gov.au/committees/DBAssets/InquiryReport/GovernmentResponse/6081/Government%20Response%20to%20LA%20Transport%20and%20Infrastructure%20Comm%20Report%201-56.pdf>, accessed on 11 September 2017.

<sup>35</sup> IPART, *Review of rural and regional bus fares from January 2018 – Draft report*, October 2017.

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competitive tenders to provide additional services (which could range from fixed route services to flexible services including taxis, hire cars and ride share).

## 3 Our approach to this review

As Chapter 1 indicated, the Government has asked IPART to review and make recommendations on:

- ▼ The maximum fares for rank and hail taxi services both **in Sydney** and **outside Sydney** from July 2018.
- ▼ The number of new annual taxi licences to be released **outside Sydney only** from July 2018.<sup>36</sup>

The sections below outline the matters we are required to consider in making our recommendations, and set out the objectives and approach we developed for our review.

### 3.1 The matters we must consider

In making our recommendations, we must consider each of the matters listed in the relevant statutory provisions.

In making recommendations **on fares**, these matters include:

- ▼ The cost of providing the services (Chapters 4 and 6).
- ▼ The need for greater efficiency in their supply so as to reduce costs for the benefit of consumers and taxpayers (Chapters 4 & 6).
- ▼ The protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service (Chapters 4 & 6).
- ▼ The social impact of the recommendation (Chapter 6).
- ▼ The impact on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport (Chapter 6).
- ▼ Standards of quality, reliability and safety of the services concerned (Chapters 4 & 6).
- ▼ Any matter specified in our referrals.
- ▼ Any other matters we consider relevant.

**Summary of factors we have been asked to consider in making recommendations on licences:**

- ▼ Likely passenger demand and latent demand for taxi services (Chapters 4 & 5).
- ▼ The performance of existing taxi services (Chapter 5).
- ▼ The demand for new taxi licences (Chapter 5).

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<sup>36</sup> The Government has previously announced that it will not issue any new “growth” annual taxi licences in Sydney in 2018-19, although it may issue replacements. (NSW Government, *Point to point transport – The NSW Government response to the taskforce report*, p 2).

- ▼ The viability and sustainability of the taxi industry (Chapter 5).
- ▼ Any other matters we consider relevant, having regard to the objective of ensuring improved taxi services.

The NSW Government has also specified in our referrals certain additional matters that we must consider in making our recommendations. **For fares**, these include:

- ▼ The Point to Point Transport Taskforce Report and the NSW Government's response to this report (Chapter 6).
- ▼ Whether TfNSW should continue to determine the components of the maximum fare including flagfall, distance rate and waiting time rate (Chapter 6).

**For licences**, they include:

- ▼ The Point to Point Transport Taskforce Report and the NSW Government's response to this report (Chapter 5).
- ▼ Whether there should be any restrictions placed on any of the taxi licences to be issued (Chapter 5).
- ▼ Whether the taxi licences to be issued should specify the operating area to be anything other than outside the Metropolitan transport district (Chapter 5).

The full terms of arrangement for our review of fares and terms of reference for our review of licences are provided in Appendix A and Appendix B respectively.

### 3.2 Our objective for this review

In recommending maximum taxi fares and new licence numbers, our objective is to help to improve taxi services so that:

- ▼ Passengers can catch taxis at a rank or by hailing when they want them, with waiting times that aren't too long.
- ▼ Fares for rank and hail services are affordable for passengers and passengers understand what fares they will be charged.
- ▼ Taxi service providers can cover the efficient costs of providing rank and hail services, including their own labour.
- ▼ Prospective taxi service providers can enter markets outside Sydney without prohibitive set-up or operating costs.

We consider that these objectives reflect and summarise the objectives implied in the matters we are required to consider.

### 3.3 Our approach to this review

Although IPART has made recommendations on taxi fares since 2001, and on annual taxi licences for Sydney since 2013, the rapid changes in the point to point transport industry mean that the way in which we approach this review will be different from the past.

In our view, the most effective way to encourage the efficient supply of taxi services and protect customers from abuses of monopoly power is through competition. In fully competitive markets, businesses cannot set prices above the efficient costs of supply without losing customers to their competitors or new entrants. The level of competition also influences the type of fare and licence regulation that is necessary.

Therefore, as proposed in our Issues Paper, the first step in our approach for this review was to assess the current level of competition in the market for taxi services across NSW.

We developed an assessment framework and applied it to information about the point to point transport market, including the number and type of service providers in the market, the market share different providers have, the nature and level of demand for different types of service, and current taxi licence values. To gather additional information, we engaged consultants to conduct surveys of NSW residents about their point to point transport use, and to analyse electronic transaction data from taxi and rideshare payments (see Box 3.1)

#### **Box 3.1 Information we obtained to help our analysis for this review**

##### **Survey of point to point transport use**

Since 2012 we have regularly engaged consultants to survey residents of Sydney, other urban areas and other parts of NSW on their use of point to point transport. These surveys provide a valuable time series showing how use of point to point transport is changing. This year we engaged Orima to update the survey in light of the regulatory changes that have occurred. We also engaged Taverner Research to undertake a short calibration survey using the previous methodology to assist in understanding trends in the use of point to point transport.

##### **Use of ridesharing and taxi services in NSW**

We engaged HoustonKemp to analyse banking transaction data sourced from Data Republic to identify the amount spent on, and number of transactions involving, taxi and ridesharing services by those customers using electronic payment methods. HoustonKemp used the data to examine how both the number of transactions and the amount spent on these services has changed since 1 July 2015.

##### **Efficient cost estimates of rank and hail taxi services**

Our Issues Paper canvassed a range of options for developing recommendations for maximum fares, including estimating the efficient marginal cost of providing rank and hail services. We engaged the CIE to estimate the efficient unit costs of providing rank and hail services in different regions of NSW as an input to that approach. However, after assessing the current state of competition and the potential for future competition, we decided that relying on competition to drive fares closer to efficient costs was preferable to IPART trying to estimate efficient fares using a marginal cost approach. Therefore, we did not use the CIE findings.

These reports are published on the IPART website.

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Our draft finding, that competition in most areas of NSW is not yet sufficient to remove maximum fare regulation, then guided:

- ▼ Our analysis of the appropriate number of new taxi licences to be released outside Sydney. Releasing additional licences is one way to encourage competition.
- ▼ Our decision not to move to a less prescriptive approach to regulating fares for rank and hail services, but to recommend:
  - a nominal fare freeze, and
  - an exemption from maximum fare regulation for some areas of NSW.

## 4 Competition in the NSW rank and hail market

In a competitive rank and hail market, there should be no need for government to regulate maximum fares or the supply of licences. Competitive pressure should drive prices and supply to efficient levels.

In recent years, technological and regulatory change have increased the potential for competition in the rank and hail market. However, it may take time to transition to a point where competition is sufficiently effective to ensure optimal price and supply outcomes. Some regulation will still be required during the transition period.

To assess the current state of competition in the rank and hail market, we developed a framework based on the ACCC's merger guidelines but modified to reflect the purpose of our review. Our detailed assessment under this framework can be found in Appendix D.

The section below summarise our draft findings and recommendations on the level of competition in the rank and hail market. The next sections discuss them in more detail, including their implications for our approach to licence and fare recommendations, and what the Government can do to monitor and facilitate competition in the point to point transport market.

### 4.1 Summary of draft findings and recommendations

We found that without fare regulation, taxi service providers and licence holders would have an ability to profitably raise prices, and/or reduce supply or service quality in most parts of NSW. The market power of taxi service providers and licence holders is most easily seen through the very high taxi licence values in most large cities and towns. High licence values also create a barrier to entry and expansion. We conclude that competition in most of NSW is not sufficiently developed to remove maximum fare regulation for rank and hail services.

However, in most remote areas and small towns, the market for rank and hail services is very small and it is relatively easy to substitute booked trips for these services. Recent regulatory reforms have made it easier for hire vehicles to enter the point to point transport market and compete for booked trips. Taxi licence values in these areas are low, indicating taxi service providers and licence holders have little market power and the barriers to entry are relatively low. We consider the potential for competition in these areas is sufficient to exempt them from maximum fare regulation.

As the taxi and broader point to point market is in a state of transition, we consider that it is important to monitor the development of competition to assist future assessments of how much and what type of regulation is required. We are recommending that:

- ▼ taxis be required to display rank and hail fares on the outside of the taxi to facilitate competition between taxi service providers, and



- ▼ the Point to Point Transport Commissioner undertake routine collection of taxi trip records for three years or until competition is effective, whichever comes first to monitor the development of competition and facilitate further deregulation of the rank and hail market as competition develops.

## **4.2 Competition is the best way to protect consumers**

In competitive markets, firms compete with each other to provide services to customers. If firms set prices too high, (existing and new) competitors can provide the services for lower prices. If firms do not offer the services that customers want, other firms can make money by offering those services. Effective competition is therefore the best form of consumer protection. The effectiveness of competition in a market should determine the amount of government intervention and regulation required to protect customers.

In a competitive market for point to point transport services, service providers would be able to provide a range of products that best suit their customers. This could include:

- ▼ cheaper taxi and hire vehicle trips
- ▼ higher quality taxi and hire vehicle trips, and
- ▼ shorter waiting times.

In a competitive market, removing fare and supply controls would create opportunities for existing taxi service providers and licence holders, and market entrants to better supply the needs and wants of their customers and potential customers.

## **4.3 Fare regulation is needed in uncompetitive markets**

For many years, the taxi industry was the dominant provider of point to point transport services in NSW. Taxis had no close substitutes. Taxi customers could not readily substitute a trip in a taxi with a trip in a hire car. Hire cars were only available on a 'pre-booked' basis and there were prescriptive regulations on their quality and service standards (which were different from the prescribed requirements for taxi quality and service standards). In addition, taxi licence numbers did not keep pace with demand for taxi services, limiting competition within the rank and hail market.

In a market without close substitutes and a restricted supply of licences, taxi networks had substantial market power. Without regulation, this market power would have given them the opportunity to profit while:

- ▼ increasing fares
- ▼ reducing supply, and
- ▼ reducing service quality.

This opportunity to exercise market power justified regulating fares and prescriptively regulating service and quality standards.

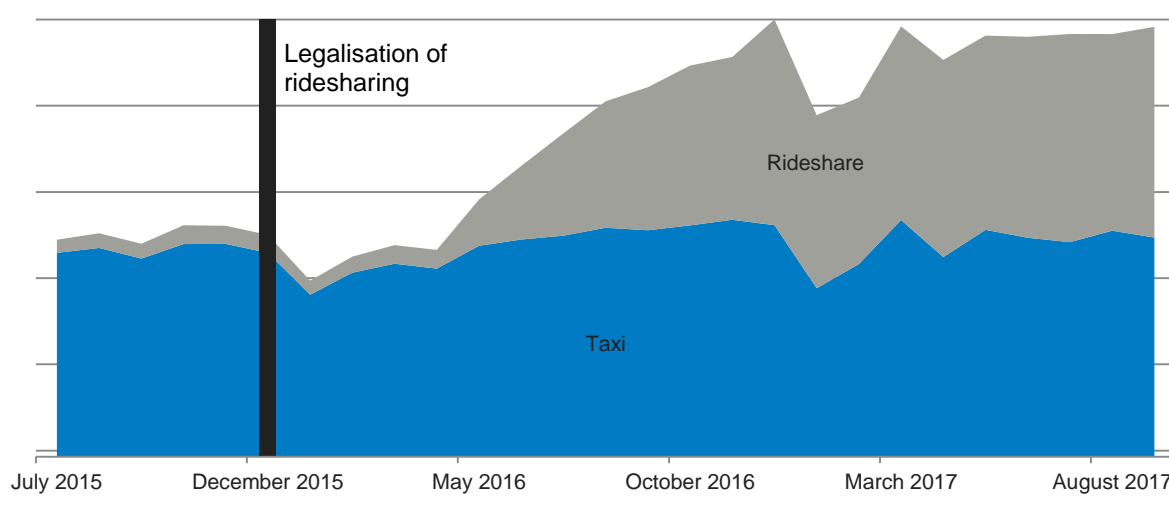
#### 4.3.1 Technological and regulatory change has increased competitive pressures on taxis

Technological change and changes in the regulatory framework have created the opportunity for far greater competition. Mobile phones and smartphone applications have made booking hire vehicles (including rideshare and hire cars) more like hailing a taxi, meaning other services can substitute for rank and hail services and compete more directly. Smartphone applications have also created new ways of protecting customer safety and service quality through GPS tracking and customer reviews of their experiences.

In response to these developments, the new point to point regulatory framework – including the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* – treats all booked trips in taxis and hire cars in the same way. This facilitates safety-focused and outcomes-based regulation, and the removal of prescriptive regulation on service standards. These changes, particularly open entry for hire vehicles, have lowered the barrier to entry to the point to point transport market and increased competitive pressures on taxi service providers and licence holders.

The technological and regulatory changes have been already been effective at increasing competition between taxis and hire vehicles, particularly through smartphone application based ridesharing platforms. Figure 4.1 below shows that in Sydney there has been a significant growth in the number of trips in the point to point transport market since the legalisation of ridesharing, rather than a fall in the number of taxi trips. We expect that following the 1 November 2017 regulatory changes this trend will continue.

**Figure 4.1 Growth in the Sydney point to point transport market**



**Note:** The graph shows growth in number of transactions.

**Data source:** HoustonKemp, *Use of ridesharing and taxi services in New South Wales*, November 2016 data sourced from Data Republic and adjusted based on Taverner Research, *Comparing Surveys of Point to Point Transport Use, November 2014 to February 2017*, May 2017.



## 4.4 Customers still need maximum fare regulation in most areas

The commencement of the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* on 1 November 2017 deregulated fares for all booked trips in taxis.<sup>37</sup> However, it maintained maximum fare regulation on rank and hail services. This is because these services can only be provided by taxis, and because customers hailing a taxi do not have the opportunity to seek a fare estimate or compare service providers that those booking an alternative point to point trip have.

In addition, our assessment of competition for this review indicates that taxi service providers still have considerable market power.

### 4.4.1 High licence values suggest taxi service providers have market power

Barriers to entry and constraints to competition still exist in the rank and hail market. The most significant constraint to competition in the rank and hail market is the continued regulation of the supply of taxi licences. The barriers to entry and exclusive right to perform rank and hail services have led to high licence values.

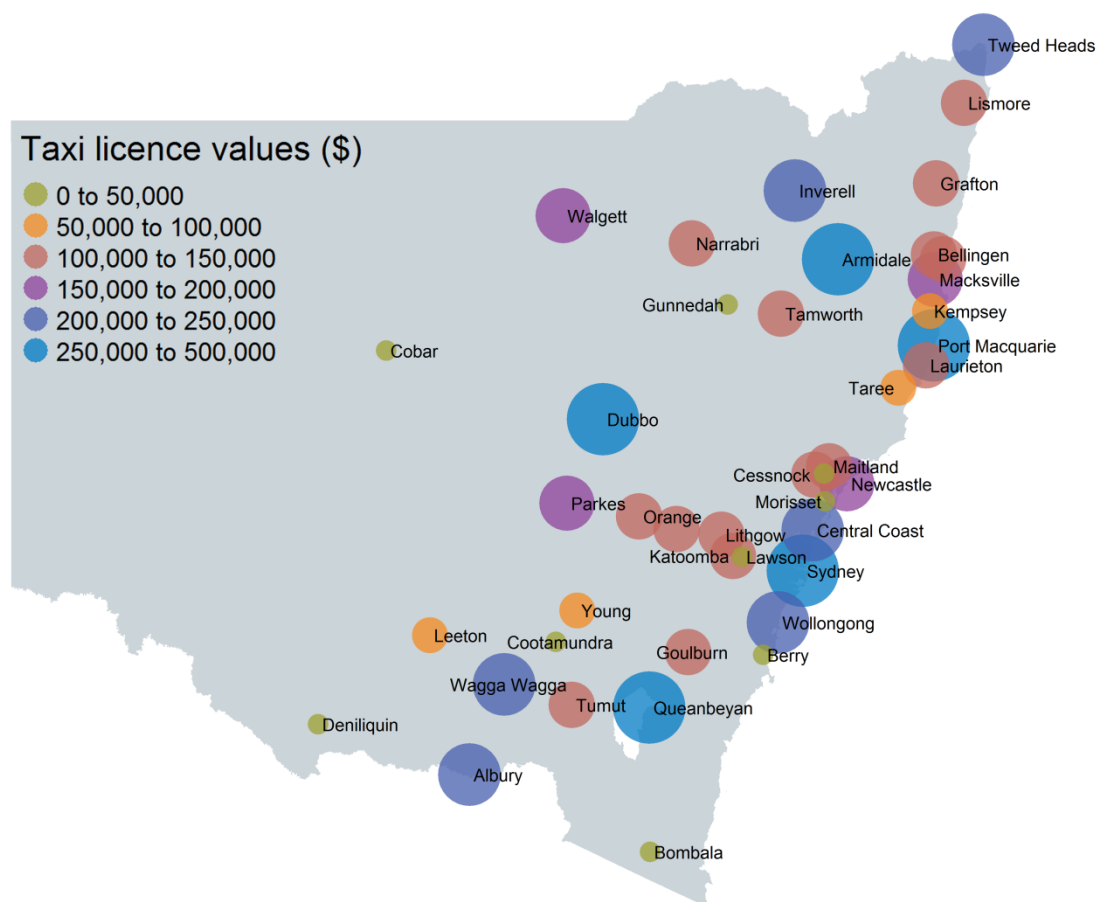
As we have discussed in previous reviews,<sup>38</sup> taxi licences themselves do not have any productive value. The value of a licence does not reflect the cost of the goods or services provided, but instead the scarcity value of the licence. Licences are not inherently scarce, so high licence values indicate a lack of competition in the market. Figure 4.2 shows that licence values in many areas of NSW remain well above their productive value.

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<sup>37</sup> Transport for NSW, *Taxis, hire cars and rideshare – new Commissioner, new rules from today*, Media release, 1 November 2017, at <https://www.transport.nsw.gov.au/news-and-events/media-releases/taxis-hire-cars-and-rideshare-new-commissioner-new-rules-from-today> on 7 December 2017.

<sup>38</sup> For example, IPART, *Review of taxi fares outside Sydney to apply from July 2015*, June 2015.

**Figure 4.2 Taxi licence values in NSW**



**Note:** This is based on average values for sales in the last 3 years.

**Data source:** IPART analysis of RMS data provided by Transport for NSW.

If a taxi licence is valuable, it means that a taxi licence holder is able to charge more than the efficient price for their taxi services. That is, where a taxi licence isn't free or very low cost, licence holders can exercise market power by:

- ▼ raising fares
- ▼ decreasing supply, or
- ▼ reducing service quality.

One way to decrease the supply of taxi services is to put registration plates on hold (as discussed in Box 4.1).

#### **Box 4.1 Licence holders exercise market power by placing registration plates on hold**

In NSW there are currently over 150 taxi licences not currently being used, where the licence holder has put the associated T or TC registration plate 'on hold' by notifying RMS. In a market where there is value in a taxi licence (ie, its taxi licence value is non-zero), this demonstrates that holders of taxi licences have market power and are able to exercise their market power. In a competitive market, we would see supply increase until there was no longer any taxi licence value (through reduced fares or lower occupancy).

**Source:** IPART analysis of RMS data provided by Transport for NSW.

Therefore, we found that taxi service providers have the capability to exercise market power in areas with high taxi licence values. In these areas, there is an ongoing need to regulate rank and hail fares for the purpose of protecting consumers.

#### IPART draft findings

- 1 Competition in the rank and hail market in most of NSW is not yet sufficient to remove maximum fare regulation for rank and hail services. However, workable competition in the rank and hail market could develop quickly.
- 2 High licence values and restricted supply of taxi licences continue to be a barrier to entry to the rank and hail market. Releasing additional licences would reduce this barrier to entry.

#### 4.4.2 Areas with a very low demand for rank and hail services do not need maximum fare regulation

In remote areas and small towns, there is typically only one authorised Taxi Service Provider (TSP) with the ability to provide rank and hail services. However, almost all taxi trips are booked in these areas. This means that authorised TSPs have little advantage over Booking Service Providers in these areas. It also means that maximum fare regulation applies to very few taxi trips.

With the commencement of the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*, it is relatively easy to become a Booking Service Provider and provide a point to point transport service in a private vehicle. We consider it is unlikely that taxis in remote areas and small towns have much market power, let alone the ability to exercise this market power. In these areas we consider there is no need to regulate fares and, with low licence values, restricting licence numbers only reduces firms' ability to enter and expand in the delivery of rank and hail services.

#### IPART draft finding

- 3 In remote areas and small towns, taxi service providers do not have the ability to exercise market power. Therefore there is no need to regulate maximum fares in these locations.

#### 4.5 More could be done to facilitate the growth of effective competition

The *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* and the *Point to Point Transport Regulation 2017* are important and valuable reforms to the point to point transport market. They have helped, and will continue to help, competition develop and provide opportunities to existing taxi service providers and possible market entrants through:

- ▼ reducing prescriptive regulation
- ▼ reducing barriers to entry, particularly for hire vehicles, and
- ▼ creating greater opportunities for competition by deregulating fares for booked trips in taxis.

Some of the market power we observed in our competition assessment may dissipate quite quickly once market participants and potential new entrants adjust to the new framework.

However, we consider more could be done to facilitate the growth of effective competition and to monitor competition emerging.

#### **4.5.1 Releasing more taxi licences would help taxi service providers to compete**

One key remaining barrier to entry is the constraint on taxi licence supply that has led to high licence values, prevented new taxi service providers entering markets and limited taxi service providers' ability to compete with new point to point service transport providers, such as ridesharing services. We have factored this in to our recommendations on the number of new licences to be released outside Sydney (discussed in Chapter 5).

#### **4.5.2 Displaying fares would aid competition between Taxi Service Providers**

The current regulatory environment requires authorised TSPs to:

- ▼ display rank and hail fares inside their taxis, and
- ▼ publish their rank and hail fares on their website (if they have a website).

This creates a system where customers can understand the fares they are being charged when they are in a taxi or looking at the taxi website. However, it can be difficult for customers to compare fares quickly and easily (such as at a taxi rank).

We consider that requiring taxis to make their fares visible from the outside of the taxi would facilitate fare competition between authorised TSPs. Displaying fares on the outside of the vehicle would allow customers to compare taxi fares at a rank. This approach was used following fare deregulation in New Zealand.<sup>39</sup>

##### **Draft recommendation**

- 1 Taxis be required to display their rank and hail fares on the outside of the vehicle to facilitate fare competition.

