IPART
New South Wales

Independent Pricing and Regulatory Tribunal

2012 Review of Taxi Fares in NSW

Maximum fares from July 2012

Transport — Draft Report
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ISBN 978-1-921929-78-6

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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 11 May 2012.

We would prefer to receive them electronically via our online submission form <http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

Taxi fare review 2012
Independent Pricing and Regulatory Tribunal
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Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

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If you would like further information on making a submission, IPART's submission policy is available on our website.

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1 Introduction

Each year the NSW Government asks IPART to review taxi fares and recommend new maximum fares to Transport for New South Wales. In doing this we consider the factors required by our terms of reference, which are provided under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (see Appendix A), and the views of taxi stakeholders and interested members of the public.

This year we are undertaking a broader review of our approach to this task than we have done in recent years, consistent with our view that our approach should be reconsidered periodically in order to ensure that it remains relevant to the industry.

This report sets out our draft decisions on the approach we will take and the method that we will use to calculate taxi fare changes. Using the latest available information, the indicative fare increases that result from our draft decisions are 3.2% for urban taxis and 3.4% for country taxis. We will use additional information[1] for our final recommendations and these indicative figures may change as a result.

We are now seeking comment from interested parties before we finalise our decisions and make recommendations.

1.1 Overview of draft decisions

We will continue to use the Taxi Cost Indices

We have decided to continue to use 2 industry-specific Taxi Cost Indices (TCIs), one for urban areas and one for country areas, as the basis for our fare recommendations. While we have made some changes to the way we do this, and to the composition of the TCIs, we have continued to focus on actual (financial) costs. We do not intend to recommend additional changes in fares other than to compensate the industry for the change in costs as measured by the TCIs.

[1] ABS data will be available for the March 2012 quarter for our final report and recommendations; throughout this draft report we have used ABS data up to the December 2011 quarter. We will also have additional fuel price data from FUELtrac for March and April 2012 for the final report.

We considered a proposal to move to setting taxi fares by reference to 'efficient economic costs' instead. While we agree that some taxi industry costs are higher as a result of regulatory intervention or current industry structure, we do not think that adjusting fares is the best way to address these issues.

We also considered submissions that fares should be higher to provide a higher income for drivers. While the survey we commissioned of taxi drivers and operators shows that drivers do have low earnings, we do not think that raising fares would increase drivers' earnings.

We have reweighted the Taxi Cost Indices using survey and other data

We have reweighted the TCIs by assessing the costs involved in providing taxi services. To help us assess the costs, we engaged consultants, the Centre for International Economics (CIE), to conduct a survey of taxi drivers and operators and to undertake other research into taxi costs. We are releasing CIE's final reweighting report[2] at the same time as this draft report.

We have adopted all the weightings recommended by CIE in their final report. In doing so, we have made some changes to the way we construct the TCIs:

- We are using a weighted average of data from standard taxis and Wheelchair-Accessible Taxis (WATs), rather than basing our indices on a 'typical' taxi.
- We are using CIE's estimates of actual driver and operator earnings per taxi to weight drivers' labour and operator administration costs rather than using proxy wage rates for these items.

We are using the same inflators as last year, with one exception

We also considered the inflators we use for the cost items in the TCIs and have decided to retain the same ones as we used last year, with one exception – licence lease costs. We considered the problem of circularity between fares and licence lease costs and decided that the best way to address this would be to set the licence lease cost inflator to zero.

2 CIE, Reweighting of the taxi cost index, March 2012

We have made decisions to include adjustments for the fuel excise levy and productivity

We have decided to:

- Adjust the inflator for fuel costs by 0.4% to provide an advance for the 2.5 cents per litre increase in LPG excise that will commence from 1 July 2012.
- Not make an adjustment for the introduction of a carbon price on 1 July 2012, as we do not think it will have a significant impact on the cost of providing taxi services.
- Apply a productivity adjustment of 0.2% to the TCIs, consistent with long-term trends in the Australian economy and industry-specific factors.

We have calculated indicative fare increases

We have applied the latest available information to our draft decisions on the TCIs, and the indicative fare increases that result are 3.2% for urban taxis and 3.4% for country taxis. We will use additional information for our final recommendations and as a result our final recommendations may be different.

We will apply the increases evenly to all fare components

We have decided to retain the existing fare components and maintain their current relativities.

We will increase each fare component by the increase in the TCI and then round as required by metering technology. However, we will also publish the unrounded fare components so that next year we can apply the increase to the unrounded 2012 fares. This is consistent with the way we adjust prices for rail, bus and ferry fares, but is different from the way we have dealt with taxi fares in the past.

We do not support any new charges or minimum fares

Several submissions argue for new charges and minimum fares, including minimum fares for booked trips and electronic payments, a $5 fee for special requests such as a baby capsule or a station wagon, the introduction of a $1 superannuation levy on all fares, and increasing the WAT incentive payment.

We do not support any of these proposals.

We have considered the process for future taxi fare reviews

In our issues paper we sought feedback on a proposal to set up TCIs which could be mechanically updated each year, with review and reweighting only every 5 years or so. However, our draft decision is to maintain our current approach of annual review. We propose the next survey be undertaken in 2015 to support reweighting in 2016.

We have also decided to retain a mid-year LPG review to deal with the volatility of LPG prices.

We have considered the impact of our indicative fare changes

We are required to consider the impact of our recommendations on stakeholders and we have done this in making our draft decisions.

Specifically, we considered the level of fares in NSW and how they have changed over time, including the likely impact of our indicative fare outcomes on the cost of different types of taxi trips, and how fares in NSW compare with those in other states of Australia. We then considered the implications of the indicative fare increases for passengers, the Government and the environment.

The final fare changes we will recommend are likely to be different from the indicative fares in this draft report as some of the information we need for this year's TCI calculation is not yet available (see Chapter 3 for more information). We note that LPG prices are currently on an upward trend and should this continue during April, recommended fares may be above the indicative fare changes set out in this draft report.

We have considered information on taxi service standards

We have assessed the latest available information on taxi network service standard performance, and taxi complaints and compliments (from the Customer Feedback Management System). The service standard performance indicators were similar to the performance achieved last year, but we note that these only refer to booked trips, which are a minority of all trips taken in taxis. We found a significant increase in customer complaints, across all categories, and a significant decrease in compliments.

1.2 Review process

We are seeking stakeholder comments on our draft decisions and the indicative fare changes in this report. Submissions are due by 11 May. Information on how to make a submission is set out in the front of this report.

We will consider submissions and update the cost information used to calculate the TCIs, including the most recent available information on LPG prices, before finalising our recommendations in June 2012.

1.3 How this paper is structured

The following chapters explain how and why we reached our draft decisions in detail:

- Chapter 2 outlines the context for the review and our analytical approach to it, including our consideration of using an 'efficient economic cost' approach to recommending taxi fares and our draft decision to continue to use 2 industry-specific Taxi Cost Indices (TCIs).
- Chapter 3 discusses our draft decisions on the composition of the TCIs, including weightings and inflators for cost items, and adjustments that we will apply.
- Chapter 4 sets out our draft decisions on how to apply the TCI increases to fare components, our findings on the indicative fare changes that will result, and our decisions on additional changes requested by stakeholders.
- Chapter 5 discusses our draft decisions for future taxi fare reviews, including our consideration of mechanical updating.
- Chapter 6 discusses the impact of our indicative fare changes on passengers, the Government and the environment.
- Chapter 7 discusses the most recent data available on service performance.
- Appendix A contains the terms of reference for this year's review.
- Appendix B provides a list of submissions received.
- Appendix C provides more information on the taxi industry in NSW.
- The Glossary defines the terms and abbreviations we have used in the report.

2 Context and approach

Transport for NSW regulates most aspects of taxi operations in NSW. However, each year the NSW Government asks IPART to review taxi fares and make recommendations on maximum fares.

This year we are undertaking a broader review of our approach to this task than we have done in recent years, consistent with our view that our approach should be reconsidered periodically in order to ensure that it remains relevant to the industry.

The sections below provide more information on the context of our 2012 review and the analytical approach we used in making our draft recommendations.

2.1 Context for the review

Transport for NSW is responsible for setting maximum fares for taxis in NSW.[3] Since 2002, the Government has asked IPART to review and make recommendations on the maximum fares should apply each year. These reviews are done under terms of reference provided under section 9 of the IPART Act. The terms of reference specify the factors that we must consider when making recommendations on maximum fares. The factors include:

- the cost of providing taxi services
- the need for efficiency in supplying taxi services
- the social impact of our recommendations
- standards of quality, reliability and safety of taxi services.

The full terms of reference for this review can be found in Appendix A.

The taxi industry in NSW includes multiple participants, who may play more than one role in providing taxi services – see Appendix C for industry background. For the purposes of our fare reviews, we focus on the costs incurred by taxi operators and drivers in providing taxi services.

3 *Passenger Transport Act 1990*, Section 60A.

We use two industry cost indices called the Taxi Cost Indices (TCIs) to formulate our recommendations. In order to keep the TCIs relevant to the industry, we periodically reconsider their composition (which costs are included and their relative importance, or weightings). Box 2.1 provides information on how the TCIs work.

Box 2.1 How do the Taxi Cost Indices work?

The TCIs aim to measure the change, in percentage terms, from year to year in the costs incurred by taxi operators and drivers in providing taxi services.

The TCIs consist of a basket of cost items – such as labour costs, LPG fuel, insurance, repairs and maintenance, and the cost of leasing a vehicle and a taxi licence.

Each cost item has a weighting, which is based on what proportion of a taxi's total costs that item represents. It also has an inflator, which is a relevant piece of data that reflects the likely percentage change in the costs associated with that cost item. For example, the labour cost items are inflated by the annual change in the Wage Price Index published by the Australian Bureau of Statistics.

The separate TCIs for urban and country taxis reflect the different cost structures of providing taxi services between urban and country areas. While the 2 TCIs have the same basket of cost items and the same inflators, there are differences in the weightings for each item which reflect differences in costs between these areas.

To calculate the annual change in each TCI, we take the current weighting of each cost item and multiply it by the relevant inflator. This gives the contribution of each cost item to the index. We then sum the contributions for each of the cost items to give the percentage change in the cost index.

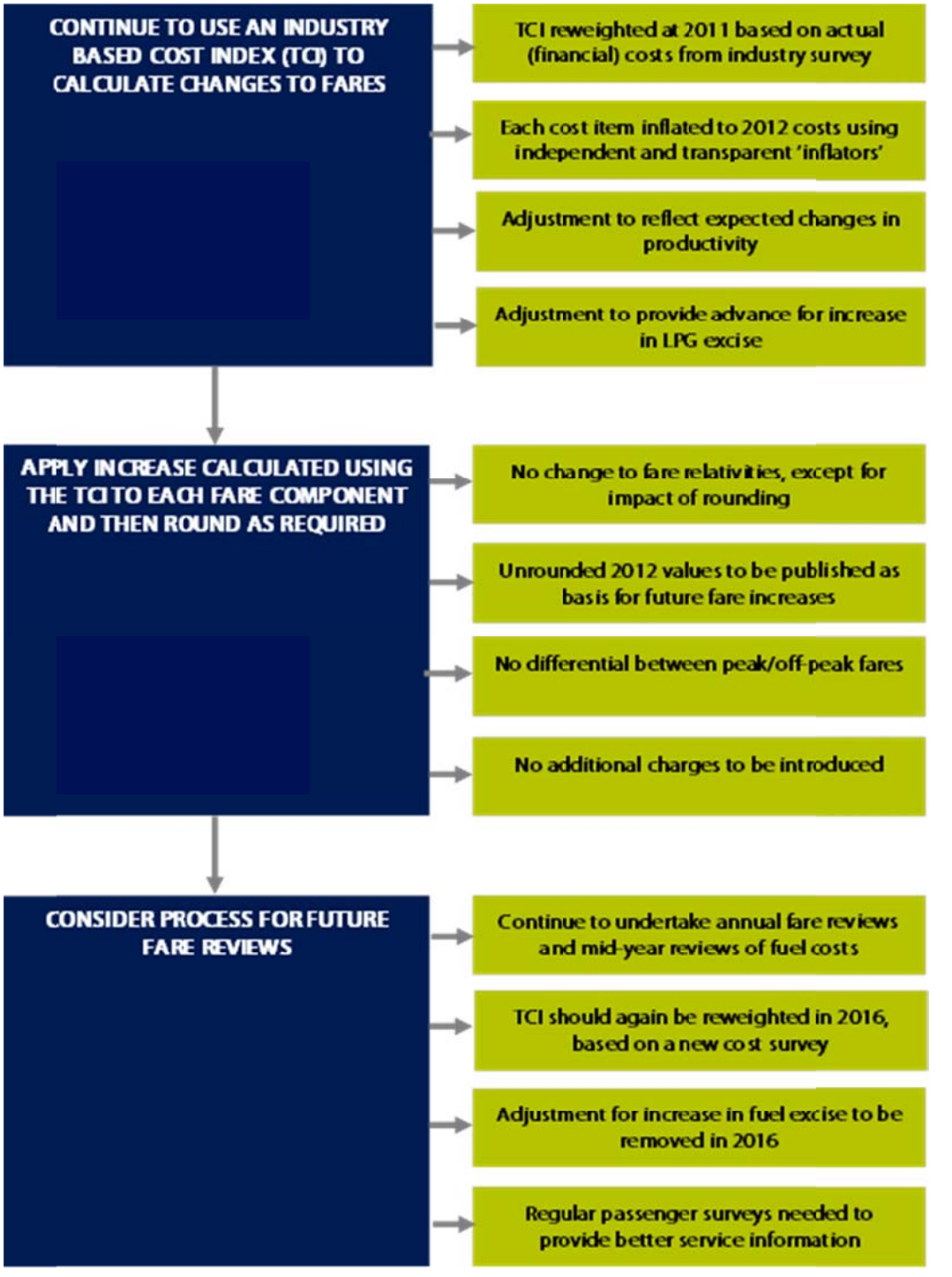
This year we commissioned consultants, the Centre for International Economics (CIE), to study the costs of providing taxi services and recommend a new set of cost items and weightings for the TCIs. Their report sets out the results of a survey of taxi drivers and operators, as well as data obtained from other sources.

2.2 The approach we took in making our draft decisions

Our draft decisions are based on our application of the TCIs. We intend to continue to use this approach to calculate fare changes that are based on the annual change in industry costs. While we have made some changes to the way we do this, and to the composition of the TCIs, we have continued to focus on actual (financial) costs in the TCIs. We do not intend to recommend additional changes in fares other than to compensate the industry for their change in costs as measured by the TCIs.

Figure 2.1 provides an overview of the approach we used to formulate our draft decisions.

Figure 2.1 Overview of our approach to the review



2.2.1 Why we continue to focus on actual (financial) costs

Peter Abelson's submission suggests that we ought to look at efficient economic costs, defined as 'the real costs to the community of operating taxis' rather than actual (financial or accounting) costs.[4] He submits that taxi licences have no economic value, and that excess profits are potentially embedded in network fees, vehicle fit-outs and maintenance and vehicle insurance.

Peter Abelson submits that the economic cost of providing taxi services may be up to 40% lower than the costs surveyed by the CIE. We agree that if we were to focus only on efficient, economic costs then a portion of the costs identified in the CIE survey may be excluded. While licence lease costs are likely to be the most significant uneconomic cost – (around 17% of costs) there are other costs that are likely to be higher as a result of regulatory intervention or current industry structure. We agree with Peter Abelson that some of the insurance costs, network fees and vehicle lease payments surveyed by the CIE may be uneconomic for these reasons.[5] However, even in a fully deregulated market some of these costs would still be incurred. Further analysis would be required to identify the efficient economic costs of these functions in a deregulated industry.

However, it is important to remember that all of the costs identified by the CIE are real costs currently faced by the industry. If regulated fares were set at a level that reflects economic costs only, we think it is likely that drivers and operators would suffer financially in the short term and as a result, service delivery would also suffer. In the longer term, economic theory suggests that the uneconomic costs would adjust downwards, but we cannot quantify how long this adjustment process would take or the precise impact of the short-term effects.

For this reason we consider that we should continue to focus on the actual (financial or accounting) costs of providing taxi services, rather than the economic cost. In our view, fares are only part of the picture. It would be better to address concerns regarding costs created by the current regulatory structure and the level of driver earnings through a broader review of the industry and its regulation than through a change to the costs included in our analysis. Such a review would need to be commissioned by the NSW Government.

Nevertheless, we recognise that the inclusion of licence costs in the TCI is problematic because their value is linked to their earning potential, which is in turn affected by fares. We do not consider it appropriate that fare changes feed directly into licence values and vice versa. As a result, we have made a draft decision to change our approach to inflating this cost item so that this circularity is removed. Over time, our approach is likely to lessen the impact of licence costs on fares and bring the costs in the TCIs closer to economic costs.

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4 P Abelson submission, 3 February 2012, pp 2-3.

5 Insurance and vehicle finance are available from a small number of providers who offer products tailored to the taxi industry.

2.2.2 Why there is no need to re-base fares so that revenue equals cost

The CIE survey suggests that on average, the actual cost of providing taxi services is lower than we have assumed in the past. This is partly due to the low level of drivers' earnings. We assumed a higher value for these (based on the opportunity cost of drivers' time) when we last reweighted the index because the previous industry survey, undertaken by PricewaterhouseCoopers (PWC) in 2007[6], did not collect reliable information on revenue.

Current fares were not set using a detailed analysis of costs and revenue. Last time we reweighted the TCIs (2008) we used a range of available estimates to cross-check fares with revenue but made no change to fares as a result. Using this approach our annual revenue estimates for a taxi ranged from $158,400 to $243,120. We concluded that the revenue estimates were likely to cover estimated actual costs of around $200,000 per taxi.

The CIE took a different approach to building the cost model than was taken by PWC. In the CIE report fare revenue matches the cost model by definition – driver earnings are balancing item to ensure that this is the case. As a result, there is no need to re-base fares to ensure that revenue is sufficient to recover current financial costs.

The CIE survey found that actual costs (and hence revenues) are below those we assumed in previous reviews - around $150,000 for a Sydney taxi.[7] CIE has conducted several cross-checks to verify the survey data, including against a sample of meter data, and is satisfied that the cost and revenue estimates obtained through the survey are reliable.

2.2.3 Why we do not recommend increasing fares to raise driver income or lowering fares to eliminate non-economic costs

A number of stakeholders asked for large fare increases in order to raise the earnings of taxi drivers. They argue that the CIE cost model shows that fare revenue is too low to provide a reasonable income for drivers and that fare increases are required to lift driver earnings above current levels. They argue that raising fare revenue will mean that drivers take home more money at the end of each shift.

Taxi drivers are not employees and their earnings are not subject to regulated minimum levels (eg, through an industrial Award). Instead their earnings depend on the fares they take and the amount they pay to the operator to bail the taxi. The earnings reported in the CIE survey show that drivers typically receive less than the minimum wage when their earnings are converted to an hourly rate.

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6 PricewaterhouseCoopers, *Review of Weightings in Taxi Cost Model*, February 2008.

7 Some of the differences result from the different approach taken by the CIE to some cost items – eg, the use of actual driver earnings from the survey rather than a notional value. Some of the difference is also because the CIE's figures are GST exclusive, whereas the current costs included in the TCI are GST inclusive.

Whiile some stakeholders argued that fare increases are needed to raise drivers' earnings to a reasonable level, others have argued that even significant fare increases would not achieve this. Those stakeholders consider that driver and operator income is largely independent of the level of fares (in other words, that they will receive the same income no matter what level fares are at). This is because they consider that the driver pay-in (and the costs to operators that underlie it) would rise to absorb any increase in fare revenue, even if those increases were large. These stakeholders instead argue for large fare reductions so that costs that are not considered 'economic' (see above) are not recovered through fares. They submit that ultimately fare reductions would leave drivers and operators no worse off but would put downward pressure on inefficient and uneconomic costs.

