



Independent Pricing and Regulatory Tribunal

2013 Review of Taxi Fares in NSW

Maximum fares from July 2013

Transport — Draft Report
May 2013



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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 31 May 2013.

We would prefer to receive them electronically via our online submission form <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:

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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 the Independent Pricing and Regulatory Tribunal of NSW (IPART) to review taxi fares in urban and country NSW¹ and recommend changes in maximum fares to the Director-General of Transport for NSW (Transport for NSW).

For fares commencing from July 2013 in urban areas, including Sydney, our draft recommendations are to restructure fare components as follows:

- ▼ to increase flag fall and reduce the distance and waiting time rates to increase the incentives for drivers to accept short fares
- ▼ to add a flat rate peak surcharge for Friday and Saturday nights to provide more incentive for taxis to be on the road when they are needed
- ▼ to change the hours at which the current night time 20% surcharge applies to commence at midnight rather than 10pm every night of the week, and stop at 5 am rather than 6 am.

The combined effect of these recommended structural changes is a 1% decrease in average fares.

For country areas, our draft recommendation is for no change to fares this year.

Other draft recommendations include:

- ▼ extending taxi licensing reforms to urban areas other than Sydney and country areas, giving priority to areas where licence plate values exceed \$200,000
- ▼ removing the northbound ('return') toll on the Sydney Harbour Bridge and Tunnel.

We expect our draft recommendations to result in positive outcomes for passengers (more taxis available and lower waiting times at peak times, more affordable fares for long-distance travel and better availability of taxis for short trips), and to drive improvements for drivers and operators in the longer term.

¹ Urban areas include: Sydney Metropolitan, Camden, Picton, Thirlmere, Tahmoor, Bargo, Blue Mountains, Newcastle, Fern Bay, Toronto, Minmi, Williamtown, Medowie, Ferodale, Raymond Terrace, Campvale, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Cams Wharf, Gosford, 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).

We expect the impacts on licence owners, in the form of lower income from leasing their licences, to be reasonable.

This introduction provides an overview of our approach to recommending fares, our draft recommendations on changes to fare levels and fare structure (for urban fares), the estimated impacts on customers, drivers, operators and licence owners as a result of the recommended changes, and our draft findings on taxi service standards and the data required to inform them. This introduction also sets out the process for the remainder of the review.

We welcome submissions on our draft report. Submissions are due by Friday 31 May and late submissions may not be accepted. All submissions accepted will be published on our website when our final report is submitted to Transport for NSW. Further information on making a submission can be found on page iii.

1.1 Changing our approach to developing recommended taxi fares

In previous years, we have made our recommendations on fare levels based on the average change in the costs of providing taxi services over the previous 12 months, as measured by the Urban and Country Taxi Cost Indices (TCIs). However, for the 2013 review, we reconsidered our approach for setting taxi fares, as well as our approach for setting the structure of these fares.

We consider that a change is required because:

- ▼ It has become apparent that the existing TCI methodology is not achieving its aims. Fares are inefficient, affordability for passengers is lower than it otherwise would be and taxi driver and operator incomes are low.
- ▼ In our previous reports, we have indicated that changes to fares alone are unlikely to solve all of the problems raised with us, and a broader review of the industry is needed.² While we still consider a broader review of the industry is desirable, this year we have an opportunity to look at Sydney taxi licence numbers and taxi fares together for the first time and have the ability to model these interactions.
- ▼ The NSW Government has decided to release additional Sydney taxi licences this year. There is a high degree of interaction between the price and availability of taxi licences and the level of fares. Our decision on fare levels will have an impact on the change in annual licence costs and other outcomes that will result from this decision. For Sydney taxis, it is important that our approach to recommending taxi fares takes account of this interaction and ensures that our fare decisions complement the release of new licences.

² IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, p 10.

Outside Sydney, where licence arrangements have not been reformed, we also consider that a change to our approach to setting fares is warranted in order to address the problems with the existing TCI approach. We consider that licence reforms should be extended in order to deliver more efficient outcomes and improve service levels. Priority should be given to areas that have significant licence-related costs.

1.2 Our draft recommendations on fare levels in urban areas including Sydney

Our draft recommendation is that taxi fares in urban areas, including Sydney, should be reduced by an average of 1% from July 2013.

In forming our draft recommendation for urban fares we used our taxi industry model to consider the impacts of making a downward fare adjustment in order to move towards a fare level that is more consistent with efficient costs. We also took into account changes in costs estimated using the Taxi Cost Index (with modified inflators).

1.2.1 Our modelling shows that lower fares deliver better outcomes for customers and the industry

We used the model of the Sydney taxi industry developed for our taxi licence review to examine options for adjusting fares downward to remove inefficiencies. Each option has a different impact on:

- ▼ outcomes for passengers – affordability and waiting times
- ▼ taxi use – the total number of trips we expect to be taken and taxi occupancy
- ▼ annual licence costs – costs for operators and income for licence owners.

On balance, we consider that reducing fares by 1% this year (along with our recommended changes to fare structure) provides the best set of outcomes and an appropriate balance between benefits for customers and impacts on the industry. We expect our draft recommendations (including our recommended changes to fare structure), together with the additional 250 peak availability licences to be released from July 2013, to result over time in:

- ▼ 6% reduction in licence lease costs
- ▼ 6% reduction in waiting times on Friday and Saturday nights
- ▼ 4% increase in occupancy (proportion of time the taxi has a passenger)
- ▼ 6% increase in total taxi trips.

We do not have data or a model for urban areas other than Sydney but we consider that non-Sydney urban fares should move in line with Sydney fares, that is, be reduced by 1% from July 2013.

1.2.2 The change in the cost of providing taxi services over the past year

Our draft decision is that it is not appropriate to continue to base annual fare changes on the Taxi Cost Index (TCI) because the current level of fares includes a significant amount of economic rent. Nevertheless, we need to monitor the change in costs faced by the industry and ensure that our decisions take them into account.

The change in the cost of providing services is an input to our taxi industry model and as a result, we consider that there is value in continuing to calculate and publish the TCI. In addition, we have decided to retain the mid-year review of LPG prices,³ which requires us to maintain up to date cost weightings (the proportion of total costs that each cost item represents). Fluctuations in the price of LPG can have a significant effect on the cashflow of drivers and we would expect to see this reflected in fares if they were set at an efficient level.

We considered that 2 changes should be made to inflators in the TCI to improve its accuracy:

- ▼ replacing the WPI inflator for labour costs with CPI
- ▼ replacing the CPI-insurance inflator for insurance costs with CPI.

Based on these draft decisions, and including a productivity adjustment of 0.2% (consistent with the approach we took in 2012), we estimate that:

- ▼ the cost of providing urban taxi services has increased by 2.1% since the 2012 taxi fare review final report
- ▼ the cost of providing country taxi services has also increased by 2.1% over the same period.

For our final report we will have an additional month's data about LPG prices which may change the TCI outcomes.

1.3 Our draft recommendations on restructuring some components of urban fares

Taxi fare components include a fixed flag fall, a distance rate (charged when taxis are travelling at more than a threshold speed, currently 26 km/h), a waiting time rate (charged when taxis are travelling at less than the speed threshold), and a booking fee (where applicable).

³ We intend to retain the mid-year review in its current form. We will review prices between May and October and if we find they have changed (up or down) by more than 20% to recommend an additional December fare change to Transport for NSW.

In past reviews we have canvassed changes to fare structure in response to anecdotal evidence about driver resistance to accepting short fares, and passenger concerns about the difficulty of catching taxis on Friday and Saturday nights. However, in the past we have concluded that due to lack of evidence we should not make changes.

We still consider that there is not sufficient information available for us to determine an *optimal* fare structure. However, there is sufficient information to determine the *direction* of changes to different fare components from new data about the demand and availability for taxis from the taxi use survey we commissioned,⁴ and about taxi use patterns from the survey of taxi drivers and operators we commissioned.⁵

Our draft recommendation is to change the urban fare structure by:

- ▼ increasing the flag fall from \$3.50 to \$4
- ▼ reducing the distance rate by 7% and reducing the waiting time rate by 5%
- ▼ applying a new \$2.50 peak surcharge to all fares between 5 pm and 5 am on Friday and Saturday nights
- ▼ starting the 20% distance surcharge at midnight instead of 10 pm on every night of the week, and ending it at 5 am instead of 6 am.

A 50 cent increase to the flag fall with a reduction to the distance rate will make travelling longer distances by taxi more affordable, and improve the incentives for drivers to accept short journey bookings.

The Friday and Saturday night surcharge of \$2.50 from 5 pm to 5 am will encourage more taxis to be on the road during peak times when the demand for taxi services is the highest.

Applying all of these changes will result in an estimated reduction of 1% to average fares. Our draft recommended urban fare schedule is set out below in Table 1.1, with comparisons to the current fare schedule:

⁴ Taverner Research, *Survey of Taxi Use in Sydney*, November 2012.

⁵ The CIE, *Reweighting of the Taxi Cost Index, Final Report*, April 2012.

Table 1.1 Draft recommended urban taxi fare schedule compared to current schedule

Fare component	2012/13	Draft recommendation 2013/14	Difference
Base flag fall	\$3.50	\$4.00	14%
Standard distance rate (\$/km when the vehicle is travelling more than 26 km/h)	\$2.14	\$2.00	-7%
Night distance rate (\$/km when the vehicle is travelling more than 26 km/h) (20% surcharge)	\$2.57 (10 pm – 6 am)	\$2.40 (12 am – 5 am)	-7%
Waiting time (\$/hour when vehicle slower than 26km/hour)	\$55.30 (92 c/min)	\$52.50 (87.5 c/min)	-5%
Friday to Saturday peak surcharge	None	\$2.50 (5 pm – 5 am)	NEW charge
Booking fee (booked fares only)	\$2.40	\$2.40	No change
Maxi taxi surcharge (on total fare) (applies when 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).	50%	50%	No change

Note: Prices are expressed in nominal \$.

Source: Transport for NSW, <<http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>>.

1.4 Our draft recommendations on fares for country areas

For country areas, our draft recommendation is that fares should not change this year.

In forming our draft recommendation for country fares we considered the evidence that fares are inefficient due to the current TCI methodology, as for urban fares. However, due to the wide variation in cost structures between the many country towns with taxi services, the absence of data or a model to analyse the impacts of changes, and the fact that taxi licence reforms have not been extended to country areas, we have decided on balance to leave fares unchanged.

The country taxi fare schedule remains as set out below in Table 1.2:

Table 1.2 Draft recommended country taxi fare schedule (unchanged from 2012/13)

Fare component	
Flag fall	\$4.00
Distance charge - first 12km	\$2.20
Distance charge - after first 12km	\$3.05
Waiting time charge (when speed drops below 26 km/h)	\$56.24
Booking fee	\$1.10
Night time surcharge (on distance rate between 10pm and 6 am)	20%
Sunday/Holiday surcharge (on distance rate between 6 am and 10 pm on a Sunday or public holiday)	20%
Maxi taxi surcharge (on total fare)	50%

Note: Prices are expressed in nominal \$.

1.5 Impacts of our draft recommendations

We considered the implications of our draft recommendations for passengers, the industry, the NSW Government and the environment.

For passengers the impact on affordability will depend on when and how far they travel. Our draft recommendations to increase the flag fall and reduce the distance and waiting time rates should make taxi travel more affordable for passengers travelling longer distances and more expensive for those travelling shorter distances, particularly on Friday and Saturday nights. However, for passengers who see price increases, we expect corresponding improvements in taxi availability.

Some industry stakeholders have expressed concern that the combined impact of more licences and lower fares would affect the income of drivers, operators and licence holders and ultimately jeopardise the viability of the industry. We do not expect fare reductions to reduce drivers' incomes. What we do expect is that:

- ▼ Lower fares will encourage more people to use taxis – if more people use taxis, fare revenue per taxi will not fall by as much as 1%.
- ▼ Pay-ins to operators should fall – drivers will reduce the amount they are willing to pay to take a taxi for a shift if the fare revenue for that shift is expected to be lower. At the same time, additional taxi licences should increase the demand for drivers. With fewer drivers available relative to the demand for them, taxi operators may need to reduce the amount they charge to drivers to take out the taxi for a shift.

- ▼ The number of taxis on the road should increase at peak times and may fall in lower demand times – our draft recommendations on fare structure are likely to have an impact on which shifts drivers and operators choose to put a taxi on the road.

We do not expect our draft recommendations to have a significant impact on the NSW Government or on the environment.

1.6 Taxi service performance

Independent, objective and transparent information on service performance is essential for accountability and good regulation which promotes competition and productivity. We have used information about taxi service performance from the survey we commissioned of taxi use in Sydney to guide our draft decisions on fare level and fare structure for this review.

As in previous years, we have also received information from Transport for NSW about the performance of standard and wheelchair accessible taxis (WATs) in Sydney, reported by taxi networks against key performance indicators (KPIs). We have analysed some of the KPI information, for example on booking acceptance time and ‘no car available’ declarations, but we have again identified some significant limitations in the KPI data that render it less useful than it might otherwise be.

As a result we reiterate the recommendation we made in our licence review, that Transport for NSW should investigate the cost and feasibility of mandating a regulator data set from operators.

1.7 The process for this review

We welcome submissions on our draft report. Submissions are due by Friday 31 May and late submissions may not be accepted. All submissions accepted will be published on our website when our final report is submitted to Transport for NSW. (See page iii for information on how to make submissions.)

We will consider the information and comments received through the public consultation process. We will hold a public forum on 21 May to provide stakeholders with a further opportunity for input.

We expect to submit our final report to Transport for NSW by 14 June.

1.8 How this paper is structured

This draft report sets out our draft decisions and recommendations. It is structured as follows:

- ▼ Chapter 2 explains in more detail why we need to change our approach to recommending taxi fares this year.
- ▼ Chapter 3 outlines our considerations in reaching our draft recommendations on fare levels.
- ▼ Chapter 4 outlines our considerations in reaching our draft recommendations on fare structure.
- ▼ Chapter 5 outlines the estimated impacts of the draft recommendations on passengers, the industry, NSW Government and the environment.
- ▼ Chapter 6 sets out our draft findings on taxi service performance and the data that underpins those findings.

1.9 List of draft recommendations

- 1 The maximum fare schedule for taxis in urban areas should be as set out in Table 1.1.
- 2 The maximum fare schedule for taxis in country areas should be as set out in Table 1.2.
- 3 Transport for NSW should reform taxi licensing arrangements outside Sydney. Initially Transport for NSW should focus on urban areas and on country areas with licence transfer values above \$200,000.
- 4 That Transport for NSW remove the ability for taxis to charge customers a toll when travelling north across the Sydney Harbour crossings.
- 5 That Transport for NSW investigate the cost and feasibility of mandating a regulator data set.

2 | Review context

As Chapter 1 indicated, in previous taxi fare reviews we have recommended fare changes based on the average change in the costs of providing taxi services, as measured by the TCI. However, for the 2013 review, we decided to reconsider this approach, as well as the structure of these fares.

For Sydney taxi fares our main reasons for this are:

- ▼ Over time it has become apparent that the existing TCI methodology is not achieving its aims. The analysis and consultation we have done for the 2012 fare review and the 2013 taxi licence review show that the current approach to recommending taxi fares has not resulted in efficient fares. This has reduced affordability for passengers but despite this, driver incomes remain low.
- ▼ In our previous reports, we have indicated that changes to fares alone are unlikely to solve all of the problems raised with us, and a broader review of the industry is needed.⁶ While we still consider a broader review of the industry is desirable, this year we have an opportunity to look at taxi licence numbers and taxi fares together for the first time and have the ability to model these interactions.
- ▼ The NSW Government has decided to release additional Sydney taxi licences this year. There is a high degree of interaction between the price and availability of taxi licences and the level of fares. Our decision on fare levels will have an impact on the change in annual licence costs and other outcomes that will result from this decision. For Sydney taxis, it is important that our approach to recommending taxi fares takes account of this interaction and ensures that our fare decisions complement the release of new licences.

Outside Sydney, where licence arrangements have not been reformed, we also consider that a change to our approach to setting fares is warranted in order to address the problems with the existing TCI approach. However, we consider that licence reforms should be extended in order to deliver more efficient outcomes and improve service levels. Priority should be given to areas that have significant licence related costs.

This chapter provides more information on each of these issues. Chapter 3 sets out our draft decision on the approach we will take.

⁶ IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, p 10.

2.1 The current approach has led to inefficiencies and has not made passengers, drivers or operators better off

Since 2002 we have recommended maximum changes in taxi fares in line with the average change in the costs of providing taxi services over the previous 12 months, as measured by the Taxi Cost Index (TCI). This approach has resulted in fare increases that have made taxis relatively expensive and discouraged the use of taxi services (particularly in Sydney). At the same time, annual licence costs have increased and driver earnings are low.

There was not a lot of support in submissions for a change to our approach. The Taxi Council and some other submitters challenged our arguments supporting a change:

- ▼ The existing process is transparent and rigorous and should not be replaced by something that is arbitrary and simplistic.⁷
- ▼ Fares aren't that expensive – international comparisons are not a sound basis for recommending fare reductions.⁸

However, there was some support for addressing the inefficient costs (rents to licence owners) in fares:

- ▼ Fares go to the licence plate owners – taxis can operate with lower fares.⁹
- ▼ Fare levels should exclude the cost of leasing a taxi plate¹⁰.

We remain of the view that taxi fares are too high relative to the efficient cost of providing taxi services and that an adjustment should be made to fares to remove some of the inefficient costs (economic rents) included in current fares. In our view, not to do this will continue to exacerbate the problems faced by the industry and result in services that are less affordable and available for passengers.

2.1.1 Fare increases have made taxis expensive

Using the current TCI approach to recommend taxi fares has resulted in fare increases above the general rate of inflation (CPI) and even above the rise in wages (WPI) (Figure 2.1).

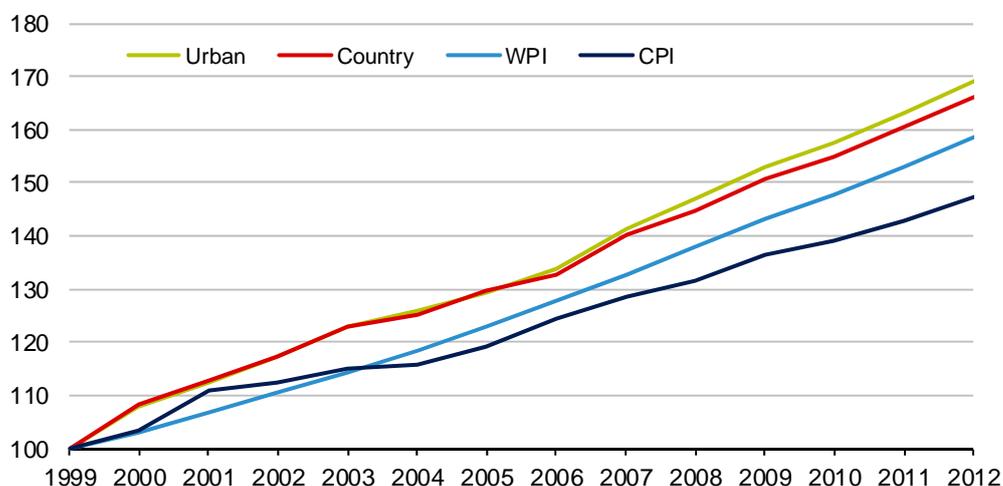
⁷ NSW Taxi Council submission, March 2013, p 3.

⁸ NSW Taxi Council submission, March 2013, p 11.

⁹ Anonymous submission, March 2013.

¹⁰ Anonymous submission, February 2013.

Figure 2.1 Change in urban and country taxi cost indices compared with CPI and WPI



Data source: IPART, ABS – Wage Price Index, ABS – Sydney Consumer Price Index.

Stakeholders continue to argue that fares are becoming unaffordable, and note that this has a disproportionate impact on people who have limited transport options.¹¹ Our recent survey of Sydney taxi users supports this. It found that almost half of the people surveyed had not used taxis in the last 6 months. Around two thirds of people surveyed who had considered taking a taxi but in the end did not, said the reason why was that taxis are too expensive.¹²

The survey showed that of the people who had caught a taxi in the past 6 months, 35% rated fares as unsatisfactory, compared to 13% to 20% dissatisfaction for other aspects of the journey (such as waiting time, knowledge of Sydney, and route taken).¹³

Some industry stakeholders also made submissions to our licence review suggesting that fares are too high. For example, the Australian Taxi Drivers Association argued that fares should be frozen or fall.¹⁴ Legion Cabs and several individual submitters¹⁵ suggested that input costs other than lease costs should be regulated so that fares could come down, while others argued that fares should be reduced to increase demand for taxi services before any additional licences are released.

¹¹ See IPART, *2012 Review of Taxi Fares in NSW - Maximum fares from July 2012 – Final Report and Recommendations*, June 2012, p 64.

¹² Taverner Research, *Survey of Taxi Use in Sydney*, November 2012, p 36.

¹³ IPART, *Fact Sheet - Survey of Taxi Use in Sydney*, December 2012, p 46.

¹⁴ ATDA submission, April 2013, p 7.

¹⁵ Legion Cabs submission, p 4 and J Barber, G Pavlis, S Porcaro, H Batth submissions.

2.1.2 Fare increases have not benefited drivers or operators

Under the current approach, taxi fares are based on the assumption that the incomes of taxi drivers and operators increase at the same rate as wages in the rest of the economy. However, submissions from drivers have consistently argued that their income has not increased at this rate. The survey of industry costs undertaken for us by The Centre for International Economics (The CIE) last year supports the view that driver earnings remain relatively low.¹⁶

The CIE final report provided 3 reasons why fare increases do not benefit drivers, except in the very short term. They are:

- ▼ Higher fares reduce passenger demand – fewer people use taxis so fare revenue does not increase by as much as initially expected.
- ▼ Pay-ins to operators rise – increased fare revenue encourages more drivers to drive (in the anticipation that they will earn more). With more drivers available, taxi operators can increase the amount they charge to drivers to take out the taxi for a shift (the ‘pay-in’), which means that there is less fare revenue left over for the driver (see Box 2.1).
- ▼ The number of taxis on the road increases – in quiet times, when not all taxis are on the road, the prospect of higher earnings may encourage more taxis onto the road, resulting in more taxis servicing a given level of demand.¹⁷

The CIE final report also noted that higher pay-ins to operators would be expected to bid up licence plate lease costs, resulting in the largest part of any increase to fares being ultimately captured by licence owners.¹⁸

Box 2.1 How fare revenue is divided between drivers and operators

While all fare revenue is initially paid to drivers, they must use some of this revenue to pay the operator for allowing them to take the cab out for a shift (the ‘pay-in’). The driver’s earnings are what is left of the fare revenue after covering the pay-in to the operator and other costs the driver is responsible for, such as fuel and cleaning (where relevant).

