

Review of maximum taxi fares and review of annual Sydney taxis licences from July 2014

Transport — Draft Report and Draft Recommendations
December 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 January 2014.

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 mail to:

Review of taxi fares and annual Sydney taxi licences

Independent Pricing and Regulatory Tribunal

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Submissions will be posted as soon as possible after the closing date on our website <www.ipart.nsw.gov.au>. Late submissions might not be accepted and in that event will be returned to the submitter.

If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

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

Transport for NSW has asked IPART to review taxi fares across NSW and the number of new annual Sydney taxi licences to be released from July 2014.

We will recommend to Transport for NSW:

- ▼ maximum taxi fares from July 2014 for Sydney, other urban areas and country areas¹
- ▼ the number of new annual Sydney taxi licences (other than licences for wheelchair accessible taxis²) to be released from July 2014.

This draft report sets out our draft recommendations on maximum taxi fares for Sydney and other urban areas and the number of new annual Sydney taxi licences. We are seeking submissions from interested parties on these draft recommendations by 31 January 2014. We will consider these submissions before making our final recommendations to Transport for NSW in February 2014.

Our draft recommendations on maximum taxi fares for country areas are set out in a separate report, *Review of maximum taxi fares in country areas of NSW from July 2014*. It is available on our website.

1.1 Overview of our recommendations

Our draft recommendations for the 2014/15 year are for a fare freeze (in nominal terms) combined with 150 additional unrestricted licences and 40 additional Peak Availability Licences (PALs) to be released to meet increases in demand for taxi services, to improve service to customers and to make entry into the taxi market more affordable.

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).

² Licences for wheelchair accessible taxis will continue to be available on application at any time from Roads and Maritime Services.

This is the second year that fares will have remained unchanged (however from September 2013 a \$2.50 surcharge on Friday and Saturday nights has been added to the hiring fee) and additional growth licences released. This combination of measures will make taxis more affordable and reduce waiting times for passengers. This will improve occupancy rates, make entry into the taxi industry more affordable for operators and lead to a busier, more productive taxi industry.

Our draft recommendations provide enough revenue for current drivers and operators to retain their existing level of earnings and to encourage new drivers and operators to enter the industry. The release of additional licences provides an opportunity for them to lower their costs by obtaining a cheaper licence.

Both industry and customers benefit from these recommendations being implemented as a package. As fares are proposed to remain unchanged any costs of changing meters and reprinting fare stickers are avoided. However, in order to meet the review objectives it means more licences need to be released. Holding fares constant without releasing the additional licences will worsen waiting times for passengers and make operating taxis more expensive.

Because annual licences can be relinquished or not renewed, we are also recommending an extra 73 unrestricted licences and 78 PALs be tendered in 2014/15 to replace net losses to the stock of Sydney taxi licences during 2013 and make allowance for those we expect to be relinquished or not renewed in 2014. We do not expect them to add to the stock of licences in Sydney.

Making taxis easier and cheaper for passengers to catch, and entry to the taxi industry easier and cheaper for operators, must be balanced with the need to avoid an unreasonable impact on licence holders. We are making these draft recommendations for 2014/15 in the context of a 25% reduction in licence lease costs by 2017/18. This would mean that licence owners can still expect a lease income of around \$24,000 per year in nominal terms by 2017/18. However, our draft recommendations apply only to the 2014/15 year and we will review licence numbers and fare levels each year.

Ensuring that the taxi industry is well informed about tender prices is also very important. We again urge TfNSW to publish preliminary results of tenders as soon as possible.

Our draft recommendations are listed in full in section 1.5 of this report.

1.2 Objectives of the review

Our terms of reference (produced in full in Appendices A and B) provide that the key objectives of this review are to:

- ▼ reduce barriers to entry and encourage competition, but balancing the need for a more affordable means of entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders
- ▼ consider the need for greater efficiency in the supply of services so as to reduce the costs to put downward pressure on fares
- ▼ ensure that the supply of taxis responds closely to growth in passenger demand.

In our view, some reduction in licence lease income is needed in order to achieve these objectives. By not changing fares taxis can be made more affordable and readily available to passengers. Combined with tendering more annual Sydney taxi licences, there will be an opportunity for new operators to enter the taxi industry, an opportunity for existing operators to reduce their fixed costs by bidding a lower price than they are currently paying to lease a licence or to hold an annual licence.

However, there is a balance to be struck between existing licence holders on one hand and benefits for passengers and other industry participants on the other. The need to avoid unreasonable impacts on existing licence holders places a constraint on the number of new licences that can be released and the level of fares.

1.3 Fare structure

In the issues paper for this review we discussed some of the changes to fare structure that we recommended last year and sought stakeholder feedback on them. We continue to be of the view that there is evidence to suggest improvements could be made to fare structure, but the evidence is not sufficiently compelling to make the changes without stakeholder support. There was little support for any further changes, so our draft decision is not to recommend any changes.

We have also further considered the removal of the Harbour crossing return toll and our draft decision is to no longer recommend its removal.

1.4 Review process

The process we have followed in conducting this review includes public consultation and detailed analysis. As part of this process, we:

- ▼ Released an issues paper on 15 October 2013, which outlined the key issues we would consider, and invited interested parties to make a submission in response to this paper. We received 10 submissions, which are listed in Appendix D and available in full on our website.
- ▼ Held a public roundtable on 22 October 2013. Roundtable participants are listed in Appendix D and a transcript of proceedings is available on our website.
- ▼ Commissioned a survey of Sydney residents about their taxi use, a repeat of the survey we undertook in November 2012. The survey report, *Survey of Taxi use in Sydney*, is available on our website.

We are now seeking submissions on this draft report and draft recommendations and invite comments from interested parties. Submissions are due by 31 January 2014. Late submissions may not be accepted. Details on how to make a submission can be found on page iii at the front of this report. We will consider all the submissions we receive before finalising our report and recommendations for submission to Transport for NSW by 28 February 2014.

1.5 How this paper is structured

This paper sets out our draft recommendations and the reasons for them. It is structured as follows:

- ▼ Chapter 2 explains the context for the 2 reviews, including changes to the *Passenger Transport Act 1990* made in 2009
- ▼ Chapter 3 sets out our draft recommendations for growth annual licences and fares for Sydney from July 2014, and discusses the options that we considered to meet the objectives of the review
- ▼ Chapter 4 explains how our recommendations will benefit customers, including how they will improve affordability and waiting times
- ▼ Chapter 5 discusses the impact of our recommendations on the taxi industry, including how occupancy rates will improve as a result of increased demand, the impact on licence lease costs, and driver and operator earnings
- ▼ Chapter 6 discusses the process for releasing annual taxi licences in Sydney
- ▼ Chapter 7 discusses our consideration of fare structure, and presents our analysis on the Sydney Harbour crossing return toll
- ▼ Chapter 8 discusses fares in urban areas outside Sydney

- ▼ Appendix A and B provide the terms of reference for the fare and licence reviews
- ▼ Appendix C provides more information on taxi network performance data
- ▼ Appendix D lists submissions received and participants in our public roundtable
- ▼ The Glossary defines the terms and acronyms used in this report.

1.6 List of draft recommendations

- 1 An additional 150 unrestricted licences to be offered for tender in 2014/15 to meet increases in demand for taxi services, to improve service to passengers and to make entry into the taxi market more affordable. 22
- 2 An additional 40 peak availability licences to be offered for tender in 2014/15 to meet increases in demand for taxi services, to improve service to passengers and to make entry into the taxi market more affordable. 23
- 3 Maximum taxi fares for Sydney in 2014/15 are the same as those for 2013/14, as set out in the table below. 23

Recommended maximum fares for 2014/15

Fare component	Rate
Hiring charge ^a (all times except Friday and Saturday nights and public holidays 10pm to 6am)	\$3.50
Peak hiring charge (Friday and Saturday nights and public holidays 10pm to 6am)	\$6.00
Standard distance rate (\$/km when the vehicle is travelling more than 26km/hr)	\$2.14
Night distance rate (\$/km when the vehicle is travelling more than 26km/hr, 10pm to 6am)	\$2.57
Waiting time (\$/hr when vehicle is slower than 26 km/hr)	\$55.30 (92.1c per min)
Booking fee (booked fares only)	\$2.40
Maxi taxi surcharge (on total fare) ^b	50%

^a The hiring charge was previously called the flag fall.

^b 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.

Source: Transport for NSW www.transport.nsw.gov.au.

- 4 Maximum taxi fares for Sydney in 2014/15 should be announced before the annual licence tender process commences to provide information to potential tender bidders. 23

- 5 That 77 additional unrestricted and 54 additional PALs be added to the number of licences to be tendered, to allow for licences we expect to be relinquished and not renewed during 2014. 50
- 6 That 7 additional unrestricted and 24 additional PALs be added to the number of licences to be tendered, to replace licences relinquished and not renewed during 2013 over the allowance we made for attrition for the same period. 50
- 7 That 13 unrestricted licences be subtracted from the number of licences to be tendered, to allow for WATs issued outside the tender process in 2013 and expected to be issued outside the tender process in 2014. 51
- 8 Roads and Maritime Services should continue to use the existing tender process, that is, a sealed electronic tender, with pay-as-bid prices for successful tenderers. 54
- 9 Roads and Maritime Services should publish preliminary results of tenders within 2 weeks of tenders closing. 55
- 10 Roads and Maritime Services should enhance the tender documentation to include up to date contextual information to help tenderers reach an informed decision about the appropriate value to them of a taxi licence 55
- 11 Roads and Maritime Services should refund the tender registration fee to unsuccessful bidders. 55
- 12 We do not recommend removal of the northbound Sydney Harbour crossing return toll at this time. 62
- 13 Maximum fares for other urban areas should continue to be the same as those in Sydney, with a single urban fare schedule as set out in Table 3.1. 64
- 14 Transport for NSW should reform taxi licensing arrangements outside Sydney. Initially Transport for NSW should focus on areas with licence transfer values above \$200,000. 64

2 Context for the reviews

The taxi fare and annual Sydney licence reviews are being undertaken in the context of reforms to taxi licensing arrangements made in 2009 to address taxi numbers not keeping pace with demand, licences becoming expensive to obtain and fares becoming more expensive than they needed to be.

The objectives of the reforms are to better match the supply of taxis with the growth in passenger demand for them, to balance the need for a more affordable means of entry into the taxi market for taxi operators with the need to avoid unreasonable impacts on existing licence holders, and to put downward pressure on fares over time.

Our annual reviews of fares also require us to consider the cost of providing taxi services and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers.

This chapter discusses the context for the reviews in more detail.

Additional background information about the taxi industry is available in a separate document, *Stakeholder guide: background to the taxi industry*, on our website.

2.1 Taxi licensing arrangements in Sydney were amended in 2009 to better meet passenger demand and make entry into the taxi market more affordable

Prior to 2009, the number of taxi licences in Sydney did not keep pace with the growth in Sydney's population, household and business income, economic activity or tourism numbers. This meant that there were not enough taxis on the road to meet passenger demand. As a result of this scarcity (and not because of their productive capacity), taxi licences became very expensive to buy and lease. High licence costs increased the costs of operating a taxi business, and flowed through to the fares for taxi services.

To address these problems, the *Passenger Transport Act 1990* was amended in 2009, so that TfNSW is now required to decide how many new annual licences to be released each year. The objectives of the reforms, as set out in our terms of reference for the licence review, are:

- ▼ to ensure the supply of taxis responds to growth in passenger demand
- ▼ to reduce barriers to entry to the taxi market and make entry more affordable
- ▼ to place downward pressure on taxi fares.

All these objectives are met by releasing more licences and keeping fares as low as they need to be to cover efficient costs. However, these objectives must be balanced with the need to avoid unreasonable impacts on existing licence owners, as one major cost of entry for an operator (a taxi licence) is a source of income for a licence owner.

The key indicator of whether sufficient taxi licences are available to meet demand and whether fares are at the right level is the cost of leasing or otherwise holding a taxi licence. The objectives of the 2009 reforms are not being met if licence lease costs do not fall.

The following sections explain why taxi licence cost and availability are barriers to entry to the taxi industry and why licence numbers need to increase to keep pace with demand and to make entry into the taxi industry more affordable. We also explain how the structure of the industry means that any residual profit from operating taxi services flows to licence owners, so drivers' incomes are independent of fares. Reducing residual profit by releasing more licences therefore does not affect driver incomes.

2.1.1 Taxi licence cost and availability are barriers to entry

Every taxi in Sydney must have a taxi licence in order to operate. An operator can own or lease a perpetual or ordinary licence,³ or pay an annual fee to Transport for NSW for an annual licence.

There are 4716 perpetual and ordinary licences in Sydney.⁴ These types of licences are no longer being issued by Transport for NSW. Existing perpetual and ordinary licences are transferable; that is, they can be bought and sold on the secondary market.

³ Ordinary licences terms up to 50 years but are renewable at the end of the term so are effectively perpetual. PricewaterhouseCoopers, *Benefit/cost assessment of options for reform of taxi licensing: final report*, September 2005, p 13.

⁴ Data supplied by Transport for NSW: Sydney taxi licence numbers and types, October 2013.

The survey of taxi operators and drivers that the CIE conducted for IPART in 2011 found that around 60% of urban taxi operators lease perpetual or ordinary taxi licences, rather than own them.⁵ Over the 10 years between 2002 and 2012, there was an increase in licence lease costs in nominal terms from around \$20,000⁶ to \$28,000⁷ per year. This is an average annual increase of around 3.5%, compared to an average annual inflation rate of 2.7% over the same period.⁸

The cost of holding a licence is a significant portion, around 18%, of the total costs of providing taxi services with a standard taxi. This cost creates a barrier to entry for people wishing to become taxi operators.

Since the 2009 licensing reforms, operators now have another option: rather than pay a licence owner to lease a licence, operators can put in a tender bid for one of the annual licences released each year by Transport for NSW. Winning tenderers pay the amount they bid to TfNSW for an annual licence, which can be renewed at the same price each year for up to 10 years.⁹

Each of the tenders of licences since the first tender in 2010 has been over-subscribed except the 2011 driver-only issue of PALs. Unissued licences from that tender were subsequently re-tendered and the re-tender was over-subscribed. In the 2013 tenders, there were 502 bids for 65 unrestricted licences and 508 bids for 280 PALs.¹⁰ While some of these bidders may have been existing licence-holders seeking a lower price, it is clear that demand for licences continues to be high and the inability to obtain a licence is a barrier to entry to the taxi market.

What determines the cost of leasing a licence?

The difference between the fare revenue and the costs of providing the service is the profit that a taxi can make. Because of the structure of the taxi market, this profit flows back to the licence holder as a lease payment. The licence lease cost is not a productive cost of operating a taxi business but an economic rent that exists because of the scarcity of licences.

⁵ The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 44.

⁶ NSW Ministry of Transport, *Benefit/Cost Assessment of Options for Reform of Taxi Licensing, Final report*, September 2005, p 18.

⁷ The CIE, *Reweighting of the taxi cost index*, April 2012, p 44. CIE found that average licence lease costs in late 2011 were \$28,789, which we updated to \$28,155 for 2012/13 using the measured change to average price of active unrestricted annual licences – see IPART, *Annual taxi licence release for Sydney 2013/14 -Final Report*, February 2013, p 19.

⁸ ABS – Sydney consumer price index 6401.0
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Jun%202013?OpenDocument>.

⁹ Operators also have the option of obtaining a Wheelchair-Accessible Taxi (WAT) licence on request, for \$1,000 per year in urban areas, or for free in country areas.

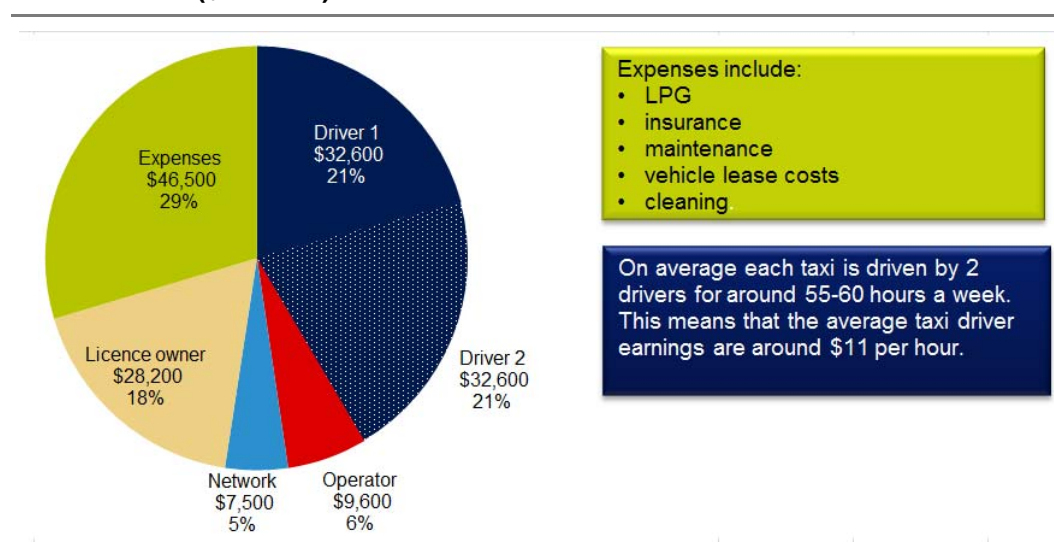
¹⁰ Information provided by Transport for NSW.

In an open entry market, we would expect new operators to enter the market and compete away the profit. However, Sydney is not an open entry market and in the past taxi licence numbers have failed to keep pace with growth in passenger demand and fares have risen at a higher rate than the economic costs of providing taxi services, with all the profit essentially captured in the licence lease payment.

The 2009 taxi licensing reforms were intended to address these problems without having an unreasonable impact on existing licence holders who currently receive the economic rent.

Figure 2.1 shows that in 2012/13, around 18% of fare revenue for standard urban taxis went to the licence owner.¹¹

Figure 2.1 Average distribution of annual revenue per standard urban taxi (\$2012/13)



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

As noted above, the key indicator of whether sufficient taxi licences are available to meet demand and whether fares are at the right level is the cost of leasing or otherwise holding a taxi licence.

¹¹ We note the Taxi Council's submission (18 November 2013, p 4) considers that the survey figures understate revenue per taxi: "the NSW Taxi Council does not accept the revenue figures put forward by the Centre for International Economics, particularly given that both the Australian Tax Office and Australian Bureau of Statistics have significantly higher estimates which in themselves are considered conservative". This would imply that the takings of drivers and operators are higher than reported, and there is a lower profit margin for licence owners.

Don't drivers keep some of the profit?

Taxi drivers do not earn wages. Their income is the difference between the fare revenue they receive from passengers and the expenses they have. For a given driving shift their expenses are chiefly the 'pay-in' amount to an operator to drive a taxi, the fuel for the shift and, if a night-shift, the cost of washing the car at the end of the shift.

One might expect drivers' income to increase as revenue increases, but in fact taxi driver income is independent of fare revenue, because as their revenue increases, so does their biggest expense, the pay-in. Box 2.1 shows how drivers' take home earnings can remain the same even though fare revenue may increase or decrease.