We consider that adjusting fares to target any one cost input with no changes to the broader regulation of the industry may not be effective. The industry is complex with a number of different players and regulations, and there are key pieces of information that we do not currently have – for example, there is insufficient information to allow us to estimate the impact of a fare change on demand (hence overall revenue). The complexity of the situation is demonstrated by the very different views about who will feel the impact of fare changes and the consequential impact on driver income.

We have not made a significant one off change to fares in the past and it is difficult to predict what the impact on individual participants would be, both in the short and longer term. History suggests that drivers are unlikely to benefit from fare increases, except perhaps in the very short term. This is likely to result from a combination of reduced demand for taxis and other costs rising to absorb increases in fare revenue. Economic theory suggests that, similarly, drivers and operators would not be worse off in the longer term if fares were lowered, but as we have indicated above, there may be short term impacts on drivers and/or operators until the other costs adjusted.

3 Changes in the Taxi Cost Indices

In reviewing and recommending fares, we estimate how the costs of providing taxi services have changed over the previous 12 months, based on the movements in the Taxi Cost Indices (TCIs). One TCI applies to urban taxi services, and the other to country taxi services.[8] We use these indices to develop fare changes that match the changes in the costs of providing taxi services.

The current fare review has included a review of the composition of the TCIs. This chapter sets out our draft findings on the change in the costs of providing taxi services, our considerations and draft decisions on the weightings and inflators to be used in the TCIs and the adjustments we propose to make to the TCIs.

3.1 Draft decisions on composition of the TCIs

As in past reviews, we will use the TCIs as the basis for fare changes in urban and country areas over the 12 months to the end of March 2011. To calculate the change this year our approach is to:

- Adopt the weightings recommended by CIE in their final report.[9] This includes a number of changes from our current approach including using a weighted average of standard taxi and Wheelchair Accessible Taxi (WAT) data and actual rather than proxy figures for driver labour and operator administrator costs (see section 3.2).
- Retain the suite of inflators we used last year to estimate the change in cost items, with one exception – licence lease costs. Our draft decision is that the inflator for this cost item be set to zero (see section 3.3).

8 Urban areas include: Sydney Metropolitan; Camden, Picton; Thirlmere, Tahmoor and Bargo; Blue Mountains; Newcastle and Fern Bay, Toronto, Minmi, Williamtown, Medowie, Ferodale, Raymond Terrace, Campvale, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago and Cams Wharf; Gosford and Wyong; Wollongong and Shellharbour. Country areas include all of NSW except: the urban areas listed above and exempted areas – Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin.

9 CIE, *Reweighting of the taxi cost index*, March 2012.

- Adjust the TCIs as follows:
  - Increase the inflator for fuel costs to provide an advance for the 2.5 cents a litre increase in LPG excise that will commence from 1 July 2012. (See section 3.4.1. Note this advance will be reversed from 1 July 2016, once annual increments of 2.5 cents are no longer added to the LPG excise.)
  - Make no adjustment for the introduction of a carbon price on 1 July 2012 (see section 3.4.2).
  - Apply a productivity adjustment of 0.2%, consistent with long term trends in the Australian economy and industry-specific factors (see section 3.4.3).

Our draft findings are that the changes in the TCIs over the past 12 months were 3.2% for urban areas and 3.4% for country areas (see Table 3.1 and Table 3.2). The changes in the costs faced by operators and drivers are separately identified.

The changes below are indicative only and may be different from the TCIs that we will use to make our fare recommendations, to be released in June 2012. The TCIs measure changes between 1 April and the following 31 March. Some of the information we need for this year's TCI calculation is not yet available. We will update the TCIs once all of the data we need is available and include the updated numbers in our final report.

Table 3.1 Estimated change in the Taxi Cost Index: urban areas

Cost item	Recommended weighting (%)	Recommended inflator	Inflator value (%)	Contribution to change in TCI (%)
Driver costs (per taxi)				
Driver labour costs[a]	41.5	WPI[b]	3.7	1.6
LPG fuel	9.8	FUELtrac LPG data[c]	5.9	0.6
Adjustment for LPG excise increase			4.4[d]	0.4
Cleaning	2.2	CPI[e]	3.5	0.1
Total drivers' costs	*53.5*			*2.6*
Operator costs (per taxi)				
Operator administration	6.2	WPI	3.7	0.2
Maintenance costs	5.0	CPI-Maintenance and Repair	0.8	0.0
Plate lease costs	17.2	Zero	0.0	0.0
Insurance	8.9	CPI-Insurance	4.8	0.4
Vehicle lease payments	4.3	CPI-Motor Vehicles	-1.6	-0.1
Network fees	4.9	CPI	3.5	0.2
Total operators' costs	*46.5*			*0.8*
Total costs (per taxi)	**100.0**			*3.4*
Productivity adjustment				-0.2
Overall change in TCI				**3.2**

a Typically there is more than one driver per taxi.

b WPI is the ABS's Wage Price Index.

c The final inflator will be based on LPG fuel cost information for the 10 months to 29 February 2012 compared to the 12 months to 30 April 2011.

d The inflator for fuel is adjusted by adding 2.5 cents to the average daily LPG price (ex GST) as calculated for the 10 months to 29 February 2012 to provide an advance for the additional annual increases in LPG excise from 1 July 2012 to 1 July 2015.

e CPI is the ABS's Consumer Price Index.

Note: Figures may not add due to rounding. Unless otherwise specified, inflator values are based on average index value for the year to 31 December 2011 divided by the average index value for the year to 31 December 2010. For our final fare recommendations we will use the average index value for the year to 31 March 2012 divided by the average index value for the year to 31 March 2011.

Table 3.2 Estimated change in the Taxi Cost Index: country areas

Cost item	Weighting at the start of the review (%)	Inflator	Inflator value (%)	Contribution to change in TCI (%)
Driver costs (per taxi)				
Driver labour costs[a]	42.3	WPI[b]	3.7	1.6
Total drivers' costs	*42.3*			*1.6*
Operator costs (per taxi)				
Operator administration	6.0	WPI	3.7	0.2
LPG fuel	10.3	FUELtrac LPG data[c]	6.2	0.6
Adjustment for LPG excise increase			3.6[d]	0.4
Maintenance costs	6.2	CPI[e] Maintenance and Repair	0.8	0.1
Plate lease costs	9.6	Zero	0.0	0.0
Insurance	6.2	CPI Insurance	4.8	0.3
Vehicle lease payments	5.1	CPI Motor Vehicles	-1.6	-0.1
Network fees	12.0	CPI	3.5	0.4
Cleaning	2.4	CPI	3.5	0.1
Total operators' costs	*57.7*			*2.0*
Total costs (per taxi)	**100.0**			*3.6*
Productivity adjustment				-0.2
Overall change in TCI				**3.4**

a Typically there is more than one driver per taxi.

b WPI is the ABS's Wage Price Index.

c The final inflator will be based on LPG fuel cost information for the 10 months to 29 February 2012 compared to the 12 months to 30 April 2011.

d The inflator for fuel is adjusted by adding 2.5 cents to the average daily LPG price (ex GST) as calculated for the 10 months to 29 February 2012 to provide an advance for the additional annual increases in LPG excise from 1 July 2012 to 1 July 2015.

e CPI is the ABS's Consumer Price Index.

Note: Figures may not add due to rounding. Unless otherwise specified, inflator values are based on average index value for the year to 31 December 2011 divided by the average index value for the year to 31 December 2010. For our final fare recommendations we will use the average index value for the year to 31 March 2012 divided by the average index value for the year to 31 March 2011

Different changes in costs for drivers and operators

For calculation of the TCIs, it does not matter whether costs are incurred by drivers or operators. Nor does IPART play a direct role in determining the maximum bailment pay-in (which distributes fare revenue between drivers and operators). However, we understand that the Industrial Relations Commission uses our reports in making its annual determination of bailment pay-ins for drivers in the Sydney Metropolitan Transport District on Bailment Method 2, and we seek to assist the Commission by continuing to separately identify driver and operator costs.

In urban areas, the costs faced by drivers rose by more than the costs faced by operators over the past year (urban drivers' costs rose by 4.8% and urban operators' costs rose by 1.6%). This is in part due to a significant increase in the cost of LPG fuel, which is a driver cost in urban areas, and the more moderate increase in overall operators' costs. In country areas, the costs faced by operators rose by more than drivers (country drivers' costs rose by 3.7% and country operators' by 3.3%). Again this reflects the movement in fuel prices as in country areas LPG fuel costs are met by operators.

3.2 Weightings for the Taxi Cost Indices

The weightings for cost items in the TCIs are the cost items' percentage share of total costs. For this review we reweighted the TCIs by gathering fresh data on the costs of providing taxi services. We last reweighted the TCIs in 2008, based on a survey of taxi drivers and operators undertaken in 2007 by PricewaterhouseCoopers.

In 2011 we engaged CIE to help us develop accurate weightings by carrying out a survey of taxi drivers and operators and undertaking other research. We are satisfied with the accuracy and robustness of CIE's findings. In our draft decisions we have accepted all their estimates of average costs, and in constructing the TCIs we have decided:

- To use a weighted average of standard taxi and WAT data.
- To use actual driver labour costs and operator administration, not the 'opportunity cost' method.

The draft weightings, and the associated estimated costs, for the TCIs in 2012 are set out in Table 3.3 below. The sections that follow set out our draft decisions on the method for calculating the weightings, and a brief description of each cost item and its weighting.

Table 3.3 Draft weightings for the Taxi Cost Indices 2012 – per taxi

Cost item	Urban		Country	
	$/year/taxi	%	$/year/taxi	%
Drivers' labour[a]	62 673	41.5%	58 351	42.3%
Fuel	14 847	9.8%	14 165	10.3%
Cleaning	3 244	2.2%	3 361	2.4%
Operator administration	9 328	6.2%	8 304	6.0%
Maintenance costs	7 580	5.0%	8 604	6.2%
Plate lease costs	25 940	17.2%	13 258	9.6%
Insurance	13 368	8.9%	8 501	6.2%
Vehicle lease payments	6 460	4.3%	7 024	5.1%
Network fees	7 430	4.9%	16 540	12.0%
Total annual costs	150 869	100.0%	138 108	100.0%

[a] Typically there is more than one driver per taxi.

3.2.1 CIE's survey and its results

We are releasing CIE's final weightings report at the same time as this draft report. CIE's draft weightings report was released in December at the same time as our issues paper. After the draft weightings report was released, CIE received more than 200 additional survey responses. Data from the additional surveys was processed and incorporated into the final report. CIE also received feedback from stakeholders.

The main differences between CIE's draft and final report include:

- CIE changed their assumptions about shift profile per taxi per year following comments from the Taxi Council and networks that the original data and analysis understated the number of taxis on the road.
- CIE amended insurance figures to account for additional costs of paying an annual premium up-front.
- CIE re-examined maintenance and repair figures in response to comments from stakeholders that they appeared too low, resulting in a small increase to the figures.
- CIE undertook additional verification of driver earning figures.

How CIE set out their results

CIE calculated average[10] costs (without GST) for the major cost items identified in providing taxi services. Some cost items (such as driver uniforms) that were previously included in an 'other costs' item were ignored this time because they were considered too small to be relevant.

10 Generally based on a 5% trimmed mean of the data from surveys, where survey data was used.

CIE calculated costs separately for standard taxis and WATs in urban areas and country areas. They also constructed some 'cost models' for our consideration, both keeping standard and WAT costs separate and calculating a weighted average of the 2. They considered options for an 'opportunity cost' calculation of notional driver wages and operator administration, as well as presenting their calculations of actual driver and operator earnings.

3.2.2 We have used a weighted average of standard taxi and WAT data

We consider that the most accurate way of accounting for the difference in cost structures between standard taxis and WATs in the TCIs is to use a weighted average of standard and WATs costs.[11]

The advantage of using a weighted average is that it formally accounts for the main variation in cost structure between different taxi service models. WATs are a significant and growing minority of the taxi fleet. The disadvantage is that there is more uncertainty around WATs results than standard taxi results because of the smaller number of survey responses from WAT drivers and operators, so accuracy is potentially compromised. However, the impact of the most uncertain estimates (WAT night shifts) is low.

Two other options we considered were:

- Use the standard taxi as the basis for the TCIs and discard WAT results. However, we did not consider it acceptable to ignore WATs when they are a significant and growing proportion of the taxi fleet.
- Use all the survey results as the basis for the TCIs without discriminating between WAT and standard taxi responses (ie, using unweighted averages). This implicitly takes the different WAT cost structure into account but is less transparent than a weighted average.

Our approach this year differs from our approach at the last re-weighting in 2008. In 2008 we based the TCIs on a 'typical' taxi, which we identified as a standard taxi. However, some of the data PWC used from its taxi driver and operator surveys included WAT data, so our approach was actually a blend of the 2 alternative options identified above. WATs constitute a bigger proportion of the fleet now than they did in 2008, and we have more reliable survey data for them, so we have chosen the weighted average approach this time.

Stakeholders generally support a weighted average approach.[12]

11 Weighted by proportion of fleet, which is approximately 90% standard and 10% WATs in urban areas and 77% standard and 23% WATs in country areas.

12 For example, NSWTDA submission, 3 February 2012, p1; NSW Taxi Council submission, 3 February 2012, pp 7-8.

3.2.3 We have maintained separate operator and driver costs

For the calculation of the TCIs, it does not matter whether the taxi driver or operator incurs a particular cost. However, we maintain separate operator and driver cost items to improve transparency and to assist the Industrial Relations Commission (IRC) in its annual Taxi Industry (Contract Drivers) Contract Determination variation process. We understand that each year the Taxi Council proposes to the IRC that the Contract Determination be varied to increase maximum pay-ins by the percentage that operator costs have increased, as measured by the TCIs. The Taxi Council also proposes that entitlements be increased by the driver labour cost inflator that IPART uses.

3.2.4 The cost items and their recommended weightings

Driver labour costs

We have decided to use actual drivers' retained earnings as estimated by CIE to weight driver labour costs in the TCIs. This implies a single 'drivers' labour' item without the additional items for entitlements and superannuation that we currently use.

The drivers' survey asked drivers for their 'takings kept' per shift, and hours worked per shift (including administration time). CIE used this information as well as information from networks about shift patterns over the year, to calculate total driver earnings per taxi over a year.

The figures for driver earnings in CIE's final weightings report are slightly higher than in the draft weightings report because CIE increased the 'shifts per year' figure following stakeholder comment (including from networks) that the network data on 'taxis logged on' understated the number of taxis on the road.

Some stakeholders thought that CIE's original estimates were incorrect, and that actual driver earnings in the industry are somewhat higher.[13] However, for the final weightings report, CIE has conducted several cross-checks to verify the estimates, including against a sample of meter data, and CIE is satisfied that the estimates are robust.

As we noted in Chapter 2, CIE's estimates show that drivers typically receive less than the minimum wage when their earnings are converted to an hourly rate. However, we also noted that taxi drivers are not employees and their earnings are not subject to regulated minimum levels.

[13] For example, NSW Taxi Council submission, p 3; ATDA submission, 2 February 2012, p 8.

Furthermore, as we noted in Chapter 2, increasing fares is unlikely to directly benefit driver incomes, except perhaps in the very short term. Including a higher notional amount for driver labour costs in the TCIs does not directly translate to higher fares.[14]

How is this different from the current TCIs?

In 2008 we used a 'proxy wage' approach to determine the weighting for drivers' labour. We did this because we did not have reliable information on drivers' actual earnings.

This year CIE surveyed drivers about their fare income, and did considerable work verifying and cross-checking the results. We think the results are robust enough to use in the TCIs.

Treatment of entitlements, including superannuation, under this approach

In the current TCIs there are cost items for drivers' entitlements in the Contract Determination (as are required to be paid to permanent bailee drivers by operators), self-funded entitlements and self-funded superannuation. Their inclusion as separate items was consistent with our past approach, where we calculated driver labour costs by reference to a proxy wage.

However, we are now proposing to use actual earnings, in an occupation (driving taxis) which does not have award wages, occupational superannuation, or any requirement to self-fund such entitlements. There is a requirement in the Contract Determination for operators to fund specified leave entitlements but anecdotal and survey evidence both from 2007 and 2011 indicated that the entitlements are rarely paid.

We did consider acknowledging these cost items by separately enumerating an allowance for each from within the driver labour figure, but we decided that this was inconsistent with our 'actual earnings' methodology.[15]

Stakeholders generally thought that we ought to make allowance for entitlements, because taxi drivers ought to receive them (in particular, the Contract Determination entitlements) and/or ought to be making enough money to self-fund them. However, as we have pointed out before, we cannot determine the distribution of fare income between participants, and our putting in a 'fair' allowance for a cost item does not mean it will flow through to the intended recipient.

14 For more information refer to the example set out in the discussion paper IPART, *Taxi Fare review roundtable, Overview for Taxi roundtable – 29 February 2012*.

15 If we were to include entitlements as a separate item, the actual earnings methodology would require this value to be deducted from driver earnings rather than added on top of the earnings figures from the CIE survey.

Stakeholder views

As noted above, industry stakeholders (driver associations, Taxi Council) generally favour using an opportunity cost approach and including cost items for leave entitlements and superannuation. They support this approach for various reasons, including:

- That they think a 'fair' wage for drivers, including entitlements, should be included in the TCIs.
- That they think that the CIE survey estimates are lower than actual driver incomes.
- In the case of the Taxi Council, because they make submissions to the Industrial Relations Commission for the entitlements in the Contract Determination to be updated each year, based on the inflator which IPART applies to the entitlements cost item in our reviews.

Fuel

CIE used information about fuel cost per shift (as recorded by drivers and/or operators in the survey) and information from networks about patterns of shifts worked across the year to estimate total fuel cost per year.

Stakeholder views

There were no significant objections to CIE's estimates of fuel costs. Stakeholder concerns about the treatment of fuel in the TCIs generally relate to the lag effect of the backward-looking inflator and the volatility of LPG prices. These issues are dealt with in section 3.4.1 and 5.3 of this report respectively.

Cleaning

CIE estimated cleaning costs based on the assumption (derived from the operator survey) that a taxi is cleaned 6 times per week in each week the taxi is on the road. CIE obtained quotes for cleaning taxis, which averaged $12 per wash (including GST), and calculated annual average cost (without GST).

How is this different from the current TCIs?

The current TCIs include items for 'other driver costs' and 'other operator costs' which largely consist of cleaning costs respectively (operators usually pay for cleaning in country areas and the Contract Determination specifies that in Sydney, drivers on Method 2 are responsible).

However, 'other costs' also currently include Government charges (for operator accreditations, driver authorisations, driver licence etc), uniform costs, mobile phone costs and tyres. Tyres are now included in the maintenance and repairs item, and CIE did not include amounts for the other items as they considered them 'too small to be relevant'.

Stakeholder views

Some stakeholders argue for additional costs to be included in the 'other costs' category. For example, the Australian Taxi Drivers Association submits that 'tolls not part of fare' (ie, when a driver incurs a toll when the cab is not occupied), fare evasions, driver training, 'tools of the trade', uniform laundering and meal and travel allowances should be included.

Operator's administration

This cost item covers the cost of an operator's time spent in administrative tasks, plus any money an operator spends paying somebody else to do such administration. CIE initially proposed to use an opportunity cost approach for the operator's time on this item. However, in the interests of methodological consistency, we have decided to use actual figures from the survey, which CIE also calculated as a cross-check.

