

Review of taxi fares outside Sydney to apply from July 2015

Transport — Draft Report and Draft Recommendations
April 2015

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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 Friday 15 May 2015.

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 Outside Sydney 2015
Independent Pricing and Regulatory Tribunal
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If you would like further information on making a submission, IPART's submission policy is available on our website

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1 | Executive summary

Transport for NSW has asked the Independent Pricing and Regulatory Tribunal of NSW (IPART) to review taxi fares across NSW and recommend the maximum fares to apply from July 2015. It will consider our recommendations and then decide on the maximum fares.

For the first time this year, we have split the review of fares into two separate reviews:

- ▼ the first focuses on the Metropolitan Transport District (ie, Sydney) only,¹ and
- ▼ the second focuses on areas outside Sydney – that is, all other urban, country and exempt operating areas across the state.²

This report presents the draft findings and recommendations of our second review, focusing on fares outside Sydney. We are seeking submissions from interested parties on these draft findings and recommendations by 15 May 2015. We will consider these submissions before making our final recommendations to Transport for NSW in June 2015.

1.1 Overview of our draft findings

For this review, we undertook a more detailed examination of the efficient costs of providing taxi services in areas outside Sydney than in previous years, together with analysis of demand, supply and competition in and with the taxi market. We found that:

- ▼ licence costs are high in many other urban and country areas, indicating that current fares in these areas include economic rent, and
- ▼ several key cost inputs (as well as licence lease costs and revenue) are much more variable across country areas than they are in Sydney or other urban areas.

¹ This review also considers and makes recommendations on the number of new annual Sydney taxi licences to be released. Our final report on this review was provided to Transport for NSW on 27 February 2015.

² Country areas, exempt areas and urban areas are defined in the Fares Order for Taxis under section 125 of the *Passenger Transport Act 2014* (NSW Government Gazette, No 116, 5 December 2014, pp 4430-4432).

Overall, we concluded that the level of economic rent in the current fares in areas outside Sydney is sufficient to cover any increase in the costs of providing taxi services over the past year.

We also found that on average, the demand for taxi and other point-to-point transport services in areas outside Sydney is increasing due to external factors such as population growth and economic activity (albeit more slowly than in Sydney).

However, the number of new taxi licences outside Sydney is not growing at the same pace, suggesting there is an undersupply of taxis in many areas. The main barrier to entering the taxi market in these areas is the current licensing arrangements – particularly the process Transport for NSW uses to determine the cost of new taxi licences, which has entrenched high licence values in these areas. These arrangements are inhibiting growth in the supply of taxis in some areas.

We found little evidence of competition with the taxi industry outside Sydney. The main source of competition appears to be with hire car services. As for taxis, we consider that the process for determining the cost of new hire car licences may be creating barriers to entry in the hire car market, and thus reducing competition with the taxi industry.

In our view, rising demand for taxi and other point-to-point transport services in areas outside Sydney, combined with the inhibitions on the supply of taxi services and competition from alternative services, has led to economic rent becoming embedded in taxi fares in these areas. If this economic rent were reduced, fares could be more affordable and still recover the efficient costs of providing taxi services outside Sydney. However, since the current fare levels are a symptom rather than a cause of the problem, we believe that licensing issues need to be addressed as a priority.

On a separate issue, we also considered whether IPART should continue to conduct ongoing reviews of LPG prices outside the annual review process and found that the economic rent in fares outside Sydney is likely to be sufficient to cover any increases in the costs of providing taxi services, including LPG costs.

1.2 Overview of our draft recommendations

In line with the draft findings outlined above, we are making draft recommendations that:

- ▼ maximum fares be frozen in nominal terms in all areas outside Sydney during 2015-16, and
- ▼ the Government prioritise the reform of taxi licensing arrangements outside Sydney to allow the market to better match the supply of taxis with the demand for their services.

In addition, we are recommending that the review of the regulatory framework for all point-to-point transport services that we recommended in our draft report on maximum fares and licence numbers in Sydney include all of NSW, not only Sydney.³ Our aim in recommending this review is to ensure that all players in the market are regulated appropriately for safety and quality, but not hampered by inappropriate or outdated regulation. This reflects our view that competition *in* the taxi industry is complemented by competition *with* the taxi industry.

Finally, we are making a draft recommendation that IPART no longer conduct ongoing reviews of LPG prices outside the annual fare review process.

1.3 Review process

The process we have followed in conducting this review to date has included public consultation and analysis. As part of this process, we:

- ▼ Sought and considered submissions from stakeholders in response to an Issues Paper released in October 2014.
- ▼ Consulted directly with the taxi industry and community to gather information. In particular, we did several surveys on the costs and revenue of providing taxi services, demand for these services and the adequacy of supply, and barriers to entering the taxi industry:
 - We conducted a short self-selecting survey targeting people who have used or have considered using taxis outside Sydney. The survey was available on IPART's website for six weeks following the release of the Issues Paper.
 - We engaged Taverner Research to conduct a more extensive online survey of taxi use. We have commissioned the same survey for Sydney for three consecutive years. This was the first time we extended the survey to selected areas outside Sydney. The final Taverner survey report is available on our website (www.ipart.nsw.gov.au).
 - We also engaged The Centre for International Economics (the CIE) to conduct a driver and operator survey to collect data on their costs, revenues and taxi operating patterns. The survey was sent to all taxi drivers and operators in NSW. The CIE's draft survey report on areas outside Sydney is available on our website (www.ipart.nsw.gov.au).
- ▼ Examined publicly available data on the demand for point-to-point transport services outside Sydney.

³ Our final recommendations for maximum taxi fares and the number of new annual taxi licences in Sydney are set out in a separate report, which was provided to Transport for NSW on 27 February. Once Transport for NSW has released its determination our final report will be available on our website (www.ipart.nsw.gov.au). References to the review of Sydney fares and licences in this report are to the draft report, *Sydney taxi fares to apply and new licences to be released from July 2015 – Draft Report*, December 2014, which is available on our website.

- ▼ Examined data on the supply of taxi licences and alternative forms of point-to-point transport, such as hire cars. Most of this data is collected by Roads and Maritime Services and was provided to IPART for this review by Transport for NSW.

We are now seeking submissions on this Draft Report and draft recommendations and invite comments from interested parties. Submissions are due by 15 May 2015. 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 are also holding public roundtables in several locations in April and May 2015 to provide stakeholders with a further opportunity to respond to our Draft Report and recommendations. Details, including location and times, of the public roundtables are available on our website (www.ipart.nsw.gov.au).

We will consider all the submissions we receive and roundtable comments before finalising our report and recommendations to Transport for NSW in June 2015.

1.4 Structure of this report

The remainder of this report provides more detailed discussion of our draft findings and recommendations and the analysis that supports them. It is structured as follows:

- ▼ Chapter 2 outlines the context for the review and our analytical approach to the review. It includes information about participants in the taxi industry, current taxi fares and how they have changed over time, and the current taxi licensing arrangements.
- ▼ Chapter 3 discusses the results of the CIE's driver and operator cost survey and presents our draft findings on the costs of operating taxi services outside Sydney and their relevance to setting fares.
- ▼ Chapter 4 presents our analysis of the demand for taxi services and alternative modes of point-to-point transport.
- ▼ Chapter 5 examines the supply of taxis outside Sydney and presents our draft findings on the barriers to entering the taxi market.
- ▼ Chapter 6 examines the extent of competition with the taxi industry outside Sydney from alternative point-to-point transport services.
- ▼ Chapter 7 discusses the impact of taxi fares on sustainable development and the impact of our draft recommendations on the level of government funding. It also presents our draft findings on the standard of services provided by the taxi industry outside Sydney.
- ▼ Chapter 8 summarises our draft findings and explains the draft recommendations we have made in response to these findings.

1.5 List of draft findings

- 1 Licence costs are not an efficient cost - rather, they reflect the scarcity of licences, and thus are economic rent. 19
- 2 On average, licence costs are a significant cost of providing taxi services outside Sydney – accounting for around 10% of the total costs/revenues per standard taxi in other urban areas, and around 12% in country areas. 21
- 3 The costs of providing taxi services, including licence costs, are more variable across country areas than they are in Sydney or other urban areas. 21
- 4 High licence transfer prices in many areas indicate that there is sufficient economic rent present in taxi fares in country and other urban areas to cover any cost increases experienced during 2014-15. 24
- 5 On average, demand for taxis and other point-to-point transport services outside Sydney is increasing but more slowly than in Sydney. Amongst areas outside Sydney, demand growth varies significantly. 30
- 6 The growth in taxi licence numbers in areas of NSW outside Sydney is not keeping pace with the demand for taxi services. 35
- 7 The primary barrier to entering the taxi market outside Sydney is the high cost of obtaining a new taxi licence, which is determined on the basis of recent sales transactions in the relevant area. This process is prescribed by Transport for NSW. 38
- 8 The process for and cost of obtaining a new taxi licence outside Sydney lacks transparency. 38
- 9 High network fees in areas outside Sydney may be a barrier to joining a network. As network affiliation is mandatory for operators the high fees may be a deterrent to entering the taxi industry. 38
- 10 Given the current licensing regime for the taxi industry outside Sydney, there is little scope for a more light-handed approach to regulating fares. 38
- 11 Hire cars are the main source of competition with taxis outside Sydney. However, the cost of obtaining a new hire car licence, which is based on the market value of existing licences, could be a barrier to more hire car operators entering the market. 41
- 12 There is not sufficient evidence of competition from alternative point-to-point transport options outside Sydney to facilitate a more light-handed approach to regulating fares. 43

- 13 The existing structure of fares outside Sydney is not a significant impediment to the availability of taxi services or demand for taxi services. 45

1.6 List of draft recommendations

- 1 A nominal taxi fare freeze for operating areas outside Sydney subject to the urban fare schedule. 52
- 2 A nominal taxi fare freeze for operating areas subject to the country fare schedule. 52
- 3 That the Government reform taxi licensing arrangements outside Sydney to allow the market to better match the supply of taxis with demand for their services. 54
- 4 That the Government include areas outside Sydney in a review of the regulatory framework for point-to-point transport. 56
- 5 That IPART no longer undertake an ongoing review of LPG prices outside the annual fare review process. 57

2 Context and approach for this review

Each year IPART reviews and recommends maximum taxi fares to Transport for NSW.⁴ After considering our final recommendations, Transport for NSW decides on the maximum taxi fares.⁵

Two taxi fare schedules apply in NSW:

- ▼ an urban taxi fare schedule, which applies in Sydney, Newcastle, Wollongong and surrounding areas, and
- ▼ a country taxi fare schedule, which applies in all other areas of NSW except a small number of areas bordering Victoria which are exempt from fare regulation.

In previous fare reviews, we have recommended changes to the fare levels within these fare schedules based on averaged information on changes in the costs of operating taxi services across each broad area (ie, urban and country). We have not investigated the extent of variations in these costs or operating models within the areas, and thus whether it may be more appropriate to have a different number of fare schedules or to apply them in different areas.

This year, we are conducting two separate fare reviews – one for the Sydney Metropolitan Transport District (which we have completed);⁶ and this review, which covers all areas outside Sydney (see Table 2.1). As part of this review, we have sought to more closely examine data for taxi services in areas outside Sydney, including data about the costs of operating taxi services, the demand for taxi and alternative point-to-point transport services and the responsiveness of supply to changes in demand for these services.

To provide context for the review, the sections below discuss the taxi industry outside Sydney, including:

- ▼ participants in the industry
- ▼ current taxi fares and how they have changed over time, and

⁴ Under Section 9 of the IPART Act.

⁵ *Passenger Transport Act 1990*, s 60A (prior to 12 December 2014); *Passenger Transport Act 2014* (from 12 December 2014), s 125 (1).

⁶ Our final recommendations for maximum taxi fares and the number of new annual taxi licences in Sydney are set out in a separate report, which was provided to Transport for NSW on 27 February. Once Transport for NSW has released its determination our final report will be available on our website (www.ipart.nsw.gov.au).

- ▼ current taxi licensing arrangements, licence values and operating areas.

The final sections explain our terms of reference for the review, and our analytical approach for reaching our recommendations.

Table 2.1 Operating areas covered by this review

Urban areas	<ul style="list-style-type: none"> ▼ Newcastle Transport District ▼ Wollongong Transport District ▼ Blue Mountains Local Government Area ▼ Gosford Local Government Area ▼ Wyong Local Government Area ▼ Shellharbour Local Government Area ▼ The townships of Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo.
Country areas	<ul style="list-style-type: none"> ▼ All other areas outside Sydney, except urban and exempt areas
Exempt areas	<ul style="list-style-type: none"> ▼ Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin

Note: 'Country area', 'exempt area' and 'urban area' are defined in *Section 125 Fares Order for Taxi Services - Determination of Maximum Fares for Taxis*, 25 November 2014.

2.1 Participants in the industry

There are a number of participants involved in the provision of taxi services in NSW – including taxi drivers, operators and networks. Their relationship is summarised in Figure 2.1.

While this figure shows each of the industry participants in separate boxes, in areas outside Sydney, the taxi industry is typically more vertically integrated than it is in Sydney. For example, many taxi networks are cooperatives owned by taxi operators. There are also more operators who own their own licence rather than lease it from someone else. Only around 30% of licences are leased in country areas, compared to almost 80% in Sydney.⁷

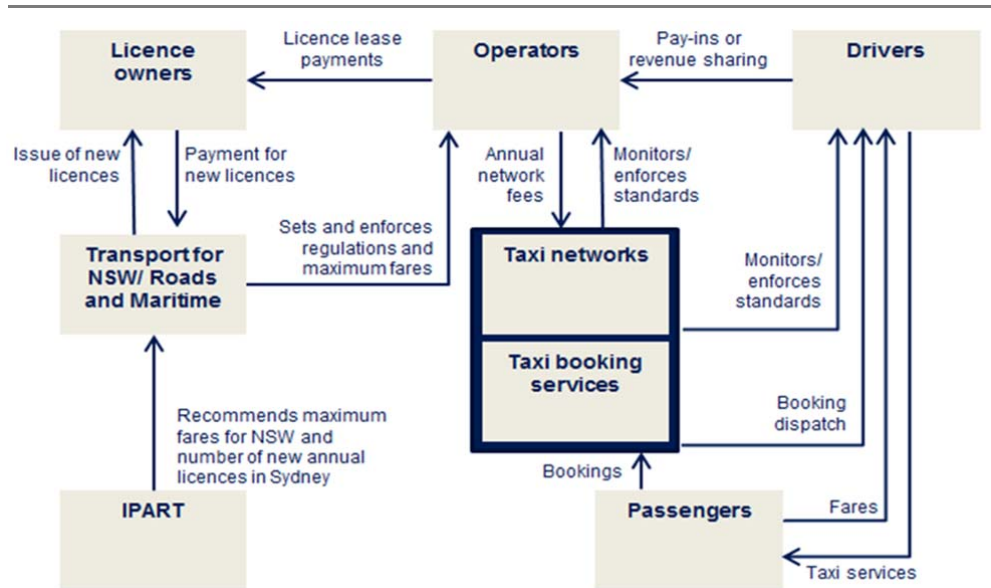
Taxi operators are responsible for the day-to-day management of one or more taxis. They must be accredited by Roads and Maritime Services and hold a taxi licence for each vehicle they operate. Operators also have to organise drivers and insure and maintain their vehicles.