Maximum pay-ins are regulated by the Industrial Relations Commission through a contract determination,¹² but actual pay-ins are set by the market and reflect the supply of and demand for taxi drivers. If operators are unable to get drivers at a particular pay-in rate, they will need to discount the pay-in until they are able to get a driver. If there was an insufficient supply of drivers for the number of taxis, drivers would be in a position to retain more of the fare revenue by shopping around for the lowest pay-in offer.

However, notwithstanding anecdotal evidence of a 'driver shortage', survey evidence about driver incomes suggests that the supply of drivers is sufficient to keep their effective hourly pay at well below current minimum wage rates. Our 2011 survey of driver and operator costs and revenues suggested an average effective hourly rate of between \$10 an hour for weekday shifts and \$12 an hour for weekend shifts.

We expect that our recommendations regarding fares and licence releases will allow revenue per taxi to continue to grow in nominal terms, but at a slower rate than total costs per taxi and the rate of inflation, so profit per taxi will be lower. This is necessary to achieve the aims of the 2009 reforms, but this will not lower real driver incomes, as pay-ins will have to adjust downwards in order for operators to get drivers.

While this means drivers will be no worse off, we acknowledge that it does not mean that drivers will be better off (except insofar as more taxis means a higher demand for drivers). We received several submissions asking that we address low driver incomes.¹³ Given the current structure of the industry, there is nothing that we can do within our terms of reference to fares or licences that will have a significant impact on driver incomes. However, in chapter 5 we note

¹² *Taxi Industry (Contract Drivers) Contract Determination 1984.*

¹³ David Cousins submission, 10 November 2013, p 2; Australian Taxi Drivers Association submission, 11 November 2013, p 1; Ted Hirsch submission, 18 November 2013, p 9; Ernie Mollenhauer submission, 15 November 2013, pp 1-2.

some developments external to our reviews that may have an impact on structure of the industry and driver income.

Box 2.1 Fare revenue does not determine drivers' take home earnings

The amount drivers earn for a shift is the fare revenue minus the amount to pay the operator to take out or "bail" the taxi, minus cleaning and fuel expenses.

For example in a typical Wednesday night shift, the driver might:

- ▼ take \$267 in fare revenue
- ▼ pay \$120 to bail out the taxi
- ▼ pay \$35 for fuel, and \$12 to wash the car at the end of the shift.

This would mean the taxi driver would earn \$100 for the shift.

In the past, when fares went up, the fee to bail out the taxi, 'the pay-in', would go up in response. For example:

- ▼ the drivers fare revenue would increase to \$277
- ▼ but his pay-in would increase \$130 to bail out the taxi
- ▼ and he would pay \$35 for fuel, and \$12 to wash the car at the end of the shift.

This would mean that the taxi driver would still earn \$100 for the shift, even though his fare revenue increased by \$10. Because the pay-in also increased, the driver is no better off.

Similarly, if fare revenue is expected to fall, the pay-in to take out the taxi should also fall, so that the driver is no worse off. For example, the driver might:

- ▼ take \$257 in fare revenue
- ▼ pay \$110 to bail out the taxi
- ▼ pay \$35 for fuel, and \$12 to wash the car at the end of the shift.

Despite the reduction in fare revenue, the driver's take home earnings would still be \$100.

2.1.2 Ensuring the number of taxis keeps pace with demand

One of the objectives of the review of taxi licences is to ensure the supply of taxis responds closely to the growth in passenger demand, including latent demand.

In our last review of the number of new annual Sydney taxi licences, we considered demand for taxis from factors external to the taxi market: growth in population, household and business income, economic activity and tourism activity and estimated that the long-term average annual growth in demand for taxi services from these sources was 2.5%. We have reviewed this assumption for the current review and decided that it is still valid. (See section 5.1 of this report for further discussion of the demand from external factors.)

At a minimum, the number of taxi licences needs to increase in line with the demand due to external factors to ensure that lease costs do not increase in real terms (that is, after adjusting for inflation). But additional licences will be required for lease costs to fall in order to make it more affordable to provide taxi services and to place downward pressure on fares.

Additional licences will also be needed to reduce waiting time for customers. As waiting times reduce, demand for taxi services increases because passengers are more likely to catch taxis when they do not have to wait as long.

Lower fares would also increase demand for taxis, as passengers respond to the increased affordability of taxi travel.

The Taxi Council has submitted that demand for taxis is derived demand (that is, it only exists as the result of a different kind of demand, such as the need to get to a place of employment or entertainment) and therefore not affected by the price or availability of taxis (that is, fares or waiting times).¹⁴ While this argument could be made about the demand for transportation services more generally, taxis are only one means of transport and the price and availability of taxis relative to other forms of transport will affect the demand for taxis. Indeed, this very phenomenon has also been observed by the Taxi Council with respect to hire cars, the closest substitute for taxis in many cases.¹⁵

The Taxi Council and others have also submitted that because people can't catch 2 taxis at once, or travel 10% further than their homes if taxi fares are 10% cheaper, demand will not change in response to cheaper fares.¹⁶ However, demand is an aggregate concept, and across a population, twice as many taxis could be caught, or 10% further distance travelled, because twice as many people make the decision to catch a taxi rather than an alternative means of transport.

¹⁴ Taxi Council submission, 18 November 2013, p 5.

¹⁵ Taxi Council submission, 18 November 2013, p 18.

¹⁶ Taxi Council (Mr Fred Lukabyo), IPART taxi review public hearing transcript, 22 October 2013, p 13; Ernie Mollenhauer submission, 15 November, p 2.

2.2 Fares are higher than they need to be to cover efficient costs of providing taxi services

Even though the costs of providing taxi services go up every year as fuel costs, insurance, maintenance and so on rise, fares are already high enough to cover these increases in costs. This is because around \$28,000 or 18% of fares goes to covering the licence lease cost, which is an economic rent, as shown in Figure 2.1 above.

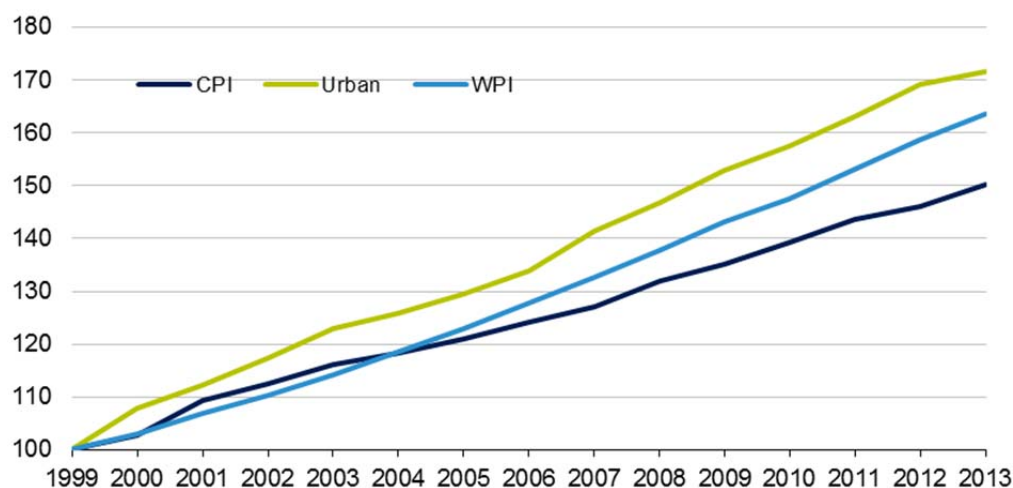
In the past, IPART's fare-setting methodology contributed to the economic rent problem, which is why we have changed our methodology.

Between 2001 and 2012, we recommended changes to maximum taxi fares in line with the estimated average change in the financial costs of providing taxi services over the previous 12 months, as measured by the urban Taxi Cost Index (TCI). A significant problem was the inclusion of licence lease costs in the TCI. While the licence cost is a real **financial** cost incurred by operators, it is not an **efficient** economic cost because it has no productive value.

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 TCI 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.

Figure 2.2 shows how urban fares increased every year between 2000 and 2012 at faster than the rate of inflation (CPI) and the rate of increase of labour costs in the economy (WPI).

Figure 2.2 Increases in urban taxi fares compared to CPI and WPI, 1999 to 2013



Source: IPART fare review reports.

In 2012, we set the inflator for licence lease costs in the TCIs to zero, to avoid the circular feedback between licence costs and fares in the future. However, this did not address the accumulated rents in fares from past application of the TCI methodology.

There are also likely to be other cost savings available to the taxi industry from efficiency gains. For example, the NSW Government is reviewing NSW Passenger Transport Legislation, including the regulatory framework for taxi networks.¹⁷ Changes could increase competition for booking services, for example, by clarifying the role of independent apps. This should drive down costs for booking services. Amendments may also help lower barriers to entry for new taxi networks. If new networks can provide services more cheaply than existing networks then network fees should fall.

This means that instead of customers funding increases in costs through higher fares, the cost increase can be funded through any or all of the following:

- ▼ a reduction in the income of licence holders
- ▼ cost savings from efficiency gains
- ▼ additional revenue from more passengers, as more trips are taken as underlying demand grows, and in response to cheaper prices.

Increasing taxi fares, on the other hand, allows the economic rent to keep tracking upwards.

¹⁷ <http://www.transport.nsw.gov.au/nsw-passenger-transport-legislation-review>.

2.3 Balancing benefits for passengers, drivers and operators with impacts on existing licence-holders

Making entry to the taxi industry easier and cheaper for operators and making taxis easier and cheaper for passengers to catch must be balanced with the need to avoid an unreasonable impact on licence holders.

During our 2013 reviews, we considered that a 25% real (that is, after taking into account the effects of inflation)¹⁸ reduction in unrestricted licence lease costs from 2012/13 levels by 2017/18 is an appropriate balance between:

- ▼ improved affordability for passengers and easier entry into the market for operators and drivers, and
- ▼ not having an unreasonable impact on licence owners.¹⁹

There were mixed reactions from stakeholders on this position:

- ▼ The NSW Taxi Council does not agree with the 25% reduction over 5 years.²⁰
- ▼ NCOSS supported the 25% reduction over 5 years stating that it agrees with IPART's assessment that historically, the impact on licence holders has outweighed other considerations. NCOSS submitted that taxis are an integral part of the public transport system and provide an essential service to many people and that 'this service should not be compromised in order to preserve historic investment returns at unreasonably high rates'.²¹
- ▼ Former Victorian Taxi Inquiry Commissioner David Cousins submitted that licence lease prices should not be sustained at such a high level and indicated that efficiency would suggest a bolder approach (than 25% over 5 years) to reducing lease prices is needed.²²
- ▼ The Australian Taxi Drivers' Association (ATDA) submission supported release of 3,000 new unrestricted licences with the aim of reducing licence lease costs to around \$1,000.²³ The ATDA also submitted that 'protection against change to commercial investors is not a proper role for IPART ... Nor is it a Legislative requirement.'²⁴ The ATDA's view is that the operator leasing the licence is the relevant 'licence holder' whose interests should be protected against unreasonable impact, not the licence owner – and that operators' interests are supported by the release of as many licences as possible.

¹⁸ So, for example, a taxi licence lease that cost \$30,000 in 2012/13 and \$27,000 in 2017/18 (in nominal dollars of those years) has reduced by 10% in nominal terms but closer to 20% in real terms if inflation averages 2.5% per year over that period.

¹⁹ IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 5.

²⁰ NSW Taxi Council submission, 18 November 2013, pp 13 and 18.

²¹ NCOSS submission, 14 November 2013, p 2.

²² D Cousins submission, 10 November 2013, p 1.

²³ ATDA submission, 11 November 2013, p 5.

²⁴ ATDA submission, 11 November 2013, p 4.

We have considered the issue raised by the ATDA in the past and we are of the view that it is clear from the Parliamentary debate at the time of the 2009 licensing reforms and the wording of our terms of reference that licence owners rather than lessee operators are the relevant licence holders contemplated by our terms of reference. We consider that lowering licence lease costs to \$1000 is an unreasonable impact on licence owners.

Noting the submissions from stakeholders, we consider that releasing enough licences and setting fares at a level that results in 25% real reduction over 5 years from 2012/13 is an appropriate balance between improving outcomes for passengers, drivers and operators, and avoiding an unreasonable impact on licence owners.

As a comparison, the Victorian Government reduced the annual cost of taxi licences from \$30,000 per year to \$22,000 per year effective from 1 July 2013 which is an immediate reduction of 27%. Taxi licences in Victoria will also be reduced by a further 0.5% below the rate of inflation each year into the future.²⁵

2.4 What has happened to licence numbers, licence lease costs and fares since the reforms were introduced?

It is now 4 years since the taxi licensing reforms were introduced. This section looks at what has happened to licence numbers, licence lease costs and fares since then.

2.4.1 What has happened to licence numbers?

There have been 4 years of annual Sydney taxi licence number determinations since the licensing reforms were introduced. In total, 568 unrestricted annual licences and 464 annual PALs have been released by TfNSW since 2010. Table 2.1 shows the number of annual licences released each year from 2010 to 2013.

²⁵ Victorian Government, *Government Response: Taxi industry inquiry final recommendations*, May 2013, pp 7-8.

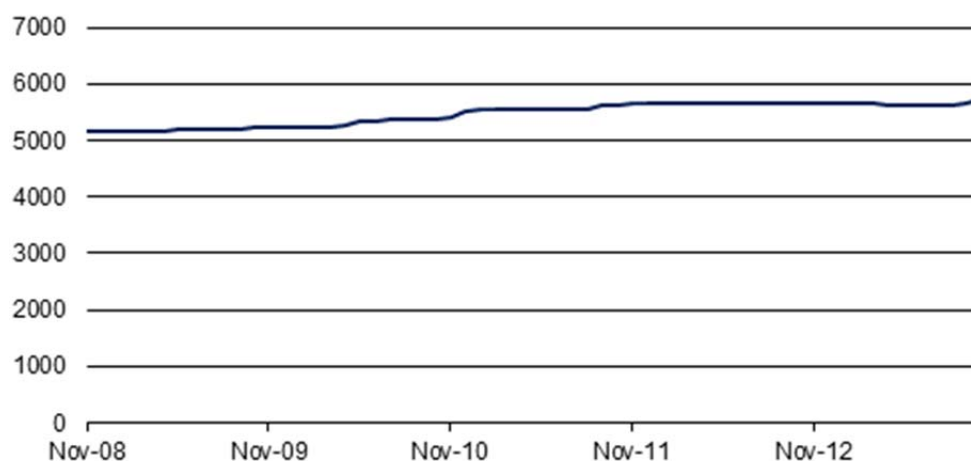
Table 2.1 Annual taxi licences issued in Sydney since January 2010 (other than WAT and Fringe Area licences)

	Licences tendered	
	Unrestricted	PAL
2010	319	90
2011	129	48
2012	55	46
2013	65 ^a	280 ^a
Total 2010 - 2013	568	464

^a These licences have been tendered but not all are active yet.

Source: TfNSW, *2013/14 Sydney Annual Taxi Licence Determination*, 27 March 2013, <http://www.transport.nsw.gov.au/sites/default/files/b2b/taxireform/sydney-taxi-licence-determination.pdf>, Information provided by TfNSW.

Some of the issued licences replaced short term licences that expired during the period, some of the issued licences have subsequently been relinquished or not renewed, and some of the 2013 tendered licences are not yet active. The **net** growth in the total number of Sydney taxi licences between January 2010 and October 2013 was 508 licences, or around 10% increase in the size of the taxi fleet.²⁶ Figure 2.3 shows the change in total Sydney taxi licence numbers since November 2008, when we first started receiving data from Transport for NSW on licence numbers.

Figure 2.3 Total Sydney taxi licences November 2008 to October 2013

Data source: Transport for NSW.

Our terms of reference require us to consider the objective of simplifying taxi licence structures. All Sydney short-term licences have now been replaced by annual licences and no new licence types have been introduced, which has helped meet this objective.

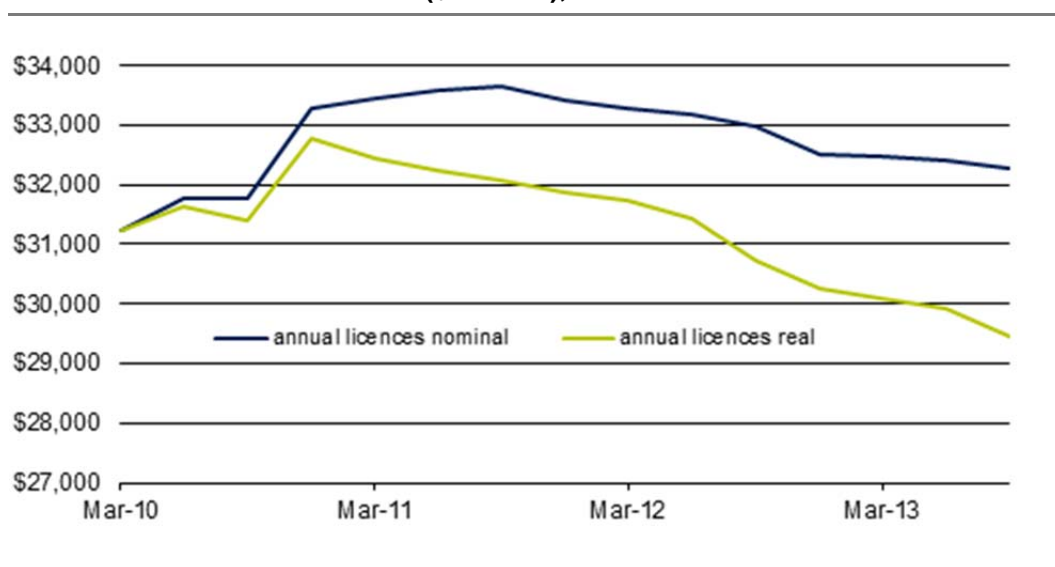
²⁶ Information provided by Transport for NSW for 1 January 2010 compared to 1 October 2013.

2.4.2 What has happened to licence lease costs?

To assess the change in lease prices, we use the change in price of all active unrestricted annual licences. In October 2013, the average annual price of all active unrestricted annual licences was \$32,170. This compares to an average price of active annual licences of \$32,506 in December 2012, or a 3.4% real reduction (after taking into account the effect of 2.5% inflation over this period).

Figure 2.4 shows the change in unrestricted annual licence prices since 2010, both in nominal terms and in real terms (adjusted for the impact of inflation).

Figure 2.4 Average annual unrestricted licence prices, all active licences, nominal and real (\$2009/10), 2010 to 2013

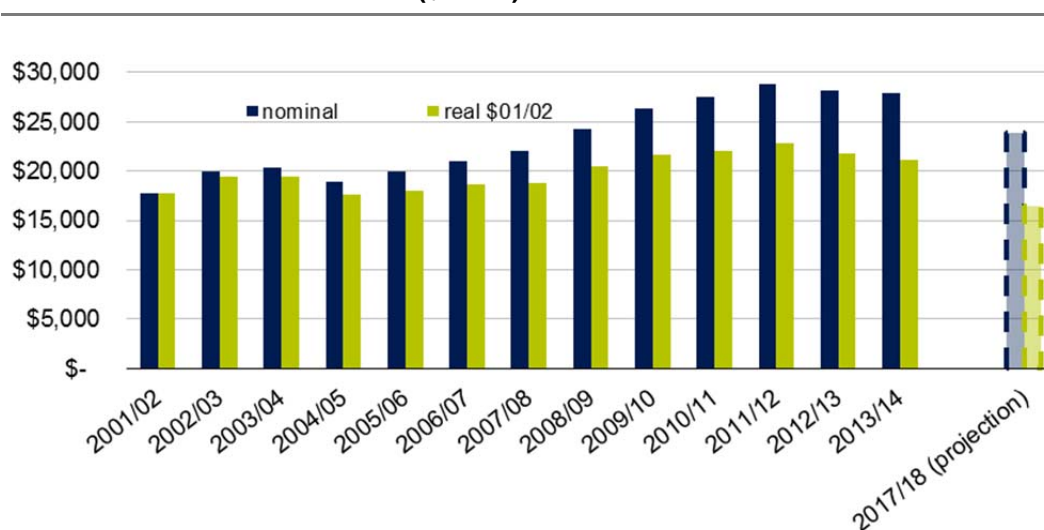


Data source: Transport for NSW.