CIE calculated the operator earnings by subtracting operator costs from operator reported revenue (from pay-ins), with robust results for urban standard and WAT operators and country standard taxi operators. For the small sample of country WATs, estimated costs exceeded estimated revenue, so we have excluded this data and used country standard operator results only.

How is this different from the current TCIs?

In 2008 we used a 'proxy wage' approach to determine the weighting for operator's labour. We did this because we did not have reliable information on operators' actual earnings.

The survey results for operator earnings in 2011 are not as robust as those for driver earnings, but we think that the benefits of methodological consistency outweigh the risks of using less reliable survey data.

Stakeholder views

Stakeholders generally prefer that a proxy be used for operator administrative time.

Maintenance

CIE estimated maintenance costs based on survey responses to questions about operator's own time, hired labour, and other costs related to maintenance and repairs (net of any insurance reimbursement).

Stakeholder views

Stakeholders argue that the maintenance cost estimates in CIE's draft report were too low. CIE re-analysed the figures and the final recommended estimates are slightly higher than the originals, but still below industry expectations. CIE is confident in the robustness of the survey data, and suggests that industry expectations are based on a 'typical taxi' model where a taxi drive 14 shifts a week, whereas the survey results indicate that on average taxis drive much less than this.

Plate lease costs

The average cost of leasing taxi licence plates was calculated directly from survey results.

Stakeholder views

In our issues paper, we canvassed whether or not to remove the plate lease cost item from the TCIs as a way of addressing the circularity between fares and lease costs. In general, the economists who made submissions favour removing plate lease costs from the calculation on the grounds that it is not an economic cost, but other stakeholders do not.

However, if we continue our existing methodology (ie, applying the TCIs to historical fares), removing the plate lease cost item just distorts the TCIs' measurement of actual cost changes. We therefore consider it preferable to retain the cost item but make a change to the inflator for the item to address the circularity problem (see section 3.3.1).

Insurance

CIE obtained quotes from insurance suppliers for each of the types of insurance that taxi operators usually have. (Survey results indicated that operators usually hold all insurances possible, whether they are compulsory or not.) The quotes were obtained for a starting operator (ie, without an insurance record), and an adjustment was made for having to finance a year's worth of insurance up-front.

Stakeholder views

Stakeholders did not raise any issues with the insurance figures in CIE's draft report.

Vehicle lease payments

CIE calculated vehicle lease costs based on market estimates of costs of purchasing a vehicle for use as a taxi and costs of fitting it out, combined with survey evidence on the age and useful life of vehicles, amortising the cost over the average life of a vehicle, using the Reserve Bank of Australia's business indicator lending rate averaged over the past year and adjusted to a real figure.

Stakeholder views

Stakeholders thought that CIE's original figures were too low, and actual survey figures were rather higher than CIE's calculated estimates. CIE made some adjustments to their analysis, but view the survey figures as unreliable, being based on very small samples.

Network fees

CIE obtained data on network fees from 12 urban and 4 country networks. The information from the urban networks was consistent and covered almost all networks which operate in urban areas. Country network data was quite variable and there are many more country networks from which CIE did not receive data. While we are less certain that the country network fee average cost is representative of all country networks than the urban network fee data, we do not have a better estimate, so we have used the CIE figure.

3.3 Inflators for the Taxi Cost Indices

The inflators for the TCIs aim to estimate the change in costs from year to year for each cost item. In order to ensure that the TCIs are based on independent, verifiable information that does not overstate or understate the change in costs faced by the industry, we try to select inflators that are publicly available wherever possible while still providing a good estimate of the change in costs faced by the industry.

We compared cost information from the last reweighting (ie, the 2007 survey done by PricewaterhouseCoopers) with that identified in the CIE survey with the aim of tracking the actual change in costs over the past 5 years. By comparing the actual change in costs with the inflator we have been using, we can assess how good the inflators are as an estimate of changing costs.

Unfortunately, for most cost items differences in methodology between surveys mean that the 2 sets of data cannot be meaningfully compared. As a result, we focused our analysis on those inflators that we or other stakeholders were concerned about. Those inflators are:

- Licence lease costs – we identified in the Issues Paper a problem with including the change in actual costs in the TCI as change in fares influence licence costs.
- Insurance costs – the Taxi Council is concerned that the CPI – Insurance is not a good indicator of the change in costs faced by the industry.
- Fuel costs – the TCIs in our draft decision are based on a weighted average of WAT and standard taxis. As most WATs use unleaded petrol, we considered whether it was appropriate to also include unleaded petrol prices in the inflator.

Our draft decision is that only one inflator should be changed – the inflator for licence lease costs, which should be set at zero. All other inflators should remain the same as those used in last year's review. Table 3.4 provides an overview of the inflators used in our draft decision. Following the table is our analysis of each of the 3 inflators listed above.

Table 3.4 Draft decision on inflators

Cost Item	Recommended inflator
Driver labour costs	WPI
Fuel	Daily average LPG price from FUELtrac
Cleaning	CPI (Sydney)
Operator administration	WPI
Maintenance costs	CPI – Maintenance & Repair
Plate lease costs	Zero[a]
Insurance	CPI – Insurance
Vehicle lease payments	CPI – Motor Vehicles
Network fees	CPI (Sydney)

a This is the only inflator that is different from what was applied last year.

Note: These inflators apply to both country and urban TCIs.

3.3.1 The inflator for licence lease costs should be zero

At our last major review in 2008 we changed from a 'rate of return' method[16] of calculating the inflator for plate lease costs to one that was more closely related to the change in lease costs. We decided that data supplied by the Taxi Council most closely reflected the actual costs incurred by operators (and thus the actual change in those costs from year to year). However, we were concerned that this method was not independent or sufficiently representative of the actual change in costs.

The issue of circularity (with actual changes in plate lease costs contributing to higher fares, and then in turn raising plate lease costs further) has been criticised strongly this year and our independent consultants, the CIE, suggested that our past approach has resulted in higher than necessary fares.

We recognise that the inclusion of licence costs in the TCI is problematic because their value is linked to their earning potential, which is in turn affected by fares. We do not consider it appropriate that fare changes feed directly into licence values and vice versa. As a result, this year we consulted on the following options:

- Use an inflator based on actual costs – approximated by either Taxi Council, or Government data.
- Use an inflator unrelated to costs to overcome circularity – either CPI or 0%.

16 Under that approach we applied an interest rate to the average value of licence plates sold that year to estimate a reasonable rate of return on the owner's investment.

We have made a draft decision to change our approach to inflating this cost item and use an inflator of zero in order to remove this circularity. Our reasons for this decision are discussed in more detail below.

Using actual costs

Using actual costs has the following advantages:

- Changes to the TCIs more closely reflect the changes in the total cost of providing taxi services.
- This method is preferred by most industry stakeholders.[17]
- There is now independent data available that we could use to calculate the inflator:
  - The auction data from the new licences can be transformed into annualised lease costs.[18]
  - In the future we may have access to actual information on lease costs whenever a new lease is entered into. (Legislative change to provide for this is currently under way.)

However, while better data may now be available we do not support using any information on actual licence costs in the TCI as lease costs and fares are each affected by the value of the other. We are concerned that in the past our approach may have contributed to higher than necessary fares. In order to break this circularity, we consider that we must use an inflator that is not based on the actual change in costs.

Using an inflator that is not based on actual costs to overcome circularity

An inflator that is not based on actual changes in licence costs:

- Removes the link between actual movements in lease costs and taxi fares, overcoming the circularity issue. It also should provide greater stability in fares.
- Sacrifices accuracy, so movements in the TCIs could overstate or understate the change in costs faced by operators.
- Means that the weight of lease costs in the TCIs is likely to reduce over time from its current levels, further reducing the influence of lease costs on fare changes.

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17 Eg, T Bradley supplementary submission, 5 March 2012, p 1; T Bradley submission to IPART issues paper, p 6. NSWTDA submission, Response to IPART issues paper, p 2.

18 The new annual taxi licences are more like a 10-year licence with an option to return them at any time. The public information about successful tender bids provides an indication of the value of leases, but it does not represent the current annual costs of leases.

The NSW Taxi Council's submission supports using CPI as the inflator on the basis that it maintains the value of the equity in a taxi business.[19] However, we consider that a value of 0% be used as the inflator is preferable to the CPI. Using either overcomes the issue of circularity (both positive and negative) and should make fares more stable but using 0% has the advantages that:

- Data on the change in licence lease costs provided by the NSW Taxi Council shows that lease values have risen by 1.7% since our last review. We consider that this supports use of a value below the change in the CPI.
- It will not put any upward pressure on fares.
- It will reduce the importance of lease costs in the TCIs at a faster rate than the use of a CPI inflator.

3.3.2 The inflator for insurance costs should not change

Insurance costs in the TCI include comprehensive car insurance, third party property, workers compensation and compulsory CTP greenslip and public liability insurance. We currently use the CPI – Insurance to inflate this cost item. This measure includes a range of insurance costs, many of which are not directly relevant to the taxi industry but some of which are based on motor vehicle insurance more generally. For example, it includes insurance for dwellings, comprehensive motor vehicle insurance and compulsory third party motor vehicle insurance services.

The NSW Taxi Council submits that the use of CPI – Insurance has resulted in an inflator that has not reflected the change in costs faced by the industry:

> Insurance costs are industry-specific and the use of a general inflator based on all types of insurances creates a risk that cost changes will not be accurately captured resulting in taxi fare adjustments that are either higher or lower than they would otherwise be.[20]

The NSW Taxi Council supports inflation of insurance costs using industry specific data (prior to 2007 we used industry specific data based on quotes from a single taxi insurer).[21] The Taxi Council suggests that we could again obtain taxi specific insurance costs every year so as to get an inflator that was a closer approximation to the actual change in costs faced by the industry.

19 NSW Taxi Council submission, 3 February 2012, pp 9-10.
20 Ibid, p 2.
21 Ibid.

Having looked at the available data we agree that the CPI – Insurance inflator may not have been a close fit to the change in costs faced by the industry over the past 5 years. The CIE survey found insurance costs are around $5,000 lower per taxi in urban areas and around $2,000 lower per taxi in country areas than currently included in the TCI. There were some differences in methodology between the 2 surveys (the main one being that the CIE has included public liability insurance, whereas PWC did not). Even so the CPI – Insurance measure does appear to have overstated the change in costs faced by the industry to some extent.

However, we do not support a return to data that is not readily obtainable from an independent source because:

- Relying on industry bodies (in this case, businesses that provide insurance) to provide quotes in order to measure an annual change leads to problems of verifiability, independence and consistency of data.
- The cost of undertaking an annual survey of operators to obtain cost information from the purchasers rather than using quotes would be considerable (if it were to be of a sample size that would provide reliable results).
- When the decision was made to adopt the CPI – Insurance measure, IPART noted that the CPI measure would have resulted in much lower insurance costs than the quote based system had.[22]

While we accept that the CPI – Insurance measure has not been a close match to the change in costs in recent years, we are unable to identify an inflator that is independent and verifiable that is better. We consider that continuing to use the CPI-Insurance measure should not in theory systematically over or under estimate insurance costs despite the fact that it has overestimated them over the past 5 years. As a result, we continue to inflate the insurance cost item in the TCI using the CPI – Insurance measure in this draft report.

3.3.3 The inflator for fuel costs should not change

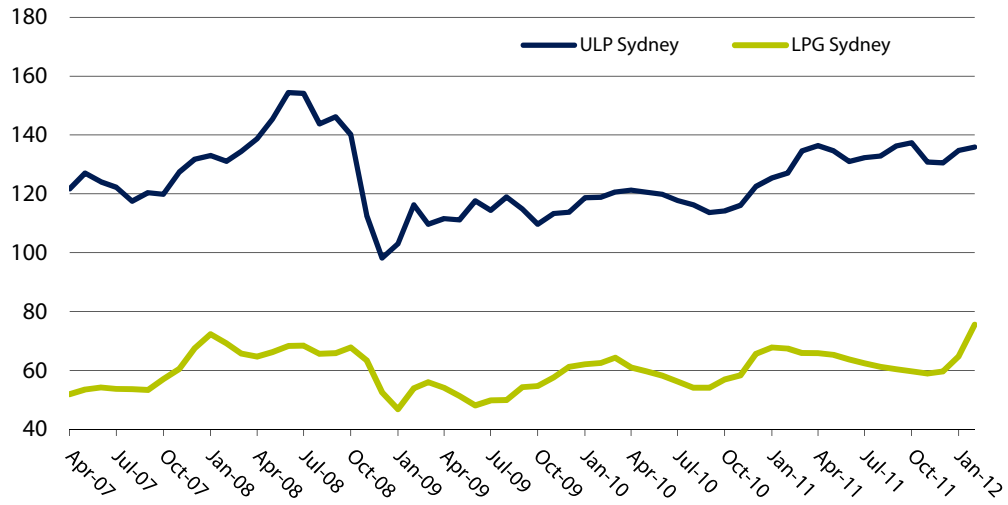
We currently use the change in LPG prices over the past year as the inflator for fuel costs in the TCIs. Our draft decision is to adopt a weighted average of standard taxis, which run on LPG, and WATs, which predominantly use unleaded petrol (ULP), in setting the weighting for fuel costs in the TCI. As a result we also considered whether a weighted average of LPG/ULP prices would be a more appropriate inflator for the fuel cost item.

Although most of the taxi fleet still consists of LPG vehicles, the proportion of ULP taxis is rising. Taxis not using LPG now account for around 10% of the fleet - up from 5% at the time of the last survey.[23]

22 IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 4.
23 PWC, *Review of Taxi Cost Weightings, Final Report*, January 2008, pp 17, 30.

As the proportion of ULP taxis in the fleet is still below 10% we do not consider that there is a lot to be gained by including ULP prices in the inflator on a weighted average basis, particularly as the 2 prices tend to move in the same direction (Figure 3.1). As a result, our draft decision is to retain LPG prices as the basis for the inflator and to reconsider whether this continues to be appropriate at the next reweighting in 2016.

Figure 3.1 Monthly average prices of ULP and LPG in Sydney over the past 5 years (c/L)



Note: Base year of the indices is 2006/07 where both are set to 100. ULP data is for Sydney only.
Data source: Source: TCI & http://www.aip.com.au/pricing/tgp/index.htm

3.4 Other issues for consideration

In our Issues Paper we identified 3 other issues that we would consider as part of this taxi fare review:

- The introduction of excise on LPG.
- The introduction of a carbon price.
- Adjusting fares for changes in productivity.

The sections below explain our draft decisions on these 3 issues.

3.4.1 We will make a prospective allowance for increasing LPG excise

From 1 December 2011, LPG fuel has had an excise of 2.5 cents per litre applied. The excise will increase in 2.5 cent increments each July until it reaches 12.5 cents per litre in 2015. In our Issues Paper, we sought stakeholder views on the possible impact of the introduction of the LPG excise and whether and how this should be accounted for in the TCIs. After considering the views of stakeholders, we decided to adjust the

inflator for fuel costs by 2.5 cents to provide an advance for the increase in LPG excise that will commence from 1 July 2012.

Stakeholder comments

The ATDA and the NSW Taxi Council support an ex-ante adjustment of fares for the increase in the excise, on the grounds of the lag effect (ie, that the 1 July 2012 increase in the excise will not be incorporated into the TCIs until 2013).[24] The NSWTDA argues that the "LPG excise should be factored into taxi fares as a driver cost."[25] Two individual submissions also support an ex-ante adjustment, one suggesting that a failure to do so compares "quite poorly with the proactive allowances recently approved by IPART for local government".[26] (IPART included a carbon price advance in the local government rate peg for 2012/13.)

Our consideration

While we agree that changes in costs should be reflected in fare changes, it is difficult to measure the impact of the excise on retail LPG prices, as the retail price of LPG is volatile and affected by many factors.

If the excise has affected the retail price of LPG since its introduction, some of the change in price will be picked up by the TCIs, as we will use the daily average price of LPG for the 12 months to the end of April 2012 in setting fares from 1 July 2012. However, we acknowledge that the excise amount will increase to 5 cents per litre on 1 July 2012 and continue to rise by 2.5 cents per litre every 1 July until 2015.

Including an advance for the increase in the excise is an exception to our standard practice of basing cost indices on past, known, increases in prices. The alternative would be to make no adjustment and allow the impact of each increase in excise to flow through into fares the next year. We consider the potential impact of the excise is significant enough to warrant an advance and that it would be unfair to set a fare change that ignored the likely effects of the excise on costs when the industry must fund those costs.

Accordingly, in setting fares from 1 July 2012 the inflator for fuel will be adjusted by adding 2.5 cents to the average daily LPG price (ex GST) as calculated for the year to 30 April 2012 to account for the additional annual increases in LPG excise from 1 July 2012 to 1 July 2015. Including such an adjustment will provide the industry with an advance to compensate for the effect of the excise on cash flows, and is consistent with the carbon price advance made to local councils through the Local Government Rate Peg. To avoid double-counting, we will reverse this adjustment from 1 July 2016.

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24 ATDA submission, 2 February 2012, p 7; NSW Taxi Council submission, 3 February 2012, p 11.
25 NSWTDA submission, 3 February 2012, p 8.
26 E Mollenhauer submission, 3 February 2012, pp 2,& 6; T Bradley submission, 9 February 2012, p 8.

3.4.2 We will make no adjustment for the introduction of a carbon price

The Federal Government's carbon price mechanism will commence on 1 July 2012. Because the TCIs are backward-looking, any changes in costs due to the carbon price will not begin to be picked up until the 2013 review. While the precise impact of a carbon price on the costs of operating taxi services is unclear, it is likely to be small (fuels such as LPG and petrol used in transport will not be subject to a carbon price).

As mentioned previously, in our local government rate peg decision we made an adjustment in advance to allow for the carbon price impact on local councils, which we assessed as significant. While our preliminary assessment did not indicate that such an approach would be required for the TCIs, in our Issues Paper we sought stakeholder views on the impact of the carbon price on the cost of providing taxi services.

One individual submission supported an advance in the cost indices for the impact of carbon pricing, consistent with our approach in local government.[27] However, the ATDA, NSWTDA and NSW Taxi Council all consider that the impact of the carbon price will be too small to measure and subsequently adjust for.[28] In light of the broad industry agreement with the position in our Issues Paper, we will not adjust the TCIs to provide an advance for the introduction of a carbon price on 1 July 2012.

3.4.3 We make an adjustment for expected productivity gains

In our last review of taxi fares, we made an adjustment to the operator labour cost item for expected productivity gains. For this review, we will apply a productivity adjustment of 0.2% to all costs in the TCIs. We consider that the taxi industry, like other sectors of the economy, is able to improve productivity over time. Our proposed productivity adjustment is based on lower productivity gains for taxis than the long term trend in productivity for the whole economy, as a result of specific issues impacting the taxi industry.

What is productivity?

Productivity measures the rate at which outputs (eg, goods and services) are produced per unit of input (eg, labour, capital, raw materials). When an industry's productivity increases, it means it is producing more outputs for a given level of inputs than it did previously. For example, it may have reduced its costs, or increased the quantity or value of its output (eg, by improving the performance of its goods or the quality of its services). Productivity improvements will reduce the need for taxi operators and/or drivers to be compensated for rising costs. In our Issues Paper, we asked stakeholders how we should deal with productivity changes in calculating taxi fare changes.

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27 T Bradley submission, 9 February 2012, p 8.

28 ATDA submission, 2 February 2012, p 7; NSWTDA submission, 3 February 2012, p 8; NSW Taxi Council submission, 3 February 2012, p 11.