#### **4.5.3 Routinely collecting data would help in monitoring the development of competition**

Given that competition has the potential to become more effective over time, we consider that it would be beneficial for the Point to Point Transport Commissioner to collect and monitor taxi data. The Point to Point Transport Act requires authorised TSPs to collect and keep a range of trip and network data.<sup>40</sup> This data includes time, date and location of trips. Data from authorised TSPs and booking service providers is currently only collected upon request.<sup>41</sup>

The additional cost involved to transmit data to the regulator should be outweighed by the benefits of improved understanding of the emergence of competition. The data will allow

<sup>39</sup> The requirement to display fares on the outside of a taxi vehicle has recently been removed in New Zealand. *Land Transport Rule: Operator Licensing 2007*, (NZ) Rule 81001, r 4.7 repealed by *Land Transport Rule: Operator Licensing 2017*, (NZ) Rule 81001, r 1.5. The New Zealand taxi market was deregulated in 1989, the requirement to post fares on the outside of the taxi was revoked in 2017.

<sup>40</sup> *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2016*, clauses 41 and 42.

<sup>41</sup> *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2016*, clauses 41(4) and 42(4).

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Government and IPART to monitor changes in the trips being provided by taxis and hire vehicles, better identify changes in demand and supply and help make informed changes to fare regulation. Businesses with over \$1 million in revenue would currently have electronic records of their trip data.

We expect that not requiring data from businesses with less than \$1 million in revenue would not significantly impact analysis of the market.

#### Draft recommendation

- 2 The Point to Point Transport Commissioner collect trip data annually for three years or until competition is effective, whichever comes first, from all taxi and booking service providers with annual revenue over \$1 million.

## 5 New annual taxi licences outside Sydney

As Chapter 2 discussed, from next year Transport for NSW (TfNSW) will use the same approach as it uses in Sydney to issue new taxi licences outside Sydney. That is, it will decide, by 31 March, how many new annual licences it will release outside Sydney in the coming year. It will offer these licences from 1 July using a competitive tender process. The successful tenders will be able to renew these annual licences up to nine times.

To assist TfNSW in implementing this approach, IPART has considered four key issues for the year starting 1 July 2018:

1. Is there a need for additional taxi licences outside Sydney?
2. If so, how many new licences (other than WAT licences)<sup>42</sup> should be released?
3. Should these new licences be able to provide for rank and hail services<sup>43</sup> anywhere outside Sydney, or should they be restricted to a specified operating area?
4. Should there be any other operating restrictions on the new licences?

We have stated previously that we do not consider there is any economic justification for the NSW Government to restrict the supply of taxi licences. However, in conducting this review and making our recommendations, we recognise that this is a time of transition for the taxi industry and point to point transport market. Therefore, it may be appropriate to maintain some restrictions in the short term, to manage this transition.

The sections below summarise our draft findings and recommendations on the above issues, and then discuss them in more detail.

### 5.1 Summary of draft finding and recommendations on new annual licences

Several indicators we analysed suggest there is a shortage of taxi licences outside Sydney, including low growth in the supply of licences relative to population growth, and high licence values in some areas. Based on this evidence collectively, we found there is a need to increase the supply of taxi licences outside Sydney.

We are recommending that a moderately small number of new licences be released in 2018, equal to 10% of the existing licences outside Sydney. We consider this option is a reasonable compromise between releasing a small number (as recommended by the Point to Point Transport Taskforce), and releasing a very large number (which would address any supply shortages immediately). In our view, a 10% increase would help improve taxi services and

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<sup>42</sup> WAT licences are excluded from our review because they are available for free on application to the Point to Point Transport Commissioner and are not subject to any supply restrictions.

<sup>43</sup> Operating area restrictions for booked services have been removed as part of the point to point transport reforms.



assist the taxi industry to transition to and compete in the new point to point transport regulatory framework.

In general, we consider the new licences should be able to provide rank and hail services<sup>44</sup> anywhere in NSW outside Sydney (in line with the Point to Point Transport Taskforce recommendation). When combined with a competitive tendering process, offering new licences that can operate anywhere would result in these licences flowing to the areas where there is the highest unmet demand for taxi services, and so address any shortage of taxi licences and reduce waiting times for passengers in those areas. It would also address the inefficiencies that restrictions on the operating area for rank and hail services creates.

However, we also consider there is a strong case for some new licences to be allocated for remote areas and small towns where there are very few existing licences and low licence values. With a limited supply of new licences and a competitive tender process, these areas are unlikely to have access to any new licences because the successful bids are likely to be much higher than local bidders are willing to pay.

Therefore, we are recommending that new licences be allocated separately to two zones – a Designated Zone and an Exempt Zone. Under our recommendations TfNSW would issue:

- ▼ by tender 124 new annual licences for the Designated Zone. These licences would be permitted to provide rank and hail services anywhere in NSW outside Sydney.
- ▼ on request for an administration fee, annual licences permitted to provide rank and hail services anywhere in the Exempt Zone in NSW with the initial determination to be 13 licences. If demand exceeds the initial allocation, TfNSW should undertake a new determination for the Exempt Zone.

Finally, we are recommending some additional restrictions on new licences for operating in the Queanbeyan area. These are necessary due to the current cross-border arrangements between Queanbeyan and the ACT, which allow taxis from each jurisdiction to provide rank and hail services in the other.

## 5.2 There is a need for additional taxi licences outside Sydney

To assess whether there is a shortage of licences outside Sydney, we analysed a range of factors that indicate the balance between the supply and demand for licences in this area. We found that taxi licence numbers have not grown in response to high demand for taxi licences outside Sydney, or in line with population growth outside Sydney. While alternative point to point transport services, especially rideshare, may be addressing some of the shortfall, between 2014 and 2016 these services appear to have been growing the size of the market rather than replacing taxi use.<sup>45</sup> In addition, survey findings suggest taxi services may be more difficult to obtain than other point to point transport services (see section 5.2.4). Taken together, these findings indicate there is a need for additional taxi licences outside Sydney.

<sup>44</sup> Section 56(5) of the Point to Point Act allows taxis to provide booked services anywhere in NSW.

<sup>45</sup> Annual surveys of taxi and point to point transport use between 2014 and 2016 show no significant changes in the prevalence and frequency of taxi use in other urban and country areas during that time and increases in rideshare use in other urban areas (4% in 2014 to 18% 2016 had used rideshare in the six months prior to being surveyed) and a modest increase in country areas (from 3% to 7%). See, Taverner Research, *Survey of Point to Point Transport Use*, February 2017, pp 20, 31.

## 5.2.1 Supply of taxi licences has not grown in response to high demand

As Chapter 4 discussed, licence values remain high in many parts of NSW outside Sydney (see Figure 4.2). This suggests the demand for taxi licences is strong in a number of areas across NSW. However, the supply of licences has not grown in response to this demand. Over the past nine years, the number of licences outside Sydney increased by a modest 4%, and by as little as 1% in some places including Wollongong (Table 5.1).

**Table 5.1 Growth in number of taxi licences outside Sydney since 2008**

	31-Dec-08	01-Mar-11	01-Jan-15	01-Sep-17	Change
Newcastle <sup>a</sup>	162	166	174	179	10%
Wollongong <sup>b</sup>	134	135	136	136	1%
Country NSW	1,026	1,036	1,054	1,063	4%
<b>Total outside Sydney</b>	<b>1,322</b>	<b>1,337</b>	<b>1,364</b>	<b>1,378</b>	<b>4%</b>

**a** Newcastle includes the following operating areas 1) Newcastle Transport District; 2) Newcastle Transport District and the townships of Caves Beach, Catherin Hill Bay, Nords Wharf, Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale and Ferodale; 3) Newcastle Transport District/Lake Macquarie/Medowie/Campvale/Ferodale; 4) Toronto/Fassifern to Myuna Bay including WAT work only in Morisset and Teralba.

**b** Wollongong consists of the operating area Wollongong Transport District and LGA of Shellharbour.

**Source:** RMS data provided by TfNSW.

A large proportion of this growth was new WAT licences. Therefore, the growth in non-WAT licences (the focus of this review) was lower.

We note that while new licences have been available on application for areas outside Sydney (up until 2015), no new ordinary taxi licences have been issued outside Sydney since March 2014.<sup>46</sup> This suggests the supply of licences has not grown in response to high demand at least partly because of decisions by incumbents or new entrants not to dilute the market and decrease licence values. It may also be partly due to the previous method for setting the price of new licences in line with their 'market value'.

## 5.2.2 Supply of taxi licences has not grown in line with population growth

ABS data indicates that the estimated resident population across Significant Urban Areas (SUAs, see Box 5.1 for definition) in NSW outside Sydney grew by around 8% since 2008 – which is twice the growth in taxi licences in this area (Table 5.2). As we would expect demand for taxi services to grow in proportion with the population, this suggests there is a shortfall in the supply of taxi licences.

<sup>46</sup> Short term fringe and country licences which predominately operate in the Gosford Wyong and Camden/Wollondilly areas have been issued since 2014, as well as short term WAT licences.

**Table 5.2 Growth in estimated resident population and taxi licences**

Significant Urban Areas	Estimated Resident Population Growth 2008-2016	Growth in Taxi Licences 2008-2017
Newcastle-Maitland	9%	10%
Wollongong	9%	1%
Country NSW	8%	4%
<b>NSW excluding Sydney</b>	<b>8%</b>	<b>4%</b>

**Source:** ABS, 3218.0 Regional Population Growth, Australia, Table 1 Estimated Resident Population, Significant Urban Areas, Australia, and IPART calculations based on RMS data provided by TfNSW.

### Box 5.1 Significant Urban Areas (SUA)

The regions of the SUA structure are constructed from whole SA2s<sup>a</sup>. They are clusters of one or more contiguous SA2s containing one or more related Urban Centres joined using the following criteria:

- ▼ they are in the same labour market
- ▼ they contain related Urban Centres where the edges of the Urban Centres are less than 5km apart defined by road distance
- ▼ they have an aggregate urban population exceeding 10,000 persons
- ▼ at least one of the related Urban Centres has an urban population of 7,000 persons or more.

<sup>a</sup> Statistical Areas Level 2 (SA2) are medium-sized general purpose areas built up from one or more whole Statistical Areas Level 1. Their purpose is to represent a community that interacts together socially and economically. SA2s generally have a population range of 3,000 to 25,000 persons.

**Source:** ABS, Australia Statistical Geography Standard.

### 5.2.3 Growth in alternatives like rideshare may be increasing demand in the point to point transport market

The growth in alternative point to point transport services, especially rideshare, may have addressed some of the shortage in taxi licences outside Sydney. For example, in its report on the 2017 Point to Point Transport survey it conducted for our review, Orima Research found a trend of stable or increasing demand for rideshare services and substitution of rideshare for taxis. It also found this was placing downward pressure on taxi usage, but taxis remain the most commonly used type of point to point transport.<sup>47</sup>

HoustonKemp, which looked at electronic transaction data for different modes of transport, also found increasing demand for point to point transport services over the period from July 2015 to June 2017. However, it concluded that the entry of alternative service providers like rideshare is increasing the overall size of the market, rather than simply encroaching on taxis' share of a limited market. HoustonKemp also found that the amount spent on taxi services grew, albeit marginally, over the same period.<sup>48</sup>

<sup>47</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 1.

<sup>48</sup> HoustonKemp, *Use of ridesharing and taxi services in New South Wales*, November 2017, pp 7-9.

#### 5.2.4 Taxi services are more difficult to obtain than alternative services

Orima's survey also found that a small but noticeable proportion of respondents in each survey area had experienced 'failed' point to point transport trips in the last six months – that is, they had tried to use a form of point to point transport but not been able to. For taxis, these proportions were 15% for Sydney, 8% in Regional Cities and 10% in the rest of NSW.<sup>49</sup>

Further, the survey found on respondents' last attempted trip, taxi services were the most difficult mode to obtain. The proportions of respondents who reported failing to get a taxi were 23% in Sydney, 17% in Regional Cities, and 23% in the rest of NSW. These proportions did not differ much by whether the respondent tried to obtain the service at a rank, or by hailing or booking. In comparison, the proportions who reported their last attempted trip by rideshare or limousine and other hire vehicles failed were (respectively):

- ▼ 8% and 9% in Sydney
- ▼ 5% and 6% in Regional Cities, and
- ▼ 12% and 6% in the rest of NSW.<sup>50</sup>

We consider that these findings, together with HoustonKemp's findings (discussed above) suggest that the limited supply of taxi licences both in Sydney and outside Sydney are constraining the taxi industry's ability to compete effectively in the growing point to point transport service market.

#### IPART draft finding

- 4 There is a shortage of taxi licences in areas of NSW outside Sydney.

### 5.3 A moderately small number of new licences should be released in 2018

To form our advice on the number of new licences to be released, we assessed several options, including a small number, in line with the Point to Point Transport Taskforce recommendation, and a very large number, which would immediately address any supply shortages. We estimated:

- ▼ a small number, based on the difference between the growth in licence numbers and the population since 2008, and
- ▼ a very large number, based on the ratio between taxi licences and population in New Zealand's deregulated taxi market.

We concluded that a moderately small number of new licences – equal to around 10% of existing licences – would be reasonable. This would help improve taxi services more than an increase based solely on population growth, but would still be much more cautious than a very large increase. We consider a cautious approach is appropriate, given the rapid changes in the point to point transport market. Below we discuss the options we considered, and our recommended option.

<sup>49</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 20.

<sup>50</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, pp 20-21.

### 5.3.1 A small increase in licence numbers would match population growth

As noted above, the Point to Point Taskforce recommended that a small number of new licences be issued outside Sydney. One way to determine this 'small' number is to base it on the increase required to close the gap between growth in number of licences and the growth in the estimated resident population in Significant Urban Areas (SUAs, defined in Box 5.1) between 2008 and 2016, discussed in section 5.2.2 above.

We estimate that of the 1,063 licences in country NSW, 270 are in operating areas outside SUAs. For these areas we could assume that there is very little rank and hail work with the majority of trips being booked, and that the existing licences meet any rank and hail demand.

As Table 5.2 shows, the estimated resident population growth across SUAs outside Sydney was 8% while the growth in licence numbers across these areas was 4%. We estimate that the number of existing licences for operating areas across these SUAs is 1,108. Therefore, to close the 4% gap between population and licence number growth, an additional 44 licences would be required.

This is a fairly crude calculation and does not take account of whether alternative point to point transport options are available, or whether we should make an adjustment to reflect the fact that the majority of trips are booked outside Sydney.<sup>51</sup> It also assumes that the ratio of taxi licences to population in 2008 was 'right'.

We consider that releasing this small a number of new licences in 2018 would only be likely to decrease waiting times for passengers in areas where there is currently high demand, with little or no impact in other areas.

It would also minimise the impact on current licence holders, as supply would still be restricted and this would help retain existing licence values. New licences would also have a relatively high value. However, given that the broader point to point transport market is rapidly changing and becoming more competitive, it is likely that licence values would decline over time anyway. Continuing to sell licences for anything close to current values would perpetuate the problem and increase the number of licence holders impacted in the long term.

### 5.3.2 A very large increase would be needed to reflect a deregulated market

As we discussed in our Issues Paper, releasing a very large number of new taxi licences would address any supply shortages immediately, and effectively eliminate restrictions on the supply of licences. One way to determine this 'very large' number is to base it on the ratio of taxi licences to population that exists in an unregulated taxi market.

In New Zealand, where the taxi industry was deregulated in 1989, there are currently over 12,500 licensed taxis for a population of 4,793,900.<sup>52</sup> Excluding Auckland (as a proxy for

<sup>51</sup> Orima's October 2017 passenger survey found that 75% of last trips in the Rest of NSW and 62% of last trips in Regional Cities were booked, compared with only 44% in Sydney. Orima Research, Figure 49, p 56.

<sup>52</sup> Correspondence with NSW Transport Agency - taxi licence numbers as at 6 November 2017. Total NZ taxi licences 12,623, of which 6,545 are in the Auckland Region.

Sydney), there are around 6,080 taxi licences for 3,259,200 people.<sup>53</sup> This suggests about one taxi licence per 536 people outside Auckland.

To reach this ratio either across all of NSW outside Sydney, or just in Significant Urban Areas outside Sydney, would require a very large increase in taxi licences as set out in Table 5.3. The New Zealand taxi market had been deregulated for 25 years before Uber entered in 2014,<sup>54</sup> so is not directly comparable with NSW. New Zealand taxis were not competing for customers with rideshare when deregulation occurred, and so were able to achieve market saturation. Deregulating the NSW taxi market now would be unlikely to result in a similar ratio of licences to population.

**Table 5.3 Benchmarking taxi licence numbers to a deregulated market**

	Estimated resident population (2016)	Current taxi licences (2017)	Current population per licence	Additional licences to reach NZ ratio
Sydney	4,625,272	5,406	856	14,360 <sup>a</sup>
NSW outside Sydney	3,029,264	1,378	2,198	4,274 <sup>b</sup>
NSW SUAs outside Sydney	1,966,606	1,108	1,775	2,561 <sup>b</sup>

<sup>a</sup> To achieve a ratio of one taxi licence per 234 people, as is the case for Auckland.

<sup>b</sup> To achieve a ratio of one taxi licence per 536 people.

**Source:** ABS, 3218.0 Regional Population Growth, Australia, Table 1 Estimated Resident Population, Significant Urban Areas, Australia; IPART calculations based on RMS data provided by TfNSW; and Correspondence with NSW Transport Agency - Taxi licence numbers as at 6 November 2017.

Releasing several thousand new licences would effectively remove any restrictions on supply, and we would expect taxis to enter the market up to the point where they can continue to cover costs. Increased supply would put downward pressure on fares, and/or reduce waiting times for passengers. It would also mean that new licences would have relatively low value, and the value of existing licences would drop to a similar level, impacting on current licence holders.

### 5.3.3 A 10% increase in licences would help the taxi industry to compete

On balance, given our objective to help improve taxi services, and the rapid change in the point to point transport market, we consider it would be reasonable for TfNSW to release sufficient new licences in 2018 to achieve a 10% increase on the number of existing licences outside Sydney. This moderate approach would help the taxi industry to transition and compete in the new point to point transport regulatory environment.

The increase is likely to improve taxi services for customers, including reduced waiting times. It would also assist the taxi industry in transitioning to and competing in the point to point transport market. As section 5.2.3 discussed, HoustonKemp found that the entry of

53 Stats NZ, Subnational population estimates (UA, AU), by age and sex, at 30 June 1996, 2001, 2006-17 (2017 boundary) at <http://nzdotstat.stats.govt.nz/wbos/Index.aspx?DataSetCode=TABLECODE7541>, accessed on 10 November 2017.

54 NZ Herald, *Sweeping changes for taxi industry*, 21 April 2016 at [http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11626425](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11626425) accessed on 8 November 2017.



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rideshare services is increasing the overall size of this market. By reducing barriers to entry, a 10% increase in the supply of taxi licences would better enable the taxi industry to compete with rideshare, and thus maintain or increase its share of the growing market.

TfNSW could issue the new annual licences in several tranches throughout the year (commencing 1 July 2018) which would allow for licence churn as prices adjust. The fees paid for new annual taxi licences via a competitive tender process would provide information on the market value of these licences, and help indicate the scale of the shortage of rank and hail services outside of Sydney in the future.

## **5.4 What are the likely impacts of increasing the supply of licences**

As Chapter 3 indicated, one of the matters we are required to consider in recommending the number of new licences is the viability and sustainability of the taxi industry. As we have noted in previous reviews, the viability and sustainability of the taxi industry is not the same as the viability and sustainability of any particular service provider or licence holder. An industry may be viable and sustainable while some members are unable to operate profitably. The entry and exit of individual participants is a normal market function in a competitive industry.

As discussed above, we consider that our recommended increase in licences would help the taxi industry to transition and compete in the new point to point transport regulatory environment. Therefore, it should have a positive impact on the viability and sustainability of the industry.

We also considered the impact of our recommended increase and the alternative options we considered on passenger waiting time, fares, existing licence values, taxi operators/service providers and taxi drivers (Table 5.4). We expect that our recommended 10% increase in new annual licences would reduce the waiting time for passengers at the same time reducing economic rent in fares and licences. While we have sought to recommend a modest increase in taxi licences outside Sydney, it is likely there would be an impact on the value of existing licences.

**Table 5.4 Anticipated impact of releasing different numbers of licences in 2018/19**

	<b>Very small increase in licences</b>	<b>Recommended increase in licence (10% increase)</b>	<b>Very large increase in licences</b>
Passenger waiting time/ service impact	Would be only likely to decrease in areas where there is currently high demand as licences would be more likely to go to these areas. Little or no impact in other areas.	Would be likely to decrease in most areas.	Would decrease in all areas.
Fares	We would be likely to recommend retaining regulatory control to reduce economic rent as there would be minimal increase in competition within the taxi industry.	We would be more likely to recommend less prescriptive regulatory control as we would be more confident competition would reduce rent.	We would be likely to recommend minimal regulatory control.
Existing licence values	Would be minimal impact in most areas. Could increase where demand for rank/hail services is increasing.	Would likely fall especially in current high value areas.	Would likely fall to close to zero dollars.
Operators/ taxi service providers	Would be unlikely to impact earnings.	Would be unlikely to impact earnings.	Some providers may exit if supply exceeds demand. But others may enter due to lower barriers to entry.
Taxi drivers	Would be unlikely to impact earnings.	Would be unlikely to impact earnings although may have more bargaining power if there is a shortage of drivers. Pay-in rates may also decrease if the economic rent in licences decreases. Drivers may have greater opportunity to purchase a licence.	Earnings may increase if pay-in rates decrease (as economic rent in licences decreases). May have more bargaining power if there is a shortage of drivers. Drivers would have greater opportunity to purchase a licence.
Other considerations	Would be some opportunity to release in several tranches allowing licence churn.	Would be greater opportunity to release in several tranches allowing licence churn.	Would not be consistent with Taskforce recommendation.

We also consider stakeholder views on increasing the number of licences outside Sydney. These views were mixed.

The NSW Taxi Council submitted that no new licences should be released until the current licences on hold are utilised. It also put the view that the impact on licence owners should be taken into consideration when releasing new licences.<sup>55</sup>

Tamworth Taxis stated that the taxi industry has had ‘a 50% reduction in the taxi asset value, adding licences to regional/country networks will severely impact on cash flow.’<sup>56</sup>

<sup>55</sup> NSW Taxi Council submission to IPART Issues Paper, October 2017, p 13.