⁷ Roads and Maritime Services data from Transport from NSW.

Unless exempted by Roads and Maritime Services, operators must be affiliated with an authorised taxi network, and are required to fit out their vehicles with their network's livery and install the network's communications equipment. In country areas, Roads and Maritime Services has exempted some operators from network affiliation because the area and fleet of taxis is too small to justify having a network.⁸ About 18% of licences held by country operators are not attached to a network.⁹

On its commencement, Part 5 of the *Passenger Transport Act 2014* will introduce regulatory changes to network services by separating the functions of taxi networks and booking services in NSW.

Figure 2.1 Overview of the taxi industry in NSW



Note: The roles of licence owner, operator and driver can sometimes be held by a single person. Also, many networks in country areas are co-operatives owned by operators. The functions of taxi booking services will be separated from taxi networks when Part 5 of the *Passenger Transport Act 2014* commences. Presently, taxi networks provide booking services.

Source: IPART.

2.2 Current taxi fares and how they have changed over time

Table 2.2 shows the current fares in NSW. Most of the components of the country fare schedule are higher than the urban schedule, (eg, the hiring charge in the country is 50 cents higher and the base distance rate is seven cents per km higher). However, the average fare paid is lower.¹⁰

⁸ Information from Transport from NSW.

⁹ Roads and Maritime Services data from Transport from NSW.

¹⁰ The CIE, *2014 survey of taxi drivers and operators - Survey results for areas outside Sydney*, Draft Report p 21. Taverner Research, *Survey of Taxi Use*, December 2014, p 70.

Other differences between urban and country fare schedules include a higher distance rate once a threshold of 12 kilometres has been reached for country taxis (which does not apply in urban areas); a lower booking fee for country taxis; and extended hours for the distance rate surcharge to include Sundays and public holidays.

Table 2.2 Taxi fares from 1 July 2014

Fare component	Urban	Country
Hiring charge	\$3.60	\$4.10
Peak time hiring charge payable in addition to the hiring charge ^a	\$2.50	n/a
Distance rate	\$2.19/km	\$2.26/km for the first 12km and \$3.13/km thereafter
Night distance rate ^b (and holiday distance rate ^c country areas)	\$2.63/km	\$2.71/km for the first 12km and \$3.75/km thereafter
Waiting time charge	94.4c/minute	96.0c/minute
Booking fee	\$2.50	\$1.20
Waiting time threshold speed	26km/h	26km/h
Maxi-taxi surcharged ^d	150% max fare	150% max fare

^a Charged between 10pm and 6am on Friday and Saturday nights and the night before a public holiday.

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

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

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

Source: Transport for NSW, <http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>, accessed 1 April 2015.

Fare recommendations and changes in 2013 and 2014

For the last two years, IPART has recommended that fares decrease in real terms to move fares closer to efficient levels:

- ▼ In country areas, we recommended freezing fares in nominal terms.¹¹ In 2013, the Government accepted our recommendation,¹² but in 2014 Transport for NSW decided to increase fares by the CPI.¹³
- ▼ In urban areas, we recommended a 1% reduction in nominal fares in 2013, and freezing nominal fares in 2014.¹⁴ In 2013, Transport for NSW decided to freeze all existing fare components, but introduced a peak hiring charge on Friday and Saturday night.¹⁵ We estimated that the result was a 1.4% average increase in fares. In 2014, Transport for NSW increased urban fare components by the CPI (except for the \$2.50 peak surcharge that applies on Friday and Saturday nights).¹⁶

IPART's recommendations and Transport for NSW's determinations are summarised in Table 2.3.

Table 2.3 Fare changes 2013 and 2014 (nominal)

	IPART recommendation		Transport for NSW determination	
	Urban fares	Country fares	Urban fares	Country fares
2013	-1%	0%	1.4% ^a	0.0%
2014	0%	0%	2.5% ^b	2.5%

^a 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.

^b Transport for NSW did not increase the \$2.50 peak hiring surcharge so the average fare in urban areas increased by slightly less than 2.5%.

Source: IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 1; IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, p 2; IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, pp 1, 2; Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014; Transport for NSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

¹¹ IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, p 2; IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, p 2.

¹² Transport for NSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

¹³ Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014.

¹⁴ IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, p 1; IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 1.

¹⁵ Transport for NSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

¹⁶ Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014.

2.2.1 Fare recommendations prior to 2013

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 our Taxi Cost Indices (TCIs). Every four or five years we undertook a major review of the cost items and the weightings in the TCIs.

There are two key problems with setting taxi fares in line with changes in financial costs:

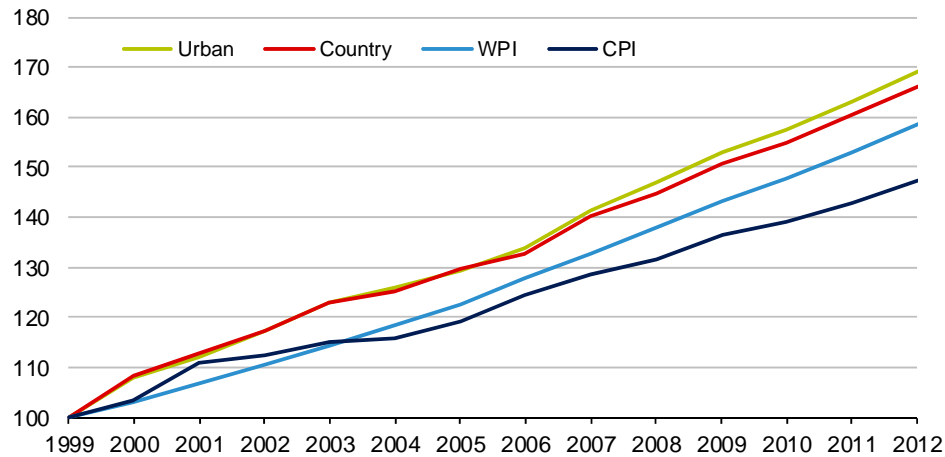
- ▼ If the initial fare was above the efficient costs of supply, then inflating it by the Taxi Cost Index allows the inefficiencies to persist.
- ▼ As the index includes licence costs, which are an economic rent derived from scarcity rather than an efficient cost of providing taxi services, the Taxi Cost Index over-inflates the fare by providing a feedback loop between fares and the licence prices.¹⁷

Given these problems, we consider that continuing to use the TCI to recommend fares would not address the requirement in our terms of reference to consider the need for greater efficiency when considering costs.¹⁸

Figure 2.2 shows that using the TCI to set taxi fares resulted in fare increases every year between 1999 and 2012 that were higher than the rate of inflation (CPI) and the increase in labour costs in the economy (WPI).

¹⁷ When we set fares in 2012, we removed this circularity by setting the annual licence cost inflator to zero. However, we did not seek to remove the additional costs already included in fares through applying this approach in the past.

¹⁸ Our terms of reference require us to consider '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' (see Appendix A).

Figure 2.2 Increases in taxi fares compared to CPI and WPI, 1999 to 2012

Source: IPART fare review reports and ABS data.

2.3 Current taxi licensing arrangements, licence values and operating areas

In NSW a taxi operator must hold a licence (either by owning or leasing it) in order to conduct a taxi business.¹⁹ Each taxi licence lists the conditions that apply to the operation of the taxi service, including the licensed 'area of operation'.

Outside Sydney, operators can obtain a licence by:

- ▼ buying an existing ordinary or perpetual licence from a licence owner
- ▼ leasing an existing ordinary or perpetual licence from a licence owner
- ▼ buying a new ordinary or short-term licence from Roads and Maritime Services at market rates²⁰, or
- ▼ obtaining a new Wheelchair Accessible Taxi (WAT) licence from Roads and Maritime Services for an annual fee of \$1,000 in Wollongong and Newcastle, or for no fee in other areas.²¹

These are similar to the arrangements that used to apply in Sydney. However, in 2009, the licensing arrangements in Sydney were reformed and Roads and Maritime Services no longer issues perpetual, ordinary or short-term licences. Instead, each year Transport for NSW must determine the number of new annual

¹⁹ *Passenger Transport Act 1990*, s 30.

²⁰ Information from Transport for NSW, 27 August 2014.

²¹ Transport for NSW, 'Wheelchair accessible taxi (WAT) licence information', <http://www.transport.nsw.gov.au/content/taxi-licences>, accessed 28 July 2014. WAT licence holders must reapply every 12 months for the licence.

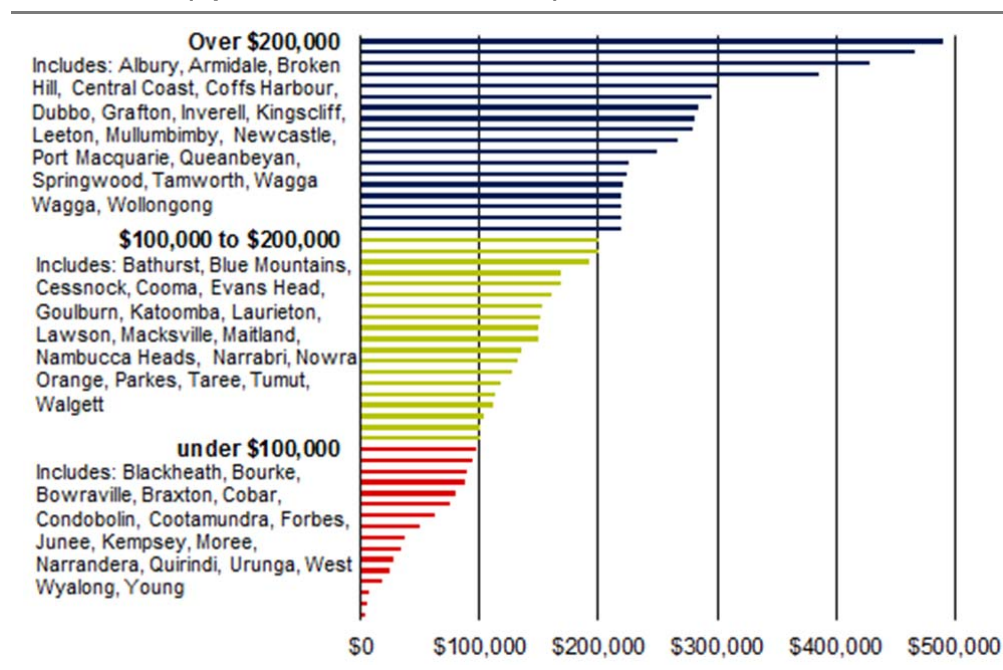
licences that it will release by tender or auction. Winning tenderers pay the amount they bid to Roads and Maritime Services for an annual licence, which can be renewed at the same price each year for up to 10 years.

Licence values

The cost of obtaining a taxi licence outside Sydney is high in many areas. It also varies significantly between areas. Between April 2011 and December 2014, licences traded for less than \$10,000 in three areas but more than \$400,000 in another three (see Figure 2.3 below).

Licence costs are not 'efficient costs' because they reflect 'economic rent'. Chapters 3 and 5 discuss this issue in more detail.

Figure 2.3 Average licence transfer values in various NSW locations (April 2011 to December 2014)



Note: The towns listed for each group are in alphabetical order, which does not correspond with series order.

Data source: IPART analysis of Roads and Maritime Services data from Transport for NSW.

Operating areas

There are over 160 taxi operating areas outside Sydney.²² These areas correspond with transport districts, local government areas (LGAs) or town boundaries (as defined by the Geographical Names Board) that were in place when the licence was issued. This has resulted in overlapping areas and areas that are contained within another area. For example, some licences entitle the holder to operate in

²² Roads and Maritime Services data from TfNSW.

an area that is based on an LGA boundary but excludes specific towns or areas within that LGA, while at the same time other licences in that area entitle the holders to operate within the whole LGA.

2.4 Our terms of reference for this review

Our terms of reference ask us to investigate and recommend maximum fares for taxi services. In forming our recommendations, they require us to consider:

- ▼ the costs of providing the taxi services concerned, and the need for greater efficiency in the supply of services to reduce costs for the benefit of customers
- ▼ the protection of customers from abuses of monopoly power in terms of prices, pricing policies and standards of service
- ▼ the need to maintain ecologically sustainable development
- ▼ the impact on customers of the recommendations
- ▼ standards of quality, reliability and safety of the services, and
- ▼ the effect of any pricing recommendation on the level of Government funding.

A copy of the terms of reference is provided in Appendix A.

2.5 Areas are covered by this review

This review applies to all areas of NSW outside the Metropolitan Transport District (Sydney).

Our final recommendations for maximum taxi fares and the number of new annual taxi licences in Sydney are set out in a separate report, which we have provided to Transport for NSW. Further details on the Sydney review are available on our website (www.ipart.nsw.gov.au).

2.6 Our analytical approach

Our approach for this review involved considering both the costs of providing taxi services, the need for greater efficiency in the supply of services to reduce costs for the benefit of customers, and the other matters as required by our terms of reference. It included the following key steps:

1. **Analysing the costs and revenues of providing taxi services outside Sydney**, using the results of the CIE's driver and operator survey, as well as data on licence transfer values provided by Transport for NSW.
2. **Investigating demand for taxi and other point-to-point transport services outside Sydney**. We assessed the likely changes in this demand by reviewing the external drivers, such as population growth and economic activity.

3. **Investigating the supply of taxi services and competition in the taxi industry outside Sydney.** We considered whether the change in supply matched the change in demand for taxi services, by reviewing changes in licence numbers and licence values, and examining whether any barriers to entering the taxi market are inhibiting supply.
4. **Investigating alternative forms of point-to-point transport services outside Sydney,** and the extent to which they provide competition with the taxi industry. We assessed whether this competition is sufficient to recommend moving towards a more light-handed form of taxi fare regulation.
5. **Considering the structure of taxi fares outside Sydney,** including whether it is efficient, and whether it acts as an impediment to the demand for or supply of taxi services.
6. **Considering the other matters required by our terms of reference,** including the need to maintain ecologically sustainable development; the effect of our pricing recommendations on Government funding; and the standards of quality, reliability and safety of taxi services.
7. **Making our recommendations on maximum fares outside Sydney and other matters,** based on the findings of steps 1 to 6. As part of this step, we also considered and made a recommendation on whether we should continue to conduct ongoing reviews of LPG prices outside the annual review process, based largely on the findings of step 1.

This approach differs from the one we proposed in our Issues Paper, particularly step 1. In that paper, we proposed to use the findings of our cost analysis, particularly the data from the CIE's driver and operator survey, to group areas with similar efficient cost structures. We expected that this would enable us to recommend fares that better reflected efficient costs. However, the survey response rate and the variability between areas did not permit analysis at any level of geographical disaggregation except, in some cases, between country and other urban areas.