Stakeholder comments

Stakeholders have shown limited support for including a productivity adjustment in the calculation of fare changes. The NSWTDA argues that "IPART must never arbitrarily reduce taxi fares. IPART must demonstrate conclusively specific taxi industry productivity improvements that are realistic and implementable".[29] The NSW Taxi Council contends that "the cost indices already implicitly include broader productivity improvements that are captured in the costs used in the TCIs. The only part of the index where these are not captured are the labour cost components" and argues that the ability for taxi drivers or operators to make productivity improvements in these components "is more than outweighed by countervailing factors".[30] One individual submission suggests that "ABS or any other measures of general productivity have no relation whatsoever to the NSW Taxi industry" and that there should be no productivity adjustment.[31]

How did we assess the productivity adjustment?

We are adopting a more consistent approach to how productivity adjustments are derived and applied across all the industries that we regulate. Accordingly, for fare reviews where we employ a cost index, we have decided to:

- Establish an appropriate long term measure of economy-wide productivity to apply to the whole cost index.
- Determine an adjustment, where necessary, based on a consistent and transparent set of qualitative factors. This allows us to deviate from an economy-wide productivity measure to take into account industry specific factors.

We considered measures of long term economy-wide productivity to apply to each TCI

There is no direct measure of productivity for the taxi industry.[32] The ABS publishes industry data for the transport, postal and warehousing sector, however we do not consider that this proxy for productivity is appropriate for the taxi industry.[33] Without relevant industry data, an economy-wide average is likely to provide a better average measure of productivity. As cyclical effects can have a large impact on productivity[34], we have decided to use a long term average to smooth these effects out.

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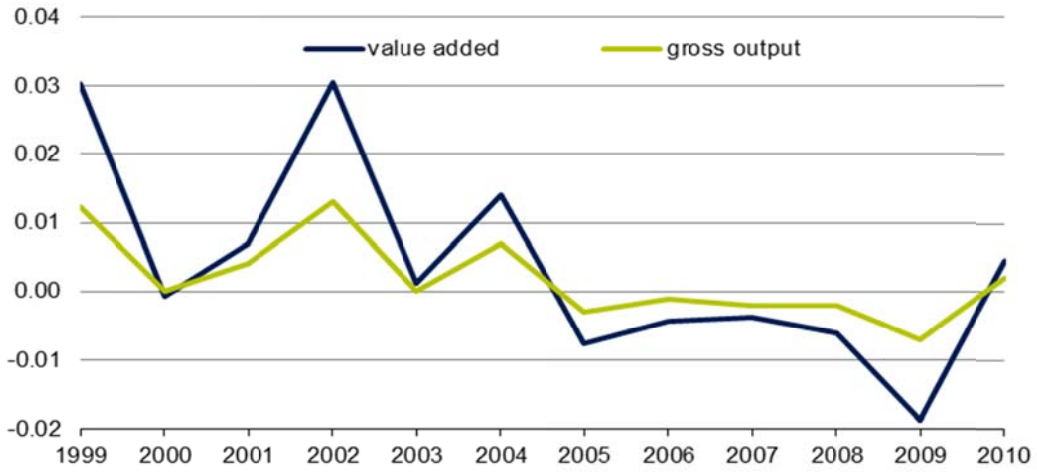
29 NSWTDA submission, 3 February 2012, p 12.
30 NSW Taxi Council submission, 3 February 2012, p 12.
31 T Bradley submission, 9 February 2012, p 8.
32 Or for any of the industries in which we regulate fares or fees using a cost index.
33 The ABS's Transport, postal and warehousing sector is mainly composed of technologies and industries more akin with logistics.
34 For example there is a large lag in productivity associated with capital investments in the electricity, gas and water sectors. New capital takes a long time to become fully operational, and many more years before full capacity is reached. This creates a large cyclical effect whereby productivity decreases at times of investment.

We have also decided to focus on multifactor productivity. There are 2 measures of market sector multi-factor productivity (MFP) compiled by the ABS that we could use: gross output and value-added. Value-added MFP includes only the primary inputs of production (capital and labour) whereas gross output MFP takes into account capital, labour and the intermediate goods (services, energy and materials) used in production. We consider that, for our purposes, gross output is the better productivity measure. It is a better measure of changes in technical efficiency in all factors of production.[35] By excluding intermediate inputs, value–added MFP excludes an important source of efficiency improvements. In addition, value–added is a more volatile measure than gross output (see Figure 3.2 below).

Figure 3.2 Multifactor productivity measures for the market sector



Data source: ABS, Cat. No. 5260.0.55.002 Experimental Estimates of Industry Multifactor Productivity.

The ABS has published gross output MFP since 1995. Between 1995 to 2010, the average gross output productivity in the market sector industries was 0.3%.

We considered industry specific factors

Our draft decision is to apply a smaller productivity adjustment than suggested by the economy wide multifactor productivity to take into account industry specific factors. The factors we will consider include:

- recent changes in regulation or technology
- historical trends in total costs and/or output
- information from comparative industries
- the size of the industry and the scope for innovation.

[35] Technical efficiency is the effectiveness with which a given set of inputs is used to produce an output.

Stakeholders suggest that the following factors may influence productivity but are outside industry control:

- A combination of declining demand for taxis and increased taxi numbers.[36]
- A decreased average travel speed resulting from:
  - decreased speed limits
  - increased traffic congestion
  - increased road infrastructure changes.[37]
- An increase in private bookings and hirings.[38]
- A significant increase in the number of hire cars, tourist vehicles, Government funded 'free' bus services and courtesy vehicles.[39]
- The removal or reduction in the size of taxi ranks – especially problematic coupled with growth in taxi numbers.[40]

We agree with some of the arguments raised by stakeholders on the scope for drivers to achieve productivity gains. Taxis essentially operate as small businesses, and their productivity is closely linked to the patronage of their services. Data on taxi output measures is incomplete, but it suggests declining output. We agree that taxi drivers may have limited scope to improve their productivity in line with what is achievable in the broader economy due to external factors such as increasing road congestion and changes to road rules.

However, there is little evidence to verify several other factors listed by stakeholders. We are also of the view that other factors listed by stakeholders would be unlikely to have a significant impact on driver productivity. For example, decreases in speed limits are likely to be less important than congestion, particularly in the inner city and during peak periods.

In addition, there may still be some scope for the industry to improve its productivity. The ATDA noted that there is room for improvement in network booking systems.[41] Furthermore, there are likely to be productivity gains from hailing applications that use GPS technology to link drivers and passengers. However, we note that these systems are in their early stages and are currently under legal review by Transport for NSW.[42] As a result, our draft decision is to make a productivity adjustment of 0.2%.

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36 ATDA submission, 2 February 2012, pp 7-8; E Mollenhauer submission, 3 February 2012, pp 4-5; NSW Taxi Council submission, 3 February 2012, pp 11-12; Trevor Bradley submission, p 4.

37 NSW Taxi Council submission, 3 February 2012, pp 11-12.

38 Ibid.

39 Ibid.

40 Ibid.

41 ATDA supplementary submission, 22 February 2012, p 5.

42 Tim Reardon (Transport for NSW) comments at roundtable, transcript, p 45, http://www.ipart.nsw.gov.au/files/8e64b455-f855-41f9-97c7-a00b00acf7e3/Transcript_-_Roundtable_-_2012_Taxi_Fare_Review_-_IPART_Offices_-_29_February_2012.pdf.

4 Indicative fare outcomes

Once we have calculated the change in the Taxi Cost Indices (TCIs), we apply those changes to individual fare components and make recommendations on the flag fall, the booking fee, the distance rate(s) and the waiting time rate.

We also recommend the level of additional charges, including the surcharge for maxi taxis and the Sunday/holiday surcharge for country fares. We do not make recommendations in relation to the airport fee, or the surcharge for electronic payments.

This chapter sets out the indicative fare outcomes that result when we apply the latest available information on inflators to our draft decisions on the TCIs, and discusses our draft decisions on fare structure and then on additional charges requested by stakeholders.

4.1 Indicative fare outcomes

Based on our draft decisions, the change in the TCIs is 3.2% for urban taxis and 3.4% for country taxis (see Chapter 3). To apply this increase to the individual fare components, our draft decision is to:

- retain the current fare structure, and maintain the current relativities between fare components by increasing each component by the increase in the TCI and then round them as required[43]
- not make any changes to how fares adjust by the time of day and week
- not introduce any additional fare components or charges
- publish the unrounded fare changes so that in next year's review we may apply the increase to the **unrounded** 2012 fares.

Table 4.1 and Table 4.2 shows indicative fares from July 2012 based on these findings and TCIs of 3.2% (urban) and 3.4% (country). Note that these fares are indicative only as some of the information we need for this year's TCI calculation is not yet available (see Chapter 3 for more information).

[43] Due to metering limitations, we will round the flag fall and booking fees to the nearest 10 cents.

Table 4.1 Indicative fare schedule for 2012 – urban areas

		1-Jul-11 Rounded	1-Jul-12 Unrounded	1-Jul-12 Rounded
Flag fall	$	$3.40	$3.51	$3.50
Distance charge	$/km	$2.06	$2.12	$2.12
Waiting time charge	$/hr	$53.33	$55.03	$55.03
Booking fee	$	$2.30	$2.37	$2.40
Night-time surcharge (on distance rate)[a]	%	20%	20%	20%
Maxi taxi surcharge (on total fare)[b]	%	50%	50%	50%
Waiting time threshold speed	km/hr	26	26	26

[a] The night time surcharge applies to journeys that commence between 10pm and 6am.

[b] The maxi taxi surcharge may only be charged if a maxi-cab is pre-booked (regardless of the number of passengers) or if a maxi-cab is hired from a taxi zone or street hail to carry 5 or more passengers.

Table 4.2 Indicative fare schedule for 2012 – country areas

		1-Jul-11 Rounded	1-Jul-12 Unrounded	1-Jul-12 Rounded
Flag fall	$	$3.90	$4.03	$4.00
Distance charge - first 12km	$/km	$2.12	$2.19	$2.19
Distance charge - after first 12km	$/km	$2.94	$3.04	$3.04
Waiting time charge	$/hr	$54.29	$56.14	$56.14
Booking fee	$	$1.10	$1.14	$1.10
Night-time surcharge (on distance rate) [b]	%	20%	20%	20%
Sunday/Holiday surcharge (on distance rate) [c]	%	20%	20%	20%
Maxi taxi surcharge (on total fare)[d]	%	50%	50%	50%
Waiting time threshold speed	km/hr	26	26	26

[a] The night time surcharge applies to journeys that commence between 10pm and 6am.

[b] The Sunday/Holiday surcharge applies to journeys that commence between 6am and 10pm on a Sunday or public holiday.

[c] The maxi taxi surcharge may only be charged if a maxi-cab is pre-booked (regardless of the number of passengers) or if a maxi-cab is hired from a taxi zone or street hail to carry 5 or more passengers.

4.2 We will maintain the current relativities between fare components

The current relativities between the fare components have been largely maintained for the last decade. We have received no new evidence that these relativities should be changed for urban or country fares, and there continues to be broad support for the current fare relativities between fare components.[44] The NSW Taxi Council and Council of Social Services of NSW (NCOSS) both agree that fare increases should be distributed evenly across each component of the fare to help avoid any

[44] NSW Taxi Council, 3 February 2012, p 10; NCOSS submission, 15 March 2012, p 2; ATDA, 2 February 2012, p 6.

disproportionate impact of fare adjustments on particular groups of customers or drivers.

We considered 2 options for changing the fare relativities raised by stakeholders in submissions. They were:

- increasing the flag fall by more than other fare components
- increasing the waiting time rate by more than other fare components.

However, we do not support either of these options. If we were to increase one component by more or less than the change in the TCI, we must make a balancing adjustment to other components of the fare in order to ensure that the change to the overall fare is consistent with the change in the TCIs. For example, if we increase the flag fall above the change in the TCI, we would have to decrease another component of the fare (such as the distance rate). If one fare component was increased without making a corresponding reduction in other fare components, there would be a fare increase above the change in costs suggested by the TCI. We note that such balancing adjustments may not be supported by stakeholders, even those that argued for larger increases in specific components. They may also have unintended consequences. Our analysis of each option is set out below.

4.2.1 Why we do not support increasing the flag fall more than other fare components

The flag fall is the fixed component of the fare that is on the meter when a passenger enters the taxi. The flag fall for urban taxis is currently $3.40 for all times of the day and the flag fall for country taxis is $3.90. In some states a higher flag fall applies at night and on weekends. Figure 4.1 and Figure 4.2 show that the day time urban flag fall rate for NSW is towards the middle of the range when compared to flag fall rates in other states ($2.80 to $4.70).

Several stakeholders support the current relativities between the flag fall and other fare components. However, stakeholders also argue that urban taxi drivers need greater incentives to accept bookings and shorter journeys.[45] NCOSS notes that its Transport Policy Advice Group's stakeholders are continuing to find that some taxi drivers will not accept passengers travelling short distances.[46] S everal individual submissions also consider that the difficulty getting taxi services for short journeys suggests that short fares are under-priced.[47]

45 E Mollenhauer submission, p 2; NSW Taxi Council submission, 3 February 2012, p 10.
46 NCOSS submission, 15 March 2012, p 2.
47 E Mollenhauer submission, p 2; P Abelson submission, 3 February 2012, pp 2-3; D Biggar submission, 5 March 2012, pp 3-4.

Figure 4.1 Flag fall rates for Australian capital cities April 2012

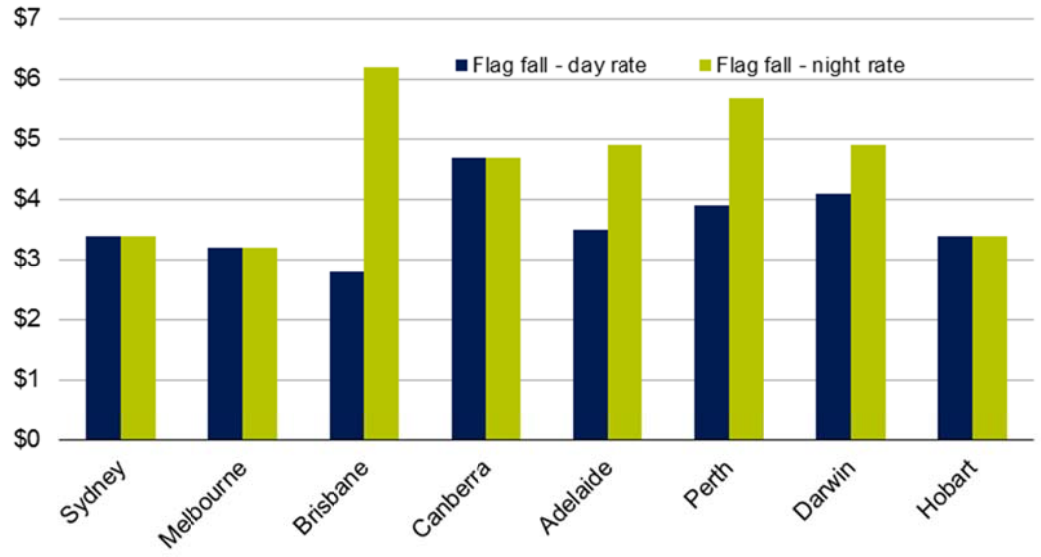
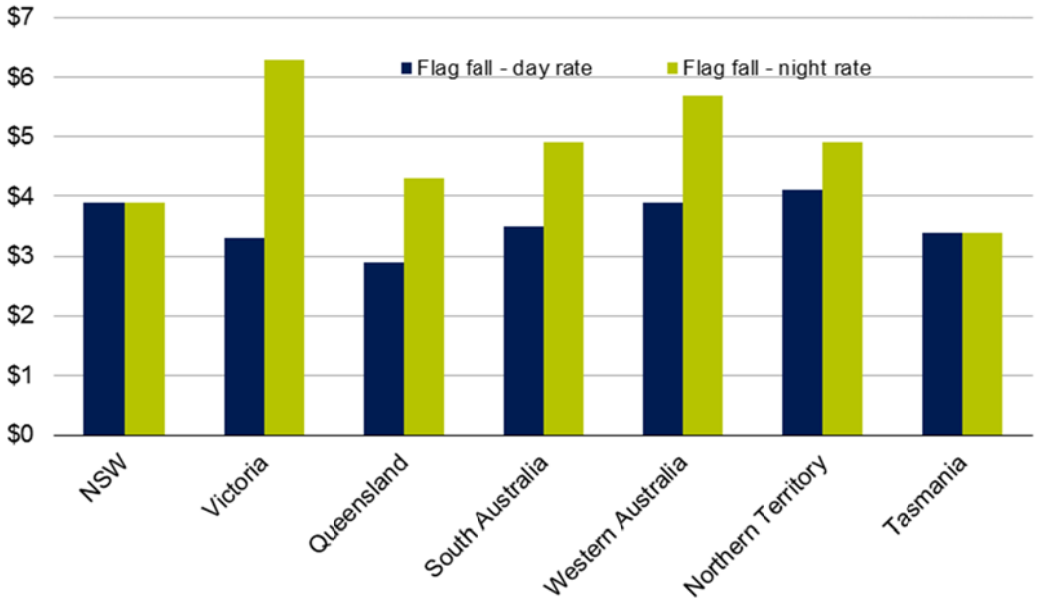


Figure 4.2 Interstate comparison of flag fall rates for regional areas April 2012



Data source: Department of Transport Victoria, *Taxis and Hire Vehicles*, 2012, http://www.transport.vic.gov.au/taxis/customers/taxi-fares-in-victoria

Queensland Government, *Queensland taxi fares – south-east Queensland*, 30 July 2011, http://www.tmr.qld.gov.au/~/media/02fc0b9e-050e-41ee-b74e-d99340e464aa/pdf%20taxi%20fares%20stickers%20seq.pdf

Queensland Government, *Queensland taxi fares – regional Queensland*, 30 July 2011, http://www.tmr.qld.gov.au/~/media/fb9f69dd-edd9-4ac1-9859-8ad57cfa9edb/pdf%20taxi%20fares%20stickers%20regional.pdf

Taxi Council SA, http://www.taxicouncilsa.com.au/PDF%20Downloads/Latest_Meter_Fares.pdf

WA Department of Transport, Taxi Fares, 1 Dec 2011, http://www.transport.wa.gov.au/taxis/15154.asp

NT News, *Taxi fares to rise nearly 5 per cent*, June 28 2011, http://www.ntnews.com.au/article/2011/06/28/243601_ntnews.html

Department of Infrastructure, Energy & Resources Tasmania, *Taxis and luxury cars*, 2 December 2011, http://www.transport.tas.gov.au/miscellaneous/understanding_taxis_and_luxury_hire_cars

Australian Capital Territory, Road Transport (Public Passenger Services) Maximum Fares for Taxi Services Determination 2011 (No 2), 15 June 2011, http://www.legislation.act.gov.au/di/2011-139/db_48236/rtf/2011-139.rtf.

One way of making short distances more attractive to drivers is to increase the flag fall relative to the distance rates. The NSW Taxi Council proposes that where it is not possible to precisely maintain relativities for urban fares due to rounding requirements, the fixed fare components should be rounded upwards.[48] However, because we intend to apply fare increases to the **unrounded** fare from the previous year, the relativities should be maintained on average over time. In contrast, rounding the flag fall upwards each year would increase the flag fall proportion of the total fare over time.