Pay-ins are a financial cost to drivers, but are revenue for operators. The pay-ins received by operators are used to fund the various costs under the operator’s responsibility, such as licence plate costs, vehicle costs, insurance and network fees. The operator’s earnings are determined by the pay-in revenue left over after all other costs have been paid.

¹⁶ The CIE, *Reweighting of the Taxi Cost Index, Final Report*, April 2012, p 61.

¹⁷ The CIE, *Reweighting of the Taxi Cost Index, Final Report*, April 2012, p 61.

¹⁸ The CIE, *Reweighting of the Taxi Cost Index, Final Report*, April 2012, p 61.

2.1.3 There is circularity between fares and licence lease costs

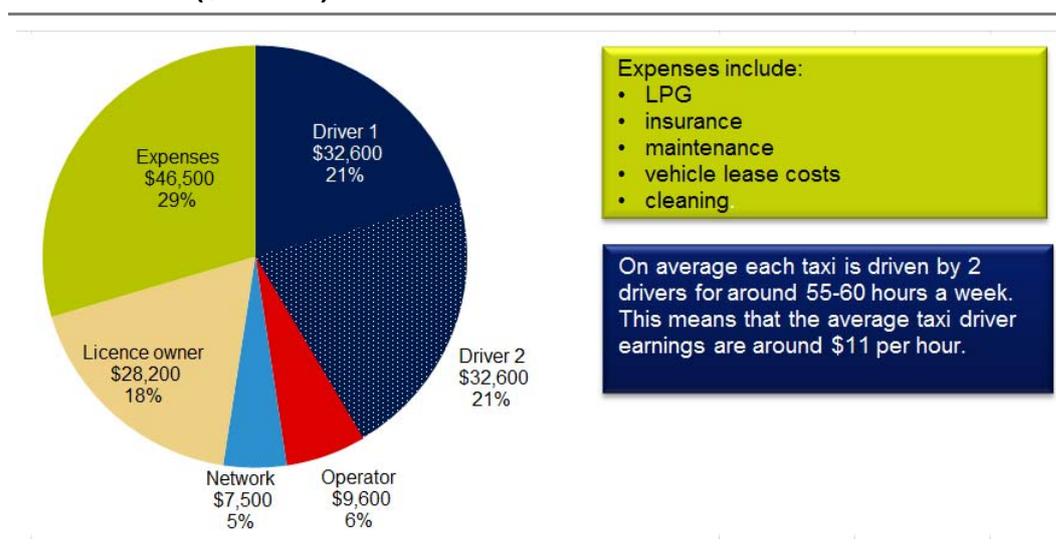
Over the past 10 years, there has been an increase in licence lease costs from around \$20,000¹⁹ to \$28,000 per year. This is an average annual increase of around 3.5%, compared to an average inflation rate of 2.7%. Currently, around 18% of fare revenue for standard urban taxis goes to the licence holder (Figure 2.2).

Licence lease costs are real costs to operators but they are not determined independently of fares. Rather they are a function of the supply (or scarcity) of taxi licences, and the demand to lease these licences.

Because of the restricted supply of taxi licences, operators have a limited opportunity to “shop around” for another licence when licence owners increase their lease fees. This means that when fares have gone up, licence owners have put their lease fees up, and the operators have continued to lease their licence at this higher price. Historically, when we used the TCIs to set fares, we would then recommend fare increases that in part reflected these increases in licence lease costs – which meant that the licence owners could further increase their fees.

When we set fares in 2012, we removed this circularity by setting the annual licence cost inflator to zero. However, we did not seek to remove the additional costs already included in fares through applying this approach in the past.

Figure 2.2 Average distribution of annual revenue per standard urban taxi (\$2012/13)



Data source: Taxi cost index 2012/13, CIE taxi cost survey data.

¹⁹ New South Wales Ministry of Transport, *Benefit/Cost Assessment of Options for Reform of Taxi Licensing, Final Report*, September 2005, p 18.
<<http://www.transport.nsw.gov.au/sites/default/file/taxi/Report-Benefit-Cost-Assessment-of-Options-for-Reform-of-Taxi-Licensing.pdf>>

2.1.4 Fare structure could be unbalanced

In past fare reviews we have applied the determined fare increase as equally as possible (subject to rounding requirements) across fare components. Consequently, the fare structure has changed little over the past decade. While many stakeholders have supported the current fare structure, there has been anecdotal evidence presented to IPART in recent fare reviews that a rebalancing of fares may be desirable, for example to overcome the perceived incentives for drivers to refuse short fares or not honour bookings, and to encourage more taxis onto the road at peak times.²⁰

We have previously taken the view that in the absence of hard data about the need for change to fare structure and the impact of any such change, we should take a conservative approach and retain the existing structure.²¹

However, this year we have some new information relating to a number of these issues. For example, our survey of Sydney residents about taxi use has provided evidence that we can use to consider these issues. In particular, it provides information on differences in waiting times at different times of the day and days of the week and for different ways of acquiring a taxi (booking, taxi rank or street hail).

Any increases to particular fare components may need to be offset by changes to other fare components to ensure that fares remain at the desired level overall. This is discussed further in Chapter 4.

2.2 Opportunity to consider interaction between taxi supply and fares to address stakeholder concerns

In past reviews, stakeholders have raised a range of problems facing the Sydney taxi industry – including that there are too many taxis relative to the demand for them;²² but despite this, licence values remain uneconomically high;²³ and that fares are so high that many passengers cannot afford to use taxis;²⁴ while at the same time do not provide an adequate living for taxi drivers.²⁵

²⁰ See for example, IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, Chapter 4.

²¹ See for example, IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, p 47.

²² For example, see NSW TDA submission to 2012 taxi fare review, 15 May 2012, p 34.

²³ For example, P Abelson submission to 2012 taxi fare review, 11 May 2012.

²⁴ For example, P Abelson submission to 2012 taxi fare review, 11 May 2012.

²⁵ For example, ATDA submission to 2012 taxi fare review, 10 May 2012, p 19; NSW TDA submission to 2012 taxi fare review, 15 May 2012, p 3; E Mollenhauer submission to 2012 taxi fare review, 14 May 2012.

In our previous reports, we have indicated that changes to fares alone are unlikely to solve these problems, and a broader review of the industry is needed.²⁶ For example, many of the issues raised relate to the industry structure, including the number of taxi licences available and their cost. Others are covered by other regulators, such as driver remuneration (which is covered in Sydney by the Industrial Relations Commission, and elsewhere is unregulated).

While we still consider a broader review of the industry is desirable, this year we have an opportunity to look at taxi licence numbers and taxi fares together for the first time. As noted above, there is a high degree of interaction between these processes, which influences the affordability and availability of taxi services for passengers. In turn, this affects the use of taxi services, which influences the productivity of individual vehicles and thus the cost of providing taxi services.

In order to better understand the interaction between the number of taxi licences, taxi fares, waiting times, the annual cost of taxi licences and the use of taxi services, we commissioned economic consultants the CIE to develop a model of the Sydney taxi industry for our review of new annual Sydney taxi licences to be released from 1 July 2013.

The CIE's model builds on work done by other economists to understand these relationships. The data for the taxi industry model comes from data collected from the taxi industry by Transport for NSW, surveys, a sample of taxi meter data and a taxi network. Where data was not available, the CIE made reasonable assumptions based on the information available.

The model predicts what will happen to some key outputs in the longer term if one or more of the following inputs are changed: the number of taxi licences, the level of fares, the costs of providing taxi services. The key outputs are:

- ▼ outcomes for passengers – waiting times
- ▼ taxi use and productivity – the total number of trips and taxi occupancy
- ▼ impacts on licence lease costs – costs for operators and income for licence owners.

We think it is important that our approach for recommending fares also takes into account the interaction of fares, licence numbers, the use of taxi services and the cost of providing those services, and that our approach supports the objectives of the 2009 taxi licence reforms as well as addressing our terms of reference for the fare review. In our view, this will enable us to address many of the problems stakeholders have previously identified.

²⁶ IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, p 10.

We asked the CIE to update the taxi industry model for this fare review, to enable the model to take into account the impact of altering fare structure as well as fare levels. We also updated our assumption about the inflation rate for 2013/14 from 2.5% to 2.8%²⁷ and made some other minor changes to the model. A copy of the model developed and used for the licence review is available on our website taxi licence review page, with an accompanying stakeholder guide. The version of the model updated for the fare review is also on our website on the 2013 taxi fare review page and the accompanying stakeholder guide has been updated to explain the changes made since the earlier version of the model.

2.3 The need for fares to complement the NSW Government's decision to release additional taxi licences in Sydney

On 27 March Transport for NSW determined that, in addition to replacing licences that have expired or been handed back, they would release 250 new Peak Availability Licences (PALs) (but no new unrestricted licences).²⁸

We undertook all our modelling for the licence review assuming for the sake of simplicity that fares did not change in nominal terms. We estimate the longer term outcomes of the additional 250 PALs (given no change to nominal fares) as:

- ▼ 5% reduction in licence lease costs
- ▼ 1% reduction in waiting times across the week
- ▼ 4% reduction in waiting times on Friday and Saturday nights
- ▼ 5% increase in total taxi trips.²⁹

Fare levels will strongly influence the level of passenger demand for taxi services, and the amount of revenue available to be distributed between drivers, operators, and licence owners. These factors impact the change in annual licence costs that will result from increasing the number of taxi licences available in Sydney. As a result, it is important that our approach to recommending taxi fares takes account of this and ensures that our fare recommendations complement the NSW Government's decision to release additional taxi licences.

If fares increase then annual licence costs are likely to fall by less than the estimate above and likewise, fare reductions are likely to mean that annual licence costs fall by more. Fare changes will affect other outcomes as well. For example, waiting times for passengers and occupancy rates for taxis (the proportion of time that a taxi has a paying passenger compared with the time the taxi is looking for a passenger) are both affected by the number of taxis and the demand for their services.

²⁷ Based on the Bloomberg consensus forecast.

²⁸ Transport for NSW website < <http://www.transport.nsw.gov.au/taxi-licence-release>>

²⁹ These forecast outputs were modelled using the updated taxi industry model; if modelled using the licence review model, the estimated outputs are slightly different, due to the changes set out in section 2.2 above.

The sections below outline 3 aspects of the taxi licence review that specifically interact with our decision on fares:

- ▼ The objective of lowering barriers to entry and putting downward pressure on fares.
- ▼ The need to avoid unreasonable impacts on licence holders.
- ▼ The requirement to take into account latent demand for taxi services.

2.3.1 Lowering barriers to entry and putting downward pressure on fares

Tightly restricting the number of taxi licences pushes up the costs of providing taxi services and creates pressure for fare increases. Gradually increasing additional licences to meet the underlying growth in demand should ensure that these licence-related costs do not increase – we consider a minimum of 140 additional unrestricted licences should be released every year in order to achieve this aim.³⁰ If more licences are released, annual licence costs should start to fall.

The change in annual licence costs is likely to be very sensitive to fare levels. If fares were to increase in line with inflation, licence lease costs are likely to fall by less than if fares are held at current levels. This occurs because if total revenue increases as fares rise, licence owners are able to earn more from their licence.

There is also a close relationship between costs and taxi utilisation (that is, how much each taxi is used). Demand for taxi services is affected by the level of fares. Increasing taxi fares means that fewer people will use them. Increasing supply of taxis at the same time as increasing taxi fares means that each taxi spends more time without a paying passenger than it did before. Over time, this leads to falling productivity and creates pressure for fewer taxis and/or higher fares (because the cost per taxi trip is higher).

2.3.2 Avoiding unreasonable impacts on licence holders

For a given number of new licences, rental income from leasing a taxi licence would fall by less if fares were increased and by more if fares are reduced.

As indicated earlier in this chapter, we consider that fare increases are likely to have contributed to high annual licence lease costs. This suggests that reducing fares would be an effective way of lowering licence lease costs. However, too much emphasis on reducing fares in order to achieve a lower licence cost raises two potential issues that we need to consider.

³⁰ IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 3.

The first is a possibility that in the short term drivers and operators would suffer financially and that this would affect service delivery. Operators will need to reduce their pay-ins to attract drivers if fare revenue is lower. In the past, when pay-ins have risen (as a result of fare increases), licence lease costs for operators have also risen. We expect this to work in both directions; in other words, in the long run fare reductions will lead to lower licence lease costs, leaving operators no worse off. However, we also accept that in the transition some operators may see their revenue fall by more than their costs. How long this transition process takes largely depends on how quickly licence lease costs adjust. Ensuring that enough new licences are released each year to enable operators to relinquish a more expensive licence in favour of a cheaper one helps speed up the transition process and minimise the impact of fare reductions.

The second issue is the impact on licence owners. When we provided advice to the NSW Government on the number of taxi licences to release this year, we were required to ensure that our recommendations do not have an unreasonable impact on existing licence holders. In our final licence report we indicated that our modelling showed a reduction in annual licence rentals of around 10% in the first year as a result of releasing additional licences, which we considered to be a reasonable impact.

The level of fares and the release of additional licences are complementary processes. We consider that the objectives for the industry will be best achieved by considering them together.

2.3.3 Taking into account latent demand

As most people see taxis as a discretionary service, there is likely to be latent demand for taxi travel – that is, demand that we cannot directly observe. This includes the demand by people who would have liked to travel by taxi but didn't. For example, they may have thought taxi travel was too expensive or the waiting time would be too long or the taxi might not turn up, and so made alternative arrangements, such as driving their own car, catching public transport, or booking a hire car instead. Alternatively, they may have decided not to travel at all.

In our taxi licence number review we noted that additional demand could be generated by changes to the number of taxis on the road, and the price of taxi services. In particular:

- ▼ if there were more taxis on the road, additional trips will be taken because passengers will not have to wait as long to catch a taxi
- ▼ if fares fall, additional trips will be taken because it costs less to use taxi services.

In our review of licence numbers we modelled an increase in expected taxi trips if fares stayed at their current nominal levels.³¹ This was because more trips would be made in taxis if fares become relatively more affordable (for example, compared to other services with rising prices – such as public transport). If fares were to increase in line with inflation in 2013/14 instead, we estimated that there would be fewer new taxi trips.

In coming to our draft recommendations on fares this year, we used our taxi industry model to predict the impact of fare changes on demand, given the additional licences that will be released this year. This model is a long-term equilibrium model and as such, shows what the estimated outcomes are when the market has fully adjusted to the changes brought about by additional licences. It does not map out the transition path, or the time it takes to achieve the outcomes, but it is clear about the direction of the path.

The level of latent demand is also affected by fare structure – that is, how fares differ by distance, time of day and how the taxi was obtained. It also affects the supply of taxis (and hence waiting times) for different types of trips. Changing the fare structure may also stimulate additional demand for taxi services.

2.4 Licence reform in other parts of NSW

The new licensing arrangements currently apply only in Sydney. However, Transport for NSW states that:

The new licensing arrangements have commenced initially in the Sydney Metropolitan Transport District. Further consideration will be given to introduction to Newcastle, Wollongong, the Central Coast and country areas.³²

The 2009 reforms were made because growth in the taxi fleet had not kept pace with demand for taxi services and this led to high transfer values for licences and upward pressure on fares:³³

Prior to the licensing changes in late 2009, the growth in the taxi fleet had generally not kept pace with demand for services, despite there being no cap on new licences since 1990. A contributing factor to this slow growth take up was the cost of obtaining a new licence had been higher than lease rates on the open market.

Licence values and lease returns have varied significantly over the years due to many factors including market demand, economic conditions (particularly unemployment) and changes in regulatory activity. However, transfer values had climbed significantly in the recent years prior to the reform.

³¹ IPART, *Annual taxi licence release for Sydney 2013/14 - Draft Report*, December 2012, p 36.

³² In the meantime, new 'ordinary' and short-term licences for taxis to operate in these areas can still be issued. Transport for NSW website <<http://www.transport.nsw.gov.au/content/background>>

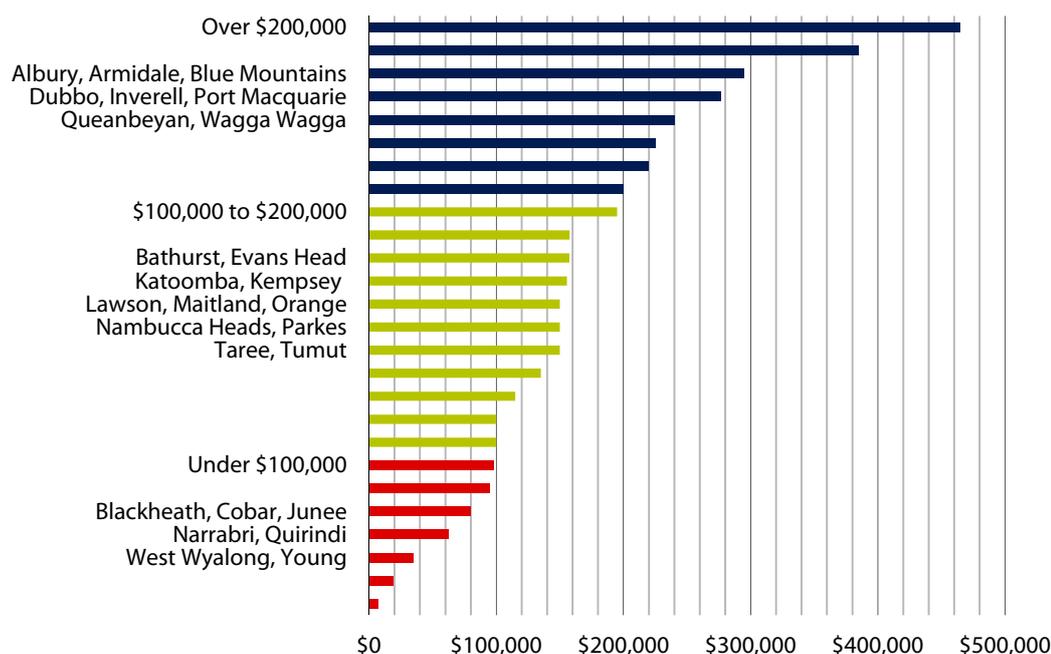
³³ Transport for NSW website <<http://www.transport.nsw.gov.au/content/background>>

Operators were facing difficulties in servicing increasing licensing costs, when licence values and lease rates continued to increase. In June 2009, the Independent Pricing and Regulatory Tribunal estimated that licensing costs had increased by over 8% in the previous year and represented the second largest cost of operating a metropolitan taxi.

This led industry groups to call for sustainable fleet growth to better match passenger demand and for stabilisation of the past growth in licensing costs to more certain and affordable levels.

Licence transfer values differ significantly across country NSW. Figure 2.3 shows the average value of licences transferred in country areas between April 2011 and March 2012. The lowest transfer value was around \$7,000 and the highest was \$465,000.

Figure 2.3 Average licence transfer values in various NSW towns (April 2011 to March 2012)



Note: Only includes licences transferred between April 2011 and March 2012. The towns listed for each group are in alphabetical order, which does not correspond with series order.

Data source: Transport for NSW information return.

The significant variation in costs and operation means that a single regulated maximum fare for all country areas is unlikely to be cost reflective for any one area and as a result, does not satisfy the terms of reference requirement to reduce costs and improve efficiency. However, the cost of setting regulated maximum fares for individual areas would be significant as the necessary information is not currently available and hence, also likely to be inefficient.

In order to facilitate more efficient taxi fares across NSW, we consider that Transport for NSW will need to reduce some of the barriers to entry into the industry. Licence cost is a significant barrier to competition in some areas and as a result, reforms should be made to licencing arrangements outside Sydney. If the process is to be done incrementally, we consider that Transport for NSW should initially focus on reforming licensing arrangements in urban areas other than Sydney and in country areas with high licence values (eg, above \$200,000).

Draft Recommendation

Transport for NSW should reform taxi licensing arrangements outside Sydney. Initially Transport for NSW should focus on urban areas and on country areas with licence transfer values above \$200,000.

3 Average change in taxi fares

Our issues paper canvassed 4 options for fares:

- ▼ Reduce fares by around 2.5%.
- ▼ Make no change to the (nominal) level of fares.
- ▼ Increase fares in line with the change to the CPI (which we estimated as 2.5%).
- ▼ Change fares based on the change in the Taxi Cost Index – with the option of making changes to some of the individual inflators.

We have now considered these options further, and submissions we received from stakeholders and have made draft recommendations in relation to the level of taxi fares that should apply.

This chapter sets out our draft recommendations on how much taxi fares should change, on average, in Sydney, other urban areas and country areas:

- ▼ For fares in Sydney we recommend reducing fares by an average of 1%.
- ▼ For urban areas other than Sydney, we recommend retaining a single maximum fare schedule that is the same as Sydney's, so fares would also be reduced by an average of 1% from 1 July 2013.
- ▼ For country areas, our draft recommendation is to make no change to fares this year.

The next chapter discusses proposed changes to the structure of fares.

3.1 Fares in Sydney

Our draft recommendation is that taxi fares in Sydney should be reduced by an average of 1%, from July 2013.

In forming our draft recommendation we used our taxi industry model to consider the impacts of making a downward fare adjustment in order to move towards a fare level that is more consistent with efficient costs. We also took into account changes in costs estimated using the Taxi Cost Index (with modified inflators).