For this reason, we had to rely on recent licence transfer prices to assess whether current fares reflect efficient costs, and sought to identify the reasons for any inefficiency.

3 Costs of supplying taxi services

As the first step in our approach for this review, we analysed the costs of providing taxi services outside Sydney. We commissioned the CIE to survey taxi drivers and operators across NSW about their costs, revenues and taxi operating patterns. We also asked the CIE to analyse the survey data, as well as taxi licence transfer (sale) data provided by Transport for NSW.

As Chapter 2 noted, we had planned to be able to use the survey data directly in recommending fares (as we did in our review of taxi fares in Sydney), and also to assess differences in cost structures between these areas. Unfortunately, the survey response rate and data quality were not sufficient to allow this. Therefore, we have:

- ▼ examined the different costs of providing taxi services
- ▼ considered the CIE's analysis of the driver and operator survey results, including the analysis of average taxi costs and revenues across the Sydney, other urban and country areas
- ▼ considered the CIE's analysis of the relationship between costs, revenues and licence transfer values in areas outside Sydney, and
- ▼ assessed the changes in costs in areas outside Sydney between 2011 and 2014.

The sections below summarise our draft findings, and then discuss these findings in more detail.

3.1 Summary of draft findings on costs

As our Issues Paper discussed, we consider that taxi fares in areas outside Sydney should be aligned with the efficient costs of providing taxi services in these areas.

Our cost analysis for this review indicates that currently these fares are higher than the efficient costs. We found that one of the cost components covered by fares – taxi licence costs – is economic rent, and thus is not an efficient cost.

We also found that several cost components, including licence costs, are much more variable across country areas than they are in Sydney and other urban areas. However, on average, licence costs account for a significant share of the total costs/revenue per taxi outside Sydney (around 10% in other urban areas, and around 12% in country areas).²³ This indicates there is considerable scope to reduce fares to better reflect efficient costs.

Overall, we found that the level of economic rent included in current fares for other urban and country areas is sufficient to cover any increase in the efficient costs of providing taxi services in these areas over the past year.

3.2 Costs of providing taxi services

The financial costs an operator incurs in providing taxi services include driver and operator earnings, fuel, cleaning costs, vehicle purchase or lease costs, maintenance and repairs, network fees, insurance, operator administration, and taxi licence costs.

Some of these costs are fixed, while others are variable. Fixed costs are incurred whether or not the taxi is operated. They include network fees, insurance, operator administration, vehicle lease costs and licence costs. Variable costs depend on when and how the taxi is operated. They include driver earnings and cleaning costs (which vary by the shift worked) and fuel and maintenance costs (which vary by the distance driven).

Most of these costs are related to the productive value of the inputs – for example, driver earnings compensate drivers for their time and labour, and fuel costs depend on the market price of LPG. As these inputs are purchased in competitive markets, where there is no restriction on their supply, we can assume they are ‘efficient costs’. (See Box 3.1 for definitions of this and other key terms used in this section.)

However, taxi licence costs are different. While these costs are financial costs incurred by taxi operators (when they purchase or lease a taxi licence), they are not ‘efficient costs’ because they reflect ‘economic rent’.

As a taxi licence is essentially a ‘permission’ to operate taxi services in a defined area, the productive value of its inputs is low. (For example, issuing a licence incurs administrative costs involved in approving the licence application and administering the licence.) Thus, the high licence transfer values (or sale prices) observed in areas outside Sydney in the last three years (shown in Figure 2.3) indicate that current licence costs are largely economic rent.

²³ The CIE, *2014 survey of taxi drivers and operators - Survey results for areas outside Sydney*, Draft Report, March 2015, p 2.

In general, economic rent results from the scarcity of the goods or services concerned, which may be genuine (because a limited supply exists or can be produced) or artificial (because supply is restricted by government or a monopoly business, for example). In the case of taxi licences, the scarcity is artificial as it stems from restrictions or inhibitions to growth in the supply of licences, primarily the high cost of obtaining a new licence (see Chapter 5 for detail).

Draft finding

- 1 Licence costs are not an efficient cost - rather, they reflect the scarcity of licences, and thus are economic rent.

Box 3.1 Definition of key terms

Economic rent

Economic rent is unearned income that results from the scarcity of goods and/or services. Taxi licences have no productive value and the high price of licences in some areas indicates the presence of economic rent.

Efficient costs

Efficient costs are the costs of goods and services purchased in a competitive market. Efficient costs do not contain any economic rent because there is no restriction on the supply of the good/services in a competitive market (in a market where the service is not of a genuinely scarce resource such as non-renewable resources).

Financial costs

Financial costs are those costs that are actually incurred by taxi drivers and operators. They may include some expenditures (such as the price of buying or leasing a taxi licence) that contain economic rent.

3.3 Driver and operator survey results

To inform our reviews of maximum taxi fares for both Sydney and areas outside Sydney, we commissioned the CIE to conduct a driver and operator survey. The CIE sent a survey questionnaire to all authorised taxi drivers and accredited taxi operators in NSW, to obtain information about their costs, their usage patterns (eg, which shifts they drove or operated a taxi, the number of paid trips they had per shift), and their revenue. It analysed the results and prepared a Draft Report on its findings, which is available on IPART's website.²⁴

²⁴ The CIE, *2014 survey of taxi drivers and operators – Survey results for areas outside Sydney*, Draft Report, March 2015.

As previously noted, the data obtained from the survey for areas outside Sydney was not as extensive and robust as we had hoped. Nevertheless, the CIE's analysis does provide some useful information. In particular, it allowed the CIE to construct average cost models for a standard taxi operating in the Sydney, other urban and country areas (Table 3.1).

These average cost models indicate that while typically lower than in Sydney, licence costs in many areas outside Sydney are a significant component of the costs of providing taxi services. On average, they represent around 10% of the total costs/revenues per standard taxi in other urban areas, and around 12% in country areas. Given our finding that licence costs are largely economic rent, there appears to be considerable scope to reduce fares in many areas outside Sydney to better reflect efficient costs.

Table 3.1 Average annual costs and revenues for a standard taxi (2014-15)

	Sydney	Other urban	Country
	\$ ex GST	\$ ex GST	\$ ex GST
Driver earnings	58,610	72,175	64,743
Operator earnings	2,389	5,684	11,082
Fuel	14,735	15,959	14,505
Cleaning/ wash	2,427	2,455	2,143
Vehicle purchase/lease	6,999	7,128	5,495
Maintenance and repairs	6,721	11,574	10,447
Network fees	7,540	8,914	10,834
Insurance	12,918	9,417	6,973
Operator administration	422	2,475	1,272
Licence costs (rent to licence owner)	27,315	15,207	17,386
Total revenue/costs	140,076	150,988	144,881

Note: A standard taxi is non wheelchair-accessible taxis operating on an unrestricted licence. Numbers may not sum to totals because of rounding errors.

Source: The CIE, *2014 survey of taxi drivers and operators – Survey results for areas outside Sydney*, Draft Report, March 2015, p 2.

The CIE's analysis also identified other key differences across operating areas, including:

- ▼ Average total revenue per taxi is higher outside Sydney than in Sydney, particularly in other urban areas.
- ▼ Average driver and operator earnings are higher in other urban and country areas than in Sydney.
- ▼ Network fees vary significantly across country areas and are, on average, higher than they are in Sydney and other urban areas. This is consistent with the findings of the CIE's previous survey of taxi drivers and operators.²⁵ Most networks in country areas are small and are often structured as cooperatives,

²⁵ The CIE, *Reweighting of the taxi cost index*, April 2012, p 47.

which appears to influence both their opportunities for economies of scale and their accounting and charging practices. This means that network fees can be quite variable from year to year, as well as between taxi networks in any given year.

- ▼ Several other cost/revenue components including licence costs, and total revenue are much more variable across country areas than they are in Sydney or other urban areas.²⁶

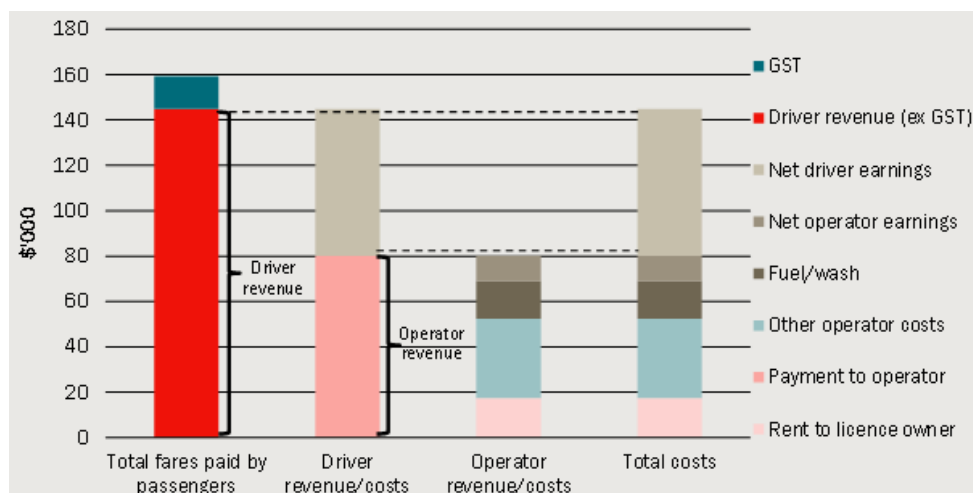
Draft findings

- 2 On average, licence costs are a significant cost of providing taxi services outside Sydney – accounting for around 10% of the total costs/revenues per standard taxi in other urban areas, and around 12% in country areas.
- 3 The costs of providing taxi services, including licence costs, are more variable across country areas than they are in Sydney or other urban areas.

3.4 The relationship between costs, revenue and licence values

Figure 3.1 summarises the distribution of fare revenue among the various parties for a standard taxi outside Sydney.

Figure 3.1 Distribution of fare revenue — Standard taxi outside Sydney



Note: Numbers are based on the CIE estimates for a standard taxi in country areas. While the dollar amounts may vary across other urban and country areas, the arrangements remain the same.

Source: The CIE, 2014 survey of taxi drivers and operators – Survey results for areas outside Sydney, Draft Report, March 2015, p 9.

²⁶ The CIE, 2014 survey of taxi drivers and operators – Survey results for areas outside Sydney, Draft Report, March 2015, p 14.

However, the survey results indicate that the distribution of costs and revenue vary between areas. So, the CIE undertook econometric analysis to better quantify the relationship between cost and revenue variables and the licence price (using the transfer values reported to Transport for NSW). It found that each \$100,000 increase in licence transfer value was associated with around \$23 (excluding GST) extra revenue per shift. Most of this extra revenue (\$16) is ultimately received by the licence owner.²⁷ However, unlike in Sydney, some is retained by the driver (around \$6 per shift).²⁸

The reason for this difference in retained revenue may be due to differences in the labour markets in Sydney and other urban and country areas – drivers in Sydney potentially have less bargaining power because there is a more elastic supply of potential drivers than in areas outside Sydney. It could also be a result of different bailment arrangements for taxis – in Sydney, fixed dollar pay-ins may more quickly adjust to pass through any additional revenue than the percentage pay-in method which prevails outside Sydney.

The CIE considers that some of the extra revenue in high licence value markets may also be retained by the operator, but it had insufficient data about the split between operator and licence owner (where these are not the same person) to quantify this amount.

Table 3.2 shows indicative annual average cost models for different licence values in areas outside Sydney.

Table 3.2 Indicative taxi revenue and costs by licence value outside Sydney

Licence value	No value \$ ex GST	\$100k \$ ex GST	\$200k \$ ex GST	\$300k \$ ex GST	\$400k \$ ex GST
Driver earnings	60,424	62,833	65,232	67,624	70,008
Operator earnings	3,509	3,886	4,264	4,642	5,020
Vehicle purchase/lease	5,495	5,495	5,495	5,495	5,495
Maintenance and repairs	10,447	10,447	10,447	10,447	10,447
Insurance	6,973	6,973	6,973	6,973	6,973
Network fees	10,834	10,834	10,834	10,834	10,834
Administration costs (excluding operator labour)	1,272	1,272	1,272	1,272	1,272
Fuel	12,767	13,357	13,946	14,535	15,124
Cleaning/wash	2,143	2,143	2,143	2,143	2,143
Total costs, excluding licence costs	113,865	117,240	120,607	123,965	127,316
Licence costs (rent to licence owner)	0	6,897	13,794	20,691	27,588

Note: Numbers may not sum to totals because of rounding errors.

Source: The CIE, 2014 survey of taxi drivers and operators – Survey results for areas outside Sydney, Draft Report, March 2015, pp 48-49.

²⁷ The CIE, 2014 survey of taxi drivers and operators – Survey results for areas outside Sydney, Draft Report, March 2015, p 43.

²⁸ The CIE, 2014 survey of taxi drivers and operators – Survey results for areas outside Sydney, Draft Report, March 2015, p 43.

The indicative cost models shown above include cost/revenue categories for driver earnings and operator earnings and indicate that licence income goes to the licence owner as 'rent'. This reflects a common taxi business structure in Sydney where driver, operator and licence owner are three different people. However, we note that in areas outside Sydney the taxi industry is typically more vertically integrated than it is in Sydney. For example, many taxi networks are cooperatives of licence owners/operators. In addition, although we do not have data on the number of driver-operators, we expect they would be more common outside Sydney, especially in country areas where there may only be a few taxis in each operating area.

This has implications for how we interpret the results. For example, the CIE survey data indicates very high operator earnings compared to Sydney and lower licence values compared to Sydney. The CIE calculated operator earnings as the residual of operator revenue less operator costs (including licence costs). An owner-operator is not likely to distinguish between operator earnings and the income they receive from owning a licence. So, what is shown in the CIE cost model as 'operator earnings' may in practice reflect some of the economic rent from licence ownership.

For these reasons, as well as the variability of results between areas and the low response rate, we have not used the CIE data directly to analyse and recommend maximum fare levels.

3.5 Changes in costs

For our review of taxi fares and licences in Sydney, we used the results of the CIE survey of taxi drivers and operators to assess changes in costs between 2011 and 2014. However, the low survey response rate in areas outside Sydney did not allow us to directly compare changes in costs over time, as we did for Sydney.

Nevertheless, we expect that over the past year, some of the costs of providing taxi services outside Sydney may have increased, while others may have decreased or remained the same. For example:

- ▼ In Sydney, the CIE survey found that insurance costs increased at an average of around 2.3% a year between 2011 and 2014.²⁹ It is likely that insurance costs in areas outside Sydney increased by a similar annual rate over this period.
- ▼ FUELtrac data indicates that the average retail price of LPG in areas outside Sydney has fallen in nominal terms since July 2014.³⁰

²⁹ The CIE, *2014 survey of taxi drivers and operators - Survey results for the Sydney metropolitan transport district*, Final Report, February 2015, p 2.

³⁰ IPART analysis of FUELtrac data.

On balance, we consider that any overall increase in the costs of providing taxi services outside Sydney in 2014/15 is likely to be small. Over this same period, all taxi fares increased by CPI (2.5%).³¹ We consider that this fare increase, as well as the economic rent embedded in fares, would have sufficiently covered any cost increases.