We consider that the flag fall would need to increase significantly to change the incentives for drivers in relation to short fares. This means that the distance rate would also have to decrease significantly to ensure that the overall fare increase is consistent with the change in the TCI. As shown in Table 4.3, a lower distance rate means that fares for long journeys could be significantly lower. Several individual submissions consider that the fare for long distance journey is currently too high.[49]

We are concerned that customers that typically take shorter journeys include pensioners and passengers with mobility limitations who are more likely to use taxis as their primary mode of transport to access local services (and often have limited alternatives).[50] For example, increasing the flag fall by 50% to $5.10 for urban fares would increase the total fare for short journeys by around 10%. We consider that this is a substantial increase, which could affect the affordability of taxi services for some passengers.

We would like better information on the extent to which short fares are being refused before making adjustments to the fare structure. Therefore on balance, our draft decision is to maintain the current relativities between the flag fall and other fare components.

48 The NSW Taxi Council does not consider that this adjustment is required for country fares.

49 E Mollenhauer submission, 3 February 2012, p 2; P Abelson submission, 3 February 2012, pp 2-3; D Biggar submission, 5 March 2012, pp 3-4.

50 NCOSS submission, 15 March 2012, p 2.

Table 4.3 The likely impact of flag fall restructuring on urban fares

Flag fall increase	0% (2011 fares)	3.20% (in line with TCI)	10%	50%	90%
Fare components					
Flag fall	$3.40	$3.50	$3.70	$5.10	$6.50
Distance charge (per km)	$2.06	$2.12	$2.10	$1.91	$1.71
Sample Journeys					
Short city trip	$16.40	$16.90	$17.10	$18.10	$19.10
To the shops	$14.80	$15.30	$15.40	$16.10	$16.70
Friday night trip home	$44.90	$46.20	$46.10	$44.10	$41.90
Airport Trip	$54.00	$55.60	$55.40	$53.00	$50.40

Definition of sample journeys	Flag fall	Distance (km)	Waiting (min)	Booking Fee	Late night surcharge
Short city trip	✓	2	10	×	×
To the shops	✓	4	1	✓	×
Friday night trip home	✓	15	5	×	✓
Airport Trip[a]	✓	20	8	✓	×

[a] Airport fees are not included.

4.2.2 Why we do not support increasing the waiting rate more than other components

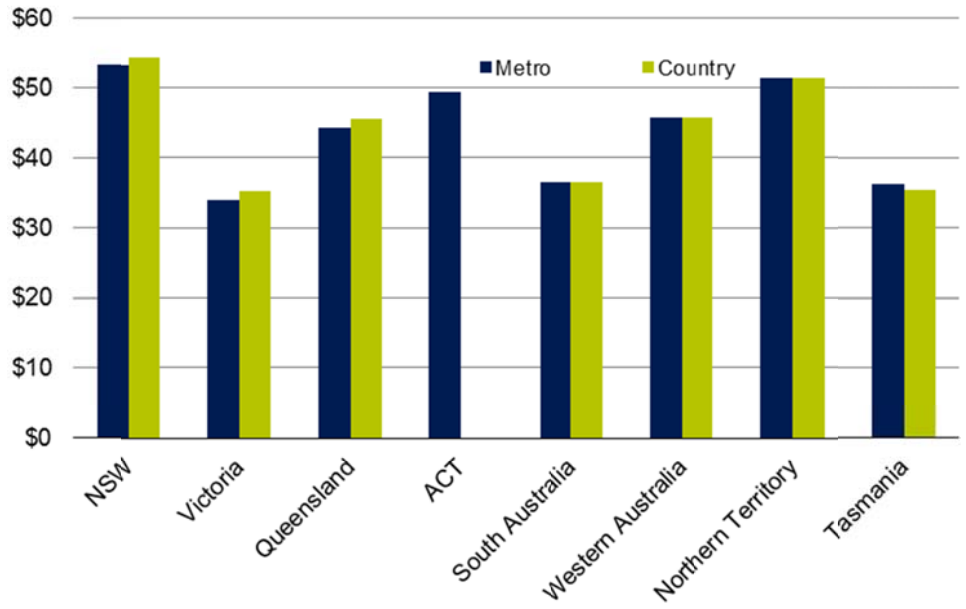
Waiting time is the charge that currently applies when a taxi is travelling with a passenger at less than 26 km per hour (including when it is stopped). It can be charged from the appointed time that the taxi arrives at the passenger's pick up point.[51]

The waiting time rate is currently $53.33 per hour for urban fares and $52.40 for country fare. These rates are equivalent to the revenue a taxi would earn when it is travelling at 26 km per hour on the distance rate. Figure 4.3 shows the waiting time rates in NSW are the highest in Australia, with the Sydney waiting time rate almost 60% higher than the current rate in Melbourne.[52]

[51] Drivers are entitled by regulation to engage the meter at the time the taxi-cab has arrived at the specified place and the hirer has been advised of its arrival, or at the time appointed for the arrival of the taxi-cab at the specified place, whichever of those times is the later (*Passenger Transport Regulation*, Part 8, Division 3, s153).

[52] Department of Transport Victoria, *Taxis and Hire Vehicles,* 2012 http://www.transport.vic.gov.au/taxis/customers/taxi-fares-in-victoria.

Figure 4.3 Comparison of waiting time rates for Australian capital cities April 2012 ($/hr)



Data source: Department of Transport Victoria, *Taxis and Hire Vehicles*, 2012, http://www.transport.vic.gov.au/taxis/customers/taxi-fares-in-victoria

Queensland Government, *Queensland taxi fares – south-east Queensland*, 30 July 2011, http://www.tmr.qld.gov.au/~/media/02fc0b9e-050e-41ee-b74e-d99340e464aa/pdf%20taxi%20fares%20stickers%20seq.pdf

Queensland Government, *Queensland taxi fares – regional Queensland*, 30 July 2011, http://www.tmr.qld.gov.au/~/media/fb9f69dd-edd9-4ac1-9859-8ad57cfa9edb/pdf%20taxi%20fares%20stickers%20regional.pdf

Taxi Council SA, http://www.taxicouncilsa.com.au/PDF%20Downloads/Latest_Meter_Fares.pdf

WA Department of Transport, Taxi Fares, 1 Dec 2011, http://www.transport.wa.gov.au/taxis/15154.asp

NT News, *Taxi fares to rise nearly 5 per cent*, June 28 2011, http://www.ntnews.com.au/article/2011/06/28/243601_ntnews.html

Department of Infrastructure, Energy & Resources Tasmania, *Taxis and luxury cars*, 2 December 2011, http://www.transport.tas.gov.au/miscellaneous/understanding_taxis_and_luxury_hire_cars

Australian Capital Territory, Road Transport (Public Passenger Services) Maximum Fares for Taxi Services Determination 2011 (No 2), 15 June 2011, http://www.legislation.act.gov.au/di/2011-139/db_48236/rtf/2011-139.rtf.

An individual submits that the waiting time component of the urban fare should be increased by up to 65% (this would be the rate a taxi would earn if it was travelling 50 km per hour on the distance rate),[53] due to the changes in the waiting/distance composition of an average trip as a result of congestion. In order to maintain an overall increase that is consistent with the TCI, increasing the waiting time rate by 65% would require a 15% decrease in the distance rate.

53 E Mollenhauer, 3 February 2012, p 5.

We do not support increasing the relativities of the urban waiting rate component because there is no evidence that passengers have difficulty obtaining taxis during times of heavy traffic congestion. Increasing the waiting time rate may also remove some of the incentive for drivers to avoid areas of heavy traffic congestion when planning a route to the passenger's destination. Given that passengers often rely on drivers to decide on the most efficient route given the time of day and traffic conditions this would reduce the level of service provided to the passenger.

We are also concerned that WAT passengers would be disproportionately impacted by an increase in urban waiting time rates. As passengers can be charged waiting time while a passenger is loading, waiting time charges can amount to a significant cost for WAT passengers who take more time to enter a taxi.

4.3 We do not support changing the way that fares vary by the time of day

Under the existing fare structure, fares are higher at night. The distance rate is 20% higher for all journeys between 10pm and 6am, 7 days a week. The night-time surcharge is intended to provide additional compensation to drivers for working unsociable hours and the additional safety risks of night-time driving. For country fares, distance rates are also 20% higher on Sundays and public holidays.

We considered 2 options for varying the taxi fares by the time of the day and week. They were:

- introducing 3 different fare levels that reflect the different costs of supplying taxi services at different times of the day, for example, higher fares for peak times, and lower fares for off peak times
- extending the night-time surcharge to weekends and public holidays for urban fares.

Our reasons for deciding to maintain the current approach to how fares vary by the time of day and week are set out in the sections below.

4.3.1 Why we do not support aligning fares with economic costs which vary by time of day

Several submissions consider that fares should vary at different times of the day, to reflect the different economic costs of supplying taxi services at different time of the day. In particular, one submission argues that there should be 3 different fare levels:

- For peak times - when people find it difficult to catch a taxi, the fares should be equal to customers' willingness to pay. The submission states that the excess demand for some peak hour services indicates that the current fare for peak times should be higher.

- For off peak times, the fares should be equal to the marginal costs of supply. The submission argues that the current fare for these services should be significantly lower, because it does not need to cover the fixed costs of supply, which include licence lease costs, insurance costs, vehicle lease payments or network fees.
- For other periods (or the 'shoulder' period), the fares should be equal to the marginal costs of supply, including all the allowances for taxi capacity.[54]

Table 4.4 includes sample fares that illustrate a simple peak pricing fare structure. The fare levels in Table 4.4 are consistent with a 3.2% overall fare increase, and attempt to ensure that the fixed costs of providing taxi services are recovered in peak times.[55]

Table 4.4 Sample time of use fare structure

Fare components		2011	Peak		Off Peak		Shoulder	
Flag fall[a]	$	$3.40	$4.50		$4.50		$4.50	
Distance charge (Tariff I)	$/km	$2.06	$3.06		$0.88		$1.59	
Waiting time charge	$/hr	$53.33	$74.70		$31.50		$46.90	
Booking fee	$	$2.30	$2.30		$2.30		$2.30	
Sample journeys								
Short city trip		$16.40	$23.10	41%	$11.50	-30%	$15.50	-5%
To the shops		$14.80	$20.30	37%	$10.80	-27%	$13.90	-6%
15 km night trip home		$38.70	$56.60	46%	$20.30	-48%	$32.30	-17%
Airport Trip[b]		$54.00	$78.00	44%	$28.60	-47%	$44.90	-17%

Definition of sample journeys	Flag fall	Distance (km)	Waiting (min)	Booking Fee	Late night surcharge
Short city trip	✓	2	10	×	×
To the shops	✓	4	1	✓	×
15 km night trip home	✓	15	5	×	✓
Airport Trip[b]	✓	20	8	✓	×

a The flag fall and booking fees are uniform across all time periods consistent with the current fare structure. The flag fall is higher than under current fares in order to maintain similar relativities between long and short distance fares.

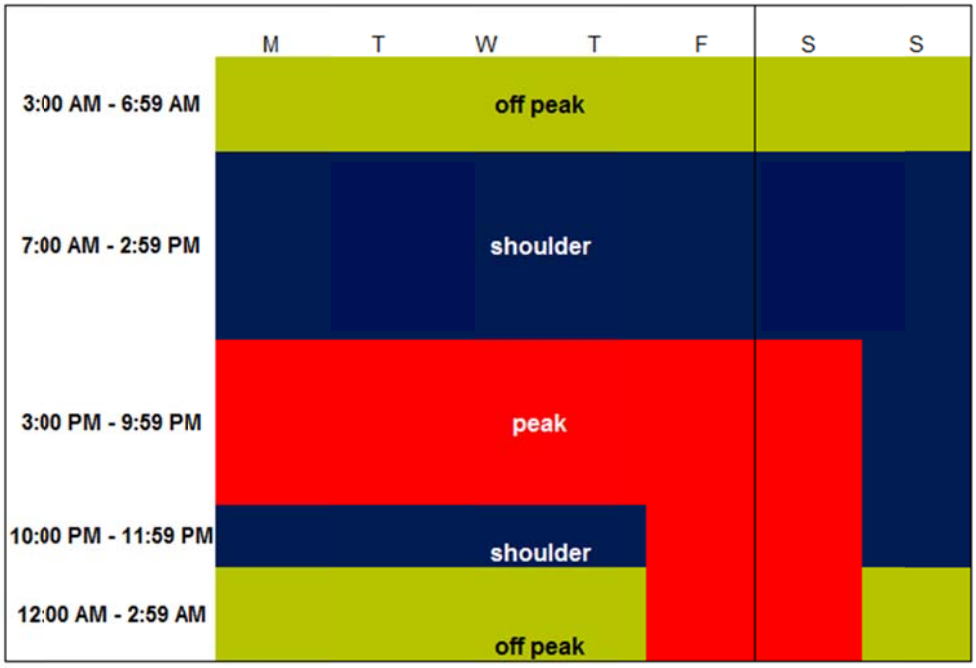
b Does not include airport charges.

54 Abelson submission, 3 February 2012, p 3.

55 The fare structure assumes that the meter is capable of accommodating multiple waiting rates.

We consider that peak and off peak times may be considered to fall roughly during the times in Figure 4.4, however should such charges be introduced more work would need to be done to identify the true peak and off peak times.

Figure 4.4 Sample time of use fare structure



The fare structure in Table 4.4 represents a significant departure to the way the passengers are charged for taxi services. We are interested in stakeholder views on this approach. However, at this stage we do not consider that we have sufficient information to understand how these fares would change taxi usage patterns, taxi availability and fare revenue. Therefore we think that such a fundamental change would need to be part of a broader taxi reform to ensure that further analysis and appropriate consultation is undertaken.

4.3.2 Why we do not support extending the night-time surcharge to the weekends or public holidays in urban areas

The NSWTDA, the ATDA, and an individual submission argue that the night-time surcharge for urban fares should be extended to all hours on weekends and public holidays to compensate drivers for working periods of lower demand and unsocial hours, consistent with workers conditions for other industries.[56] These stakeholders also argued for this extension in past reviews.

[56] NSWTDA, 3 February 2012, p 8; ATDA, 2 February 2012, p 15; E Mollenhauer, 3 February 2012, p 3. E Mollenhauer also suggested that the night-time surcharge should be aligned with double demerit periods (p 5).

Consistent with our past conclusions on this issue, we do not consider that the night-time surcharge should be extended because there is no evidence of a shortage of supply of taxis during the day on weekends in urban areas. There is also insufficient evidence to suggest that a fare premium is required to compensate drivers for additional safety risks involved in working during the day on weekends and public holidays as is the case with late night driving.

An individual submission also suggests that a third (higher) tariff rate should apply to urban journeys from midnight on Friday and Saturday nights to compensate drivers for passenger violence occurring during this period.[57] We consider that the night-time surcharge already compensates drivers for additional safety risks of night time travelling.

4.4 We do not support any new charges or minimum fares

Several submissions argue for new charges and minimum fares. These included:

- minimum fares for booked trips and electronic payments
- the introduction of a $5 fee for special requests, such as a baby capsule, or a station wagon
- the introduction of a $1 superannuation levy on all fares
- increasing the WAT incentive payment.

The sections below explain why we do not support these proposals.

4.4.1 Why we do not support a fare floor for booked trips

An individual submission considers that a $20 minimum fare should apply to booked journeys to account for the costs and for the possibility of the passenger not being there when the taxi arrives.[58]

We do not recommend that a fare floor is introduced for booked journeys because for short distance journeys, we consider that a $20 fare floor would *increase* rather than *decrease* the likelihood of passengers not honouring their bookings (because flagging down a passing taxi instead of waiting for the booked cab to arrive could result in a significantly lower fare). This could further undermine the willingness of taxi drivers to take booked fares, leading to a deterioration of service.

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57 E Mollenhauer, 3 February 2012, p 3. A $2.50 "ultra peak" surcharge is applied in WA. WA Department of Transport, Taxi Fares, 1 December 2011, http://www.transport.wa.gov.au/taxis/15154.asp.

58 E Mollenhauer, 3 February 2012, pp 4–5.

4.4.2 Why we do not support a fare floor for electronic payments

An individual submission argues that a $20 fare floor should apply to customers using electronic payments.[59] We consider that the differences in transaction time between cash and electronic transactions are likely to be minimal (less than 2 minutes or $2 or waiting time), therefore a $20 fare floor is not justified for electronic payments. In additional we note that customers are already subject to electronic processing fees of 10% of the fare (IPART does not make recommendations on these fees).[60]

4.4.3 Why we do not support the introduction of fees for special requests (such as a baby capsule)

An individual submission considers that an additional $5 fee should apply to special requests such as a baby capsule and station wagon.[61] Taxis with additional features are likely to increase their competitive advantage over other taxis, and therefore we do not consider that they require particular compensation for providing these services.[62] We also note that WATs, which are required to provide a baby capsule,[63] have access to subsidised licences.

4.4.4 Why we do not support increasing the WAT incentive payment

An individual submission argues that taxi drivers need additional compensation for jobs that are eligible for a partial fare rebate under the Taxi Transport Subsidy Scheme (TTSS).[64] Drivers of WATs currently receive an incentive payment of $8.47 (including GST) from the NSW government for every journey with a passenger in a wheelchair.[65] The submission suggests that this incentive payment be pegged to the equivalent of 12 minutes waiting time ($10.70 at current rates).

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59 Ibid, p 5.

60 The RBA is currently reviewing card surcharging. RBA, *Payments System Board Consultation on Card Surcharging,* 2012, http://www.rba.gov.au/publications/consultations/201106-review-card-surcharging.html.

61 E Mollenhauer, 3 February 2012, pp 2 and 5.

62 10% of the taxi fleet are required to provide baby capsules. *Passenger Transport Regulation 2007,* Cl 176, http://www.legislation.nsw.gov.au/sessionalview/sessional/subordleg/2007-421.pdf

63 Ibid, Cl 108(b).

64 E Mollenhauer, 3 February 2012, p 5.

65 Transport for NSW, How the wheelchair accessible taxi driver incentive payment operates, 26 October 2011, http://www.transport.nsw.gov.au/content/how-wheelchair-accessible-taxi-driver-incentive-payment-operates

While this payment is outside the scope of our fare review (as it is not part of the fare paid by passengers), we have considered this request in previous reviews, and we have found that WAT taxi drivers generally have sufficient incentives to accept bookings from passengers in wheelchairs. Under the current fare structure, a typical WAT fare may comprise of:

- a booking fee ($2.30)
- a flag fall (3.40)
- waiting time charged while the wheelchair is being loaded ($4.45 – 5 minutes)
- a WAT incentive payment ($8.47 – paid from the Government directly).

These fare components are equal to around $18.50 before any distance has been travelled. Therefore we do not consider that there is evidence that the incentive payment should be increased.

4.4.5 Why we do not support a $1 superannuation levy

The ATDA submits that a designated superannuation levy of $1 should be added to every fare additional to the fare increase determined through the TCI to directly fund drivers' superannuation.[66] However, there is currently no requirement for taxi drivers to be paid superannuation so there is no guarantee that drivers would actually receive the proceeds of the surcharge and that it would provide for their retirement.

66 ATDA, 2 February 2012, p 14.

5 Reviewing taxi fares in the future

We review the composition of the Taxi Cost Indices (TCIs) from time to time (approximately every 5 years) to ensure cost items, weightings and inflators are still relevant, and to accommodate changes that may have occurred in the taxi industry. We propose that IPART next undertake a full review of the TCIs in 2016. In the interim, we will continue to undertake (smaller) annual reviews of taxi fares, as well as the mid-year LPG fuel price review.

5.1 We propose to undertake the next full review of the TCIs in 2016

We consider that we should undertake a further survey in 2015 and reweight the TCIs prior to undertaking a full review with public consultation on fare changes in 2016. We chose a 4-year period to coincide with the year when an adjustment to the TCIs will be required to reverse the advance for the LPG excise increases we consider should be included in this year's fare change.