3.1.1 Overview of our approach

Historically we have used an industry-specific cost index to determine fare increases (the Taxi Cost Index, or TCI). This is a common approach to setting taxi fares where they are regulated. Where they commented on our approach, the submissions we received supported continuing to base fare changes on the TCI.³⁴

The TCI has some advantages over other approaches – it is transparent, well understood and delivers fairly stable, predictable fare changes. However, an industry index like the TCI has problems when applied to the taxi industry in its current form in Sydney (and most other jurisdictions), which we enumerated in our issues paper:

- ▼ an index does not take into account whether the current level of fares is appropriate, but applies measured cost changes to legacy fares
- ▼ an index does not take into account changes in revenue resulting from changes in demand (include price response)
- ▼ it is difficult to find a labour cost inflator that accurately tracks changes in driver and operator earnings (which is a particular problem when the industry structure allows licence owners to capture any excess of nominal earnings over actual)
- ▼ there is no appropriate way to treat licence lease costs, as they are a residual profit or rent, rather than an economic cost.

As noted in Chapter 2, we remain of the view that taxi fares are too high relative to the efficient cost of providing taxi services and that an adjustment should be made to fares to remove some of the inefficient costs (economic rents) currently included. To do this we have used our new taxi industry model to consider the outcomes of various fare options, including making a small reduction in fares to remove some of the economic rent currently reflected in them. The model overcomes some of the problems identified above and helps us to understand the longer term impacts of fare changes on the taxi industry, including the impact of the additional 250 PALs that will be issued in July 2013.

Nevertheless, we still consider that it is important to keep track of the change in costs faced by the industry. We intend to change some of the inflators we use to ensure they do not continue to overestimate changes in cost.

³⁴ For example, NSW Taxi Council submission, March 2013, pp 3, 5-6; ATDA submission, April 2013, p 5.

3.1.2 Lower fares deliver better outcomes for customers and the industry

In our view, taxi fares are too high relative to the efficient cost of providing taxi services. We consider that some level of adjustment needs to be made to fares to remove some of the inefficient costs (economic rents) currently included. In our view, not to do this will continue to exacerbate the problems faced by the industry and result in services that are less affordable and available for passengers.

The taxi industry model, which we developed for our licence review, helps us to understand longer term impacts of changes to the taxi industry. In forming our draft recommendations we used this model to consider the impacts of moving towards a fare level that is more consistent with efficient costs. This approach explicitly considers the interaction between fares and licence numbers, including how the demand for taxi services responds to changes in these. We used our taxi industry model to model different fare options in combination with Transport for NSW's decision to release an additional 250 Peak Availability Licences from 1 July 2013.

There was little support in submissions for reducing fares or maintaining them at current nominal levels. Submitters assert that lowering fares will lower drivers' incomes and threaten the viability of the industry³⁵ and that passengers are not concerned by fare levels and demand for taxis is price-inelastic, so lower fares is not a good way to increase demand.³⁶ However, we did receive a number of submissions to our licence review that supported fare restraint. In his submission to our review of taxi licences, David Cousins³⁷ emphasises the importance of closely co-ordinating decisions on licence numbers and fares.³⁸ In particular, of ensuring that taxi fares are not increased at the same time as the number of taxi licences.

If we continue to increase fares, demand may not keep pace with any increase in taxi numbers. This would result in fewer trips per taxi (falling productivity), which could create pressure for future restrictions in licence numbers and/or further fare increases. On the other hand, a more restrained approach to fares combined with appropriate increases in the supply of licences will make services cheaper and more available, and as a result will lead to a level of taxi travel that is closer to the optimal level.

³⁵ NSW Taxi Council submission, March 2013, p 14; K McNiven submission, March 2013, p 2.

³⁶ Action for Public Transport submission, March 2013, p 1.

³⁷ David Cousins is a Commissioner of the Victorian Taxi Industry Inquiry.

³⁸ David Cousins submission, 15 January 2013, pp 1-2.

In order to achieve a lower cost, lower fare regime that is in the long term interests of passengers and the industry, it is necessary to start to remove some of the inefficiency that is included in the current fares. We have examined a number of options for doing this. Each option has a different impact on:

- ▼ outcomes for passengers – affordability and waiting times
- ▼ taxi use – the total number of trips we expect to be taken and taxi occupancy
- ▼ annual licence costs – costs for operators and income for licence owners.

Table 3.1 Summary of outcomes under different fare scenarios

	0% fare change	1% fare reduction	2.5% fare reduction	5% fare reduction
Without fare restructuring				
Flagfall (per journey)	\$3.50	\$3.50	\$3.40	\$3.30
Distance charge (per km)	\$2.14	\$2.11	\$2.08	\$2.02
Waiting time rate (per hour)	\$55.30	\$55.20	\$54.50	\$53.50
Change in average occupancy	3%	4%	5%	7%
Change in kilometres per year	2%	3%	4%	6%
Change in total occupied kilometres	5%	6%	7%	9%
Change in licence lease costs	-5%	-6%	-9%	-14%
Change in average waiting time	-1%	0%	1%	2%
Change in average waiting time Friday and Saturday nights	-4%	-3%	-2%	-1%
With fare restructuring				
Flagfall (per journey)	\$4.00	\$4.00	\$4.00	\$4.00
Peak surcharge (per journey)	\$2.50	\$2.50	\$2.50	\$2.50
Distance charge (per km)	\$2.03	\$2.00	\$1.97	\$1.89
Waiting time rate (per hour)	\$53.00	\$52.50	\$51.00	\$50.00
Change in average occupancy	3%	4%	5%	7%
Change in kilometres per year	3%	3%	4%	6%
Change in total occupied kilometres	5%	6%	7%	9%
Change in licence lease costs	-4%	-6%	-8%	-13%
Change in average waiting time	0%	0%	1%	3%
Change in average waiting time Friday and Saturday nights	-7%	-6%	-6%	-5%

As illustrated by Table 3.1, there are trade-offs between different outcomes. For example, improving affordability is likely to limit improvements in waiting times because it encourages more people use taxis. It will also tend to lead to greater falls in annual licence costs (which is good for operators but has a negative impact on licence owners³⁹). Smaller fare reductions mean fewer people use taxis and as a result, each taxi spends more time without a paying passenger (improvements in occupancy are lower) and as a result, waiting times for those that do use taxis are shorter. However, lower occupancy also means lower productivity and higher costs per trip compared with the other options.

On balance, we consider that reducing fares by 1% this year (along with our recommended changes to fare structure) provides the best set of outcomes and the most appropriate balance between benefits for customers and impacts on the industry. We expect our draft recommendations (including our recommended changes to fare structure) to result over time in a:

- ▼ 6% reduction in licence lease costs
- ▼ 6% reduction in waiting times on Friday and Saturday nights
- ▼ 4% increase in occupancy (proportion of time the taxi has a passenger)
- ▼ 6% increase in total occupied kilometres.

We continue to be of the view that some reduction in licence lease costs (and correspondingly, in income to licence owners) is necessary in order to achieve a more efficient market and reduce costs for the benefit of customers. In our licence review, we considered that a reduction in licence lease costs of 25% over the next 5 years would be appropriate.

If the 1% reduction in fares this year was followed by a fare freeze for 4 years, assuming licence releases each year matched growth in exogenous demand (ie, the 140 new unrestricted licences per year we recommended) and no real change to costs, we estimate reduction in licence lease costs of around 25%. However, the appropriate fare change in future would need to be considered each year in the context of the NSW Government's decisions on the number of new licences to release, actual changes in costs and taking account of the experience to date.

3.1.3 The change in the cost of providing taxi services over the past year

Our draft decision is that it is not appropriate to continue to base annual fare changes on the Taxi Cost Index (TCI) because the current level of fares includes a significant amount of economic rent. Nevertheless, we need to monitor the change in costs faced by the industry and ensure that our decisions take them into account.

³⁹ Our terms of reference for the licence review we required us to ensure that our recommendations on the number of new licences to release in 2013/14 do not have an unreasonable impact on existing licence owners.

The change in the cost of providing services is an input to our taxi industry model and as a result, we consider that there is value in continuing to calculate and publish the TCI. In addition, we have decided to retain the mid-year review of LPG prices,⁴⁰ which requires us to maintain up to date cost weightings (the proportion of total costs that each cost item represents). Fluctuations in the price of LPG can have a significant effect on the cashflow of drivers and we would expect to see this reflected in fares if they were set at an efficient level.

Two of the concerns we have with the Taxi Cost Index can be addressed by modifying the inflators so that they do not continue to overestimate changes in cost actually experienced by drivers and operators. We raised this option in our Issues Paper but did not receive many comments on it. Cabcharge and the NSW Taxi Council support continuing to use the TCI.⁴¹

We canvassed adjusting the labour and licence lease cost inflators in the issues paper. We have also in the past considered adjusting the insurance cost inflator. In our view, two of these inflators should be changed in order to make the TCI more cost reflective:

- ▼ Labour cost inflator – CPI instead of WPI.
- ▼ Insurance costs – CPI instead of CPI-Insurance.

We have also considered the appropriate treatment of licence lease costs, which in our taxi industry model is determined as a residual and not included as a cost input. This year, our draft decision is to continue to use a licence lease cost inflator of zero when presenting the outcomes of the TCI. This is consistent with a decision we made last year and ensures that the TCI outcome is not affected by licence lease costs (which depend in part on the level of fares).

Based on these draft decisions and including a productivity adjustment (consistent with the approach we took in 2012) the TCI has increased by 2.1% since the 2012 taxi fare review final report. The indicative TCI is in Table 3.2. We will update the TCI to include an additional month of LPG data before finalising our recommendations.

⁴⁰ We intend to retain the mid-year review in its current form. We will review prices between May and October and if we find they have changed (up or down) by more than 20% to recommend an additional December fare change to Transport for NSW.

⁴¹ NSW Taxi Council submission, March 2013 and Cabcharge submission, March 2013.

Table 3.2 Urban Taxi Cost Index – indicative outcomes with modified inflators

Cost item	2012 Weight	Inflator	Interim Value
Driver labour costs	41.4%	CPI ^a	2.2%
LPG fuel	10.8%	LPG price (Fueltrac)	6.4%
Cleaning	2.1%	CPI	2.2%
Operator administration	6.2%	CPI ^a	2.2%
Maintenance Costs	4.9%	CPI Repair and Servicing	4.3%
Licence Lease Costs	16.5%	0	0.0%
Insurance	9.1%	CPI ^b	2.2%
Vehicle Lease Payments	4.0%	CPI Motor Vehicles	-1.7%
Network Fees	4.9%	CPI	2.2%
Productivity adjustment	-	-	-0.2%
Total	100%	-	2.1%

^a Prior to this year the inflator for this item was the Wage Price Index published by ABS.

^b Prior to this year the inflator for this item was the CPI Insurance published by ABS.

Note: Based on latest available data at April 2013. CPI data is average of four quarters to March 2013 divided by the average of four quarters to March 2012. FUELtrac data is average price for May 2012 to March 2013 divided by the average price from May 2011 to April 2012.

Source: Australian Bureau of Statistics, 6401.0 (Consumer Price Index Australia, March 2013), Table 5 (All Groups Sydney CPI) and Table 11 (sub-groups). Average retail LPG prices from FUELtrac.

Labour cost inflator

In the issues paper we noted that using the Wage Price Index to inflate labour costs (half the costs in the index) has contributed significantly to real fare increases without any evidence it has benefited drivers. We have noted this issue in the past but we have been unable to identify an alternative inflator that would be a better or more acceptable measure so have not previously proposed to make changes.

In submissions to the review both Cabcharge and the NSW Taxi Council asserted that driver incomes have increased.⁴² As we indicated in last year's review, we do not have comparable information on earnings in previous years that we can use to determine whether this is the case. However, we consider that the low level of current earnings suggests that driver earnings are unlikely to have increased by as much as WPI, at least in recent years. This view is supported by other stakeholders.⁴³

We expect to repeat the taxi cost survey in 2015 or 2016 and we hope to be able to derive a more accurate labour cost inflator by comparing that data to the 2011 taxi cost survey. In the meantime, we propose to change the labour cost inflator to CPI, on the basis that driver and operator earnings do not appear to have risen

⁴² NSW Taxi Council submission, March 2013 and Cabcharge submission, March 2013.

⁴³ For example, see NSW TDA submission to last year's taxi fare review, 15 May 2012, pp 4, 36.

by an amount equal to the change in the WPI. This inflator assumes that their incomes at least rise to keep pace with the cost of living.

Using CPI instead of WPI for this cost item reduces the value of the TCI by 0.6% (using the most recent data available WPI has risen by 3.5% compared with a 2.2% increase in the CPI).⁴⁴

As we indicated last year, taxi driver earnings are governed by supply and demand for taxi drivers. Changes to the labour cost inflator used in the TCI will not lead to higher or lower earnings for taxi drivers. (See Chapter 5 for more discussion of the expected impact of our recommendations).

Insurance cost inflator

Insurance costs are significant to taxi operators. They make up around 9% of the urban TCI and around 6% of the country TCI. We currently use the CPI Insurance subgroup as the inflator for them.

During our 2012 fare review the Taxi Council submitted that CPI insurance was not a good measure of the change in taxi insurance costs:

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.⁴⁵

The CIE survey of taxi costs in 2011 also found that insurance costs were around \$5,000 lower per taxi in urban areas than the then TCI estimate based on PWC's 2007 survey data inflated by CPI-insurance. There were some differences between the PWC and CIE survey figures in terms of treatment of GST and what types of insurance were included, but it was clear that CPI-insurance had also over-inflated the cost in the intervening years.

The NSW Taxi Council supported the use of industry-specific data (ie, quotes from taxi insurers) in the TCI. While we agreed that the CPI-insurance appeared to have significantly over-estimated changes to taxi insurance costs since the previous TCI reweighting in 2008, we were not prepared to move from an independent, transparent inflator to an industry-based one, so we made no changes.⁴⁶

This review, we propose to change the insurance cost inflator to CPI, as it is transparent and independent, and is less likely to over-state the change in insurance costs.

⁴⁴ March quarter 2013 index figures for WPI are not yet available. This comparison is based on the WPI for the average of four quarters to December 2012 divided by the average of four quarters to December 2011.

⁴⁵ NSW Taxi Council submission to 2012 fare review, 3 February 2012, p 2.

⁴⁶ IPART, *2012 Review of Taxi Fares in NSW – Final Report*, June 2012, pp 32-33.

Using CPI instead of CPI Insurance reduces the value of the TCI by 0.6% (using the most recent data available CPI Insurance has risen by 9.2% compared with a 2.2% increase in the CPI).

Licence lease cost inflator

Until 2012, we used data on lease costs from taxi networks provided by the Taxi Council to determine the inflator. The circular relationship between leases and fares served to inflate both fares and leases. To break the link, in 2012 IPART set the lease cost inflator to 0. In the issues paper this year we canvassed further changes to the inflator to address past over-inflation, either using a measured change to annual licence costs (which we expected to be decreasing as a result of our licence recommendations) or the expected impact from our licence recommendations (which was -10%).

Since the issues paper was released, the NSW Government has made a decision on the number of new licences to release, which was fewer than the number we recommended. The modelled impact on licence lease costs of the Government decision is -5%. We note that using either -5% or -10% would be prospective adjustments to the index, whereas the other cost components are indexed using historical cost movements.

The CIE recently recommended to the Tasmanian regulator the use of an index very similar in structure to our Taxi Cost Index, with the licence lease cost inflator set to -5%, 'to progressively realign prices to efficient costs'. The CIE also canvassed using a deflator of -10% 'to more rapidly realign prices.'⁴⁷

Using either of these inflators instead of zero in the urban TCI would reduce the value of the TCI:

- ▼ -5% would reduce the TCI outcome by 0.8%
- ▼ -10% would reduce the TCI outcome by 1.7%.

One of the problems with using either of these values is that deflating licence costs in the index based on a prospective adjustment implies that licence lease costs will actually fall by that amount. This is unlikely to be the case as the impact depends on a number of factors including the overall level of fare changes and the demand for taxi services.

In its submission to the issues paper, the NSW Taxi Council supported continuing the current approach.⁴⁸ However, the Taxi Council also submitted that licence lease costs have decreased in both real and nominal terms since 2009. As a result, we see zero as a conservative estimate of the change in costs faced by the industry. There may be merit in changing the inflator for licence lease costs

⁴⁷ The CIE, *Setting taxi fares in Tasmania: draft report*, January 2013 (published March 2013), p 70.

⁴⁸ NSW Taxi Council submission, March 2013.

in future when transparent, reliable information on how these costs have changed becomes available.

Productivity adjustment

For the 2012 review, we applied a productivity adjustment of 0.2% to the TCI. This figure was based on a long-term (1995-2010) average of gross output Multi Factor Productivity - 0.3% - adjusted downwards because available measures of taxi output suggested that actual taxi productivity is lower than the economy-wide average. We propose to again make this adjustment to the TCI for this review.

3.2 Fares in other parts of NSW

The 2009 licence reforms apply in Sydney only but we also need to make recommendations on what maximum fares should be for other parts of NSW, specifically:

- ▼ Other urban areas where the fare is currently the same as in Sydney.
- ▼ Country areas where a different fare scale currently applies.

The information we have from the Taxi Cost survey for country and other urban areas had relatively small response rates - not enough to provide quality information on costs in different areas. However, there is enough information to suggest that:

- ▼ Average costs are different in country areas and urban areas (including Sydney).
- ▼ Costs differ significantly across different country areas.
- ▼ There are operational and structural differences in country areas compared with Sydney. This is also true for other urban areas but to a lesser extent.

Cost and operational differences

Country taxis operate fewer shifts than urban taxis and report higher numbers of jobs per shift; but there is more variation across country responses than there is in urban areas.⁴⁹ In country areas, a greater proportion of jobs are booked through taxi networks than in either Sydney or other urban areas (Table 3.3).

⁴⁹ The CIE *Reweighting the Taxi Cost Index, Final Report*, April 2012, p 44.

Table 3.3 Radio bookings (% of jobs) – CIE driver survey

	Sydney	Other urban	Country
Mean	20%	54%	74%
Median	10%	50%	80%

Source: CIE survey responses.

On average, costs in country areas are lower than in urban areas. However, there is significant variation in costs between different country towns. Licence costs, fuel costs and network fees, which account for around a third of total costs, show significant variation:

- ▼ Licence costs – The CIE estimated⁵⁰ the cost of leasing a standard licence plate in urban areas was around \$29,000 (ex GST) compared with \$17,000 in country areas. The country cost estimate is based on a small sample of only 10 responses, possibly reflecting the fact that fewer operators in country areas lease their licence – around 25% compared with around 60% of urban operators. Licence transfer values differ significantly across country NSW. For example, between April 2011 and March 2012, licences traded for less than \$10,000 in one area and more than \$450,000 in another (see Chapter 2).
- ▼ Fuel costs – There are significant differences in fuel prices in different towns. For example, in January 2013 average prices varied from a low of 72 c/L (Albury) to a high of 106 c/L (Orange) compared with the average country price of 87c/L (based on the sample of towns used in the TCI calculation). The CIE survey found significantly more variation in fuel costs reported by country respondents⁵¹ than by those in urban areas⁵² (reflecting differences in both price and operating conditions).
- ▼ Network costs – The fees for each country network obtained by the CIE survey were very different, and different again from urban network fees.⁵³ Due to the co-operative structure in country areas costs are not allocated neatly into driver, operator, network and licence owner categories as they are in Sydney. Differing definitions and cost-sharing practices mean that country networks report fees that vary significantly between towns and over time.

⁵⁰ The CIE, *Reweighting the Taxi Cost Index, Final Report*, April 2012, pp 43-44.

⁵¹ Typically a fare sharing arrangement applies in country areas (50/50 between drivers and operators is the usual share). Operators in country areas pay for fuel out of their share (this is different from a Sydney fixed pay-in arrangement where drivers are responsible for fuel).

⁵² The CIE, *Reweighting the Taxi Cost Index, Final Report*, April 2012, p 99.

⁵³ The CIE, *Reweighting the Taxi Cost Index, Final Report*, April 2012, p 47.

3.2.2 Other urban areas

For urban areas other than Sydney, our draft decision is to retain a single maximum fare schedule that is the same as in Sydney. We consider that there is little benefit in establishing a separate approach to fare changes for other urban areas. At the end of the process, fares are unlikely to be very different from those applying in Sydney and there would be additional cost associated with constructing a separate urban (non-Sydney) TCI.

We consider that fares need to be reduced in Sydney because they are too high relative to the efficient cost of providing taxi services and that an adjustment should be made to fares to remove some of the inefficient costs (economic rents) currently included. Licence costs in other urban areas, though not as high as Sydney, are also significant. Urban areas outside of Sydney (Wollongong and Newcastle) have licence values around \$200,000 to \$220,000. As a result, we are also of the view that there is scope to reduce fares in other urban areas.

As indicated earlier in this chapter, reducing fares without complementary release of additional licences will not deliver all of the outcomes that are needed. We consider that the objectives for the industry will be best achieved by considering them together. As such, we support the extension of licence reforms to other urban areas (see Chapter 2).

3.2.3 Country NSW

For country areas, our draft recommendation is that fares should not change this year. There are significant cost differences across country areas and we have made a draft recommendation that licence arrangements should be reformed across NSW, commencing with areas that have licence values above \$200,000 (see Chapter 2).

On balance, we consider that fares should remain at their current levels in country areas recognising that:

- ▼ the application of the TCI has more than likely led to inefficient fares in many country towns and potentially contributed to high licence values
- ▼ differences in licence values across NSW are such that it may not be appropriate to apply a fare reduction across the board in country areas
- ▼ it is not practical to determine maximum fares for each area separately (it would be very costly and we do not have access to the required information)
- ▼ an increase in fares may worsen the situation in regions with already high licence values.

As for fares in urban areas, we note that reducing fares without complementary release of additional licences will not deliver all of the outcomes that are needed. We consider that the objectives for the industry will be best achieved by considering fares and licensing arrangements together.

Nevertheless, consistent with our approach for urban areas, we consider that we should have regard to the change in costs faced by the industry. Each of the issues associated with the urban TCI is also relevant to the country TCI. As a result, we consider that we should also change the inflators for labour costs and insurance costs for country areas, in line with what we have done for urban areas (see section 3.2.2).

Based on these draft decisions and including a productivity adjustment (consistent with the approach we took in 2012) we estimate that the country TCI has increased by 2.1% over the past year. The indicative TCI is in Table 3.4. We will update the TCI to include an additional month of LPG data before finalising our recommendations.