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On the other hand, the Australian Taxi Drivers Association (ATDA) argued that the market should be completely deregulated to allow taxis to compete effectively with hire vehicles including rideshare.<sup>57</sup>

In the past, Cabcharge has stated that the cap on the number of plates is a ‘capacity constraint’ which has not allowed taxis to grow with demand for point to point transport.”<sup>58</sup>

We note that the NSW Government has established an industry adjustment assistance package of up to \$250 million to help eligible taxi and hire car licence holders.<sup>59</sup> Taxi licence holders impacted by Government changes to the regulatory framework, including the issue of new licences are able to apply for assistance under this package.

We also note that reforms are currently occurring in the point to point transport industries in other Australia states. These reforms are discussed in section 5.7 below.

## **5.5 Operating areas should be classified into a Designated and an Exempt Zone**

As Chapter 2 discussed, area-based restrictions for booked services have been removed as part of the point to point transport reforms.<sup>60</sup> However, operating area restrictions remain on existing taxi licences for rank and hail taxi services, preventing rank and hail journeys commencing outside that taxi’s operating area.<sup>61</sup> As noted above, the Point to Point Transport Taskforce previously recommended that new licences released outside Sydney be able to provide rank and hail services anywhere in this area.

We considered this option, and compared it to other options – including that new licences be issued for a specified operating area that the successful bidder nominates. We concluded that removing operating area restrictions is superior to the other options, but could also have disadvantages in some small towns and remote areas. Therefore, we consider that there should be two operating zones outside Sydney – a Designated Zone and an Exempt Zone – and a separate allocation of new licences should be made for each zone.

### **5.5.1 Designated and Exempt Zones would allow broader operating areas**

The market for point to point transport services ‘outside Sydney’ is not homogenous. This can be seen in the wide range in taxi licence values across this area (see Figure 4.2), as well as the varying levels of competition from taxi substitutes. For example, rideshare services have entered areas such as Newcastle, Wollongong, Coffs Harbour and Byron Bay but in many other regional areas there are few or no direct substitutes for taxis.

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<sup>56</sup> Tamworth Taxis submission to IPART Issues Paper, October 2017.

<sup>57</sup> Australian Taxi Drivers Association submission to IPART Issues Paper, October 2017.

<sup>58</sup> Sydney Morning Herald, *Cabcharge wants cap on new taxi licences scrapped so industry can take on Uber*, 28 April 2016.

<sup>59</sup> NSW Government, Point to Point Industry Assistance at <https://www.transport.nsw.gov.au/projects/programs/point-to-point-transport/point-to-point-industry-assistance>, accessed on 7 December 2017.

<sup>60</sup> Point to Point Act, s 56(5).

<sup>61</sup> Point to Point Act, s 56(4).

In general, we consider that if a limited number of new licences were offered by competitive tender outside Sydney, they would flow to the areas with the highest demand for taxi services. This would address any shortage in supply, reducing waiting times for passengers in these areas. It would also place downward pressure on existing licence values, and reduce the current variation in licence values across the state.

Removing restrictions on where the new licences can provide rank and hail services would also improve the efficiency of the rank and hail market. The restrictions on existing licences mean taxis that drop passengers at a destination outside their specified operating area cannot pick up a return fare at a rank or in the street, and passengers may be charged the cost of the empty return trip. Restrictions also generally increase compliance costs.

However, it is also likely that some areas in regional and remote NSW would not attract any new licences, even where there is unmet demand for point to point services. This is because, with a limited supply of new licences, and a competitive tender process, the successful bids would most likely exceed what bidders in these areas would be willing to pay.

To ensure that these regional and remote areas have access to new annual licences, we consider that the operating areas outside Sydney should be grouped into two zones:

- ▼ a Designated Zone that includes all current operating areas that are at least partly within a Significant Urban Area,<sup>62</sup> and operating areas that
  - have more than five taxi licences,<sup>63</sup> or
  - have had recent high-value licence transfers,<sup>64</sup> or
  - are adjacent to busy tourist areas.
- ▼ an Exempt Zone that covers the remaining areas of NSW including operating areas that are currently exempt from fare regulation.

New licences would be specified for either the Designated Zone or Exempt Zone, with a separate allocation of new licences for each zone. Those in the Designated Zone should be offered for a price set by competitive tender, and be able to provide rank and hail services anywhere in NSW (except Sydney).

Those specified for the Exempt Zone should be offered for an annual administration fee that reflects the cost of issuing the licence, similar to the fee for annual taxi licences recently introduced in Victoria.<sup>65</sup> Given our proposed definition of this zone, these licences would

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<sup>62</sup> The Moama operating area is in the Echuca-Moama SUA, however is included in the Exempt Zone as it is currently exempt from fare regulation. Both the Dareton, Buronga and Coomealla operating area and the Wentworth operating area are in the Mildura-Wentworth SUA however are included in the Exempt Zone as this SUA is largely in Victoria.

<sup>63</sup> Some operating areas with five or fewer licences are included in the Designated Zone as they overlap with operating areas with more than five licences. For example, Cooma Airport has one taxi licence while Cooma has nine. We consider that Cooma Airport should be included in the Designated Zone.

<sup>64</sup> The exception is the Walgett operating area which had a licence trade in December 2014. However, we consider that Walgett should be included in the Exempt Zone as it currently only has one licence and is a small town in a remote area of NSW.

<sup>65</sup> Taxi Services Commission, *Fees and charges* at <http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/fees-and-charges>, accessed on 10 November 2017. The Victorian *Commercial Passenger Vehicle Industry Bill 2017* introduced industry reforms including low fee licences for taxis and hire cars from 9 October 2017. The current taxi licence annual administration fee is \$52.90.

meet the circumstances under which TfNSW can determine the licence fee (set out in the Point to Point Regulation).<sup>66</sup> The new licences for the Exempt Zone should:

- ▼ Be permitted to provide rank and hail services in all areas in the Exempt Zone. For example, a taxi service provider could set up in a small regional town but travel to other small regional towns for events such as shows or picnic races, or relocate its base permanently if the initial choice of town proved uneconomic.
- ▼ Not be permitted to provide rank and hail services in the Designated Zone. This would prevent low-fee licences moving into areas where licence values are much higher, and help to attract and maintain taxi services in Exempt Zone.

## 5.5.2 Defining the Designated Zone

It is important that it is clear where the different zones apply particularly as we are recommending different arrangements to apply in each zone. These include:

- ▼ different rank and hail operating area restrictions on new licences
- ▼ that rank and hail services in the Exempt Zone should be exempt from maximum fare regulation (discussed in Chapter 6), and
- ▼ that new licences in the Exempt Zone be offered for an administration fee as discussed above.

As current operating areas may be overlapping and there is no comprehensive database of NSW taxi operating areas, we have considered two alternatives for how our proposed Designated and Exempt Zones could be defined and mapped. Our preferred approach is to use ABS definitions over the alternative of drawing circles around communities. We discuss both below. The first step in either is to classify current operating areas into either the Designated or the Exempt Zone in line with our decision rule outlined above.

### Preferred approach: Existing areas defined by the Australian Bureau of Statistics

In this approach, we define the Designated Zone as:

- ▼ All Significant Urban Areas (SUAs see Box 5.1) in NSW except the Moama-Echuca and Mildura-Wentworth SUAs
- ▼ A selection of Urban Centres or Localities (UCLs),<sup>67</sup> and
- ▼ The Newcastle Airport and Cooma Airport taxi ranks.

SUAs and UCLs are geographies defined by the ABS. They reflect the pattern of urban settlement. As such, we consider they would provide a close match to the areas where most rank and hail trips would begin.

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<sup>66</sup> Point to Point Act, section 63(2) allows TfNSW to determine a licence fee for a taxi licence in circumstances specified in the regulations. Point to Point Regulation, clause 47(1)(a) states these circumstances include if TfNSW is of the opinion that the service concerned would, for economic or other reasons, be unlikely to be provided if the full licence fee were to be imposed.

<sup>67</sup> ABS, Australian Statistical Geography Standard (ASGS): Volume 4 - Significant Urban Areas, Urban Centres and Localities, Section of State, July 2011 at <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/05773C1D8C9F2022CA257A98001399F7?opendocument> accessed on 8 December 2017.

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Newcastle Airport taxi rank and the Cooma Airport taxi rank are not within SUAs or UCLs. However, we have added these to the Designated Zone to reflect the special nature of rank and hail work in these places.

Another advantage of using SUA and UCL boundaries to define the Designated Zone is that they are precise. They also avoid the need for TfNSW or the Point to Point Commissioner to establish a new geographical structure. However, the boundaries of SUAs and UCLs can change over time reflecting changes in populations. To overcome this, the Designated Zone would be defined with reference to 2016 SUA and UCL boundaries.

It is unlikely that most TSPs or taxi customers will be familiar with geographies defined by the ABS. However, the ABS has an interactive map that shows where each is located.<sup>68</sup> Additionally, the Point to Point Transport Commissioner could publish a map of the Designated Zone based on the ABS areas.

## **Approach 2: Drawing a circle around a central point in town**

In this approach, we define the Designated Zone as:

- ▼ The Newcastle Transport District
- ▼ The Wollongong Transport District
- ▼ a 15km radius from the centre of large cities other than Sydney (eg, 15km from Gosford train station)
- ▼ a 5km radius from the centre of small cities and large towns outside transport districts (eg, 5km from Maitland Town Hall), and
- ▼ a 3 km radius from the centre of small towns, (eg, 3km from Australia Post Cowra).

The key advantage of this approach is simplicity. It is also more likely that taxi businesses and customers would be familiar with an approximate kilometre radius from the centre of town.

However the main disadvantage of this approach is that using a radius to define the Designated Zone may not fit the specific needs of every town. For example, the radius may cover unpopulated areas. In other cases where the town is very elongated along a coastline, the circle may not fit the shape of the town which could lead to significant complexity in drawing the correct shape town by town. It could also be difficult choosing an appropriate centre point of town that most people can be familiar with and that allows the radius to cover the whole town.

On balance we consider that using ABS definitions best reflects the cities and towns where rank and hail services will be provided within the operating areas we have identified. The ABS geographies do this accurately, without unnecessarily covering rural areas that are unlikely to have a significant rank and hail activity.

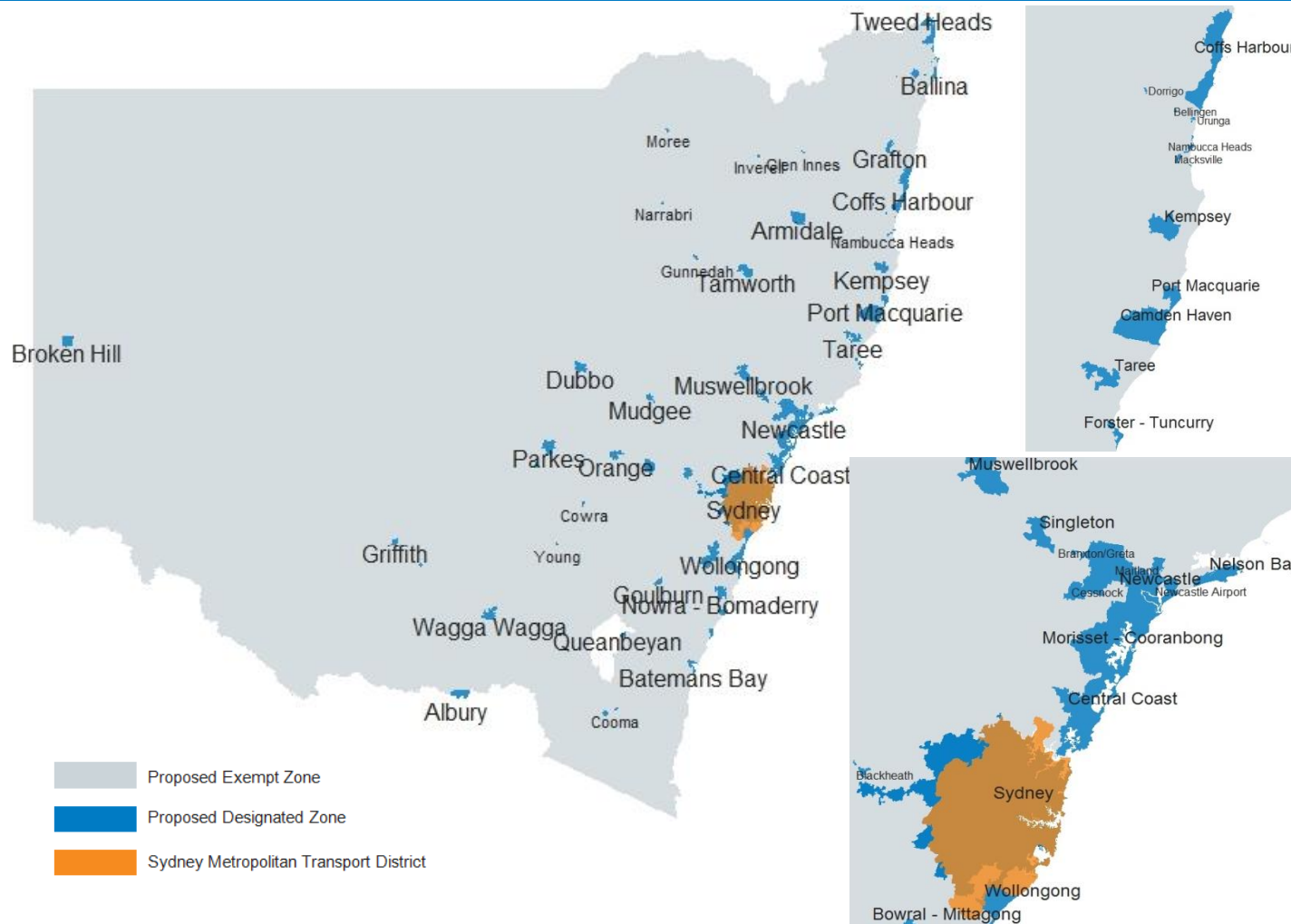
Appendix E provides a list of the current operating areas in each zone.

Figure 5.1 shows the proposed Designated Zone defined using the ABS definitions of SUA and UCLs.

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<sup>68</sup> <http://stat.abs.gov.au/itt/r.jsp?ABSMAPS>

**Figure 5.1 Map of Proposed Designated Areas**



**Data source:** Australian Bureau of Statistics, IPART analysis,

As Table 5.5 shows, there are currently 1,244 existing taxi licences in the proposed Designated Zone and 134 in the proposed Exempt Zone. Therefore, in line with our draft recommendation that licences outside Sydney should be increased by 10%, we consider that for the year commencing 1 July 2018 TfNSW should issue:

- ▼ 124 new annual licences for the Designated Zone, and
- ▼ 13 new annual licences for the Exempt Zone.

**Table 5.5 Current number of taxi licences in the proposed Designated and Exempt Zones**

Taxi licences	Designated Zone	Exempt Zone
Country NSW	929	134
Newcastle <sup>a</sup>	179	
Wollongong <sup>b</sup>	136	
Total	<b>1,244</b>	<b>134</b>

**a** Newcastle includes the following operating areas 1) Newcastle Transport District; 2) Newcastle Transport District and the townships of Caves Beach, Catherin Hill Bay, Nords Wharf, Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale and Ferodale; 3) Newcastle Transport District/Lake Macquarie/Medowie/Campvale/Ferodale; 4) Toronto/Fassifern to Myuna Bay including WAT work only in Morisset and Teralba.

**b** Wollongong consists of the operating area Wollongong Transport District and LGA of Shellharbour.

**Source:** IPART calculations using RMS data received from TfNSW.

The demand for new licences in the Exempt Zone could be low, given there is likely to be only a small amount of rank and hail work in the areas in this zone. However, their low licence fee could mean that the supply of new licences is quickly exhausted. If this is the case, we consider TfNSW should make a further determination to issue additional new licences for the Exempt Zone.<sup>69</sup>

In calculating these numbers, we have not adjusted the number of existing licences in each zone to account for WAT licences or registration plates currently 'on hold'.

### **We have not reduced the number of new licences for WAT licences outside Sydney**

Currently there are 254 WAT licences outside Sydney (18% of the total existing licences outside Sydney). In calculating the number of new taxi licences to recommend, we could have made an adjustment for the amount of time WATs provide wheelchair and TTSS services. This would have resulted in us recommending a slightly smaller number of new unrestricted annual licences. However, we have based the increase in licences on the total number of taxi licences outside Sydney, including WATs.

### **We have not made an adjustment to reflect the number of registration plates currently 'on hold'**

Currently, a taxi licence owner is able (by notifying RMS) to put a T or TC registration plate 'on hold' – that is, to maintain ownership of the licence but not have the licence attached to a vehicle which is operating as a taxi.<sup>70</sup> There are 78 T and TC registration plates on hold

<sup>69</sup> Under section 71(5) of the Point to Point Act TfNSW can make subsequent determinations to issue taxi licences within the year.

<sup>70</sup> *Road Transport (Vehicle Registration) Regulation 2017*, cl 26



outside Sydney (73 in country areas and five in Newcastle).<sup>71</sup> This represents 7% and 3% of existing licences in these areas respectively.

In its submission to our Issues Paper, the Taxi Council argued that licences on hold must be the priority before releasing new licences and that “the release of any new licences must not occur, at least until a review of all current licences on hold takes place.” Part of the review would consider changing the area of operation for a licence on hold to an area where it is needed.<sup>72</sup>

However, we do not agree with this view. T and TC registration plates may be put ‘on hold’ due to insufficient demand to make it worthwhile to operate the taxi, or to keep licence prices higher than they otherwise would be. Indeed, we have observed that there are T or TC registration plates on hold in operating areas where there have been high value transfers recently. While the supply of taxi licences remains regulated, the ability of licence owners to put T and TC registration plates on hold further distorts the market including the value of taxi licences. Releasing new licences to operate rank and hail services across the Designated and Exempt Zones would help reduce these distortions, as new licences would be able to move into areas where there are supply shortages.

There are no provisions in the Point to Point Act to compel a licence to be used.<sup>73</sup> Therefore, reducing the number of licences to be issued on the expectation that T or TC registration plates currently ‘on hold’ would become active would not be effective or appropriate. Accordingly, we have based the increase in licences on the total number of taxi licences outside Sydney, including those where the associated registration plate is ‘on hold’.

### 5.5.3 Stakeholders have mixed views on operating areas for new licences

In submissions to our Issues Paper, stakeholders expressed mixed views about where new licences should be able to operate. As noted above, the ADTA supported a free and open market, in line with the situation with hire vehicles.<sup>74</sup>

However, the NSW Taxi Council strongly opposed new licences being able to operate anywhere outside the Sydney Metropolitan Transport District. It submitted that this will allow non-locals to come in and take the ‘cream’ of the work in busy times, causing local operators who service the community the remainder of the time to become unviable and potentially leave the industry.<sup>75</sup> Tamworth Taxis also opposed taxis from other operating areas being able to operate in its area. It submitted that the financial and staffing impacts of varying the current operation areas would be “extremely detrimental”.<sup>76</sup>

We recognise that in some country areas taxi service providers may rely on high demand during seasonal events (such as festivals or shows) to remain viable in other parts of the year when demand may be much lower. In such places, where licence values are low and there is

<sup>71</sup> RMS data from TfNSW, as at 1 September 2017.

<sup>72</sup> NSW Taxi Council submission to IPART Issues Paper, October 2017, p 13.

<sup>73</sup> There are no provisions in the Point to Point Act to place a taxi licence ‘on hold’. The *Road Transport (Vehicle Registration) Regulation 2017* (Clause 26) allows registration plates to be reserved, but this is not particular to taxis.

<sup>74</sup> Australia Taxi Drivers Association submission to IPART Issues Paper, October 2017.

<sup>75</sup> NSW Taxi Council submission to IPART Issues Paper, October 2017, p 13.

<sup>76</sup> Tamworth Taxis submission to IPART Issues Paper, October 2017.

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very little economic rent in fares, the threat of new licences being able to move around NSW could in theory undermine existing businesses, and potentially leave areas without a permanent taxi service.

However, under the new regulation, taxis are able to provide booked trips anywhere in NSW, and there are no operating area restrictions for other hire vehicles. Therefore, we consider that allowing new licences to provide rank and hail trips, which are a much smaller proportion of the market, anywhere outside Sydney, may not have a great impact. Furthermore, we are recommending that fare regulation for rank and hail services in the Exempt Zone be removed (see Chapter 6). This could enable taxi service providers to move into towns where previously it has not been profitable to operate.

Our review is not considering changes to current area-based restrictions for existing taxi licences, as this is the Point to Point Transport Commissioner's role. However, we note that while the supply of taxi licences remains constrained, these area-based restrictions prevent existing taxi service providers moving to areas of high demand and potentially leaving some towns without a taxi service. As more new licences are issued and supply becomes less constrained, it will become less likely that removing operating area restrictions would lead to some towns being left without a taxi service.

We also note that while existing licences outside Sydney have area-based restrictions for rank and hail services, there is a risk that removing such restrictions for new licences in the Designated Zone would introduce a two-tier system, putting current existing licence holders at a competitive disadvantage. However, we consider this is a small risk, given operating restrictions on booked services have been removed. We also consider this risk is outweighed by the benefits of removing operating area restrictions on new licences.

Although similar to allowing new licences to operate anywhere in NSW (outside Sydney), by establishing a separate allocation for the Exempt Zone and restricting the rank and hail services of new licences issued to this zone, our recommended option ensures that these areas have access to new licences.

#### **5.5.4 Alternative options have more disadvantages**

As noted above, we considered various alternatives to allowing new licences to operate anywhere in NSW outside Sydney. The first was to allow successful bidders to nominate the specific operating area for the new licence. This is not the same as allowing the new licences to operate anywhere.

We consider that this option would result in licences flowing to the areas where demand for taxi services is highest (and licence values are high), as the amount bid would reflect the estimated value of licences in the respective operating area. As with our recommended option, this would help put downward pressure on licence values in these areas, thereby reducing variation in value across the state. However, it would maintain the inefficiencies that restricting the operating area for rank and hail services creates. In addition, if a sufficient number of licences are not released, some areas with low licence values may not be able to attract new licences.

This option has one advantage over our preferred option for the Designated Zone, in that there would be no risk of a two-tier system, where new licences have no operating area



restrictions that give them a competitive advantage over existing licences. However, as discussed above, we think this is only a small risk. Therefore, we consider the disadvantages of this option do not outweigh its advantages.

