IPART
New South Wales

Independent Pricing and Regulatory Tribunal

2012 Review of Taxi Fares in NSW

Maximum fares from July 2012

Transport — Final Report and Recommendations
June 2012

IPART
New South Wales

Independent Pricing and Regulatory Tribunal

2012 Review of Taxi Fares in NSW

Maximum fares from July 2012

Transport – Final Report and Recommendations
June 2012

ISBN 978-1-922127-01-3

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chairman

Mr James Cox PSM, Chief Executive Officer and Full Time Member

Ms Sibylle Krieger, Part Time Member

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

Jennifer Vincent (02) 9290 8418

Ineke Ogilvy (02) 9290 8473

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290, QVB Post Office NSW 1230
Level 8, 1 Market Street, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

www.ipart.nsw.gov.au

Contents

1 Introduction 1

1.1 Overview of decisions 1

1.2 How the review was conducted 5

1.3 How this paper is structured 6

2 Context and approach 7

2.1 Context for the review 7

2.2 The approach we took in making our recommendations 8

3 Changes in the Taxi Cost Indices 15

3.1 Decisions on composition of the TCIs 15

3.2 Weightings for the Taxi Cost Indices 19

3.3 Inflators for the Taxi Cost Indices 27

3.4 Other issues for consideration 35

4 Fare outcomes 42

4.1 Recommended fares 42

4.2 We will maintain the current relativities between fare components and apply the TCI to a master fare schedule 44

4.3 We do not support changing the way that fares vary by the time of day 50

4.4 We do not support any new charges or minimum fares 53

5 Reviewing taxi fares in the future 57

5.1 We propose to undertake the next full review of the TCIs in 2016 57

5.2 We will continue to undertake annual reviews of taxi fares 57

5.3 We will continue to undertake a mid-year review of fuel costs 58

6 Stakeholder impacts 60

6.1 Findings on stakeholder impacts 60

6.2 The level of taxi fares in NSW and how they've changed over time 60

6.3 Implications for passengers 63

6.4 Implications for Government 65

6.5 Implications for the environment 66

7 Service standards **67**
7.1 Findings and recommendations on service standards 67
7.2 Network performance for standard taxis in Sydney 69
7.3 Service performance for wheelchair accessible taxis in Sydney 76
7.4 Customer feedback – complaints and compliments 78

Appendices **79**
A Terms of Reference 83
B List of submissions received 84
C Taxi industry statistics 85

Glossary **88**

1 Introduction

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

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

We have now finalised this year's review and have recommended maximum fares to apply from July 2012. After considering our recommendations, Transport for NSW will decide on the maximum fares that will apply and the date they will come into effect.

1.1 Overview of decisions

We are recommending fare increases of 3.7% for urban taxis and 3.6% for country taxis.[1] We applied the recommended fare increases uniformly to each fare component and then rounded where required by metering technology. Our recommended fare schedules are set out in Table 1.1.

The fare increases we have recommended are based on the change in costs faced by the industry. The costs that contributed most to these increases were labour costs (reflecting the general increase in wages in the economy) and fuel costs. Other significant contributors to the recommended fare increases were a rise in insurance costs.

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

Table 1.1 Recommended maximum fares for taxis

		Urban	Country
Flag fall	$	$3.50	$4.00
Distance charge - first 12km	$/km	$2.14	$2.20
Distance charge - after first 12km	$/km	$2.14	$3.05
Waiting time charge	$/hr	$55.30	$56.24
Booking fee	$	$2.40	$1.10
Night-time surcharge (on distance rate)[a]	%	20%	20%
Sunday/Holiday surcharge (on distance rate)[b]	%	n/a	20%
Maxi taxi surcharge (on total fare)[c]	%	50%	50%
Waiting time threshold speed	km/hr	26	26

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

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

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

The sections below set out the decisions that led to our recommended fares.

We used the Taxi Cost Indices to estimate changes in costs of providing taxi services

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

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

We also considered submissions that fares should be higher to provide a higher income for drivers. While the survey of taxi drivers and operators that we commissioned[2] shows that drivers do have low earnings, we do not think that raising fares would increase drivers' earnings.

2 As reported in CIE's *Reweighting of the taxi cost index, final report*, March 2012.

We reweighted the Taxi Cost Indices using survey and other data

We reweighted the TCIs by assessing the costs involved in providing taxi services. To help us assess the costs, we engaged consultants, the Centre for International Economics (CIE), to conduct a survey of taxi drivers and operators and to undertake other research into taxi costs. We released CIE's final reweighting report[3] in April this year.

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

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

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

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

We decided to include adjustments for the fuel excise levy and for productivity

We decided to:

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

We calculated recommended fare increases

We have applied the latest available information to the TCIs, and the fare increases that result are 3.7% for urban taxis and 3.6% for country taxis.

3 CIE, *Reweighting of the taxi cost index, final report*, March 2012.

We applied the increases evenly to all fare components

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

We increased each fare component by the increase in the relevant TCI and then rounded as required by metering technology. However, we have also published the unrounded fare components (in Table 4.1 and Table 4.2) so that next year we can apply the increase to the unrounded 2012 fares. This is consistent with the way we adjust prices for rail, bus and ferry fares, but is different from the way we have dealt with taxi fares in the past.

We do not support any new charges or minimum fares

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

We do not support any of these proposals.

We considered the process for future taxi fare reviews

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

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

We considered the impact of our recommended fare changes

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

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

We have considered information on taxi service standards

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

1.2 How the review was conducted

As discussed above, we prepared for the review by commissioning the CIE to survey taxi drivers and operators and undertake other research to estimate the costs of providing taxi services. The operator and driver surveys were mailed out to all taxi drivers and active taxi operators in NSW in October 2011.

We released an issues paper in December 2011, which set out the key issues we would consider as part of the review, and sought comment from interested parties. We also released CIE's draft report on the reweighting of the Taxi Cost Indices, which reported on the survey results.

Submissions on the issues paper and CIE's draft report were due by 3 February 2012. We received 19 submissions.

We held a public roundtable on 29 February to provide stakeholders with a further opportunity for input. Prior to the roundtable, we published 3 discussion papers to help focus discussion at the roundtable.

We took into account all of the information and comments received through the public consultation process before releasing our draft report on 16 April 2012. Submissions were due by 11 May. We received 7 submissions.

Appendix B contains a list of the submissions received.

All the publications associated with the review, including reports, submissions and a transcript of the public roundtable, are available on our website, www.ipart.nsw.gov.au. A copy of the Taxi Cost Indices model is also available on our website.

1.3 How this paper is structured

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

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

2 Context and approach

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

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

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

2.1 Context for the review

Transport for NSW is responsible for setting maximum fares for taxis in NSW.[4] Since 2002, the Government has asked IPART to review and make recommendations on the maximum fares that should apply each year. These reviews are done under terms of reference provided under section 9 of the IPART Act. The terms of reference specify the factors that we must consider when making recommendations on maximum fares. The factors include:

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

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

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

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

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

Box 2.1 How do the Taxi Cost Indices work?