Table 3.4 Country Taxi Cost Index – indicative outcomes with modified inflators

Cost item	2012 Weight	Inflator	Interim Value ^a
Driver labour costs	42.2%	CPI ^a	2.2%
LPG fuel	11.1%	LPG price (FUELtrac)	5.3%
Cleaning	2.4%	CPI	2.2%
Operator administration	6.0%	CPI ^a	2.2%
Maintenance Costs	6.1%	CPI Repair and Servicing	4.3%
Licence Lease Costs	9.2%	0	0.0%
Insurance	6.3%	CPI ^b	2.2%
Vehicle Lease Payments	4.8%	CPI Motor Vehicles	-1.7%
Network Fees	11.9%	CPI	2.2%
Productivity adjustment	-	-	-0.2%
Total	100%	-	2.1%

^a Prior to this year the inflator for this item was the Wage Price Index published by ABS.

^b Prior to this year the inflator for this item was the CPI Insurance published by ABS.

Note: Based on latest available data at April 2013. All ABS data is average of four quarters to March 2013 divided by the average of four quarters to March 2012. FUELtrac data is average price for May 2012 to March 2013 divided by the average price from May 2011 to April 2012.

Source: Australian Bureau of Statistics, 6401.0 (Consumer Price Index Australia, March 2013), Table 5 (All Groups Sydney CPI) and Table 11 (sub-groups). Average retail LPG prices from FUELtrac.

4 | Fare structure

Fare structure refers to the relativities between the different components that make up the overall fare charged to a passenger. For taxis, the fare components include a fixed flag fall, a distance rate, a time rate, and a booking fee. It determines how the total fare will vary by distance travelled, the level of congestion on the road, by time of day/time of week and by how the taxi is caught (whether booked or hailed).

Our draft recommendation is to change the fare structure by:

- ▼ increasing the flag from \$3.50 to \$4
- ▼ reducing the distance rate by 7% and reducing the waiting rate by 5%
- ▼ applying a new \$2.50 peak surcharge to all fares between 5 pm and 5 am on Friday and Saturday nights
- ▼ starting the 20% distance surcharge at midnight instead of 10 pm on every night of the week, and ending it at 5 am instead of 6 am.

A 50 cent increase to the flag fall with a reduction to the distance rate should improve the service for passengers booking short journeys, and make travelling longer distances by taxi more affordable. The Friday and Saturday night surcharge of \$2.50 from 5 pm to 5 am will encourage more taxis to be on the road during peak times when the demand for taxi services is the highest.

4.1 Moving towards a more efficient fare structure

An efficient fare structure balances the supply and demand for taxis for different types of trips. For example, an efficient fare structure would provide a greater incentive for drivers during peak times so that demand is met during these times. A different fare structure would apply during off peak times so there would not be an oversupply of taxis.

An efficient fare structure would also align the fare with the cost of providing each passenger trip so that:

- ▼ drivers would be indifferent between long and short trips (ie, over the course of a shift, drivers would earn broadly the same fare revenue by doing a larger number of short trips or fewer long trips)
- ▼ there is no incentive for drivers to take a slower route (either by sitting in congestion, or travelling a longer than necessary distance).

In past reviews, we have canvassed changes to fare structure but we have usually concluded that due to lack of evidence we should not make changes. This has meant that IPART has typically applied the fare increase equally across fare components.

We still consider that there is not sufficient information available for us to determine an *optimal* fare structure. However, there is sufficient information to determine the *direction* of changes to different fare components from new data about the demand and availability for taxis:

- ▼ Our passenger survey asked passengers about how long they wait for taxis at different times of the day and week for journeys that are hailed, booked, and taken from a rank. We can use this information to help identify whether the issues raised with us previously are issues that affect taxi passengers' willingness or ability to travel by taxi.⁵⁴
- ▼ The CIE survey collected data on taxi earnings by shift, which provides information on taxi use patterns.⁵⁵

Therefore, in 2013/14 we are recommending rebalancing the fare components by increasing the flag fall relative to the distance and waiting rates, and adding a flat rate peak surcharge on Friday and Saturday nights.

Our draft recommendation for the fare structure in 2013/14 is shown in Table 4.1.

⁵⁴ Taverner Research, *Survey of Taxi Use in Sydney*, Prepared for IPART, November 2012.

⁵⁵ The CIE, *Reweighting the Taxi Cost Index*, April 2012.

Table 4.1 Draft recommendation on maximum fares for Sydney Taxis

Fare component	2012/13	Draft recommendation 2013/14	Difference
Base flag fall	\$3.50	\$4.00	14%
Standard distance rate (\$/km when the vehicle is travelling more than 26 km/h)	\$2.14	\$2.00	-7%
Night distance rate (\$/km when the vehicle is travelling more than 26 km/h) (20% surcharge)	\$2.57 (10 pm – 6 am)	\$2.40 (12 am – 5 am)	-7%
Waiting time (\$/hour when vehicle slower than 26km/hour)	\$55.3 (92 c/min)	\$52.50 (87.5 c/min)	-5%
Friday to Saturday peak surcharge	None	\$2.50 (5 pm – 5 am)	NEW charge
Booking fee (booked fares only)	\$2.40	\$2.40	No change
Maxi taxi surcharge (on total fare) (applies when 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).	50%	50%	No change

Source: Transport for NSW, <<http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>>.

Table 4.2 shows the impact of our proposed fare structure, compared to if no fare structure changes are made.

Table 4.2 Fare structure impacts for a -1% fare change (and 250 additional PALs on the road)

	No changes to fare structure (%)	Proposed fare structure changes (%)
Average occupancy	3.5%	3.9%
Kilometres per year	3.2%	3.3%
Plate lease costs	-6.5%	-5.5%
Average waiting time	-0.2%	0.2%
Total number of trips	5.6%	5.7%
Average waiting time Fri and Sat nights	-3.1%	-6.4%

Source: Taxi industry model.

The change in the overall fare paid is not pronounced for most journeys. The journey types that will be most affected are:

- ▼ Very short trips on a Friday and Saturday night after midnight - passengers will pay an average of \$2 more when they travel less than 10 km. This should help improve the supply of taxis for these trips.
- ▼ Long journeys, particularly those between 10 pm and midnight. A passenger travelling 25 km will save around:
 - \$1.50 between midnight and 5 am on a Friday and Saturday night
 - \$3 between 6 am and 5 pm every day
 - \$14 between 10 pm and midnight on week nights.

This will make longer trips more affordable.

The impact of our recommended fares on a sample of different kinds of trips is shown in Figure 4.1.

Figure 4.1 Fares for different types of trips



Note: Comparison excludes booking fees.

Data source: IPART calculations.

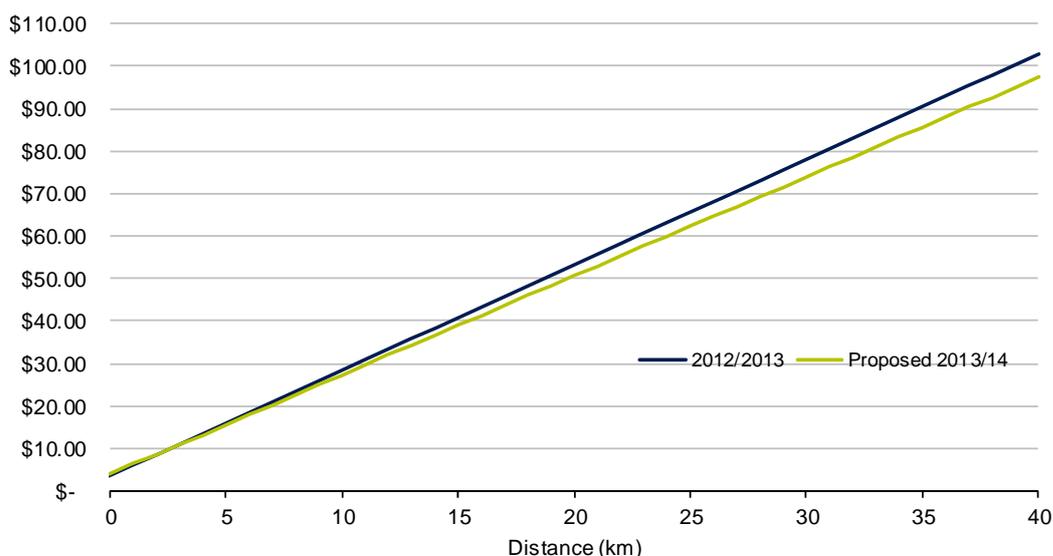
4.2 Relativities between fares for short and long journeys

We are recommending making longer journeys cheaper, and making very short trips slightly more expensive. This will be achieved by decreasing the per kilometre charge by 7% and the waiting time rate by 5% and increasing the flag fall by 50 cents, from \$3.50 to \$4.⁵⁶ This will also align the flag fall for urban areas with the flag fall for country areas, which was \$4 for this year.

Figure 4.2 shows that for journeys between 6 am and 5 pm:

- ▼ no one will pay more than 50 cents extra for their journey
- ▼ passengers travelling more than 4 km will pay less than they currently pay
- ▼ a passenger travelling 2 km will pay 20 cents extra
- ▼ a passenger travelling 25 km will pay \$3.30 less than they do now.

Figure 4.2 Fares between 6 am and 5 pm



Note: Comparison excludes airport charges and booking fees.

Data source: IPART calculations.

⁵⁶ A \$4 flag fall remains in the range of flag falls for capital cities in other states (\$2.90 (Brisbane) - \$4.75 (Canberra)), and better aligns the relativities between long and short fares with other states.

4.2.1 Why we are changing the relativities between long and short distance fares

Improving the services for passengers for short booked journeys

For several years we have received anecdotal evidence that some customers have trouble getting taxis for short journeys when they book them.⁵⁷ For example:

- ▼ In its submission to the 2012 fare review NCOSS noted that its Transport Policy Advice Group's stakeholders were continuing to find that some taxi drivers will not accept passengers travelling short distances,⁵⁸ and the NSW TDA agreed that there is "an acute unmet demand for short fares."⁵⁹
- ▼ In 2011 the NSW Taxi Council submitted that short jobs are the most difficult jobs to cover.⁶⁰
- ▼ In 2010 the NSW TDA submitted that

...taxi fares are skewed in favour of the longer fare, for the driver, and against the shorter fare, for the passengers. ...drivers overlook short fares that may become available as they wait for longer fares that have more to offer the driver.... The NSW TDA laments the inconvenience that this causes to the short fare patron but unless those short fares are made competitive with the rest they will continue to be scorned.⁶¹

While the Taverner survey showed that overall the waiting time for taxi bookings were lower for short distance journeys compared to long distance journeys, it also showed that passengers travelling less than 10 km were more likely to wait more than 40 minutes than for passengers travelling more than 10 km (Figure 4.3).

⁵⁷ Drivers cannot refuse short journeys when the journey starts at a rank or is hailed. *Passenger Transport Regulation 2007*, s146.

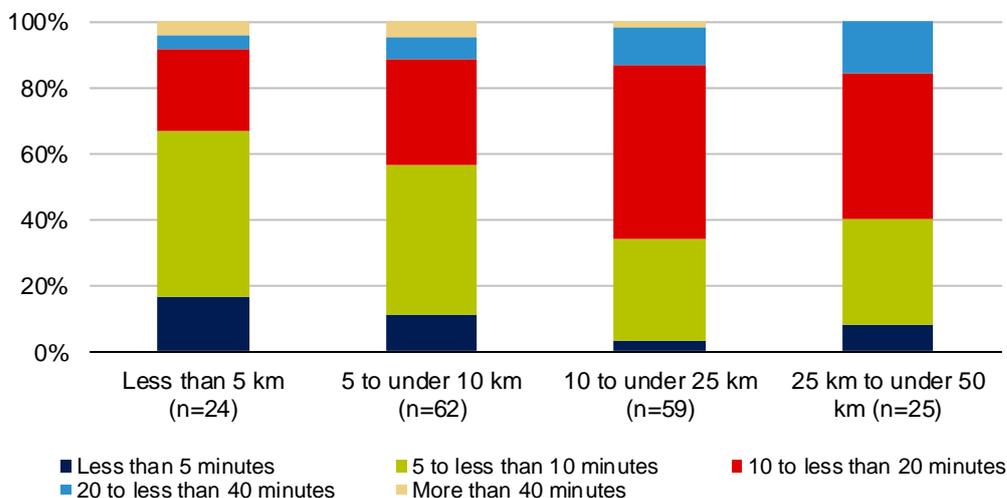
⁵⁸ NCOSS submission to last year's fare review, 15 March 2012, p 2.

⁵⁹ NSW TDA submission to 2011 fare review, 15 May 2012, p 35.

⁶⁰ NSW Taxi Council submission to 2011 fare review, 15 April 2011, p 1.

⁶¹ NSW TDA submission to 2010 fare review, 29 April 2010, p 9.

Figure 4.3 Waiting times for booked trips (next available taxi) by distance travelled



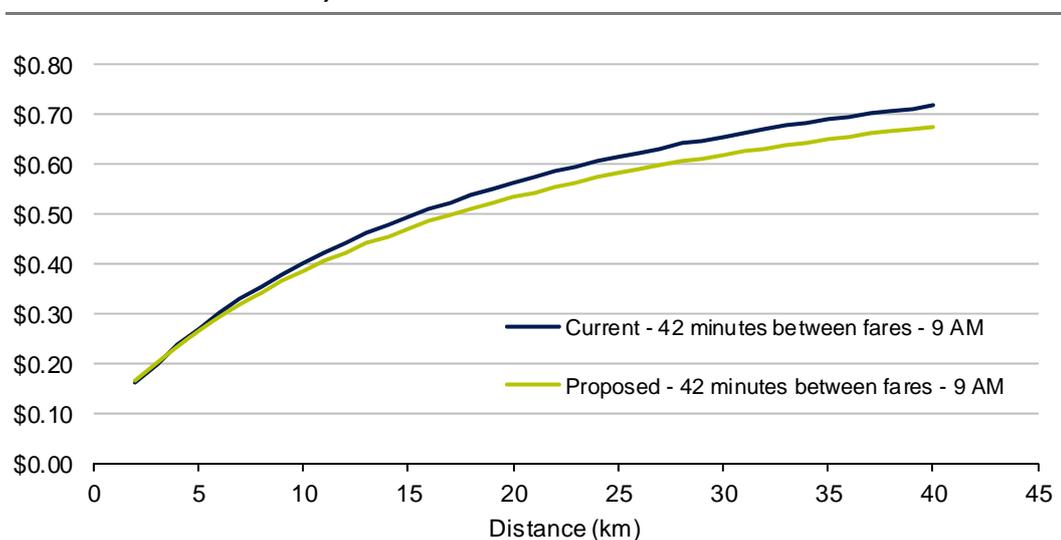
Data source: Taverner survey.

Figure 4.4 shows that taxi drivers can make more money with longer journeys than for short distances, therefore they prefer these journeys. For example, using the average time of 42 minutes between fares, a taxi will make (after fuel costs):

- ▼ 23.5 cents per minute for a 4 km fare.
- ▼ 61.2 cents per minute for a 25 km fare.⁶²

⁶² The profit per minute is significantly higher and not as pronounced for different distances if a taxi can get their next fare more quickly. For example, currently, if a taxi can get their next fare in 10 minutes, it will earn \$0.75 for a 4 km fare, and \$0.94 for a 25 km fare.

Figure 4.4 Taxi earnings per minute by distance for booked journeys (after fuel costs)



Note: Based on the average of 42 minutes between journeys for a Wednesday 10 hour night shift earning \$269 before fuel. CIE industry survey.

Data source: IPART calculation.

This is also supported by past submissions from drivers, saying that fares for short distance fares were too low. In the 2012 review, a submission stated:

...short fares are priced far too low to be viable in a host of circumstances, though perhaps not all. (Only when a passenger walks up to a ranked cab is the short fare price close to reasonable and then only if the drop point is very close to the next pickup point, i.e. closer than returning to the same rank).⁶³

Similarly, in 2010, the NSW TDA said:

If that taxi is not going very far then the hourly rate that taxi earns is just woeful. Raising the flagfall... to \$4.00 will make more of the short fares that are currently being rejected more attractive.⁶⁴

While stakeholders acknowledged that higher fares for shorter distances were likely to improve the incentives for drivers to accept short booked trips, and therefore improve these services, they were also concerned about the negative consequences on affordability for lower socio economic groups who rely on taxis for short journeys.⁶⁵

Our draft recommendation to increase the flag fall by 50 cents will still mean that drivers will make more revenue from longer journeys compared to short distance journeys. However it will move fares in the right direction to improve the incentives for drivers and the service for short distance customers (Figure 4.4).

⁶³ E Mollenhauer submission to 2012 fare review, 3 February 2012, p 2.

⁶⁴ NSW TDA submission to 2010 fare review, 29 April 2010, p 16.

⁶⁵ Action for Public Transport, 25 March 2012, p 2; Cabcharge, 25 March 2013, p 13; Taxi Council, 25 March 2012, p 16.

Capping the increase for journeys between 5 am and 5 pm at 50 cents should minimise the impacts on customers - passengers travelling 2 km will pay only 20 cents more, and passengers travelling more than 4 km will pay less than they current do.

Making fares for longer distances more affordable

High fares for long distances may be suppressing demand for longer distance taxi journeys, and encouraging some passengers travelling long distances to use other modes of transport instead. For example, in the past some stakeholders have submitted that the high long distance fares made taxis less able to compete with hire car services that are able to charge less.⁶⁶ The Taverner survey confirmed that 14% of respondents had used a hire car (with a driver) in the last 6 months, and 32% said that one of the reasons why they used hire cars instead of taxis is because they were cheaper.⁶⁷

The Taverner survey also showed that only 15% of passengers' last journey was more than 25 km, compared to around 50% of passengers who travelled less than 10 km.⁶⁸ It also showed that when people who did not end up catching a taxi after thinking about it for a particular journey, a key reason for not catching a taxi was it would be too expensive. For longer journeys, an even greater proportion of people said this was a reason why they did not end up catching the taxi (Figure 4.5).

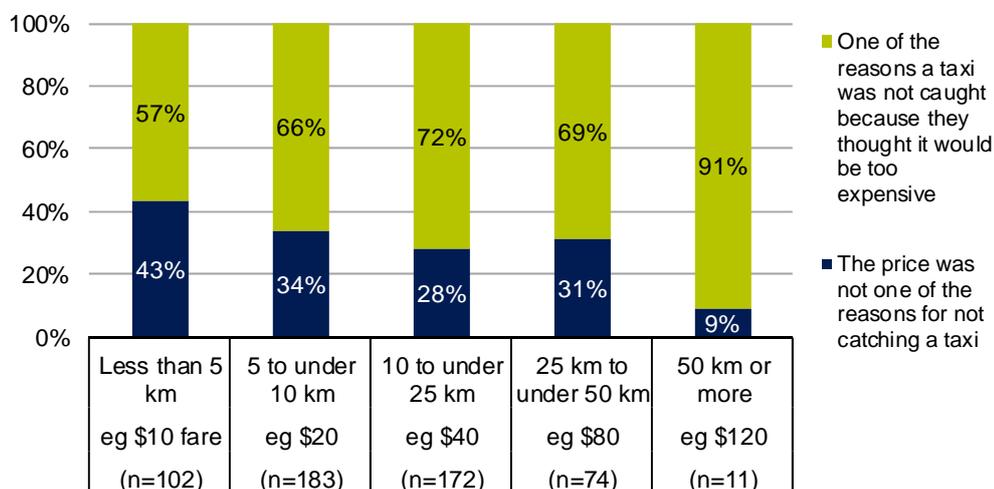
This suggests that if fares for longer distances were less expensive, more people would be likely to catch taxis for their journeys. Therefore, our recommendation should increase the demand for taxis for longer distance journeys.

⁶⁶ NSW Taxi Council submission to 2011 review, 15 April 2011, p 1.

⁶⁷ Taverner survey data.

⁶⁸ IPART, *Fact Sheet - Survey of Taxi Use in Sydney*, December 2012, p 1, http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review_of_Sydney_Taxi_Licences_to_be_released_from_1_July_2013/10_Dec_2012_-_Fact_Sheet_-_Survey_of_taxis_use_in_Sydney/Fact_Sheet_-_Survey_of_taxi_use_in_Sydney_-_December_2012.

Figure 4.5 Reasons for not catching a taxi for particular trips where taxis were not caught after being considered



Data source: Taverner survey data.

4.3 Fares for night journeys

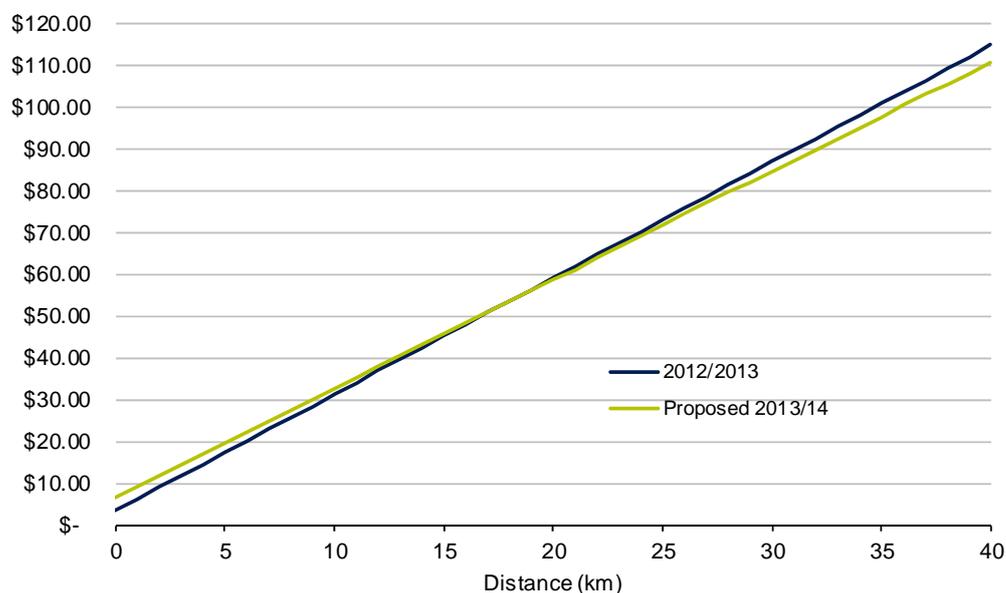
Our draft recommendation is to add a \$2.50 peak surcharge to fares on Friday and Saturday night between 5 pm and 5 am when demand is highest.