We have used annual licence fees as an estimate of lease prices for perpetual and ordinary licences, as no information is publicly available about lease prices in the secondary market.

For comparison, we have historical survey data about lease prices from 2011/12 and we have year-to-year data about the changes to lease prices based on data provided to us on a confidential basis by the Taxi Council for previous fare reviews. Figure 2.5 shows the estimated change over time of lease prices since 2001/02 based on this data. We consider that this provides support for a continuation of our approach to recommending licence numbers and fares to support the objectives of the 2009 licence reforms. Figure 2.5 also projects lease prices to 2017/18 based on our draft recommended fare and licence changes.

Figure 2.5 Unrestricted licence lease prices 2001/02 to 2013/14, nominal and real (\$01/02)



Data source: CIE, *Reweighting of the taxi cost index – final report*, April 2012, Taxi Council data provided to IPART for fare reviews, IPART calculations.

2.4.3 What has happened to fares?

As noted in section 2.2 above, until 2012 we recommended changes to maximum taxi fares using a Taxi Cost Index which contributed to the level of economic rent in fares.

Our 2013 fare review recommended freezing urban fares at current nominal rates. We also recommended restructuring the components of urban fares. Transport for NSW froze most components of urban fares, but introduced a peak hiring surcharge on Friday and Saturday nights, with the net result of a 1.4% increase in urban fares.

2.5 Implications for NSW Government funding

Our terms of reference require us to consider the impacts of our fare recommendations on the level of Government funding. 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.²⁷ In 2011/12, \$26.1 million was paid in subsidies to more than 72,000 people registered for the scheme.²⁸

Rebates are capped at a \$30 maximum per trip. Any recommendation we make with respect to fares is unlikely to have a significant impact on the call on Government funding for the TTSS scheme.

2.6 Implications for the environment

While our terms of reference require us to consider the need to maintain ecologically sustainable development, we do not consider that our draft recommendations on fares could 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 2001.²⁹ This survey suggests that the proportion of taxi trips is small in terms of overall travel and has remained relatively stable over time. As a result, the impact of our recommendations in terms of pollution and congestion is likely to be small.

²⁷ See <http://www.transport.nsw.gov.au/ttss> for details about the scheme.

²⁸ Transport for NSW, *Annual Report 2011/12*, p 87, p 33.

²⁹ 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.

3 Recommended fares and growth licences for Sydney

Both the number of new licences released and the level of fares have an impact on licence lease costs, affordability, waiting times and taxi occupancy. The combination of fares and new licences selected will give a different weighting to each of these outcomes.

In the issues paper we sought comment on combinations of licences and fares and their expected outcomes. Each of these had the same expected impact on licence lease values – a 25% real reduction over 5 years – but a different impact on affordability, waiting times and occupancy. The included combinations were specified in terms of decisions for 2014/15 and assumptions about the path of fares and licences over the next 4 years and outcomes were modelled using a 5-year modelling envelope (2012/13 to 2017/18). This set of scenarios was designed to put numbers around the range of outcomes that IPART would consider and to illustrate the trade-offs between fares and the number of licences and to seek stakeholder preferences on them.

This chapter summarises our recommended combination of fares and additional (growth) licences and why we consider this is the best option. The outcomes of these draft recommendations for passengers and the industry are discussed in detail in Chapters 4 and 5.

3.1 Summary of draft recommendations

Our draft recommendations for the 2014/15 year are for a fare freeze (at current nominal rates) in combination with additional licences to be released to meet increases in demand for taxi services, to improve service to customers and to make entry into the taxi market more affordable. In Chapter 6 we discuss the additional licences we are recommending to allow for attrition during 2014 and replacement of net licences removed from the stock of Sydney taxi licences during 2013.

Draft Recommendations

- 1 An additional 150 unrestricted licences to be offered for tender in 2014/15 to meet increases in demand for taxi services, to improve service to passengers and to make entry into the taxi market more affordable.

- 2 An additional 40 peak availability licences to be offered for tender in 2014/15 to meet increases in demand for taxi services, to improve service to passengers and to make entry into the taxi market more affordable.
- 3 Maximum taxi fares for Sydney in 2014/15 are the same as those for 2013/14, as set out in Table 3.1 below.
- 4 Maximum taxi fares for Sydney in 2014/15 should be announced before the annual licence tender process commences to provide information to potential tender bidders.

Table 3.1 Recommended maximum fares for 2014/15

Fare component	Rate
Hiring charge ^a (all times except Friday and Saturday nights and public holidays 10pm to 6am)	\$3.50
Peak hiring charge (Friday and Saturday nights and public holidays 10pm to 6am)	\$6.00
Standard distance rate (\$/km when the vehicle is travelling more than 26km/hr)	\$2.14
Night distance rate (\$/km when the vehicle is travelling more than 26km/hr, 10pm to 6am)	\$2.57
Waiting time (\$/hr when vehicle is slower than 26 km/hr)	\$55.30 (92.1c per min)
Booking fee (booked fares only)	\$2.40
Maxi taxi surcharge (on total fare) ^b	50%

^a The hiring charge was previously called the flag fall.

^b 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.

Source: Transport for NSW www.transport.nsw.gov.au.

We used our model of the Sydney taxi industry to project the outcomes of our draft recommendations. In our modelling we also assumed no fare change for the following 3 years and 170 additional unrestricted licences, or equivalent combination of unrestricted and PALs, issued each year to 2017/18 (in addition to any allowances for attrition and replacement of licences relinquished or not renewed). The expected outcomes include:

- ▼ More affordable taxi services, as fares would be the same in nominal terms, but around 11.5% lower in real terms.³⁰
- ▼ An improvement in passenger waiting times of around 6% on average and 13% on Friday and Saturday nights.
- ▼ A 24% increase in the number of taxi trips.
- ▼ A 10% increase in average taxi occupancy.
- ▼ A 25% real reduction in licence lease costs.

³⁰ Compared with 2012/13. This calculation is based on actual fare changes and CPI data currently available and a forecast 2.5% annual increase in the Consumer Price Index.

3.2 Approach we used to develop our recommendations

We have again used our model of the Sydney taxi industry (developed initially for the 2013 licence review) to consider and compare different combinations of fares and licences to be released. As the model is an equilibrium model (that is, it shows outcomes once all the changes have filtered through the industry) we consider that it is not appropriate to use it to model an annual incremental change in fares and/or licences. Instead, we have:

- ▼ updated the model to take into account TfNSW's decisions on licences and fares since 2012/13
- ▼ modelled different combinations of fares and licences for the 5-year period from the base year when it was set up in 2012/13 to 2017/18 and assessed the outcomes predicted by the model
- ▼ arrived at a draft recommendation on licences and fares for 2014/15 that in our view provides the best mix of estimated outcomes.

In future years we will model fares and licences for the same 5-year period (2012/13 to 2017/18), taking into account historical changes to licences and fares, and again recommend one year's worth of licences and fares from within that envelope.

The only comment we received about this approach was from the NSW Taxi Council, who stated that limited certainty is provided by a 5-year timeframe.³¹ In our view, modelling over a 5-year period provides an appropriate balance between annual assessments that can take account of current conditions and longer-term certainty about the direction of fares and numbers of licences to be released.

3.3 Why we are recommending a fare freeze in combination with additional growth licences

Our draft recommendations are for a fare freeze in nominal terms (scenario 2 in our issues paper) in combination with an additional 150 unrestricted and 40 PAL licences to be released. We consider that our draft recommendations represent a steady, sustainable approach which make it easier and cheaper for passengers to get a taxi, and easier and cheaper for drivers to enter the market.

³¹ NSW Taxi Council comments at public hearing, 22 October 2013, p 10 of transcript.

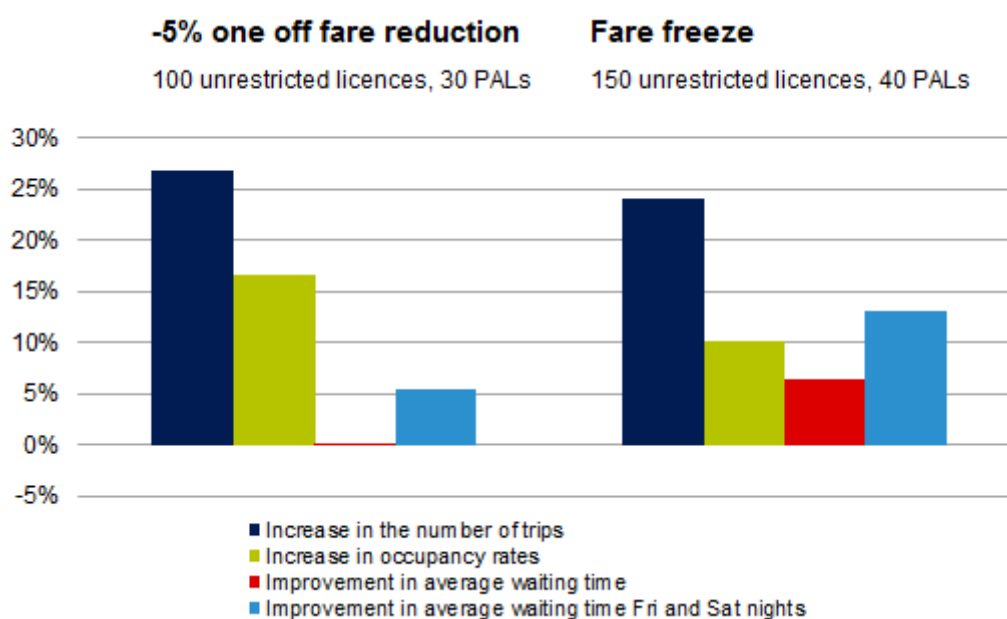
We reviewed submissions to our issues paper and comments made at our public hearing and undertook further analysis. Having considered this information we narrowed the options down to 2 combinations of fares and licences that in our view would provide a reasonable balance between making fares more affordable and making additional licences available:

- ▼ fare freeze in nominal terms (0% fare change) with 170 unrestricted licences (before considering whether to release any licences as PALs)
- ▼ fare reduction of 5% in nominal terms in 2014/15 with 120 unrestricted licences (before considering whether to release any licences as PALs).

Licence numbers are before adjustments for replacement and attrition.

The expected change in the number of trips, occupancy rate and waiting times under each option are compared in Figure 3.1. In addition to these outcomes we also considered the transitional impact on drivers and operators of the 2 options. While we consider that both have merit, in our view a fare freeze (in nominal terms) combined with the release of 190 licences provides the most appropriate balance of outcomes.

Figure 3.1 Comparison of expected outcomes under each combination



Note: Based on Transport for NSW decisions in 2012/13, our draft recommended fares and licences for 2014/15, and a modelling assumption that fares stay the same until 2017/18 and licences are released at the same rate as our draft recommendations for the next 3 years. The bars represent the changes to equilibrium outcomes following the 5-year period.

Data source: IPART modelling.

A number of stakeholders consider that neither fare reductions nor new licences should be considered.³² For the reasons set out in Chapter 2 we do not consider that it is appropriate to continue to raise fares and issue no or few new annual taxi licences. In our view, the relevant focus is on finding the most appropriate combination of fare changes and new licences.

The 2 stakeholders who did comment on the combinations in our issues paper both supported the combination with the lowest fares and highest number of new licences. NCOSS commented that affordability should be the primary goal.³³ Former Victorian Taxi Inquiry Commissioner David Cousins noted that the evidence in Sydney suggests that consumers have significant concerns about the level of taxi fares and that occupancy rates have been adversely affected by falling demand. He submits that the emphasis should be on bringing fares down rather than increasing licence numbers.³⁴

The submissions from these stakeholders are supported by the results of our passenger survey, undertaken by Taverner³⁵, and by Transport for NSW's passenger survey.³⁶ The results of the 2 surveys are discussed in more detail in Chapter 4. In summary, they both indicate that the level of fares is of greater concern to passengers than other factors, including waiting times.

In our view, this information indicates that an option that prioritises greater affordability for passengers should be given serious consideration. We considered whether to recommend a reduction of 5% (nominal) from current fare levels (similar to scenario 3 in our issues paper). We considered that the fare reduction would best be achieved by one up-front reduction that would be applied to the distance rate component of fares only.³⁷ The benefits of this approach include:

- ▼ significant and early improvement in affordability for passengers
- ▼ significant and early improvements in taxi occupancy rates as demand is stimulated earlier under a one-off fare reduction.

However, there is a balance to be struck between these benefits and the transitional impacts of a larger fare reduction. In this respect, we note that our preferred option of a fare freeze in nominal terms still improves affordability, as fares would be around 3.5% lower in real terms than they were 2 years ago, and has a number of other advantages:

- ▼ greater improvements in waiting times for passengers, which although not the main area of dissatisfaction is still of concern to some passengers

³² For example, NSW Taxi Council submission to Issues Paper, 18 November 2013, pp 1-3; NSW Taxi Drivers' Association comments at Public Hearing, 22 October 2013, p 15 of transcript.

³³ NCOSS submission to Issues Paper, 14 November 2013, p 2.

³⁴ D Cousins submission to Issues Paper, 10 November 2013, p 2.

³⁵ Taverner Research, *Survey of taxi use in Sydney*, November 2013.

³⁶ Transport for NSW, *Customer Satisfaction Index Appendix 2013*, released 20 November 2013.

³⁷ This would bring the distance rate down from \$2.14 per km to \$1.99 per km.

- ▼ greater numbers of new growth licences to enable operators to reduce their costs more easily and aid the transition process for them

3.4 Why we are recommending a mix of unrestricted and peak availability licences

We consider that releasing some of the new licences as peak availability licences (PALs) provides a better combination of outcomes as it results in more balanced improvements in taxi occupancy and waiting times for passengers. It puts fewer taxis on the road in quiet times and more on the road in peak times compared with releasing all licences as unrestricted while still retaining an emphasis on releasing unrestricted licences.

Our research shows that undersupply of taxis is only a problem for passengers at particular times of the week. There is some evidence that off-peak times (and the CBD and airport in particular) are over-served. Maximum benefit for passengers from additional licences will be achieved by taxis that operate part-time at periods when demand is highest.

We received only one submission on this issue that supported unrestricted licences so that operators are free to make their own decisions on the best way to use their licences, as would be the case in an efficient market.³⁸ While we agree with this in principle, the high fixed costs of providing taxi services (the largest being the annual licence cost) mean that part-time operation is not currently viable for those with unrestricted licences.

PALs explicitly encourage more flexible, part-time operation, which allows more taxis on the road at peak times for a given level of impact on unrestricted licence values and increase taxi availability at 3pm and 3am shift changeover times. PALs also help address transitional impacts by not adding to the stock of taxis in every shift, particularly quiet day shifts, and they provide an opportunity for drivers to operate their own taxi without the need to arrange other drivers.

But there is a balance between these benefits and bringing down the cost of unrestricted licences so that the market can begin to operate more efficiently on its own. Enough unrestricted licences need to be released to lower licence costs for operators of unrestricted taxis.

³⁸ D Cousins submission to Issues Paper, 10 November 2013, p 3.

Last year Transport for NSW did not release any unrestricted growth licences in 2013/14 but issued 250 growth PALs. As noted in chapter 2 there were more than 500 bids for the 65 unrestricted licences (which were issued as an attrition allowance). The tender outcomes, where the average price for unrestricted licences rose compared to the previous year, suggest that weighting towards the release of PALs meant higher licence costs for unrestricted taxis. We consider that these results demonstrate the importance of additional unrestricted licences to achieving the aims of the legislation and underlie our recommendation that the majority of growth licences to be released should be unrestricted licences.

3.5 Potential tenderers should have information about fares before the tender process commences

In the past, our fare review final recommendations have been submitted to Transport for NSW in June for July fare changes. This year we are conducting fare and licence reviews together so our final recommendations on fares will be submitted to Transport for NSW by the end of February 2014. Our draft recommendation is that Transport for NSW should announce the July fare change well in advance, so that potential tender participants can factor this information into their assessment of an appropriate price to bid for a licence.

4 How customers will benefit from our draft recommendations

Our draft recommendations will make taxis more affordable for customers and more available when customers need them.

As explained in Chapter 2, between 2000 and 2012 taxi fare increases outstripped the general rate of inflation (CPI) and the rise in wages (WPI). This meant that taxi services became less affordable relative to other goods and services. Under our draft recommendations, this is the second year that fares will be frozen (except on Friday and Saturday nights), making taxi fares more affordable as the prices of other things increase.

Lower licence lease costs will make taxi travel more affordable, particularly for those on low or fixed incomes, and more taxis will lower waiting times.

This chapter explains how customers benefit from our draft recommendations.

4.1 More affordable taxi travel

Holding fares constant in nominal terms again this year further reduces the cost of taxis in real terms, that is, relative to the cost of other goods and services, and relative to passengers' income. This approach will improve the affordability of taxi travel.

There is evidence to show that:

- ▼ cost is the major concern among customers in relation to taxi services; the impact of this is more likely to be felt by customers with limited transport options and low incomes
- ▼ the cost of taxi travel is stopping people from using taxis as much as they would like to – and that people will use taxis more often if they became more affordable.

As a result, we expect our draft recommendations to benefit passengers by lowering the cost of taxi services and allowing them to use taxis more often.

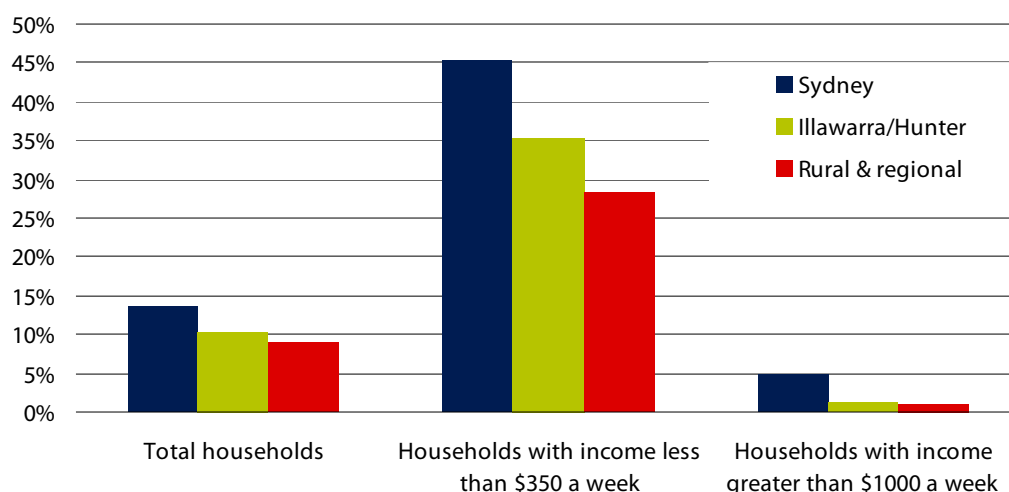
If our draft recommendations are implemented, fares from July 2014 will be around 3.5% lower in real terms than they were 2 years ago.