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

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

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

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

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

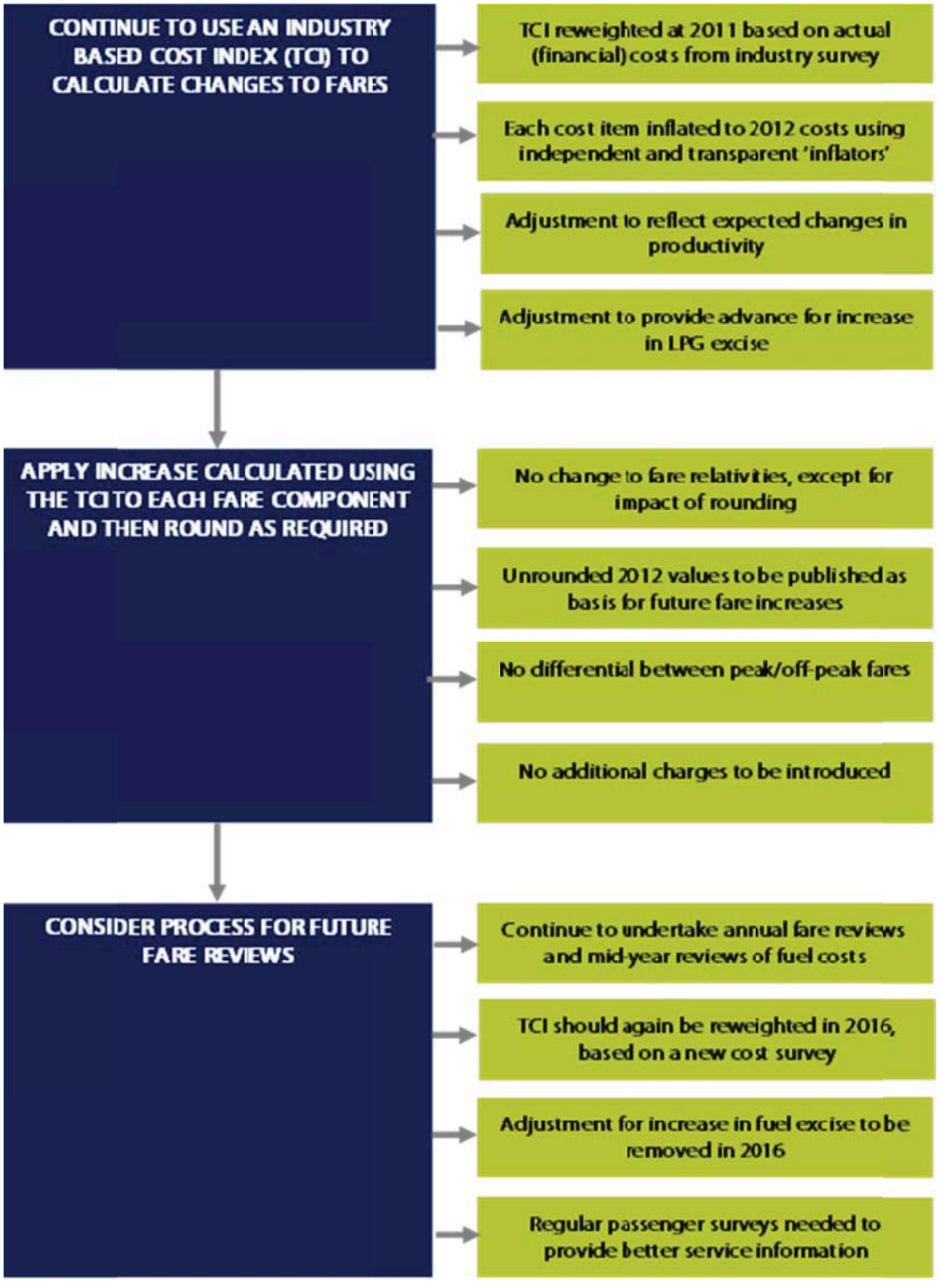
This year we commissioned consultants, the Centre for International Economics (CIE), to study the costs of providing taxi services and recommend a new set of cost items and weightings for the TCIs. Their report sets out the results of a survey of taxi drivers and operators, as well as data obtained from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

2.2 The approach we took in making our recommendations

Our recommendations are based on our application of the TCIs. While we have made some changes to the way we do this, and to the composition of the TCIs, we have continued to focus on actual (financial) costs in the TCIs. We have not recommended additional changes in fares other than to compensate the industry for their change in costs as measured by the TCIs. This is the same approach we proposed in our draft report and largely the same approach we have used to regulate fares for many years now.

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

Figure 2.1 Overview of our approach to the review



Stakeholder views

Most stakeholders asked us to change our approach[5] because they consider that it will continue to produce economic inefficiencies in the taxi industry, and/or will not improve incomes for drivers and operators. Specific issues raised in submissions included that: there are too many taxis relative to the demand for them;[6] but despite this, licence values remain uneconomically high;[7] and that fares are so high that many passengers cannot afford to use taxis;[8] while at the same time do not provide an adequate living for taxi drivers and operators.[9]

These problems are not unique to NSW. Similar issues have been and are being considered elsewhere – for example, a Taxi Industry Inquiry commissioned by the Victorian Government is currently considering similar issues raised by passengers and industry participants in that State.[10]

Because the different stakeholders who made submissions disagree fundamentally on what is causing the problems, they have opposing views on what will solve them. For example, some stakeholders consider that fares need to be significantly increased, while others consider that fares should be significantly reduced. Stakeholders have also suggested that restructuring fares may address some of the problems.

Many submissions also advocated measures that are outside the scope of our review of fares including:

- Licensing changes – increasing the number of taxi licences available[11] and reducing the number of taxi licences available.[12]
- Reviewing regulations, especially those affecting drivers – including occupational health and safety, employment status and the Contract Determination.[13]

Changes to fares alone will not resolve all of the issues. We agree that a more comprehensive review of the industry is required. However, we also consider that changes to our approach to setting fares may be warranted in future reviews.

---

5 We note that the NSW Taxi Council supports our approach.
6 For example, see NSWTDA submission, 15 May 2012, p 34.
7 For example, P Abelson submission, 11 May 2012.
8 For example, P Abelson submission, 11 May 2012.
9 For example, ATDA submission, 10 May 2012, p 19, NSWTDA submission 15 May 2012, p 3, E Mollenhauer submission, 14 May 2012.
10 On 28 March 2011, the Victorian State Government announced a major independent inquiry into the Victorian taxi and hire car industry, chaired by Professor Allan Fels AO. See www.taxiindustryinquiry.vic.gov.au. The inquiry issued its draft report, *Customers First: Service, Safety, Choice*, on 31 May 2012, just as this report was being finalised.
11 For example, D Godden submission, 2 February 2012, p 4.
12 For example, NSWTDA submission, 15 May 2012, p 9.
13 For example, ATDA submission, 10 May 2012, p 22.

In the meantime, the costs faced by drivers and operators continue to rise. LPG prices alone have increased by around 40% in Sydney since the beginning of this year and this is putting significant pressure on drivers. For these reasons, we have decided to base this year's fare recommendations on the change in costs calculated using the TCIs, as proposed in our draft report.

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

Our fare recommendations are based on changes in actual (financial) costs measured by the TCI. If regulated fares were set below this level to allow the industry to recover only costs that were efficient or 'economic' costs, there is a real possibility that drivers and operators would suffer financially in the short term and that this would affect service delivery. Our approach reflects our view that fare changes alone cannot address the problems faced by the industry.

Efficient economic costs of providing taxi services

Peter Abelson suggests that we focus on efficient economic costs, defined as 'the real costs to the community of operating taxis' rather than actual (financial or accounting) costs.[14] Peter Abelson submits that the economic cost of providing taxi services may be up to 40% lower than the costs surveyed by the CIE. He submits that taxi licences have no economic value, and that excess profits are potentially embedded in network fees, vehicle fit-outs and maintenance and vehicle insurance. In his view, none of these 'excess profits' should be recovered through fares.

We agree that if we were to focus only on efficient, economic costs then a portion of the costs identified in the CIE survey may be excluded. While licence lease costs are likely to be the most significant uneconomic cost (around 17% of costs) there are other costs that are likely to be higher as a result of regulatory intervention or current industry structure. We agree with Peter Abelson that some of the insurance costs, network fees and vehicle lease payments surveyed by the CIE may be uneconomic for these reasons.[15] However, even in a fully deregulated market some of these costs would still be incurred. Further analysis would be required to identify the efficient economic costs of these functions in a deregulated industry.