We are also recommending keeping the 20% surcharge on distance rates on all nights of the week, but changing the hours that the surcharge applies to start 2 hours later (from 12 midnight instead of 10 pm) and finish at 5 am instead of 6 am.

Table 4.3 shows how customers will be affected on Friday and Saturday nights, and Figure 4.6 shows the current fares and the proposed fares between 12 midnight and 5 am.

Table 4.3 Impact on customers on Friday and Saturday night

	Customers who will pay more	Customers who will pay less	Difference in fare for a 2 km journey	Difference in fare for a 25 km journey
5 pm - 10 pm	Travelling less than 20 km	Travelling further than 20 km	\$2.70	-\$0.80
10 pm - 12 midnight	Travelling less than 5 km	Travelling further than 5 km	\$1.80	-\$11.50
12 midnight - 5 am (Figure 4.6)	Travelling less than 17 km	Travelling further than 17 km	\$2.60	-\$1.50
5 am - 6 am	Travelling less than 1 km	Travelling further than 1 km	-\$0.70	-\$14

Figure 4.6 Fares on Friday and Saturday nights between midnight and 5 am

Source: IPART calculations.

4.3.1 Why we are recommending a peak surcharge on Friday and Saturday night

Several submissions to our licence review, and participants in our public forum consider that there is a shortage of taxis on Friday and Saturday nights.⁶⁹

The Taverner survey showed that passengers wait longer for taxis on Friday and Saturday nights compared to other days of the week:

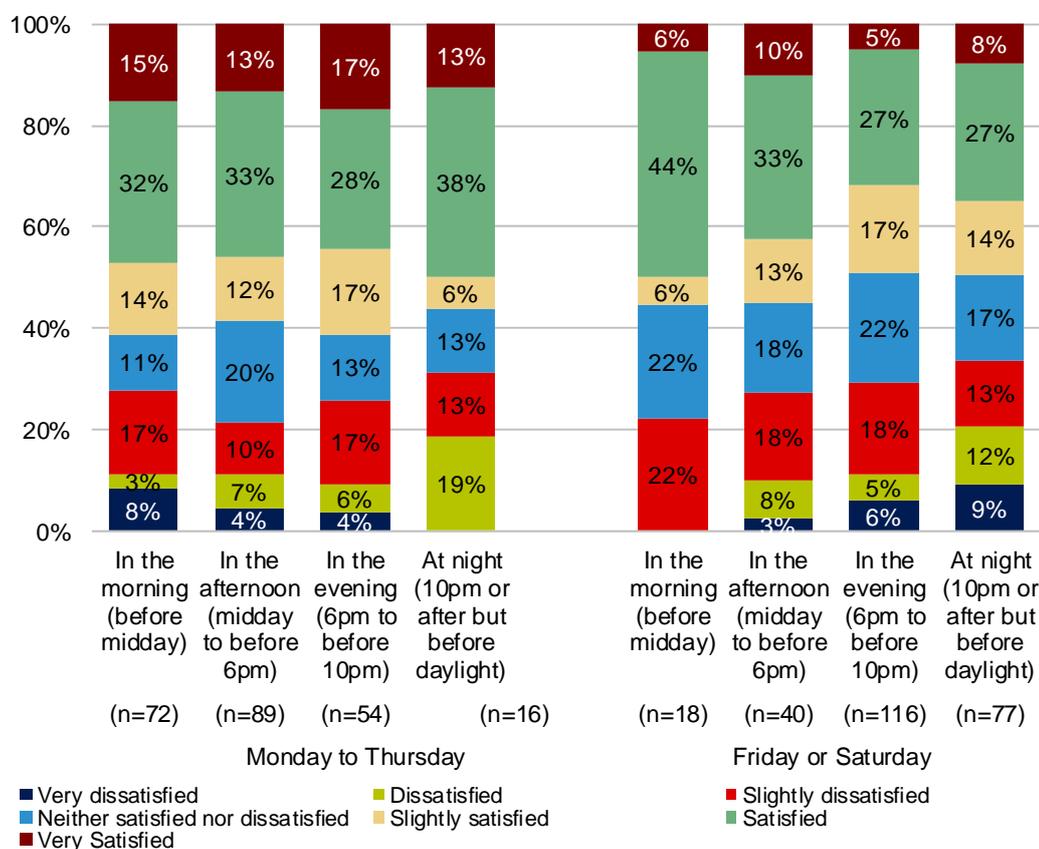
- ▼ around 30% of people waited more than 10 minutes to catch a taxi after 6 pm on Friday and Saturday nights, compared to 20% of passengers waiting more than 10 minutes the rest of the time⁷⁰
- ▼ around 60% of passengers that hailed a taxi or caught a taxi from a rank on a Friday or Saturday night or evening had to wait more than 5 minutes for a taxi, compared to 25% to 50% that had to wait more than 5 minutes during other times.⁷¹

Figure 4.7 shows that people are also more dissatisfied with the wait time on Friday and Saturday nights than any other night – less than 50% of passengers on these nights are satisfied with the length of time they have to wait to catch a taxi.

⁶⁹ Sydney City Council submission to Issues paper on Taxi Licence Release 2013/14, 16 November 2012, p 1; P Louridas submission to Issues Paper on Taxi Licence Release 2013/14, 5 November 2012; S Guy submission to Draft report on Taxi Licence Release, January 2013, p 1.

⁷⁰ Taverner Research, *Survey of Taxi Use in Sydney*, November 2012, p 28.

⁷¹ Taverner survey data.

Figure 4.7 Satisfaction with the time taken to catch a taxi

Data source: Taverner survey.

Less than 90% of taxis currently operate on Friday and Saturday nights. One of the reasons for this is because many drivers are reluctant to work on Friday and Saturday nights as they consider that there are greater security risks, cleaning costs and more fare evasion.

The NSW Government has announced that an additional 250 taxis (with peak availability licences) will be available in the afternoon and nights to help lower waiting time for passengers. Increasing fares on Friday and Saturday nights should also encourage more taxis to be available during these times.

The Australian Hotels Association (AHA) submitted that a \$5 fare surcharge would encourage more drivers into the City's late night trading precincts to provide a service between 1:30 am and 4:30 am without impacting on the level of demand.⁷² This is similar to the late night surcharge of \$4.85 that currently applies in Perth on Saturday and Sunday mornings between 12 midnight and

⁷² Australian Hotels Association submission to IPART's licence review, 2 November 2012, p 7.

5 am.⁷³ For a 7 kilometre journey, passengers in Perth pay around 30% more after midnight compared to at 9 am.

An anonymous submission to our review said that the surcharge should be set at \$3.50.⁷⁴

We are recommending introducing a \$2.50 surcharge on Friday and Saturday night to apply between 5 pm and 5 am because there is high demand during these times. Because we have added 50 cents to the flag fall at all times as well, from 5 pm there will be \$6.50 on the meter when a passenger enters a taxi instead of \$3.50. This is similar to the \$6.30 flag fall that applies in Brisbane after midnight.

We estimate the average waiting time on Friday and Saturday nights will fall by 6.4% under our fare proposal in combination with an additional 250 taxis being on the road. If we made no changes to the fares structure on Friday and Saturday night, we estimate that the waiting time would only fall by around half this.

As noted above, some of these fixed charges will be offset by reductions in the distance and waiting time rates. This means that the further passengers travel, the less they will pay compared to how much they pay now (shown in Figure 4.6 above).

4.3.2 Why we are recommending applying the 20% distance rate surcharge between 12 midnight and 5 am

Currently passengers pay 20% more per kilometre of travel between 10 pm and 6 am (they pay \$2.57 per kilometre instead of \$2.14). In our issues paper we considered removing this distance base surcharge. Instead, our draft recommendation is that the surcharge should apply between midnight and 5 am.

As mentioned above, on Friday and Saturday nights we have recommended that a \$2.50 surcharge apply after 5 pm when demand is the highest. However if this surcharge were to apply in isolation, we are concerned that this could mean that there would not be enough taxis on the road after midnight, because:

- ▼ PALs may be more inclined to work in earlier part of the shift (12 noon to 12 midnight)
- ▼ Unrestricted night shift taxis may come off the road earlier if they can make more revenue between 3 pm and 12 midnight and avoid the perceived risks and inconvenience of driving after 12 midnight on Friday and Saturday nights.

⁷³ Compared to travelling at 9 am.

⁷⁴ Anonymous submission, 26 February 2013, p 1.

Therefore, an additional incentive after midnight is likely to be required so that sufficient taxis remain on the road. The current 20% night surcharge will fulfil this need if it starts 2 hours later than it does now. Perth and Brisbane also have additional incentives after midnight to ensure that supply meets demand after this time:

- ▼ Perth – \$1.85 surcharge between 6 pm and 6 am, and an additional \$3 between 12 midnight and 5 am.
- ▼ Brisbane – \$1.40 surcharge between 7 pm and 7 am and an additional \$2 between 12 midnight and 5 am.

Taxis with a Peak Availability Licence is only allowed to operate between 12 pm and 5 am. We are recommending aligning the time the surcharge ends with the end of the PAL shift because additional incentives for taxis to be on the road are not required after this time.

Most stakeholders support retaining the existing night surcharge on all nights of the week. However, from Sunday to Thursday there is some evidence that there are too many taxis on the road relative to the level of demand. The Taverner survey found that waiting times are lowest on Monday to Thursday nights, with more than 70% of passengers able to get a taxi within 5 minutes.

The survey results suggest that the night surcharge may not be needed at all on these nights, or may be needed at a lower rate or for fewer hours. Reducing the hours that the surcharge applies should discourage some taxis from being on the road to better match the supply of taxis with the lower level of demand on Sunday to Thursday evenings. Retaining the surcharge with reduced hours between 12 midnight and 5 am is more consistent with the available evidence and means that the same hours will apply for the 20% surcharge across the week.

4.1 Other charges

Fares can also include a range of other charges, including booking fees, the maxi taxi surcharge and road tolls. In the interests of improving the efficiency of fares more generally and meeting our terms of reference requirements, we have considered whether changes could be made to these charges, or the way they are levied.

4.1.1 We are not recommending changes to the booking fee

Around 20% of all taxi trips in Sydney are booked, rather than hailed or started from a rank. Currently fares include a regulated booking fee (\$2.40) that is charged for trips booked with a network by phone or internet.

In our issues paper we proposed the deregulation of booking fees. We consider that when there is effective competition in booking services, that booking fees should be deregulated. The NSW Government is currently reviewing aspects of passenger transport legislation, including taxi network regulation and booking arrangements. Therefore, we are continuing to recommend the maximum price for the booking fee this year.

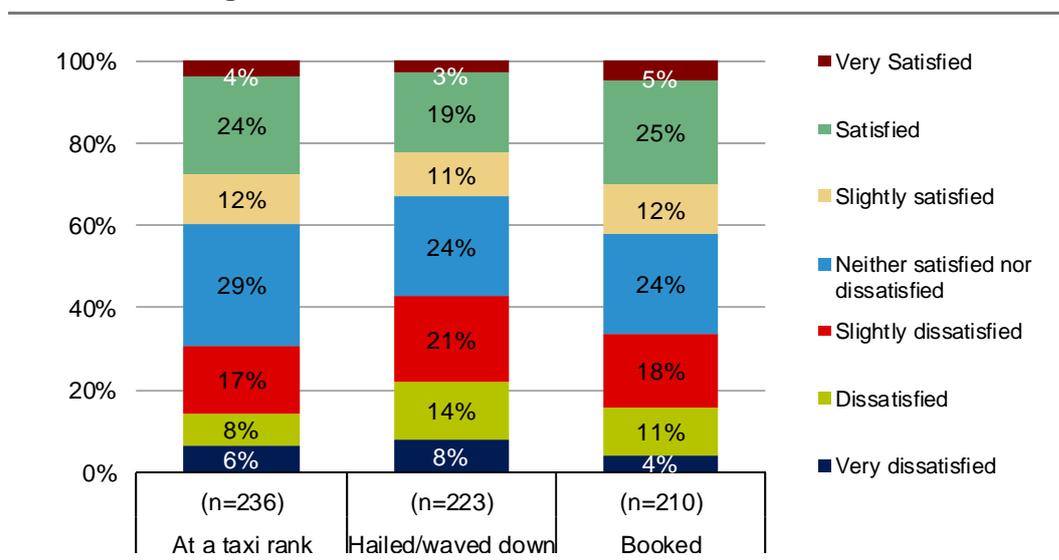
The regulated booking fee is at the right level

In the past we have received submissions seeking increases in the booking fee as a greater incentive to attend bookings. Drivers said that they are reluctant to attend bookings as a significant number of passengers who make a booking are not there when the taxi arrives.⁷⁵

In last year's fare review we noted that increasing the cost of the booking fee is likely to worsen the problem of passenger 'no shows' as a higher charge gives passengers a greater incentive to dishonour the booking (for example, by flagging down a passing taxi).⁷⁶

This year, most submissions said that the booking fee was at the right level.⁷⁷ The Taverner survey showed that satisfaction levels for booked fares with a \$2.40 booking fee are not worse than for journeys that started at a taxi rank or hailed down on the street that don't incur the booking fee (Figure 4.8).

Figure 4.8 Satisfaction with the fare paid for last journey by method organised



Data source: Taverner survey data.

⁷⁵ See IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, p 54.

⁷⁶ IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, p 54.

⁷⁷ Taxi Council, 25 March 2013, p 16; Cabcharge, 25 March 2013, p 15; Anonymous submission (W13/207), 26 February, p 1.

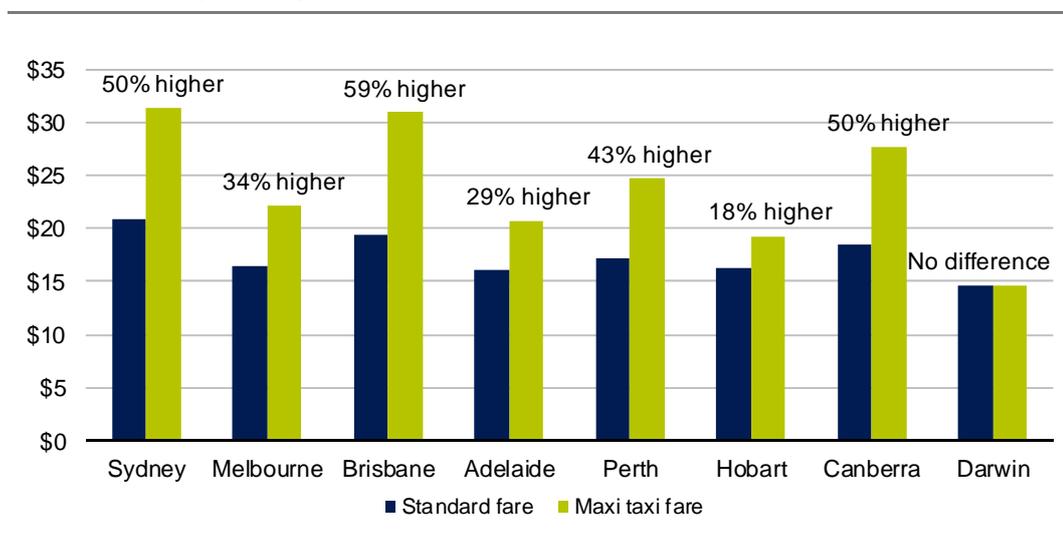
4.1.2 We are not recommending changes to the maxi taxi surcharge

In Sydney, a maxi taxi surcharge may be charged where a maxi taxi is pre-booked (regardless of the number of passengers) or if a maxi taxi is hired from a taxi zone or street hail to carry five or more passengers. Passengers in Sydney pay an additional 50% on the metered fare.

All capital cities except Darwin have some form of maxi taxi surcharge, although it is different in each city – some are a percentage of the total fare, others are a fixed rate. In Brisbane, the surcharge has been deregulated for pre-booked maxi taxis (as well as luxury and premium taxis). A fixed surcharge of \$11 to \$12 typically applies in Brisbane.⁷⁸ The Victorian Taxi Industry Inquiry recommended a fixed fee of between \$10 and \$15 for Melbourne.⁷⁹

Since the maxi taxi surcharge is applied differently in different capital cities, it is difficult to compare the impact on the total fare paid. For a booked journey at 9 am that is charged for 5.5 km at the distance rate and 4.5 minutes at the waiting rate, the impact of the high occupancy taxi surcharge on fares in Australian capital cities is shown in Figure 4.9.

Figure 4.9 5.5 km fare for maxi taxis compared to the standard taxi fare (January 2013)



⁷⁸ For example see, Black and white cabs, http://www.blackandwhitecabs.com.au/cms/pages/TAXI_MENU/Estimate/!/Services/Taxi+Fares/display.html

Yellow cabs, Maxi taxis, http://www.yellowcab.com.au/customer-services/content.cfm/Maxi_Taxis/411/

⁷⁹ Victorian Taxi Industry Inquiry, *Final Report: Customers First – Service, Safety, Choice*, September 2012, p 207.

We asked in our issues paper whether the maxi taxi surcharge should be levied as a dollar amount rather than a percentage loading. A \$10 fixed surcharge in Sydney would give the equivalent fare as the current 50% loading arrangements for a booked journey at 9 am that is charged for 5.5 km at the distance rate and 4.5 minutes at the waiting rate.

Neither the Taxi Council nor Cabcharge supported moving towards a fixed fee. The Taxi Council says that it would operate as a disincentive for longer journeys, and both note that the current arrangements are well received by drivers, and represent a significant discount to passengers (compared to paying for 2 fares).

We agree that the current arrangements appear to be working well, and we do not have the problem that exists in Victoria, where the percentage surcharge attracts too many of the wheelchair accessible vehicles out of the city to the airport, where the fares are longer.⁸⁰

4.1.3 Tolls in taxis

Tolls incurred during a passenger trip are paid by passengers. This is done by the driver manually adding the toll amount onto the metered fare at the end of the journey. When there is no passenger in the taxi, the toll is covered by drivers.

Currently, taxi meters cannot record the tolls incurred during a trip and this is added manually by the driver afterwards. Given the increasing complexity of distance and time-based tolling on Sydney's roads, automatic inclusion of tolls would reduce confusion and the risk of error or deliberate fraud.

In order to automatically include tolls taxi meters would need to be upgraded. We have consulted with taxi meter manufacturers and all have said they are in the process of developing products which can capture tolls automatically.

However, there is some concern from stakeholders that if the NSW Government makes a requirement for taxi meters to automatically recognise tolls it could give an advantage to a small group of industry players, stifling competition.

This is an issue for Transport for NSW to consider.

⁸⁰ Victorian Taxi Industry Inquiry, *Final Report: Customers First – Service, Safety, Choice*, September 2012, pp 201 and 207.

4.1.4 We are recommending removing the ‘return toll’ on Harbour crossings

The Sydney Harbour Bridge and Tunnel tolls are treated differently to other tolls: the Harbour crossing toll is levied on passengers travelling in both directions over the Bridge or through the Tunnel, even though it is only charged to vehicles going south. This means that when a taxi takes a passenger north over the Harbour, and takes another passenger south over the Harbour, the taxi will receive 2 toll payments from customers, even though the taxi is only charged for one trip.

We reviewed this issue in 2008, and our final decision was to keep the return toll. However, since 2008, the toll now varies with the time of the day - it is \$2.50 at night, \$3 during the day, and \$4 during peak hour. The current northbound toll is charged at the southbound toll rate applicable at the time of crossing.

We are recommending removing the toll because we do not think that passengers should pay for a toll that is not incurred when they are travelling in the taxi. This will make the treatment of the Harbour crossing tolls consistent with how tolls apply to customers on all other toll roads.

We consider that because the toll now varies by the time of day, the amount that the driver adds to the meter is even less transparent and can undermine confidence in the accuracy of the taxi fare. This can lead to disputes.

The NSW Taxi Council acknowledged the challenge to customers in their submission:

For customers the payment of a toll for a reverse journey by the driver who may secure a booking on the return is counter intuitive and represents potential ‘double dipping’ by the driver. This in turn can lead to disputation between the driver and the passenger, and anecdotal evidence suggests that a number of drivers don’t press for this charge as a consequence.⁸¹

There is no evidence to suggest that removing the ability to charge a return toll would mean that taxis would be less willing to take customers over the Harbour.

Stakeholders were concerned that drivers would have to bear the costs of the toll when they used the Harbour crossings without a passenger and this would impact on driver earnings. The Australian Taxi Drivers Association supported keeping the toll.⁸² Stakeholders also proposed:

- ▼ charging the toll to passengers travelling northbound over the Harbour if their destination is within a specified boundary, so that passengers travelling longer distances would not have to pay⁸³

⁸¹ NSW Taxi Council submission, 25 March 2013, p 17.

⁸² Australian Taxi Drivers Association submission, 8 April 2013, p 6.

⁸³ NSW Taxi Council submission, 25 March 2013, p 18.

- ▼ charging customers 50% of the toll when they travel north⁸⁴
- ▼ exempting taxis from being charged in either direction by the tolling companies.⁸⁵

We recognise that under our recommendation to remove the toll, taxis will have to bear the cost of the southbound toll if they return to the city across the Harbour without a customer. However, in the long term we expect that pay ins to operators will adjust to reflect the increase in costs.

Draft Recommendation

That Transport for NSW remove the ability for taxis to charge customers a toll when travelling north across the Sydney Harbour crossings.

⁸⁴ NSW Taxi Council, 25 March 2013, p 18.

⁸⁵ Australian Taxi Drivers Association, 8 April 2013, p 6.

5 Expected impact of our draft recommendations

We are required to consider the impact of our recommendations on stakeholders and we have done this in making our draft recommendations. Specifically, we considered the impact of our draft recommendations for passengers, the industry, the NSW Government and the environment.

In our view, the combined impact of Transport for NSW's decision to release additional licences and the small reduction in fares under our draft recommendations will further the aims of the 2009 licensing reforms and ensure that customers benefit through greater affordability and lower waiting times.

5.1 Implications for passengers in urban areas

Our draft recommendation is that urban fares should be reduced by 1% on average this year. However, we have made a number of changes to fare structure.