Draft finding

- 4 High licence transfer prices in many areas indicate that there is sufficient economic rent present in taxi fares in country and other urban areas to cover any cost increases experienced during 2014-15.

³¹ Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014. Note: Transport for NSW did not increase the \$2.50 peak hiring surcharge that applies in urban areas.

4 Demand for point-to-point transport services

Our recent reviews of new annual taxi licence numbers in Sydney have found that an imbalance between demand for and supply of point-to-point transport services has led to economic rent being embedded in Sydney taxi fares. Given our findings that the current fares in areas outside Sydney also include economic rent (in licence costs, see chapter 3), we investigated whether an imbalance between demand and supply also exists in these areas.

To investigate demand in areas outside Sydney, we reviewed:

- ▼ the current use of taxi services in these areas, based on the results of a survey by Taverner Research
- ▼ the changes in the demand for point-to-point services in these areas over the past few years, due to external factors that influence this demand including changes in population, economic activity and tourism and business travel, and
- ▼ the latent demand for these services (ie, the additional trips that would be taken if prices and/or waiting times were lower).

The sections below summarise our draft findings on demand and then discuss these findings and our analysis in detail. (Chapters 5 and 6 discuss our findings on supply of point-to-point transport services and whether it matches demand.)

4.1 Summary of draft findings on demand

We found that residents in other urban and country areas currently use taxis less frequently than those in Sydney, and are more likely to book a taxi by phone rather than obtain one by other means.

We also found that, on average, demand for taxis and other point-to-point transport services outside Sydney is growing (but at a slower rate than in Sydney). However, there are wide variations across other urban and country areas, with some areas growing rapidly (in terms of population and economic activity) and others declining.

These observations about demand help explain why licence values are so variable across country NSW. Barriers to entry to the taxi industry mean that the supply of taxi licences is unable to respond flexibly to changes in demand, so the mismatch between supply and demand that gives rise to economic rent is different depending on the rate of demand growth as well as the existing supply of taxi licences.

4.2 Taxi use outside Sydney

Taxis play an important role in transporting people from place to place. Outside Sydney, particularly in country areas, there are often few public transport options. Thus, taxis may be the only means for people to reach shops, medical appointments or other engagements.

To help us understand taxi use in these areas, we engaged Taverner Research to conduct an online survey. We have commissioned the same survey for Sydney for three consecutive years. This was the first time we extended the survey to selected areas outside Sydney. The final Taverner survey report is available on our website (www.ipart.gov.au).

Overall, the survey found that residents in other urban and country areas use taxis less frequently than those in Sydney. They also most commonly book a taxi by phone (rather than hail on the street or go to a taxi rank). In particular, it found that:

- ▼ 61% of people in other urban areas and 55% in country areas had not used a taxi in the previous six months (compared to 42% in Sydney)³²
- ▼ 7% of people in other urban and country areas used taxis at least once per week (compared to 13% in Sydney)³³
- ▼ 57% of taxi trips in other urban areas are booked and 70% in country areas are booked, compared to 39% in Sydney³⁴
- ▼ 62% of taxi users in country and 47% in other urban areas had made a phone booking for their last trip (23% in Sydney) but fewer trips are booked through the internet (1% of taxi users in country areas and 3% in other urban areas, 6% in Sydney).³⁵

³² Taverner Research, *Survey of Taxi use*, December 2014, p 11.

³³ Taverner Research, *Survey of Taxi use*, December 2014, p 11.

³⁴ Taverner Research, *Survey of Taxi use*, December 2014, p 29.

³⁵ Taverner Research, *Survey of Taxi use*, December 2014, p 29.

4.3 Changes in external demand for point-to-point services outside Sydney

The demand for point-to-point transport includes the demand for taxis and alternatives such as hire cars, commercial ridesharing (although currently not legal) and carshare services.³⁶

We considered the demand for point to point transport services external to the market by reviewing growth in population, economic activity and tourism and business travel. Growth in population and economic activity will generally increase the demand for point-to-point transport, other things (for example price and service quality) remaining the same. We considered long term average figures, as annual figures can fluctuate significantly from year to year.

4.3.1 Population growth

Between 2008 and 2013, the population in areas outside Sydney grew by an average of:

- ▼ 1.2% a year in Newcastle-Maitland
- ▼ 1.0% a year in Wollongong, and
- ▼ 1.0% a year in the 'rest of NSW'.³⁷

In comparison, Sydney's population grew by an average of 1.6% a year.

From 2011 to 2016, NSW Department of Planning and Environment forecasts that Sydney's population growth will increase (by an average of 1.7% a year), while in areas outside Sydney this growth will slow to an average of:

- ▼ 1.1% a year in Lower Hunter and Central Coast
- ▼ 0.9% a year in the Illawarra, and
- ▼ 0.6% a year in regional NSW.³⁸

To look more closely at population growth in areas outside Sydney, we estimated the annual average change in the population in each local government area (LGA) over the five years from 2008 to 2013. We found there was wide variation across LGAs – ranging from population growth of more than 3% per year to

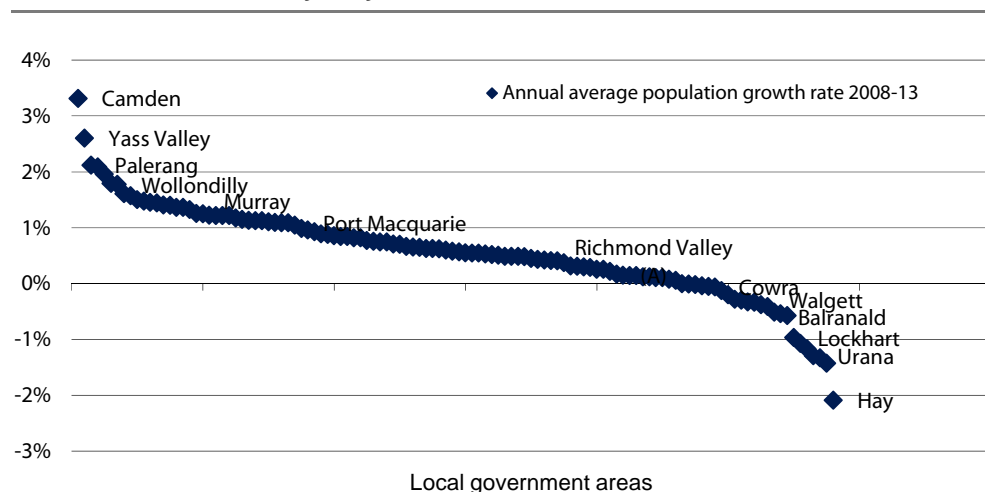
³⁶ In previous reviews of the number of new annual Sydney licences we have assumed the change in demand for taxis is the same as the demand for point-to-point transport. However, the environment has changed in Sydney, where we concluded this year that the demand for point-to-point transport services has not reduced, although demand for taxi services has. The growth in demand for point-to-point transport services in Sydney during the last three years appears to have been taken up by alternatives to taxis.

³⁷ IPART calculation based ABS 3218.0, *Regional population growth, Australia*.

³⁸ NSW Department of Planning and Environment, *2014 NSW population projections data, regional summary* page, <http://www.planning.nsw.gov.au/en-us/deliveringhomes/populationandhouseholdprojections/data.aspx>, accessed 10 December 2014.

population *decline* of more than 2% per year (Figure 4.1). For example, the population in the Hay shire fell by an average of 2% per year, while the population in the Camden, Yass Valley, Palerang and Maitland LGAs grew by an average of over 2% per year.

Figure 4.1 Distribution of annual average change in population in LGAs outside Sydney



Data source: IPART calculation based on ABS 3218.0, *Regional Population Growth, Australia*.

Economic activity

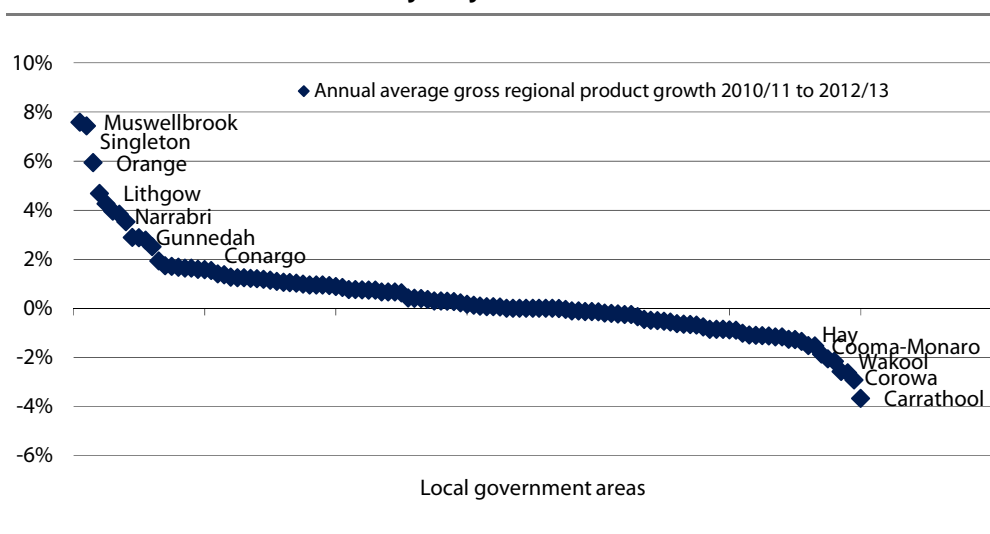
We looked at changes in gross domestic product (GDP) (which is available in a capital city/rest of state breakdown) and gross regional product (available at LGA level) to consider changes in economic activity across NSW:

- ▼ GDP growth rates indicate that economic activity in areas outside Sydney is growing, but more slowly than in Sydney. In the 10 years to 2013-14, GDP in the rest of NSW grew by an average of 0.9% a year (compared to an average of 2.5% a year in Sydney).³⁹
- ▼ Gross regional product growth rates suggest that, like population growth, there is wide variation in economic activity across LGAs outside Sydney. Between 2010-11 and 2012-13, the average annual change in gross regional product per LGA ranged from growth of just under 8% per year to *decline* of just under 4% per year (Figure 4.2). For example, in the Narrabri, Lithgow, Orange, Singleton, Muswellbrook LGAs, gross regional product grew by over 4% per year, while in Corowa, Balranald, Kyogle, Cooma-Monaro it declined by 1.5% or more per year.⁴⁰

³⁹ SGS Economics and Planning, *Australian cities accounts 2013-14*, November 2014, p 3.

⁴⁰ IPART calculation based on .id, *National economic indicators series, national economic indicators for local government areas 2010/11, 2011/12 and 2012/13*, accessed 25 February 2015 <http://economic-indicators.id.com.au/?Year=2011>

Figure 4.2 Distribution of annual average change in gross regional product in LGAs outside Sydney



Data source: IPART calculation based on economic indicators from *National economic indicators for local government areas 2010/11 and 2012/13*.

Airline passenger movements

We used changes in air passenger movements as an indicator of changes in tourism and business travel for areas where there are regular air passenger transport services. Although airline travel may represent a small proportion of actual travel to areas outside Sydney, and much business and tourism travel across NSW is likely to be by private or rental car, we consider that change in airport passenger movements is relevant to the demand for point-to-point transport. This is because air travelers arrive without their own vehicle and thus are more likely to require point-to-point transport than someone who arrived in their own or a rental car.

Not all areas of regional NSW are serviced by regular air passenger services so we have been unable to estimate trends in business or tourist travel that may impact the demand in those areas. However, in areas where there are regular passenger services, we found wide variation in the changes in passenger movements. For example:

- ▼ Regular air passenger services to Cooma, Mudgee, Narrabri and Cobar have ceased since 2010.⁴¹

⁴¹ NSW Legislative Council Standing committee on State Development, *Regional aviation services*, 2014, p 14.

- ▼ Between 2008-09 and 2012-13 air passenger movements:⁴²
 - Declined by more than 8% a year in Lismore and Grafton, and by 5% in Taree.
 - Grew by over 3% a year in Tamworth, Coffs Harbour, Ballina, Armidale and Port Macquarie. (For comparison, passenger movements at Sydney airport grew at 3.6% a year on average during this period.)

Looking ahead, the Bureau of Transport, Infrastructure and Regional Economics forecast that air passenger movement through smaller airports (ie, all those in the areas outside Sydney excluding Newcastle) will increase by an average of 2.3% a year until 2030-31. In comparison, the Bureau forecasts that air passenger movements at Sydney will grow by an average of 3.6% a year.⁴³

Draft finding

- 5 On average, demand for taxis and other point-to-point transport services outside Sydney is increasing but more slowly than in Sydney. Amongst areas outside Sydney, demand growth varies significantly.

4.4 Latent demand for point-to-point services outside Sydney

We have also considered the latent demand for point-to-point transport. Latent demand represents the additional trips that would be taken if waiting time for point-to-point services fell, or if prices were reduced.

We note that in their submission to our Issues Paper, the NSW Taxi Council and NSW Country Taxi Operators Association (CTOA) submitted that the elasticity of demand for taxi services may be lower in areas outside Sydney. It put the view that:

Price sensitivity in NSW country areas is considered to be relatively inelastic due to the lower average fare price and the high level of private car usage.⁴⁴

⁴² IPART calculation based on Department of Infrastructure and Transport, Bureau of Infrastructure, Transport and Regional Economics, *Airport Traffic data 1985-86 to 2013-14*, https://www.bitre.gov.au/publications/ongoing/airport_traffic_data.aspx, accessed 10 December 2014.

⁴³ Department of Infrastructure and Transport, Bureau of Infrastructure, Transport and Regional Economics, *Air passenger movements through capital and non-capital city airports to 2030-31*, Report 133, November 2012, pp 4, 59.

⁴⁴ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 10.

We consider that there are two main reasons why the elasticity of demand for taxi services may be lower outside Sydney:

- ▼ there are fewer substitutes (such as public transport options, or competing services such as car share, rideshare and (in most areas) hire cars),⁴⁵ and
- ▼ a higher proportion of booked trips compared to the cruising market that prevails in much of Sydney.

However, we do not have data with which to make a more precise assessment of latent demand.

⁴⁵ The Taverner survey found that 39% of taxi users in country and 30% in other urban areas said lack of access to alternative means of transport was the reason they used a taxi on their last trip. Just 20% of Sydney taxi users gave this as their reason for taking a taxi. See Taverner Research, *Survey of Taxi use*, December 2014, p 80.

5 Supply of taxi services and competition in the taxi industry

After we established that the demand for point-to-point transport services in areas outside Sydney was growing, we investigated whether the supply of taxi services was growing at a similar rate. As previously discussed, this is significant because there is evidence that current taxi fares outside Sydney include economic rent, and that an imbalance between demand and supply is a key factor in the creation of economic rent.

We also assessed competition both *in* and *with* the taxi industry outside Sydney. This is important for two reasons. First, the presence of economic rent in fares suggests competition in the taxi and other point-to-point transport market is not effective – since if it were, new participants would enter the market and compete away this rent. Therefore, to improve the efficiency of fares, we need to identify how to improve competition, by identifying the barriers to entering the industry.