The second alternative option we considered was for a proportion of the total new licences to be issued for one or two particular operating areas or amalgamations of operating areas, and the balance for remaining operating areas (either with or without rank and hail operating area restrictions for the rest of NSW). For example, this could involve amalgamating operating areas, such as Newcastle and/or Wollongong with their surrounding operating areas, and issuing a number of new licences for the expanded operating area.

The advantage of this option is that it would ensure sufficient new licences are issued for areas where there is already a dominant incumbent and/or competitor in the point to point transport market.<sup>77</sup> Any new entrant would need to acquire a certain number of licences to be able to compete. Further, by combining several of the operating areas around Newcastle and/or Wollongong, existing taxi licences would be able to provide rank and hail services across this larger area and outside their current areas of operation. This could be useful in ensuring demand is met in busy areas, but risks smaller areas within the amalgamated operating area being left without a rank and hail service.

We do not consider this option to be superior to our preferred option to establish Designated and Exempt Zones.

#### Draft recommendation

- 3 Taxi operating areas outside Sydney be classified into Designated and Exempt Zones.
- 4 A moderately small number of new licences be released in 2018, equal to 10% of existing licences in the Designated Zone.
- 5 For the year commencing 1 July 2018, Transport for NSW (TfNSW) issue:
  - By tender, 124 annual licences to operate anywhere in NSW outside Sydney. These licences should be issued in several tranches throughout the year.
  - On request for an administration fee, annual licences to operate anywhere in the Exempt Zone in NSW with the initial determination to be 13 licences, equal to 10% of existing licences in the Exempt Zone. Uptake of these on demand licences to be monitored by TfNSW and further licences released under section 71(5) of the *Point to Point Transport (Taxis and Hire Vehicles) Act 2017* if demand exceeds the initial allocation.

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<sup>77</sup> Currently in both Newcastle and Wollongong there is one dominant taxi network, although in the new regulatory environment this should become less of a barrier as operators will no longer need to be affiliated with a network. Uber has also been operating in Newcastle since April 2016 and Wollongong since March 2017. Newcastle Herald, *Uber launches in Newcastle*, 14 April 2016, at <http://www.theherald.com.au/story/3847128/fare-play-uber-finally-launches-in-newcastle/> accessed on 23 October 2017; and Illawarra Mercury, *Wet weather a win for Uber*, 16 March 2017, at <http://www.illawarramercury.com.au/story/4533907/uber-launches-in-wollongong/> accessed on 23 October 2017.

## 5.6 Additional restrictions are needed for new licences in Queanbeyan

In addition to the area of operation for new licences, we have considered whether there should be:

- ▼ restrictions on operating in cross-border areas
- ▼ any other operating restrictions
- ▼ a number of new licences issued to persons authorised to provide taxi services, and
- ▼ any restrictions on how many new licences can be granted to the same or related applicants.

We found that restrictions on operating in the Queanbeyan area are necessary, but not in other cross-border areas. No other additional restrictions are required.

### 5.6.1 Restrictions on new licences operating in the Queanbeyan area are necessary

There is currently an administrative arrangement between Queanbeyan and the ACT that permits taxis licensed to operate in Queanbeyan to 'ply and stand for hire' anywhere in the ACT. The reciprocal arrangement allows taxis licensed in the ACT to 'ply and stand for hire' in Queanbeyan.

If new licences in the Designated Zone were able to provide rank and hail services anywhere in NSW outside Sydney including Queanbeyan, this could result in a flow of taxis into the ACT. To the extent this occurs, it would undermine the spirit of the reciprocal arrangement.

To prevent this, it may be necessary to restrict new licences that operate in Queanbeyan or 'ring fence' the Queanbeyan operating area so that all new licences do not flow into the ACT. Those wishing to obtain a new licence to operate in Queanbeyan would have to nominate this upon bidding, potentially being restricted from operating in the rest of the Designated Zone.

It is open to the NSW Government to change the current arrangement with the ACT. If this were to occur, it might not be necessary to restrict new licences for Queanbeyan, allowing operation across the whole of the Designated Zone.

### 5.6.2 Restrictions in other cross-border areas are not needed

Under our classification, the operating areas around Tweed Heads would be in the Designated Zone, so new licences for this zone would be able to provide rank and hail services anywhere in NSW outside Sydney. However, NSW taxis are only permitted to pick up passengers from limited taxi ranks in Queensland.<sup>78</sup>

In its submission to our Issues Paper, the Physical Disability Council of NSW considered that the arrangement between Queanbeyan and the ACT should be extended to other border areas such as Tweed Heads where passengers travelling to hospitals in Queensland face

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<sup>78</sup> Cross-border taxi ranks in Queensland are located at: Marine Parade, Coolangatta (operates as a taxi rank from 6pm to 6am); Griffith Street, Coolangatta; and Gold Coast Airport.

difficulties making the return journey.<sup>79</sup> However, while not objecting to maintaining the current arrangements between Queanbeyan and the ACT, the NSW Taxi Council does not support this for any other area.<sup>80</sup>

Ideally cross-border travel should be available. The different regulatory arrangements between NSW and Queensland make negotiating this outcome more difficult. In the short term, community transport is available to NSW residents travelling to and from Queensland.

Currently, taxis licensed in NSW cannot 'ply or stand for hire' in Victoria.<sup>81</sup> If this changes, we do not consider it necessary to restrict or 'ring fence' the NSW operating areas along the border to prevent the new licences flowing into Victoria as the supply of taxi licences in Victoria has recently been deregulated (discussed in more detail in section 5.7).

#### Draft recommendation

- 6 New annual licences for the Designated Zone be permitted to provide rank and hail services anywhere in NSW outside Sydney except Queanbeyan.
- 7 New annual licences issued for the Queanbeyan operating area not be able to provide rank and hail services in the rest of NSW.
- 8 New annual licences for the Exempt Zone be permitted to provide rank and hail services anywhere in the Exempt Zone.

### 5.6.3 We do not recommend any other restrictions on new licences

The NSW Taxi Council submitted that issuing new licences to those without long standing in the industry could be unjust and potentially detrimental, and that 'good operators' should have the opportunity to obtain a number of licences if required. However, "business cases need to be understood and considered when determining applications in some cases."<sup>82</sup>

The ATDA submitted that the owner/driver model is the only model and that there should be a requirement that the licence holder both operate and be the principal driver of the licenced taxi.<sup>83</sup>

However, we are not recommending that a number of licences be reserved for particular persons, or to limit how many licences an applicant may be granted.

## 5.7 Point to point transport reforms are occurring elsewhere in Australia

In August 2016, the Victorian Government announced comprehensive reforms to the taxi, hire car and ride-share industry. The Victorian *Commercial Passenger Vehicle Industry Act 2017* came into force on 9 October 2017 aimed at establishing a single commercial passenger vehicle industry (i.e. taxi, hire cars and ride share services). All perpetual and fixed-term taxi licences were revoked and replaced with annual licences available for an administration

<sup>79</sup> Physical Disability Council of NSW submission to IPART Issues Paper, October 2017, pp 5-6.

<sup>80</sup> NSW Taxi Council submission to IPART Issues Paper, October 2017, p 14.

<sup>81</sup> NSW Government Gazette No 122 of 3 November 2017, p 6711.

<sup>82</sup> NSW Taxi Council submission to IPART Issues Paper, October 2017, p 14.

<sup>83</sup> Australian Taxi Drivers Association submission to IPART Issues Paper, October 2017.

fee of \$52.90.<sup>84</sup> The replacement annual licences have been issued with the same zone and type (conventional or wheelchair accessible) as the revoked licence.<sup>85</sup>

This follows the reforms as a result of the Taxi Industry Inquiry in Victoria, where new taxi licences were available in Victoria from 30 June 2014 for an annual fee (ranging from \$23,000 in metro, urban and large regional areas to around \$3,500 in country areas for 2016-17).<sup>86</sup> At the time of the Inquiry, perpetual licence values were at just below \$500,000 for Melbourne and over \$300,000 for many areas outside Melbourne.<sup>87</sup>

The Victorian Government is supporting the taxi and hire car industry with a \$494 million assistance package.<sup>88</sup> Through this package, perpetual metropolitan licence holders will receive \$100,000 for their first licence and \$50,000 per licence for up to three more. Ninety-eight per cent of owners have four licences or less.<sup>89</sup> From 2018 all Network Service Providers and other commercial passenger vehicles businesses will be charged a \$1 levy on all commercial passenger vehicle trips.<sup>90</sup> The levy will contribute to the support package for licence holders.<sup>91</sup>

Western Australia has also recently announced significant changes to its on demand transport industry which will remove operating area restrictions on taxi licences and eventually deregulate supply of taxi licences (Box 5.2).

To support the transition to the new regulatory environment, a voluntary buy-back of owned Perth taxi plates is proposed, acknowledging that some owners have suffered a loss of investment as a result of market disruption in what was a highly regulated industry at the time their investments were made. Under the buyback scheme, owners of conventional metropolitan taxi plates will be entitled to at least \$100,000 in compensation, with payments based on when the purchase was made.<sup>92</sup>

The costs of buying back Perth taxi plates will be recovered from the entire taxi and charter industry through a temporary (four year) 10% levy on total fare revenue generated by operators. However, the WA Government does not believe there is justification for

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<sup>84</sup> Taxi Services Commission, Fees and charges at <http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/fees-and-charges>, accessed on 15 November 2017.

<sup>85</sup> Taxi Services Commission, *Industry reforms, Commercial Passenger Vehicle Industry Bill 2017*, at <http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators>, accessed on 15 November 2017; and Victoria State Government, Economic Development, Jobs, Transport and Resources, *Support package for taxi and hire car licence holders*, at <http://economicdevelopment.vic.gov.au/transport/rail-and-roads/taxis/support-package-taxi-and-hire-car-reform#IndustryTransitionAssistance> accessed on 15 November 2017.

<sup>86</sup> Victoria Taxi Services Commission, *Licence fees for the period 1 July 2016 to 30 June 2017*, downloaded 12 July 2017.

<sup>87</sup> Taxi Industry Inquiry, *Customers First, Service, Safety, Choice*, Final Report, September 2012, p 54.

<sup>88</sup> Victoria State Government, *Support Package for taxi and hire car licence holders*, at <http://economicdevelopment.vic.gov.au/transport/rail-and-roads/taxis/support-package-taxi-and-hire-car-reform>, accessed on 15 November 2017.

<sup>89</sup> Victoria State Government, Minister for Public Transport Media Release, *Better Services, Cheaper Fares and a Stronger Industry*, 10 August 2017, at <https://www.premier.vic.gov.au/better-services-cheaper-fares-and-a-stronger-industry/> accessed on 7 December 2017.

<sup>90</sup> Herald Sun, *One dollar levy to pay for Uber red tape and compensate taxi licence holders*, 10 August 2017.

<sup>91</sup> Taxi Services Commission, *Industry reforms Commercial Passenger Vehicle Industry Bill 2017*, at <http://taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/industry-reforms#assistance>, accessed 15 November 2017.

<sup>92</sup> The Government of Western Australia Department of Transport, *On-Demand Transport Reform Frequently Asked Questions*, at [https://www.transport.wa.gov.au/mediaFiles/taxis/ODT\\_P\\_Reform\\_FAQs\\_b.pdf](https://www.transport.wa.gov.au/mediaFiles/taxis/ODT_P_Reform_FAQs_b.pdf), accessed on 15 November 2017.

individual fares to increase by 10 per cent as the reform process will reduce costs on operators and boost competition.<sup>93</sup>

### **Box 5.2 Reform of on-demand transport in Western Australia**

On 2 November the Western Australia Government announced changes to the on-demand transport industry aimed at levelling the playing field, increasing choice for customers and service providers, and encouraging competition.

Under the reformed industry some of the changes will be :

- ▼ a single annual authorisation of people to drive for hire and reward, regardless of whether it is a taxi or charter vehicle, with monitoring of medical suitability based on risk
- ▼ ultimately, following a period of transition, no restrictions on the number of vehicles that can operate as taxis
- ▼ no restrictions on where and when Perth and country taxi vehicles can or need to operate
- ▼ vehicles that are authorised based on the type of work they wish to engage in—booked only or booked plus anonymous rank and hail
- ▼ Perth and country taxi vehicles doing rank and hail work having additional passenger safeguards in the form of livery, security cameras and meters; and
- ▼ transparent fare processes for rank and hail and pre-booked.

The proposed legislative changes will apply across the entire State, ensuring there are no restrictions as to where taxi and charter vehicles can operate within WA.

**Source:** The Government of Western Australia Department of Transport, *On-Demand Transport Reform Frequently Asked Questions*, at [https://www.transport.wa.gov.au/mediaFiles/taxis/ODT\\_P\\_Reform\\_FAQs\\_b.pdf](https://www.transport.wa.gov.au/mediaFiles/taxis/ODT_P_Reform_FAQs_b.pdf), accessed on 15 November 2017.

<sup>93</sup> The Government of Western Australia Department of Transport, *On-Demand Transport Reform, Frequently Asked Questions*, at [https://www.transport.wa.gov.au/mediaFiles/taxis/ODT\\_P\\_Reform\\_FAQs\\_b.pdf](https://www.transport.wa.gov.au/mediaFiles/taxis/ODT_P_Reform_FAQs_b.pdf), accessed on 15 November 2017.

## 6 Maximum fares for rank and hail services

As Chapter 3 discussed, our overarching objective for this review is to improve taxi services. In recommending maximum fares for rank and hail taxi services across NSW to apply from 1 July 2018, we aim to ensure that authorised taxi service providers (TSPs) can recover the efficient cost of providing the services, and that fares are affordable for passengers and can be understood them.

We consider the best way to achieve this is through effective competition, rather than prescriptive regulation. However, our assessment of competition found that it is not yet sufficiently effective for us to be confident in recommending less prescriptive fare regulation in most areas of NSW.

The sections below summarise our draft findings and recommendation on fares for rank and hail taxi services, and then discuss them in more detail.

### 6.1 Summary of draft recommendations on fares

We found that the current maximum fares for rank and hail services are above the efficient cost of providing the services in most parts of NSW. Therefore, we are recommending a nominal taxi fare freeze for Sydney and the Designated Zone outside Sydney (see Chapter 5).

However, we think those areas outside Sydney in the Exempt Zone (see Chapter 5) should be exempted from maximum fare regulation. This zone comprises areas where demand for taxi services is currently low, licence values are low or unknown, and the majority of taxi trips are booked (and therefore no longer subject to maximum fare regulation)

As competition in the point to point transport market develops, the Government should consider adopting less prescriptive fare regulation. For example, it could give authorised TSPs more flexibility to set fares that better respond to their specific operating environment and their customers' needs and willingness to pay.

We considered changing the tariff components so that they include distance and duration rates.<sup>94</sup> This could be more intuitive to customers than the existing tariff structure and also could result in a tariff structure that is more cost-reflective. However, it may be difficult to transition to this structure in the short term as it is unfamiliar to the industry.

Overall we found there is no strong case for tariff structure or regulated non-tariff components of fares to change, other than including the new \$1 passenger service levy in the next fares order. In addition, we found that our fare recommendations may have a small

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<sup>94</sup> The distance rate would apply to the total distance of the trip (unlike the distance rate for taxis, which applies when the taxi is travelling at or above 26km/h) and the duration rate would apply to the total duration of the trip (unlike the existing waiting rate, which applies only when the taxi is travelling below 26km/h).



impact on customers using the Taxi Transport Subsidy Scheme, but this is unlikely to be excessive, and that there is no reason to change the current out-of-area arrangements.

## **6.2 We are recommending a nominal fare freeze**

Our analysis of licence values suggests that fares are above the efficient cost of providing taxi services in most parts of NSW where there are taxi services. This is evident by the high licence values in these areas. Our analysis of competition suggests it is currently insufficient to force all authorised TSPs to set fares closer to efficient costs.

We consider that a nominal fare freeze in Sydney and our recommended Designated Zone outside Sydney would transition fares closer to the efficient costs of providing rank and hail taxi services without excessive impacts on licence values of taxi industry incumbents.

Our referrals require us to consider the social impact of our recommendations. For some people, taxis facilitate access to employment, services and social activities. A nominal fare freeze is a real fare decrease which means that the price customers pay for taxis will not increase, even though the price of other goods and services is on average increasing. This will help to ensure that people remain able to access employment, services and social activities. It may also encourage people to use taxis more frequently and improve access to employment, services and social activities.

We are also required to consider the impact of our recommendation on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport. Taxis may be a substitute for public transport in some instances, and a real decrease in rank and hail fares may encourage some customers to switch from public transport to taxis. However, we expect that the magnitude of this impact would be very small. We also note that some customers may rely on taxi services to connect them to public transport. For these customers, lower rank and hail fares will support their use of public transport.

We examined the option of recommending a nominal fare decrease. However, we expect that the monopoly rent component of fares is likely to decline in most areas due to increased competition and market dilution, even with no reduction in nominal maximum fare levels. This would benefit customers in the form of lower waiting times, meaning it will be easier for people to obtain a taxi when they want one.

Alternatively, or in addition, some authorised TSPs may begin setting fares lower than the regulated maximums. This would also move fares closer to efficient levels. We have already seen that the amount of monopoly rent in fares is decreasing in some places. This could also be in part due to licence owners' expectations about future licence values.

### **Draft recommendation**

- 9 Maximum fares for rank and hail taxi services remain unchanged in nominal terms for Sydney and areas outside Sydney in the Designated Zone from 1 July 2018.

### 6.3 Some areas should be exempt from maximum fare regulation

We consider that rank and hail taxi services outside Sydney in the Exempt Zone should be exempted from maximum fare regulation from 1 July 2018, as is already the case for the townships of Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin.<sup>95</sup> The Exempt Zone is defined in Chapter 5. It includes areas where:

- ▼ demand for taxi services is low (because of small populations)
- ▼ licence values are low or unknown (so we are less confident that fares exceed efficient costs), and
- ▼ most taxi trips are booked (so very little of TSPs' work is now subject to maximum fare regulation, following the 1 November regulatory changes; there is also more potential for competition from other hire vehicles).

Setting maximum fares too low could threaten the viability of rank and hail services in these areas. Exempting authorised TSPs from maximum fare regulation will help to ensure that TSPs can continue to offer services even though customers may need to pay more than they do now.

We note that the Victorian Government deregulated fares for all country and regional areas in 2014. It replaced maximum fare regulation with a requirement to notify the regulator if fares are set at other than the "default" fare schedule (which is the fare schedule that applied immediately prior to deregulation). The regulator publishes notified fares and the Essential Services Commission monitors and reports on them annually.

Although there are no current regulatory requirements in NSW for authorised TSPs to notify fares, the Point to Point Transport Commissioner could seek the cooperation of industry to provide fare information for monitoring purposes. It could also campaign to ensure that customers are aware of the changes and how to raise any concerns about over-charging.

#### Draft recommendation

- 10 Areas in the Exempt Zone be exempted from maximum fares for rank and hail taxi services specified in the fares order for 1 July 2018.

### 6.4 As competition develops, maximum fares could be set differently

As competition develops, it may be appropriate for the Government to adopt less prescriptive fare regulation (see Figure 6.1). For example, it could continue to regulate maximum fares but allow authorised TSPs more flexibility to set fares that better respond to their operating environment, and their customers' needs and willingness to pay. This might take the form of allowing authorised TSPs to:

- ▼ decide when to apply peak fares rather than these hours being specified in the fares order, or
- ▼ set distance rates lower and flag fall higher to better reflect the kind of trips their customers take and are willing to pay for.

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<sup>95</sup> These towns are close to the NSW/ Victoria border. There are no NSW-licensed taxis in Barham, Tocumwal, Mulwala or Barooga. (November 2017 Fares Order).



This approach could be suitable when competition is at a stage where we would expect most authorised TSPs to set fares below the regulated maximums, or to increase the quality of services they provide to customers.

Some authorised TSPs may still choose to set their fares at the maximum permitted levels and offer poor quality services. They would do this at the risk of damaging their brands' reputation. However, brand reputation may not be very important to some small-scale authorised TSPs, particularly those that offer rank and hail services in areas with lots of customers who are poorly informed and/or infrequent taxi users. In the absence of any regulated maximum fare, these customers would be vulnerable to extreme overcharging.

As customers become more familiar with the concept of different brands offering different fares, it may be appropriate to move to a notification and/or monitoring system with no regulated maximum fares. This could be similar to the system in New Zealand that was in place prior to 1 October 2017.<sup>96</sup>

We have analysed several options along these lines, for illustrative purposes, including:

- ▼ Setting a single maximum peak tariff. This would allow authorised TSPs to decide when peak tariffs apply, and to set off-peak tariff/s at the level they determine is most suitable.
- ▼ Allowing an increase in some tariff components as a way to remove the distinction between the existing urban and country fare areas.

In our Issues Paper, we suggested that an alternative to recommending the level of each tariff component, for all tariffs, would be to recommend a weighted average price cap (WAPC). This would allow authorised TSPs to adjust individual tariff components, subject to a cap on the percentage increase across a selection of typical fares.

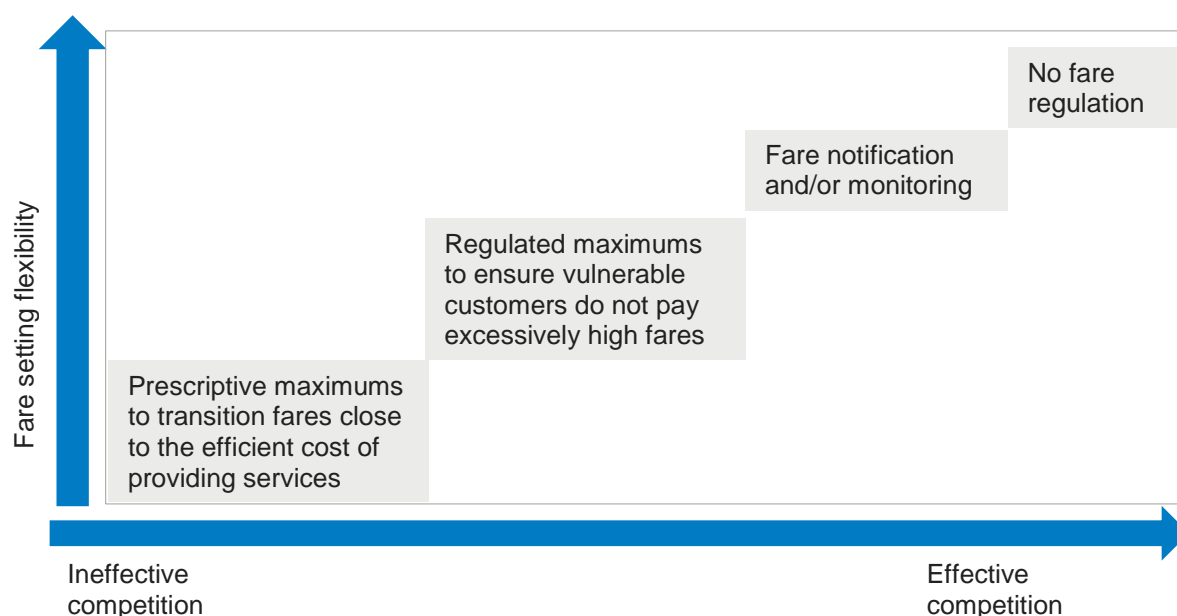
We are not satisfied that competition or the threat of competition is sufficiently effective to recommend a WAPC at this stage. Even if it was, there is a risk that some authorised TSPs may unintentionally set fares that are not compliant with a WAPC approach, especially given the significant regulatory changes they are already working through.