Table 5.1 shows that the impact on affordability for passengers will depend on when and how far they travel. Our draft recommendations to increase the flag fall and reduce the distance and waiting time rates should make taxi travel more affordable for passengers travelling longer distances and more expensive for those travelling shorter distances, particularly on Friday and Saturday nights. However, for passengers who see price increases, we expect corresponding improvements in taxi availability.

Table 5.1 Impact on customers

	Customers who will pay more	Customers who will pay less	Difference in fare for a 2 km journey	Difference in fare for a 25 km journey
Sunday to Thursday				
5 am – 6 am	Travelling less than 1 km	Travelling further than 1 km	-\$0.70	-\$14
6 am – 10 pm	Travelling less than 4 km	Travelling further than 4 km	\$0.20	-\$3.30
10 pm – 12 am	Travelling less than 1 km	Travelling further than 1 km	-\$0.70	-\$14
12 am – 5 am	Travelling less than 4 km	Travelling further than 4 km	\$0.10	-\$4
Friday and Saturday				
5 am – 6 am	Travelling less than 1 km	Travelling further than 1 km	-\$0.70	-\$14
6 am – 5 pm	Travelling less than 4 km	Travelling further than 4 km	\$0.20	-\$3.30
5 pm - 10 pm	Travelling less than 20 km	Travelling further than 20 km	\$2.70	-\$0.80
10 pm - 12 am	Travelling less than 5 km	Travelling further than 5 km	\$1.80	-\$11.50
12 am - 5 am	Travelling less than 17 km	Travelling further than 17 km	\$2.60	-\$1.50

5.1.1 Travelling during the day

Most passengers travelling during the day are likely to see a lower fare than they currently pay. However, our draft recommendation to raise the flag fall and make corresponding reductions in the distance and waiting time rates will mean that passengers who travel very short distances will see a small fare increase.

The maximum increase for day time journeys (6 am to 5 pm) would be 50 cents. A person travelling 2 kilometres would pay only 20 cents extra and once a trip reaches 4 kilometres, the fare would be lower than it currently is. A passenger travelling 25 kilometres would save around \$3 (see Chapter 4 for more information).

5.1.2 Travelling in the evening or night time

Our draft recommendations include:

- ▼ Changing the hours the night time surcharge applies to start 2 hours later and finish 1 hour earlier (we recommend that it applies from midnight to 5 am every night of the week, rather than the current 10 pm to 6 am)
- ▼ Introducing a \$2.50 peak surcharge to fares on Friday and Saturday night between 5 pm and 5 am.

Passengers travelling between 10 pm and midnight on Sunday to Thursday nights are likely to see lower fares. However, on Friday and Saturday evenings, the new peak surcharge would mean that passengers travelling short distances between 5 pm and midnight would pay more (up to \$2.50 more than the current fare). This is offset by the lower distance charges. Passengers travelling further than 5 kilometres between 10 pm and midnight would pay less than they currently do, but only passengers travelling further than 20 km between 5 pm and 10 pm would pay less than they currently do.

After midnight on Friday and Saturday nights, passengers who travel less than 10 kilometres would pay an average of \$2 more than they do now. Passengers who travel further than 17 kilometres would pay less than they currently pay.

One of the main reasons we are recommending the introduction of a peak surcharge on Friday and Saturday nights is to make taxis more available at times of high demand. We expect our recommendations to result in a 6% fall in waiting times on Friday and Saturday nights.

5.2 Implications for passengers in country areas

As we are recommending no changes to country fares, we expect the impacts on passengers to be minimal.

5.3 Implications for the industry

The Taxi Council's submission expressed concern that the combined impact of more licences and lower fares would affect the income of drivers, operators and licence holders and ultimately jeopardise the viability of the industry.⁸⁶ However, our modelling suggests that the changes will be in the long-term interests of the industry as well as to passengers.

The taxi industry model, which we developed for our licence review, helps us to understand longer term impacts of changes to the taxi industry. In forming our draft recommendations we have used this model to consider the impacts of our draft recommendations, including the long-term impact on drivers, operators and licence owners. This approach explicitly considers the interaction between fares and licence numbers, including how the demand for taxi services responds to changes in fares and licence numbers.

The model is a long-term equilibrium model. That is, it shows what the estimated outcomes are when the market has fully adjusted to the changes brought about by additional licences and our draft recommendations on fares. It does not map out the transition path or the time it takes to achieve the outcomes, but it is clear about the direction of the path.

⁸⁶ NSW Taxi Council submission, 25 March 2013, p 6.

As we noted in our licence review, there may be short-term impacts on drivers and operators as the taxi industry adjusts to the changes. The impact will depend on how quickly the transition process occurs. Nevertheless, it is important to emphasise that transition effects are by definition temporary and that the change to a lower cost, lower fare regime is in the long-term interests of the industry as a whole. The sections below set out the expected outcomes for drivers, operator and licence holders in more detail.

5.3.1 Drivers

Taxi driver earnings are governed by supply of and demand for taxi drivers. Except in the very short term, fare increases do not benefit drivers (see Chapter 2 for more information). Correspondingly, we do not expect fare reductions to reduce drivers' incomes. What we do expect is that:

- ▼ Lower fares will encourage more people to use taxis – if more people use taxis, fare revenue per taxi will not fall by as much as 1%.
- ▼ Pay-ins to operators should fall – drivers will reduce the amount they are willing to pay to take a taxi for a shift if the fare revenue for that shift is expected to be lower. At the same time, additional taxi licences should increase the demand for drivers. With fewer drivers available relative to the demand for them, taxi operators may need to reduce the amount they charge to drivers to take out the taxi for a shift.
- ▼ The number of taxis on the road should increase at peak times and may fall in lower demand times – our draft recommendations on fare structure are likely to have an impact on which shifts drivers and operators choose to put a taxi on the road.

Each of these outcomes is affected by both the overall level of fares and by fare restructuring, which changes the amount of fare revenue expected at different times of the day and days of the week.

As we noted in chapter 2, driver earnings will also be affected in the short term by fluctuations in fuel costs, so we will continue to undertake a mid-year review of LPG prices and to recommend an additional December fare change if LPG prices have increased or decreased by more than 20%.

5.3.2 Operators

One of the main costs faced by operators is the cost of leasing a licence. As discussed in Chapter 2, the level of this cost partly depends on the level of fares. We consider that past fare increases have contributed to high annual licence lease costs for operators, which is not in the interests of operators, passengers or the taxi industry. Preventing this from continuing is one of the reasons underpinning our draft recommendations.

As noted above, we expect that operators will need to reduce their pay-ins to attract drivers for some shifts as a result of the fare changes under our draft recommendations. In the past, when pay-ins have risen (as a result of fare increases), licence lease costs for operators have also risen. We expect this to work in both directions; in other words, in the long run fare reductions will lead to lower licence lease costs, leaving operators no worse off. However, we also accept that, in the transition, some operators may see their revenue fall by more than their costs.

The transition process largely depends on how quickly licence lease costs adjust. The NSW Taxi Council submitted to our licence review that lease costs will be slow to adjust and drivers and operators will go out of business before this occurs.⁸⁷ However, it is quite feasible that lease costs will adjust more quickly than envisaged by the NSW Taxi Council, and we consider that the NSW Taxi Council could assist the industry to make a quicker transition.

Issuing more licences should speed up the transition by offering operators a lower priced alternative. As noted in our recommendations on licences, ensuring that enough licences are released each year to enable operators to relinquish a more expensive licence in favour of a cheaper one is one way that Transport for NSW can speed up the transition process and minimise the transition effects of reform on taxi operators.

5.3.3 Licence plate owners

Fare levels will influence the level of passenger demand for taxi services, and the amount of revenue available to be distributed between drivers, operators, and licence owners. These factors in turn affect the change in annual licence costs that will result from increasing the number of taxi licences available in Sydney. As a result, it is important that our approach to recommending taxi fares Transport for NSW's decision to release additional taxi licences.

We expect our draft recommendations on taxi fares in Sydney (including our recommended changes to fare structure), in combination with Transport for NSW's decision to release an additional 250 Peak Availability Licences from July 2013, would result over time in a 6% reduction in licence lease income for existing licence holders.

⁸⁷ NSW Taxi Council submission, 21 January 2013, p 25.

5.4 Implications for the NSW Government

NSW Government funding of taxi fares is limited to rebates provided via the Taxi Transport Subsidy Scheme (TTSS) for people whose transport options are restricted due to a severe and permanent disability.⁸⁸ In 2011/12, \$26.1 million was paid in subsidies to more than 72,000 people registered for the scheme.⁸⁹

All else being equal, the small reduction in taxi fare levels would be likely to slightly reduce the level of NSW Government funding required for the TTSS. Our draft recommendations also include incremental changes to the structure of fares (including changes to the balance between short and long distance fares, and changes to the surcharge for night time taxi travel). These changes in structure may also affect the level of NSW Government funding required depending when and how far eligible passengers travel, but we do not expect this effect to be significant.

5.5 Implications for the environment

We do not expect that our draft recommendations on fares would have significant implications for the environment. The Bureau of Transport Statistics' 2010/11 Household Travel Survey Summary Report found that taxi trips as a proportion of total trips made have stayed constant at 0.7% since 2001.⁹⁰ This survey suggests that the proportion of taxi trips is small in terms of overall travel, has remained relatively stable over time, and is not particularly sensitive to relatively small incremental changes in fares. As a result, the impact of the fare changes in terms of pollution and congestion is likely to be small.

⁸⁸ See <http://www.transport.nsw.gov.au/ttss> for details about the scheme.

⁸⁹ Transport for NSW, *Annual Report 2011/12*, p 87, p 33.

⁹⁰ Bureau of Transport Statistics, *2010/11 Household Travel Survey Summary Report*, 2012 Release, p 33 – proportion of trips by taxi (average weekday) in the Greater Sydney Metropolitan area.

6 Service standards

Our terms of reference require us to consider “standards of quality, reliability and safety of [taxi] services (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards)”.

Our view is that independent, objective and transparent information on service performance is essential for accountability and good regulation which promotes competition and productivity. For this review, as discussed in previous chapters, we have used information about taxi service performance from the survey we commissioned of taxi use in Sydney to guide our draft decisions on fare level and fare structure.

As in previous years, we have also received information from Transport for NSW (Transport for NSW) about the performance of standard and WAT taxis in Sydney, reported by taxi networks to Roads and Maritime Services (RMS) against key performance indicators (KPIs).

As in past years, most of the information available on service standards relates to booked taxi trips, which only make up around 20% of total taxi trips taken. There are also limitations in the reported data for bookings that make it difficult to draw conclusions on performance outcomes.

This year we have additional data from a passenger survey undertaken for us by Taverner Consulting. However, we still do not have sufficient data to undertake a comprehensive analysis of service standards for the industry as a whole. We have previously recommended that Transport for NSW investigate the cost and feasibility of mandating a regulator data set. The information collected as part of that process would significantly improve the quality and relevance of information on industry performance.

This chapter provides a brief overview of the Taverner survey of taxi use in Sydney, and sets out some analysis of the KPI data.

6.1 The Taverner survey of taxi use in Sydney

In previous fare reviews we have emphasised the need for passenger surveys to provide a more complete picture of taxi service performance from the consumer's point of view.

For our review of new annual Sydney taxi licences to be released from July 2013, we commissioned Taverner Research to conduct a survey of 2000 Sydney residents to inform our estimates of responsiveness to price and the time taken to catch a taxi.⁹¹ The survey report is available on our website.

For this fare review, we used the Taverner survey findings to make decisions about:

- ▼ fare relativity between short and long trips
- ▼ Friday and Saturday night surcharges
- ▼ starting the 20% distance rate surcharge from midnight instead of 10 pm.

We plan to repeat our passenger survey each year to provide data that can be compared over time.

Transport for NSW has advised that it is developing a 'customer scorecard' to rate public transport service performance that will include taxi passenger satisfaction.

6.2 Network performance data for Sydney taxis

All taxis must be affiliated with a taxi network. The NSW Government collects key performance indicators⁹² (KPIs) from all the networks to:

- ▼ set and review performance benchmarks, against which individual Taxi Network performance will be measured⁹³
- ▼ assist customers to make informed decisions when choosing a taxi service, and to make taxi networks more accountable for the services they provide.⁹⁴

In this section we set out in more detail our concerns about the limitations of the KPI data, but also undertake some analysis of the data that is available.

⁹¹ Taverner Research, *Survey of Taxi Use in Sydney*, November 2012.

⁹² The *Passenger Transport Regulation 2007* (s182) requires networks to report on performance 'relating to the provision of taxi cab services' to Roads and Maritime Services (RMS). The regulation provides for reports to be requested at any time and for RMS to specify the content, format and timeframe in which they must be provided (provided such a request is reasonable).

⁹³ *Guide for authorized Taxi-cab network providers and Taxi-cab network service standards*, 2008, <http://www.transport.nsw.gov.au/sites/default/file/taxi/metro-net-standards.pdf>, p 71.

⁹⁴ <http://www.transport.nsw.gov.au/content/taxi-performance-data>

6.2.1 Limitations of the KPI data

The KPIs' usefulness is reduced by:

- ▼ inconsistency in measuring and reporting, which make it difficult to make comparisons between networks
- ▼ the fact that KPI data relates only to booked journeys, which are a minority of all trips taken
- ▼ the data is not disaggregated – for example, by day of week or time of day or by geographical area.

We consider that some of these limitations can be overcome with an expanded data set.

Draft Recommendation

That Transport for NSW investigate the cost and feasibility of mandating a regulator data set.

Inconsistency in the way the KPIs are measured and reported

Each network has its own internal protocols related to:

- ▼ no-car-availables⁹⁵ (NCAs)
- ▼ offloading bookings internally and externally
- ▼ rules related to which drivers are offered a booking.

For example, the decision to assign an NCA is left to each network. Therefore, an NCA at one network is not the same as an NCA at another. The differences in policy mean that each network's figures are not comparable.

Further, we also have concerns about the accuracy of the KPIs. During our analysis, we found the following data issues which we were unable to explain:

- ▼ Some networks consistently receive fewer ring-backs from customers that have already made a booking even though their pick-up times are longer than other networks. We would expect the number of ring-backs enquiring about a booking to be related to the time it takes for that booking to be filled.
- ▼ One network accepts more bookings than they receive requests for. Previous advice to Transport for NSW has said that this is related to drivers who accept a booking and then subsequently cancel the job. In that case, the booking is sent out to other drivers. Thus, for that network at least, bookings can be accepted twice.

⁹⁵ We have provided an explanation of the KPIs in Appendix C.

- ▼ For another network, the total number of bookings offloaded is greater than the sum of those taxis which they successfully offloaded or had returned – these should add up
- ▼ In 2009, one network's pick-up times were shorter than the acceptance time of bookings.
- ▼ The sum of no shows and pick-ups is less than the total number of jobs accepted for some networks yet equal for others.

We note that many of these issues relate to how events, such as cancellations of booking by drivers or customers, are recorded. In order to make meaningful comparisons between networks RMS will need to clarify how each of the networks records events, and ensure that there is consistency between them.

More comparable information would allow drivers, operators and customers to make an informed decision about the networks which would best serve their needs.

Data relates only to network performance for booked trips

All taxis must be affiliated with a taxi network. The NSW Government collects key performance indicators (KPIs) from all the networks to analyse the industry and enable it to deliver quality regulation.

However, a taxi can be obtained in a number of ways:

- ▼ hailed on the street
- ▼ picked up at a rank
- ▼ booked through a network:
 - phone
 - internet
 - smart phone app
- ▼ booked through a driver directly
- ▼ booked through an alternative taxi app.

Only around 20% to 30% of taxi trips are booked through a network.⁹⁶ Thus, KPI data only represents a small portion of the total industry.

⁹⁶ Our 2008 *Review of Taxi Fares in NSW – Final Report and Recommendations* (p 55) estimates that 20% of fares are booked through a network and the 2011/12 *Household Travel Survey 5-years-pooled dataset using unlinked trips* from the Bureau of Transport Statistics estimates that 30% of fares are booked.

Data is aggregated

The KPIs are given to RMS by networks in aggregated form – that is, averaged over a month for all taxis on the network. As a result, the usefulness of the data is limited. For example, if more disaggregated data were available, it could be used to analyse differences in performance at different times of the day or at different levels of demand. We have also suggested that Transport for NSW publishes data for WAT performance by geographical area to get a better sense of whether and how performance varies by region.

6.2.2 Sydney taxi service performance

All taxis must be affiliated with a taxi network. The NSW Government collects key performance indicators⁹⁷ (KPIs) from all the networks to analyse the industry and enable it to deliver quality regulation.

The Government requires networks to meet certain standards based on the KPIs. For example, there is a standard that 85% of bookings must be picked up within 15 minutes (KPI 6.1)⁹⁸.

In this section we use the KPIs for standard taxis in Sydney to analyse the trend in the number of bookings made through taxi networks and their performance. We also look at the performance of Wheelchair Accessible Taxis.

For this analysis, we only had 9 months of this year's data⁹⁹. In order to provide a comparison with previous year's data, we have extrapolated the 9 months of data forward using trends from the previous year. The final 3 months of data should be available for our final report.

We were able to perform some qualified analysis of taxi performance. For example, our analysis suggests that network internal policy can have a large impact on the waiting times for booked taxis. However, a more in depth analysis of performance was inhibited by the limitations of the data identified above.

We note that Transport for NSW is currently finalising its review of aspects of the Passenger Transport Act, which incorporated a review of the taxi network service standards and KPIs.

⁹⁷ The *Passenger Transport Regulation 2007* (s182) requires networks to report on performance 'relating to the provision of taxi cab services' to Roads and Maritime Services (RMS). The regulation provides for reports to be requested at any time and for RMS to specify the content, format and timeframe in which they must be provided (provided such a request is reasonable).

⁹⁸ *Guide for authorized Taxi-cab network providers and Taxi-cab network service standards*, 2008, <http://www.transport.nsw.gov.au/sites/default/file/taxi/metro-net-standards.pdf>, p 75.

⁹⁹ We have followed the methodology of our past analysis which used a year from April to March. For example, 2011 data is from April 2011 - March 2012.

Number of bookings made through taxi networks

The KPI statistics are reported by 12 taxi networks operating in Sydney:

- ▼ ABC Cabs
- ▼ GM Cabs¹⁰⁰
- ▼ Legion Cabs
- ▼ Lime Taxis
- ▼ Manly Cabs
- ▼ Premier Cabs
- ▼ RSL Cabs
- ▼ Silver Service
- ▼ South Western Cabs
- ▼ St George Cabs
- ▼ Taxis Combined
- ▼ VIP Cabs¹⁰¹
- ▼ Yellow Cabs.

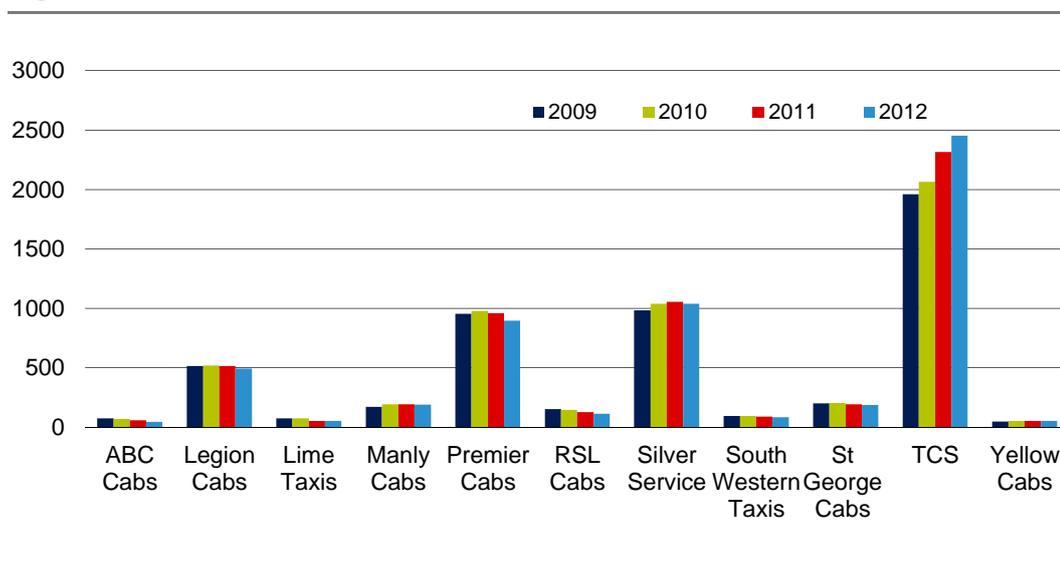
There are around 5,600 taxis that are affiliated to Sydney networks. Taxis Combined, which has 2,464 taxis affiliated with its network, has the largest fleet, followed by Silver Service, Premier Cabs, and Legion Cabs. No other taxi network has over 200 taxis on its network.

Since 2009, Taxis Combined has grown its fleet by approximately 25% - in the most part from new taxis that were added to the fleet (see Figure 6.1). Manly Cabs, Yellow Cabs and Silver Service taxis also expanded their fleets.

Taxis Combined, Silver Service, Premier, and Legion make up such a large part of the total fleet that a change in their performance impacts the overall performance of the taxi networks. As a result, some of our analysis focuses more on these networks than others.

¹⁰⁰ KPI data for GM Cabs only commenced in February 2012.

¹⁰¹ VIP Cabs no longer provides network services in NSW.

Figure 6.1 Taxis on network¹⁰²

Since 2008, network booking requests have decreased 16% (see Figure 6.2). Industry stakeholders have referred to this trend as an indication that demand for taxis is decreasing.¹⁰³

Furthermore, between 2009 and 2012, changes to the number of network bookings fed through to recommendations about the number of new annual Sydney taxi licences to be released, via the Sydney Taxi Growth Model (STGM). The STGM was an index of key indicators which was used to estimate changes in the demand for taxi services. Change to the number of network bookings was weighted as 10% of the STGM. Between 2010 and 2011, network bookings dropped by 8.6%, which was incorporated into the STGM as an indication of a 0.86% drop in demand for taxi services¹⁰⁴.

However, a decline in network bookings does not necessarily mean a decline in taxi use: there could be more hailed trips, trips booked through apps, or trips arranged direct with drivers. Also, over the same period, the number of hire cars in the Sydney region rose from 786 to 973¹⁰⁵, which, in contrast, indicates a growth in the demand for point to point passenger transport.

We do not have comparable data for taxi trips obtained in other ways.