Second, our terms of reference require us to consider the protection of consumers from abuses of monopoly power and the standards of taxi services. As our Issues Paper discussed, in our view the most effective way to protect customers from abuses of monopoly power and unacceptable service standards is through competition in and with the taxi market. Unless we are confident that operators would not be able to exercise monopoly power if allowed to set their own fares, we consider that Transport for NSW should continue to set maximum fares. However, we noted that as part of this review we could make recommendations to improve competition in areas outside Sydney to facilitate a more light-handed approach to regulating fares in the future.

The sections below summarise our draft findings on the supply of taxi services and competition *in* the taxi industry outside Sydney, and then discuss these findings and our analysis in detail. Chapter 6 discusses our draft findings on competition *with* the taxi industry outside Sydney.

5.1 Summary of draft findings on supply and competition in the taxi industry

We found that the annual average growth in licence numbers in recent years was lower than the annual average growth in demand for point-to-point transport (see section 4.3) outside Sydney. This is consistent with our previous finding that current fares include considerable economic rent (discussed in chapter 3),

because economic rent is created when growth in supply is artificially constrained in the face of growing demand. Of particular note, the variability in demand (discussed in chapter 4) in the face of constrained supply explains the variability in licence values (discussed in chapter 3).

We identified a number of barriers to entering the taxi industry outside Sydney, which have led to slow growth in the supply of licences. The most significant is the high cost of obtaining a new taxi licence, which stems from the method Transport for NSW prescribes for calculating the issue price. The lack of transparency in the process for and cost of obtaining a new licence is also a concern. Based on these findings, we consider that the current taxi licensing arrangements inhibit entry to and effective competition in the taxi industry outside Sydney, resulting in an undersupply of licences in many areas. High network fees may be another barrier, as network affiliation is mandatory for operators unless exempted by Roads and Maritime Services.

Finally, due to the barriers to entry in the taxi industry outside Sydney, we found that competition is not sufficiently effective to move towards a more light-handed form of fare regulation at this stage.

5.2 Current supply of licences outside Sydney

As at 1 January 2015, there were 1,364 taxi licences for areas outside Sydney. Of these, 174 were in Newcastle, 136 were in Wollongong, and the remainder were in country areas.⁴⁶ The majority of these are ordinary taxi licences. WAT licences made up around 11% in Newcastle and Wollongong combined (which is similar to Sydney) and 20% in country areas are WATs.⁴⁷

Table 5.1 Number of taxi licences, 1 January 2015

Area	Total taxi licences	WAT licences
Newcastle	174	22
Wollongong	136	11
Country	1054	207
Total outside Sydney	1364	240

Source: Roads and Maritime Services data from Transport for NSW.

5.3 Is there an undersupply of taxi licences?

To assess whether the supply of taxi licences outside Sydney is keeping pace with growth in demand for point-to-point transport services, we looked at the recent growth in taxi licence numbers compared to the growth in demand (discussed in section 4.3). We also considered the number of licences 'on hold'.

⁴⁶ Roads and Maritime Services data from Transport for NSW.

⁴⁷ Roads and Maritime Services data from Transport for NSW.

Recent growth in taxi licence numbers

Since December 2008, Roads and Maritime Services has issued only 11 new unrestricted taxi licences in country areas and none in other urban areas.⁴⁸ Over the same period, it issued 17 additional WAT licences in country areas, and 14 additional WAT licences in other urban areas.⁴⁹ This represents 3.2% growth in the number of taxi licences over six years, or average growth of 0.5% per year.⁵⁰

As section 4.3 discussed, over the same period of time, population and economic growth in areas outside Sydney indicate that demand for taxi and other point-to-point transport services grew by an average of around 1% per year. In some areas, growth in population and economic activity was much higher than 1%, indicating that growth in demand for point-to-point transport services was also higher in these areas.

This comparison clearly indicates that growth in the supply of taxi licences has not kept pace with population and economic growth in some areas, leading to higher waiting times for passengers and more expensive fares than would have otherwise been the case.

Licences on hold

A taxi operator is able to put a taxi licence 'on hold' – that is, to maintain ownership of the licence but not have the licence attached to a vehicle which is operating as a taxi.⁵¹ There are currently 55 licences on hold outside Sydney.⁵²

Stakeholders could argue that a high number (or indeed any number) of licences on hold indicates that there are already "too many taxis". We note that a taxi operator might put a licence on hold because they consider that there is insufficient demand for taxi services to make it worthwhile to operate the taxi. However, in a market where there are barriers to entry such as high licence prices, putting a licence on hold rather than discounting pay-ins or otherwise dropping the price of the licence may only serve to keep licence prices higher than they otherwise would be. This ultimately leads to higher waiting times for passengers and more expensive fares than would otherwise be the case.

In our view, the current high licence costs indicate that there is insufficient supply of taxis, and that licences on hold may simply be a means of maintaining licence prices.

⁴⁸ Roads and Maritime Services data from Transport for NSW.

⁴⁹ Roads and Maritime Services data from Transport for NSW.

⁵⁰ IPART analysis based on Roads and Maritime Services data from Transport for NSW.

⁵¹ *Road Transport (Vehicle Registration) Regulation 2007*, clause 23.

⁵² Roads and Maritime Services data from Transport for NSW.

Draft finding

- 6 The growth in taxi licence numbers in areas of NSW outside Sydney is not keeping pace with the demand for taxi services.

5.4 What are the barriers to entering the taxi industry outside Sydney?

Given our finding that there is an undersupply of taxi licences outside Sydney, we reviewed whether barriers to entry are inhibiting growth in supply and effective competition within the industry. We consider that the issue price methodology for new licences is the main barrier to entering the taxi industry outside Sydney. There may also be barriers to joining taxi networks, which is mandatory for operators to do unless exempt by Roads and Maritime Services.

Obtaining a new licence

There is no restriction on the number of new licences that can be issued by Transport for NSW in areas outside Sydney. However, Transport for NSW issues new ordinary or short-term licences at 'market values'. The market value of a new ordinary licence is usually determined on the basis of recent sales transactions in the relevant area, and a new short-term licence as a fixed percentage of the market value thus determined.⁵³ This means that where high licence values exist they are likely to be entrenched in the system and can create barriers to the entry of new taxi operators.⁵⁴

We note that WAT licences are available on request for an annual fee of \$1,000 in Wollongong and Newcastle, and for no fee in other areas outside Sydney. Therefore, there is potential for WAT operators to enter the market and compete away the economic rent in ordinary taxi licence costs.

⁵³ Information from Transport for NSW, 27 August 2014.

⁵⁴ These are similar to the arrangements that used to apply in Sydney. However, in 2009, the licensing arrangements in Sydney were reformed and Transport for NSW no longer issues perpetual, ordinary or short-term licences. Instead, each year Transport for NSW must determine the number of new annual licences (other than WATs) that it will release by tender or auction. Winning tenderers pay the amount they bid to Transport for NSW for an annual licence, which can be renewed at the same price each year for up to 10 years (*Passenger Transport Act 1990*, ss32C-32D). WATs are available on request for \$1,000 per year (Transport for NSW, 'Wheelchair accessible taxi (WAT) licence information', <http://www.transport.nsw.gov.au/content/taxi-licences>, accessed 28 July 2014).

However, it does not appear that sufficient new operators are entering the market with a free or cheaper WAT licence because ordinary licence transfer values remain high in many areas. There may be a variety of reasons for this for example:

- ▼ taxi operators may view ordinary taxi licences as a better investment, even at an expensive issue price, if they expect the value of the licence to appreciate over time
- ▼ ordinary taxi licences are either perpetual, or renewable after 50 years, while the conditions of WAT licences are annual and provide for the licence to be cancelled if the operator fails to give preference to wheelchair jobs
- ▼ the vehicle costs for WATs are significantly higher than those for ordinary taxis, and there are additional training requirements for WAT drivers
- ▼ there may be differences in demand for ordinary taxis compared to WATs or hire cars.

In our Issues Paper we sought comments on why WAT licences are not used more often to enter the taxi market outside Sydney but we did not receive suggestions beyond those which we had already proposed.⁵⁵

We also note that the Transport for NSW website does not contain any information on the process for or cost of obtaining a new taxi licence outside Sydney, other than directing potential applicants to contact the Transport Operations Division for the latest information.⁵⁶ In our view, this lack of transparency may further inhibit competition. Providing more information about the licence types available, the method for calculating the issue price for a standard taxi licence, and the cost of WAT licences could help potential taxi operators assess their options.

Network affiliation

Unless exempted by Roads and Maritime Services, all taxi operators in NSW must be affiliated with an authorised network and are required to fit out their vehicle(s) with that network's livery and install the network's communications equipment.⁵⁷ A network must accept an operator's application to affiliate and maintain the affiliation as long as the operator pays network fees and abides by the rules of the network.⁵⁸

⁵⁵ For example, NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 11.

⁵⁶ Transport for NSW, 'Taxi licences', <http://www.transport.nsw.gov.au/content/taxi-licences>, accessed 30 March 2015.

⁵⁷ Roads and Maritime Services Data from Transport for NSW indicates that are 181 taxis that are not affiliated with a network.

⁵⁸ *Passenger Transport Act 1990*, s 34E (4)(a).

In some cases, networks also provide additional services to operators and drivers, such as training, leasing or sub-leasing taxi licences, insurance broking, and repairs and maintenance. For example, the NSW Taxi Council and NSW CTOA noted that some networks offer additional services that are separate to the costs of operating and driving a taxi in NSW. It argued that the costs for these services are therefore not relevant to this fare review.⁵⁹

Although there are no statutory limits on the number of taxi networks that can be established in NSW, in most areas outside Sydney there is only one network in each area. This means there is little competition in terms of services offered and fees charged. As a result, network fees may act as a barrier to joining a network. The CIE's driver and operator survey indicated that network fees are significantly higher in other urban and country areas, compared to Sydney.⁶⁰ The CIE noted that this could reflect a lack of economies of scale or a lack of competition resulting in less incentive for networks to reduce costs.

Our Issues Paper sought stakeholder feedback on whether it is difficult for new taxis to join taxi networks in areas outside Sydney and if so, what the barriers to joining are. The only submission that mentioned a barrier to entry was from the Australian Taxi Drivers Association, which was the "attitudes of the incumbent".⁶¹

A recent Taxi Industry Inquiry in Victoria found that network service providers were deriving income from mandatory operator affiliation fees with little incentive to provide good service to taxi operators or taxi users.⁶² Since 30 June 2014, it has no longer been compulsory for Victorian taxi operators to belong to a network service provider or taxi booking service.⁶³

We also note that in NSW the *Passenger Transport Act 2014*, once commenced, will introduce regulatory changes to network services by separating the functions of taxi networks and booking services in NSW. This provides for the regulation of taxi booking apps which have entered the market in recent years.

⁵⁹ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 12.

⁶⁰ The CIE, *2014 survey of taxi drivers and operators - Survey results for areas outside Sydney*, Draft report, March 2015, p 34.

⁶¹ Australian Taxi Drivers Association (ATDA) submission to Issues Paper, 18 November 2014, unnumbered page.

⁶² Taxi industry inquiry, *Customers First – Final Report*, September 2012, pp 40, 43.

⁶³ Taxi Services Commission, 'Taxi owners & Permit Holders (formerly Operators)', <http://www.taxi.vic.gov.au/owners-and-permit-holders/taxi-owners-and-permit-holders>, accessed 31 July 2014.

Draft findings

- 7 The primary barrier to entering the taxi market outside Sydney is the high cost of obtaining a new taxi licence, which is determined on the basis of recent sales transactions in the relevant area. This process is prescribed by Transport for NSW.
- 8 The process for and cost of obtaining a new taxi licence outside Sydney lacks transparency.
- 9 High network fees in areas outside Sydney may be a barrier to joining a network. As network affiliation is mandatory for operators the high fees may be a deterrent to entering the taxi industry.
- 10 Given the current licensing regime for the taxi industry outside Sydney, there is little scope for a more light-handed approach to regulating fares.

6 Alternative forms of point-to-point transport

As Chapter 5 discussed, as well as assessing competition in the taxi industry outside Sydney, we also assessed competition *with* the taxi industry from alternative point-to-point transport services. If this competition were effective, we would expect that alternative point-to-point services would be meeting some of the growth in demand (discussed in Chapter 4) and that the undersupply of taxi licences (discussed in Chapter 5) would not be as significant as it appears.

We looked at hire cars, community transport, shuttle and courtesy bus services, carshare services and rideshare services. For each of these services, we considered whether it is an alternative to taxi services in areas outside Sydney, and if so, whether it is competing with taxis in these areas, and whether there are barriers to entering the market that are inhibiting this competition.

The sections below outline our draft findings and then discuss the findings and our analysis in detail.

6.1 Summary of draft findings on competition with the taxi industry

We found that hire cars are the main competitor with taxis outside Sydney. We also found that, as for taxi licences, the high cost of obtaining a new hire car licence may be a barrier to more hire car operators entering the market outside Sydney.

We found that while community transport and shuttle or courtesy buses can provide an alternative to taxi services, they offer limited services and, in the case of community transport, are only available to eligible passengers. We are not aware of car share or rideshare services, such as UberX, operating outside Sydney.

Given these findings, we also found there is not sufficient evidence of competition with the taxi industry outside Sydney to move towards a more light-handed form of fare regulation at this stage.

6.2 Hire cars

One stakeholder submission in response to our Issues Paper agreed with our view that hire cars can be an alternative for taxi services.⁶⁴ However, the NSW Taxi Council and NSW CTOA submitted that hire cars and taxis service very different market segments, and that therefore hire cars are not an alternative to taxis.⁶⁵

We maintain our view that the hire car and taxi markets overlap. Specifically, hire cars can compete with taxis for booked trips, which are the majority of taxi trips outside Sydney (see Chapter 4).⁶⁶

The NSW Taxi Council and NSW CTOA submitted that private hire car operators have a ‘distinct competitive advantage’ over taxis because they do not have to meet the same safety, service performance and vehicle standards as taxis, and that their costs are therefore much lower.⁶⁷ It also noted that ‘the definition of ‘pre-booked’ has become increasingly ambiguous and it is potentially open to interpretation that pre-booked may only mean a number of minutes, if anything at all.’⁶⁸

6.2.1 Are hire cars competing with taxis outside Sydney?

In January 2015 there were 397 hire cars operating outside Sydney, including 73 in Newcastle and 47 in Wollongong. Over the past 10 years, the number of hire cars in Sydney has increased much faster than the number of hire cars outside Sydney. However, the number of hire cars relative to the number of taxis is still greater outside Sydney (see Table 6.1).

There are 75 hire car operating areas outside Sydney, Newcastle and Wollongong (ie, within the broader country area).⁶⁹ It is difficult to compare the number of hire car licences with the number of taxi licences by small areas in the country because the operating areas for hire cars are not the same as the operating areas for taxis.