An alternative approach would be to allow competition or the threat of competition to develop sufficiently to replace consumer protection via regulated maximum fares with consumer protection via a fare notification and monitoring system.

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<sup>96</sup> The supply of taxis and taxi fares were deregulated in New Zealand in 1989. Until 1 October 2017, Approved Taxi Organisations were required to display fares inside and outside the taxi in a specified format and register fares with the New Zealand transport agency. These requirements were contained in the *Land Transport Rule: Operator Licensing 2007* which was revoked on commencement of the *Land Transport Rule: Operator Licensing 2017*.

**Figure 6.1 Competition and approach to fare regulation**



## 6.5 We are not recommending a change in any of the tariff components

We considered the current tariff structure, and assessed it and a range of alternative options against a set of principles for an efficient fare structure. The options we assessed were:

- ▼ **Option 1:** leaving the tariff components unchanged from what they are now.
- ▼ **Option 2:** changing the tariff components so that they include:
  - a distance rate that applies to the total distance of the trip (unlike the distance rate for taxis, which applies when the taxi is travelling at or above 26km/h) and
  - a duration rate that applies to the total duration of the trip (unlike the existing waiting rate, which applies only when the taxi is travelling below 26km/h).
- ▼ **Option 3:** removing the distinction between urban areas and country areas by creating a single fare area. For each component of each tariff:
  - Option 3a takes the highest value from each of the existing area
  - Option 3b takes the lowest values from each of the existing areas.
- ▼ **Option 4:** having a single maximum (peak) for each tariff component but retain the existing distinction between urban and country fare areas.
  - Option 4a takes the values from the highest tariff in each area
  - Option 4b takes values from the lowest tariff in each area.

The principles we used for this assessment were largely the same as those outlined in our Issues Paper (See **Box 6.1**). In response to this paper, the NSW Taxi Council submitted that it

“does not object” to these principles.<sup>97</sup> The ATDA indicated it does not agree with the principles, but did not offer any alternatives.<sup>98</sup>

#### **Box 6.1 Principles to guide our approach to assessing the efficient fare structure**

We have used the following principles to guide our approach to assessing the efficient fare structure for rank and hail services:

- 1 The fare structure should not provide an incentive for drivers to refuse certain trips.
- 2 The fare structure should not provide an incentive for drivers to take a longer or slower route than necessary, or to travel at excessively fast or slow speeds.
- 3 The fare structure should encourage authorised TSPs to set fares that reflect the costs of supplying services and customers’ willingness to pay.
- 4 The fare structure should encourage TSPs to innovate and improve the quality of their services.
- 5 The fare structure should make it easy for customers to compare the fares offered by different TSPs and hire vehicle services.
- 6 The fare structure should make it easy for TSPs to transition from the current fare structure.

**Note:** Since our Issues Paper we have adjusted Principle 5 to include comparability between TSPs and hire vehicle services, not just between different TSPs.

Based on this assessment, we found there is no strong case for changing the existing tariff structure. We consider that a tariff structure with distance and duration rates that apply concurrently (Option 2) is more intuitive and could more accurately reflect how TSPs incur costs when compared to a structure where the rates applied depend on whether the taxi is travelling above a certain speed. However, it may be difficult to transition to this structure in the short term as it is unfamiliar to the industry, and there may be some technical limitations with existing taxi meters. We also considered whether to recommend that authorised TSPs be allowed to set a minimum fare, but have decided not to.

The sections below provide an overview of our assessment. Appendix F provides a more detailed discussion of our assessment of each option.

### **6.5.1 Alternative components are more intuitive and could be more cost-reflective**

Of the options we considered, we think there would be most benefit in adopting Option 2. This option changes the tariff components so that they include distance and duration rates. This tariff structure is likely to be more intuitive to customers than the existing tariff structure.

Adopting these components, as distinct from the values used in our analysis, could also result in a tariff-structure that is more cost-reflective. Distance based costs could be assigned to the distance rate and time-based costs could be assigned to the duration rate. However, it may be difficult to transition to this structure in the short term as it is unfamiliar to the industry.

<sup>97</sup> NSW Taxi Council submission to IPART Issues Paper, 20 October 2017, p 8.

<sup>98</sup> Australian Taxi Drivers Association submission to IPART Issues Paper, 22 October 2017, p 3.

The NSW Taxi Council supports changing the tariff components in urban areas.<sup>99</sup> It indicated its view is “based on a better customer experience in how they perceive they are being charged” and that it considers the alternative structure would “provide better clarity for our customers as well as a fairer way to calculate the fare”.<sup>100</sup>

In contrast, the ATDA submitted that the “almost universal structure of a Flagfall, plus a Waiting Time Rate for low speed or traffic stopped travel, plus a Distance Rate for travel above a set speed, remains a fair and reasonable approach for both Driver and Passenger.”<sup>101</sup> We agree that existing tariff components remain reasonable but remain open to recommending a change in tariff components in the future.

### **6.5.2 Maximum fare increases could increase availability of rank and hail services**

Options 3a and 3b involve a maximum fare increase and could give authorised TSPs more flexibility to set fares that better respond to their customers’ needs and their willingness to pay, while still retaining protection for customers from the abuses of monopoly power.

They could also provide some scope for authorised TSPs to reduce fare refusals, and to increase the availability of services at certain times and in some areas. But we consider that the potential benefits are limited while tight controls on the supply of taxi licences remain.

More flexible fares could also allow authorised TSPs to enhance quality by offering higher quality vehicles. However, because competition is not sufficiently effective, we consider that it is more likely that authorised TSPs would set fares that are even further away from the efficient cost of providing services than fares are now.

### **6.5.3 Maximum fare decreases could reduce availability of rank and hail services**

Our assessment suggests Options 3b and 4b (which reduce maximum fares for some areas and at certain times) could create a risk of drivers refusing fares that they are currently happy to accept. As explained above, we also expect that while competition is not yet sufficiently effective to move to a less prescriptive approach to fare regulation, it would continue to reduce the monopoly rent component of existing fares by increasing supply, diluting the market and decreasing passenger waiting times.

### **6.5.4 Minimum fares could discourage some passengers**

It is common for booked service providers to charge a minimum fare. A minimum fare guarantees that the driver accepting the booking would receive a certain amount, regardless of the trip’s length or duration. Minimum charges are also common in other industries which have time-based rates, such as trade services, IT consultants and removalists.

A minimum fare would be compatible with any of the fare options discussed above. The impact on the total fare for a given trip would depend on the minimum value (ie, dollar amount), and whether it is included in addition to or instead of a hiring charge.

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<sup>99</sup> NSW Taxi Council submission to IPART Issues Paper, 20 October 2017, p 9.

<sup>100</sup> Email to IPART from NSW Taxi Council, 13 November 2017.

<sup>101</sup> Australian Taxi Drivers Association submission to IPART Issues Paper, 22 October 2017, p 4.

There does not appear to be any evidence that introducing a minimum fare for rank and hail would benefit taxi customers or the taxi industry. Indeed, the passenger survey indicates that introducing a minimum fare could have a negative impact on the demand for rank and hail taxi services.

In its report, Orima noted that while “survey responses about anticipated behaviour changes as a result of hypothetical scenarios should be treated indicatively rather than as a quantitative predictor of the magnitude of any change ... the patterns can show how respondents view different levels of changes and identify sensitivities”.<sup>102</sup>

At the \$10 minimum fare level, two-thirds (67%) of respondents from Regional Cities and the Rest of NSW and three-quarters (75%) in Sydney, indicated they would be at least a little less likely to use rank and hail taxis. Around a half (47%-59%) said this level of minimum fare makes them much less likely to do so.<sup>103</sup>

The NSW Taxi Council submitted that it does not support a minimum fare in this review but requested that we consider it in future fare reviews.<sup>104</sup> We are open to this suggestion.

## **6.6 We are recommending no change to non-tariff charges except the inclusion of the passenger levy**

The non-tariff components of a rank and hail fare apply only to certain trips. They currently include road tolls, the Sydney airport rank fee, additional charges for hiring a maxi-cab and for multiple hiring, and a cleaning fee. In addition, a surcharge may apply for non-cash payments. Drivers may accept tips or gratuities but cannot demand that they are paid.

Road tolls and the Sydney airport rank fee are passed through to the customer (ie, the customer pays the actual toll or fee incurred by the driver). Prior to 1 November 2017 drivers could charge a return toll when travelling northbound across the Sydney Harbour Bridge or Sydney Harbour Tunnel.<sup>105</sup> This is no longer the case.

The November 2017 Fares Order sets the maximum amounts for the other non-tariff components (see Table 6.1). We are not recommending any changes to these amounts. However, from 1 February 2018, authorised TSPs will be required to pay a levy to fund the Government’s industry adjustment assistance package. The levy is \$1 on all passenger service transactions.<sup>106</sup> It will be in place for up to five years.<sup>107</sup> We consider that this levy should be included in the next fares order as an additional charge. This will enable TSPs to pass on the full cost of the levy to customers if they choose to.

<sup>102</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 38.

<sup>103</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 38.

<sup>104</sup> NSW Taxi Council submission to IPART Issues Paper, p 9.

<sup>105</sup> 2014 Fares Order.

<sup>106</sup> The Passenger Service Levy does not apply when the trip starts in another State or Territory, if the authorised TSP carries out fewer than 150 passenger service transactions per year or if the passenger service is carried out in remote and very remote areas of NSW.

<sup>107</sup> Point to Point Transport Commissioner, *Passenger Service Levy collection*, <https://www.pointtopoint.nsw.gov.au/passenger-service-levy-collection>, accessed 23 November 2017.

**Table 6.1 Regulated non-tariff fare components**

Non-tariff component	Regulated maximum amount
Maxi-cab surcharge	150% of a taxi fare (excluding tolls), except in the case of a multiple hire.
Multiple hiring	Each hirer can be charged 75% of the maximum fare to their destination.
Cleaning fee	\$120 plus GST if the taxi is no longer clean and tidy and the taxi could not reasonably be expected to be used to provide a passenger service before being cleaned.

**Note:** The maxi-cab surcharge and multiple hiring percentages apply to the total fare.

**Source:** November 2017 Fares Order.

### 6.6.1 The maxi-cab charge should remain unchanged

A maxi-cab surcharge can be charged when five or more passengers travel in a higher occupancy taxi. The charge is up to 150% of the regular maximum fare (excluding tolls).

In response to our Issues Paper, an individual submitted that the charge should be kept “as it is” or alternatively “add \$20”.<sup>108</sup> The NSW Taxi Council also said that it should apply but did not comment on the amount.<sup>109</sup>

We expect that the cost of providing a higher occupancy taxi service is less than 150% of the cost of providing a standard occupancy service. The 150% surcharge is also high when compared to arrangements in Queensland where providers cannot charge a high occupancy fare if they are hired from a rank, regardless of the number of passengers carried or the amount of luggage carried.<sup>110</sup> However, it is on par with the high occupancy surcharge in Victoria’s Urban Zone and high occupancy fares in Western Australia.

Although the charge is likely to exceed the additional costs of providing a higher occupancy service and is high compared to Queensland, passengers are still obtaining a significant discount when compared to the fare for hiring an additional taxi. Therefore, we are not recommending any change.

In the Victorian Metro Zone, the maximum non-tariff surcharge for hiring a taxi for more than four passengers is \$14.<sup>111</sup> We considered whether to recommend a fixed maximum surcharge for hiring instead of a percentage charge that applies to the total tariff-based fare. However, this could have a proportionally larger impact on fares for shorter trips, compared to longer trips. We also consider it unlikely that providers incur additional costs of providing a higher occupancy service on a per trip basis.

### 6.6.2 Multiple hiring arrangements should remain unchanged

Multiple hirings occur when two or more hirers use the same taxi at the same time. Each hirer can be charged 75% of the maximum fare to their destination. The driver and all hirers must agree to the multiple hiring. The driver cannot tout or solicit for the second fare.

<sup>108</sup> M. Khan submission to IPART Issues Paper, 11 October 2017.

<sup>109</sup> NSW Taxi Council submission to IPART Issues Paper, 20 October 2017, p 11.

<sup>110</sup> Queensland Department of Transport and Main Roads, *Application of Taxi Fares – Queensland Taxi Fare Structure*, Information Bulletin PT 501/09.16, p 3.

<sup>111</sup> Essential Services Commission, *Determination of Maximum Taxi Fares*, Metropolitan taxi zone and the Urban and Large Regional taxi zone, June 2016.



Multiple hirings in a busy period can enable more people, who happen to be travelling in the same direction, to get to their destination faster. We understand that multiple hirings occur mainly at Sydney airport and other places such as secure taxi ranks where security guards organise for people to travel together in a single taxi where they are going to destinations in a similar direction or locality.<sup>112</sup>

Customers and TSPs both can benefit from multiple-hires. Each hirer receives a discount of 25% of the fare that would have otherwise paid, and the taxi driver collects 50% more than they would have otherwise for the part of the trip occupied by both hirers.<sup>113</sup>

Multi-hirings might be uncommon because passengers are not aware of the arrangements, because organising a multiple hiring is not straightforward, or because the charging arrangements do not provide enough of an incentive for one or both parties. We do not have any evidence that charging arrangements are a deterrent, so we are not recommending a change.

We also note that the same regulated charges for multiple hirings are common in other Australian jurisdictions.<sup>114</sup>

### 6.6.3 The cleaning fee should remain unchanged

The November 2017 Fares Order prescribes a maximum cleaning fee of \$120 plus GST. This is equivalent to around two hours at the waiting rate.<sup>115</sup> Previously the cleaning fee was prescribed by regulation and was capped at one hour at the waiting rate.<sup>116</sup>

Providers in Western Australia can charge only for the time required for cleaning. The hourly rate is capped but there is no limit on how long the rate may be applied.<sup>117</sup> In Adelaide, the maximum cleaning fee is \$88 and in Tasmania it is \$70.<sup>118</sup>

The NSW Taxi Council supported a maximum cleaning fee of up to 2 hours waiting time, noting that this represents “one hour for drivers down time, and one hour for the cost of cleaning”.<sup>119</sup> We think that the \$120 maximum fee is reasonable as it could take at least two hours to clean a taxi and have it available again for hiring in some cases.

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<sup>112</sup> Information from TfNSW.

<sup>113</sup> A trip where one hirer is only going a short distance and the other is going a much longer distance may result in a lower fare than what the driver would have collected in the absence of a multiple hire.

<sup>114</sup> For example in the ACT, South East Queensland, Victoria metro and urban zones, and Western Australia. *Road Transport (Public Passenger Services) Maximum Fares for Taxi Services Determination 2017* (ACT); Queensland Government Gazette, *Maximum Taxi Fares Notice (NO. 02) 2016*, 2 September 2016; Essential Services Commission, *Determination of Maximum Taxi Fares*, Metropolitan taxi zone and the Urban and Large Regional taxi zone, June 2016; *Taxi Regulations 1995* (WA), cl 6B(4). *Transport (Country Taxi-cars Fares) Regulations 1991* (WA), cl 3AB(4).

<sup>115</sup> The waiting rate is \$56.68 per hour in urban areas and \$57.65 per hour in country areas.

<sup>116</sup> *Passenger Transport Regulation (General) 2017*, cl 163(6).

<sup>117</sup> *Taxi Regulations 1995* (WA), cl 6B(4). *Transport (Country Taxi-cars Fares) Regulations 1991* (WA), cl 3AB(4).

<sup>118</sup> South Australia Government, *Taxi fares and charges*, <https://www.sa.gov.au/topics/driving-and-transport/other-forms-of-transport/taxis>, accessed 23 November 2017; *Taxi Industry Regulations 2008* (Tas), Schedule 3.

<sup>119</sup> NSW Taxi Council submission to IPART Issues Paper, 20 October 2017, p 11.

#### 6.6.4 The passenger service levy should be included as a separate charge

As part of the point to point transport reforms, the NSW Government announced a \$250 million industry adjustment assistance package funded by a levy of \$1 on all passenger service transactions.<sup>120</sup>

The levy will be payable by authorised TSPs and authorised booking service providers. Smaller service providers will have their levy assessments capped and payable on an annual basis (larger providers must pay on a monthly basis).<sup>121</sup>

The levy will start on 1 February 2018,<sup>122</sup> which is before our final recommendations are due to the Minister. TfNSW has advised that it is intending to issue a revised fares order that would include a provision to enable service providers to pass on the levy to customers, prior to its commencement.

Our Issues Paper asked stakeholders whether the levy should be included in the fares order as a separate charge or whether we take the cost of the levy into account when recommending maximum tariff components.

In response, Tamworth Radio Cabs Cooperative said that the levy “should be added to the flag fall for its duration”.<sup>123</sup> In contrast, the NSW Taxi Council requested that the levy “is added as an extra charge for applicable fares” rather than it being “added to the flag fall” because it is not applicable on all fares (eg, the provision of transport under the Assisted School Travel Program).<sup>124</sup>

We expect that there is sufficient scope in current fare levels for TSPs in most areas to absorb the cost of the levy. However, we are recommending that the next fares order include the levy as an additional charge because:

- ▼ It increases the transparency of the levy and provides a clear signal that fares should be lower when the levy ceases.
- ▼ There is a risk that TSPs in some areas could find it difficult to absorb the full amount of the levy.

Under our recommended approach, an authorised TSP could still choose not to charge the levy, or charge less than the maximum amount.

#### Draft recommendation

- 11 The next fares order include a separate charge for the passenger service levy.

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<sup>120</sup> Point to Point Transport Commissioner, *Understanding the Passenger Service Levy*, Fact Sheet, August 2017.

<sup>121</sup> Point to Point Transport Commissioner, *Understanding the Passenger Service Levy*, Fact Sheet, August 2017.

<sup>122</sup> TfNSW, *NSW to welcome a fairer playing field for taxis and hire vehicles - Media Release*, <https://www.transport.nsw.gov.au/newsroom-and-events/media-releases/nsw-to-welcome-a-fairer-playing-field-for-taxis-and-hire>, 18 August 2017.

<sup>123</sup> Tamworth Radio Cabs Cooperative submission to IPART Issues Paper, 13 October 2017, p 1.

<sup>124</sup> NSW Taxi Council submission to IPART Issues Paper, 20 October 2017, p 11.



## 6.7 Our recommendations may have a small impact on the TTSS

The Taxi Transport Subsidy Scheme (TTSS) provides support for NSW residents who are unable to use public transport because of a disability. The subsidy covers 50 per cent of the total fare with a maximum subsidy of \$60 per trip and is claimed by the driver using travel dockets issued to eligible passengers and then tendered as payment for half the fare.<sup>125</sup>

The Physical Disability Council of NSW is concerned about the lack of competition in the point to point transport market in some regions of NSW and how this might impact the cost of booked services, which are no longer regulated.<sup>126</sup> We note that customers who use the TTSS will only pay the rank and hail fares set by the authorised TSP.<sup>127</sup>

Our recommendation for a nominal fare freeze in designated areas would mean that fares for TTSS customers do not increase. We note that our proposal to exempt remote areas and small towns from maximum rank and hail fare regulation could mean that TTSS customers in these places (and the Government, via its subsidy funding) pay more. However, we expect that authorised TSPs would only increase fares in order to maintain the viability of the taxi service. Excessive pricing should lead to the entry of an alternative provider using one of the low-fee licences we have recommended TfNSW should issue.

Going forward, fare and other arrangements for point to point transport passengers with a disability may change. The Government is currently reviewing the TTSS and the incentives provided to Wheelchair Accessible Taxi operators and drivers to provide services to customers with disability. It published a discussion paper in September 2017.<sup>128</sup>

## 6.8 We are not recommending changes to out-of-area fare arrangements

A taxi driver can charge a fare that exceeds the authorised fare if a passenger is being taken outside the taxi's area of operation, and the fare is agreed with the passenger.<sup>129</sup> This includes trips that cross state borders.

We are not aware how frequently drivers and passengers agree to higher fares for out-of-area trips. When we published our Issues Paper, we were concerned that some passengers may not know where operating areas end, and that drivers could potentially take advantage of this to negotiate higher fares. We thought there could also be issues with drivers servicing different but overlapping operating areas. For example, in the Blue Mountains, there are operating areas that include just one or two towns and others that include the entire local government area.

However, we have not received any information that suggests there are any problems with the current out-of-area fare arrangements. The NSW Taxi Council supports the existing

<sup>125</sup> TfNSW, 2017, *Taxi Transport Subsidy Scheme*, <https://www.transport.nsw.gov.au/community/concessions-and-schemes/taxi-transport-subsidy-scheme>, accessed 29 August 2017.

<sup>126</sup> Physical Disability Council of NSW (PDCN) submission to IPART Issues Paper, 13 October 2017, p 4.

<sup>127</sup> Sub-clause 81(2) of the Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017 provides that a taxi that is operated as a result of a booking must use the fare calculation device if the fare is subject to payment by TTSS voucher. Clause 14 (6)(c) prescribes that a fare calculation device must be calibrated so that it determines the fare in accordance with the authorised fares. An authorised fare (see (3) (1) – definitions) is the amount chargeable for the hiring in accordance with a fares order.

<sup>128</sup> TfNSW, *Transport Disability Incentives and Subsidies Review - Discussion Paper*, September 2017.

<sup>129</sup> *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017*, cl 57.