¹⁰² We do not include VIP Cabs or GM Cabs in our network by network analysis because they either are no longer a network (VIP) or they have only been a network for a short time (GM Cabs). As a result we do not have time series data for these networks. They are a small percentage of the market.

¹⁰³ Australian Taxi Drivers Association submission to Issues Paper – Annual taxi licence release for Sydney 2013-14, November 2012, p 2.

¹⁰⁴ PricewaterhouseCoopers/Transport for NSW, *Annual taxi licence release 2012/13 – Final Report*, March 2012, p 60.

¹⁰⁵ Data Supplied by Transport for NSW, personal correspondence, 20 November 2012.

Figure 6.2 Network bookings

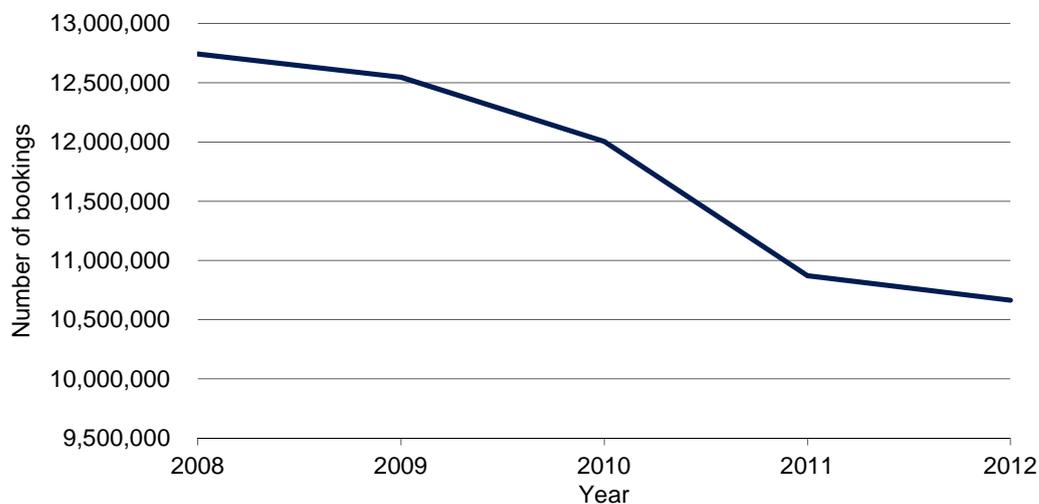
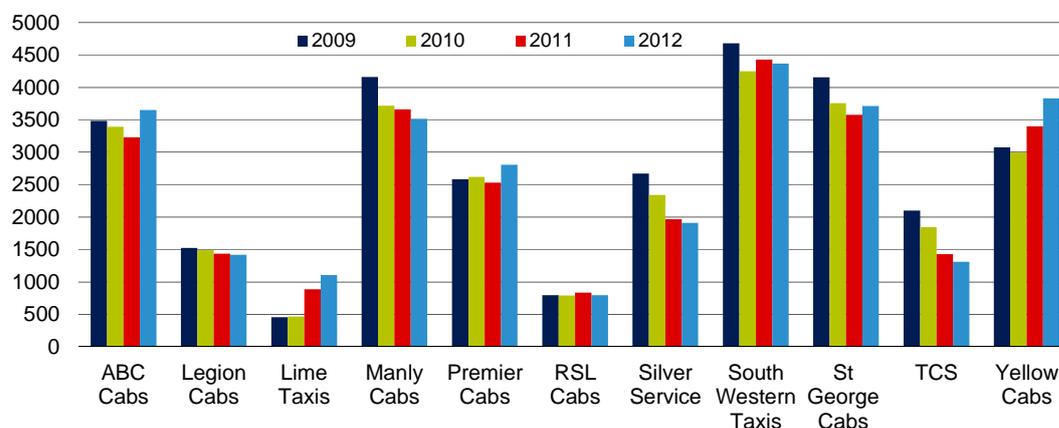


Figure 6.3 shows the number of jobs a network supplies to a taxi on its network on average. Taxis Combined and Silver Service expanded their fleets while the number of booking requests each network received declined, so both experienced a decline in the bookings per taxi.

Figure 6.3 Bookings per taxi registered affiliated with each network



Regional taxis – those taxis connected to a regional network (St George Cabs, South Western Taxis, and Manly Cabs) – in general, rely more on bookings than other networks. However, while regional networks receive more bookings per taxi, those booking are mostly confined to the region the network is based. This means that drivers must stay close to the region if they want to take advantage of the bookings received by their network provider.

Waiting time to obtain a taxi

There are 2 KPIs which estimate passenger waiting time for booked taxi trips: average pick-up time and average acceptance time.

- ▼ Average pick-up time - measures how long it takes for a taxi to arrive and turn on its meter after the customer completed making the booking.
- ▼ Average acceptance time - measures how long it takes for a taxi to accept a booking from the network after the customer completed making the booking.

Average pick-up time will be longer than average acceptance time because it includes the time for the taxi to drive to the customer once it has accepted the booking.

The industry wide results of the 2 indicators are given in Figure 6.4 and 6.5. The 2 indicators appear to show conflicting results. Average pick-up time decreased over the last few years while average acceptance time remains at around 2008 levels.

Figure 6.4 Average acceptance time (minutes)

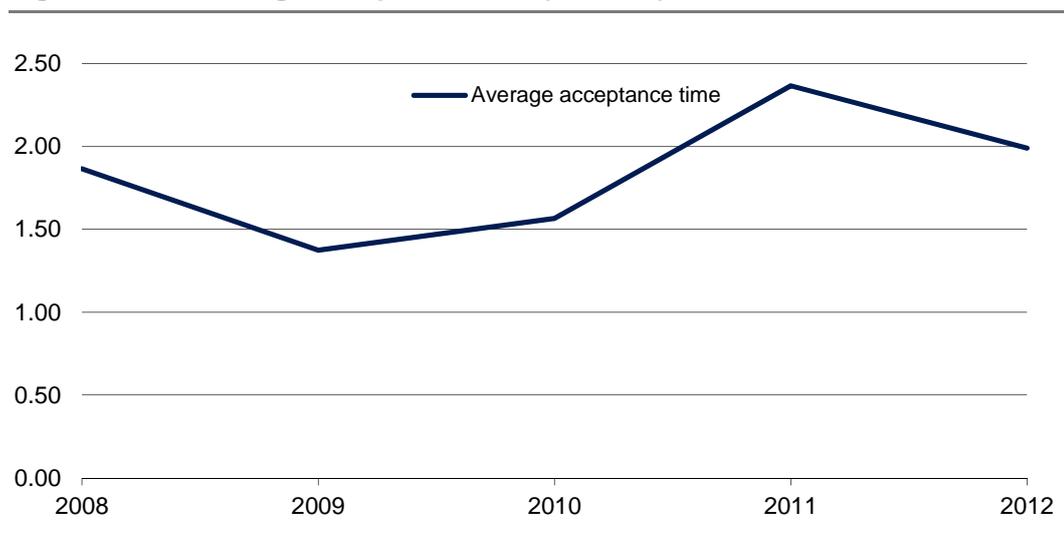
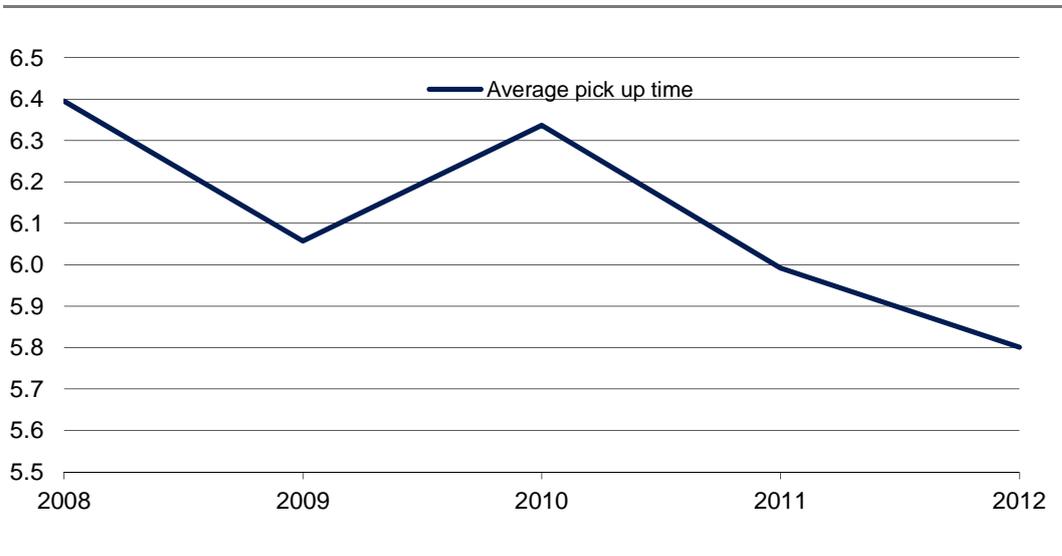
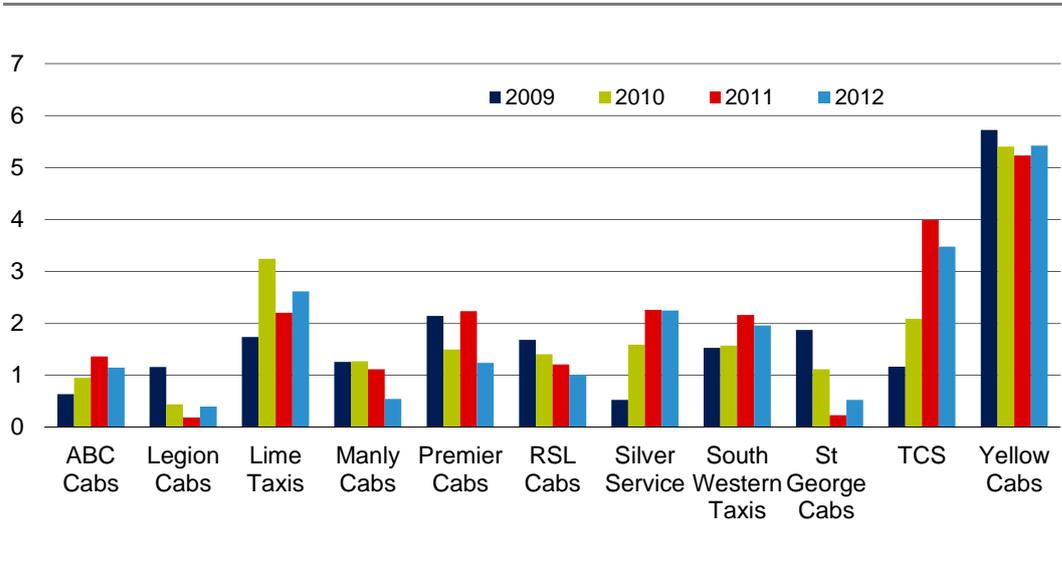


Figure 6.5 Average pick-up time (minutes)

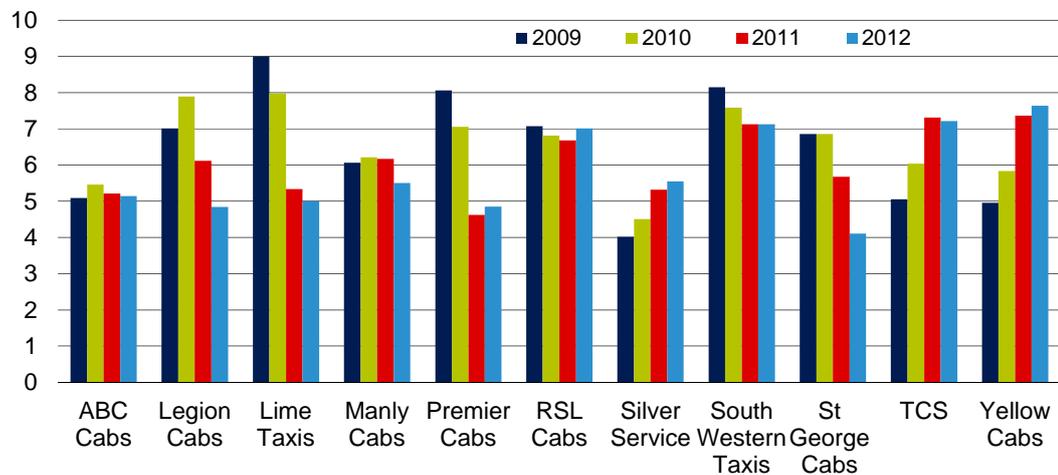


Breaking down the data by network shows which networks drive these changes (see Figures 6.6 and 6.7). Since 2009, the time for drivers who use Taxis Combined and Silver Service’s networks to accept bookings has grown by 198% and 323%. This is the major source of longer acceptance time since 2009. Taxis Combined and Silver Service’s growth in acceptance time is also reflected in their pick-up time statistics.

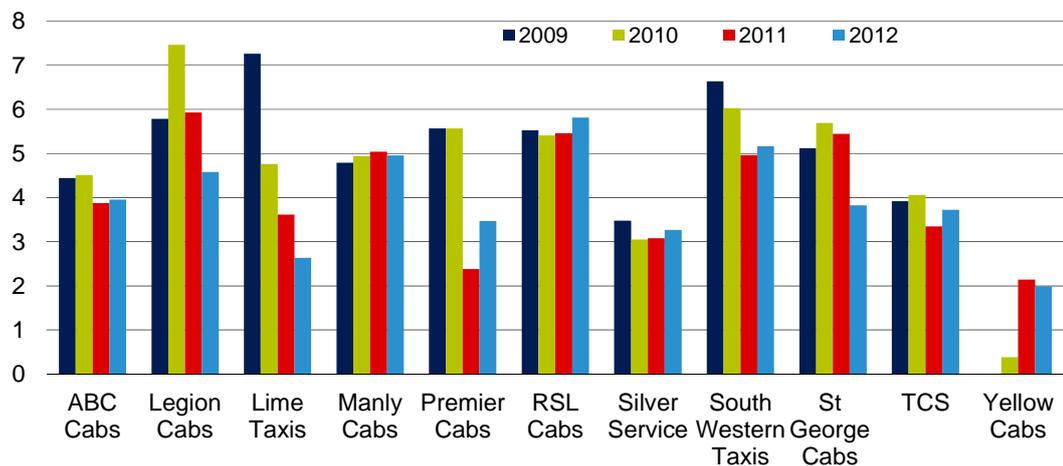
Figure 6.6 Average acceptance time for taxis by network (Minutes)



The reduction in average pick-up time is due to improvements from Premier Cabs, St George Cabs, Legion Cabs, and South Western Taxis.

Figure 6.7 Average pick-up time per network (mins)

As previously noted the difference between the acceptance time and pick-up time represents the time to drive to the booking once it was accepted. Figure 6.8 shows the difference between pick-up time and acceptance time for each network.¹⁰⁶ The most notable improvement is Premier Cabs and Lime Taxis who have reduced this time by over 2 minutes.

Figure 6.8 Difference between pick-up time and acceptance time

¹⁰⁶ In 2009 Yellow Cabs reported a longer average acceptance time than average pick-up time. This, of course, is not possible.

Bookings offloaded to other networks

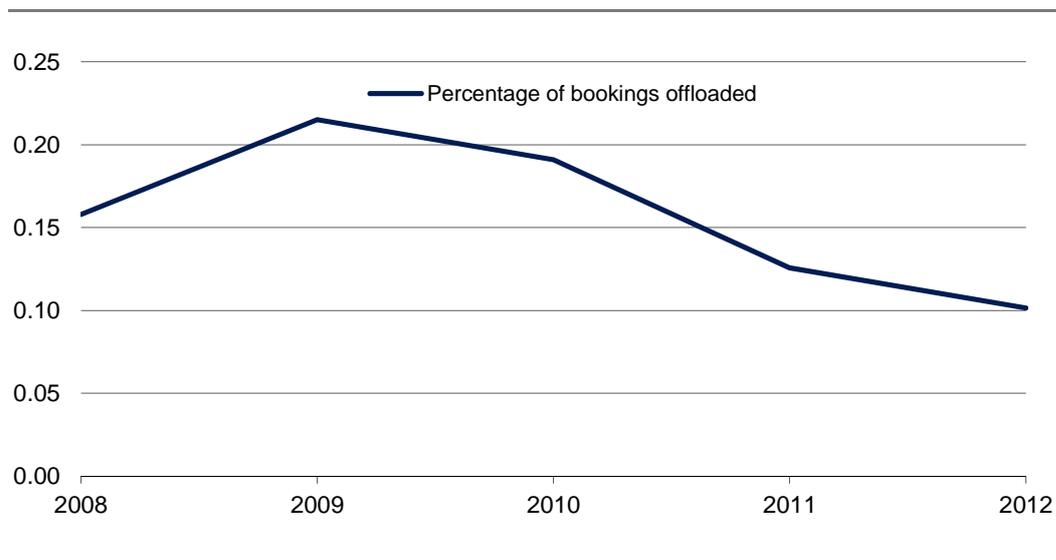
Each booking received by a network is sent out to its drivers. How this is done varies by network, but in general it is sent out to drivers within a certain radius of the booking.

The drivers can then either accept or reject the booking. If a booking is rejected by all drivers then the radius may be expanded and then offered around again. Alternatively, a network may decide to offload bookings to other networks.

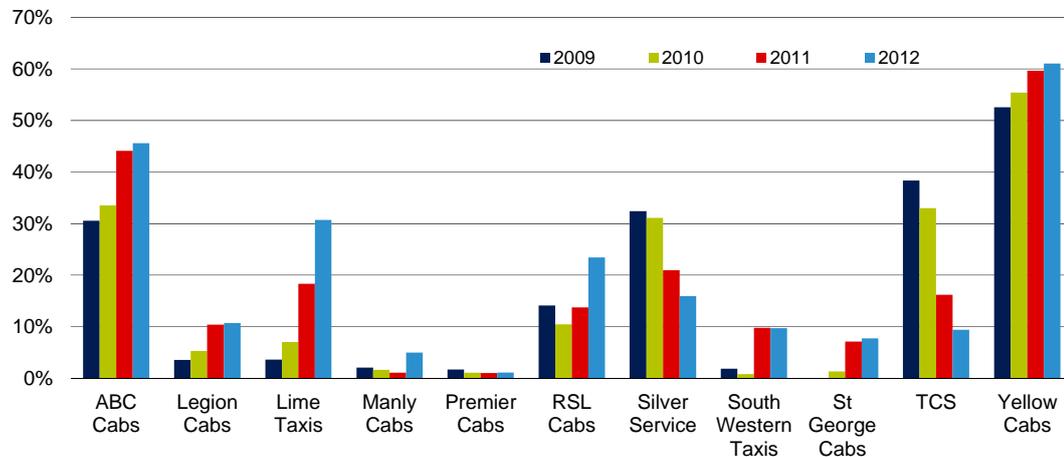
The number of offloads is another of the key performance indicators collected by RMS. Figure 6.9 shows the percentage of bookings offloaded. This shows that since 2009 networks have retained many more of their bookings rather than offloading them to other networks.

This happened in the same period that acceptance times lengthened. This is shown by the fact that when acceptance times were lowest in 2009, 22% of bookings were offloaded, while last year, when waiting times were over 10 seconds longer on average, only 10% of bookings were offloaded.

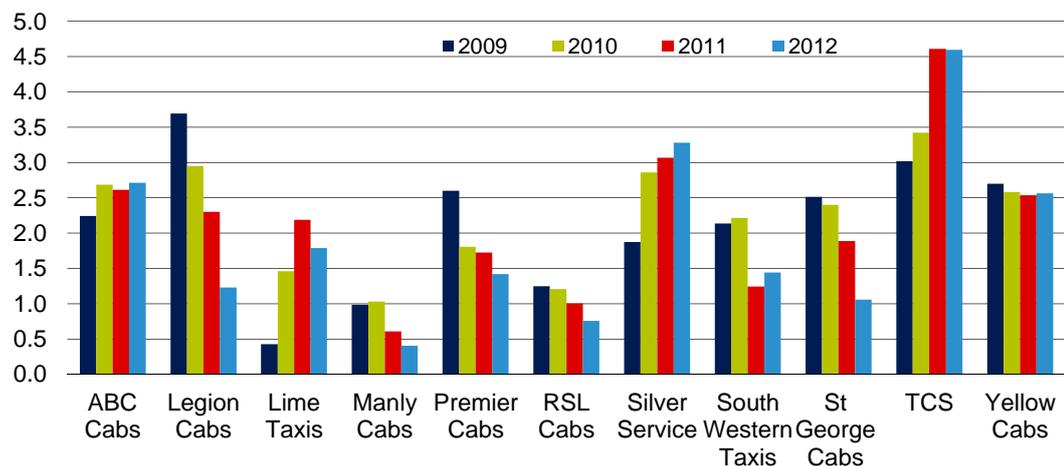
Figure 6.9 Percentage of bookings offloaded



This is further supported when we break the data down into networks: the networks which have reduced their percentages of offloads are the same networks that have longer acceptance times, notably Silver Service and Taxis Combined.

Figure 6.10 Percentage of bookings offloaded

Further, drivers connected to the Silver Service and Taxis Combined networks reject each booking more times than other networks (see Figure 6.11). This perhaps suggests that these networks keep bookings too long, continuing to offer them to their own drivers when passenger service may be enhanced by off-loading sooner.

Figure 6.11 Driver rejections per booking

Over the same period, the time to accept offloaded bookings increased by an even larger amount than non-offloaded bookings (see Figure 6.12): since 2009, the time to accept offloaded bookings has almost quadrupled.