⁶⁴ Australian Taxi Drivers Association submission to Issues Paper, 18 November 2014, unnumbered page.

⁶⁵ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 14.

⁶⁶ The Taverner survey of taxi use indicates that 57% of taxi trips in Other Urban areas are booked and 70% in Country areas are booked, compared to 39% in Sydney (Taverner Research, *Survey of Taxi Use*, December 2014, p 29).

⁶⁷ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 14.

⁶⁸ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 13.

⁶⁹ Roads and Maritime Services data from Transport for NSW.

Table 6.1 Taxi and hire car numbers outside Sydney, 1 January 2015

	Taxis	Hire cars	Hire cars as proportion of taxis
Sydney	5,983	1,228	21%
Newcastle	174	72	41%
Wollongong	136	47	35%
Country	1,054	278	26%
Total	7,347	1,625	22%

Source: Roads and Maritime Services data from Transport for NSW.

In the 2014 Taverner survey of taxi use, 10% of respondents in other urban areas and 5% of respondents in country areas had used a hire car in the last six months.⁷⁰ This is less than the 18% of Sydney respondents who had used a hire car in the last six months.⁷¹

We note that taxi use is also less common and less frequent outside Sydney than it is in Sydney⁷² so the lower use of hire cars reflects the lower use of point-to-point transport more generally.

As for Sydney, comfort and reliability were the dominant reasons given for using a hire car instead of a taxi.⁷³

Are there barriers to entering the hire car market?

Like taxi operators, hire car operators must own or lease a licence. Hire car licences were deregulated in Sydney only. Short-term hire car licences outside Sydney are available from Transport for NSW at a cost that reflects the market price of an ordinary hire car licence, with a floor price of \$3,000.⁷⁴ As for taxi licences, this means that where high licence values exist they are likely to be entrenched in the system and could be creating barriers to the entry of new hire car operators. We did not receive any comments on our Issues Paper that addressed this issue.

Draft finding

- 11 Hire cars are the main source of competition with taxis outside Sydney. However, the cost of obtaining a new hire car licence, which is based on the market value of existing licences, could be a barrier to more hire car operators entering the market.

⁷⁰ Taverner Research, *Survey of Taxi Use*, December 2014, p 92.

⁷¹ Taverner Research, *Survey of Taxi Use*, December 2014, p 92.

⁷² Taverner Research, *Survey of Taxi Use*, December 2014, p 11.

⁷³ Taverner Research, *Survey of Taxi Use*, December 2014, p 94.

⁷⁴ Information from TfNSW.

6.3 Community transport

Community transport provides access to shopping, medical and social services, recreation and social contact for people who cannot use regular public transport. It is commonly available in areas outside Sydney, and we consider it can be an alternative to taxi services. However, community transport operations offer limited services (for example, they may not operate on weekends or at night) and are only available to eligible passengers.

The NSW Taxi Council and NSW CTOA submitted that community transport is not an alternative to taxi services.⁷⁵ However, this submission also expressed concern that where community transport competes with taxi services it has an unfair price advantage because it receives government funding.

We note that in some instances community transport programs may support taxi operations by providing subsidies for taxi travel. One example is the Oberon community transport scheme.⁷⁶

6.4 Shuttle and courtesy bus services

Some venues such as RSLs or sports clubs offer free shuttle bus or courtesy bus services. These services offer passengers free transport to and/or from the sponsor venue.

These services can compete directly with taxis for certain trips, although many operate at peak times when there may not be sufficient taxis in the area to meet the demand for point-to-point transport. Therefore, we do not consider that they are a significant source of competition with the taxi industry.

6.5 Car share and rideshare services

Car sharing businesses are becoming more popular and are available in an increasing number of locations. Business models vary, and include 'peer-to-peer' arrangements (where people who own a car rent it to members of the scheme) and arrangements where a business owns a fleet of cars that are available to rent by members.

⁷⁵ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, pp 14 -15.

⁷⁶ For more information see Transport for NSW, *Oberon Taxi Brokerage Voucher Scheme* <http://www.transport.nsw.gov.au/content/oberon-taxi-brokerage-voucher-scheme>, accessed 30 March 2015; Oberon Council, *Community Transport Services*, <http://www.oberon.nsw.gov.au/news/1162199-community-services-offered-by-council>, Media Release, 24 July 2014, accessed 30 March 2015.

While car sharing is generally considered an alternative to car ownership, in some cases it may be an alternative to taxis. For example, if someone without a car needs to buy heavy items from a shop, they may rent a shared car for an hour rather than hire a taxi to transport the heavy items home.

Ridesharing is a low cost point-to-point service where private individuals use their own cars to drive passengers for a fee. An example is UberX, which began operating in Sydney in late April 2014.

Ridesharing is not legal in NSW as it does not comply with the *Passenger Transport Act 1990* which requires drivers taking paying members of the public as passengers to be authorised under the Act.

In the 2014 Taverner taxi use survey, very few respondents outside Sydney had used car share or rideshare services:

- ▼ 6% of Other Urban and 3% of Country respondents had used car share services, compared to 13% in Urban Sydney⁷⁷
- ▼ 4% of Other Urban and 3% of Country respondents had used ride share services, compared to 11% in Urban Sydney.⁷⁸

We are not aware of car share or rideshare services operating outside Sydney.⁷⁹ The survey respondents may have used rideshare services in Sydney, even though they live outside Sydney, or they may have misunderstood the question.

Draft Finding

- 12 There is not sufficient evidence of competition from alternative point-to-point transport options outside Sydney to facilitate a more light-handed approach to regulating fares.

⁷⁷ Taverner Research, *Survey of Taxi Use*, December 2014, p 95.

⁷⁸ Taverner Research, *Survey of Taxi Use*, December 2014, p 95.

⁷⁹ UberX is operating in non-capital city locations elsewhere in Australia. For example, Mornington Peninsula, Geelong, Gold Coast (<https://www.uber.com/cities>).

7 | Fare structure

Fare structure refers to the different components that make up the overall fare charged to a passenger. It determines how the fare will vary by distance travelled, by the level of congestion on the road, by time of day/time of week and by how the taxi is hired (whether booked or hailed).

As the fare structure has the potential to influence the availability of and the demand for taxi services, we considered the current fare structure outside Sydney. We found no evidence that it is a significant issue for stakeholders or an impediment to the efficiency of the taxi market outside Sydney.

The sections below explain how the fare structure can influence the efficiency of the market, and our considerations of this issue.

7.1 How does the fare structure influence the taxi market?

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.

An efficient fare structure would mean that taxi drivers are willing to meet passenger demand for different types of trips. For example, the relativities between:

- ▼ the distance rate and the hiring charge should provide incentives for drivers to pick up both long and short fares, and
- ▼ the waiting rate and the distance rate should incentivise drivers to take the fastest route (either by avoiding congestion or travelling the shortest distance).

An imbalance between the fixed and variable fare components could lead to drivers having a strong preference for particular trips. For example, a high hiring charge and low kilometre rate would result in drivers strongly preferring short trips over longer trips.

Imbalances in fares also affect the choices made by potential passengers. An excessively high hiring charge could mean that passengers stop using taxis for short trips, and use alternative transport options or choose not to travel at all. This could reduce overall demand for taxi services.

7.2 Is fare structure an issue outside Sydney?

In our Issues Paper we sought stakeholder feedback on whether there are currently imbalances in the market that have resulted in customers facing difficulties getting taxis for particular journeys, and whether the existing fare structure impacts the availability of taxi services.

The NSW Taxi Council and CTOA noted that longer journeys are generally sought after by drivers and that passengers are therefore well served in this regard.⁸⁰ Notwithstanding this observation, they support the introduction of pre-paid fares in rural and regional NSW to give drivers greater confidence when taking trips over longer distances.⁸¹

The 2014 Taverner survey of taxi use found that waiting times on Friday and Saturday nights were more likely to be considered too long than at other times.⁸² Relevant to this issue, the NSW Taxi Council and CTOA noted that the introduction of a peak surcharge in the Sydney Metropolitan Transport District has raised interest in areas outside of Sydney. But they acknowledge that in regional areas most, if not all, taxis are already operating at peak times in these towns, and that while it could be an incentive for taxi drivers to stay out longer, there are broader implications for workplace health and safety issues, particularly in relation to fatigue.⁸³

Draft finding

- 13** The existing structure of fares outside Sydney is not a significant impediment to the availability of taxi services or demand for taxi services.

⁸⁰ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 23.

⁸¹ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 22.

⁸² Taverner Research, *Survey of Taxi Use*, December 2014, p 69.

⁸³ NSW Taxi Council and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 23.

8 | Other considerations

The terms of reference for our review require us to consider the need to maintain ecologically sustainable development and the effect of our recommendations on the level of Government funding. We do not consider that our draft recommendations would have a significant impact on either of these.

Our terms of reference also require us to consider the standards of quality, reliability and safety of taxi services. The available data, although limited, suggests that there some passengers are concerned about the availability of taxi services.

8.1 The need to maintain ecologically sustainable development

While our terms of reference require us to consider the need to maintain ecologically sustainable development, we consider that there is limited scope to further this objective through our fare or licence recommendations. We know that taxi trips are currently a very small proportion of total trips in Sydney⁸⁴ and we expect that the proportion is even smaller in areas outside Sydney. Therefore, we expect the impact of our draft recommendations on pollution and congestion is likely to be very small.

8.2 The effect of any pricing recommendation on the level of Government funding

The NSW Government provides funding to taxi **users** whose transport options are restricted due to a severe and permanent disability. The Taxi Transport Subsidy Scheme (TTSS) subsidises these customers up to 50% of the fare, for up to \$30 per trip.⁸⁵ At 30 June 2014, there were 67,500 people registered for the scheme and in 2013-14 almost \$25.6 million was paid in subsidies.⁸⁶

⁸⁴ The Bureau of Transport Statistics' 2012/13 Household Travel Survey Report indicates that taxi trips account for less than 1% of average weekday trips in Sydney. (Bureau of Transport Statistics, *2012/13 Household Travel Survey Report: Sydney 2012-13*, November 2014, p 17.)

⁸⁵ TfNSW, Taxi Transport Subsidy Scheme (TTSS), <http://www.transport.nsw.gov.au/ttss>, accessed 30 March 2015.

⁸⁶ TfNSW, *Annual Report 2013/14*, p 49.

Holding fares constant in nominal terms would not have a significant impact on the call on Government funding for the TTSS scheme.

The taxi industry is unlike other forms of public transport in that it does not receive any subsidy from Government. IPART's current pricing methodology for rail, metro bus and ferry services involves setting the Government subsidy to the external benefit of the mode. We are currently reviewing the value of the external benefits of rail, bus and ferry services.⁸⁷

Avoided road congestion is by far the single largest external benefit of public transport such as rail, bus and ferry, and the nature of taxi travel (vehicles on the road even when not engaged for a specific journey) suggests that there is unlikely to be a net benefit from avoided congestion.

In any case, the mere existence of an external benefit does not imply a need for Government funding. A subsidy should only be paid if the subsidy leads to an increase in the use of the service and thus an increase in the external benefit, and if the value of the increase in external benefits exceeds the net cost of providing the subsidy.

8.3 Service standards

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

The available data, although limited, suggests that some passengers are concerned about the availability of taxi services. We expect that service standards outside Sydney vary widely reflecting local differences in supply and demand of taxis which will affect waiting times and reliability.

We have considered information on service standards from the following sources:

- ▼ Network key performance indicator (KPI) data from Transport for NSW
- ▼ Data from Transport for NSW complaints management system
- ▼ 2014 Taverner survey of taxi use
- ▼ IPART survey of taxi passengers, and
- ▼ stakeholder submissions.

⁸⁷ For further information see: http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/External_Benefits_of_Public_Transport.

Network KPI data

For areas outside Sydney, only taxi networks in Wollongong, Newcastle and the Central Coast are required to report on KPIs to Transport for NSW. No KPI data is reported for country areas. We consider the KPI data has a number of limitations:

- ▼ A network's call management strategy can influence how KPIs are recorded.⁸⁸
- ▼ Inconsistency and possible inaccuracies in measuring and reporting make it difficult to make comparisons between networks.
- ▼ the KPI data relates only to booked journeys.

The KPI data for Wollongong, Newcastle and the Central Coast shows that:

- ▼ In 2014 in Newcastle almost 11,000 bookings were unable to be serviced because there was no taxi available.
- ▼ In all three areas the number of jobs for which no car was available fell in 2014, compared with 2013.
- ▼ Average pick up times for passengers booking taxis in 2014 was around six minutes on the Central Coast, five minutes in Newcastle and one minute in Wollongong. (For comparison the average pick up times in Sydney was around six minutes.)⁸⁹

Customer Feedback Management System

Transport for NSW has provided information from its Customer Feedback Management System for country areas (Table 8.1). There were fewer than 50 complaints recorded about country taxi services in 2014, most about driver behaviour. Newcastle taxi services received the most complaints of any of the regions outside Sydney, mostly about drivers and the network. Fewer complaints were received in 2014 in Newcastle, Central Coast and country areas compared to 2013.⁹⁰

Table 8.1 Customer feedback on taxi services outside Sydney, 2013 and 2014

	Wollongong	Newcastle	Central Coast	Country	Total outside Sydney
Total complaints 2014	31	370	37	46	484
Total complaints 2013	23	464	108	136	731

Source: Transport for NSW.

⁸⁸ For example, see Victorian Taxi Industry Inquiry, *Customers First*, Draft Report, May 2012, p 80: "Further exploration ...indicated that the reason for the relatively stable waiting times is that the network call centres constrain the amount of bookings that are handled by their systems."

⁸⁹ IPART calculations based on TfNSW data.

⁹⁰ Data from TfNSW.

Survey results

The 2014 Taverner survey of taxi use included selected areas outside Sydney. Given difficulties in obtaining representative samples in areas outside Sydney, it was not possible to analyse differences in service levels between areas. Nevertheless, the results indicate that the availability of taxi services is a problem in at least some areas, particularly on Friday and Saturday nights:

- ▼ Among people who reported problems when taking a taxi in the previous year, 47% in other urban and 56% in country areas reported being unable to get a taxi when they wanted one.⁹¹
- ▼ 54% of other urban users and 40% of country taxi users considered waiting times on Friday and Saturday nights were unreasonable (compared to 50% in Sydney).⁹²

These findings were also reflected in responses to a short on-line survey available on the IPART website in October and November 2014 where lack of availability of taxis or long waits, particularly at night were the most frequently cited difficulties with taxi services.⁹³

Submissions from stakeholders

Three submissions from individuals in response to our Issues Paper expressed concern about waiting times and the availability of taxis.⁹⁴ However, two taxi industry stakeholders consider that waiting times are unlikely to be a problem in country areas.⁹⁵

⁹¹ Taverner Research, *Survey of Taxi Use*, December 2014, pp 60-61.

⁹² Taverner Research, *Survey of Taxi Use*, December 2014, p 69.

⁹³ The IPART on-line survey findings are not statistically significant as the survey was self-selecting, responses tended to be from areas where the survey was publicised in local media, and the number of responses was small (115 responses).