4.1.1 The cost of using taxis is the major concern among customers

NCOSS submitted that affordability is a major concern for people that rely on taxis as their only form of transport and argued that improving affordability should be the primary goal of our review.³⁹

A survey of household expenditure by the ABS confirms that while those in the highest income quintile spend proportionately more of their expenditure on taxis than other groups, those in the lowest income quintile spend the second highest proportion.⁴⁰ These findings are supported by census data, which indicates that the proportion of low income households that do not have access to a motor vehicle, and hence are likely to have fewer transport alternatives, is significant (Figure 4.1).

Figure 4.1 Households without access to a motor vehicle (%)



Data source: ABS, 2006 census.

We commissioned Taverner Research to survey around 2,000 Sydney residents on their experience with taxis in Sydney, and the reasons they do and do not catch taxis (a repeat of the survey we commissioned last year). The results give us a better understanding of who uses taxis and for what purpose (see Box 4.1) and of the performance of taxi services from a customer perspective.

The Taverner survey asked respondents a series of questions about whether they thought taxi fares offered good value for money. Around 80% of taxi users do not consider that taxis offered good value for money overall.⁴¹ The Taverner survey also asked respondents about their most recent taxi journey and found that only half of the taxi users were satisfied with the fare for their most recent journey.⁴²

³⁹ NCOSS submission, November 2013, p 2.

⁴⁰ ABS, Household Expenditure Survey, Australia: Detailed Expenditure Items, 2009/10.

⁴¹ Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 79.

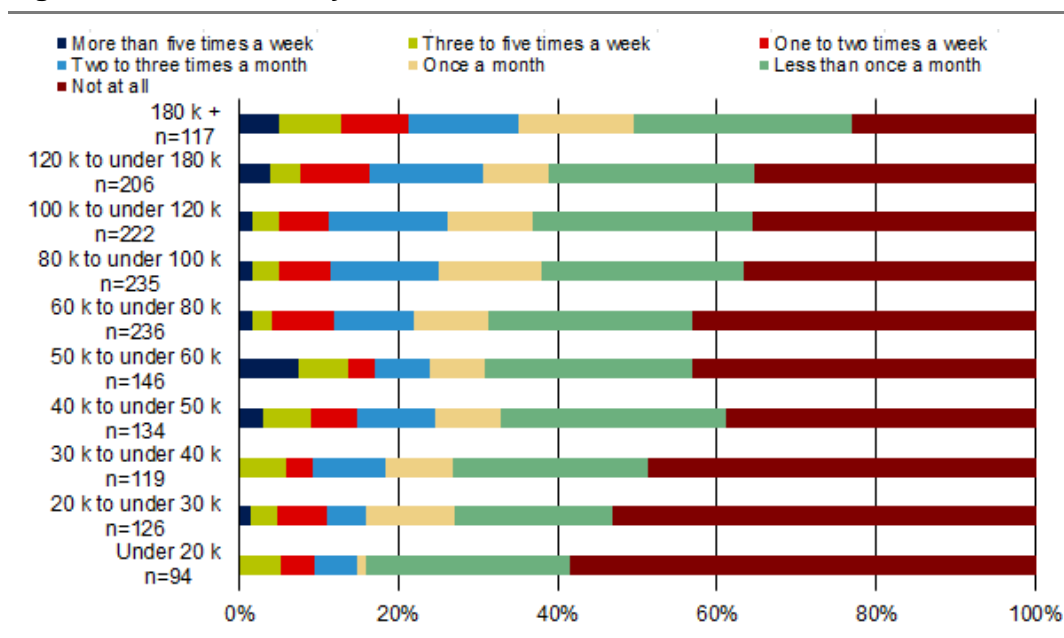
⁴² Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 65.

Box 4.1 Who uses taxis and for what purpose

The Taverner survey shows that household income is one of the factors that affects taxi use. The proportion of people that caught a taxi in the last 6 months increases with income from 41% of those with incomes under \$20,000 pa to 77% of those with incomes of \$180,000 pa or more. As incomes increase, the percentage reporting use at least once a week also rises. See Figure 4.2.

However, the 10% of people surveyed with a disability were significantly more likely than those without a disability to use a taxi 5 or more times a week (7% compared to 2%). Of the disabled users on the taxi subsidy scheme, 28% used taxis at least 5 times a week, and 52% used taxis at least once a week.

Figure 4.2 Taxi use by income



Data source: Taverner survey data.

When asked about the purpose of their most recent journey:

- ▼ around half said it was recreation related
- ▼ around a quarter of journeys are work related
- ▼ between 10% and 20% of trips are to get people to or from appointments.

Around three quarters of taxi fares are paid by an individual (including 13% of individuals splitting the fare with someone else).

Employers (including own business) only paid for around 18% of all taxi journeys (but there is a clear trend for the proportion of journeys paid for by employers to rise as the fare gets more expensive).

Source: Taverner Research, *Survey of taxi use in Sydney*, November 2013, pp 11-12, 14, 64-65, 70, Survey data.

The results of the Taverner survey are supported by the NSW Government's transport passenger surveys showing that the cost of taxis is an ongoing area of dissatisfaction.⁴³ The 2013 customer satisfaction survey found that 27% of passengers surveyed in Sydney were dissatisfied with the cost of services (61% were mildly to very satisfied). The level of dissatisfaction with cost was the highest out of the 38 indicators surveyed and significantly higher than the next highest.⁴⁴ The same survey found that only 10% of passengers were dissatisfied with the availability of taxi services (83% satisfied).

4.1.2 Greater affordability will allow people to use taxis more often

There is a lot of information to suggest that currently the cost of taxis is preventing people from using them as much as they would like to:

- ▼ NCOSS cited a survey of the Home Care Service in Northern Sydney from 2004, where 61% of the 4000 respondents said that their use of taxis was restrained by expense.⁴⁵
- ▼ Of the 682 respondents to the 2013 Taverner taxi survey that did not consider catching a taxi in the last 6 months, over half said that one of the reasons why is because taxis are too expensive. This is consistent with the findings in our 2012 survey.⁴⁶
- ▼ Of the 726 respondents to the 2013 Taverner survey that said that in the last 6 months they thought about catching a taxi, but in the end did not, almost 3 quarters said that one of the reasons why they did not end up catching a taxi is because they thought it would be too expensive. Similarly, of the 542 respondents in the 2012 Taverner survey that said that they thought about catching taxi in the last 6 months but in the end did not, two thirds did not do so because they thought it would be too expensive.⁴⁷
- ▼ Of the passengers that reported lower taxi usage than last year, expense was cited as the main reason why. Of people surveyed that said that they have caught taxis less compared to last year, 57% said that the reason why was because they find them more expensive. Only 8% of people that caught taxis more said they did so because they found them less expensive.⁴⁸

More affordable taxi travel will allow people to use taxis more often than they can afford to at the moment. Almost half of the respondents in our Taverner survey nominated cheaper fares as the one thing that would most likely lead to increased taxi use in the next 12 months (compared to only 15% of respondents

⁴³ Transport for NSW, Customer Satisfaction Index Appendix 2013, released 20 November 2013.

⁴⁴ The second highest indicator on which passengers were dissatisfied was the comfort at taxi ranks where 20% were dissatisfied. On all other indicators the level of dissatisfaction was below 15%. The overall level of dissatisfaction with taxi services in Sydney was 10%.

⁴⁵ NCOSS submission to issues paper, 14 November 2013, p 1.

⁴⁶ Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 80.

⁴⁷ Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 52.

⁴⁸ Taverner Research, *Survey of taxi use in Sydney*, November 2013, pp 20-21.

nominating service improvements).⁴⁹ This is likely to be of significant benefit to passengers with fewer transport alternatives, who may need to limit their travel altogether due to the cost involved.

4.2 There will be more taxis available when people need them

Although cost was raised as the most significant issue for passengers, waiting times are still important. We expect our recommendations to improve waiting times by an average of 6% throughout the week, and for Friday and Saturday night waiting times in particular to improve by 13%.

4.2.1 Waiting times are still of concern to some passengers

Performance of existing taxi services is one of the indicators of the balance between supply and demand. Long waiting times, or bookings where there is 'no car available' to complete the job suggest that more taxis are needed to meet demand.

Some performance outcomes for taxis in Sydney are available through the network standards and KPIs set by Transport for NSW and reported against by the taxi networks. However, these standards are for trips booked through networks only, a minority of all taxi trips.

We have received monthly network KPI data from Transport for NSW for performance relating to booked trips to the end of September 2013. We have projected the data to the end of 2013 and compared this with previous years' data. The 2013 data shows a general improvement compared to 2012 in:

- ▼ average pick up time
- ▼ bookings where either no car was available to fulfil the booking, or the passenger was not there when the taxi arrived.

Appendix C contains a summary of the performance data provided to us by Transport for NSW.

The Taxi Council submitted that it was unreasonable for us to consider service performance outside of the network standards and KPIs that the industry is responsible for meeting.⁵⁰ The Taxi Council considers that if these standards do not adequately address the needs of passengers that they may be changed, after consultation with the industry, at which point IPART could consider the industry's performance against them.

⁴⁹ Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 22.

⁵⁰ NSW Taxi Council submission to issues paper, 18 November 2013, p 10.

We do not agree with this. The service standards and KPIs imposed by Transport for NSW on taxi networks relate only to trips booked via a network. This captures data for only around a quarter of all taxi trips in Sydney. In our view it does not provide a full picture of customer experience for those taking a taxi and it does not measure at all some things that we consider to be very important to the task we are required to undertake (for example, why a person who considered taking a taxi, in the end did not take one).

Transport for NSW also now constructs an index of passenger satisfaction based on the results of a survey that asks people to rate their level of satisfaction with 38 different service characteristics that are not based on network standards and KPIs. In our view, it would be unreasonable for us not to take this information, and our own complementary survey work into account when making our recommendations.

Figure 4.3 shows that the results from our taxi survey provide an indication of how long passengers consider it is reasonable to have to wait for a taxi:

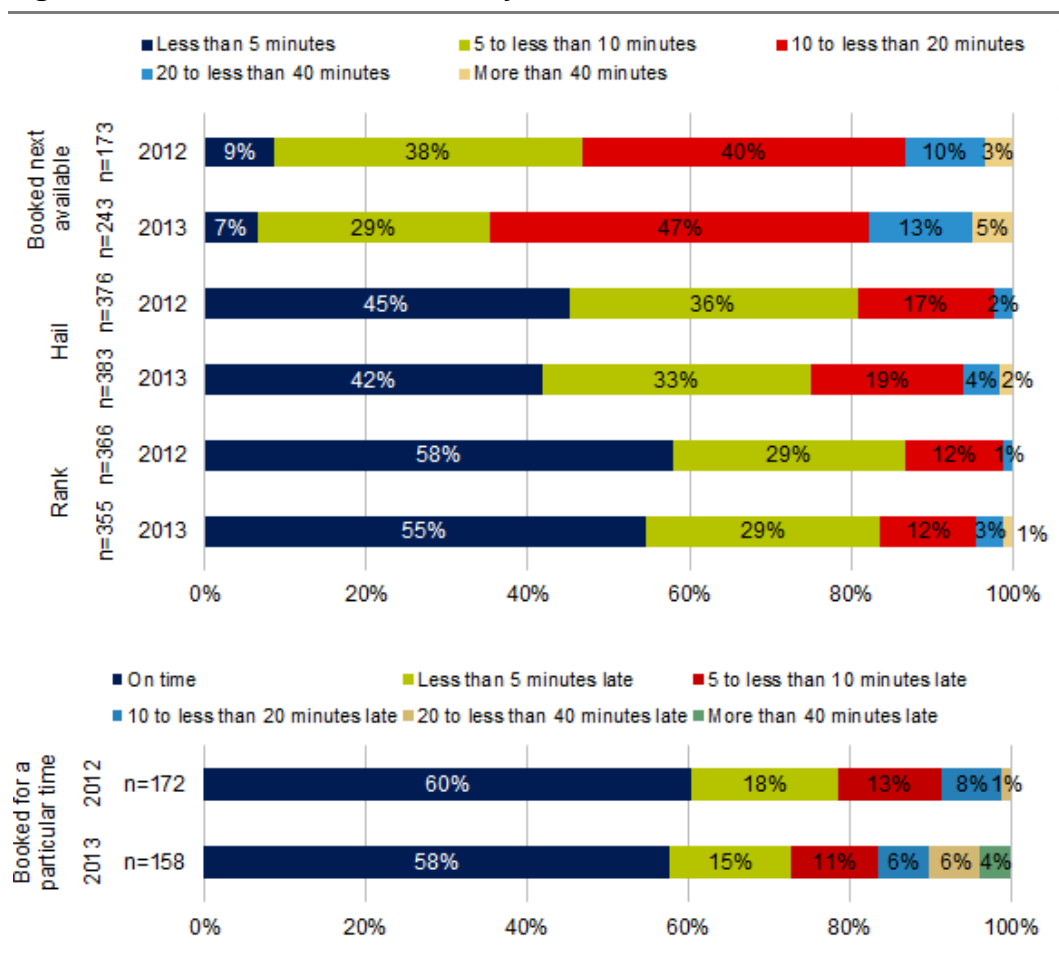
- ▼ Dissatisfaction increases significantly when it takes more than 10 minutes to catch a taxi from a rank, or one is hailed. Of the respondents in the taxi survey that took their most recent taxi trip from a rank or by hailing one, around 80% were able to catch one within 10 minutes.⁵¹
- ▼ When a taxi is booked for a particular time, dissatisfaction also increases significantly when the taxi is more than 10 minutes late. In 2013, around 15% of taxis arrived more than 10 minutes late when the taxi was booked for a particular time.⁵²
- ▼ For passengers that book the next available taxi, dissatisfaction increases significantly when it takes more than 20 minutes to arrive. In 2013, more than 80% of respondents who booked their last journey were able to get a taxi within 20 minutes.⁵³

⁵¹ Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 24, Taverner survey data.

⁵² Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 25, Taverner survey data.

⁵³ Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 24, Taverner survey data.

Figure 4.3 Time for taxi to arrive by how taxi is obtained



Data source: Taverner survey data.

Around 30% of taxi users in our survey said that their main reason for catching a taxi is because it was quicker (or more direct) than other options.⁵⁴ As a result, it is clear that customers value short waiting times.

Waiting time is also important in people's decision *not* to catch a taxi. For example:

- ▼ Of the 209 taxi users (20% of the taxi users) surveyed who tried to catch a taxi but in the end did not:
 - 24% gave up because the wait at the taxi rank was too long
 - 34% gave up because they didn't wait long enough to see any vacant taxis driving by
 - 28% booked a taxi but it did not arrive.⁵⁵

⁵⁴ Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 72.

⁵⁵ Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 50.

- ▼ Similarly, of the 726 passengers surveyed who thought about catching a taxi but in the end decided not to:
 - 15% chose not to catch a taxi because they were not sure if it would turn up in a reasonable period of time if they booked a taxi
 - 9% considered hailing, but they thought the wait would be too long
 - 7% thought that the wait at the taxi rank was too long.⁵⁶
- ▼ Of the 682 passengers surveyed who didn't even consider catching a cab in the last 6 months, almost 25% said the reason why they didn't consider catching a taxi was because they thought the waiting times would be too long, or they were worried that a taxi would not show up after they booked one.⁵⁷

4.2.2 Releasing a mix of unrestricted licences and peak availability licences provides more taxis in peak times

Releasing additional unrestricted licences is the best way of meeting growth in demand for taxis where the size of the market is increasing uniformly across the week.

However, the supply of and demand for taxis are not currently well aligned. Having some taxis that work only one shift a day (and potentially not every day) allows the supply of taxis to better meet the demand throughout the week.

Releasing some licences as PALs provides a better match of supply and demand while we transition to lower unrestricted licence values, which will ultimately allow operators of unrestricted licences greater flexibility about when the taxi is on the road. As PALs tend to operate up to 7 shifts a week instead of 14,⁵⁸ they do not add to the stock of taxis on the road during the morning and day time when passenger demand is low and the benefits of lower waiting times for passengers are not significant but do lead to a larger improvement in waiting times on Friday and Saturday nights, which is when passengers experience the most trouble and longest waiting times to get a cab.⁵⁹

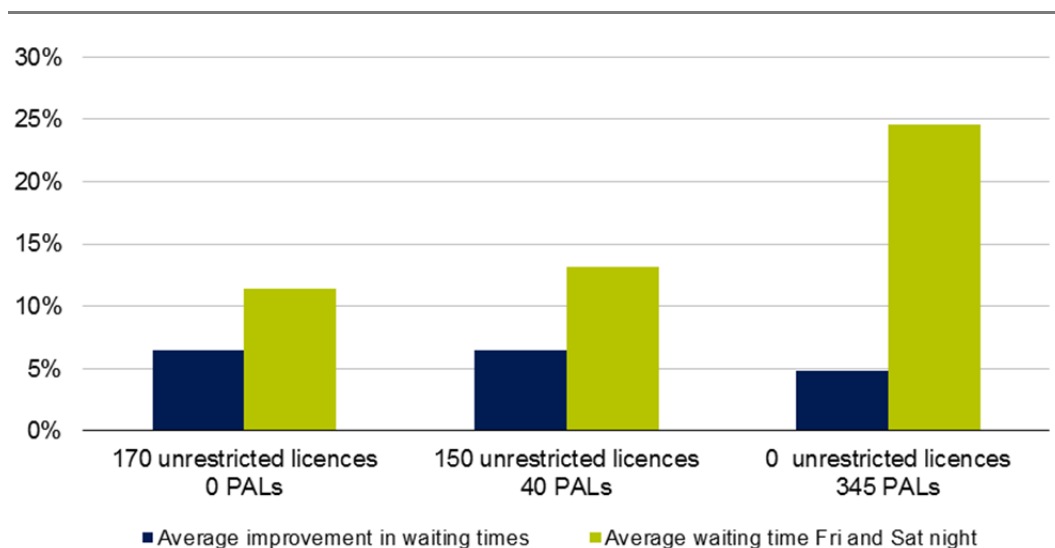
⁵⁶ Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, pp 51-52.

⁵⁷ Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 80.

⁵⁸ IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, pp 51-52.

⁵⁹ Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 43.

Figure 4.4 Comparison of average and peak waiting times under different mixes of PALs and unrestricted licences



Data source: IPART modelling.

5 Viability and sustainability of the taxi industry

A viable, sustainable taxi industry is one that meets the needs of passengers. Increasing the number of licences will mean that more taxis are available and waiting times will be lower at peak times. Holding fares constant in the medium term will result in increased demand for taxi services as fares become more affordable relative to other goods and services.

As demand from population growth, income, and tourism grows, and more people use taxis as they become cheaper and more available, the occupancy rate for taxis will rise, improving the efficiency of taxi services.