Figure 6.12 Acceptance time of bookings compared with proportion of bookings offloaded to other networks

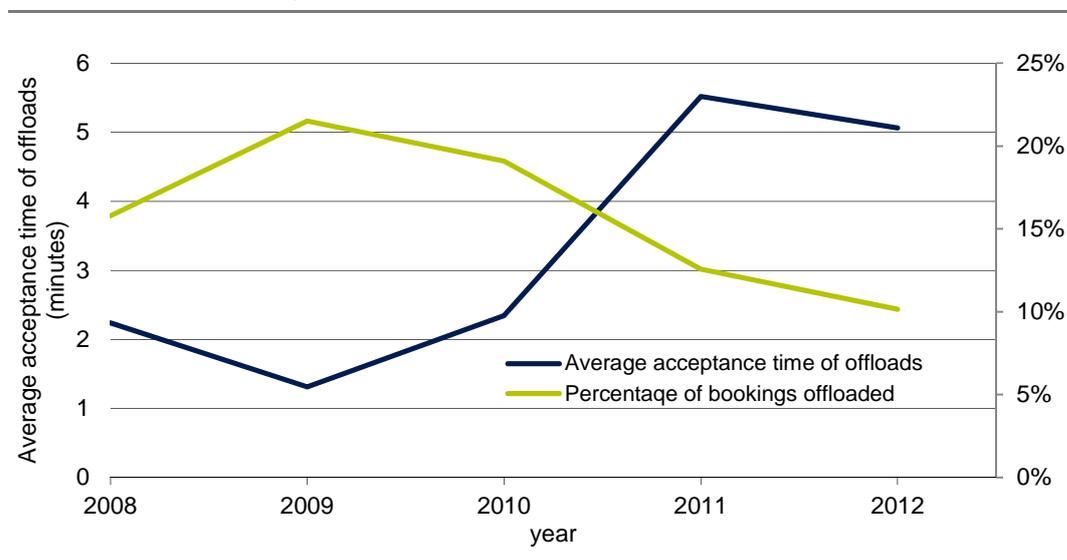
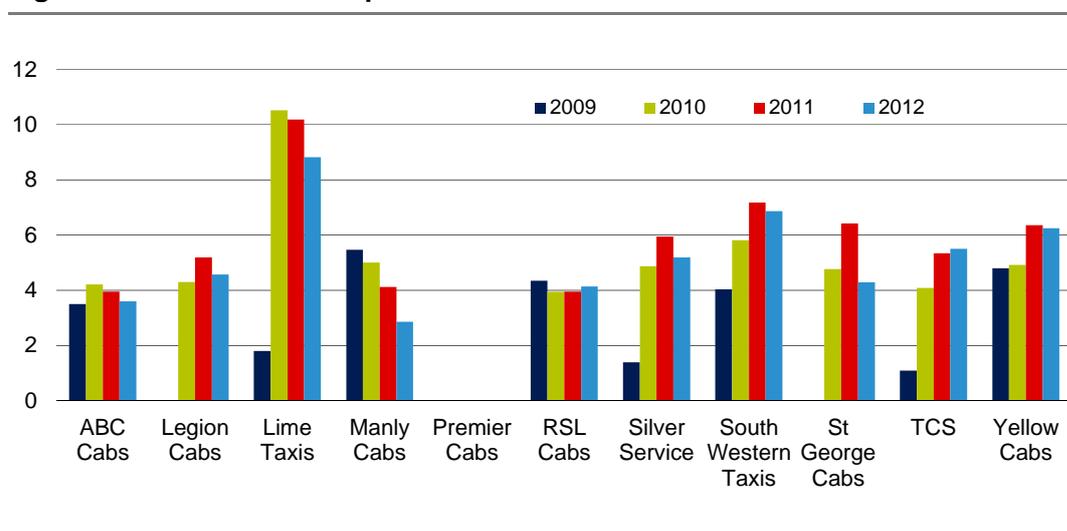


Figure 6.13 Time to accept internal offloads



No-cars-available

A 'no-car-available' (NCA) is a network officially declaring a declined booking. The decision on when a booking is assigned a NCA is left to the discretion of the networks.

The proportion of bookings which end in NCAs has fallen significantly since 2008 (see Figure 6.14): in 2008 there were 199,862 NCAs, and in 2011 there were 91,383 NCAs. This year we have extrapolated the 9 months of data that we have available to estimate an annual number of around 55,000 NCAs in 2012.

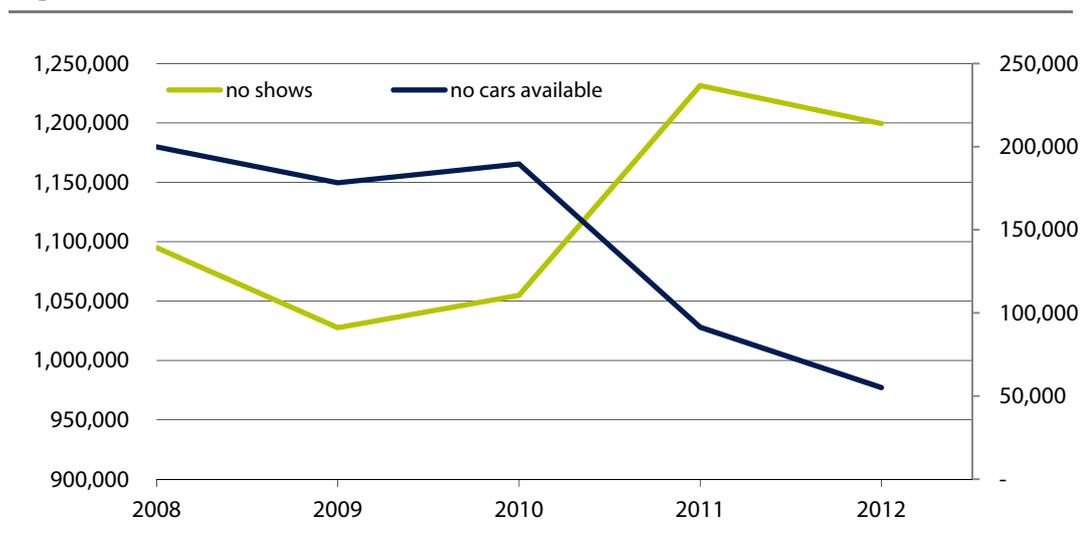
Between 2009 and 2012, changes to the percentage of NCAs fed through to recommendations about the number of new annual Sydney taxi licences to be released via the STGM, in the same way as network bookings.

Between 2010 and 2011, the percentage of NCAs decreased by 32%. As NCAs made up 10% of the weights of the STGM, this decrease translated to an estimated 3.2% drop in the value of that index.¹⁰⁷

In that year, the STGM estimated a total decline in demand for taxi services of 2.2%. The decline was due to improvements in the number of NCAs, a decline in the number of network bookings, and an improvement in the annual average pick-up time, another KPI.

At the time, PwC commented that this was 'considerably below a long term average demand growth rate of 3% to 5%, which could be expected'.¹⁰⁸ In our own licence review, we estimated a long-term annual average demand growth rate of 2.5%.¹⁰⁹

Figure 6.14 Number of no shows and no-cars-available



¹⁰⁷ PricewaterhouseCoopers/Transport for NSW, *Annual taxi licence release 2012/13 – Final Report*, March 2012, p 60.

¹⁰⁸ PricewaterhouseCoopers/Transport for NSW, *Annual taxi licence release 2012/13 – Final Report*, March 2012, p 7.

¹⁰⁹ IPART, *Annual taxi licence release for Sydney 2013/14*, February 2013, p 29.

Passenger 'no shows'

A 'no show' is a taxi arriving for a booking to find that the passenger is not there. At the same time as the number of NCAs fell, there was a commensurate increase in the number of bookings where drivers attended a booking but the passenger was not there. In 2008, there were 1,095,059 'no shows'. In 2011, there were 1,231,357 'no shows'. There are many reasons why a passenger may not be there when the taxi arrives. One reason that is likely to be significant is that the taxi has taken longer than expected and the passenger has found an alternative form of transport.

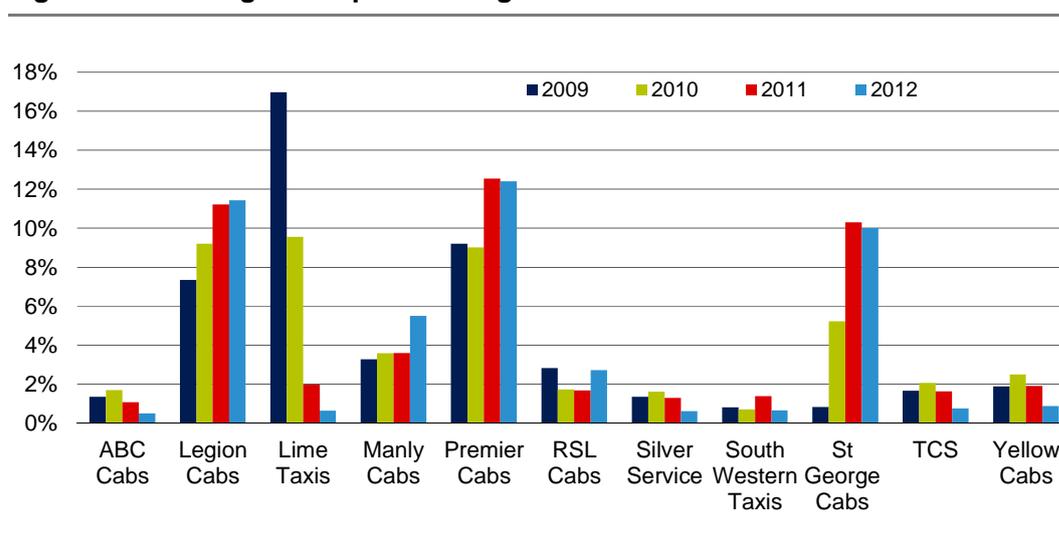
Pick-up and acceptance data don't reflect these statistics because it only records the time taken for bookings actually picked up, eg, it doesn't record the time taken for the taxi to attend a booking when the passenger wasn't there or no car was available.

Ring-backs

The ring-back KPI measures the number of times a passenger calls back a network to enquire about a booking request.

Silver Service, Taxis Combined, Yellow Cabs, ABC Cabs, South Western Taxis, RSL Cabs, and more recently Lime Taxis have fewer ring-backs than other networks.

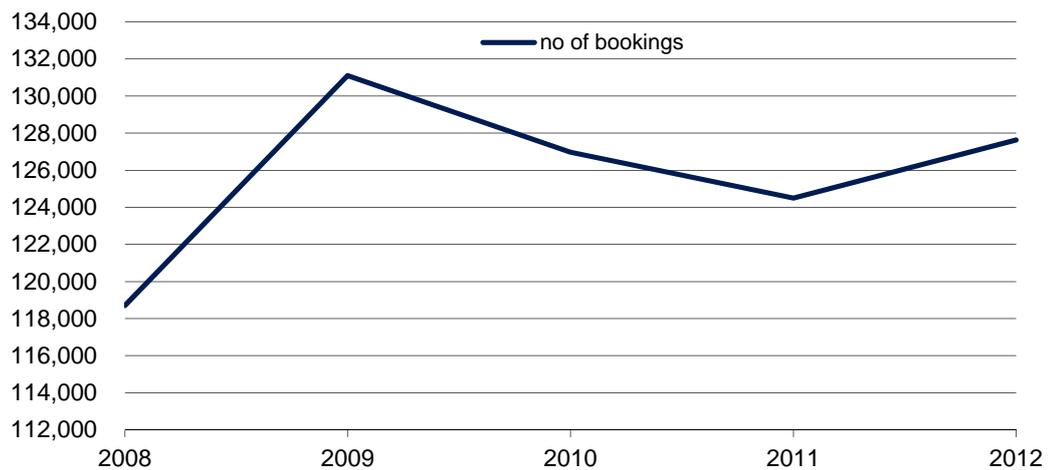
Figure 6.15 Ring backs per booking



Wheelchair Accessible Taxi performance

On the current year's trend, there will be almost 9,000 more Wheelchair Accessible Taxi booked trips taken this year than were taken in 2008 (see Figure 6.16).

Figure 6.16 Number of WAT bookings



Generally, pick-up times for WATs have remained stable; with the exception of 2009, the pick-up time for WATs are typically around 2 minutes longer than non-WATs (see Figure 6.17). Similarly, the acceptance time for WAT bookings is around 2 minutes longer than non-WAT bookings (Figure 6.18).

Figure 6.17 Pick-up time for WATs compared with the rest of the taxi fleet

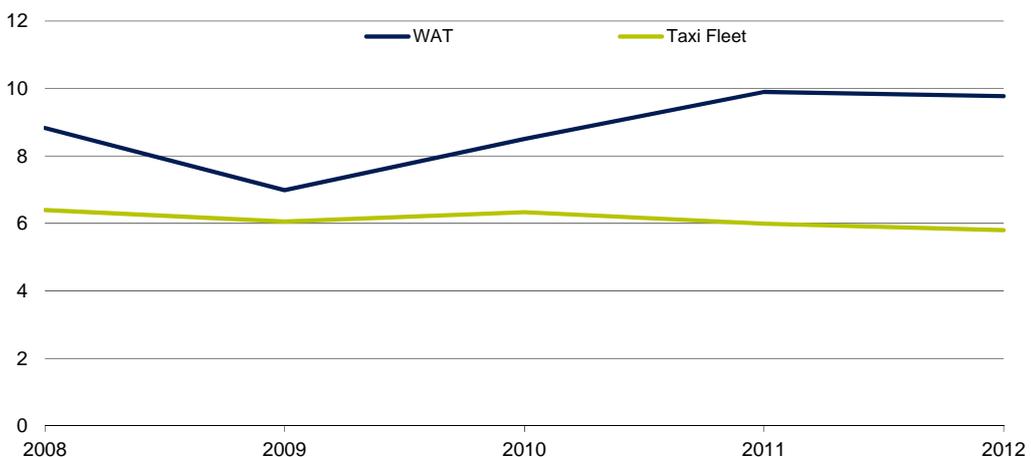
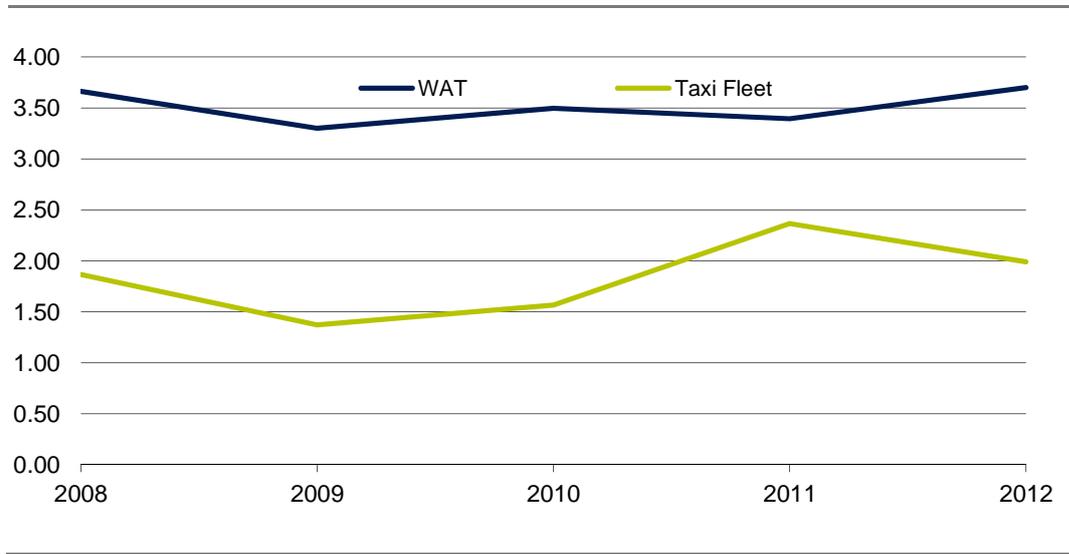


Figure 6.18 Acceptance time for WATs compared with rest of the taxi fleet





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 (IPART) entering into arrangements with Transport for NSW for two years to 3 August 2014 to provide services to Transport for NSW that are within its area of expertise. The services to be provided by IPART are the conduct of an investigation into, and the preparation of a report concerning, maximum fares for taxi services under the *Passenger Transport Act 1990*.

In providing these services, IPART should consider:

- i) the cost of providing the services concerned and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers;
- ii) the protection of customers from abuses of monopoly power in terms of prices, pricing policies, and standards of service;
- iii) the need to maintain ecologically sustainable development;
- iv) the impact on customers of the recommendations;
- v) 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); and
- vi) the effect of any pricing recommendation on the level of Government funding.

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

The services are to be provided through the provision of one or more reports to Transport for NSW, as agreed between Transport for NSW and IPART.



The Hon Barry O'Farrell MP
Premier
Minister for Western Sydney

Dated at Sydney... 11 October 2012

B List of submissions received

Table B.1 List of submissions received (due 25 March 2013)

Submitter	Date received
Australian Taxi Drivers' Association (ATDA)	8 April 2013
Action for Public Transport	25 March 2013
Cabcharge Australia Limited	25 March 2013
Individual (Anonymous) – 8 submissions	Various
Individual (M Burrage)	23 March 2013
Individual (P Fletcher)	2 April 2013
Individual (D Hall-Johnston)	28 February 2013
Individual (A Johnston)	12 March 2013
Individual (T Keogh)	14 March 2013
Individual (D Levison)	26 February 2013
Individual (P Louridas)	24 March 2013
Individual (K McNiven)	21 March 2013
Individual (S Porcaro)	25 March 2013
NSW Taxi Council	25 March 2013
Southern Highlands Taxi Service	25 March 2013
Spinal Cord Injuries Australia	27 March 2013

C Network Service Standard KPIs

Once a booking is received by a network (KPI 1) it is sent out to drivers. How this is done varies by network, but in general it is sent out to drivers within a certain radius of the booking. These drivers can either accept (KPI 3) or reject the booking (KPI 2). If a booking is rejected by all drivers then the radius may be expanded and then offered around again.

Alternatively, jobs may be offloaded (KPI 11.1) to another network. Usually a network will first offload a booking internally (to a network which shares a call-centre). The time to accept (KPI 4.2) and pick-up (KPI 6.2) internal bookings is recorded.

If a network is unable to offload a booking internally then it may send the booking externally (offloads to other networks outside of the shared call centre), usually under an arrangement made between networks. External offloads are treated as a new booking, and, as such, no information about when they were accepted is recorded.

If these other networks also cannot find a taxi to complete an offloaded booking they will return it to the network where the booking originated (KPI 11.2).

There are 2 KPIs which estimate waiting time for booked taxi trips: average pick-up time and average acceptance time.

- ▼ Average acceptance time (KPI 4.1) - measures how long it takes for a taxi to accept a booking from the network after the customer completed making the booking.
- ▼ Average pick-up time (KPI 6.5) - measures how long it takes for a taxi to arrive and turn on its meter after a customer dials the network to make a booking.

Average pick-up time will be longer than average acceptance time because it includes the time for taxis to drive to customers once they have accepted the booking.

As the network searches for a booking a customer may call the network back to enquire about its progress (KPI 7). A customer may ring a network back more than once.

Occasionally a driver will turn at the pick-up address to find that the booking has already gone. This is counted as a no show (KPI 5). The total number of successful pick-ups - ie, those bookings which were accepted and the customer turned up - are recorded as total pick-ups (KPI 6.4).

If there is little chance of a booking being filled, a network can call a 'no-car-available' (KPI 12). This is officially declaring a booking dead and the network no longer tries to fill the booking. The decision on when a booking is assigned a no-car-available is left to the discretion of the networks.

All taxis must be affiliated with a network. Networks report the number of taxis affiliated on the last day of each month (KPI 8). Networks also report how many of these taxis are logged on to the network on average throughout the month at 9 am and at 9 pm (KPI 13).

Finally, statistics are also taken about phone bookings (KPI 9). However, new booking technology developed, such as automated voice recognition systems, internet bookings and apps, has changed the way these KPIs can be interpreted.

Glossary

ABS	Australian Bureau of Statistics
ATDA	Australian Taxi Drivers Association
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
CIE, The	The Centre for International Economics
Cost inflator	A measure of the change in the price of a cost over time.
Consumer Price Index (CPI)	A measure of inflation, or the change in the cost of living over time.
Distance charge	The fare rate charged when travelling more than a threshold speed, currently 26km/h.
Flag fall	The fixed fee charged at the beginning of a taxi trip.
Key Performance Indicator (KPI)	Measures 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
IPART	Independent Pricing and Regulatory Tribunal. Provides taxi fare recommendations to Transport for NSW on an annual basis.
Latent demand	Latent demand represents the additional taxi trips that would be taken if waiting time for taxi services fell, or if fares were reduced.

Maxi-taxi surcharge	Fare component charged for hiring a maxi-taxi, 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, taxi	Taxi networks provide a radio booking service to the taxi operators who are affiliated with them, as well as security monitoring services for taxi drivers and passengers. Networks must be authorised by Transport for NSW.
Nominal	Not adjusted for inflation. For example, if something cost \$100 in 1990 and the same thing cost \$100 in 2012, its nominal cost has not changed. However, adjusting for 22 years of inflation, its real cost is lower in 2012 than in 1990.
NSWTDA	New South Wales Taxi Drivers Association
Pay-in	The amount paid by a taxi driver to an operator for the use of a taxi. Maximum pay-ins for Sydney taxis are determined by the NSW IRC and set out in the <i>Taxi Industry (Contract Drivers) Contract Determination 1984</i> but discounting below this rate is common.
Productivity adjustment	An adjustment to the Taxi Cost Index that accounts for productivity improvements in the Taxi Industry.
PwC	PricewaterhouseCoopers
Real	Prices or costs that have been adjusted for inflation. So something that cost \$100 in 1990 and \$100 in 2012 has had a drop in its real price since 1990. If the measure of inflation (usually CPI) has risen by 30% over that time, the real price of the object in 2012 can be expressed as '\$76.92 in 1990 dollars' (or the real price of the object in 1990 can be expressed as '\$130 in 2012 dollars).
STGM	Sydney Taxi Growth Model. Method used by PwC to estimate the number of new annual Sydney taxi licences required for each of the years 2010/11, 2011/12 and 2012/13.

Taxi Industry Model	A model that takes into account inputs of the taxi market, such as prices and number of taxis, and estimates the value of key outputs, such as demand and utilisation of taxis.
TCIs	Taxi Cost Indices. Used by IPART to measure the change in taxi industry costs between fare review periods.
Transport for NSW (Transport for NSW)	The NSW Government agency that regulates taxis.
Wage Price Index (WPI)	Price index measuring the cost of wages paid by business and government. Compiled by the Australian Bureau of Statistics.
Wheelchair Accessible Taxi licence (WAT)	A licence to operate a Wheelchair Accessible Taxi. The operator is required to give preference to transporting wheelchair users.