In the longer term, economic theory suggests that the uneconomic costs would adjust downwards if fare revenue was reduced, but we cannot quantify how long this adjustment process would take or the precise impact of the short-term effects. For this reason we consider that we should continue to focus on the actual (financial or accounting) costs of providing taxi services, rather than the economic cost. Fares are only part of the issue and we remain of the view that they should not be used as a means of reducing input costs without considering the likely short term impact and whether complementary changes are required.

---

14 P Abelson submission, 3 February 2012, pp 2-3, P Abelson submission, 11 May 2012.

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

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

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

The CIE survey suggests that on average, the actual cost of providing taxi services is lower than we have assumed in the past. This is partly due to the low level of drivers' earnings. We assumed a higher value for these (based on the opportunity cost of drivers' time) when we last reweighted the index because the previous industry survey, undertaken by PricewaterhouseCoopers (PWC) in 2007,[16] did not collect reliable information on revenue.

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

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

The CIE survey found that actual costs (and hence revenues) are below those we assumed in previous reviews - around $150,000 for a Sydney taxi.[17] CIE has conducted several cross-checks to verify the survey data, including against a sample of meter data, and is satisfied that the cost and revenue estimates obtained through the survey are reliable. The separate issue of whether the 'costs' identified by the CIE survey are at the correct level and whether an additional fare change is required is considered below.

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

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

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

A number of stakeholders asked for large fare increases in order to raise the earnings of taxi drivers. They argue that the CIE cost model shows that fare revenue is too low to provide a reasonable income for drivers and that fare increases are required to lift driver earnings above current levels.[18] They argue that raising fares will mean that drivers take home more money at the end of each shift.

In our view, increasing fares will not lead to higher income for drivers. History shows that drivers' incomes do not increase at the same rate as fares. A number of taxi drivers submitted that larger increases in fares (in the region of 5% to 10% per year or more) are required to break this cycle and begin to improve drivers' earnings.[19] We do not agree that even large fare increases would improve the situation.

Significantly higher fares are even more likely to reduce the demand for taxis, lead to greater numbers of taxis on the road and/or encourage more people to drive taxis. Ultimately large fare increases would leave passengers worse off without improving driver incomes. The NSWTDA submits that this suggests a problem with our approach.[20] We do not agree. It is a function of supply and demand for taxis and taxi drivers. It reflects the structure of the industry and will occur irrespective of the approach we use to set fares.

The draft report recently released by the Victorian Taxi Industry Inquiry also found that raising fares is not a good way to increase driver income. The inquiry notes that increases in fare revenue would only flow to drivers if the supply of driver labour is inelastic (that is, that the supply of driver labour will not increase as fares go up).[21] The inquiry noted that the literature on taxi services suggests that supply is very elastic (that is, as fares go up, more people seek to drive taxis).[22] As a result, increases in fare revenue are unlikely to benefit drivers. The inquiry also commissioned research on how customers change their behaviour when fares are increased and found that they are also responsive to changes in fares. The inquiry found that if fares were to rise by 5%, consumers would reduce the number of taxi trips by 5.5% and overall revenue would actually fall.[23]

---

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

19 T Bradley, supplementary submission 3, 5 March 2012, p 2, NSWTDA submission, 15 May 2012, p 11 & 29, ATDA submission, 10 May 2012, p 20.

20 NSWTDA submission, 15 May 2012, p 13.

21 Victorian Taxi Industry Inquiry, *Customers First*: *Service, Safety, Choice*, Draft Report, May 2012, p 283.

22 Ibid., p 284.

23 Ibid., p 467.

Consistent with these findings, other stakeholders to our review argue that because driver and operator income is not closely related to the level of fares, raising fares by any amount will have only two effects – increasing the value of taxi licences and reducing the demand for taxis.[24] Neither of these are in the interests of drivers or the general public. Some of these stakeholders argue instead for large fare reductions (for example, Peter Abelson argues for fare reductions in the region of 40%[25]) so that costs that are not considered 'economic' are removed from fares. They submit that ultimately fare reductions would leave drivers and operators no worse off but would lead more people to use taxis and put downward pressure on inefficient and uneconomic costs.

We consider that adjusting fares without making changes to the broader regulation of the industry may not be an effective means of changing the value of any one cost input. We are also concerned that without taking a more holistic approach, there may be short term impacts on drivers and operators that would result in a decline in service provision.

The industry is complex with a number of different players and regulations, and there are key pieces of information that we do not currently have – for example, there is insufficient information to allow us to estimate the impact of a fare change on demand (hence overall revenue). Research prepared for the Victorian Taxi Industry Inquiry suggests that consumers are very responsive to fare changes.[26] We consider that there is merit in seeking out this information for NSW in order to better inform ourselves of the short and long term impacts of fares on demand for taxis so that we can consider these issues more fully in future reviews.

24 P Abelson submission, 3 February 2012, p 1, D Godden submission, 2 February 2012, p 4, D Biggar submission, 5 March 2012, p 2, P Abelson submission, 11 May 2012.

25 P Abelson submission, 11 May 2012.

26 Victorian Taxi Industry Inquiry, *Customers First: Service, Safety, Choice*, Draft Report, May 2012, p 467.

3 Changes in the Taxi Cost Indices

In reviewing and recommending fares, we estimate how the costs of providing taxi services have changed over the previous 12 months, based on the movements in the Taxi Cost Indices (TCIs). One TCI applies to urban taxi services, and the other to country taxi services.[27] We use these indices to develop fare changes that match the changes in the costs of providing taxi services.

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

3.1 Decisions on composition of the TCIs

As in past reviews, we have used the TCIs as the basis for fare changes in urban and country areas over the 12 months to the end of March 2012. To calculate the change this year our approach was to:

- Adopt the weightings recommended by CIE in their final report.[28] This includes a number of changes from our previous approach including using a weighted average of standard taxi and Wheelchair Accessible Taxi (WAT) data and actual rather than proxy figures for driver labour and operator administration costs (see section 3.2).
- Retain the suite of inflators we used last year to estimate the change in cost items, with one exception – licence lease costs. Our decision is that the inflator for this cost item be set to zero (see section 3.3).

---

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

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

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

Our findings are that the changes in the TCIs over the past 12 months were 3.7% for urban areas and 3.6% for country areas (see Table 3.1 and Table 3.2). The changes in the costs faced by operators and drivers are separately identified.

Table 3.1 Change in the Taxi Cost Index: urban areas

Cost item	Weighting (%)	Inflator	Inflator value (%)	Contribution to change in TCI (%)	Weighting for next review (%)
Driver costs (per taxi)					
Driver labour costs[a]	41.5	WPI[b]	3.7	1.5	41.4
LPG fuel	9.8	FUELtrac LPG data[c]	10.1	1.0	10.8
Adjustment for LPG excise increase			4.4[d]	0.4	
Cleaning	2.2	CPI[e]	3.1	0.1	2.1
Total drivers' costs	*53.5*			*3.0*	*54.4*
Operator costs (per taxi)					
Operator administration	6.2	WPI	3.7	0.2	6.2
Maintenance costs	5.0	CPI-Maintenance and Repair	1.7	0.1	4.9
Plate lease costs	17.2	Zero	0.0	0.0	16.5
Insurance	8.9	CPI-Insurance	6.3	0.6	9.1
Vehicle lease payments	4.3	CPI-Motor Vehicles	-1.8	-0.1	4.0
Network fees	4.9	CPI	3.1	0.2	4.9
Total operators' costs	*46.5*			*0.9*	*45.6*
Total costs (per taxi)	**100.0**			*3.9*	*100.0*
Productivity adjustment				-0.2	
Overall change in TCI				**3.7**	

a Typically there is more than one driver per taxi.

b WPI is the ABS's Wage Price Index.

c Based on LPG fuel cost information for the 12 months to 30 April 2012 compared to the 12 months to 30 April 2011.

d The inflator for fuel is adjusted by adding 2.5 cents to the average daily LPG price (ex GST) as calculated for the 12 months to 30 April 2012 to provide an advance for the additional annual increases in LPG excise from 1 July 2012 to 1 July 2015.

e CPI is the ABS's Consumer Price Index.