While there will be lower fare revenue per taxi for some shifts, we expect that our recommendations will provide sufficient revenue for drivers and operators to retain their existing level of earnings, for new drivers and operators to enter the industry, in the context of licence owners realising a profit margin of 16% by 2017/18 (around \$24,000 per year in nominal terms). In our view, this provides a solid basis for participation and investment in the NSW taxi industry.

Whether it is the drivers, the operators, the networks or the licence holders who bear the impact of the reductions in fare revenue per taxi in the short term, and for how long, will depend on the timing of the adjustment of lease costs.

5.1 Occupancy will improve as demand grows

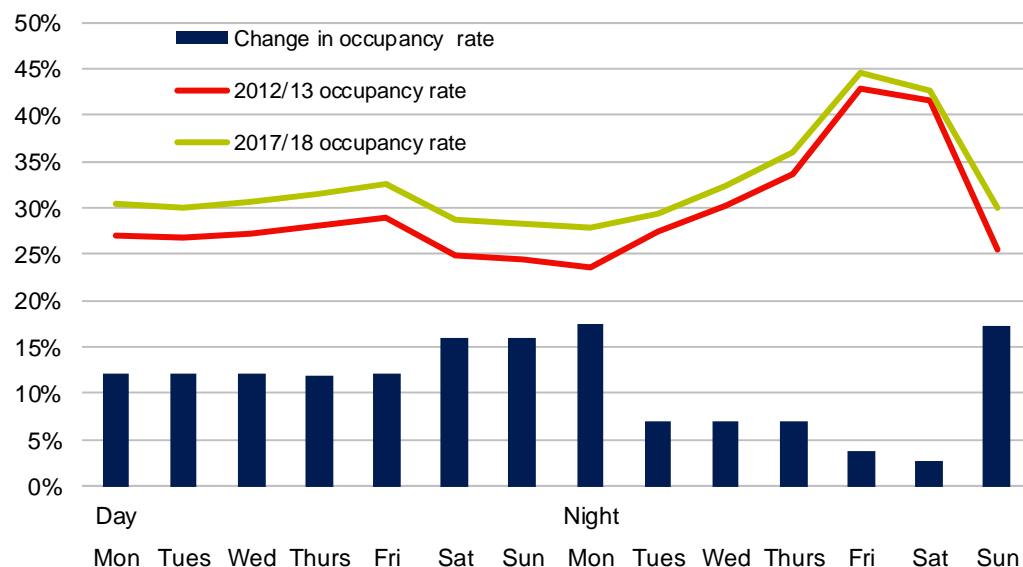
Many submissions consider that there are too many taxis on the road at most times during the week.⁶⁰ The Taxi Council submitted that customer service can be improved through increasing the productivity and utilisation of the fleet.⁶¹

We expect occupancy rates to increase by 10% on average across the week, as a result of our draft recommendations. This assumes a fare freeze combined with releasing annual licences at the same rate is maintained to 2017/18. Figure 5.1 shows that for each shift we expect occupancy rates to improve by between 3% and 18%.

⁶⁰ ATDA submission to the Issues Paper, 11 November 2013, p 4; Taxi Council submission to the Issues Paper, 18 November 2013, p 20; Paul Fletcher submission to the Issues Paper, 15 November 2013, p 1.

⁶¹ Taxi Council submission to Issues Paper, 18 November 2013, p 12.

Figure 5.1 Change in occupancy rates as a result of our draft recommendation



Data source: Taxi industry model.

Occupancy will improve primarily because of demand growth. We expect the total number of trips to increase by 24% by 2017/18. Growth in population, household and business income, economic activity and tourism is likely to increase the size of the potential market of taxi users, and increase the frequency with which people use taxi services. By examining trends in NSW state final demand, population growth and airport passenger numbers, we consider that demand for taxi services is likely to grow by around 2.5% per year over the longer term. This is consistent with our forecast for our previous fare and licence reviews.

Table 5.1 Change in external sources of demand

	2008	2009	2010	2011	2012	AAGR ^e
Population growth ^a						1.6% ^d
State final demand ^b	4.7%	-1.9%	4.0%	2.4%	3.4%	2.5%
Airport passenger numbers ^c	5.7%	-1.1%	6.5%	4.3%	0.1%	3.1%

^a Actual population growth is not published annually.

^b June quarter figures reported. Percentages are calculated as June quarter for the relevant year on June quarter for the previous year.

^c Figures are for financial year to June of the relevant year.

^d Average annual growth rate from 2006-2011 published by ABS.

^e Average Annual Growth Rate.

Source: State final demand - 5206.0 Australian National Accounts: National Income, Expenditure and Product - Table 21. State Final Demand, Summary Components by State: Chain volume measures (Seasonally adjusted). Population growth - ABS, 31010DO001_201203 Australian Demographic Statistics, Mar 2012, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0>, Airport passenger numbers - Department of Infrastructure and Transport, Bureau of Transport, Infrastructure and Regional Economics, *Air passenger movements through capital and non-capital city airports to 2030-31*, Report 133, November 2012, p 25.

The number of trips will also increase because we are recommending that fares remain constant in real terms, which means they will become relatively cheaper as the price of other things increase. Some additional demand will occur as the time taken to catch a taxi is reduced as more taxis are put on the road. This is known as latent demand, because some people are not currently making these trips, but would make them if prices fell or service improved.

We have assumed that for every 1% fall in real prices, the number of new trips increases by 0.8% (which is an average price elasticity value across all shifts of -0.8). For waiting time we have assumed that for a 1% decrease in waiting time, demand would increase by 0.17% (based on a value of time of \$30 per hour while waiting, and using the same price elasticity as for fares).

Some stakeholders do not consider that the decrease in fares will have a stimulatory effect.⁶² Our assumed value of elasticity of -0.8 is comparable with the Victorian Taxi Inquiry's final report, which suggests an elasticity of around -1 for Melbourne.⁶³ Our estimate is also within the range of the majority of international studies of -0.2 to -1.⁶⁴

5.1.1 How did demand change in 2013?

The historical change in demand is one indicator of how demand may change in the future.

While much of the data needed is currently available, we do not have information on the number of trips taken in Sydney compared to previous years. Taxi network systems record data on trips taken, and we requested this and other data via the Taxi Council on a voluntary basis. There is no obligation for operators or networks to provide trip data to IPART, and the Taxi Council has not provided the data.

We consider it would be beneficial to have access to actual taxi trip data to inform our assessment of demand. This would improve our understanding of how the number of journeys responds to our recommendations on fares and taxi licence numbers.

In 2013, we recommended that TfNSW should mandate a regulator dataset to be transmitted from operators through metering technology directly to the regulator. We are currently investigating other means of data collection.

⁶² Taxi Council submission to the Issues Paper, 18 November 2013, p 5; Mollenhauer submission to the Issues Paper, 15 November 2013, p 2.

⁶³ Victorian Taxi Industry Inquiry, Final report, October 2012, p 260.

⁶⁴ Booz Allen Hamilton 2003, *Appraisal of taxi fare structure issues*, p 10.

The Taverner survey showed that almost 60% of people surveyed caught a taxi during the last 6 months, with 30% catching a taxi once a month or more, and more than 10% catching a taxi at least once a week. This is similar to the proportion of passengers that caught taxis in our 2012 survey.⁶⁵

Most people surveyed in 2013 said that their taxi use did not change in the last year, with 18% reporting that they caught taxis more, and 21% reporting that they caught taxis less.⁶⁶

5.2 Profit per taxi will fall

As explained in Chapter 2, licence lease costs are a key indicator of the balance between supply and demand and an indicator of whether fares are at the right level. Falling lease prices indicate a better balance between supply and demand or more appropriate fare levels. Because the licence lease price is the difference between a taxi's revenue and expenses, the mechanism by which lease prices fall is a reduction in profit per taxi.

The NSW Taxi Council submitted that a reduction in licence lease prices will have a material impact on the existing investors, and therefore will have negative consequences for the future viability and sustainability of the industry.⁶⁷

By 2017/18, a 25% real reduction in licence lease values will mean that licence owners will still receive around \$24,000 per year in nominal terms. In our view, this provides a solid basis for participation and investment in the NSW taxi industry. In addition, as more licences are released and annual licence costs fall, it will become cheaper and easier for new entrants to invest in the taxi industry. As noted in chapter 2, there has been significant unmet demand for licences in previous licence tenders, with more than 500 bids for the 65 unrestricted licences in 2013/14.

5.2.1 How will costs and revenue change?

We expect that the revenue per taxi will increase from around \$160,000 to \$175,000 between 2012/13 and 2017/18, and costs to increase from around \$130,000 to \$150,000 (in nominal terms).⁶⁸

⁶⁵ Taverner Research, *Survey of taxi use in Sydney*, November 2013, pp 10-11.

⁶⁶ Taverner Research, *Survey of taxi use in Sydney*, November 2013, pp 16-17.

⁶⁷ NSW Taxi Council submission to Issues Paper, 18 November 2013, p 21.

⁶⁸ The survey data collected from drivers and operators about their costs and revenues by CIE in 2011/12 forms the basis of this analysis.

These forecasts are based on:

- ▼ assuming a nominal fare freeze until 2017/18, but increased trips due to increased demand continuing to increase revenue per taxi in nominal terms⁶⁹
- ▼ our expectation that total unit costs (the combined costs of labour, vehicle costs, fuel etc) will change by CPI each year
- ▼ an additional real increase in costs will result from an 8% increase in kilometres driven per taxi as demand and occupancy increases.

We have assumed that unit costs will not increase by more than CPI because, even though some costs, such as insurance may increase by more than CPI, around 50% of costs is made up of driver labour, which has historically been subject to downward pressure as the supply of labour has expanded.

We note, however, that using CPI as the forecast change in costs does not mean that driver and operator earnings cannot rise in real terms. For example if the supply of labour falls relative to the demand for taxi drivers, operators may need to lower the pay-in to attract drivers (which would mean that drivers would keep more of the fare revenue - and in effect increasing their earnings). This is discussed in more detail below.

5.2.2 Lease costs will fall when the market has fully adjusted

Because costs will increase by more than revenue, the profit will fall by \$5,000 in nominal terms during this period. Table 5.2 shows how the profit will fall per shift between 2012/13 and 2017/18.

Table 5.2 Estimated change in net revenue per taxi of our recommendations (\$ per taxi, per shift, nominal terms)

Day shifts	Mon	Tues	Wed	Thurs	Fri	Sat	Sun
	-\$5	-\$5	-\$5	-\$5	-\$5	\$1	\$0
Night shifts	Mon	Tues	Wed	Thurs	Fri	Sat	Sun
	-\$1	-\$12	-\$16	-\$19	-\$15	-\$10	-\$2

Note: The change in net revenue is the difference between additional fare revenue and additional costs. Figures have been rounded to the nearest dollar.

Source: IPART calculations.

When the market has fully adjusted to these changes, licence lease prices will fall because there is not as much profit that can be taken by the licence holders as economic rent. The lower profit per taxi will flow from drivers back to operators via lower pay-ins and then from operators to licence owners through lower licence lease costs.

⁶⁹ However, nominal revenue increases more slowly than the rate of inflation, so in real terms it is reducing.

How fare revenue is shared between drivers, operators and licence owners is negotiated between them. Until the impact has been fully absorbed by licence owners, drivers, operators and licence owners will share the reduction in income rather than it being borne by any particular part of the industry.

The NSW Taxi Council submitted that reducing profits will result in drivers and operators exiting the industry.⁷⁰ The more quickly licence owners reduce their licence lease fees, the smaller the disruptions to drivers and operators. It is in the interests of drivers and operators to begin renegotiating immediately in order to minimise the impact of the changes. The NSW Taxi Council could help the transition by working with networks (who manage many licences on behalf of owners) and owners to transition to lower market rates for leased licences without undue impacts on drivers and operators.

However quickly this occurs, it is important to emphasise that transition effects are by definition temporary and that the change is in the long term interests of the industry as a whole. As former Victorian Taxi Inquiry Commissioner David Cousins pointed out in his submission to our taxi licence review:

A clear distinction needs to be made between the viability and sustainability of individual industry participants and the industry as a whole. The industry may be quite viable and sustainable whilst some members of it are unable to operate profitably. In competitive industries, entry and exit are a normal and healthy aspect of market operation.⁷¹

5.3 How will drivers be affected by our draft recommendations?

As explained in Chapter 2, the fare revenue does not directly affect drivers' earnings, because operators can adjust the pay-ins to offset the change in fare revenue. The pay-in to take out the taxi is negotiated directly between drivers and operators.⁷² Because these pay-ins are determined in the market, IPART does not have a role in setting driver earnings.

The relative bargaining position of drivers and operators is determined by the demand for drivers, relative to the supply:

- ▼ If there are not many taxis, and a lot of drivers who want to drive taxis, operators are more likely to charge a higher pay-in, and so drivers will take home less of the total fare revenue.
- ▼ On the other hand, if there are more taxis and not enough drivers, operators will have to reduce their pay-ins in order to get a driver for their taxi. This will mean that the take-home earnings for drivers will be higher.

⁷⁰ Taxi Council submission to the Issues Paper, 18 November 2013, p 18.

⁷¹ D Cousins submission to taxi licence review Draft Report, 15 January 2013, p 3.

⁷² The contractual relationship between bailee drivers and operators in Sydney is subject to regulation by the NSW Industrial Relations Commission but in practice the outcomes for most drivers are unaffected by the constraints imposed by the IRC.

A number of submissions considered that the number of available drivers has fallen as a result of reduced net migration, a reduction of international students in Australia, and an ageing population. They state that operators are finding it increasingly difficult to get reliable drivers to operate their vehicles.⁷³

Under our draft recommendations, having a lower number of drivers for a larger number of taxis will improve the bargaining position of drivers. It will mean that operators are more likely to reduce their pay-ins to ensure that their taxis are on the road, which would increase the take-home earnings to drivers. If operators do not reduce their pay-ins, a driver shortage allows the drivers to negotiate a better deal elsewhere.

Therefore, even though our draft recommendations mean that fare revenue per taxi increases at less than the rate of inflation, pay-ins are likely to increase at an even slower rate, so that drivers should be no worse off in real terms, and may be better off if their bargaining power increases.

We note that it would also be possible to apply to the NSW Industrial Relations Commission to make a variation to the contract determination to reduce the maximum pay-ins to a level that reflects the current negotiated pay-ins, with an adjustment commensurate with the forecast change in revenue per shift. This would remove the transitional impact of our recommendations on drivers altogether by mandating lower real pay-ins immediately (and therefore allowing drivers to retain more of the shift revenue).

5.3.1 What if driver earnings were higher?

The ATDA note that the weekly earnings for drivers equate to an hourly driver rate of less than \$11 per hour.

They stated in their submission that:

The rate of earnings, noting as it does a complete lack of community standard entitlements or superannuation, is half the Australian minimum hourly rate of wages for a casual work.... If the industry were to pay fair wages and meet its legal obligations, under the current structure... the Industry and its operator participants would be financially bankrupt.

⁷³ Taxi Council submission to Issues Paper, 28 November 2013, p 13; Ernie Mollenhauer submission to Issues Paper, 15 November 2013, p 2.

We agree with the ATDA that if driver earnings were significantly higher (for example, in line with the minimum casual wage of \$20.30⁷⁴), this would constitute a fundamental shift in the economics of providing taxi services, and it would mean that the current revenue per taxi (reflecting the current operations) would be insufficient to cover the cost of providing taxi services.⁷⁵

This is consistent with the findings of the Victorian Inquiry into the Taxi Industry. It found that in Melbourne, if driver earnings were equivalent to the driver award rates then they would exceed the total taxi earnings in some shifts.⁷⁶

Our recommendations are made on the basis of the current industrial relations arrangements in NSW, which result in substantial profit margins for licence lease holders.⁷⁷

We will take into account any changes to the industry structure in future reviews (for example, if the Industrial Relations Commission were to reduce maximum pay-ins in such a way as to significantly increase driver earnings).

5.3.2 Ensuring that fares adjust for fuel costs to minimise the transitional impact on drivers

Fluctuations in the price of LPG can have a significant effect on the cash flow of drivers in the short term. Therefore, our draft recommendation is that we will continue to review LPG prices outside the regular fare review cycle. We intend to track the movement in LPG prices on an ongoing basis, and if it changes by more than 20% (up or down) in any 6-month period, compared to the same 6 months the year before (to avoid capturing seasonality effects) we will recommend that fares should change to reflect this. We would recommend that fares change in proportion to the total cost of LPG (as measured in our 2013 fare review at 11%). So, for example, if LPG costs rise by 25% we will recommend that fares be increased by 2.75% (plus the cost of making the meter change).

⁷⁴ Based on the full-time minimum wage of \$16.37, and an additional 24% casual loading. Fair work ombudsmen, *National minimum wage*, accessed 12 December 2013, <http://www.fairwork.gov.au/PAY/NATIONAL-MINIMUM-WAGE/pages/default.aspx>

⁷⁵ The ATDA submitted that if occupancy and utilization improved to the levels of 2006, the operation of a taxi would be marginally viable. ATDA submission to Issues Paper, p 3.

⁷⁶ Victorian Taxi Inquiry, draft report, May 2012, p 297.

⁷⁷ We note that the Fair Work Commission decision *Dick v Voros* [2013] FWC 6715 (Melbourne, 13 September 2013) has no broader application to the legal framework for the NSW taxi industry. In that specific set of facts, the applicant driver was found to be an employee of the respondent for the purposes of an unfair dismissal claim. The decision is currently under appeal.

This is a slightly different mechanism to the existing 'mid year fuel review' that we have conducted in previous years, because the timing of our fare recommendations has changed. Previously, IPART would give its final recommendations to TfNSW on fares one month before fares were due to increase in July, which would account for the annual change in LPG costs to April. Then, in the following December, we would measure the change in LPG prices for the 6 months between May and October and if we found they had changed by more than 20% we would recommend an additional fare change to apply from January. However, because we have now been asked to make our final recommendations 5 months in advance of the July fare change, we have reconsidered the way we undertake this process.

Our draft decision is to track the change in fuel for the previous 6 months every month on a rolling basis, and to recommend a fare change if the 20% threshold has been triggered. However, because of the administrative costs involved with fare changes (including meter changes and printing and distributing new fare stickers), if the 20% threshold is triggered and IPART recommends a fare change, we will not make further fare recommendations to reflect LPG changes for another 6 months.

The Taxi Council submitted that isolating LPG for consideration is discriminatory against operators and sought a return to calculating all costs per the Taxi Cost Indices.⁷⁸ We are recommending tracking LPG costs because they are borne directly by drivers, and their take home earnings will be affected if they cannot negotiate a lower pay-in with operators in the short term.

We are not recommending a mid-year fare change from January 2014. In our recommendation on fares to apply from July 2013, we said that we would undertake a mid-year fuel review using our previous method. We are not recommending that fares change in January, because the change in LPG prices has not triggered the 20% threshold. Between May and November 2013, the LPG prices rose 1.8% in urban areas and 1% in country areas

5.4 How our recommendations will affect operators

Operators receive revenue from driver pay-ins. They have a number of costs that they need to pay out of this revenue including vehicle costs, insurance, network fees, maintenance costs and licence lease costs. Whatever is left after paying these costs is retained by the operator as income. The CIE survey found that operators' income was around \$9,000 per year for each taxi, which is around \$40 an hour (on average, operators do around 4 hours of administration each week for each taxi).⁷⁹

⁷⁸ Taxi Council submission to Issues Paper, 18 November 2013, p 5.