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policy on out of area fares and the Australian Taxi Drivers Association said there are no significant issues with the current arrangements.<sup>130</sup> Therefore, we are not recommending any changes.

We are recommending that new annual licences for the Designated Zone permit the licence holder to provide rank and hail services anywhere in NSW outside Sydney (see Chapter 5). This means that taxis with this type of licence would only be able to use the out-of-area provisions if they were taking a passenger into Sydney or Queanbeyan. We do not consider this to be a problem.

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<sup>130</sup> NSW Taxi Council submission to IPART Issues Paper, 20 October 2017, p 12; Australian Taxi Drivers Association submission to IPART Issues Paper, 22 October 2017, p 5.

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## A Referrals for fare reviews

## FARE REVIEW FOR TAXIS THAT PLY OR STAND FOR HIRE ON A ROAD OR ROAD RELATED AREA OUTSIDE SYDNEY REFERRAL UNDER THE PASSENGER TRANSPORT ACT 2014

I, the Hon. Andrew Constance MP, Minister for Transport and Infrastructure, with the approval of the Hon. Gladys Berejiklian MP, Premier of NSW and Minister administering the *Independent Pricing and Regulatory Tribunal Act 1992*, pursuant to section 123(1) of the *Passenger Transport Act 2014* (NSW) (PT Act 2014), refer taxi services that ply or stand for hire on a road or a road related area (as defined under section 8(1)(a) of the PT Act 2014) outside Sydney to IPART for investigation and preparation of a report containing recommendations regarding the appropriate maximum fares for those services to apply from 1 July 2018.

For the purpose of this referral outside Sydney means that part of New South Wales other than the Metropolitan transport district (defined under section 108(1) of the *Transport Administration Act 1988*).

In making its recommendations IPART is to consider the matters contained in section 124 of the PT Act 2014, including:

- (a) the cost of providing the services,
- (b) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
- (c) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service,
- (d) the social impact of the recommendation,
- (e) the impact of the recommendation on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport,
- (f) standards of quality, reliability and safety of the services (whether those standards are specified by legislation, agreement or otherwise),
- (g) the effect of the recommendation on the level of Government funding,
- (h) any matter specified in the referral to IPART,
- (i) any other matter IPART considers relevant.

In making its recommendations IPART is to consider the *Point to Point Transport Taskforce: Report to the Minister for Transport and Infrastructure* (November 2015) and the NSW Government's response. In particular, IPART is to consider whether Transport for NSW should continue to determine the components of the maximum fare including flagfall, distance rate and waiting time rate.

IPART is to indicate what regard it has had to the matters specified above in its report containing its recommendations.

IPART should publish a draft report containing its preliminary recommendations by no later than 31 December 2017 and consider public submissions in response to its recommendations before making final recommendations.

IPART is to report to the Minister for Transport and Infrastructure on its recommendations by no later than 31 March 2018.

Signed .....

**The Hon. Andrew Constance MP**

**Minister for Transport and Infrastructure**

Date.....

27/6/17

## FARE REVIEW FOR TAXIS THAT PLY OR STAND FOR HIRE ON A ROAD OR ROAD RELATED AREA IN SYDNEY

### REFERRAL UNDER THE PASSENGER TRANSPORT ACT 2014

I, the Hon. Andrew Constance MP, Minister for Transport and Infrastructure, with the approval of the Hon. Gladys Berejiklian MP, Premier of NSW and Minister administering the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), pursuant to section 123(1) of the *Passenger Transport Act 2014* (PT Act 2014), refer taxi services that ply or stand for hire on a road or a road related area (as defined under section 8(1)(a) of the PT Act 2014) in Sydney to IPART for investigation and preparation of a report containing recommendations regarding the appropriate maximum fares for those services to apply from 1 July 2018.

For the purpose of this referral Sydney means the Metropolitan transport district as defined under section 108(1) of the *Transport Administration Act 1988*.

In making its recommendations IPART is to consider the matters contained in section 124 of the PT Act 2014, including:

- (a) the cost of providing the services,
- (b) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
- (c) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service,
- (d) the social impact of the recommendation,
- (e) the impact of the recommendation on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport,
- (f) standards of quality, reliability and safety of the services (whether those standards are specified by legislation, agreement or otherwise),
- (g) the effect of the recommendation on the level of Government funding,
- (h) any matter specified in the referral to IPART,
- (i) any other matter IPART considers relevant.

In making its recommendations IPART is to consider the *Point to Point Transport Taskforce: Report to the Minister for Transport and Infrastructure* (November 2015) and the NSW Government's response. In particular, IPART is to consider whether Transport for NSW should continue to determine the components of the maximum fare including flagfall, distance rate and waiting time rate.

IPART is to indicate what regard it has had to the matters specified above in its report containing its recommendations.

IPART should publish a draft report containing its preliminary recommendations by no later than 31 December 2017 and consider public submissions in response to its recommendations before making final recommendations.

IPART is to report to the Minister for Transport and Infrastructure on its recommendations by no later than 31 March 2018.

Signed 

**The Hon. Andrew Constance MP**  
**Minister for Transport and Infrastructure**

Date 27/6/17

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## B Terms of Arrangement for taxi licence review

## TERMS OF ARRANGEMENT FOR TAXI LICENCE REVIEW FOR TAXI SERVICES OUTSIDE SYDNEY UNDER THE *INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992 (NSW)*

With the approval of the Hon. Gladys Berejiklian MP, Premier of NSW and Minister administering the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act), pursuant to section 9(2) of the IPART Act, the Independent Pricing and Regulatory Tribunal (IPART) will enter into arrangements with Transport for NSW.

The services to be provided by IPART are the conduct of an investigation into, and the preparation of a report containing recommendations concerning the number of taxi licences (other than licences for wheelchair accessible taxis) to be issued to operate in areas outside Sydney during the year commencing 1 July 2018.

For the purpose of this referral outside Sydney means that part of New South Wales other than the Metropolitan transport district (defined under section 108(1) of the *Transport Administration Act 1988*).

In making its recommendations IPART is to consider:

- (a) likely passenger demand and latent demand for taxi services,
- (b) the performance of existing taxi services,
- (c) the demand for new taxi licences,
- (d) the viability and sustainability of the taxi industry,
- (e) any other matters IPART considers relevant, having regard to the objective of ensuring improved taxi services.

IPART may also consider and make recommendations concerning:


- (a) the number and type of taxi licences that are to be issued to persons who are also authorised to provide taxi services or who have applied for an authorisation to do so (under the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*)
- (b) the number of taxi licences that may be granted to the same applicant or related applicants.

In making its recommendations IPART is to consider the *Point to Point Transport Taskforce: Report to the Minister for Transport and Infrastructure* (November 2015) and the NSW Government's response. In particular, IPART is to consider whether there should be any restrictions placed on any of the taxi licences to be issued, and whether the licence should specify the operating area to be anything other than outside the Metropolitan transport district.

The services to be provided by IPART should include a public consultation process involving the NSW Taxi Council, taxi industry participants and, other stakeholders and the general community.

IPART should publish a draft report containing its preliminary recommendations by no later than 31 December 2017 and consider public submissions in response to these recommendations before making final recommendations.

IPART is to provide the Minister for Transport and Infrastructure with a report containing its final recommendations by no later than 9 March 2018.

Signed   
The Hon. Andrew Constance MP  
Minister for Transport and Infrastructure  
Date 27/6/17



## C List of submissions

**Table C.1 List of submissions on IPART Issues Paper**

Individual – R. Smith	14 September 2017
Individual – M. Khan	11 October 2017
Individual – Anonymous	11 October 2017
Australian Taxi Drivers Association	22 October 2017
Cabcharge Australia Ltd (Confidential)	23 October 2017
NSW Taxi Council	20 October 2017
Physical Disability Council of NSW	13 October 2017
Tamworth Radio Cabs Cooperative Ltd	13 October 2017

## D Our competition assessment

In Chapter 4, we outlined our findings on the level of competition facing taxis in the NSW and how this could be improved. In this appendix, we look in more detail at the framework we used to assess the level of competition and our findings in applying this framework.

### D.1 Our competition assessment framework

As Chapter 4 discussed, in a competitive rank and hail market, there would be no need for government to regulate the supply of licences or fares. The market would self-regulate, and fares would converge to the costs of providing the service.<sup>131</sup>

However, where there is insufficient competition, and in the absence of regulation, a taxi service provider with market power could profitably reduce economic efficiency and total welfare<sup>132</sup> in several ways, including by increasing fares, restricting supply, or reducing service quality.

To assess the level of market power that exists today, we developed a framework based on the ACCC's merger guidelines but modified to better reflect the purpose of our review. This framework comprises three main steps:

1. Define the appropriate market or minimum field of rivalry
2. Assess the level of market power held by participants in that market
3. Assess the ability for firms to exercise market power in the market.

#### D.1.1 First we define the market or minimum field of rivalry

To define the appropriate market, we looked at the potential for demand-side and supply-side substitution of rank and hail services. In line with the ACCC's merger guidelines (and the merger guidelines of other competition agencies), we also applied a hypothetical monopolist test.

According to the ACCC's guidelines, a hypothetical monopolist test determines:

...the smallest area in product and geographic space within which a hypothetical current and future profit-maximising monopolist could effectively exercise market power. In general, the exercise of market power by the hypothetical monopolist is characterised by the imposition of a small but significant and non-transitory increase in price (SSNIP) above the price level that would prevail without the merger...<sup>133</sup>

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<sup>131</sup> In a competitive market, different operators may deliver services of different qualities.

<sup>132</sup> Total welfare is the total amount of benefit derived in a market from customers and producers. A decline in total welfare means in aggregate customers and producers are worse off (it does not necessarily mean both are worse off).

<sup>133</sup> Australian Competition and Consumer Commission, *Merger guidelines 2008, updated 2017*, 2017, p 15.

## **D.1.2 Second we assess the level of market power held by market participants**

To assess market power we considered the market shares of firms in the market and the market concentration using the Herfindahl-Hirschman Index (HHI). According to the ACCC's guidelines:

Market concentration refers to the number and size of participants in the market... Changes in market concentration over time can also reveal the frequency of new entry and provide insight into the ability of new entrants and smaller competitors to attract custom and expand.<sup>134</sup>

## **D.1.3 Finally we assess the ability for firms to exercise market power**

To assess the ability for firms to exercise market power, we considered the likelihood of them being able to do so, either unilaterally or through coordinated conduct:

- ▼ Unilateral effects occur when a firm can profitably to raise fares, reduce supply or quality, regardless of the expected responses from competitors and customers.
- ▼ Coordinated effects occur when a number of firms in the market can profitably coordinate fare increases, supply reductions or reduced quality, and reasonably expect no firms will deviate from the coordinated changes. Typically, this occurs where firms are interdependent and deviations can be quickly punished.<sup>135</sup>

## **D.2 The appropriate definition of the market is the rank and hail market**

We found that in most parts of NSW, the appropriate market for our current competition assessment is the rank and hail market, not the broader point to point transport market. This is because although there is some potential for demand- and supply-side substitution, there are no perfect substitutes for rank and hail services, and taxis' exclusive ability to offer rank and hail services limits the competition they face.

In addition, a hypothetical rank and hail monopolist could raise prices in most parts of NSW.

### **D.2.1 There are no perfect substitutes for rank and hail services**

Demand-side substitution is when customers switch from one product (ie, rank and hail taxi trips) to another product (eg, substituting ridesharing or other booked services). Supply-side substitution is when taxi drivers and taxi service providers supply services other than rank and hail trips.

To consider the potential for demand-side substitution, we compared the features of rank and hail services to those of other point to point transport services. Generally, the more shared features, the greater the level of substitutability.

We found that although rank and hail services share some features with one or more of the potential substitutes, they have one unique feature (ie, instant supply) more features than

<sup>134</sup> Australian Competition and Consumer Commission, *Merger guidelines 2008, updated 2017*, 2017, p 33.

<sup>135</sup> Australian Competition and Consumer Commission, *Merger guidelines 2008, updated 2017*, 2017, pp 22, 30.

any other point to point transport mode (Table D.1). This suggests there are no perfect demand-side substitutes, and taxis have a competitive advantage in being able to offer rank and hail services.

**Table D.1 Features of rank and hail taxis and other modes of transport**

	Instant	Available within 30 minutes	Anonymous	Does not require smartphone	Available to all	Available at all times
<b>Taxi</b>	✓	✓	✓	✓	✓	✓
<b>Rideshare</b>		✓			✓	✓
<b>Other hire vehicles</b>		✓		✓	✓	✓
<b>Community transport</b>				✓		
<b>Courtesy shuttles</b>			✓	✓	✓	
<b>Public transport</b>			✓	✓	✓	

Source: IPART analysis.

We also engaged:

- ▼ Orima to conduct a survey, to help identify what point to point transport customers are using and under what circumstances they would substitute for taxis, and
- ▼ HoustonKemp to look at financial data to analyse changes in transactions between different modes of point to point transport.

Orima and HoustonKemp found that ridesharing, as a share of the market has grown significantly in recent years. They found that a large proportion of people that once exclusively caught taxis are now choosing to use ridesharing instead of, or as well as, taxis.<sup>136</sup>

The NSW Taxi Council<sup>137</sup> stated that there has been a decline in taxi use with the introduction of ridesharing. However, HoustonKemp found that there was no decline in taxi revenue or number of transactions, with ridesharing largely capturing growth in the point to point transport industry (ie, serving latent demand).<sup>138</sup> This suggests that it is likely that direct demand-side substitution has been limited.

To consider the potential for supply-side substitution, we looked at the options for taxi drivers and taxi service providers to allocate their resources away from rank and hail services. We found that taxi drivers and service providers have several options:

- ▼ they could focus on providing booked trips only
- ▼ taxi service providers could expand their networks to include hire vehicles
- ▼ taxi service providers could use their taxi vehicles as hire vehicles or to provide courier services, and

<sup>136</sup> HoustonKemp, *Use of ridesharing and taxi services in New South Wales*, November 2016, pp 7, 13-15, data sourced from Data Republic, and Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, pp 12, 19.

<sup>137</sup> NSW Taxi Council submission to IPART Issues Paper, October 2017, p 7.

<sup>138</sup> HoustonKemp, *Use of ridesharing and taxi services in New South Wales*, November 2016, p 9.

- ▼ taxi drivers could drive hire vehicles and provide courier services, or work in another industry.

However, hire vehicles and couriers cannot allocate their resources to rank and hail services. This suggests there are no perfect supply-side substitutes, and taxis have a competitive advantage of being able to offer rank and hail services.

### **D.2.2 A hypothetical monopolist could raise prices for rank and hail services in most parts of NSW**

A hypothetical monopolist test involves assessing whether a taxi could make a greater profit by charging competitive prices, or by increasing prices by 5% above the competitive level.<sup>139</sup> That is, would such an increase in prices lead customers to substitute away from the taxi's rank and hail services enough to make such a move unprofitable? We could not access the raw data needed to conduct a test from first principles. Instead, we based our assessment on a review of licence values.

In a competitive rank and hail market, we would expect to see very low licence values, reflecting that there are no monopoly rents. Therefore, where licence values are significantly greater than zero, this suggests the incumbent has market power.

As Chapter 4 noted, licence values in many parts of NSW remain well above their productive value (Figure 4.2). This indicates that buyers of taxi licences expect to make economic profits from holding the licence and are able to charge monopoly prices. This would suggest that in all markets with high licence values the appropriate market definition is a narrow rank and hail market.

It is relevant to note that taxi licence values are forward looking. In a rational market taxi licence values reflect the expected future economic profits that would accrue to the holder of the licence. Most of the transactions covered in Figure 4.2 have occurred since the Government announced that its policy was reform of the point to point transport industry.

Where licence values are low or close to zero, there is no economic rent in licence values. We note that in these areas there is typically very little rank and hail work. This indicates that buyers of taxi licences do not expect to make economic profits from holding the licence, likely due to open entry and effective competition from hire vehicles for booked work.

This assessment, based on the hypothetical monopolist test, tells us that in most parts of NSW (excluding remote areas and small towns), a hypothetical monopolist would be able to raise prices for rank and hail services. Therefore, currently the appropriate market definition in these areas is the narrow rank and hail market.

However, we expect that the recent regulatory reforms and technological development would increase the substitutability of taxis with hire vehicles. The integration of the taxi and hire vehicle markets could occur rapidly once the markets reach a critical point of scale and technology. The Australian Taxi Drivers Association argued that there is already a single

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<sup>139</sup> The hypothetical monopolist test considers whether the hypothetical monopolist could impose a small but significant and non-transitory increase in price (SSNIP). A SSNIP is usually considered a permanent price increase of at least 5%. Source: Australian Competition and Consumer Commission, *Merger guidelines 2008, updated 2017*, 2017, p 15.

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point to point transport market.<sup>140</sup> As such, we have included an analysis of the broader point to point transport market later in this appendix.

In remote areas and small towns, the appropriate market definition is the broader point to point transport market, as booked trips constitute almost all trips in taxis – making hire vehicles and other transport services closer substitutes for taxis. We consider that the ability of taxis in small towns and remote areas to exercise market power (if they have any) is small.

### **D.3 Taxi service providers have market power**

The rank and hail market has a number of players at different levels, there are about:

- ▼ 29,000 taxi drivers
- ▼ 3,150 existing taxi licence holders, and
- ▼ 200 authorised Taxi Service Providers (TSPs).<sup>141</sup>

Each player in the rank and hail market performs competitive functions. However, authorised TSPs are responsible for fare setting,<sup>142</sup> and given their smaller number, are much more likely to hold market power. Therefore, we focused on authorised TSPs in our assessment of market concentration.

#### **D.3.1 Rank and hail markets within NSW are highly concentrated**

Taxis can only perform rank and hail services within the operating area specified on their licence.<sup>143</sup> This creates the geographic boundary of our market for analysing market shares and market concentration.

To estimate the relative market share of the taxi networks within the rank and hail market, we looked at the affiliation of taxis to networks before the implementation of point to point transport reforms. The Point to Point Transport Commissioner does not collect data on affiliation with taxi service providers and therefore, we were not able to use data after the reform.

Most areas outside Sydney had a single taxi network in an operating area.<sup>144</sup> As such, most taxi networks in NSW had a 100% market share. Figure D.1 shows the market shares of taxi networks in Sydney before the regulatory reforms.

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<sup>140</sup> Australian Taxi Drivers Association submission to IPART Issues Paper, October 2017, p 1.

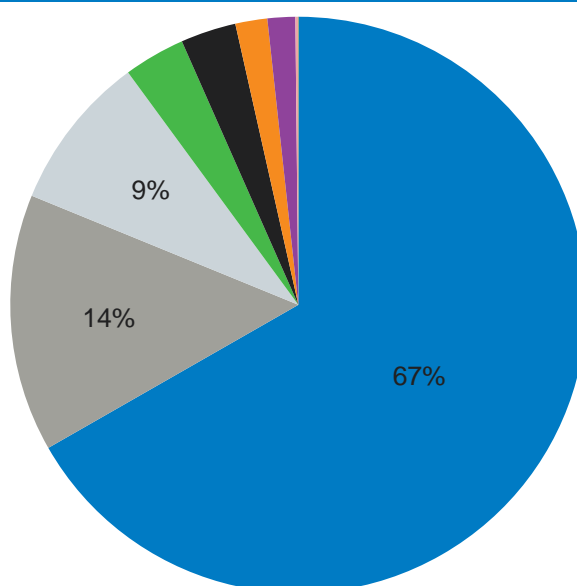
<sup>141</sup> There were about 65 taxi networks before 1 November 2017, the number of Authorised Taxi Service Providers may change rapidly in the early stages of the new regulatory framework. Source: RMS data provided by Transport for NSW.

<sup>142</sup> *Point to Point Transport (Taxi and Hire Vehicles) Regulation 2017*, clause 53.

<sup>143</sup> *Point to Point Transport (Taxi and Hire Vehicles) Act 2016*, section 56.

<sup>144</sup> Our data indicated some very small networks and non-affiliated taxis. We have assumed these are errors in the data.

**Figure D.1 Market share of taxi networks in Sydney before regulatory reforms**



**Note:** Market share is estimated by number of affiliated taxis on 1 September 2017.

**Data source:** IPART analysis of RMS data provided by Transport for NSW.

Market shares help us identify whether taxi service providers hold a strong market position with a substantial market share. The figure above shows that in the Sydney rank and hail market there is one network with a very strong market position.

To assess market concentration, we used the Herfindahl-Hirschman Index (HHI) (see Box D.1).

#### **Box D.1 The Herfindahl-Hirschman Index**

The Herfindahl-Hirschman Index (HHI) is calculated by:

- ▼ estimating a firm's market share (as a whole number, for example 50 represents a 50% market share)
- ▼ taking the square of each firm's market share (for example a 50% market share would be  $50 \times 50$  or 2,500, and
- ▼ adding the squared market share of each firm.

This will result in a HHI between 0 and 10,000, where near 0 represents perfect competition and 10,000 represents a pure monopoly.

We found that in Sydney, the HHI is about 4,800. As noted earlier, in most parts of NSW outside of Sydney, there is a single authorised Taxi Service Provider (TSP).

In considering horizontal mergers, the ACCC considers that a HHI of more than 2,000 indicates a highly concentrated market.<sup>145</sup> Therefore, our findings indicate that the rank and

<sup>145</sup> Australian Competition and Consumer Commission, *Merger guidelines 2008, updated 2017*, 2017, p 35. The United States Department of Justice and the Federal Trade Commission joint Horizontal Merger Guidelines indicates they consider that a HHI of 2,500 indicates a highly concentrated market. Source: U.S. Department of Justice and the Federal Trade Commission, *Horizontal Merger Guidelines*, 19 August 2010, p 19.



hail market in and outside Sydney is highly concentrated, with one network holding substantial market power in the relevant operating area. We do not consider it likely that this level of concentration has changed significantly since the new regulatory framework came into effect on 1 November 2017.

## **D.4 Taxis could act in an anti-competitive manner**

The market concentration and market definition led us to different findings on the ability to exercise market power in the two types of geographic areas:

- ▼ the broad point to point transport market in remote areas and small towns, and
- ▼ the narrow rank and hail market in most cities and towns.

The market definition and concentration helps us identify whether taxis currently have the ability to act, individually or as a group, in an anti-competitive way.

### **D.4.1 Taxis cannot exercise market power in remote areas and small towns**

In remote areas and small towns, there is typically only one authorised TSP with the ability to provide rank and hail services. However, almost all taxi trips are booked in these areas. As such, the authorised Taxi Service TSPs have little advantage over Booking Service Providers in these areas. It also means that maximum fare regulation applies to very few taxi trips.