Note: Figures may not add due to rounding. Unless otherwise specified, inflator values are based on average index value for the year to 31 March 2012 divided by the average index value for the year to 31 March 2011.

Table 3.2 Change in the Taxi Cost Index: country areas

Cost item	Weighting (%)	Inflator	Inflator value (%)	Contribution to change in TCI (%)	Weighting for next review (%)
Driver costs (per taxi)					
Driver labour costs[a]	42.3	WPI[b]	3.7	1.5	42.2
Total drivers' costs	*42.3*			*1.5*	*42.2*
Operator costs (per taxi)					
Operator administration	6.0	WPI	3.7	0.2	6.0
LPG fuel	10.3	FUELtrac LPG data[c]	8.3	0.8	11.1
Adjustment for LPG excise increase			3.7[d]	0.4	
Maintenance costs	6.2	CPI[e] Maintenance and Repair	1.7	0.1	6.1
Plate lease costs	9.6	Zero	0.0	0.0	9.2
Insurance	6.2	CPI Insurance	6.3	0.4	6.3
Vehicle lease payments	5.1	CPI Motor Vehicles	-1.8	-0.1	4.8
Network fees	12.0	CPI	3.1	0.4	11.9
Cleaning	2.4	CPI	3.1	0.1	2.4
Total operators' costs	*57.7*			*2.3*	*57.8*
Total costs (per taxi)	**100.0**			*3.8*	*100.0*
Productivity adjustment				-0.2	
Overall change in TCI				**3.6**	

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

[b] WPI is the ABS's Wage Price Index.

[c] Based on LPG fuel cost information for the 12 months to 30 April 2012 compared to the 12 months to 30 April 2011.

[d] The inflator for fuel is adjusted by adding 2.5 cents to the average daily LPG price (ex GST) as calculated for the 12 months to 30 April 2012 to provide an advance for the additional annual increases in LPG excise from 1 July 2012 to 1 July 2015.

[e] CPI is the ABS's Consumer Price Index.

Note: Figures may not add due to rounding. Unless otherwise specified, inflator values are based on average index value for the year to 31 March 2012 divided by the average index value for the year to 31 March 2011.

Different changes in costs for drivers and operators

For calculation of the TCIs, it does not matter whether costs are incurred by drivers or operators. Nor does IPART play a direct role in determining the maximum bailment pay-in (which distributes fare revenue between drivers and operators). However, we understand that the Industrial Relations Commission uses our reports in making its annual determination of bailment pay-ins for drivers in the Sydney Metropolitan Transport District on Bailment Method 2, and we seek to assist the Commission by continuing to separately identify driver and operator costs.[29]

In urban areas, the costs faced by drivers rose by more than the costs faced by operators over the past year (urban drivers' costs rose by 5.4% and urban operators' costs rose by 1.8%). This is in part due to a significant increase in the cost of LPG fuel, which is a driver cost in urban areas, and the more moderate increase in overall operators' costs. In country areas, the costs faced by operators rose by more than drivers (country operators' costs rose by 3.8% and country drivers' by 3.4%). Again, this reflects the movement in fuel prices, as in country areas LPG fuel costs are met by operators.

3.2 Weightings for the Taxi Cost Indices

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

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

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

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

[29] Separate identification of driver and operator costs is supported by the NSW Taxi Council (NSW Taxi Council submission, 11 May 2012, p 2.).

Table 3.3 Weightings for the Taxi Cost Indices 2012 – per taxi

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

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

3.2.1 CIE's survey and its results

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

How CIE set out their results

CIE calculated average[30] costs (without GST) for the major cost items identified in providing taxi services. Some cost items (such as driver uniforms) that were previously included in an 'other costs' item were ignored this time because they were considered too small to be relevant.

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

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

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

We consider that the most accurate way of accounting for the difference in cost structures between standard taxis and WATs in the TCIs is to use a weighted average of standard and WATs costs.[31]

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

Two other options we considered were:

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

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

Stakeholder views

Stakeholders generally support a weighted average approach[32], although the ATDA noted that the blending of data, while 'no doubt mathematically correct' was nevertheless confusing.[33]

---

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

32 For example, NSWTDA submission, 3 February 2012, p 1; NSW Taxi Council submission, 3 February 2012, pp 7-8.

33 ATDA submission, 10 May 2012, p 6.

3.2.3 We have maintained separate operator and driver costs

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

Stakeholder views

The NSW Taxi Council supports our decision to continue to assist the IRC by separately identifying driver and operator costs.[34]

3.2.4 The cost items and their weightings

Driver labour costs

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

The drivers' survey asked drivers for their 'takings kept' per shift, and hours worked per shift (including administration time). CIE used this information as well as information from networks about shift patterns over the year, to calculate total driver earnings per taxi over a year. As taxis typically have more than 1 driver, the total driver earnings would normally be distributed between 2 or more drivers and the 'driver earnings per taxi' is therefore not equivalent to a single driver's takings.

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

Some stakeholders thought that CIE's original estimates were incorrect, and that actual driver earnings in the industry are somewhat higher.[35] However, for the final weightings report, CIE conducted several cross-checks to verify the estimates, including against a sample of meter data, and CIE is satisfied that the estimates are robust.

---

34 Taxi Council submission, 11 May 2012, p 2.

35 For example, NSW Taxi Council submission, 11 May 2012, p 3; ATDA submission, 2 February 2012, p 8.

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

Furthermore, as we noted in Chapter 2, increasing fares is unlikely to directly benefit driver incomes, except perhaps in the very short term. In addition, including a higher notional amount for driver labour costs in the TCIs does not directly translate to higher fares.[36]

How is this different from the current TCIs?

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

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

Treatment of entitlements, including superannuation, under this approach

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

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

We did consider acknowledging these cost items by separately enumerating an allowance for each from within the driver labour figure, but we decided that this was inconsistent with our 'actual earnings' methodology.[37]

---

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

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

Stakeholder views

In submissions on our issues paper, driver associations and the NSW Taxi Council favoured using an opportunity cost approach and including cost items for leave entitlements and superannuation.[38] They supported this approach for various reasons, including:

- That they think a 'fair' wage for drivers, including entitlements, should be included in the TCIs.
- That they think that the CIE survey estimates are lower than actual driver incomes.
- That actual earnings are affected by a range of factors that would create a degree of circularity in the index and are difficult to measure accurately.
- That enumeration of leave entitlements and superannuation assists the IRC.

However, in submissions on the draft report (which proposed using actual earnings figures with no separate enumeration of entitlements and superannuation), stakeholders were less inclined to support using notional figures. For example, the NSW Taxi Council agrees with the approach taken by the Tribunal, including 'focus on real financial costs'.[39] The NSWTDA submits that 'it is clear that the "Notional" sums approach has not achieved its goals and failed very badly'.[40]

Fuel

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

Stakeholder views

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

Cleaning

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

---

38 For example, NSWTDA submission, 3 February 2012, p 7; ATDA submission, 2 February p 19; NSW Taxi Council submission 3 February 2012, pp 8-9.

39 NSW Taxi Council submission, 11 May 2012, p 1.

40 NSWTDA submission, 15 May 2012, p 27.

How is this different from the current TCIs?