⁹⁴ Anonymous submission to Issues Paper, 18 October 2014; Anonymous submission to Issues Paper, 21 October 2014; P Trevaskis submission to Issues Paper, 18 November 2014.

⁹⁵ Australian Taxi Drivers Association submission to Issues Paper, 18 November 2014 p 2; NSW Taxi Council; and NSW Country Taxi Operators Association submission to Issues Paper, 9 December 2014, p 10.

9 | Our recommendations

After carefully considering the draft findings discussed in the previous chapters, together with our terms of reference and stakeholder responses to our Issues Paper, we made our draft recommendations on maximum fares for 2015-16 and other matters. The sections below summarise these recommendations, then discuss them in more detail.

9.1 Summary of draft recommendations

We are recommending a nominal fare freeze in other urban areas and a nominal fare freeze in country areas in 2015-16. We are also recommending the NSW Government prioritise the reform of taxi licensing arrangements outside Sydney to allow the market to better match the supply of taxis with the demand for their services.

As the previous chapters have discussed, high licence values in many areas outside Sydney indicate that current fares include economic rent. This suggests that competition in the point-to-point transport market is not effective, because in a competitive market this rent would have been competed away by the entry of additional taxis or alternative modes of point-to-point transport.

Our findings indicate there is an undersupply of taxi licences in areas with high licence values because there are barriers to entering the taxi industry. The primary barrier to entry is the high cost of obtaining a new taxi licence, which is determined by a process prescribed by Transport for NSW.

A nominal freeze (real reduction) in maximum fares in 2015-16 will improve efficiency by reducing the amount of economic rent in fares, and improve the affordability of taxi services for customers. However, sustained fare decreases across other urban and country areas could have a negative impact on taxi availability and the quality of services in some of these areas.

In our view, the only way to improve both affordability and service quality is by reforming taxi licensing arrangements to reduce the barriers to entering the taxi market.

We consider that competition *in* the taxi industry is complemented by competition *with* the taxi industry. In our review of taxi fares and licences for Sydney, we recommended that the Government review the regulatory framework for all point-to-point transport services to ensure that all players in the market are regulated appropriately for safety and quality, but not hampered by inappropriate or outdated regulation. We consider that this review should include all of NSW, not only Sydney.

As part of the fare review for areas outside Sydney we also considered whether IPART should continue to undertake an ongoing review of LPG prices outside the annual fare review process. We are recommending that we no longer undertake an ongoing review of LPG prices. This is consistent with our draft recommendation for the ongoing review of LPG prices in our Sydney review of taxi fares and licences.⁹⁶

9.2 A nominal fare freeze

As Chapter 3 discussed, high licence values in many areas outside Sydney indicate that taxi fares include economic rent. Economic rent is not an efficient cost and its presence indicates that there is scope for a fare reduction to move fares closer to efficient levels.

A nominal fare freeze (a real fare reduction) in 2015-16 will reduce the amount of economic rent in fares. This will improve affordability for passengers.

We do not have licence transfer data for every operating area and there is a chance that in some areas taxi service provision is at or close to the margin of profitability and fares do not include any economic rent. In these areas, a fare freeze (real fare reduction) could have a negative impact on the level of service provided and may even lead to an absence of taxi services in the long run. But, two pieces of evidence suggest the risk of areas being in this situation now is small:

- ▼ A comparison of current fare levels in NSW with fares in other states and territories indicates that most NSW fares are higher than in most other Australian jurisdictions (see Appendix C).
- ▼ Fares in NSW country areas rose steadily in real terms between 1999 and 2012, when inflated by the country Taxi Cost Index which included licence lease costs based on Sydney data and labour costs inflated at the Wage Price Index, both of which contributed to both Sydney and outside-Sydney areas growing at greater than efficient costs.

⁹⁶ Our final report, IPART, *Sydney taxi fares to apply and new licences to be released from July 2015 – Final Report*, February 2015, p 32 was provided to Transport for NSW on 27 February 2015. The report will be available on our website once TfNSW's determination on licence numbers has been announced. References to the review of Sydney fares and licences in this report are to our draft report, *Sydney taxi fares to apply and new licences to be released from July 2015 – Draft Report*, December 2014, which is available on our website.

Given this evidence, we consider that a nominal fare freeze in 2015-16 for all areas outside Sydney is reasonable and consistent with our terms of reference.

Draft recommendations

- 1 A nominal taxi fare freeze for operating areas outside Sydney subject to the urban fare schedule.
- 2 A nominal taxi fare freeze for operating areas subject to the country fare schedule.

Grouping operating areas into different fare schedules

In recognition of the variability in licence transfer and lease costs across country areas, we proposed in our Issues Paper to assess whether we could group operating areas into different fare schedule areas based on different cost structures or other variables - such as by population size or licence values - that also effectively capture significant variations in cost structures.

Our view is that we have insufficient information to propose any of these groupings on a State-wide basis. We also note that:

- ▼ Inconsistently defined and overlapping operating area boundaries would make implementation of more than the existing two fare schedules very difficult.
- ▼ The few stakeholder submissions that commented on the appropriate number of fare schedules, in response to our Issues Paper, did not support more than the existing two fare schedules.⁹⁷

Fare adjustments

In our Issues Paper, we proposed to recommend the maximum fare levels that should apply outside Sydney from July 2015 and each year thereafter, until our next comprehensive review (in around four or five years).

This Draft Report only recommends maximum fare levels for 2015-16. We have not made a draft recommendation on fares beyond 2015-16 because we consider that the Government should prioritise reforming taxi licensing arrangements (see section 9.3 below).

We have concerns about the appropriateness of the Taxi Cost Index, particularly for areas outside Sydney. Some of the industry-specific costs this index attempts to capture are:

- ▼ hard to measure (eg, driver and operator labour costs)

⁹⁷ See for example NSW Taxi Council and CTOA submission to Issues Paper, 9 December 2014, p16.

- ▼ highly variable between businesses and across the state, and
- ▼ dependent on patterns of operation (eg, how many shifts a taxi is on the road) about which we have little data.

The difficulties we have had with obtaining robust and representative data from the CIE survey for areas outside Sydney are an indication of the difficulties we would have in calculating the Taxi Cost Index for these areas.

9.3 Need to reform taxi licensing arrangements

As noted above, while we think that a nominal fare freeze (real fare decrease) in 2015-16 for all areas is reasonable, sustained fare decreases across all areas outside Sydney could have a negative impact on taxi availability and the quality of services in some areas.

Also, in a market where the supply of services is artificially constrained, fare decreases are unlikely to improve taxi availability or the quality of services.

In our view, the only way to improve affordability, availability and service quality is by reforming taxi licensing arrangements to reduce the barriers to entering the taxi market. In particular, we consider that the process for determining the issue price for new taxi licences needs reforming.

Other possible licensing reforms could include the reclassification of existing operating areas into broader operating zones so that:

- ▼ different fare schedules (potentially including uncapped posted prices), based on differences in the efficient costs of operating taxi services, can apply, and
- ▼ the supply of existing taxi licences can respond to fluctuations in demand for taxi services between areas within the same zone.

Any new licences issued should also adopt consistent and broadly defined operating areas.

In our previous review of fares we recommended that Transport for NSW should initially focus licensing reforms on areas with licence transfer values above \$200,000.⁹⁸ Our current view is that the licensing arrangements for all areas outside Sydney should be considered together, in light of the difficulty targeting specific operating areas and the potential benefits of redefining and/or regrouping existing operating areas. The reforms could be considered in a standalone review, or be considered as part of a broader review of point-to-point transport (see section 9.4 below).

⁹⁸ IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 97; IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, p 13.

We consider that the objectives of licensing reform outside Sydney should be consistent with the objectives of the 2009 Sydney licensing reforms. The terms of reference for IPART's review of annual Sydney licences lists these objectives as:

- ▼ ensuring the supply of taxis responds closely to growth in passenger demand
- ▼ balancing the need for more affordable 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.⁹⁹

Draft recommendation

- 3 That the Government reform taxi licensing arrangements outside Sydney to allow the market to better match the supply of taxis with demand for their services.

9.3.1 Availability and cost of new licences

In 2009, taxi licensing arrangements in Sydney were reformed. Transport for NSW no longer issues perpetual, ordinary and short-term licences. Instead, each year Transport for NSW must determine the number of new annual licences that it will release by tender or auction. Winning tenderers pay the amount they bid to Transport for NSW for an annual licence, which can be renewed at the same price each year for up to 10 years.

These licensing reforms only apply in Sydney but Transport for NSW has stated that they 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.¹⁰⁰

While we encourage the reform of licensing arrangement outside Sydney, we note that an annual determination of additional licences may not be the most appropriate process for issuing new licences for all areas. This is because determining a suitable number of licences requires good information about changes in customer demand for taxis services. However, estimating changes in the demand for taxis outside Sydney is difficult, particularly in country areas for which there is very little data available on a small area basis.

⁹⁹ Terms of Arrangement – Annual Sydney Taxi Licence Review, June 2014.

¹⁰⁰ Transport for NSW, *Background*, <http://www.transport.nsw.gov.au/content/background>, accessed 2 April 2015.

An annual determination of additional licences may be appropriate for Newcastle, Wollongong and the Blue Mountains where there is more detailed information available than there is for country areas.

Further analysis of the most appropriate means of issuing and pricing new licences for both other urban and country areas is required.

9.4 Review of the regulatory framework for all point-to-point transport services

As Chapters 5 and 6 discussed, there may also be non-licensing barriers to entering the taxi market and/or barriers to entering the broader market for alternative forms of point-to-point transport.

We consider these issues should be examined further in a review of the regulatory framework for point-to-point transport across NSW. We have already made a recommendation for a review in the context our Sydney fare and licence review. Specifically, we recommended that the Government commission a review of the regulatory framework for all point-to-point services to ensure all players in the market are regulated appropriately for safety and quality while encouraging innovation and competition (see Box 9.1).

Of particular relevance to areas outside Sydney, issues for the point-to-point transport review include:

- ▼ mandatory network affiliation for taxi operators, and
- ▼ the process for determining the price for new hire car licences.

The review could also consider the definition of ‘pre-booked’ in relation to hire cars, as called for by the NSW Taxi Council and CTOA.¹⁰¹

Increasing competition in the point-to-point transport market will help to protect customers from abuses of monopoly power, including higher than efficient prices and lower than acceptable service standards. We expect these benefits would be experienced by customers using taxis or alternative modes of point-to-point transport.

In the longer term, increased competition could facilitate a more light handed approach to taxi fare regulation in areas outside Sydney.

¹⁰¹ NSW Taxi Council and CTOA submission to Issues Paper, 9 December 2014, p 13.

Box 9.1 Review of point-to-point transport regulation

In our draft report on taxi licences and fares for Sydney, provided to Transport for NSW in December 2014, we recommend that the Government appoint an independent body such as IPART to make recommendations on the regulation of point-to-point transport that:

- applies to all point-to-point transport services
 - takes account of the impact of new technology
 - focuses on the safety of drivers and passengers and consumer protection, and
 - encourages innovation and competition.
-

Draft recommendation

- 4 That the Government include areas outside Sydney in a review of the regulatory framework for point-to-point transport.

9.5 Ongoing review of LPG prices

In our view, IPART should no longer undertake an ongoing review of LPG prices outside the annual fare review process. We consider the economic rent in fares outside Sydney is likely to be sufficient to cover any increases in efficient costs including LPG costs.

Historically, IPART has reviewed LPG prices outside the regular fare review cycle. We commenced the practice of a mid-year review of LPG prices when we used an index approach to setting fares, to mitigate short term impacts on drivers of spikes (up or down) in LPG prices. In our review of fares from July 2014 we decided that we would recommend fare changes to reflect the change in fuel costs at any time that the average LPG price over six months changes by more than 20% (up or down) compared to the same six months the year before (to avoid capturing seasonality effects).¹⁰²

In June 2014 we found that LPG prices in urban (but not country) areas in the six months to the end of May had risen by more than the threshold 20% compared to the same period the previous year, indicating an increase in costs of 2.3%. However, as Transport for NSW had announced that taxi fares would be increasing by CPI, or 2.5%, from July, we considered that fares would be high enough to cover the increase in fuel costs.¹⁰³

¹⁰² IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 49; IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, p 8.

¹⁰³ IPART, *Fact Sheet - Taxi fares will increase by CPI on 1 July*, June 2014, p 1.

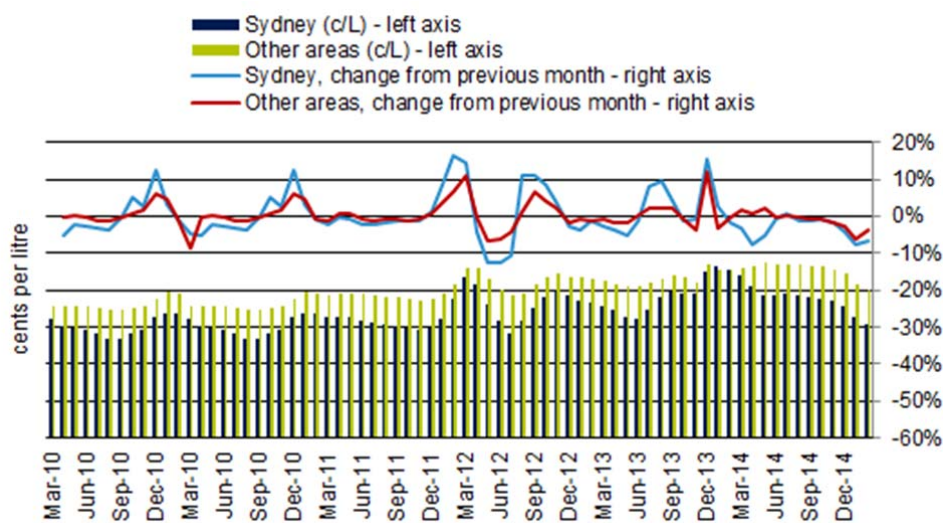
In our Issues Papers for the current reviews of fares from July 2015, we said that we would consider whether to continue the ongoing review of LPG prices outside the regular fare review cycle. We asked stakeholders for their views on this issue.

The NSW Taxi Council and NSW CTOA submitted that there is a higher level of fuel price volatility in rural and regional NSW and price increases can be significant over shorter timeframes.¹⁰⁴ However, we consider that the higher distance rate for fares in country areas reflects the higher cost of fuel, and FUELtrac data shows that country LPG prices are no more volatile than urban (See Figure 9.1).

Draft recommendation

- 5 That IPART no longer undertake an ongoing review of LPG prices outside the annual fare review process.

Figure 9.1 LPG retail prices



Data source: FUELtrac data.

¹⁰⁴ NSW Taxi Council and CTOA submission to Issues Paper, 9 December 2014, p 22.