⁷⁹ The CIE, *Reweighting of the Taxi Cost Index*, April 2012, pp 55-56.

The Taxi Council submitted that fares should increase as the operators' costs rise.⁸⁰ As we explained above, we expect costs to rise faster than revenue, and as a result profits will fall by 25% (in real terms) between 2012/13 and 2017/18. Just as the drivers need to negotiate a pay-in with the operators to reflect lower revenue growth, operators need to negotiate a lower lease payment to licence holders to reflect their increased costs and lower revenue growth.

Alternatively, the operators can reduce their costs by bidding for an annual licence. Under our draft recommendations, 150 unrestricted licence plates and 40 PALs will be released, before allowances for replacement and churn. Not only could these provide a cheaper means of entering the taxi market for new operators, but existing operators could put in a lower bid for one of these licences than they are currently paying to reduce their costs.

Chapter 6 explains that we are aiming to ensure that enough licences are released each year to enable operators to relinquish a more expensive licence in favour of a cheaper one. This is one way to speed up the transition process and minimise the transition effects of reform on taxi operators.

Operators can also bid for the new PALs that we are recommending for release as part of our draft recommendation, as a way of reducing their fixed costs. As shown in chapter 2, in the 2013 tender, most operators were able to successfully bid for a PAL for a third less than the price of an unrestricted licence (reflecting their reduced opportunity to general revenue – in practice they operate up to 7 shifts a week instead of 14).

As well as making entry more affordable into the taxi market, PALs provide operators an opportunity to run a different business model. Rather than put their taxis on the road for as many shifts as possible (up to 14 shifts a week), a PAL allows operators to single shift their taxis when demand is the highest between midday and 5 am. This means that they can operate and drive their taxi without having to hire other drivers.

We encourage would-be operators to carefully assess the cost structure of a PAL taxi business and bid an appropriate amount for tendered PALs. We note that the NSW Government has a range of assistance available to people wanting to start a small business, including potential taxi operators.

⁸⁰ NSW Taxi Council, submission to Issues Paper, pp 16-18.

6 Replacing licences and making allowances for future attrition and wheelchair accessible taxi (WAT) licences

Each year, some annual licences that were issued in previous years are handed back to TfNSW ('relinquished') or not renewed. This may be because the operators of those licences are leaving the taxi industry, or have obtained another licence at a better price, whether by bidding at the annual tender process or leasing a perpetual or ordinary licence.

Our draft recommendations for new annual licences are made on the basis that these licences will be additional to the existing stock of licences, so we need to make an adjustment to account for the licences that we expect to be handed back or not renewed during 2014.

This adjustment is made in advance on the basis of our expectations, so actual numbers of relinquishments or non-renewals may differ. In order to maintain the existing stock of licences at the same level, we have to make a further adjustment to account for any difference between last review's allowance and the actual number of relinquishments and non-renewals during 2013.

In addition, as WAT licences are available on application from TfNSW and they compete for the same work as unrestricted licences, we need to release fewer annual taxi licences through the tender process to account for the WAT licences that we expect to be released outside the tender process. This number also needs to be adjusted to account for any differences between last year's allowance and the actual net number of WAT licences released during 2013.

Our draft recommendation is that an additional 77 unrestricted licences be tendered for future attrition and 8 added for historical replacement, based on current data, with an additional 54 PALs for future attrition and 24 added for historical replacement, based on current data. We also recommend that 13 unrestricted licences be subtracted to account for WATs released outside the tender process.

This chapter explains in more detail how we obtained those estimates.

As we expect annual licence prices to fall over time, the rate at which annual licences are not renewed is likely to increase as more people make use of the annual tender process to try to get a better price for a licence. This chapter also considers what arrangements TfNSW could put in place to assist operators to reduce their costs using this mechanism.

6.1 Additional licences that need to be released

We recommend adjustments to the number of licences offered for tender in order to account for:

- ▼ annual licences that we expect will no longer be operated
- ▼ the difference between last year's allowance for licences we expected would no longer be operated during 2013 and the actual number relinquished or not renewed since December 2012
- ▼ the expected issue of additional WAT licences outside the annual tender process – specifically, we recommend that fewer licences need to be issued through the tender process as a result of additional WAT licences likely to be issued.

6.1.1 Annual licences that we expect will no longer be operated

Every year some annual licences are handed back ('relinquished') or not renewed. There are a number of reasons that a licence holder might hand back a licence, including that they have been successful in obtaining a cheaper licence in a subsequent tender release. We consider that the ability to easily relinquish a licence in favour of a cheaper option is an important feature of the current arrangements.

The *Passenger Transport Act 1990* requires the annual licence renewal price for subsequent years to be equal to the price in the first year, with no scope for a reduction in licence fees to be built in.⁸¹ This means that if annual licence costs are falling rather than rising, as we expect to happen in future years, bidding a lower value in a future tender and handing back the more expensive licence is the only means by which operators can reduce the costs of holding an annual licence from TfNSW.

Licences handed back are no longer in circulation and as a result, some adjustment needs to be made to the number of licences released to ensure that licences lost through attrition do not reduce the number of available licences.

We consider that an adjustment for attrition should be made on a prospective basis. Last year we made an adjustment for attrition during 2013 (70 unrestricted and 30 PALs) based on the number of licences handed back during 2012. TfNSW accepted this adjustment.

TfNSW has advised that 64 unrestricted licences and 45 PALs were relinquished or not renewed between January and October 2013.

⁸¹ *Passenger Transport Act 1990*, section 32JA (3).

We consider that this year's relinquishments are a reasonable guide to next year's. Based on the 64 unrestricted licences and 45 PALs relinquished to October, plus 20% to extrapolate 10 months of data to 12 months, our estimates are 77 unrestricted licences and 54 PALs. We will adjust this figure to base it on a full year's data for the final report.

Draft recommendation

- 5 That 77 additional unrestricted and 54 additional PALs be added to the number of licences to be tendered, to allow for licences we expect to be relinquished and not renewed during 2014.

6.1.2 Adjustment to account for the difference between last year's attrition allowance and actual attrition experience

When we undertook a review of new annual licences for the first time in 2012/13, we constructed our taxi industry model using 2012/13 as the base year. The number of licences in the base model is the number of valid licences in the Sydney market as at 31 December 2012. Therefore when we undertook the licence review we made an allowance for licences we expected to be relinquished or not renewed during 2013, but we did not make an adjustment for licences that actually were relinquished or not renewed during 2012.

Now that we are in our second year of reviewing licence numbers, we also need to assess how our attrition allowance for 2013 compared to the experience in the market during 2013 and adjust the number of licences to be released accordingly. We will simply replace the net number more or less than our allowance.

As noted above, last year we made an adjustment for attrition during 2013 of 70 unrestricted and 30 PALs.⁸² TfNSW has advised that 64 unrestricted licences and 45 PALs were relinquished or not renewed between January and October 2013. Extrapolating these numbers to estimate a full 12 months of actual data, the adjustment would be 7 additional unrestricted (because our unrestricted estimate of 70 was 7 less than actual) and 24 additional PALs (because our PAL estimate of 30 was 24 less than actual).

Draft Recommendation

- 6 That 7 additional unrestricted and 24 additional PALs be added to the number of licences to be tendered, to replace licences relinquished and not renewed during 2013 over the allowance we made for attrition for the same period.

⁸² IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 1.

6.1.3 Expected release of wheelchair accessible taxi licences and adjustment for 2013 experience

TfNSW issues WAT licences on application for \$1,000 per year⁸³ (in Sydney – outside Sydney WAT licences are free). Last year we made an adjustment to the modelled number of growth licences to account for WAT licences released during the year, as these are another source of taxis that can substitute for taxis with standard licences. We deducted 0.45 of a licence for each additional WAT, on the assumption that 90% of WAT jobs are standard jobs that could be performed by any taxi, and that a WAT only operates 50% of the time (because WAT licence conditions mean they are usually single-shifted rather than double-shifted).⁸⁴

Last year we subtracted 5 licences from our recommended number of new annual taxi licences to account for the 12 additional WAT licences which we expected to be released outside the tender process.⁸⁵

The Taxi Council has submitted that WATs should be regarded as equivalent to unrestricted licences and a one for one adjustment made.⁸⁶ Our taxi industry model treats WATs as equivalent to unrestricted in terms of shift patterns, so we agree that this change makes our treatment of WATs more consistent between the modelling and the licence recommendations.

In 2013, 9 WATs have been issued. Applying the one for one replacement, this is 4 more WATs than our allowance forecast, so we need to subtract 4 as a historical adjustment, and subtract 9 as a future allowance.

Draft Recommendation

- 7 That 13 unrestricted licences be subtracted from the number of licences to be tendered, to allow for WATs issued outside the tender process in 2013 and expected to be issued outside the tender process in 2014.

6.2 What could be done to help operators relinquish a more expensive licence in favour of a cheaper one?

To date, every tender has resulted in annual licences with a higher average (mean) price than leases for perpetual licences available through taxi networks. This suggests that bidders for annual licences (which have a fixed annual renewal price which cannot be indexed) have been factoring in an expectation that lease prices would continue to rise. Once it becomes clear that the annual

⁸³ TfNSW, *Taxis Background*, 28 March 2013, <http://www.transport.nsw.gov.au/content/background>

⁸⁴ This was based on PwC's approach in earlier annual taxi licence reviews. See, for example, *Annual taxi licence release 2012/13 – Final Report*, 15 March 2012, p 71.

⁸⁵ IPART, *Annual taxi licence release for Sydney 2013/14 – Final Report*, February 2013, p 1.

⁸⁶ Taxi Council submission, 18 November 2013, p 20.

licence release process will continue to add new licences to the fleet each year, we expect bidding behaviour to change. We also expect that greater numbers of existing annual licence holders will bid in subsequent licence releases and obtain a licence at a lower annual cost than the one they already hold.

As noted above, we consider that the ability to obtain a cheaper licence in a subsequent tender and relinquish the more expensive licence without interrupting the operation of the taxi service or requiring the licence holder to pay for 2 licences is vital to the success of the 2009 reforms. This process is the only means by which operators can reduce the costs of holding an annual licence from TfNSW. When annual licence costs are falling, as we expect to happen under our recommendations, the smooth operation of this process is very important.

The tender information packages issued each year state:

Where a licence holder obtains a new licence under a subsequent tender process, RMS will make every reasonable effort to align expiry and commencement dates to allow for continuity of operation.⁸⁷

Several submissions to last year's licence review said that this 'churn' mechanism would be too costly, quoting \$4000 for operators to churn because of insurance being cancelled/reissued, new decals, radio changes and mismatched licence periods.⁸⁸ TfNSW estimated a cost imposed by Roads and Maritime Services (RMS) of around \$1,000, providing the operator is using the same vehicle, consisting of the requirement to obtain a blue slip (taxi roadworthiness certificate), and to deregister and register a vehicle.⁸⁹ However, RMS has subsequently advised that these requirements do not apply if the new licence is the same type (ie, unrestricted or PAL) as the old licence.⁹⁰

We sought feedback from stakeholders regarding financial and other costs of tendering for a new licence and then relinquishing an old one, but we did not receive any submissions on this issue. The next chapter discusses other aspects of the tender process and makes recommendations that should improve the process for operators wanting to bid for a licence to effectively replace an existing one.

⁸⁷ See for example, *Annual Taxi Licence Tender 2013-14 Peak Availability Class Annual Taxi Licences for operation in the Metropolitan Transport District (Sydney) Request for Tender RMS.13.2749.0853*, 2013, p 6, <https://appln.transport.nsw.gov.au/mint/docs/RFT%2013.2749.0853%20Peak%20Availability%20Class.pdf>.

⁸⁸ E Mollenhauer submission, 21 January 2013, p 1; T Bradley submission, 22 January 2013; ATDA submission, 23 January 2013, p 6.

⁸⁹ Information provided by Transport for NSW via email, January 2013.

⁹⁰ Information provided by Transport for NSW, personal communication, July 2013.

7 | Process for releasing licences in Sydney

Our terms of reference ask us to make recommendations on the process for setting a price for new licences issued (that is, the auction/tender process) and on whether there should be restrictions on who may bid for licences or on how many licences may be issued to any one bidder.

Our assessment is that the process established and used for the past 4 years has been successful and effective and there is no need for change to the mechanics of the tender process. However, we continue to be of the view that the tender documentation and information could be improved for the benefit of tenderers.

7.1 Tender process

The legislation offers the choice between an open auction and a sealed tender release; within a sealed tender, the price may be set either by 'pay as bid' or 'lowest successful bid'. To date taxi licences have been issued under a sealed tender and priced using the 'pay as bid' method.

As discussed in last year's final report, while there are potentially benefits from moving to an approach based on the lowest successful bid, we consider that these are outweighed by the benefits of continuity of approach.

We also considered other tender process issues, including timing, and the release of market information about tender prices, and recommend that TfNSW release preliminary information about tender prices as soon as possible to inform the market.

The following sections discuss these issues in more detail.

7.1.1 Pay as bid or pay lowest successful bid

The pay-as-bid method results in a range of prices for licences. Over time this leads to administrative costs, as every licence holder is charged a different price for essentially the same product. Nevertheless, it does have some advantages including that each applicant putting in a bid knows up-front what they will have to pay if successful, and being able to match this with their willingness to pay.

Setting the price for all licences at the lowest successful bid has the advantage of a uniform price for a uniform product (although this might not reflect the range of values that might exist for the bidders), and it should result in lower average prices and protect to some extent bidders who make over-market price bids from lack of information about prevailing market prices.

However, as the licences are annual, someone who discovers in the pay-as-bid system that they have paid over the market price for a licence has the opportunity to bid for a new licence at a lower price the following year and not renew the original licence.

While the lowest successful bid has some advantages, we consider that they are not significant enough to justify moving away from the current approach. The current approach is well understood and now has several years of published results that potential bidders can use to inform themselves. For the sake of stability, our view is that the pay-as-bid method should be retained.

Draft Recommendation

- 8 Roads and Maritime Services should continue to use the existing tender process, that is, a sealed electronic tender, with pay-as-bid prices for successful tenderers.

7.1.2 Other tender process issues

Tenders have to date mostly been held with a June closing date. Successful tenderers are usually notified in July and have 6 months to complete the registration process and get a taxi on the road. TfNSW does not publish the results of a tender until all licences are issued and active, which can be more than 7 months from the tender close date depending on circumstances.

In our view, the regular scheduling of tenders in June (with any unissued licences being re-tendered as soon as possible) helps the industry to plan and helps to facilitate the churn from a higher-priced licence to a lower-priced one without additional costs.

However, we consider that it is vital for the market to be better informed about tender prices sooner. We recommended in our 2013 licence review final report that TfNSW should publish preliminary results of tenders as soon as possible. Given the electronic tender process, we consider that they should be able to do this within 2 weeks of tenders closing. The responsibility for the licence tender process has now been transferred from TfNSW to RMS, and we consider that they should implement this recommendation.

One submission on our issues paper noted the need to provide ‘clear explicit tender information’ to help those in the taxi industry who may be from a non English speaking background and struggle to understand complex tender information, as well as better advertising the tenders to current drivers.⁹¹

The same submission supported:

- ▼ introduction of a reserve price for tenders, set at \$8,000 as a guide to the appropriate cost of a licence
- ▼ only non-plate owners being eligible to bid
- ▼ unsuccessful tenderers be eligible for a refund of their tender registration fee (\$100, set by regulation).

We see merit in improving the tender documentation to assist tenderers to develop a view of the appropriate price by providing enhanced and up to date contextual information to help tenderers reach an informed decision about the appropriate value to them of a taxi licence. For example, information about past tender prices, alternative sources of licences (such as the secondary market), the objectives of the licence reforms and fare levels should be included.

We also consider that refunding the tender registration fee to unsuccessful bidders would encourage more participation in the tenders and reduce the burden of churn for existing holders seeking a better price.

Draft Recommendations

- 9 Roads and Maritime Services should publish preliminary results of tenders within 2 weeks of tenders closing.
- 10 Roads and Maritime Services should enhance the tender documentation to include up to date contextual information to help tenderers reach an informed decision about the appropriate value to them of a taxi licence
- 11 Roads and Maritime Services should refund the tender registration fee to unsuccessful bidders.

7.2 Should there be a reserve price for tenders?

To date there has not been a reserve price set for tenders. In our 2013 review, we considered whether it might be necessary to introduce one in order to ensure that the cost of new licences does not result in the market price for leases of perpetual licences falling more than we expect it to. We concluded that a reserve price is not desirable. More detail of our reasons for this decision can be found in the final report of the 2013/14 licence review.⁹²

⁹¹ T Hirsch submission, 18 November, p 5.

⁹² IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, pp 76-77.

7.3 Reserving some licences for drivers and/or restricting the number that can be granted to the same applicant

When the 2009 licensing reforms were introduced into Parliament, the Government noted that the primary focus of the changes was on building a business based on delivering services to passengers. The Government wanted to provide opportunities for lessee operators and experienced drivers to take up a new licence and become their own boss.⁹³

To further these aims, TfNSW may decide to target the issue of a certain number of licences at drivers to provide a career path, or may restrict the total number of licences taken up by any one person or entity in the interests of promoting competition.

There was support in submissions last year for driver-only allocations and/or for drivers to have access to free or low cost licences.⁹⁴ However, even without a formal allocation, we expect that most tender bids for licences will come from drivers and operators who will use their licences to provide taxi services. Historically, most winning tenderers have been drivers in the open tenders as well as the driver-only tenders.

Provided enough licences are available that drivers and operators have ready access to affordable licences directly from TfNSW, we do not consider that there is any need to restrict the number that can be granted to the same applicant or to reserve licences for drivers only.

⁹³ Full Day Hansard Transcript (Legislative Assembly, 30 October 2009, Corrected Copy), p 19076, [http://www.parliament.nsw.gov.au/prod/parlment/hanstrans.nsf/V3ByKey/LA20091030/\\$File/541LA158.pdf](http://www.parliament.nsw.gov.au/prod/parlment/hanstrans.nsf/V3ByKey/LA20091030/$File/541LA158.pdf).

⁹⁴ ATDA submission, 2 November 2012, p 2; J Soothhill submission, 29 October 2012, p 2; NSWTD submission, 9 November 2012, pp 2, 6; St George Cabs submission, 9 November 2012, p 8.

8 Fare structure in Sydney

As well as fare level, we also considered if any changes needed to be made to the fare structure.

Fare structure refers to the different components that make up the overall fare charged to a passenger. Fare structure 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). Even if the overall level of fares stays the same, an increase in one fare component and a decrease in another component will affect the price of a particular journey.

In our 2013 fare review we consulted on a range of possible changes to fare structure in response to issues raised by stakeholders in the past, and recommended a number of changes to structure, including removal of the Harbour crossing return toll. Transport for NSW's final decision on fares was to retain the existing structure with the addition of a peak hiring charge for Friday and Saturday nights.

Transport for NSW also deferred a decision on the Harbour crossing return toll and asked us to conduct further analysis to assess the impacts of such a change.

In the issues paper for this review we discussed some of the changes that we recommended last year and sought stakeholder feedback on them. We continue to be of the view that there is evidence to suggest improvements could be made to fare structure, but the evidence is not sufficiently compelling to make the changes without stakeholder support for them. There was little support for any further changes, so our draft decision is not to recommend any.