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

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

Stakeholder views

Some stakeholders argue for additional costs to be included in the 'other costs' category. For example, the Australian Taxi Drivers Association submits that 'tolls not part of fare' (ie, when a driver incurs a toll when the cab is not occupied), fare evasions, driver training, 'tools of the trade', uniform laundering and meal and travel allowances should be included.[41]

Operator's administration

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

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

How is this different from the current TCIs?

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

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

41 ATDA submission, 10 May 2012, pp 14-15.

Stakeholder views

In submissions on the issues paper stakeholders generally preferred that a proxy be used for operator administrative time, but fewer supported the proxy approach in their submissions on the draft report.[42]

Maintenance

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

Stakeholder views

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

Plate leases

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

Stakeholder views

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

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

[42] For example NSWTDA submission, 15 May 2012, p 27; NSW Taxi Council submission, 2 February 2012, p 9; NSW Taxi Council submission, 11 May 2012, p 1.

Insurance

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

Stakeholder views

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

Vehicle lease payments

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

Stakeholder views

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

Network fees

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

3.3 Inflators for the Taxi Cost Indices

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

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

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

- Licence lease costs – we identified in the Issues Paper a problem with including the change in actual costs in the TCI as change in fares influence licence costs.
- Insurance costs – the NSW Taxi Council is concerned that the CPI – Insurance is not a good indicator of the change in costs faced by the industry.
- Fuel costs – the TCIs are based on a weighted average of WAT and standard taxis. As most WATs use unleaded petrol, we considered whether it was appropriate to also include unleaded petrol prices in the inflator.
- Driver labour costs – the NSWTDA submits that, as CIE suggests that driver earnings have not risen by as much as WPI over the past 5 years,[43] we should use a target level of earnings to derive an inflator for this item.[44]

We have decided that only one inflator should be changed – the inflator for licence lease costs, which should be set at zero. All other inflators should remain the same as those used in last year's review. Our final decisions are unchanged from those proposed in our draft report. Table 3.4 provides an overview of the inflators used in making our recommendations. Following the table is our analysis of each of the 4 inflators listed above.

43 NSWTDA submission, 15 May 2012, p 4, quoting CIE draft report p 55.
44 NSWTDA submission, 15 May 2012, p 11.

Table 3.4 Inflators used in making our recommendations

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

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

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

3.3.1 The inflator for licence lease costs should be zero

At our last major review in 2008 we changed from a 'rate of return' method[45] of calculating the inflator for plate lease costs to one that was more closely related to the change in lease costs. We decided that data supplied by the NSW Taxi Council most closely reflected the actual costs incurred by operators (and thus the actual change in those costs from year to year). However, we were concerned that this method was not independent or sufficiently representative of the actual change in costs.

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

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

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

We have decided to use an inflator of 0% for this cost item in order to remove this circularity. Our reasons for this decision are discussed in more detail below.

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

Using actual costs

Using actual costs has the following advantages:

- Changes to the TCIs more closely reflect the changes in the total cost of providing taxi services.
- This method is preferred by most industry stakeholders.[46]
- There is now independent data available that we could use to calculate the inflator:
  - The auction data from the new licences can be transformed into annualised lease costs.[47]
  - In the future, we may have access to actual information on lease costs whenever a new lease is entered into. (Regulatory change to provide for this is currently under way.)

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

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

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

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

46 Eg, T Bradley supplementary submission, 5 March 2012, p 1; T Bradley submission to IPART Issues Paper, p 6. NSWTDA submission, Response to IPART Issues Paper, p 2.

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

The NSW Taxi Council notes that 'there is no perfect solution', but it prefers using the change in the CPI as the inflator on the basis that it maintains the value of the equity in a taxi business.[48] However, in our draft report we indicated a preference for 0%. Using either of these measures overcomes the issue of circularity (both positive and negative) and should make fares more stable but using 0% has the advantages that:

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

While the NSW Taxi Council supports adopting CPI as the inflator for licence lease costs, it considers that the revenue impact of using 0% will not be substantial because the higher increase in the overall fare from using CPI may be offset by a lower demand for taxi services which could reduce the number of fares. However, the NSW Taxi Council also notes that ultimately the importance of licence lease costs in the TCI will depend on what happens to actual lease costs.[49]

NSWTDA submits that the high value of licence leases costs is the real problem and that using the inflator to address it 'is totally futile' as plate lease costs are not dependent on our fare recommendations.[50]

In the absence of persuasive new information, we remain of the view that 0% is the most appropriate inflator for licence lease costs. We consider that using an inflator that is not based on actual costs will meet our aim of overcoming the issue of circularity. The general level of licence lease costs faced by the industry is affected by other factors, primarily by the supply and demand for licences. As such, we do not expect our choice of inflator to make a significant difference to the level of costs faced by the industry. We will reconsider the actual costs faced by the industry at the next reweighting of the TCI and review the appropriate treatment of licence lease costs in the TCI again at that time.

48 NSW Taxi Council submission, 11 May 2012, p 2.
49 NSW Taxi Council submission, 11 May 2012, p 2.
50 NSWTDA submission, 15 May 2012, p 9.

3.3.2 The inflator for insurance costs should not change

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

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

> Insurance costs are industry-specific and the use of a general inflator based on all types of insurances creates a risk that cost changes will not be accurately captured resulting in taxi fare adjustments that are either higher or lower than they would otherwise be.[51]

The NSW Taxi Council supports inflation of insurance costs using industry specific data (prior to 2007 we used industry specific data based on quotes from a single taxi insurer).[52] The NSW Taxi Council suggests that we could again obtain taxi specific insurance costs every year so as to get an inflator that was a closer approximation to the actual change in costs faced by the industry.

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

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

- Relying on industry bodies (in this case, businesses that provide insurance) to provide quotes in order to measure an annual change leads to problems of verifiability, independence and consistency of data.
- The cost of undertaking an annual survey of operators to obtain cost information from the purchasers rather than using quotes would be considerable (if it were to be of a sample size that would provide reliable results).
- When the decision was made to adopt the CPI – Insurance measure, IPART noted that the CPI measure would have resulted in much lower insurance costs than the quote based system had.[53]

---

51 NSW Taxi Council submission, 3 February 2012, p 2.
52 NSW Taxi Council submission, 3 February 2012, p 2.
53 IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 4.

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

3.3.3 The inflator for fuel costs should not change

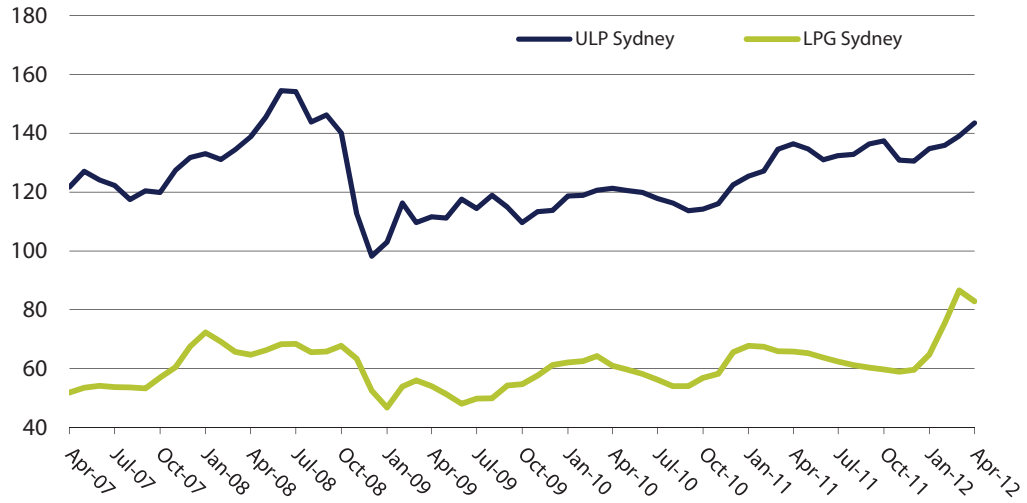
We currently use the change in LPG prices over the past year as the inflator for fuel costs in the TCIs. This year, we have adopted a weighted average of standard taxis, which run on LPG, and WATs, which predominantly use unleaded petrol (ULP), in setting the weightings in the TCI. As a result, we also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