5.2 We will continue to undertake annual reviews of taxi fares

We sought stakeholder views on the advantages and disadvantages of establishing an index which can be updated each year without change to inflators and weightings (except for automatically updating weightings for relative changes in price) and comprehensively reviewed and reweighted every 5 years.

While there was some stakeholder support for this approach, several stakeholders expressed concerns. The NSW Taxi Council noted "the risk that movements in the inflators may not accurately reflect changes in costs experienced in the NSW taxi industry".[67] The NSWTDA is concerned that "new and other issues" are able to be addressed through the framework as they arise, and not be excluded by any mechanical updating and this concern was also expressed by an individual submission.[68] Another individual submission recommends that fares be adjusted as and when the market changes significantly, "neither mechanically … nor only annually".[69]

67 NSW Taxi Council submission, 3 February 2012, p 2.
68 NSWTDA submission, 3 February 2012, p 7.
69 E Mollenhauer submission, 3 February 2012, p 6.

Having considered the views of stakeholders, we propose to undertake annual reviews of taxi fares until our proposed full review of the TCIs in 2016.

5.3 We will continue to undertake a mid-year review of fuel costs

In response to stakeholder concerns about the volatility of LPG fuel prices, since 2008 we have undertaken a review of fuel prices midway through the review year. In November each year, we look at the average daily LPG cost for the 6 months to the end of October and compare it to the average daily LPG cost for the 12 months to the end of April, which is the cost incorporated into the TCIs. If the cost of LPG has increased or decreased by more than 20%[70], we recommend a change in taxi fares from December.

After the 2011 mid-year review of fuel costs the Director-General of Transport for NSW wrote to us questioning whether mid-year reviews are warranted and proposing that IPART only conduct mid-year reviews where "market reports of significant volatility make it likely that a review would be warranted".[71] In response we committed to considering whether or not to continue the mid-year review as part of this current fare review.

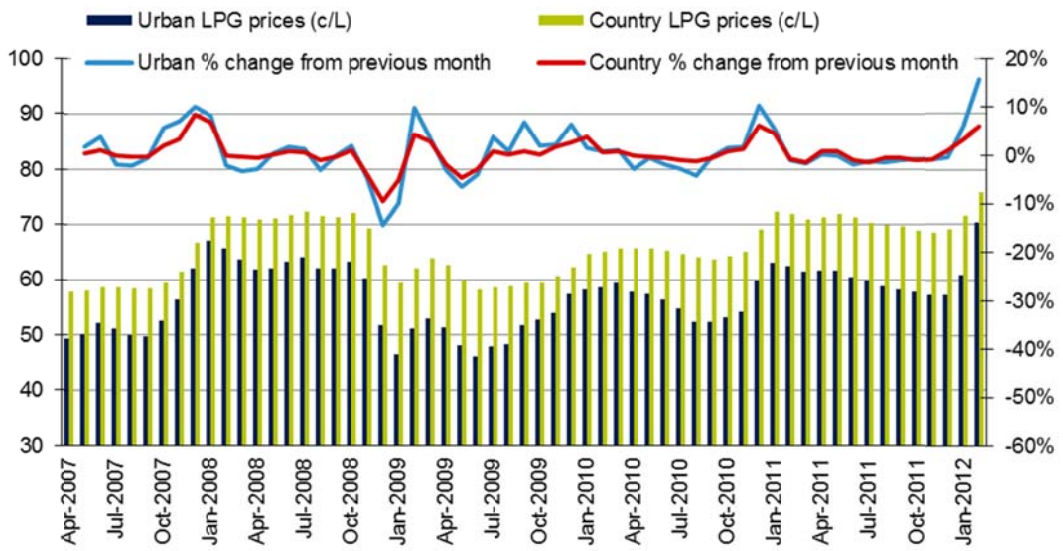
There has been little stakeholder enthusiasm for any alternatives to the mid-year fuel review. While no submissions explicitly commented on this issue, the ATDA did recognise the recent increase in fuel prices.[72] We consider that the underlying reasons for establishing the mid-year fuel review remain, and that a transparent, predictable method is preferable to an ad hoc approach. Given the volatility of fuel prices recently and over the last few years (see Figure 5.1 below), we will retain the mid-year fuel review in its current form. This is consistent with our November 2011 decision for fares for private ferries.

70 The threshold to trigger a recommendation was 10% in 2008 and 2009, and in 2010 we changed the threshold to 20%.

71 Lock, C. Letter to Mr Jim Cox, 11 January 2012.

72 ATDA supplementary submission, 22 February 2012, p 1.

Figure 5.1 Monthly LPG prices



Note: Excludes GST.
Data source: FUELtrac.

6 Stakeholder impacts

We are required to consider the impact of our recommendations on stakeholders and we have done this in making our draft decisions.

Specifically, we considered the level of fares in NSW and how they have changed over time, including the likely impact of our indicative fare outcomes on the cost of different types of taxi trips, and how fares in NSW compare with those in other states of Australia. We then considered the implications of the indicative fare increases for passengers, the Government and the environment.

The final fare changes we will recommend are likely to be different from the indicative fares in this draft report as some of the information we need for this year's TCI calculation is not yet available (see Chapter 3 for more information). We note that LPG prices are currently on an upward trend and should this continue over the next couple of months, recommended fares may be above the indicative fare changes set out in this draft report.

6.1 Draft findings on stakeholder impacts

We consider that the indicative fare increases in this draft report would not have a significant impact on most taxi passengers, the Government or the environment. Under these fare changes, the cost of an average taxi trip will rise by 3.2% in urban areas and 3.4% in country areas.

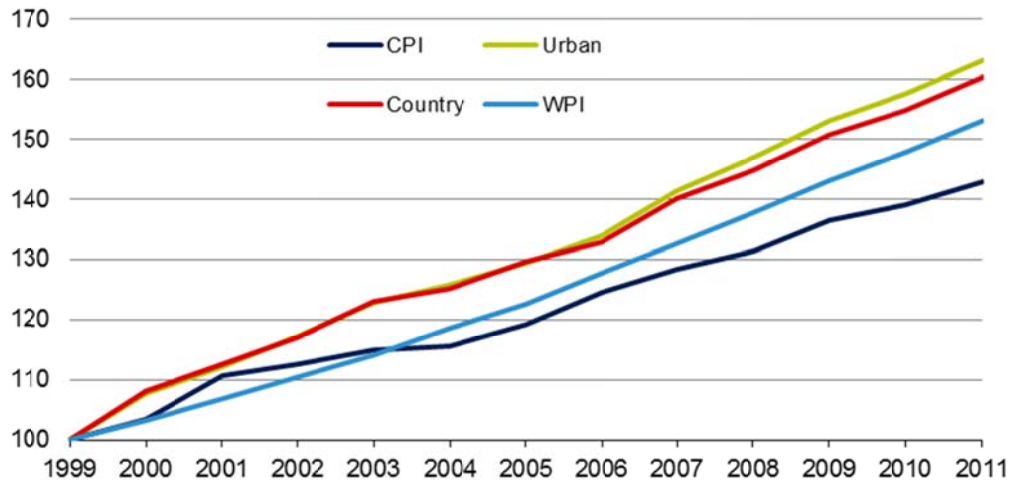
These indicative fare increases are relatively small and are below the increase in the general cost of living over the past year.[73] In addition, they do not involve any significant changes to the structure of fares that would affect the cost of some types of taxi trips more than others. However, as noted above these are indicative fares only and may be different from the final fares we recommend.

[73] As measured by the Sydney Consumer Price Index (CPI), which was 3.5% for the year ending 31 December 2011.

6.2 The level of taxi fares in NSW and how they've changed over time

Between 1999 and 2011, taxi fares in NSW have increased by around 63% in urban areas and 60% in country areas. This increase is significantly more than the increase in the CPI over the same period (43%) and the WPI over the same period (53%) (Figure 6.1).

Figure 6.1 Index of fare increases for taxis since 1999

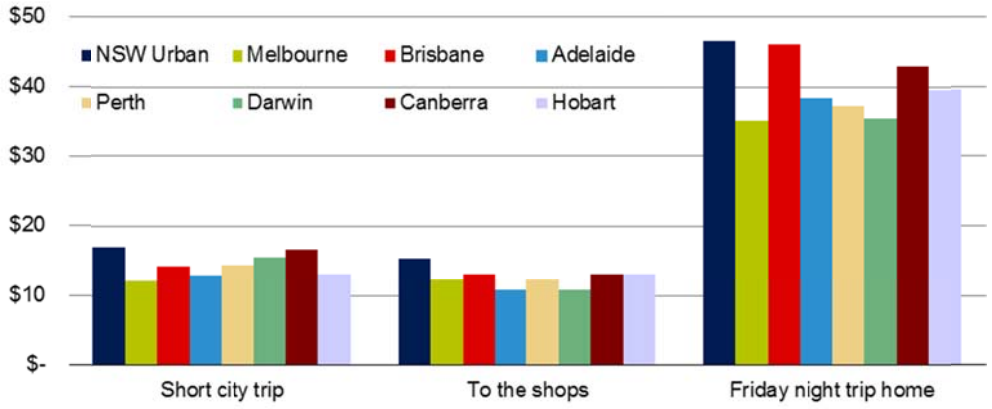


Data source: IPART reports and ABS data.

6.2.1 Comparison of fares in NSW with those in other states

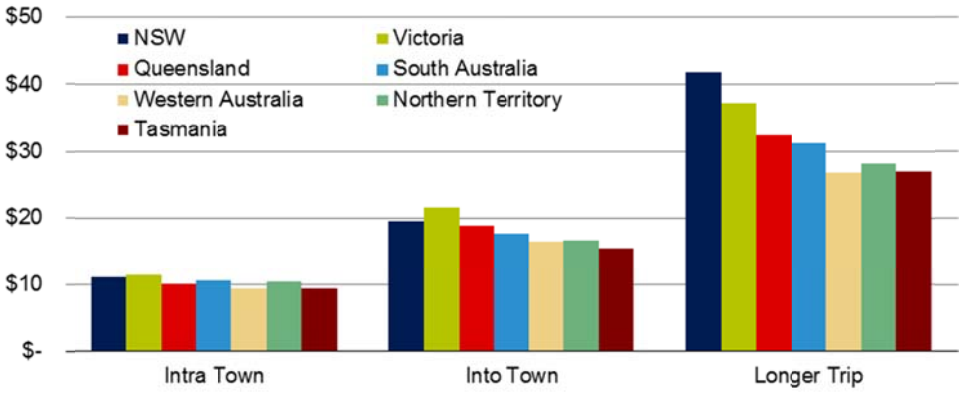
We have also considered how taxi fares in NSW, after applying our indicative fare changes, compare with those currently in place in other states of Australia for a selection of different types of taxi trips. NSW taxi fares are in general higher than in other areas of Australia. Both the distance rate and waiting time charges are higher in NSW than in the other areas considered, although our urban flag fall is lower than in Perth, Darwin and Canberra. The figures below (Figure 6.2 and Figure 6.3) illustrate the difference in selected trip fares between states. Assumptions underlying trip comparisons depicted below are included in Table 6.1.

Figure 6.2 Urban taxi fares in capital cities, selected trips, 2012



Data source: Fares obtained from the relevant government agency and/or taxi companies. NSW fares are those indicated in this report.

Figure 6.3 Country fares by state, selected trips, 2012



Data source: Fares obtained from the relevant government agency and/or taxi companies. NSW fares are those indicated in this report.

Table 6.1 Assumptions for trip comparisons – urban and country, 2012

Definition of sample fares	Flag fall	Distance (km)	Waiting (min)	Booking Fee	Late night surcharge
Urban					
Short city trip	✓	2	10	×	×
To the shops	✓	4	1	✓	×
Friday night trip home	✓	15	5	×	✓
Country					
Intra town	✓	3	1	×	×
Into town	✓	6	2	✓	×
Longer trip	✓	15	3	✓	×

Note: Distance tariff 2 threshold (for country only) is 12km.

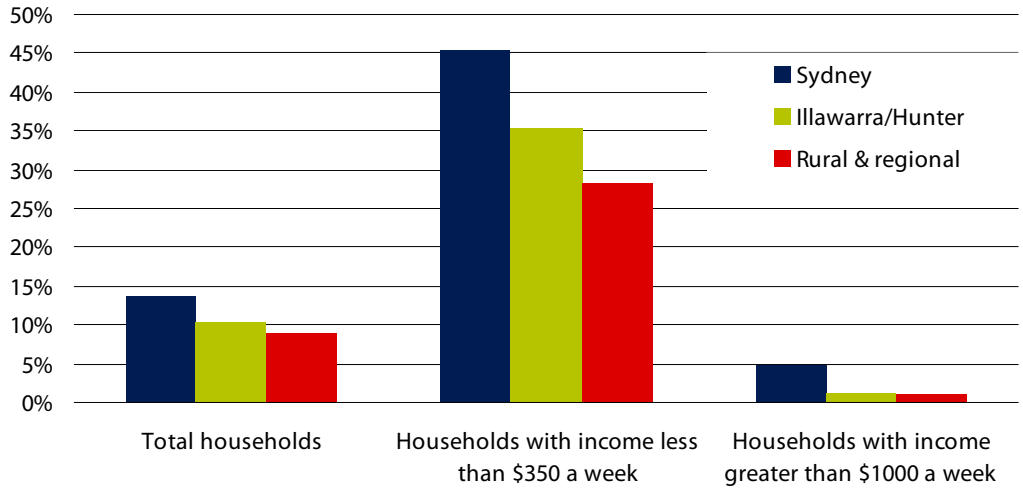
6.3 Implications for passengers

The overall impact of the indicative fare increases in this draft report on passengers is likely to be small. This is because the fare increases are relatively low and spending on transport fares (including taxi fares) represents the equivalent of less than 1% of average Australian household incomes.[74]

However, we recognise that the increases would have a larger impact on some taxi users – in particular, lower income passengers and those with limited transport options.

A survey of household expenditure by the ABS confirms that while those in the highest income quintile spend proportionately more of their expenditure on taxis than other groups, those in the lowest income quintile spend the second highest proportion.[75] These findings are supported by census data, which indicates that the proportion of low income households that do not have access to a motor vehicle, and hence are likely to have fewer transport alternatives, is significant (Figure 6.4).

Figure 6.4 Households without access to a motor vehicle (%)



Data source: ABS, 2006 census.

There is some Government assistance available for less mobile passengers who cannot readily use other forms of transport to help with the cost of taxi travel. This assistance is provided through the Taxi Transport Subsidy Scheme (TTSS), which is administered by Transport for NSW. The TTSS provides passengers who have a qualifying severe and permanent disability with a 50% subsidy for the metered fare, up to a maximum value of $30 per trip. There are no limits on the number or purpose of trips that are eligible for the subsidy.

74 In the weights used in the 16th series (urban transport fares) of the Consumer Price Index, urban transport fares comprise less than 1% of an average Australian household's spending.

75 ABS, Household Expenditure Survey, Australia: Detailed Expenditure Items, 2009/10.

We have previously noted stakeholder views that taxi fare increases have a significant impact on passengers with disabilities because the subsidy provided under the TTSS has not kept up with increases in fares.[76] We have also noted that the subsidy had not been changed since 1999 and since that time taxi fares had risen significantly. Stakeholders have again raised this issue in this year's review.

NCOSS submits that there is no direct link between fare increases recommended by IPART and the funding arrangements for Government transport subsidies provided for people who rely on taxis for transport.

> Increases in taxi fares are likely to have a disproportionate impact on these groups of people by making the only viable form of transport unaffordable. For some people, this may mean they are no longer able to access opportunities that should be available to everyone: education, employment, social and family networks, appropriate and timely health care etc.[77]

NCOSS submits the NSW Government should take this into consideration when approving taxi fare increases.

The Physical Disability Council of NSW (PDCN) also submits that an increase in taxi fares without a corresponding increase in the Government subsidies such as the TTSS will further disadvantage those who rely on taxis for transport.[78]

PDCN also submits that there are many additional costs associated with having a severe physical disability (including the cost of aids, equipment, personal care and increased electricity costs).

> People with physical disabilities in receipt of the full or part pension need to manage their budget tightly often needing to make extreme compromises, and consequently find the cost of taxi travel often excessive.[79]

PDCN notes that the Western Australian Government provides a more generous subsidy for passengers requiring the use of wheelchair accessible taxis (75% for a trip costing $35), especially given the lower levels of congestion in Perth compared to Sydney.[80]

Another submission from the Spinal Cord Injury Association (SCIA) also noted the rising cost of fares relative to the subsidy provided. To address the concern of the impact of increasing fares on people suffering from disability who rely on taxis for transport SCIA is seeking an increase in the TTSS subsidy to 75% (from 50%) and the taxi fare limit to increase to $120 per fare (from $60). These suggested amendments were derived from the Taxi Transport Subsidy Schemes provided in South Australia and Victoria after these states underwent a review in 2006 and 2008 respectively.[81]

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76 IPART, *2008 Review of Taxi Fares in NSW - Final Report,* pp 114-115.
77 NCOSS submission, 15 March 2012, p 2.
78 PDCN submission, March 2012, p 2.
79 Ibid, p 3.
80 Ibid.
81 SCIA submission, February 2012, p 2.

The Select Committee on the NSW Taxi Industry considered this issue and recommended in December 2010 that the Transport for NSW should increase the cap on the TTSS subsidy from $30 to $50. The Committee also recommended that the Premier ask IPART to consider the value of the subsidy as part of our annual fare reviews.[82] To date neither of these recommendations have been adopted. However, Transport for NSW has advised that it is about to commence an examination of the incentives and subsidies which support the provision of wheelchair accessible taxis to identify how service to customers can be improved. They have advised us that the TTSS will be considered as part of that work.

6.4 Implications for Government

Government funding of taxi fares is limited to rebates provided via the TTSS for people whose transport options are restricted due to a severe and permanent disability. In 2008/09 the Government paid $23.1 million in subsidies to 71,000 registered participants in the TTSS, who undertook more than 2.1 million subsidised journeys over that year.[83] By 2010/11 there were over 76,000 registered participants[84] and $25.7 million was paid in subsidies.[85]

All else being equal, an increase in maximum taxi fares is likely to increase the level of Government funding required for the TTSS. However, as the indicative fare increases in our draft report are relatively small, we wouldn't expect them to have a significant impact on Government expenditure.

The Government also provides a WAT incentive payment to drivers of $8.47 (including GST) per wheelchair journey in a WAT that is paid for with an "M50" TTSS docket. Taxi drivers were paid $3.6 million under this scheme during 2010/11. This payment is not affected by IPART's fare recommendations.

82 Select Committee on the NSW Taxi Industry, Inquiry into the NSW Taxi Industry Report, June 2010, pp 149-150.
83 Ministry of Transport (now Transport for NSW), Annual Report 2008/09, p 32.
84 Transport NSW (now Transport for NSW), Annual Report 2009/10, p 74.
85 Transport NSW (now Transport for NSW), Annual Report 2010/11, p 83.

6.5 Implications for the environment

We do not expect that the indicative fare increases in our draft report would have significant implications for the environment. The Bureau of Transport Statistics' Household Travel Survey found that taxi trips as a proportion of total trips made have stayed constant at 0.7% since 2001.[86] This survey suggests that the proportion of taxi trips is small in terms of overall travel, is relatively stable over time, and is not particularly sensitive to relatively small incremental changes in fares, as have occurred in recent years. As a result, the impact of the indicative fare increases in terms of pollution and congestion is likely to be small.