We have also further considered the removal of the Harbour crossing return toll and our draft decision is to no longer recommend its removal.

This chapter discusses our consideration of fare structure in more detail and the feedback we received on fare structure issues.

8.1 Can the current fare structure be improved?

An efficient fare structure is one that balances the supply of and demand for taxis at different times of day and for different types of trips. This ensures that taxis are available when people need them, and that there are not a lot of underutilised taxis on the road at other times.

We have some evidence to suggest that the current fare structure is not efficient, including that:

- ▼ it may be too expensive in quiet times like Sunday to Thursday nights
- ▼ it may be too cheap for short journeys
- ▼ passengers travelling north across Sydney Harbour are charged a 'return' toll that is not incurred for their journey, at odds with the current approach for all other toll roads.

Ideally, we would like to determine what the most efficient (optimal) fare would look like – where the fare would align with the cost of providing each passenger trip so that:

- ▼ taxis would not be encouraged onto the road when demand for them is low
- ▼ drivers would be indifferent between different types of trips (eg, 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).

Our 2013 fare review and current review's issues paper discussed data about the demand and availability for taxis that suggests there is room for improvement and shows the direction of change required to move current fares towards a more efficient fare structure.

8.1.1 Level of fares on Sunday to Thursday nights

Currently fares between 10 pm and 6 am on all nights of the week are charged at a distance (per kilometre) rate that is 20% more expensive than during the day. The hiring charge is also higher on Friday and Saturday nights and public holidays (\$6.00 compared to \$3.50 in other times) to encourage more taxis on the road during these peak times.

From Sunday to Thursday, there is some evidence that there are too many taxis on the road relative to the level of demand. Both the 2012 and 2013 Taverner surveys found that waiting times are lowest on Monday to Thursday after 10 pm, with around 70% of passengers able to get a taxi within 5 minutes compared to just 28% on Friday and Saturday evenings.⁹⁵

⁹⁵ Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 42.

We remain of the view that there is evidence to support reducing or removing the 20% night surcharge on quiet nights (Sunday to Thursday) in order to make taxis at these times more affordable for passengers, encourage more people to travel by taxi and discourage too many taxis from being on the road at these times.

8.1.2 Fares for short distances compared with long distances

If fares for short distances are too low, it may mean that some drivers may be reluctant to accept bookings for short distances, and instead wait for passengers travelling longer journeys to get higher fares. On the other hand, if fares are too high for long distance journeys, passengers may be discouraged from using taxis for these journeys. Some of these passengers are likely to be taking hire cars instead.

For several years we have received anecdotal evidence from many stakeholders that some customers have trouble getting taxis for short journeys when they book them.^{96,97}

The reason why customer service is poorer for booked short journeys is because taxi drivers can make more money with longer journeys than for short distances, therefore they prefer these journeys. Previously drivers submitted:

- ...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, ie closer than returning to the same rank).⁹⁸
- Currently, drivers do not like short fares, so the balance is clearly wrong. The flag fall is too small, so it needs to be increased. Ideally, the flag fall could be just increased and have no effect on the distance rate. However, if IPART refuses to do this, then the second best option is to increase the flag fall at the expense of the increase in the distance rate measured against the average fare.⁹⁹

After fuel costs, and assuming an average of around half an hour between fares a taxi will currently earn around:

- ▼ 30 cents per minute for a 4 km fare, compared to
- ▼ 70 cents per minute for a 25 km fare.¹⁰⁰

⁹⁶ Drivers cannot refuse short journeys when the journey starts at a rank or is hailed. *Passenger Transport Regulation 2007*, s146.

⁹⁷ IPART, *2013 Review of taxi fares in NSW - Maximum fares from July 2013 - Final Report and Recommendations*, June 2013, p 36.

⁹⁸ E Mollenhauer submission to 2012 taxi fare review Issues Paper, 3 February 2012, p 2.

⁹⁹ T Bradley submission to 2013 taxi fare review Draft Report, 17 May 2013, pp 4-5.

¹⁰⁰ 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 \$0.74 for a 4 km fare, and \$0.93 for a 25 km fare. IPART calculations.

At our last fare review we recommended an increase in the hiring charge (previously called the 'flag fall') and a reduction in the distance charge in order to bring the earnings for different length trips, and therefore, drivers' incentives, closer together.¹⁰¹

The Taverner surveys suggest that making longer journeys cheaper may encourage greater use of taxis for longer distance journeys, as cost was a key reason people did not catch a taxi after considering it, and the proportion of people reporting this was higher for longer journeys. This year's Taverner survey also found that around 1 in 7 respondents had used a hire car (with a driver) in the last 6 months, and 29% said that one of the reasons why they used hire cars instead of taxis is because they were cheaper.¹⁰²

Several stakeholders¹⁰³ argued that an increase in the booking fee would be a better way of increasing the incentive for drivers to attend short booked journeys.¹⁰⁴ We agree that this would improve the incentive for drivers to pick up booked fares, all else being equal. However, as we noted in last year's review, 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).¹⁰⁵ Passenger 'no shows' have been raised with us as a significant contributor to drivers' reluctance to attend bookings made through a traditional taxi network.

It is our view that the NSW Government should deregulate booking services to encourage competition, and at the same time deregulate booking fees, which could allow booking services to come up with innovative solutions to passenger 'no shows'. This is a decision for the NSW Government and we note that TfNSW is currently reviewing a number of aspects of passenger transport legislation, including taxi network regulation and booking arrangements.

In its submission, NCOSS said it did not support changes to the fare structure that would make shorter trips relatively more expensive. Rather, it believes the issue of short fare trip refusals should be further investigated and that other options for managing the problem should be explored.¹⁰⁶

¹⁰¹ IPART, *2012 Review of Taxi Fares in NSW - Final Report and Recommendations*, June 2012, pp 36-41.

¹⁰² Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, pp 62-64.

¹⁰³ For example, T Hirsch submission, 18 November, p 14.

¹⁰⁴ Currently fares include a regulated booking fee (\$2.40) that is charged for trips booked with a network by phone or internet. We estimate that 20%-30% of trips are booked through a taxi network. In the CIE's 2012 survey of the taxi industry, drivers estimated, on average, that 20% of trips were booked (The CIE, *Reweighting the Taxi Cost Index, 2012*, survey data). 30% of respondents to the Taverner survey booked their trip through a network (Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 23).

¹⁰⁵ IPART, *2012 Review of Taxi Fares in NSW - Final Report and Recommendations*, June 2012, p 54.

¹⁰⁶ NCOSS submission to our Issues Paper, 14 November 2013, p 4.

8.2 Sydney Harbour crossing return toll

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.

In our 2013 final report, we recommended removing the right to charge northbound passengers the southbound toll for a harbour crossing so that passengers did not have to pay a charge they did not incur.¹⁰⁷ TfNSW decided to defer consideration of this recommendation and noted that further analysis will be conducted as part of the 2013/14 fare review process to assess the impacts of such a change.

After considering stakeholder feedback we are no longer recommending the removal of the northbound toll.

Many submissions to our issues paper considered that right to charge the toll for northbound journeys should not be removed because they were concerned that drivers would have to bear the costs of the toll when they made south-bound harbour crossings without a passenger and this would impact on driver earnings.¹⁰⁸ Some stakeholders highlighted the number of empty taxis southbound in the evening as evidence that taxis did not receive a return fare after they had travelled north.¹⁰⁹

As explained in Chapters 2 and 5, drivers earnings are determined by the fare revenue, minus driver costs, and the negotiated fee paid to the operator to take out the taxi (or the pay-in). This means that if fare revenue falls, or drivers' costs rise, they can be offset by a fall in the pay-in, which we would expect to be passed onto the licence lease holder in the longer term through lower licence lease costs. This means that the net impact on drivers would be limited.

Similarly, when a \$2.50 premium on the hiring charge was introduced on Friday and Saturday nights from September 2013, the anecdotal evidence is that the drivers' earnings did not increase. Rather, operators have increased their pay-ins to capture the increased fare revenue, leaving the net position of drivers' unchanged.

¹⁰⁷ IPART, *2013 Review of taxi fares in NSW - Maximum fares from July 2013 - Final Report and Recommendations*, June 2013, p 55.

¹⁰⁸ For example, ATDA submission to 2013 taxi fare review Draft Report, 22 May 2013, p 4.

¹⁰⁹ For example, ATDA submission to Issues Paper, 11 November 2013, p 5.

Previously we used data from taxi driver Michael Hatrick to estimate that removing the northbound Sydney Harbour crossing toll would reduce profit by around \$500 per year per taxi. This year Mr Hatrick made a submission to our issues paper explaining that the data had been misinterpreted, and estimated that the impact is around \$3,500.¹¹⁰

We have conducted independent analysis on the possible revenue impacts on removing the right to charge the Sydney Harbour crossing toll for northbound journeys. We included a question in our Taverner survey about the use of the Sydney Harbour crossing for passengers' most recent journey. For their most recent journey, 18% of respondents said that they crossed the bridge going north, and 11% said they crossed the bridge going south. Based on the 2011/12 CIE industry survey of drivers and operators, the Taverner survey implies that for each shift:

- ▼ 2.7 trips go north over the harbour (around \$90 a week in tolls, or \$4,500 per year)
- ▼ 1.7 trips go south over the harbour (around \$60 a week in tolls, or \$2,900 per year).

Based on these estimates, removing the northbound toll would mean a reduction in fare revenue of \$4,500. However, taxis are currently overcompensated by around \$2,900 per year on average (by collecting the toll in both directions). This implies out of pocket expenses would be \$1,600 if the toll was removed.

While the impact is higher than previously estimated, we note that we previously estimated that the \$2.50 premium to the hiring charge on Friday and Saturday night would increase revenue by slightly more than this, at \$1,700, which would offset these expenses.

However because the harbour crossing toll was an area of primary concern to the taxi industry, and we did not receive submissions from passengers asking for it to be removed, we are not continuing to recommend the removing the ability to charge a 'return toll' for northbound Sydney Harbour crossings.

Draft recommendation

- 12 We do not recommend removal of the northbound Sydney Harbour crossing return toll at this time.

¹¹⁰ M Hatrick submission to Issues Paper, 14 November 2013, p 2; in his submission to our draft report for 2013 fares, 27 May 2013, p 3, he estimated the impact to be around \$70 a week or around \$3,500 per year, which is substantially higher.

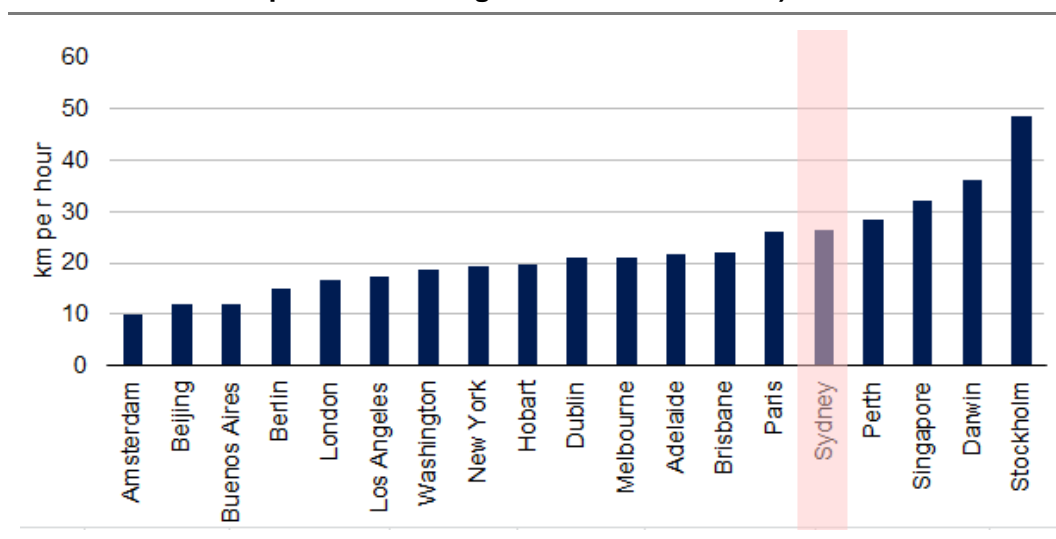
8.3 Waiting time fares compared to distance rate

In its submission¹¹¹, the ATDA recommended that the waiting time rate be increased to \$80 per hour to reflect daytime traffic conditions. According to the ATDA, waiting rates are 50% to 60% of the fares between 6:00am and 7:30am and only 10% to 15% of late night fares. The ATDA says that this adjustment would balance the earnings of day shift drivers and night shift drivers, who currently earn \$25,000 and \$37,000 a year respectively.

It is our view that the earnings of drivers are influenced by the market for drivers not the fare structure, see section 5.3. If the waiting rate was increased such that day time shifts earned more revenue, then operators would compensate by increasing their pay-ins knowing drivers' willingness to drive. Therefore, increasing the waiting rate would have limited benefit to daytime drivers.

Also, Sydney has a relatively high waiting rate. For last year's fare review, we surveyed the waiting time rates in other cities as part of our issues paper. Figure 8.1 shows that on the waiting rate, taxis in Sydney earn the equivalent to the amount they would earn on the distance rate if they were driving 26 km per hour. For the cities sampled, the median waiting time rate is the same as if the taxi was driving at 21 km per hour.

Figure 8.1 Comparison of waiting time rates (speed that the taxi would earn the equivalent earnings on the distance rate)



Data source: Victorian Taxi Directorate website, <http://www.taxi.vic.gov.au/passengers/taxi-passengers/taxi-fares>, accessed 13 June 2013.

Queensland Department of Transport and Main Roads website <http://www.tmr.qld.gov.au/Travel-and-transport/Taxis.aspx>, accessed 13 June 2013.

¹¹¹ ATDA submission to Issues Paper, 11 November 2013, pp 3-4.

9 Urban fares outside Sydney

In urban areas other than Sydney, licensing arrangements were not affected by the 2009 amendments to the *Passenger Transport Act 1990* that set up the annual licence release process for Sydney. Instead, ordinary or short-term licences can be purchased from TfNSW at market rates. The fare schedule for urban areas other than Sydney, however, is the same as the Sydney fare schedule.

Last year we recommended, and TfNSW accepted, that fares in urban areas other than Sydney should move in line with Sydney fares.

This chapter describes our draft recommendations in relation to other urban areas.

9.1 Summary of recommendations

We are again recommending that fares in other urban areas move in line with Sydney fares. We also reiterate our view that Transport for NSW should review licence arrangements in these areas.

Draft Recommendations

- 13 Maximum fares for other urban areas should continue to be the same as those in Sydney, with a single urban fare schedule as set out in Table 3.1.
- 14 Transport for NSW should reform taxi licensing arrangements outside Sydney. Initially Transport for NSW should focus on areas with licence transfer values above \$200,000.

9.2 Why we continue to recommend that fares should move in line with Sydney fares

The licensing amendments to the *Passenger Transport Act 1990* introduced in 2009 currently apply only in Sydney. Outside Sydney, new ordinary or short-term licences can be purchased from TfNSW at market rates, or existing ordinary and perpetual licences can be bought (transferred) on the secondary market.

This means that the combined recommendation we make on fares and licences in Sydney can only be partly implemented in other urban areas, as the additional licences we recommend for Sydney will not affect these areas.

The information we have from the CIE's 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 there are other differences between Sydney, country and other urban areas. However, the differences between Sydney and country are more significant than those between Sydney and other urban areas.¹¹²

Despite the differences, we consider that there is little benefit in establishing a separate approach to fare changes in other urban areas. As a result, we are recommending that maximum fares for Sydney continue to apply to other urban areas.

We are recommending a nominal fare freeze in Sydney this year because in our view, 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 uneconomic 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 licences that trade for around \$200,000 to \$250,000.¹¹³ As a result, we also consider that there is scope to hold fares in other urban areas constant.

However, real fare reductions without a complementary release of additional licences will not deliver all of the outcomes that are needed. For example, it will not provide the same benefits of reduced waiting time that we consider will occur in Sydney due to the additional licences.

TfNSW has stated that new licensing arrangements that apply in Sydney could be rolled out across the state in future:

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.¹¹⁴

NCOSS supports changes to licence arrangements that would lead to downward pressure on fares. NCOSS submits that the arrangements that apply outside Sydney mean that most new entrants would purchase existing licences rather than new licences from the Government that add to the stock of licences, which drives up licence values, lease costs and fares, while not delivering service improvements. NCOSS submits that this impacts disproportionately on people experiencing disadvantage who depend on taxis for day to day living.¹¹⁵

¹¹² There is a separate country fare schedule designed to take these differences into account. Our recommendations on how country fares should change in 2014/15 are set out in a separate document.

¹¹³ Licence transfer data for 2013 provided by Transport for NSW.

¹¹⁴ In the meantime, new 'ordinary' and short-term licences for taxis can still be issued. Transport for NSW website <<http://www.transport.nsw.gov.au/content/background>>.

¹¹⁵ NCOSS submission to Issues Paper, 14 November 2013, p 3.

However, the Taxi Council does not support changes to licence arrangements and notes that many country areas have diminishing populations and decreasing demand and in those areas are much more sensitive to 'some of the substitutes and competitors in those towns'. The Taxi Council stated that it does not support an arbitrary approach to releasing licences outside of Sydney, noting that 'the market is best to sort that out, as it does do at the moment'.¹¹⁶

We consider that the objectives for the industry will be best achieved by considering fares and licences together. As such, we continue to support the extension of licence reforms to other urban areas. We recognise that there are differences between Sydney and other urban areas and that these should be taken into account when determining an appropriate licensing regime.

If the process is to be done incrementally, we consider that Transport for NSW should initially focus on reviewing licensing arrangements in urban areas other than Sydney with high licence values (eg, above \$200,000).

¹¹⁶ NSW Taxi Council comments at public roundtable, 22 October 2013, p 61 of transcript.



Appendices

A Terms of reference – fare review

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 Terms of reference – licence review

Independent Pricing and Regulatory Tribunal Act 1992

Terms of Arrangement – Annual Sydney Taxi Licence 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 an arrangement with Transport for NSW (TfNSW) to review and make recommendations on the number of annual taxi licences (other than wheelchair accessible taxis) to be released in Sydney for the year commencing 1 July 2014.

In making its recommendations, IPART is to consider the objectives of amendments made in 2009 to the *Passenger Transport Act 1990* (the Act) for taxi licensing in Sydney, of:

- ▼ Ensuring that the supply of taxis responds closely to growth in passenger demand;
- ▼ Balancing the need for a more affordable means of entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders;
- ▼ Reducing barriers to entry and encouraging competition;
- ▼ Placing downward pressure on fares over time; and
- ▼ Simplifying existing taxi licence structures.

IPART is also to specifically consider the factors in section 32C(3) of the Act including:

- ▼ The likely passenger demand and latent demand for taxi-cab services;
- ▼ The performance of existing taxi-cab services;
- ▼ The demand for new taxi-cab licences;
- ▼ The viability and sustainability of the taxi-cab industry; and
- ▼ Any other matters it considers relevant, having regard to the objective of ensuring improved taxi-cab services.