Although most of the taxi fleet still consists of LPG vehicles, the proportion of ULP taxis is rising. Taxis not using LPG now account for around 10% of the fleet - up from 5% at the time of the last survey.[54]

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

54 PWC, *Review of Taxi Cost Weightings, Final Report*, January 2008, pp 17, 30.

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



Data source: Fueltrac average LPG price data & http://www.aip.com.au/pricing/tgp/index.htm

3.3.4 The inflator for driver labour costs should not change

In our draft report we recommended retaining WPI as the inflator for driver labour costs. The CIE survey work completed this year provided the first set of reliable estimates of earnings for taxi drivers in NSW. This means that we do not have comparable information on earnings in previous years that we can use to determine how they change over time. The CIE report notes that the low level of current earnings suggests that they are unlikely to have increased at the same pace as WPI, at least in recent years.[55]

The NSWTDA agrees with the CIE that earnings have not risen by as much as WPI.[56] They propose that instead of continuing to use WPI as the inflator, we should adopt a target level of driver earnings and set a target date for achieving them. The inflator should be set such that the annual increase in driver labour costs would be enough to ensure that those costs reach the target level by the target date. The target they suggest is minimum wage plus superannuation and entitlements.[57]

The NSWTDA argues that once the labour cost inflator is higher, the resulting fare increases will provide enough fare revenue to allow drivers to earn the target amount by the target date. (There are other changes that they acknowledge would need to be made to ensure that drivers receive the appropriate share of earnings but they consider that this is a necessary step in ensuring that sufficient fare revenue is available for sharing and is wholly within the scope of our review.)

55 CIE, *Reweighting of the Taxi Cost Index, Final Report*, March 2012, p 59.
56 NSWTDA submission, 15 May 2012, p 4, p 36.
57 NSWTDA submission, 15 May 2012, pp 36-37.

We have decided not to use a higher labour cost inflator because we do not agree that it will translate into better outcomes for drivers. This is demonstrated by what has happened under recent fare reviews. In 2008, we used a notional value for driver labour costs, which was significantly higher than the current level of actual earnings identified by the CIE survey, and inflated this value by WPI. In every year since 2008, WPI has been above the general rise in the cost of living. Because labour costs are such a large proportion of the TCIs, this has contributed significantly to real fare increases over this time. Based on the CIE survey results and the drivers' own submissions, this approach has not resulted in increases to drivers' earnings that have kept pace with the WPI (or even the CPI) over this period.

Ultimately, the NSWTDA's argument is that higher fares are necessary to raise the income of taxi drivers. As discussed in Chapter 2, we do not agree that higher fares will deliver better outcomes for taxi drivers. For this reason, we do not propose to adopt a higher labour cost inflator based on achieving a target level of driver labour costs.

Ideally, we would like the inflators used in the TCIs to be cost-reflective. We accept that actual labour costs are unlikely to have risen by as much as the general level of wages in the economy and that potentially the labour cost inflator should be lower than WPI. However, without information on how earnings have actually changed over time we were unable to identify a more appropriate inflator. As a result, we have again used WPI as the inflator for driver labour costs.

3.4 Other issues for consideration

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

- the introduction of excise on LPG
- the introduction of a carbon price
- adjusting fares for changes in productivity.

The sections below explain our decisions on these 3 issues.

3.4.1 We have made a prospective allowance for increasing LPG excise

From 1 December 2011, LPG fuel has had an excise of 2.5 cents per litre applied. The excise will increase in 2.5 cent increments each July until it reaches 12.5 cents per litre in 2015. In our issues paper, we sought stakeholder views on the possible impact of the introduction of the LPG excise and whether and how this should be accounted for in the TCIs. After considering the views of stakeholders, and consistent with our proposal in the draft report, we have adjusted the inflator for fuel costs by 2.5 cents to provide an advance for the increase in LPG excise that will commence from 1 July 2012.

Stakeholder comments

The NSW Taxi Council supports our proposal to make a prospective allowance for increasing LPG excise.[58] The ATDA supports an ex-ante adjustment of fares for the increase in the excise, on the grounds of the lag effect (ie, that the 1 July 2012 increase in the excise will not be incorporated into the TCIs until 2013).[59] The NSWTDA argues that the "LPG excise should be factored into taxi fares as a driver cost."[60] Two individual submissions also support an ex-ante adjustment, one suggesting that a failure to do so compares "quite poorly with the proactive allowances recently approved by IPART for local government".[61] (IPART included a carbon price advance in the local government rate peg for 2012/13.)

Our consideration

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

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

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

58 NSW Taxi Council submission, 11 May 2012, p 1.
59 ATDA submission, 2 February 2012, p 7.
60 NSWTDA submission, 3 February 2012, p 8.
61 E Mollenhauer submission, 3 February 2012, pp 2 and 6; T Bradley submission, 9 February 2012, p 8.

3.4.2 We have made no adjustment for the introduction of a carbon price

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

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

One individual submission supports an advance in the cost indices for the impact of carbon pricing, consistent with our approach in local government.[62] However, the ATDA, NSWTDA and NSW Taxi Council all consider that the impact of the carbon price will be too small to measure and subsequently adjust for.[63] In light of the broad industry agreement with the position in our issues paper and draft report, we have not adjusted the TCIs to provide an advance for the introduction of a carbon price on 1 July 2012.

3.4.3 We made an adjustment for expected productivity gains

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

What is productivity?

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

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

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

Stakeholder comments

Stakeholders do not support the productivity adjustment we have made in this year's review of taxi fares. The NSW Taxi Council reiterates its view that our previous policy position is appropriate – ie, that the inflators used within the TCIs (other than the WPI) already incorporate a productivity component.[64] In addition the NSW Taxi Council argues that there is an 'absence of factual evidence' to support our position that an adjustment of 0.2% is appropriate for the taxi industry and that 'external factors' exist that reduce productivity. The ATDA also argues that the trend is for decreasing productivity in the taxi industry, suggesting this is represented by a reduction in the number of trips per taxi.[65] The NSWTDA argues that "IPART must never arbitrarily reduce taxi fares. IPART must demonstrate conclusively specific taxi industry productivity improvements that are realistic and implementable".[66] One individual submission suggests that "ABS or any other measures of general productivity have no relation whatsoever to the NSW Taxi industry" and that there should be no productivity adjustment.[67]

How did we assess the productivity adjustment?

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

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

64 NSW Taxi Council submission, 11 May 2012, p 1.
65 ATDA submission, 10 May 2012, p 17.
66 NSWTDA submission, 3 February 2012, p 12.
67 T Bradley submission, 9 February 2012, p 8.

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

There is no direct measure of productivity for the taxi industry.[68] The ABS publishes industry data for the transport, postal and warehousing sector, however we do not consider that this proxy for productivity is appropriate for the taxi industry.[69] Without relevant industry data, an economy-wide average is likely to provide a better average measure of productivity. As cyclical effects can have a large impact on productivity[70], we have decided to use a long term average to smooth these effects out.