[86] Bureau of Transport Statistics, 2008/09 Household Travel Survey Summary Report, 2010 Release, p 26 – proportion of trips by taxi (average weekday) in the Greater Sydney Metropolitan area.

7 Service standards

Our terms of reference require us to consider taxi service standards as part of our review.

Our view is that independent, objective and transparent information on service standards is essential for accountability and good regulation. However, we do not directly take account of service standards in making fare recommendations unless there has been a regulatory change to service standards.

For this draft report we have examined the latest available[87]:

- performance information for standard taxis in urban areas (Sydney, Newcastle, Wollongong and the Central Coast), reported by taxi networks against their key performance indicators (KPIs)
- performance information for wheelchair accessible taxis in Sydney reported by the Zero200 booking service against its KPIs, and
- customer feedback information: complaints and compliments collected by Transport for NSW.

This chapter provides an overview of the information we considered and our draft findings on taxi service standards. For our final report we will have an additional 3 months data from Transport for NSW to update our findings.

7.1 Draft findings on service standards

We found that, on balance, service levels for booked trips appear to be about the same as last year. Performance on some indicators has improved, while it has declined on others. Compared to the previous 12 months, there has been:

- No significant change in performance against the telephone answering times KPIs or pick-up time KPIs for standard taxis.
- A significant improvement in the proportion of standard taxi bookings accepted by drivers and in the number of pick-ups made as a proportion of bookings required.

87 Information has been supplied by Transport for NSW for the 9 months from 1 April 2011 to the end of December 2011.

- A significant decrease in events when there is "no car available" but a significant increase in number of ring backs for standard taxi bookings.
- No significant change in phone answering times for WAT bookings.
- A decline in the 'pick-up in less than 15 minutes' KPI for WATs, but a significant improvement in the 'pick-up in less than 30 minutes' figure.
- A significant decrease in the number of ring backs for WAT bookings.

However, in spite of networks' consistent performance against network performance standards for booked trips, we observed a significant increase in the number of complaints and a decline in compliments through the Customer Feedback Management System, which may indicate a fall in customer satisfaction over the same period.

Most of the available information on service standards relates to booked taxi trips, which only make up around 20%[88] of total taxi trips taken. Given the small proportion of total trips which are booked over the phone the KPIs are only a partial measure of taxi service performance. In past reviews we have recommended that Transport for NSW should undertake regular surveys of taxi passengers across NSW and publish the results.

Transport for NSW advised in its response to our 2011 taxi fare review that its Bureau of Transport Statistics had scheduled customer satisfaction surveys for taxis in 2012, as part of a broader study which will develop consistent service quality attributes for measurement across transport modes.

Regular passenger surveys will provide essential data on taxi performance. We support the Bureau of Transport Statistics undertaking a survey in 2012 and developing consistent service quality attributes. The survey should be conducted regularly (at least annually) and the results published.

7.2 Network performance for standard taxis in urban areas

Most of the available data on taxi service standards comes from network performance data reported to Transport for NSW (see Box 7.1). This data covers network key performance indicators and customer feedback information. Based on the available information we observed that, on balance, service outcomes for standard taxis in Sydney for the 9 months to the end of December 2011 were about the same as they were for the year to the end of March 2011. However, service outcomes differ markedly between the various urban networks, with some networks clearly failing to meet the required standard for some indicators.

88 IPART, *2008 Review of Taxi Fares in NSW – Final Report and Recommendations*, June 2008, p 55.

Box 7.1 How network performance is measured

Network performance is measured through a series of KPIs and assessed against standards set by Transport for NSW. Standards for taxi telephone services and pick up times have been set for urban networks. Network performance standards are currently being reviewed.

Most of the information collected relates to booked trips only (around 20% of total trips). However, some of the information, specifically information on customer complaints and compliments relates to non-booked trips as well.

7.2.1 Phone call answering times for booked trips

In aggregate, Sydney[89] networks met the standards for phone call answering times: 98.5% of calls were answered within one minute and 99.7% were answered within 2 minutes. These levels of achievement are the same as in 2010/11.

As in 2010/11, 2 networks, Yellow and Lime, failed to meet the standards for phone call answering times within 2 minutes. However, Yellow Taxis have improved their answering times within 1 minute by 12.7% (79.8% to 92.5%) and within 2 minutes by 2.4% (from 95.1%).

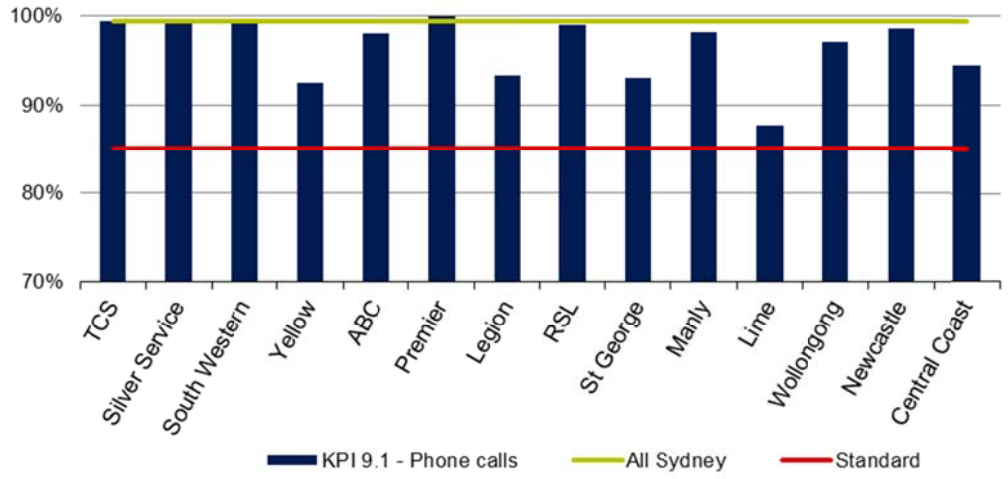
Sydney networks in aggregate also easily met the standard for abandoned calls:[90] only 1.9% of the total number of phone calls failed or were abandoned by callers before being answered compared with a target of no more than 5%. This represents an improvement in performance since last year, when callers abandoned 2.1% of calls.

There has been a significant improvement in the performance of Yellow, Lime and Manly Taxis for abandoned calls. In 2012 abandoned calls represented 1.4% of calls to Yellow (from 5.8% in 2010/11), 2.6% of calls to Lime (from 5.4% in 2010/11), and 4.1% of calls to Manly (from 5.8%in 2010/11).

Figure 7.1, Figure 7.2 and Figure 7.3 (below) compare the individual performance of all Sydney networks against the standards for phone call answering times and abandoned/ failed calls and the performance of the networks in aggregate. It is clear that almost all networks are meeting the required performance standards with the exception of Yellow and Lime Taxis mentioned above.

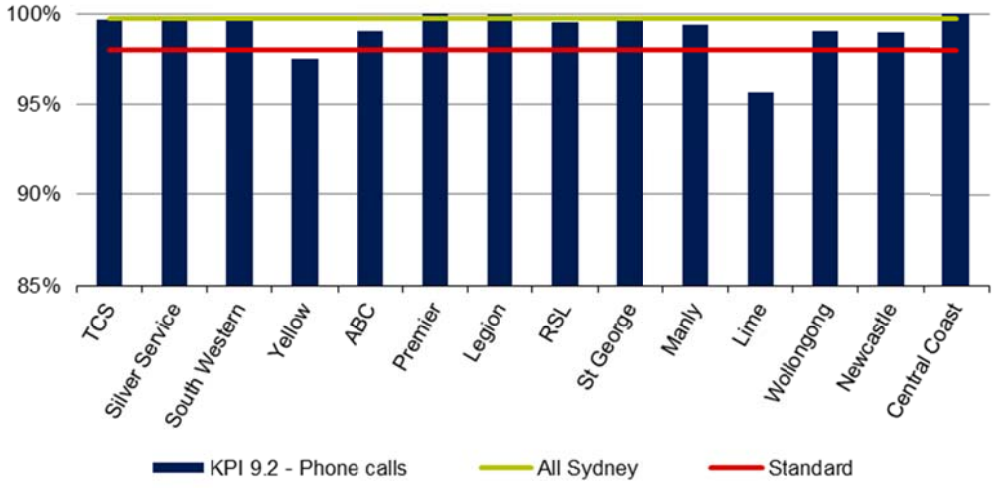
89 All networks except Zero200 (a dedicated booking network for WATs).
90 A call is considered abandoned if the caller terminates the call after a wait of at least 20 seconds.

Figure 7.1 Performance against standard for phone calls answered within 1 minute, urban networks, 9 months to December 2011



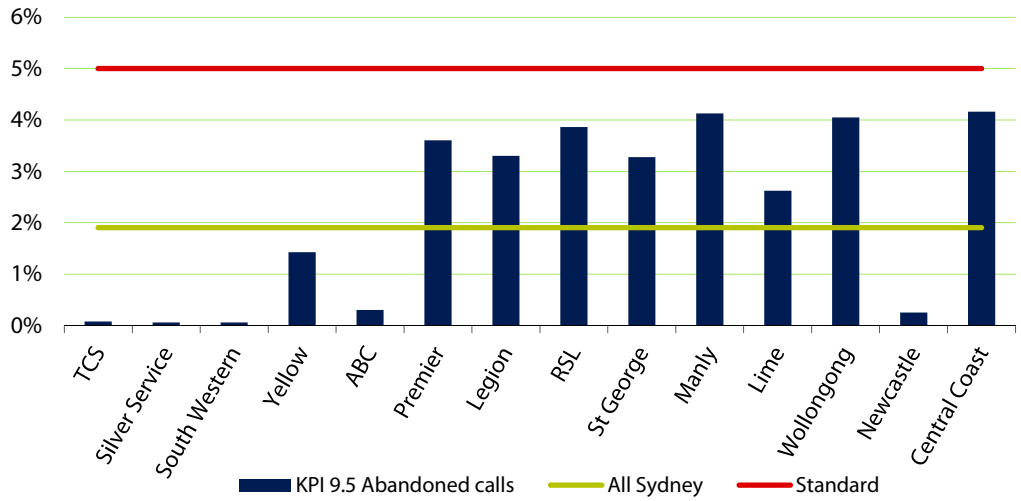
Data source: TfNSW

Figure 7.2 Performance against standard for phone calls answered within 2 minutes, urban networks, 9 months to December 2011



Data source: TfNSW

Figure 7.3 Performance against standard for phone calls abandoned by customers/failed, urban networks, 9 months to December 2011



Data source: TfNSW.

7.2.2 Passenger pick-up times for booked trips

In aggregate, the Sydney networks also met the standards for passenger pick-up times. For bookings where a pick-up was made 92% of taxis arrived within 15 minutes, almost 100% within 30 minutes and 100% within 60 minutes of the booking being made. However, as Table 7.1 shows, although performance in pick-ups in less than 15 minutes continued to be above the standard, it dropped off slightly compared to last year.[91]

Table 7.1 Sydney networks booked pick-up time performance, last 4 years

	Total booked pickups (000)	Pickup in less than 15 min (%)	Pickup in less than 30 min (%)	Pickup in less than 60 min (%)
2008/09	8,752	92.9	99.2	100.0
2009/10	8,188	94.3	99.3	100.0
2010/11	8,139	93.3	99.2	100.0
2011/12	6,078	91.6	98.9	100.0

Note: Data for 2011/12 is for the 9 months to 31 December 2011.

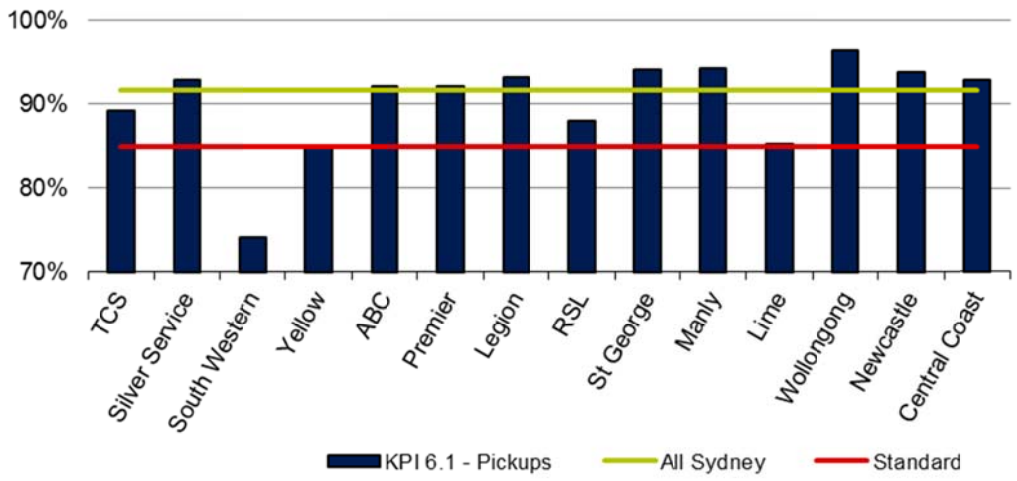
Source: TfNSW.

91 Note that the KPI definitions changed slightly as a result of the new network standards put in place in May 2008.

Not all of the Sydney networks met the standards related to pick-up times when their performance is examined on an individual network basis. South Western failed to meet the standard for the proportion of pick-ups made within 15 and 30 minutes of the booking time, with Lime and Yellow Taxis not meeting the standard for pickups within 30 minutes of the booking time.

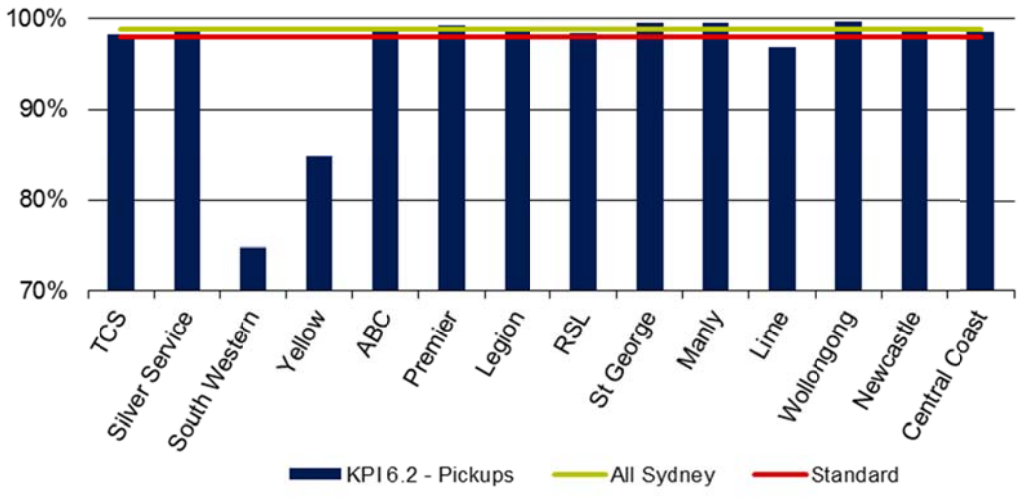
Figure 7.4 and Figure 7.5 show the performance of all Sydney networks individually against the standards for pick-up times, and compare the individual networks' performance to the performance for all networks in aggregate.

Figure 7.4 Performance against standard for pickup within 15 minutes, urban networks, 9 months to December 2011



Data source: TfNSW.

Figure 7.5 Performance against standard for pickup within 30 minutes, urban networks, 9 months to December 2011



Data source: TfNSW.

Table 7.2 below provides a comparison of the number of bookings requested compared to the number of jobs accepted by taxi drivers. It shows that the percentage of total bookings accepted by drivers improved to 88% during the 9 months to December 2011 after 4 years of results between 76 and 80%.

Table 7.2 Proportion of bookings accepted by drivers, all Sydney networks, 2008-2012

Year	Number of bookings/jobs requested (000)	Number of jobs offered to a driver who is not available to complete it (000)	Average number of times each job is offered to driver who is not available to complete it	Total number of bookings/ jobs accepted by drivers (000)	Percentage of bookings/jobs accepted by drivers
2007-08	13,331	35,595	2.7	10,701	80.3%
2008-09	12,736	34,574	2.7	10,115	79.4%
2009-10	12,545	31,536	2.5	9,550	76.1%
2010-11	12,004	31,616	2.6	9,630	80.2%
2011-12	8,183	23,672	3.0	7,196	87.9%

Note: Data for 2011/12 is for the 9 months to 31 December 2011.

Source: TfNSW.

7.2.3 Other network KPIs affecting passengers' taxi experience for booked trips

Table 7.3 summarises the networks' performance against other KPIs that we consider important because they directly affect passenger experience. Performance against these KPIs is likely to affect whether passengers are picked up by booked taxis on time, or need to ring back to inquire about their booking or obtain a taxi via a street hail.

There is a small decrease in the total number of bookings requested and a smaller decrease in total pickups made, resulting in an improvement in the total pickups as a proportion of bookings made.

Table 7.3 Changes in performance measures between review periods, Sydney networks, 2010-12

Measure	2010	2011	2012[a]	Change (%)	
				Since 2010	Since 2011
Number of bookings requested (000)	12,545	12,004	10,911	-13.0%	-9.1%
Total pickups (000)	8,188	8,139	8,104	-1.0%	-0.4%
Total pickups as a proportion of bookings requested (%)	65%	68%	74%	13.8%	9.5%
Number of No Car Available (000)	178	190	100	-44.0%	-47.4%
Number of ring backs (000)	437	502	598	36.9%	19.3%

a Data for 2011/12 is an estimate of full year figures based on data for the 9 months to 31 December 2011.

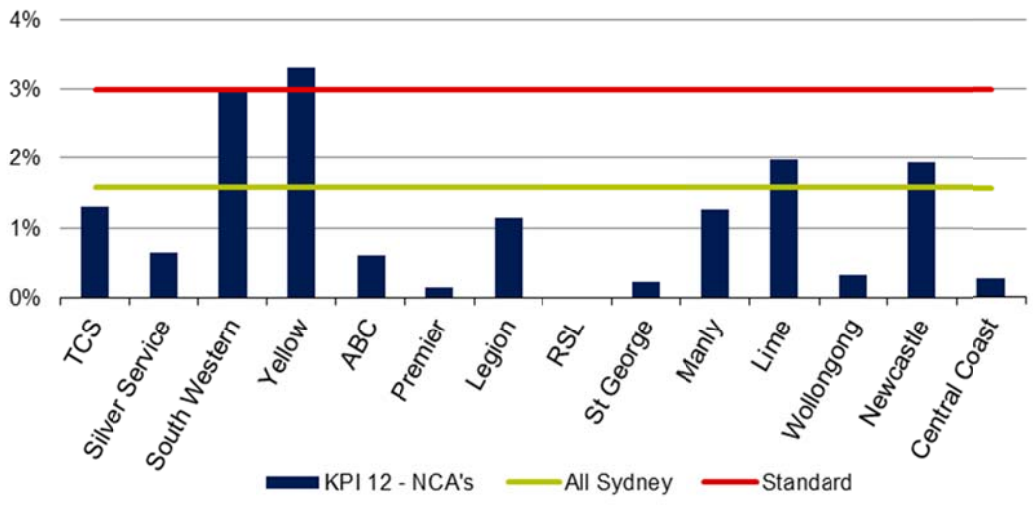
Note: 2010-2011 figures are for the year ending 31 March.

Source: TfNSW.

Instances where no car was available to fulfil a booked job

Instances where no car was available fell significantly over the past year. There is some variation in the performance of individual networks, with only 1 network (Yellow) failing to meet the standard. Figure 7.6 shows all Sydney networks' performance against the standard for no car available (ie, that instances where no cab is available when a booking was required should be no more than 3% of bookings requested).