In providing this advice, IPART may also consider and make recommendations in relation to:

- ▼ The number and class of any licences which should be issued to authorised taxi-cab drivers who are also accredited taxi-cab operators or who have applied for such accreditation;
- ▼ Whether restricting the number of annual licences that may be granted to the same applicant or related applicants would promote competition that would benefit the public, and if so, what such a restriction should be; and
- ▼ Any other matter relating to the issue of annual licences that is prescribed by the regulations.

IPART is to also make recommendations to TfNSW in relation to how licence fees for annual taxi licences (other than wheelchair accessible taxi-cab licences) in Sydney should be set under section 32JA of the Act. The Act requires that the fee for an annual taxi licence is to be determined by inviting applicants for the licence to bid for it at public auction or to submit sealed tenders for it. TfNSW may also, in the circumstances specified in the regulations, determine a licence fee for any such annual licence.

IPART should publish draft recommendations and consider public submissions made in response to those draft recommendations before making final recommendations.

The recommendations are to be provided by IPART in a Final Report to TfNSW by 21 February 2014, for consideration prior to an annual Determination by TfNSW before 31 March 2014.



The Hon Barry O'Farrell MP

Premier

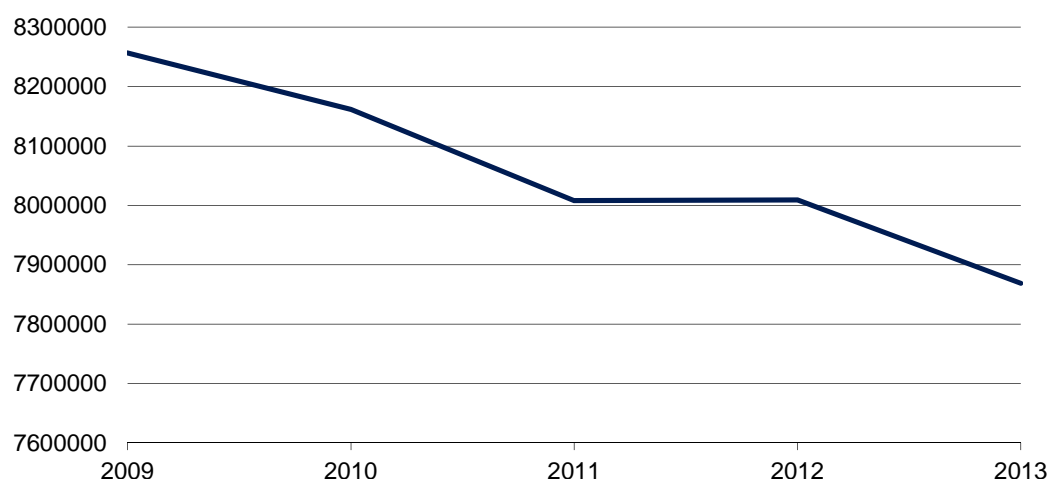
Dated at Sydney 8 October 2013

C Network performance information

C.1 Taxi service performance: number of network bookings and number of network jobs

Since 2009, the total number of network jobs (ie, bookings that were picked up) has decreased by 5% (see Figure C.1).

Figure C.1 Network jobs



Note: All years are calendar years. We estimated the number of network jobs for the last quarter of 2013 using the demand in 2012.

C.2 Standard taxi network performance

The networks' core role is to take booking requests and transmit them to drivers. As such, the key measures of network performance are whether a taxi arrived, how long it took, and how difficult the booking was to make.

In our analysis of the Key Performance Indicators (KPIs) we focus on the average time it took to pick a customer up, the number of customer no-shows and no-cars-available. In our view, this data provides the clearest indication of network

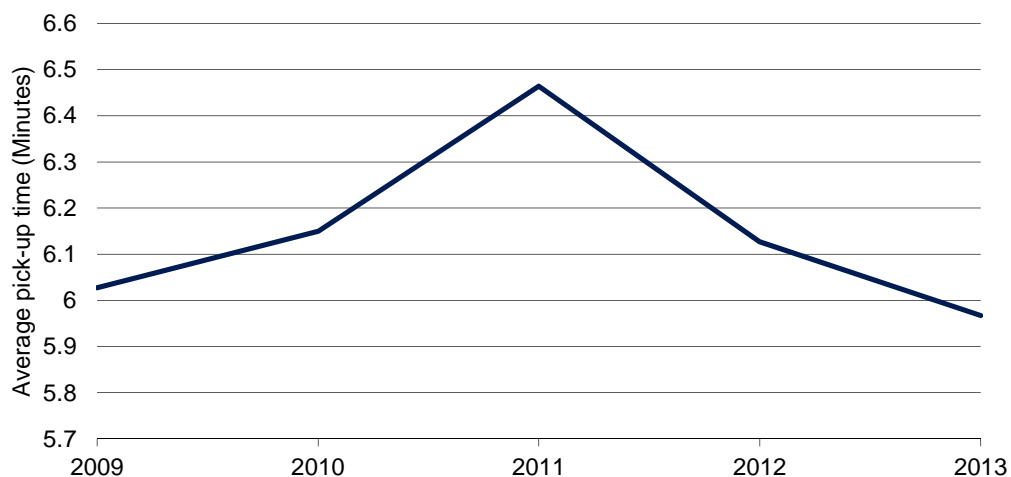
performance as these represent all the possible outcomes of a requested booking.¹¹⁷

Average pick-up time

Pick-up time is equivalent to waiting time; it is the time it takes to pick-up a customer once they have made a booking.

In the last year, the average time it takes for a standard taxi to pick up bookings decreased by 3% (see Figure C.2). As a result, the average pick-up-time in 2013 is below 6 minutes, an improvement on the previous 4 years.

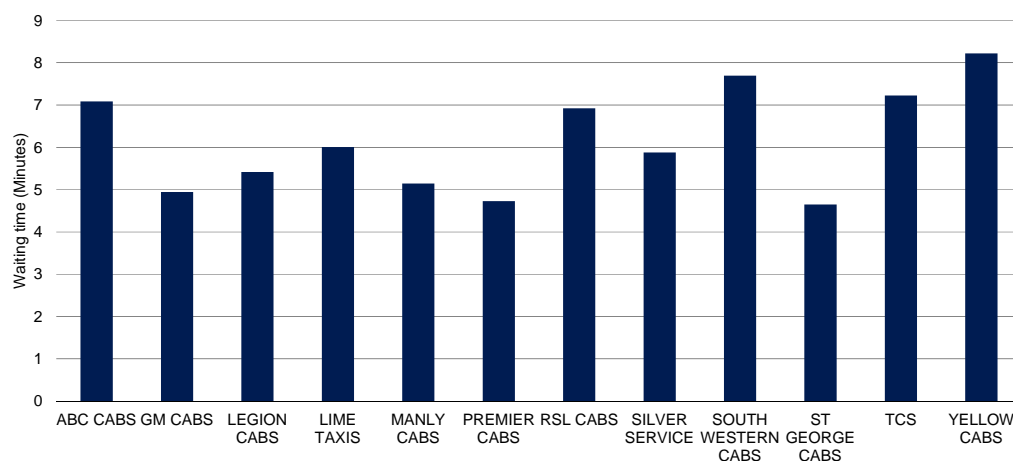
Figure C.2 Average pick-up time



Note: We have calculated total average pick-up time using a weighted average when there is no offload and when there is an offload internally. Bookings which are offloaded externally are considered cancelled by the network where the booking originated. As a result, these bookings are not accurately recorded in the system. 2013 data only available until September.

The average pick-up time varies substantially between networks. In order to help customers compare network performance, in Figure 8.3 we provide the average pick up time for each network for 2013. This shows that customers wait the longest for a taxi with Yellow Cabs, South Western Cabs, ABC Cabs and Taxis Combined – over 7 minutes; and wait the shortest for a taxi with St George Cabs, Premier Cabs and GM Cabs - under 5 minutes.

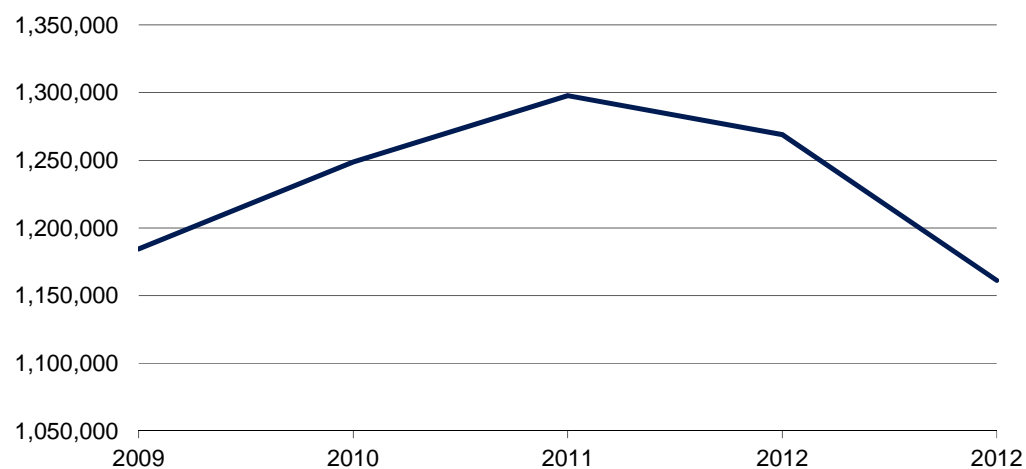
¹¹⁷ Even though we consider the ease of making a booking important, the current phone booking KPIs are becoming less relevant because 1) booking technology, such as taxis apps, on-line booking and automated call-centres, has changed the way customers book taxis; and 2) different call centre management practices at busy times can result in data that is not comparable

Figure C.3 Network waiting time

'No-cars-available' and passenger 'no shows'

A 'no-car-available' (NCA) is a network officially declining a booking. The decision on when a booking is assigned NCA status is left to the discretion of the networks and this decision is not passed on to customers. Conversely, a 'no show' is a taxi arriving for a booking to find that the passenger is not there.

We consider that the sum of the 2 KPIs is a useful indicator of taxi performance. No-cars-available and no-shows are both types of bookings where the passenger did not end up using the taxi service. Figure C.4 shows the total number of no-shows and no-cars-available.

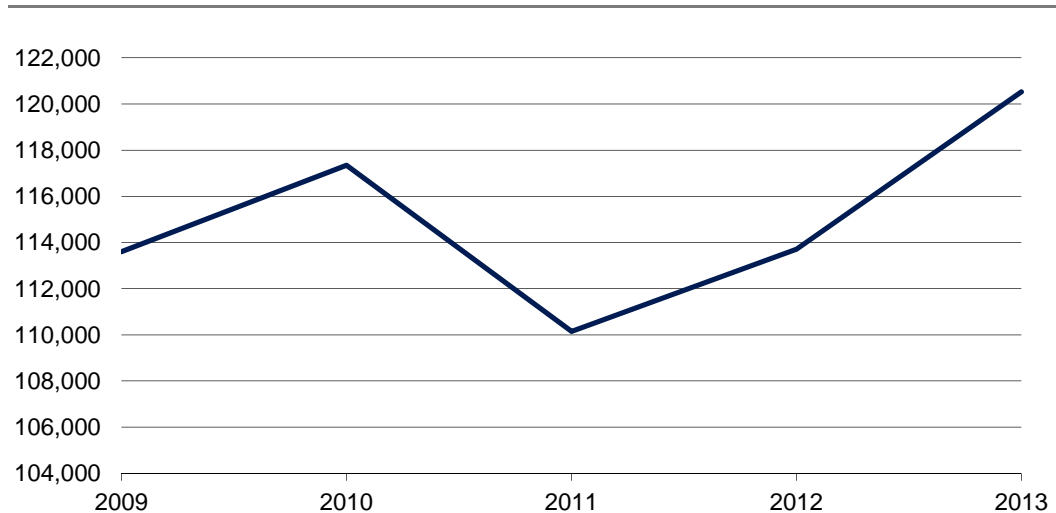
Figure C.4 Total number of no shows and no-cars-available

Note: All years are calendar years. We estimated the number of no shows and no-cars-available for the last quarter of 2013 using the data from 2012.

C.3 Wheelchair Accessible Taxi performance

The estimated number of Wheelchair Accessible Taxi pick-ups increased by 6% in 2013 (see Figure C.5).

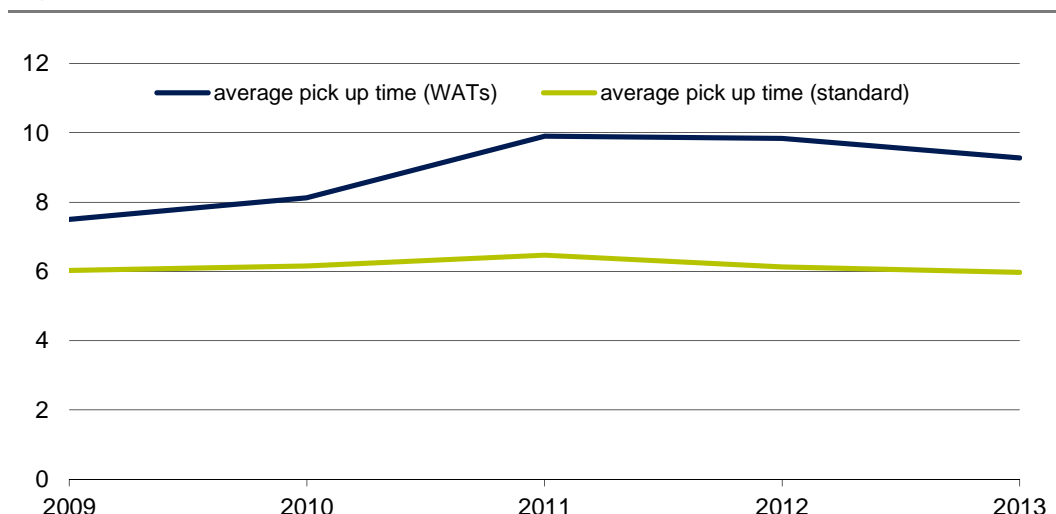
Figure C.5 Number of WAT pick-ups



Note: All years are calendar years. We estimated the number of WAT pick-ups for the last quarter of 2013 using the demand in 2012.

The average pick-up time for Wheelchair Accessible Taxis decreased by 6% compared to 2012. This led to an improvement in the gap between the average pick-up time for WATs and standard taxis (see Figure C.6) compared to 2011 and 2012, although the gap is greater than it was in 2009 and 2010.

Figure C.6 Pick-up time for WATs compared with the rest of the taxi fleet



C.4 Customer feedback data

The Customer Feedback Management System (CFMS) is a record of all the complaints and compliments made by members of the public about the taxi industry. We estimate that there will be 10,394 complaints in 2013. This represents an 18% decrease in complaints and a 7% decrease in compliments from the previous year.

Currently, we only have data until 30 September 2013. We have used the trend in complaints from 2012 to estimate the number of complaints for 2013. The figures will be updated with data to the end of 2013 for our final report.

Table C.1 Customer Feedback Managements System data

	2009	2010	2011	2012	2013 ^a	Change from 2011 to 2012
Driver	4,271	5,703	7,765	8,657	7,156	-17%
Serious	98	103	150	162	144	-11%
Fares and Charges	1,213	1,530	2,061	2,378	2,192	-8%
Taxi	193	238	230	255	214	-16%
Network	391	631	999	1,234	689	-44%
Total	6,166	8,205	11,205	12,686	10,394	-18%
Compliments	995	618	417	412	385	-7%

^a 2013 data is only available until September. We estimated the total number of complaints and compliments in 2013 using the proportion of complaints made in the last 3 months of 2012 compared to the first 9 months of 2012 and adding an equivalent proportion to the 2013 year to September.

Source: Transport for NSW Customer Feedback Management System.

D List of submissions received

**Table D.1 List of submissions on issues paper received
(due 15 November 2013)**

Submitter	Date received
Australian Taxi Drivers Association	11 November 2013
Council of Social Services of NSW (NCOSS)	14 November 2013
Individual (Anonymous)	12 November 2013
Individual (D Cousins)	10 November 2013
Individual (P Fletcher)	15 November 2013
Individual (M Hatrick)	14 November 2013
Individual (T Hirsch)	18 November 2013
Individual (E O'Malley)	12 November 2013
Individual (E Mollenhauer)	15 November 2013
Individual (G Whitton)	16 October 2013
NSW Taxi Council	18 November 2013

Table D.2 Attendance at the roundtable held 22 October 2013

Organisation	Attendee
Australian Taxi Drivers Association	Michael Jools
Cabcharge Australia Ltd	Jessica Krimmer
Essential Services Commission (Vic)	Ron Ben-David
Individual	Peter Abelson
NSW Council of Social Services (NCOSS)	Rhiannon Cook
NSW Taxi Council	Fred Lukabyo
NSW Taxi Council	Roy Wakelin-King
NSW Taxi Drivers' Association	Anne Turner
NSW Taxi Drivers' Association	Trevor Bradley
Transport for NSW	Tim Reardon

Glossary

ABS	Australian Bureau of Statistics
Annual taxi licence	A taxi licence obtained from TfNSW which is valid for a year, but can be automatically renewed each year for a term of up to 10 years. The holders of these licences can lease but not transfer (sell) them.
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
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.
Fringe Area Licence	A taxi licence which must be operated predominantly in nominated geographical areas on the outskirts of Sydney. There are 10 Richmond/Windsor FALs, 2 Richmond Windsor Fringe WATs and 2 Helensburgh FALs.
Hiring charge	The fixed fee charged at the beginning of a taxi trip. Previously known as the flag fall.
IPART	Independent Pricing and Regulatory Tribunal.
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

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 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.
Network fee	Fee paid by the operator of a taxi to affiliate with an authorised taxi network.
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
Operator	Taxi operators are responsible for the day-to-day management of one or more taxi cabs. Operators may be individuals or corporations, and must be accredited by Transport for NSW. They must also be affiliated with an authorised network, fit out their vehicle with the network's livery and install the network's communications equipment. They must insure and maintain their vehicle(s), and hold a taxi licence for each vehicle they operate.
Ordinary taxi licence	From 1990, ordinary licences with up to 50-year terms were issued by the Transport Department on request at the prevailing price for perpetual licences. These licences came with the right to renew them at the end of their term, so they are effectively perpetual.

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.
Peak Availability Licence (PAL)	A taxi licence that can only be operated between noon and 5 am.
Peak time hiring surcharge	A fixed fee charged on top of the hiring charge between 10pm and 6am on Fridays, Saturdays and the days before a public holiday.
Perpetual taxi licence	A taxi licence that does not expire. It can be transferred (sold) or leased. New perpetual licences have not been issued in Sydney since 1990.
Price elasticity	The amount by which demand changes in response to price changes. For example, if the price elasticity of demand for taxi services is -1, a 10% increase in taxi fares will lead to a 10% drop in taxi use. If the elasticity is -0.2, a 10% increase in taxi fares will lead to a 2% drop in taxi use.
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).
Short term taxi licence	From the late 1990s, some short-term licences with a term of up to 6 years were issued. Their owners can lease them to another person, but cannot transfer them, and they expire at the end of their term. New short-term licences have not been issued in Sydney since 2009.
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. Formerly used by IPART to measure the change in taxi industry costs between fare review periods.
Transport for NSW	The NSW Government agency that regulates taxis.
Unrestricted taxi licence	A taxi licence issued without operating restrictions.
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. Urban WAT licences are available on request from Transport for NSW for \$1,000 a year.