With the commencement of the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* it is relatively easy to become a Booking Service Provider and provide a point to point transport service in a private vehicle. We consider it is unlikely that taxis in remote areas and small towns would have much market power, let alone the ability to exercise it. In these areas we consider there is no need to regulate fares and, with low licence values, restricting licence numbers only reduces firms' ability to enter and expand in the delivery of rank and hail services.

### **D.4.2 Taxi service providers in most cities and towns could exercise market power**

NSW rank and hail markets are highly concentrated. In highly concentrated markets we need to identify whether it is likely for firms to use their market power, either individually or as a group.

A firm's ability to profitably increase fares, reduce supply or reduce quality depends on its market power, and how consumers and competitors would respond. We consider that the risk of authorised TSPs and taxi licence holders increasing fares or reducing supply (without fare regulation or licence releases) is relatively high because:

- ▼ regulated licence numbers for taxis create a significant barrier to entry and expansion
- ▼ there can be efficiencies of scale and competitive advantages for a single network, such as the ability to provide a more convenient service due to wider vehicle availability, and
- ▼ the exclusive right to offer rank and hail services.

We consider that in almost every operating area, it is likely that one authorised TSP can exercise market power. In smaller cities and towns there may also be licence holders that can exercise market power.

In addition, the taxi industry has features that create a high risk of authorised TSPs and licence holders working as a group to increase fares or reduce supply (without fare regulation or licence releases). This is due to:

- ▼ the prevalence of co-operatively owned taxi service providers
- ▼ high market concentration
- ▼ the requirement to publish fares making it easy to observe fares
- ▼ similar cost structures of taxi service providers making it relatively likely that competitors can match prices
- ▼ regulated licence numbers for taxis creating a significant barrier to entry and expansion, and
- ▼ information asymmetry between customers and providers of taxi services.

Given the above, we consider that there is a strong risk of coordinated conduct between authorised TSPs (where there are multiple) and licence holders.

Given the risk of individual and group exercise of market power, we consider there is a continuing need to apply maximum fare regulation to rank and hail services and release more licences to reduce barriers to entry.

## **D.5 Taxis can exercise market power in the point to point transport market**

As we noted above, we expect that the recent regulatory reforms and technological development would increase competition between taxis and hire vehicles. The integration of the taxi and hire vehicle markets could occur rapidly once the markets reach a critical point of scale and technology. As discussed in Chapter 4, we have already seen a significant expansion of the point to point transport market since the legalisation of ridesharing.

### **D.5.1 The broader point to point transport market is also highly concentrated**

There are a variety of ridesharing services in NSW. For example:

- ▼ Uber,<sup>146</sup> GoCatch<sup>147</sup> and SheBah<sup>148</sup> operate in Sydney
- ▼ Uber operates in Newcastle, Wollongong, Central Coast and Byron Bay,<sup>149</sup> and
- ▼ GoBuggy operates in Coffs Harbour, Port Macquarie and Wagga Wagga.<sup>150</sup>

<sup>146</sup> Uber, *Uber Cities Across the Globe*, <https://www.uber.com/en-AU/cities/> accessed on 7 December 2017.

<sup>147</sup> GoCatch, *GoCatch takes on Uber, launches ridesharing in Sydney*, <http://www.gocatch.com/2016/02/23/gocatch-takes-on-uber-launches-ridesharing-in-sydney/> accessed on 7 December 2017.

<sup>148</sup> shebah, *About*, <http://shebah.com.au/about/> accessed on 7 December 2017.

<sup>149</sup> Uber, *Uber Cities Across the Globe*, <https://www.uber.com/en-AU/cities/> accessed on 7 December 2017.

<sup>150</sup> Go Buggy, *Go Buggy*, <http://gobuggy.com.au/> accessed on 7 December 2017.

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We engaged HoustonKemp to use consumer banking transactional data to estimate the proportion of personal card transactions in taxis and ridesharing services.<sup>151</sup> We adjusted this data to account for:

- ▼ cash transactions in taxis, and
- ▼ Cabcharge transactions in taxis.<sup>152</sup>

We did not use the data from areas without ridesharing services, and did not adjust for business transactions.<sup>153</sup> We found that the point to point transport market is relatively highly concentrated (see Table D.2). Our adjusted estimates of market share from HoustonKemp's raw data are similar to the findings of Orima's survey.

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<sup>151</sup> HoustonKemp, *Use of ridesharing and taxi services in New South Wales*, November 2016, p 9.

<sup>152</sup> We adjusted HoustonKemp's data sourced from Data Republic based on the findings of Taverner Research, *Survey of Point to Point Transport Use*, February 2017, p 89. We increased card transactions by 162% in Sydney, 220% in Newcastle, Wollongong and the Central Coast and 336% elsewhere to reflect cash and Cabcharge payments.

<sup>153</sup> Taverner Research found in 2016 that a similar proportion of taxi and ridesharing trips were paid for by business. Taverner Research, *Survey of Point to Point Transport Use*, February 2017, p 136.

**Table D.2 Market share and HHI of point to point transport market in September 2017**

	Market share			HHI <sup>c</sup>
	Taxis	Ridesharing	Other hire vehicles	
<b>Sydney</b>	51%	49%	0%	3,000
<i>Orima – Sydney</i>	56%	39%	6%	
<b>Newcastle<sup>a</sup></b>	66%	34%	0%	3,400
<b>Wollongong</b>	67%	33%	0%	5,400
<b>Central Coast</b>	72%	28%	0%	5,900
<i>Orima – Regional cities</i>	73%	18%	10%	
<b>Ballina-Byron Bay<sup>b</sup></b>	70%	30%	0%	3,200
<b>Coffs Harbour</b>	82%	18%	0%	5,500

<sup>a</sup> Includes Newcastle, Lake Macquarie, Cessnock, Maitland and Port Stephens local government areas. Taxis in these areas cannot provide rank and hail services throughout the region. Therefore, the level of concentration is likely to be understated.

<sup>b</sup> Ballina and Byron Bay are distinct taxi operating areas. Taxis in these areas cannot provide rank and hail services throughout the region. Therefore, the level of concentration is likely to be understated.

<sup>c</sup> For the HHI we assumed that:

- taxi service providers are the networks in September 2017 and market share is perfectly correlated with the number of affiliated taxis
- there are 3 ridesharing providers in Sydney with 85%, 10% and 5% of the ridesharing market, in all other areas there is a single ridesharing provider, and
- there are 10 equally sized other hire vehicle businesses.

**Note:** Due to the large number of assumptions our market share and HHI estimates should be used as a guide only.

**Source:** HoustonKemp, *Use of ridesharing and taxi services in New South Wales*, November 2016 data sourced from Data Republic and adjusted based on Taverner Research, *Comparing Surveys of Point to Point Transport Use, November 2014 to February 2017*, May 2017, and Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 48.



Based on our analysis we consider that in the broader point to point transport market it is likely taxi service providers have the power to exercise market power. This could change rapidly.

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## E Designated and Exempt Zones by operating area

Table E.1 and Table E.2 set out the operating areas that we are recommending for inclusion in the Designated and Exempt Zones.

Table E.1 includes the relevant SUA or UCL that defines the Designated Zone for each operating area.

**Table E.1 Proposed Designated Zone – current operating areas and licence numbers**

Current operating area	No. of licences	Area Defining the Designated Zone	Area Type
NEWCASTLE includes the following operating areas 1) Newcastle Transport District; 2) Newcastle Transport District and the townships of Caves Beach, Catherine Hill Bay, Nords Wharf, Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale and Ferodale; 3) Newcastle Transport District/Lake Macquarie/Medowie/Campvale/Ferodale; 4) Toronto/Fassifern to Myuna Bay including WAT work only in Morisset and Teralba.	179	Newcastle - Maitland	SUA
WOLLONGONG consists of the operating area Wollongong Transport District and LGA of Shellharbour	136	Wollongong	SUA
ALBURY	33	Albury-Wodonga	SUA
ALSTONVILLE	1	Alstonville Wollonabar	UCL UCL
ALSTONVILLE/BALLINA	3	Ballina	SUA
ARMIDALE	17	Armidale	SUA
BALLINA	9	Ballina	SUA
BATEMANS BAY	8	Batemans Bay	SUA
BATHURST	28	Bathurst	SUA
BELLINGEN	2	Bellingen	UCL
BLACKHEATH	4	Blackheath Mount Victoria	UCL UCL
BLAXLAND/GLENBROOK	3	Sydney	SUA
BLUE MOUNTAINS LGA	1	Sydney	SUA
BRANXTON/GRETA	1	Branxton Greta North Rothbury	UCL UCL UCL
BROKEN HILL	22	Broken Hill	SUA
BYRON BAY LGA	9	Byron Bay Ewingsdale Suffolk Park	UCL UCL UCL
BYRON BAY/SUFFOLK PARK/EWINGSDALE/BANGALOW	4	Bangalow Byron Bay Ewingsdale Suffolk Park	UCL UCL UCL UCL
CAMDEN/WOLLONDILLY AREA-(CONSTITUTING THE LGA AREAS OF CAMDEN AND WOLLONDILLY, EXCLUDING THE TOWNS OF BARGO, PICTON, THIRLMERE AND TAHMOOR, AND EXCLUDING ANY AREA WITHIN THE METROPOLITAN TRANSPORT DISTRICT).	6	Sydney	SUA
CASINO, CORAKI	13	Casino Woorooloolgan Coraki	UCL UCL UCL
CESSNOCK	16	Newcastle - Maitland	SUA
CITY OF DUBBO	1	Dubbo	SUA

COFFS HARBOUR LGA	1 Coffs Harbour	SUA
COFFS HARBOUR, SAWTELL	29 Coffs Harbour	SUA
COOMA	9 Cooma	UCL
COOMA AIRPORT	1 None	See Chapter 5
COWRA	10 Cowra	UCL
DORRIGO	1 Dorriggo	UCL
DUBBO	22 Dubbo	SUA
FINGAL HEAD	1 Gold Coast - Tweed Heads	SUA
FORBES	7 Forbes	UCL
FORSTER/TUNCURRY	8 Forster - Tuncurry	SUA
GLEN INNES	6 Glen Innes	UCL
GOSFORD WYONG LGA (TX) & TOWNSHIPS OF WYEE & WYEE POINT	89 Central Coast	SUA
GOULBURN	28 Goulburn	SUA
GRAFTON	14 Grafton	SUA
GREATER TWEED HEADS / FINGAL HEAD	21 Gold Coast - Tweed Heads	SUA
GRIFFITH LOCAL GOVERNMENT AREA	12 Griffith	SUA
GUNNEDAH	11 Gunnedah	UCL
HUSKISSON/SANCTUARY POINT/ST GEORGES BASIN	5 St Georges Basin - Sanctuary Point	SUA
INVERELL	8 Inverell	UCL
KATOOMBA	21 Sydney	SUA
KATOOMBA/LEURA/BLACKHEATH/MT VICTORIA/WENTWORTH FALLS	1 Sydney	SUA
KATOOMBA/LEURA/MEDLOW BATH & WENTWORTH FALLS	1 Sydney	SUA
KEMPSEY, CRESCENT HEAD	15 Kempsey	SUA
KIAMA, BERRY & SHOALHAVEN HEADS	1 Wollongong	SUA
KIAMA/GERRINGONG/JAMBEROO	5 Wollongong	SUA
KINGSCLIFF, CHINDERAH, CUDGEN, CASUARINA, CABARITA (BOGANGAR), POTTSVILLE & HASTINGS POINT	4 Gold Coast - Tweed Heads	SUA
KURRI KURRI, WESTON	9 Newcastle - Maitland	SUA
LAURIETON, NORTH HAVEN, LAKE CATHIE, BONNY HILLS, CAMDEN HAVEN, LAKEWOOD, KEW & KENDALL	2 Camden Haven	SUA
LAWSON	2 Sydney	SUA
LAWSON, WOODFORD, HAZELBROOK, LINDEN AND BULLABURRA	2 Sydney	SUA
LEETON	5 Leeton Yanco	UCL UCL
LISMORE	28 Lismore	SUA
LITHGOW	12 Lithgow	SUA
MACKSVILLE	3 Macksville Nambucca Heads	UCL UCL



MAITLAND, THORNTON AND WOODBERRY IN THE CITY OF MAITLAND, THE TOWNSHIPS OF BERESFIELD, TARRO AND HEXHAM	1 Newcastle - Maitland	SUA
MAITLAND, THORNTON AND WOODBERRY IN THE CITY OF MAITLAND, THE TOWNSHIPS OF BERESFIELD, TARRO AND HEXHAM IN THE CITY OF NEWCASTLE COUNCIL AREA AND THE TOWNSHIPS OF RAYMOND TERRACE, MEDOWIE, CAMPVALE AND FERODALE IN THE PORT STEPHENS SHIRE	32 Newcastle - Maitland	SUA
MILTON/ULLADULLA	6 Ulladulla	SUA
MITTAGONG, BOWRAL, MOSS VALE, COLO VALE & HILLTOP	20 Bowral - Mittagong	SUA
MOREE	14 Moree	UCL
MORISSET, WYEE, WYEE POINT	4 Morisset - Cooranbong	SUA
MUDGEES	8 Mudgee	SUA
MULLUMBIMBY, BRUNSWICK HEADS, BILLINUDGEL, STH. GOLDEN BEACH, NEW BRIGHTON, OCEAN SHORES & BANGALOW	3 Bangalow Brunswick Heads Mullumbimby Ocean Shores South Golden Beach	UCL UCL UCL UCL UCL
MURWILLUMBAH, CABARITA (BOGANGAR), CASUARINA, HASTINGS POINT AND POTTSVILLE	2 Gold Coast - Tweed Heads	SUA
MURWILLUMBAH, CABARITA, HASTINGS POINT AND POTTSVILLE.	7 Gold Coast - Tweed Heads	SUA
MUSWELLBROOK	8 Muswellbrook	SUA
MUSWELLBROOK, DENMAN, ABERDEEN AND SCONE	1 Muswellbrook	SUA
NAMBUCCA HEADS	5 Hyland Park Nambucca Heads	UCL UCL
NAMBUCCA LOCAL GOVERNMENT AREA	3 Macksville Valla Beach Scotts Head	UCL UCL UCL
NARRABRI	6 Narrabri	UCL
NELSON BAY, SHOAL BAY, SALAMANDER BAY	2 Nelson Bay	SUA
NORTH HAVEN, LAKE CATHIE, BONNY HILLS, CAMDEN HAVEN, LAKEWOOD, KEW AND KENDALL	2 Camden Haven	SUA
NOWRA	7 Nowra - Bomaderry	SUA
NOWRA/BOMADERRY	7 Nowra - Bomaderry	SUA
ORANGE	31 Orange	SUA
PARKES	12 Parkes	SUA
PORT MACQUARIE	23 Port Macquarie	SUA
QUEANBEYAN	20 Canberra - Queanbeyan	SUA
RICHMOND/WINDSOR	1 Sydney	SUA
SHIRE OF PORT STEPHENS	3 Newcastle - Maitland	SUA
SINGLETON	6 Singleton	SUA
SINGLETON LGA	2 Singleton	SUA
SOUTH BOWENFELS	1 Lithgow	SUA

SPRINGWOOD	2 Sydney	SUA
SPRINGWOOD (INDEPENDENT TAXI)	2 Sydney	SUA
SPRINGWOOD, LAWSON, GLENBROOK, EMU PLAINS, EMU HEIGHTS AND LEONAY AREAS	2 Sydney	SUA
SPRINGWOOD, VALLEY HGTS, FAULCONBRIDGE, WINMALEE	1 Sydney	SUA
TAMWORTH & DISTRICT	1 Tamworth	SUA
TAMWORTH, KOOTINGAL, MOONBI, ATTUNGA AND DURI	25 Tamworth	SUA
TAREE	5 Taree	SUA
TAREE LOCAL GOVERNMENT AREA	2 Taree	SUA
TAREE, COOPERNOOK, HARRINGTON, MANNING POINT, OLD BAR, WALLABI POINT, DIAMOND BEACH, HALLIDAYS POINT & NABIAC	10 Taree	SUA
TOMAREE PENINSULA	6 Nelson Bay	SUA
TUMUT	5 Tumut	UCL
URUNGA	2 Mylestom Urunga	UCL UCL
WAGGA WAGGA	32 Wagga Wagga	SUA
WINGECARRIBEE L.G.A.	3 Bowral - Mittagong	SUA
WINGHAM	4 Taree	SUA
WINGHAM - NOT WITHSTANDING THE MENTIONED AREA OF OPERATION, ALSO LICENCED TO CARRY OUT HIRINGS IN THE LGA OF TAREE, SUBJECT TO ANY SUCH HIRING BEING PRE-ARRANGED & INVOLVING THE CARRIAGE OF A PERSON CONFINED TO A WHEELCHAIR.	1 Taree	SUA
WOOLGOOLGA	3 Coffs Harbour	SUA
YOUNG	9 Young	UCL
<b>Total existing licences in proposed Designated Zone</b>	<b>1,244</b>	

**Note:** SUA: Significant Urban Area. UCL: Urban Centre and Locality. Newcastle Airport is also in the proposed Designated Zone.

**Source:** RMS data received from TfNSW. Licence data as at 1 September 2017

**Table E.2 Proposed Exempt Zone – current operating areas and licence numbers**

ABERDEEN	1
BALRANALD LGA	1
BARGO	1
BEGA	4
BERMAGUI	2
BLAYNEY	1
BOMBALA	2
BOURKE	4
BOWRAVILLE	1
BUNGENDORE	1
CANOWINDRA	1
COBAR	4
CONDOBOLIN	2
COONABARABRAN	3
COONAMBLE	2
COOTAMUNDRA	4
COROWA	4
CULBURRA	1
DARETON, BURONGA & COOMEALLA	2
DENILQUIN	5
EDEN	2
EVANS HEAD	1
EVANS HEAD including Rileys Hill, Broadwater, Woodburn, New Italy and Swan Bay	1
GILGANDRA	1
GRENFELL	1
GUNDAGAI	2
GUYRA	1
HARDEN/MURRUMBURRAH	2
HOWLONG	1
JINDABYNE	2
JUNEE LGA	2
KYOGLE including the suburbs of Bonalbo, Cawongla, Grevillia, Mallanganee, Tabulam, Old Bonalbo, Urbenville, Wiangaree and Woodenbong	3
LIVERPOOL PLAINS LGA	1
MACLEAN	2
MERIMBULA	3
MERRIWA LGA	2
MOAMA	2
MORUYA	5
MURRAY LGA	2
MURRUMBATEMAN	1
NAROOMA	4
NARRANDERA	3
NARROMINE	2
OBERON	1

PICTON/TAHMOOR/THIRLMERE	4
PORTLAND	2
QUIRINDI	1
SCONE	2
SOUTH WEST ROCKS	3
SUSSEX INLET	1
TEMORA	2
TENTERFIELD	2
TOWNSHIP OF COONAMBLE	1
TOWNSHIP OF MERIMBULA	1
URALLA	2
WALGETT	1
WAUCHOPE	4
WELLINGTON	5
WENTWORTH	1
WEST WYALONG	3
YAMBA	2
YASS	4
<b>Total existing licences in proposed Exempt Zone</b>	<b>132</b>

**Source:** RMS data provided by TfNSW. Licence data as at 1 September 2017

## F Analysis of tariff options

### F.1 Fare options

#### Option 1

The November 2017 Fares Order sets maximum fares for “urban areas” and “country areas”. Option 1 leaves the tariff components unchanged from what they are now.

**Table F.1 Option 1: Existing fares (urban areas)**

Fare component	Off-peak (Tariff 1)	Peak (Tariff 2)	Night-owl (Tariff 3)
Hiring charge	\$3.60	\$3.60	\$6.10 <sup>a</sup>
Distance rate (per km)	\$2.19	\$2.63 <sup>b</sup>	\$2.63 <sup>b</sup>
Waiting rate (per minute)	\$0.94	\$0.94	\$0.94
Time when tariff applies	6am – 10pm every day	10pm -6am Sunday to Thursday nights	10pm - 6am Friday and Saturday and day before a public holiday

**Note:** the distance rate applies when the vehicle is travelling more than 26 kilometres per hour. The waiting rate applies when the vehicle speed is less than 26 km/h.

<sup>a</sup> Includes the peak time hiring charge of \$2.50.

<sup>b</sup> The night distance rate is calculated as a 20% surcharge on the distance rate.

**Table F.2 Option 1: Existing fares (country areas)**

Fare component	Off-peak (Tariff 1)	Peak (Tariff 2)
Hiring charge	\$4.10	\$4.10
Distance rate (per km, up to 12km)	\$2.26	\$2.71 <sup>a</sup>
Distance rate (per km, over 12km)	\$3.13	\$3.75 <sup>a</sup>
Waiting rate (per minute)	\$0.96	\$0.96
Time when tariff applies	6am – 10pm Monday to Saturday	6am - 10pm Sundays and public holidays 10pm -6am every day

<sup>a</sup> The night distance rate is calculated as a 20% surcharge on the distance rate.

#### Option 2

Option 2 is to adopt a tariff structure similar to the one used by some hire car rideshare service providers.

Current fares for rank and hail services include three tariff components: a hiring charge, a distance rate and a waiting rate. The distance rate applies when the taxi is travelling at or

above 26km/h. The waiting rate applies when the taxi is travelling below 26km/h, including when the taxi is waiting at an intersection or in heavy traffic.

Rideshare service providers use slightly different tariff components:

- ▼ a hiring charge
- ▼ a distance rate that applies to the total distance of the trip, regardless of the travelling speed, and
- ▼ a duration rate that applies to the total duration of the trip, regardless of the travelling speed.

It is difficult to convert current fares into this structure, but we obtained a close match (shown in Table F.3 and Table F.4). We did this by retaining the existing flagfall for each tariff, then adjusting the distance and duration rates so that over each of our sample trips there is less than 2% difference in between the total fare under this option and option 1 (existing fares) in urban areas, and less than 7% different in country areas.