Appendices

A Terms of reference

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992 TAXI INDUSTRY FARE REVIEW

I, Hon Mike Baird, 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 one year to 2 August 2015 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 involving the NSW Taxi Council, taxi industry participants, other stakeholders and 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 Mike Baird MP
Premier
Minister for Western Sydney
Minister for Infrastructure

Dated at Sydney.....2014

B List of submissions

Table B.1 Issues Paper submissions received

Submitter	Date received
Australian Taxi Drivers Association	18 November 2014
Individual (Anonymous)	21 October 2014
Individual (Anonymous)	18 October 2014
Individual (N Humphreys)	8 October 2014
Individual (R Seam)	9 October 2014
Individual (P Trevaskis)	18 November 2014
Individual (P Rex)	7 November 2014
NSW Taxi Council and NSW Country Operators Association	9 December 2014
Southern Highlands Taxis, Hire Cars and Coaches (confidential)	18 November 2014
Taxi Cabs of Orange Co-operative (confidential)	24 October 2014

C Comparison of fares in other Australian jurisdictions

Regulators or governments in all Australian jurisdictions determine maximum taxi fares. Only in country and regional Victoria since July 2014 can taxi operators 'notify' prices that are above the regulated fares.

While the maximum fares in other jurisdictions may not necessarily reflect efficient fare levels, they provide a useful comparison.

Figure C.1 and Figure C.2 show that:

- ▼ Fares in NSW for daytime weekday trips (short and long) and long trips on weekday¹⁰⁵ evenings are generally higher than the average across Australia. NSW Country fares for short evening trips are just below the Australian average.
- ▼ Longer trips in country NSW tend to be more expensive than in other areas. This is because the distance (per km) rate increases for journeys that exceed 12 km (the distance rate in all other areas is constant, regardless of the length of the journey). The clear exception, where fares are higher, is "exempted areas"¹⁰⁶ in regional Queensland.
- ▼ NSW urban fares are the highest of all capital cities and are higher than most regional areas except exempted areas in regional Queensland, at most times.

While the figures below use the regulated fare for country Victoria, we note that as of 6 March 2015, 27 operators in Victoria had price-notified (ie, chosen to set their own fares).¹⁰⁷ With one exception, all fare components are the same or higher than the equivalent regulated fare component. Some operators have retained the regulated flag fall and increased the distance rate and waiting time rate. Others have increased the flag fall and kept the other components at the

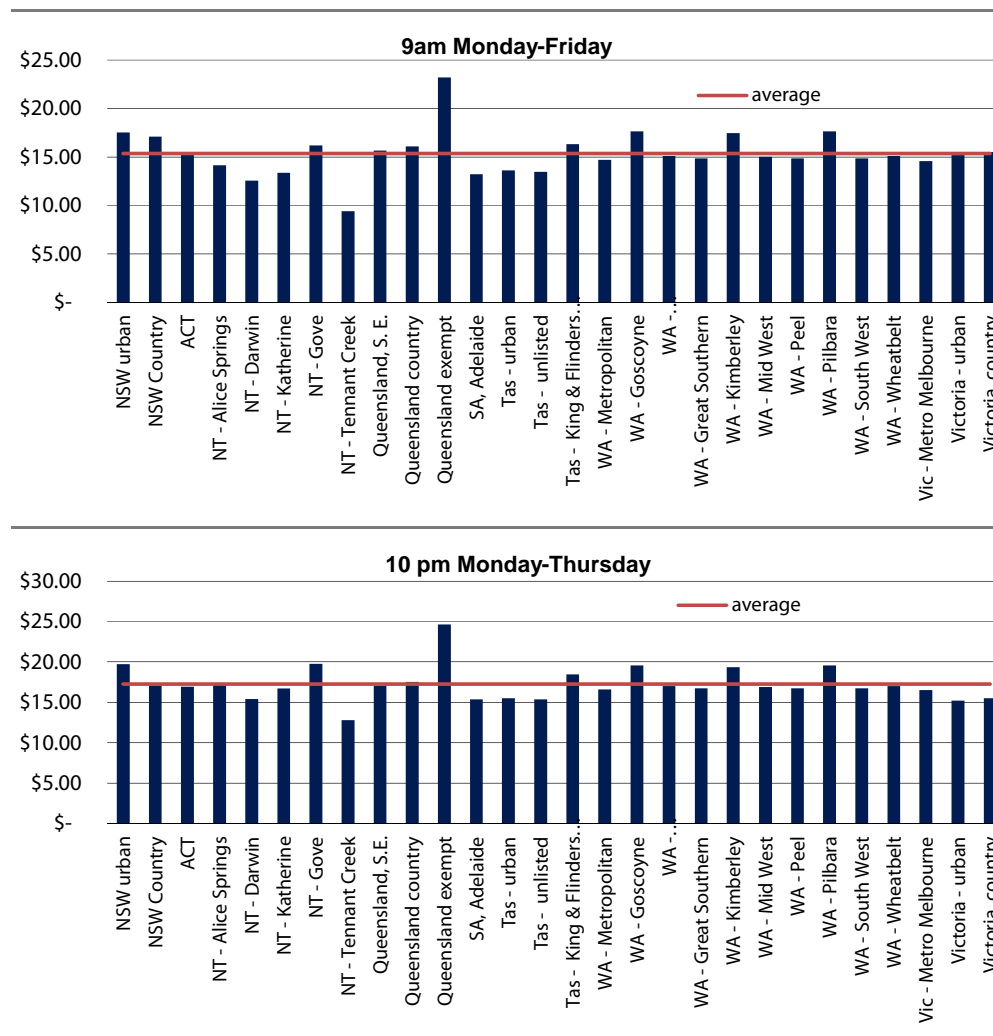
¹⁰⁵ Fares calculated for Monday-Thursday. Some cities (including Sydney) have additional charges late on Friday nights.

¹⁰⁶ Exempted taxi service licences are issued in areas with small populations which would be unlikely to support a full metered taxi service. (Queensland Government Department of Transport and Main Roads, Taxi fares, service areas and maps, <http://www.tmr.qld.gov.au/Travel-and-transport/Taxis/Taxi-fares-service-areas-and-maps.aspx>)

¹⁰⁷ Taxi Services Commission, *Operators who have price notified*, <http://www.taxi.vic.gov.au/taxi-reform/reforms-implemented/price-notification/operators-who-have-price-notified>, accessed 10 March 2015.

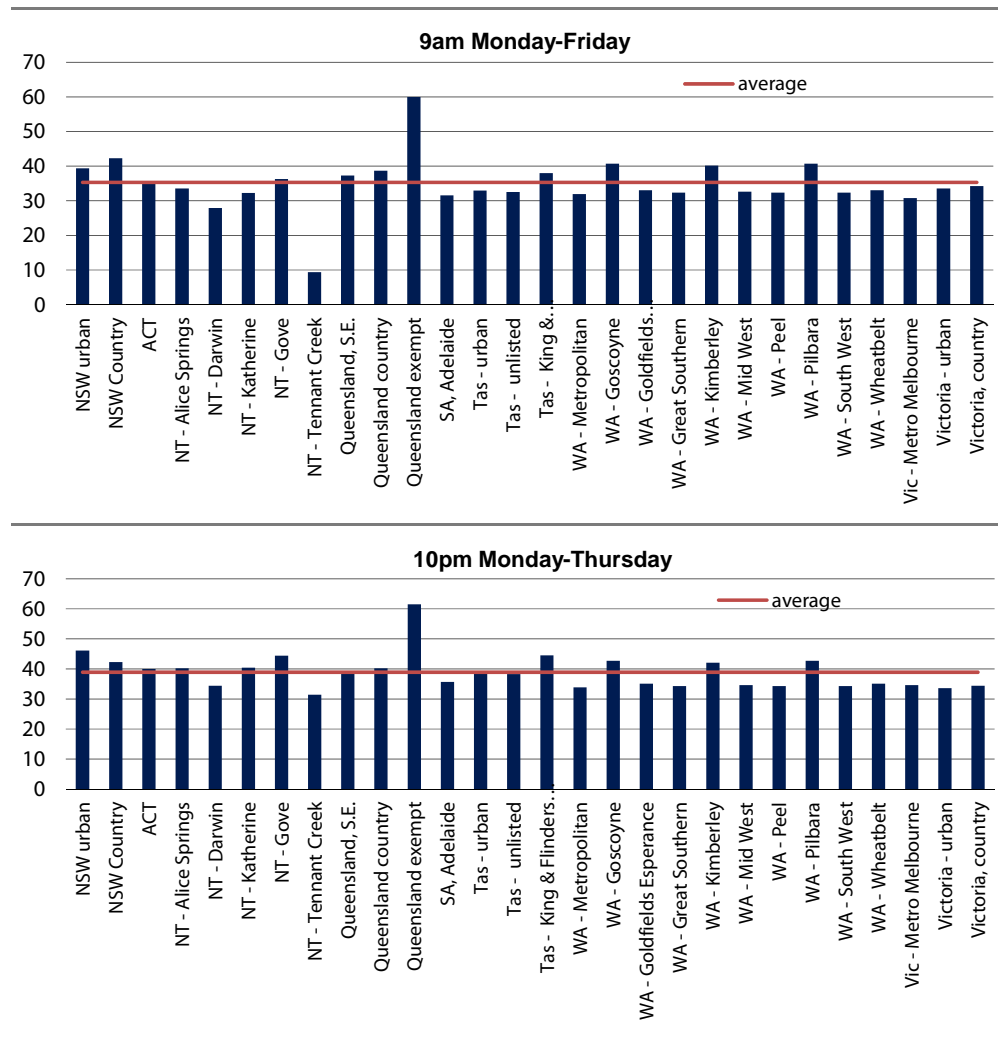
regulated rate. Several operators have chosen to introduce additional time-of-day tariffs rather than have a late night fee.

Figure C.1 Comparison of fare levels – short journey (5kms)



Note: Fares include a booking fee where applicable and 'waiting time' of 0.5 minutes.

Data source: IPART calculations based on regulated maximum fares as at 1 March 2015.

Figure C.2 Comparison of fare levels – long journey (15kms)

Note: Fares include a booking fee where applicable and 'waiting time' of 0.5 minutes.

Data source: IPART calculations based on regulated maximum fares as at 1 March 2015.

Glossary

ABS	Australian Bureau of Statistics
Areas outside Sydney	see Outside Sydney
Booking apps	These apps allow a person to request a taxi using a smartphone. Network booking apps offer an alternative means of making a network booking, while independent apps (such as UberTaxi, GoCatch and Ingogo) allow a passenger to book directly with a driver.
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
Carsharing	A type of car rental where any qualified driver joins a group (with or without a joining or monthly fee) and group members are able to rent a car for short periods of time (for example, one or two hours). Cars are parked in various locations and members usually do not have to meet anyone or complete paperwork to rent the car. Examples in Sydney include GoGet, GreenShareCar, Car Next Door and Hertz 24/7. We are not aware of carshare schemes operating in NSW outside Sydney.
CIE, The	The Centre for International Economics

Community Transport Program	A program funded by the NSW Government which aims to help people who would have limited or no access to private transport and difficulty accessing conventional public transport by providing a greater number of flexible transport options to allow greater participation in life. The Government funds local councils and community organisations to provide transport services which can include shopping services, regular shuttle services and services where someone is picked up and taken to an appointment.
Cost inflator	A measure of the change in the price of a cost over time.
Consumer Price Index (CPI)	A measure of inflation, or the change in the cost of living over time.
Distance rate	The fare rate charged when travelling more than a threshold speed, currently 26km/h.
Economic rent	Unearned income that results from the scarcity of goods and/or services.
Elasticity of demand	The amount by which demand changes in response to a given change in price or waiting time. The more that demand responds, the more elastic it is said to be.
Fares Order	The order made under section 125 of the <i>Passenger Transport Act 2014</i> which sets out the maximum fares that can be charged by NSW taxis. See www.transport.nsw.gov.au .
Flag fall	See Hiring charge.
Hire car	A point-to-point passenger service operated under licence issued by Roads and Maritime Services. Hire cars must be pre-booked, vehicles must be in excellent condition and the fare must be notified to the passenger before the hire starts. A hire car cannot pick up 'hail' jobs and cannot stand, park or ply for hire on a road or road related area.
Hiring charge	The fixed fee charged at the beginning of a taxi trip.

IPART	Independent Pricing and Regulatory Tribunal. Provides taxi fare recommendations to Transport for NSW on an annual basis.
Key performance indicator (KPI)	Measures network service performance in Sydney, Newcastle and Wollongong.
Latent demand	Latent demand describes the additional taxi trips that would be taken if waiting time for taxi services fell, or if fares were reduced. The amount by which trips would increase in response to a given improvement in waiting time or reduction in fares is known as the elasticity of demand.
LPG	Liquefied Petroleum Gas
Maxi-taxi surcharge	Fare component charged for hiring a maxi-taxi, except when it is hired from a taxi zone or hailed on the street to carry up to 4 passengers or as a multiple hiring. Calculated as a percentage mark-up on the entire fare (excluding tolls).
Network, taxi	Taxi networks provide a radio booking service to the taxi operators who are affiliated with them, as well as security monitoring services for taxi drivers and passengers. Networks must be authorised by Transport for NSW.
Nominal	Not adjusted for inflation. For example, if something cost \$100 in 1990 and the same thing cost \$100 in 2012, its nominal cost has not changed. However, adjusting for 22 years of inflation, its real cost is lower in 2012 than in 1990.
Operator, taxi	Taxi operators are responsible for the day-to-day management of one or more taxis. Operators may be individuals or corporations, and must be accredited by Roads and Maritime Services. 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.

Other urban areas	<ul style="list-style-type: none"> ▼ Newcastle Transport District ▼ Wollongong Transport District ▼ Blue Mountains LGA ▼ Gosford LGA ▼ Wyong LGA ▼ Shellharbour LGA ▼ townships of Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo.
Outside Sydney	All areas in NSW outside the Sydney Metropolitan Transport District.
Pay-in	The amount paid by a taxi driver to an operator for the use of a taxi. In areas outside Sydney, drivers and operators typically share fare revenue. In Sydney maximum pay-ins 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.
Point-to-point transport	A mode of transport where the transport operates from the passenger's pick-up point to the passenger's ultimate destination. Most public transport is not point-to-point, as it requires the passenger to get to and from an access point eg bus stop, railway station at each end of the journey.
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).

Ridesharing	A point-to-point transport service where private individuals use their own cars to drive passengers for a fee. An example is Uber's low cost service, UberX. It is currently illegal to transport a passenger for a fee unless you are an authorised taxi or hire car driver in an authorised vehicle. We are not aware of ridesharing operations in NSW outside Sydney.
Roads and Maritime Services	The NSW Government agency that issues taxi and hire car licences and other authorities and enforces taxi and hire car regulation.
TCIs	Taxi Cost Indices. Historically used by IPART to measure the change in taxi industry costs between fare review periods.
Transport for NSW	The NSW Government agency that has the primary role in regulating taxis and hire cars.
Wheelchair Accessible Taxi licence (WAT)	A licence to operate a Wheelchair Accessible Taxi. The operator is required to give preference to transporting wheelchair users. WAT licences are available on request from Roads and Maritime Services for \$1,000 a year in urban areas and for free in country areas.