We have also decided to focus on multifactor productivity. There are 2 measures of market sector multi-factor productivity (MFP) compiled by the ABS that we could use: gross output and value-added. Value-added MFP includes only the primary inputs of production (capital and labour) whereas gross output MFP takes into account capital, labour and the intermediate goods (services, energy and materials) used in production. We consider that, for our purposes, gross output is the better productivity measure. It is a better measure of changes in technical efficiency in all factors of production.[71] By excluding intermediate inputs, value–added MFP excludes an important source of efficiency improvements. In addition, value–added is a more volatile measure than gross output (see Figure 3.2 below).

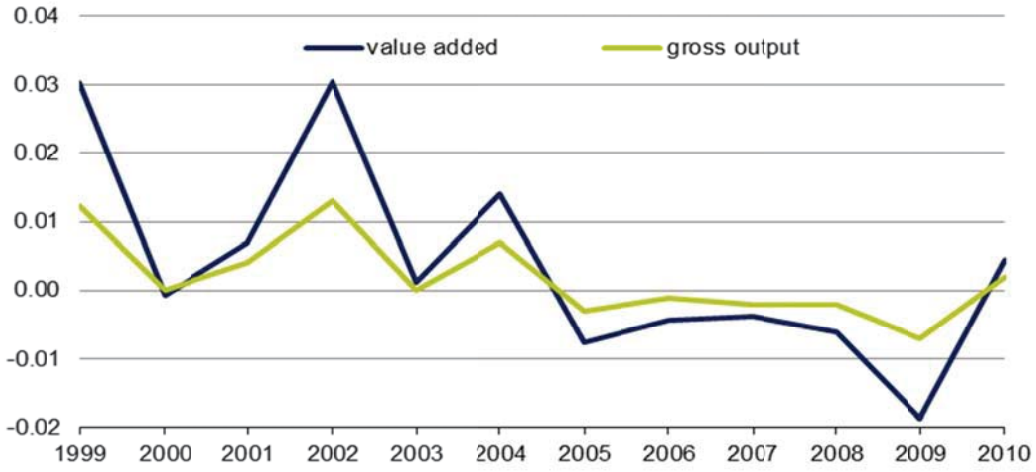
68 Or for any of the industries in which we regulate fares or fees using a cost index.

69 The ABS's Transport, postal and warehousing sector is mainly composed of technologies and industries more akin with logistics.

70 For example, there is a large lag in productivity associated with capital investments in the electricity, gas and water sectors. New capital takes a long time to become fully operational, and many more years before full capacity is reached. This creates a large cyclical effect whereby productivity decreases at times of investment.

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

Figure 3.2 Multifactor productivity measures for the market sector



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

The ABS has published gross output MFP since 1995. Between 1995 to 2010, the average gross output productivity in the market sector industries was 0.3%.[72]

We considered industry-specific factors

We decided to apply a smaller productivity adjustment than suggested by the economy wide multifactor productivity to take into account industry-specific factors. The factors we considered include:

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

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

- A combination of declining demand for taxis and increased taxi numbers.
- A decreased average travel speed resulting from:
  - decreased speed limits
  - increased traffic congestion
  - increased road infrastructure changes.
- An increase in private bookings and hirings.

[72] The NSW Taxi Council notes that multifactor productivity has been below the long term average for 5 out of the last 6 years (NSW Taxi Council submission, 11 May 2012, p 1.). However, as previously stated, we have used a long term average of productivity to remove short term cyclical effects.

- A significant increase in the number of hire cars, tourist vehicles, Government funded 'free' bus services and courtesy vehicles.
- The removal or reduction in the size of taxi ranks – especially problematic coupled with growth in taxi numbers.[73]

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

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

In addition, there may still be some scope for the industry to improve its productivity. The ATDA noted that there is room for improvement in network booking systems.[74] Furthermore, there are likely to be productivity gains from hailing applications that use GPS technology to link drivers and passengers. The NSWTDA argues that 'huge productivity improvements and public benefits are achievable … by informing the public how and where to catch taxis'.[75] However, we note that these systems are in their early stages and are currently under legal review by Transport for NSW.[76] As a result, we have made a productivity adjustment of 0.2%.

---

73 ATDA submission, 10 May 2012, p 2; E Mollenhauer submission, 3 February 2012, pp 4-5; NSW Taxi Council submission, 3 February 2012, pp 11-12; Trevor Bradley submission, p 4.

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

75 NSWTDA submission, 15 May 2012, p 10.

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

4 Fare outcomes

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

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

This chapter sets out the recommended fare components that result when we apply the inflators to the TCIs, and discusses our decisions on fare structure and then on additional charges requested by stakeholders.

We note that the draft report recently released by the Victorian Taxi Industry Inquiry also canvasses fare structure issues including the relativity of fixed and variable fare components, the appropriate timing and level for night-time surcharges, and the appropriate level for booking fees.[77] We will monitor the progress of the Inquiry's investigation as it continues.

4.1 Recommended fares

The change in the TCIs is 3.7% for urban taxis and 3.6% for country taxis (see Chapter 3). To apply these increases to the individual fare components, we decided to:

- retain the current fare structure, and maintain the current relativities between fare components by increasing each component by the increase in the TCI and then rounding them as required[78]
- not make any changes to how fares are charged by the time of day and week
- not introduce any additional fare components or charges
- publish the unrounded fare components so that in next year's review we may apply the increase to the unrounded 2012 fares.

---

77 Victorian Taxi Industry Inquiry, *Customers First: Service, Safety, Choice*, Draft report, May 2012, Chapter 20

78 Due to metering limitations, we rounded the flag fall and booking fees to the nearest 10 cents.

Table 4.1 and Table 4.2 show our recommended fares from July 2012 based on these findings and TCIs of 3.7% (urban) and 3.6% (country).

Table 4.1 Recommended fare schedule for 2012 – urban areas

		1-Jul-11	1-Jul-12	1-Jul-12	% change between rounded fares
		Rounded	Unrounded[a]	Rounded	
Flag fall	$	$3.40	$3.53	$3.50	2.9%
Distance charge	$/km	$2.06	$2.14	$2.14	3.9%
Waiting time charge	$/hr	$53.33	$55.30	$55.30	3.7%
Booking fee	$	$2.30	$2.39	$2.40	4.3%
Night-time surcharge (on distance rate)[b]	%	20%	20%	20%	
Maxi taxi surcharge (on total fare)[c]	%	50%	50%	50%	
Waiting time threshold speed	km/hr	26	26	26	

a The unrounded fare shown here has been rounded to the nearest cent for presentation purposes.

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

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

Table 4.2 Recommended fare schedule for 2012 – country areas

		1-Jul-11	1-Jul-12	1-Jul-12	% change between rounded fares
		Rounded	Unrounded[a]	Rounded	
Flag fall	$	$3.90	$4.04	$4.00	2.6%
Distance charge - first 12km	$/km	$2.12	$2.20	$2.20	3.8%
Distance charge - after first 12km	$/km	$2.94	$3.05	$3.05	3.6%
Waiting time charge	$/hr	$54.29	$56.24	$56.24	3.6%
Booking fee	$	$1.10	$1.14	$1.10	0.0%
Night-time surcharge (on distance rate)[b]	%	20%	20%	20%	
Sunday/Holiday surcharge (on distance rate)[c]	%	20%	20%	20%	
Maxi taxi surcharge (on total fare)[d]	%	50%	50%	50%	
Waiting time threshold speed	km/hr	26	26	26	

a The unrounded fare shown here has been rounded to the nearest cent for presentation purposes.

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

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

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

4.2 We will maintain the current relativities between fare components and apply the TCI to a master fare schedule

The current relativities between the fare components have been largely maintained for the last decade. We have received no new evidence that these relativities should be changed for urban or country fares, and there continues to be broad support for the current fare relativities between fare components.[79] The NSW Taxi Council and Council of Social Services of NSW (NCOSS) both agree that fare increases should be distributed evenly across each component of the fare to help avoid any disproportionate impact of fare adjustments on particular groups of customers or drivers.