Figure 7.6 Performance against 'no car available' standard, urban networks, 9 months to end of December 2011



Data source: TfNSW.

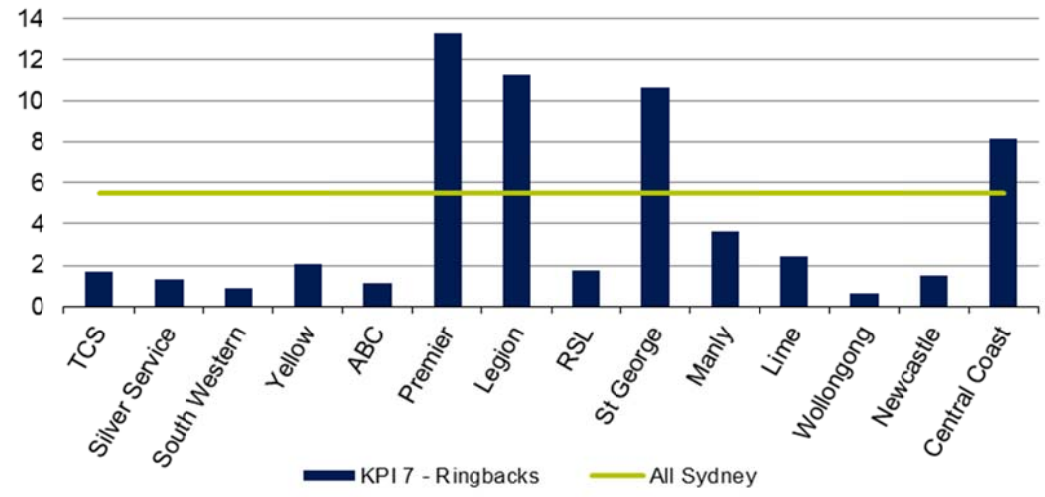
Instances where passengers rang the network back to ask about their booking

The number of 'ring backs' performance indicator measures the number of times passengers called the network back to inquire about a taxi booking request. Although Transport for NSW does not have a published standard for this KPI, we consider it an important indicator of customer service performance. In our view, the main reason a passenger would call back the network after making an initial booking is if the taxi has not arrived at the time expected by the passenger. However, there may be other reasons for this.

There was an increase in ring backs this year, an interesting result given the consistent performance in taxis arriving within 15 minutes of booking time and 30 minutes of booking time (ie, taxis appear to be arriving no later, but customers are more inclined to ring to see where they are).

Figure 7.7 shows the number of ring backs per 100 bookings by Sydney network. It indicates that there is a large variation in networks' performance against this KPI. As a proportion of bookings required, the number of ring backs varies from 1 to 13 ring backs for every 100 bookings, and the average number of ring backs for all Sydney networks is 5.5 per 100 bookings (up from 4.2 in 2010/11).

Figure 7.7 Number of ring backs per 100 bookings required, urban networks, 9 months to end of December 2011



Data source: TfNSW.

7.3 Service performance for wheelchair accessible taxis in Sydney

Transport for NSW collects data on wheelchair accessible taxi services (WATs) in Sydney. The KPIs for WATs and the standards for performance against these KPIs are largely the same as for other Sydney networks. However, this information is maintained separately to other networks.

We have used information from the Zero200 booking service for our analysis of WATs service performance, which is the same approach as in previous years. The Zero200 service is the booking service used by the majority of WATs in Sydney. WATs based on the Lime network may also accept WAT bookings directly.

Table 7.4 and Table 7.5 summarise Zero200 performance against the standards for phone call answering times and pick-up times for WATs over the past 5 years. These tables indicate that performance on these KPIs is similar to that of last year.

Table 7.4 WATs performance against standards for phone call answering times 2008-2012

Year	Calls answered within 1 minute (%)	Calls answered within 2 minutes (%)
2008	91.3	97.0
2009	94.2	97.8
2010	93.3	97.4
2011	93.5	97.4
2012[a]	94.3	97.5
Performance standard	85.0	98.0

[a] Data for 2011/12 is for the 9 months to 31 December 2011.

Note: Information is for WATs bookings through the Zero200 booking service only. Figures are for the year ending 31 March.

Source: Data from TfNSW.

Table 7.5 Zero200 booking services performance against standards for pick up times for WATs, 2008-2012

Year	Pick up in less than 15 minutes (%)	Pick up in less than 30 minutes (%)	Pick up in less than 60 minutes (%)
2008	77.9	95.2	99.5
2009	78.3	96.1	99.7
2010	82.9	96.8	99.8
2011	79.6	96.7	99.7
2012 [a]	75.3	95.3	99.5
Performance standard	85.0	98.0	99.0

[a] Data for 2011/12 is for the 9 months to 31 December 2011.

Note: Information is for WATs bookings through the Zero200 booking service only. Figures are for the year ending 31 March.

Source: TfNSW.

The 'pick up in less than 15 minutes' performance has declined since last year, although the 'pick up in less than 30 minutes' performance is similar.

Table 7.6 provides information on other KPIs that are relevant to WAT passengers' experience.

Table 7.6 Changes in performance measures between review periods for booked jobs on the Zero200 booking service, 2010-12

Measure	2010	2011	2012[a]	Change (%)	
				Since 2010	Since 2011
Number of bookings requested (000)	131.1	127.0	126.1	-3.8	-0.7
Total pickups (000)	114.8	112.1	110.6	-3.7	-1.3
Total pickups as a proportion of bookings requested (%)	87.6	88.3	87.7	0.2	-0.6
Number of ring backs	1,457	470	148	-89.8	-68.5
Number of taxis operating on the network	529	583	614	16.1	5.3

[a] Data for 2011/12 is an estimate of full year figures based on data for the 9 months to 31 December 2011.

Note: Average monthly result for the year ending 31 March. Data on number of taxis is based on the number of WAT licences on issue as at 1 April each year and not monthly reported data for Zero200 service. Calculations are made according to the raw values, not the rounded values presented in the table.

Source: TfNSW.

Instance where passengers rang the network to ask about their booking

The 'number of ring backs' performance indicator measures the number of times passengers called the network back to inquire about a taxi booking request. There was a dramatic decrease in ring backs for WAT bookings this year, perhaps supporting Taxi Council's view that passenger confidence in WAT service reliability has improved and a higher percentage of WAT bookings are being made for immediate pick-up rather than in advance.

7.4 Customer feedback – complaints and compliments

Complaints and compliments data from the Customer Feedback Management System (CFMS), which is administered by Transport for NSW, is obtained through direct feedback from passengers. It is an important indicator of passengers' satisfaction with taxi services. However, only a small number of passengers are likely to be motivated to make a formal complaint or compliment to the CFMS and as a result it does not provide a full picture of service outcomes. For this reason, we reiterate our recommendation that Transport for NSW should undertake regular passenger satisfaction surveys to obtain more robust statistical data.

7.4.1 Customer feedback data

Based on the year to 31 December 2011, CFMS data shows a significant increase in the number of complaints compared with the year to December 2010. In total, 11,206 complaints were recorded in 2011 compared with 8,208 in 2010, an increase of 37%.

Compliments fell for the same period, from 618 to 417.

Complaints have also increased, and compliments also decreased compared to averages over the period 2005 to 2011. While caution is required in interpreting these figures for the reasons outlined above, they do seem to represent a significant decrease in customer satisfaction with taxi services. If these trends continue in the additional data we receive before finalising our taxi fare review, we will recommend that Transport for NSW monitor the monthly complaints data closely and consider further compliance action to improve taxi services if complaints continue at current levels.

Table 7.7 provides a summary of the changes in complaints and compliments received by the CFMS over the past 3 calendar years.

Table 7.7 Summary of complaints and compliments compared to the previous year for all taxis, 2009-2011

	2009	2010	2011	Change (%)
				Since 2010
Complaints	6,153	8,208	11,206	37%
Driver -Total	4,360	5,809	7,916	36%
Driver -Serious	98	106	151	42%
Driver -Other	4,262	5,703	7,765	36%
Fares	1,211	1,530	2,061	35%
Network	390	631	999	58%
Vehicle	192	238	230	-3%
Compliments	995	618	417	-33%

Note: Figures are for calendar years. Driver complaints include driving in an unsafe manner, rude to customer, refusal of a fare when 'for hire', lateness, and failure to provide reasonable assistance to a customer.

- Network complaints concern radio bookings and pickups.

- Vehicle complaints concern the state of the vehicle.

- Serious complaints consist of assault, driving under the influence of drugs and alcohol, improper use of an authority card, operate or drive without authority, refusal of a guide dog, sexual harassment and TTSS fraud.

Source: TfNSW.

Appendices

A Terms of Reference

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992
TAXI INDUSTRY FARE REVIEW

I, Barry O'Farrell, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act* 1992, approve the Independent Pricing and Regulatory Tribunal entering into an arrangement with the Department of Transport from 4/08/2011 to 4/08/2012 to provide services to the Department that are within its area of expertise. The services to be provided by the Tribunal are the conduct of an investigation into, and the preparation of a report concerning, fares for taxi services under the *Passenger Transport Act 1990*.

In providing these services, the Tribunal should consider:

i) the cost of providing the services concerned;
ii) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies, and standards of service;
iii) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
iv) the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
v) the need to maintain ecologically sustainable development;
vi) the social impact of the recommendations;
vii) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards as notified to the Tribunal by the Minister for Transport); and
viii) the effect of any pricing recommendation on the level of Government funding.

The services to be provided by the Tribunal will include a public consultation process through which the Tribunal will invite submissions from the NSW Taxi Council, taxi industry participants, and other stakeholder groups including the general community.

The services are to be provided through the provision of a final report to the Department of Transport by 8 June, 2012.

Bob Farrell

The Hon Barry O'Farrell MP
Premier

Dated at Sydney 4. 8. 2011

B List of submissions received

Table B.1 List of submissions received (due 3 February 2012)

Submitter	Date received
Australian Taxi Drivers' Association (ATDA)	2 February 2012
Australian Taxi Drivers' Association (ATDA) – supplementary submission	22 February 2012
Council of Social Service of NSW (NCOSS)	15 March 2012
Individual (P Abelson)	3 February 2012
Individual (D Biggar)	5 March 2012
Individual (T Bradley)	9 February 2012
Individual (T Bradley) – supplementary submission 1	5 March 2012
Individual (T Bradley) – supplementary submission 2	5 March 2012
Individual (T Bradley) – supplementary submission 3	5 March 2012
Individual (D Godden)	2 February 2012
Individual (E Mollenhauer)	3 February 2012
Individual (K Naidu)	3 February 2012
NSW Taxi Council	3 February 2012
NSW Taxi Drivers' Association (NSWTDA)	3 February 2012
NSW Taxi Drivers' Association (NSWTDA) – supplementary submission	6 February 2012
Physical Disability Council of NSW	20 March 2012
Spinal Cord Injuries Australia	14 February 2012

C Information on the NSW Taxi Industry

The taxi industry in NSW includes multiple participants, who may play more than one role in providing taxi services. For the purposes of our fare reviews, we focus on the costs incurred by taxi operators and drivers in providing taxi services.

Every taxi is required to have an operator accredited by Transport for NSW (TfNSW). The operator is responsible for, among other things, obtaining the use of a taxi licence plate (through leasing or owning it), fitting out a car as a taxi (including, for example, installing a meter and communications equipment), affiliating with a taxi network that provides a booking service, insuring the taxi, maintaining the taxi so that it is mechanically sound and clean, and engaging licensed and authorised drivers to drive the taxi. An operator may be an individual or a corporation. Operators may operate one or multiple taxis.

A taxi driver must be licensed to drive in NSW and authorised to be a taxi driver by TfNSW. A driver may also be the operator of a taxi, or may drive the cab under arrangement with the operator. The most common arrangement in NSW is bailment, where the driver has the use of the vehicle for a specified period of time – a shift[92] - in return for a bailment payment. A bailee may be permanent or casual.[93] The bailment methods are determined by the NSW Industrial Relations Commission and may be either:

- Method 1: a percentage of the shift takings. The percentage has been determined by the Industrial Relations Commission as 45% for a first year permanent driver and 50% for a casual or second and subsequent year driver. Method 1 is the most common bailment method in country NSW.
- Method 2: a fixed "pay-in". The Industrial Relations Commission sets the maximum pay-in each year. Method 2 is the most common bailment method in urban NSW.

Operators could also employ drivers for a wage, but we understand that this is rarely the case.

The Industrial Relations Commission has determined that a permanent bailee is entitled to sick, annual and long-service leave. A casual bailee is not.

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92 A taxi shift is defined by the NSW Industrial Relations Commission as being at least 9 hours but not more than 12 hours.

93 A permanent bailee is a driver who regularly takes a taxi cab on bailment from the same bailor for 5 shifts per week or at least 220 shifts per year.

The driver pays for fuel and car washing under a "pay-in" arrangement and the operator pays for these items in other cases.[94]

Table C.1, Table C.2, Table C.3, Table C.4 and Table C.5 contain data on the number of taxis by network and issued licences in NSW.

Table C.1 Number of taxis by network – NSW March 2012

Network	Standard	Wheelchair[a]	Total Taxis
SYDNEY			
Taxis Combined Services (TCS)	2224	208	2432
Silver Service	931	106	1037
ABC Radio Taxi	55	1	56
Yellow Cabs (Included in TCS)	0	51	51
South Western	77	10	87
Premier	838	87	925
RSL	120	6	126
Manly	174	22	196
St George	173	14	187
Lime	15	51	66
WOLLONGONG	125	10	135
NEWCASTLE	156	12	168
CENTRAL COAST	66	21	87
COUNTRY (attached to networks or booking services)	587	165	752
COUNTRY (not attached to network)	96	50	146

a Not all wheelchair accessible taxis are licenced WATs.

Source: TfNSW.

Table C.2 Licences on issue in NSW – March 2012

Area	Total licenced taxis	Total change since Dec 08	WAT sub-total	WAT change since Dec 08
Sydney	5,659	9.4%	614	28.2%
Newcastle	168	3.7%	12	20.0%
Wollongong	135	0.7%	10	11.1%
Country	1,043	1.7%	199	4.7%
NSW total	7,005	7.8%	835	21.4%

Source: TfNSW.

94 NSW Industrial Relations Commission, *Taxi Industry (Contract Drivers) Contract Determination*, 1984, Schedule 1.

Table C.3 Licences on issue in NSW continued – March 2012

Area	Time restricted taxis	Total change since Dec 08	Leased taxis	Total change since Dec 08	New annual licences
Sydney	280	4.1%	4,337	1.1%	931
Newcastle	1	0.0%	84	55.6%	
Wollongong	0	N/A	72	-5.3%	
Country	0	N/A	298	-5.4%	
NSW total	281	4.1%	4,791	1.2%	

Note: New Annual licences include WATs (516 without WATs).

Source: Transport for NSW.

Table C.4 Number of drivers, operators and networks – March 2012

Area	Drivers authorities	Operator accreditations	Active operator accreditations	Taxi networks
Sydney	18,937		2,684	12
Newcastle	649		120	2
Wollongong	517		120	1
Country	3,820		500	82
NSW total	**23,923**	**5,299**	**3,424**	**97**
Change since December 2008	**3.2%**	**-1.0%**	**-0.9%**	**-2.0%**

Source: Transport for NSW.

Table C.5 Total taxi operators by number of taxis – March 2012

Number of Taxis	Number of operators operating
1	2,623
2 to 10	712
11 to 20	58
21 to 50	26
More than 50	1

Source: Transport for NSW.

Glossary

ABS	Australian Bureau of Statistics
ATDA	Australian Taxi Drivers Association
Bailee driver	Driver who takes a taxi on bailment (in urban areas under the *Taxi Industry (Contract Drivers) Contract Determination 1984*).
Bailment system	The most common legal relationship between taxi operators and drivers. For urban taxis in NSW this arrangement is governed by the *Taxi Industry (Contract Drivers) Contract Determination 1984.*
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
CFMS	Customer Feedback Management System. Records all complaints and compliments logged by passengers through the taxi networks, Transport Infoline or Transport for NSW.
CIE	The Centre for International Economics
Contract Determination	The *Taxi Industry (Contract Drivers) Contract Determination 1984.* Determined by the IRC, this determination governs the terms and conditions of bailment for urban taxis in NSW.
CPI	Consumer Price Index. Price index measuring the cost of goods purchased by households. Compiled by the Australian Bureau of Statistics.
Distance rate/Tariff I	Distance component of fare charged per kilometre travelled. Tariff I applies from 6am to 10pm. In areas under the country fare scale this component is charged for the first 12km only.
Flag fall	Fixed component of the fare that is charged when the meter is first started on every taxi trip.
GDP	Gross domestic product. GDP is a measure of national output.

Holiday surcharge	Fare component charged on Sundays and public holidays for areas under the country fare scale. Calculated as a percentage mark-up on the distance rate.
IPART	Independent Pricing and Regulatory Tribunal. Provides fare recommendations to Transport for NSW on an annual basis.
IRC	New South Wales Industrial Relations Commission. The IRC sets conditions and pay-ins in the urban area according to the *Taxi Industry (Contract Drivers) Contract Determination 1984*.
KPI	Key Performance Indicators. Measure network service performance. KPIs are collected by Transport for NSW. Some KPI information is published on the Transport for NSW website.
LPG	Liquefied Petroleum Gas.
Maxi-cab surcharge	Fare component charged for hiring a maxi-cab, except when it is hired from a taxi zone or hailed on the street to carry up to 4 passengers or as a multiple hiring. Calculated as a percentage mark-up on the entire fare (excluding tolls).
Network fees	Fees paid by the operator of a taxi to belong to an authorised taxi network.
Night time surcharge/ Late night surcharge	Fare component charged for trips between 10pm and 6am. Calculated as a percentage mark-up on the distance rate.
NSWTDA	New South Wales Taxi Drivers Association.
Pay-in	The amount paid by a bailee driver to an operator for the use of a taxi. Maximum pay-ins for urban taxis are determined by the NSW IRC and set out in the *Taxi Industry (Contract Drivers) Contract Determination 1984* but discounting below this rate is common.
PWC	PricewaterhouseCoopers
Tariff II (Country)	Fare component charged for distance travelled beyond 12km. Charged in areas under the country fare scale only.
Taxi Council	New South Wales Taxi Council.

Taxi Transport Subsidy Scheme	Subsidy provided to qualifying passengers for WAT bookings. Currently provides a rebate of 50% on the total fare up to a maximum subsidy of $30.
TCIs	Taxi Cost Indices. Used by IPART to measure the increase in taxi industry costs between review periods.
TfNSW	Transport for NSW. It has previously been known as the NSW Department of Transport, Transport NSW, NSW Transport and Infrastructure, and the Ministry of Transport.
TTSS	Taxi Transport Subsidy Scheme.
Waiting time	Fare component charged when the meter is running and taxi is stationary or travelling at a speed below the waiting time threshold. For example waiting time is charged when: ▼ the taxi has arrived at a pick-up address and has legally started the meter but the journey has not yet commenced ▼ the taxi is stopped at traffic lights during the journey ▼ the taxi is driving slowly through heavily congested traffic during the journey.
Waiting time threshold	Speed in km/h, below which waiting time is charged rather than the distance rate. The threshold is currently 26km per hour.
WAT	Wheelchair Accessible Taxi. WATs in Sydney are connected to the Zero200 booking service and are obliged to take wheelchair jobs.
WPI	Wage Price Index. Price index measuring the cost of wages paid by business and government. Compiled by the Australian Bureau of Statistics.
Zero200	Booking service for WATs in Sydney. All WATs in Sydney are required to be connected to this service.