**Table F.3 Option 2: Tariff structure with duration rate (urban areas)**

Fare component	Off-peak (Tariff 1)	Peak (Tariff 2)	Night-owl (Tariff 3)
Hiring charge	\$3.60	\$3.60	\$6.10
Distance rate	\$1.38	\$1.72	\$1.72
Duration rate	\$0.71	\$0.71	\$0.71

**Table F.4 Option 2: Tariff structure with duration rate (country areas)**

Fare component	Off-peak (Tariff 1)	Peak (Tariff 2)
Hiring charge	\$4.10	\$4.10
Distance rate (per km, first 12 km)	\$1.42	\$1.78
Distance rate (per km, over 12 kms)	\$2.10	\$2.63
Duration rate	\$0.72	\$0.72

### Options 3a and 3b

Options 3a and 3b have only one fare area, rather than the existing urban and country fare areas. Each option retains multiple tariffs (off-peak and peak, or off-peak, peak and night-owl).

Currently, the peak periods in urban areas are different to the peak periods in country areas. In addition, the peak hiring charge effectively creates an additional 'night owl' tariff in urban areas only. For the purpose of our analysis, we assumed that the single fare area option would specify three tariffs – off-peak, peak and night-owl.

For each component of each tariff:

- ▼ Option 3a takes the highest value from each of the existing areas.
- ▼ Option 3b takes the lowest values from each of the existing areas.

**Table F.5 Option 3a Maximum fares for all of NSW - high**

	Off-peak (Tariff 1)	Peak (Tariff 2)	Night-owl (Tariff 3)
Hiring charge	\$4.10	\$4.10	\$6.10
Distance rate (per km, first 12 km)	\$2.26	\$2.71	\$2.71
Distance rate (per km, over 12 kms)	\$3.13	\$3.75	\$3.75
Waiting rate (per min)	\$0.96	\$0.96	\$0.96

**Note:** This option retains the \$6.10 "night-owl" hiring charge for urban areas. If we removed this, as recommended by the NSW Taxi Council, there would be no night owl tariff.

**Table F.6 Option 3b Maximum fares for all of NSW - low**

	Off-peak (Tariff 1)	Peak (Tariff 2)	Night-owl (Tariff 3)
Hiring charge	\$3.60	\$3.60	\$4.10
Distance rate	\$2.19	\$2.63	\$2.63
Waiting rate (per min)	\$0.94	\$0.94	\$0.94

### Options 4a and 4b

These options have a single maximum (peak) for each tariff component. They retain the existing distinction between urban and country fare areas.

A single maximum for each tariff component would mean that the Fares Order does not specify off-peak and peak fares. It would still allow authorised TSPs to have multiple tariffs (eg, peak and off-peak), but each would have to be less than or equal to the regulated tariff. It would give authorised TSPs the flexibility to decide when peak tariffs apply, and the relativity between peak and non-peak tariffs. This is consistent with the Point to Point Taskforce's recommendation for more flexible peak fares, which was supported by Government.<sup>154</sup>

This set of options would also give authorised TSPs greater flexibility to change the relative value of each component within a non-peak tariff.

Option 4a takes the values from the highest tariff in each area. Option 4b takes values from the lowest tariff in each area.

<sup>154</sup> In making our recommendations we are to consider the *Point to Point Transport Taskforce: Report to the Minister for Transport and Infrastructure* (November 2015) and the NSW Government's response.



**Table F.7 Option 4a Maximum (peak) fares - high**

Urban areas		Country areas	
Hiring charge	\$6.10	Hiring charge	\$4.10
Distance rate (per km)	\$2.63	Distance rate (per km, first 12kms)	\$2.71
Waiting rate (per min)	\$0.94	Distance rate (per km, over 12kms)	\$3.75
		Waiting rate (per min)	\$0.96

**Note:** This option retains the \$6.10 "night-owl" hiring charge for urban areas. If we removed this, as recommended by the NSW Taxi Council, the maximum urban area hiring charge would be \$3.60.

**Table F.8 Option 4b Maximum (peak) fares - low**

Urban areas		Country areas	
Hiring charge	\$3.60	Hiring charge	\$4.10
Distance rate (per km)	\$2.19	Distance rate (per km, first 12kms)	\$2.26
Waiting rate (per min)	\$0.94	Distance rate (per km, over 12kms)	\$3.13
		Waiting rate (per min)	\$0.96

## F.2 Trip samples

We developed sample of trips to analyse the potential impacts if authorised TSPs were to adopt the maximum values in each option. The trips vary by length, time of day (eg, peak taxi period), level of traffic congestion and whether they occur in an urban or country area. They are intended to be indicative of the range of trips taken by taxi.

The sample trip characteristics are detailed in the tables below.

**Table F.9 Urban trip sample**

	Duration Mins	Minutes on waiting rate	Trip distance kms	Km on distance rate
Short, Off-peak	9.0	6.0	3.5	2.5
Short, Off-peak, Congested	16.2	15.0	3.5	1.0
Short, Peak	9.0	6.0	3.5	2.5
Short, Night-owl	9.0	6.0	3.5	2.5
Medium, Off-peak	33.6	12.0	20.0	18.0
Medium, Off-peak, Congested	48.0	30.0	20.0	15.0
Medium, Peak	33.6	12.0	20.0	18.0
Medium, Night-owl	33.6	12.0	20.0	18.0
Long, Off-peak	51.6	12.0	35.0	33.0
Long, Off-peak, Congested	90.0	60.0	35.0	25.0
Long, Peak	51.6	12.0	35.0	33.0
Long, Night-owl	51.6	12.0	35.0	33.0

**Source:** IPART

**Table F.10 Country trip sample**

	Duration mins	Minutes on waiting rate	Trip distance kms	Km on distance rate
Short, Off-peak	6.6	3.0	3.5	3.0
Short, Off-peak, Congested	6.6	3.0	3.5	3.0
Short, Peak	6.6	3.0	3.5	3.0
Short, Night-owl	31.2	9.0	20.0	18.5
Medium, Off-peak	31.2	9.0	20.0	18.5
Medium, Off-peak, Congested	31.2	9.0	20.0	18.5
Medium, Peak	49.2	9.0	35.0	33.5
Medium, Night-owl	49.2	9.0	35.0	33.5
Long, Off-peak	49.2	9.0	35.0	33.5
Long, Off-peak, Congested	103.2	9.0	80.0	78.5
Long, Peak	103.2	9.0	80.0	78.5
Long, Night-owl	103.2	9.0	80.0	78.5

Source: IPART

### F.3 Analysis of options against fare setting principle

We assessed each of the fare options against the following principles:

1. The fare structure should not provide an incentive for drivers to refuse certain trips.
2. The fare structure should not provide an incentive for drivers to take a longer or slower route than necessary, or to travel at excessively fast or slow speeds.
3. The fare structure should encourage authorised TSPs to set fares that reflect the costs of supplying services and customers' willingness to pay.
4. The fare structure should encourage TSPs to innovate and improve the quality of their services.
5. The fare structure should make it easy for customers to compare the fares offered by different TSPs.
6. The fare structure should make it easy for TSPs to transition from the current fare structure.

Our assessment against these principles suggests that there is not a strong case for changing the existing tariff structure in the short term.

**Principle 1: The fare structure should not provide an incentive for drivers to refuse certain trips.**

The passenger survey indicates that 9% of Sydney residents who used taxis within the last six months had a driver refuse to take them to their destination.<sup>155</sup> However, it is not clear whether trip refusals are due to problems with the existing tariff structure.

<sup>155</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 22. Note: Respondents less frequently cited fare refusal as a problem outside Sydney.

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If trip refusals do relate to fare structure, the fare options that involve an increase in maximum values provide some scope for authorised TSPs to reduce fare refusals. That is, authorised TSPs could create incentives for drivers to pick up passengers in particular places or times by changing tariff components. For example, Options 3a and 4a would allow an authorised TSP to increase the hiring charge at non-peak times which could make shorter trips considerably more attractive to drivers.

However, while the supply of taxi licences remains restricted, an improvement in the availability of services in a particular area could come at the expense of a reduction in the availability of services in another part of the operating area. This is particularly an issue at peak times when the supply of taxi licences limits on the total number of taxis on the road.

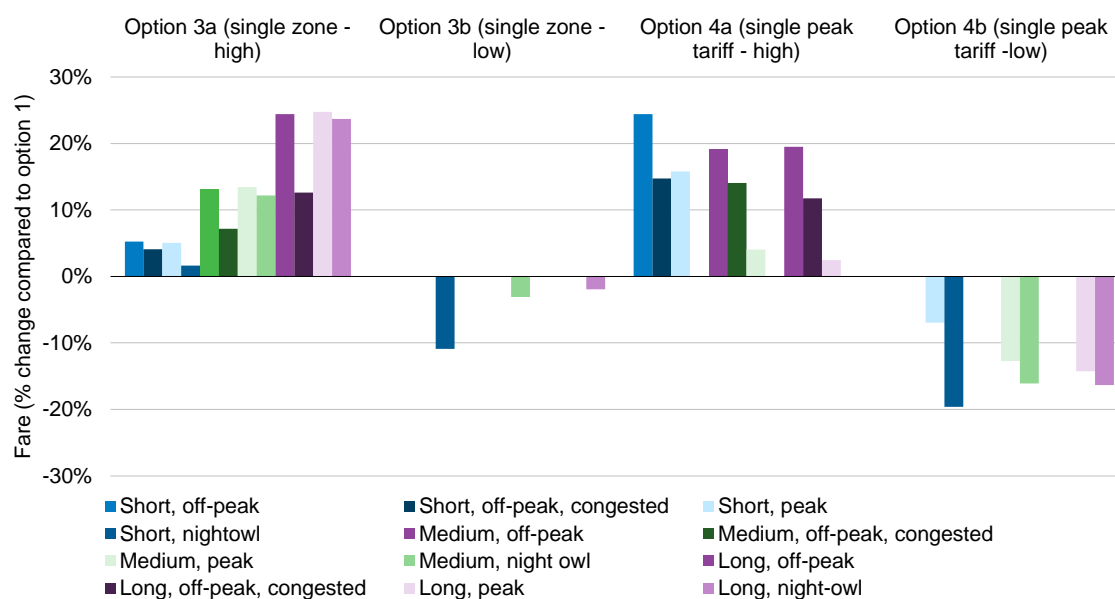
For options that involve a decrease in maximum tariff values (options 3b and 4b), there is a risk that drivers may refuse some trips that they are currently happy to accept, particularly at peak periods in existing urban areas and at most times in country areas. This is because we developed the options with reference to existing fares, and these fares are generally lower for urban areas than for country areas. The exception is the night-owl tariff which is currently higher in urban areas than country areas.

We developed a range of sample trips to analyse the potential impacts if authorised TSPs were to adopt the maximum values in options 3a, 3b, 4a and 4b. The trips' characteristics are detailed in section F.2. For each trip, we calculated the total fare under each option and compared this to the total fare using the existing regulated maximums. The results are shown in Figure F.1 and Figure F.2.

The impacts represent a 'worst case' scenario for options that include an increase in maximum tariff values. If we were to recommend one of the options that includes an increase in maximum fares, it would be in the expectation that competition was sufficient so that most providers would set at least some tariffs or tariff components lower than the regulated maximums, or provide a higher standard of service than they do now.

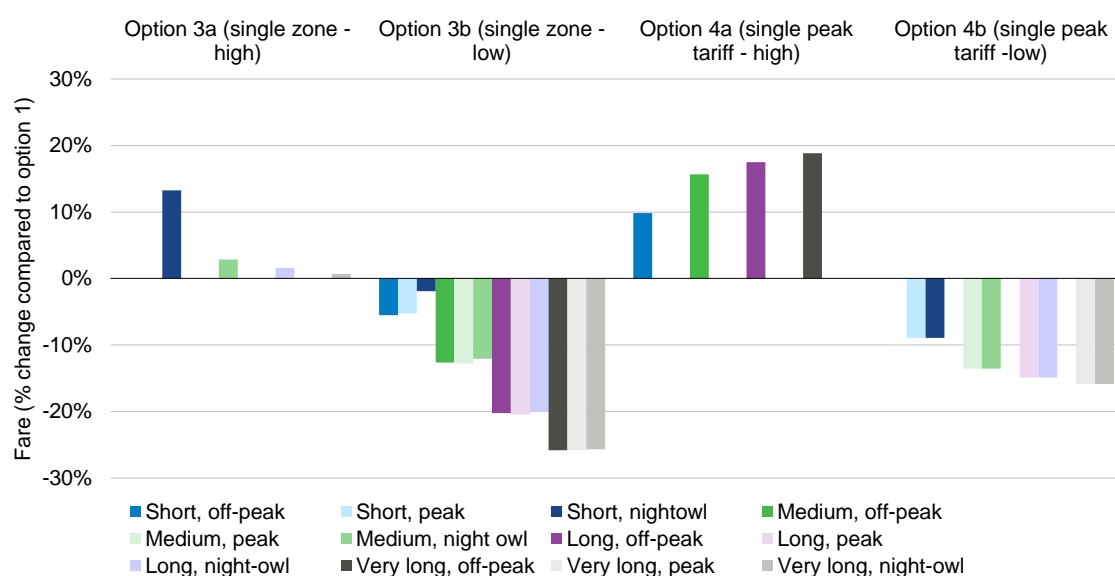
We have not included option 2 in these figures. This is because we chose the component values specifically to minimise the difference in total fares (compared to existing fares) for each trip type.

**Figure F.1 Impact on fares in existing urban areas**



Data source: IPART

**Figure F.2 Impact on fares in existing country areas**



Data source: IPART

**Principle 2: The fare structure should not provide an incentive for drivers to take a longer or slower route than necessary, or to travel at excessively fast or slow speeds.**

The existing fare structure provides an incentive for drivers to go as fast as possible when they are travelling above 26km/h, as the fare is dependent on distance travelled at speeds above 26 km/h. The incentive is probably greater in busier periods although at all times drivers are subject to speed limits and risk penalties if they exceed the limits.

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A tariff structure with a duration rate that applies to the total duration of the trip (Option 2) could instead always provide an incentive for drivers to drive more slowly than they need to, although this would probably lead to customer complaints.

The passenger survey indicates that passengers perceive that drivers often do not take the most direct route. This was reported as a problem by 26% of respondents in Sydney, 15% of respondents in regional cities and 20% of respondents in other parts of NSW.<sup>156</sup> Again, it is not clear whether drivers do this as a way of maximising fare revenue. If this is an issue, it is very difficult to address by changing the tariff structure.

**Principle 3: The fare structure should encourage authorised TSPs to set fares that reflect the costs of supplying services and customers' willingness to pay.**

Fares are currently above the efficient cost of supplying services in many areas. This means that even with no change to current maximums, there is scope for authorised TSPs to decrease fares and bring them more in line with the efficient (ie, non-licence) costs of supplying services and their customers' willingness to pay. This could increase the demand for their services (depending on customers' price elasticity).

For options that involve an increase in some maximum values, authorised TSPs could adjust fares so that they are better able to service trips where the amount they are currently able to charge is below the efficient cost of providing the service. As noted in our analysis of the options against Principle 1 above, authorised TSPs could set fares that improve services in particular places or times by changing tariff components (again noting the potential implications of maximum supply restrictions).

However, because competition is not sufficiently effective we consider that it is more likely that authorised TSPs would set fares that are even further away from the efficient cost of providing services than fares are now.

In addition, we note that customers' level of satisfaction with current fares is generally quite low. Of the Sydney passenger survey respondents asked about their most recent taxi trip, 43% thought that value for money was poor. In regional cities and the rest of NSW, 25% and 28% respectively thought that value for money was poor.<sup>157</sup> Across all areas, 41% - 46% of respondents who had used taxis less in the last year than in the previous year said it was because they found taxis more expensive than they had before.<sup>158</sup>

Options that involve a decrease in some maximum values could bring fares closer to the efficient cost of supplying taxi services and customers' willingness to pay. However, the options we have analysed generally reduce fares for trips in peak times (in order to achieve a single fare area and/or a single tariff) which is when we would expect customers' willingness to pay is higher.

Option 2 has potential to be more cost-reflective than the existing tariff structure. However, we would need reliable information on costs to allocate them accurately to each tariff component.

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<sup>156</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 22.

<sup>157</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 33.

<sup>158</sup> Orima Research, *Point to Point Transport Survey Report*, 30 November 2017, p 15. Note: respondents were able to nominate more than one reason.

#### Principle 4: The fare structure should encourage TSPs to innovate and improve the quality of their services.

Although we consider that the existing level of competition is not sufficient to move to significantly less prescriptive form of regulation at this stage, we want to be confident that the level or structure of fares does not prevent authorised TSPs:

- ▼ offering customers the quality of rank and hail services that they would like at a price they are willing to pay (this is relevant to the “standards of quality, reliability and safety of the services” which we must consider in accordance with our referral), or
- ▼ responding to competitive pressure from other modes (this is relevant to the “the viability and sustainability of the taxi industry” which we must consider in accordance with our referral).

The Government has removed many of the regulations and service standards for the quality of taxi services. It is now up to each authorised TSPs to determine the quality of services that their customers desire and are willing to pay for. If providers do not meet customers’ expectations, they will lose business to their competitors.

In places where fares are currently above the efficient cost of supplying services, there is also some scope for TSPs to innovate and improve the quality of their service even with no change to current maximum fares. One key measure of quality for rank and hail taxi services is length of passenger waiting times, although quality could also mean more luxurious vehicles and better dressed drivers.

For options that involve an increase in some maximum values, there is potentially more scope for TSPs to innovate and improve the quality of their services.

If fares are too low TSPs may not be able to differentiate their product by offering higher quality than their competitors, whether they be other TSPs or hire vehicle services. There is a risk of this occurring if we recommend a nominal fare decrease. However, some customers may value the certainty of lower fares even if this means a more basic standard of service (a ‘plain vanilla’ service).

It is not clear whether Option 2 would encourage TSPs to innovate and improve the quality of their services any more or less than with the existing tariff components.

#### Principle 5: The fare structure should make it easy for customers to compare the fares offered by different TSPs and hire vehicle services.

We consider a prescribed tariff structure comprising the existing components will make it possible for customers to compare the fares offered by different TSPs without too much difficulty. It may still be difficult to compare rank and hail taxi fares with fares for hire vehicle services because the latter has to date been based on an alternative structure. Option 2 would overcome this issue, at least in the short term. However we cannot be sure that hire vehicle services will continue to use the same tariff components as they do now.

We also note that many TSPs and Booking Service Providers now provide web or app-based fare calculators that provide customers with an estimate of the total fare for travelling between two places (as selected by the web or app user). This market response facilitates

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fare comparisons. However, at this stage a prospective passenger would need to open multiple websites or apps to compare prices offered by different TSPs.

**Principle 6: The fare structure should make it easy for TSPs to transition from the current fare structure.**

No change to current fares will mean that there are no transitioning issues.

Options that reduce the maximum values for some tariff components would require authorised TSPs or their affiliates to adjust their fare calculation devices accordingly. However, this would be no more complicated than for fare changes in the past.

For options that involve an increase in some maximum values, authorised TSPs could retain the current tariff structure, and there would not be any transitioning issues. However, if we were to recommend any of these options, we would expect authorised TSPs to consider how their fares should change, if at all. This is not something that networks or operators have routinely done in the past. However, businesses in competitive markets are often required to make pricing decisions and we consider authorised TSPs are well-placed to set their own fares given they have better information about the cost of providing taxi services and customers willingness to pay than we do.

Merging the existing urban and country fare areas into a single fare area across NSW would make it easier for authorised TSPs holding new annual licences to operate across existing fare area boundaries if they want to.

Option 2 would involve a significant change for the taxi industry and it is not clear whether the fare calculation devices currently installed in many taxis (traditional taxi meters) could accommodate the change. In regional and country areas of Victoria where taxi operators can set their own fares, most operators have continued to use the pre-deregulation fare components. Again, this could be due to the technical limitations of installed taxi meters.



## Glossary

Affiliated Taxi Service Provider  
(affiliated TSP)

Provides a taxi service under the brand of an **authorised Taxi Service Provider**.

Most taxi operators that were accredited under the *Passenger Transport Act 1990* automatically transitioned to the new regulatory system as affiliated TSPs.

Authorised Taxi Service Provider  
(authorised TSP)

Provides a taxi service, sets their own fares, has their own branding, and makes their own arrangements for safety and security. They must be authorised by the Point to Point Transport Commissioner.

Taxi networks that were authorised under the *Passenger Transport Act 1990*, and taxi operators accredited under the *Passenger Transport Act 1990* and not affiliated with an authorised taxi network, automatically transitioned to the new regulatory system as authorised TSPs.

Authorised fare

The amount chargeable for hiring a taxi from a rank or on the street in accordance with a **fares order**, or the fare determined by the **authorised TSP** if this is less than the fare under the applicable **fares order**.

Booked services

A point to point transport service in a taxi or hire vehicle that is obtained by making a booking through a **Booking Service Provider**.

Booking Service Providers

Takes bookings for taxis and hire vehicles to provide passenger services. They must be authorised by the Point to Point Transport Commissioner.

Taxi networks that were authorised under the *Passenger Transport Act 1990*, and taxi operators accredited under the *Passenger Transport Act 1990* and not affiliated with an authorised taxi network, automatically transitioned to the new regulatory system as authorised Booking Service Providers.

Designated Zone	<p>Our proposed Designated Zone includes all current operating areas that are at least partly within a Significant Urban Area, and operating areas that</p> <ul style="list-style-type: none"> <li>▼ have more than five taxi licences, or</li> <li>▼ have had recent high-value licence transfers, or</li> <li>▼ are adjacent to busy tourist areas.</li> </ul>
Exempt Zone	<p>Our proposed Exempt Zone covers the remaining areas of NSW. It also includes operating areas already exempt from maximum fare regulation in the November 2017 Fares Order.</p>
Fares order	<p>TfNSW can make a fares order under section 76 of the Point to Point Act. The current fares for rank and hail taxi services commenced 1 November 2017.</p>
Hire vehicle	<p>Under the <i>Point to Point Transport (Taxis and Hire Vehicles) Act 2016</i>, a hire vehicle means a motor vehicle that is used to provide a passenger service that is not a <b>taxi service</b>.</p>
Operating area	<p>The area of operation specified in a taxi licence in accordance with section 56 of the Point to Point Act.</p>
Point to Point Act	<p><i>Point to Point Transport (Taxis and Hire Vehicles) Act 2016</i></p>
Point to Point Regulation	<p><i>Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017</i></p>
Sydney	<p>The Metropolitan Transport District as defined in the <i>Transport Administration Act 1988</i>.</p>
Taxi service	<p>Under the Point to Point Act, a taxi service means a passenger service where the transport is by a motor vehicle that plies or stands for hire on a road or road related area or is authorised to do so.</p>
Rank and hail taxi service	<p>A service provided by a taxi that is hired at a taxi rank or from the street.</p>