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

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

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

Previously we used an 'average fare' mechanism to ensure that the overall fare change was equal to the change in the TCI for the 'average fare' in each year. Because we have applied the TCI increases evenly across each fare component, we do not need to use this method this year. We have decided to adopt a master fare schedule instead, consistent with our approach to setting other transport fares. A master fare schedule is a simpler more transparent way of ensuring that fare components that need to be rounded maintain their relativities over time. Under this approach, we will apply future fare increases to the unrounded values from the previous year (the 'master fare').[80] The NSW Taxi Council supports our decision to apply the fare increases to unrounded fares to ensure that the relativities between fare components are maintained over time.[81]

---

79 NSW Taxi Council submission, 3 February 2012, p 10; NCOSS submission, 15 March 2012, p 2; ATDA submission, 2 February 2012, p 6, NSWTDA submission, 15 May, pp 10, 35.

80 For example, adding 3.6% to the country booking fee increases the unrounded fare to $1.14. Rounded to the nearest 10 cents, there will be no change to the booking fee as it is rounded down to $1.10. However, next year the fare change will be applied to $1.14, rather than $1.10, so that if it increases above $1.15, the booking fee will be rounded up to $1.20.

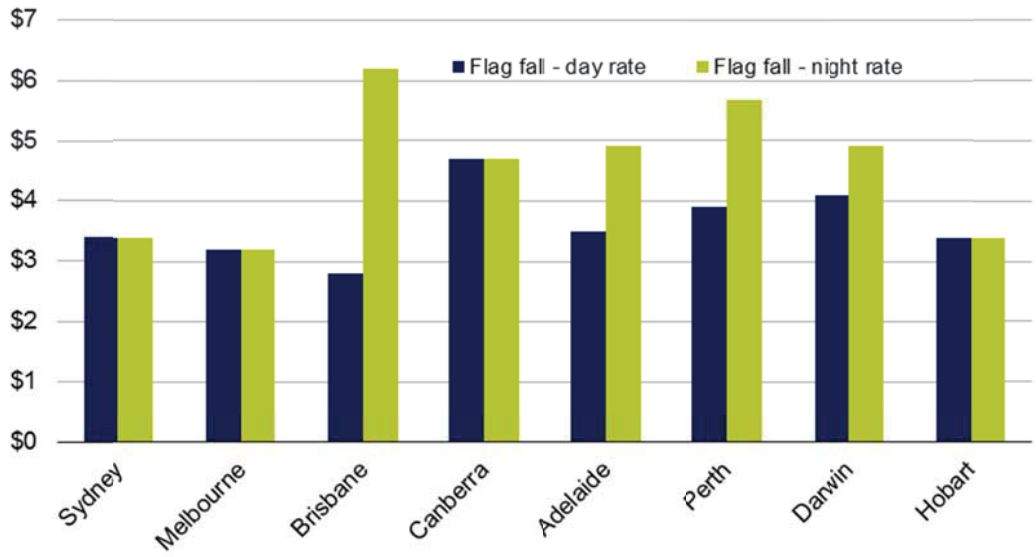
81 NSW Taxi Council submission, 11 May 2012, p 2.

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

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

Several stakeholders support the current relativities between the flag fall and other fare components. However, stakeholders also argue that urban taxi drivers need greater incentives to accept bookings and shorter journeys.[82] NCOSS notes that its Transport Policy Advice Group's stakeholders are continuing to find that some taxi drivers will not accept passengers travelling short distances.[83] Several individual submissions also consider that the difficulty getting taxi services for short journeys suggests that short fares are under-priced.[84]

Figure 4.1 Flag fall rates for Australian capital cities April 2012

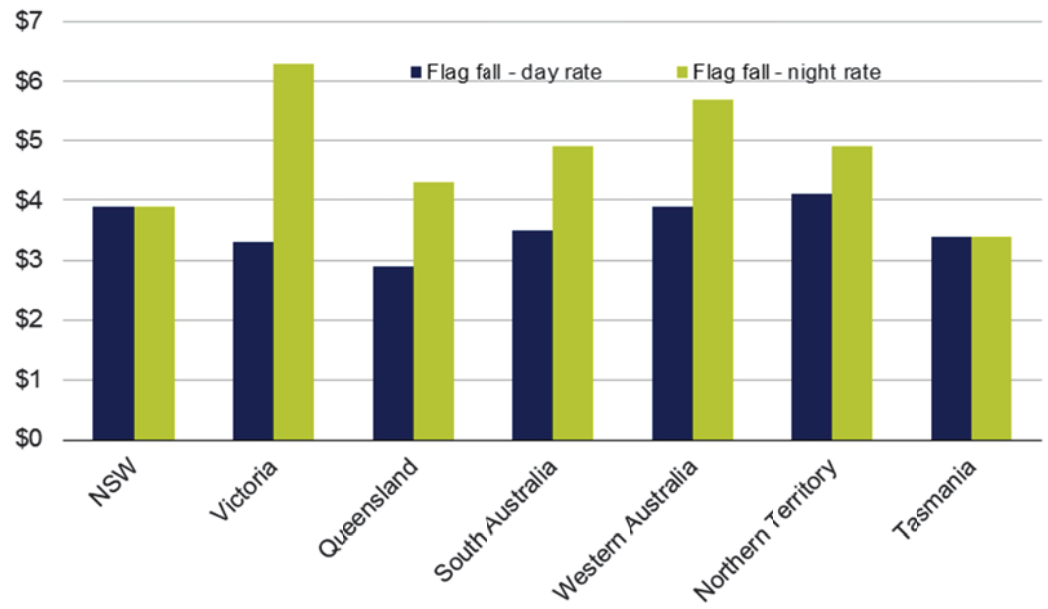


82 E Mollenhauer submission, p 2; NSW Taxi Council submission, 3 February 2012, p 10; NSWTDA, 15 May 2013, p 10, 35.

83 NCOSS submission, 15 March 2012, p 2.

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

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



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

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

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

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

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

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

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

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

One way of making short distances more attractive to drivers is to increase the flag fall relative to the distance rates. The NSW Taxi Council proposes that where it is not possible to precisely maintain relativities for urban fares due to rounding requirements, the fixed fare components should be rounded upwards.[85] However, as explained previously, because we intend to apply fare increases to the unrounded fare from the previous year, the relativities should be maintained on average over time. In contrast, rounding the flag fall upwards each year would increase the flag fall proportion of the total fare over time.

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

The NSWTDA suggests that a flag fall between $3.80 and $6.00 would improve the incentives for drivers to accept short fares.[86] We consider that the flag fall would need to increase significantly to change the incentives for drivers in relation to short fares. This means that the distance rate would also have to decrease significantly to ensure that the overall fare increase is consistent with the change in the TCI. As shown in Table 4.3, a lower distance rate means that fares for long journeys could be significantly lower. Several individual submissions consider that the fare for long distance journey is currently too high.[87]

We are concerned that customers that typically take shorter journeys include pensioners and passengers with mobility limitations who are more likely to use taxis as their primary mode of transport to access local services (and often have limited alternatives).[88] For example, increasing the flag fall by 50% to $5.10 for urban fares would increase the total fare for short journeys by around 10%. We consider that this is a substantial increase, which could affect the affordability of taxi services for some passengers.

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

86 NSWTDA submission, 15 May 2012, pp 10, 35.

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

88 NCOSS submission, 15 March 2012, p 2.

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

Flag fall increase	0% (2011 fares)	3.70% (in line with TCI)	10%	50%	90%
Fare components					
Flag fall	$3.40	$3.50	$3.70	$5.10	$6.50
Distance charge (per km)	$2.06	$2.14	$2.11	$1.92	$1.73
Sample Journeys					
Short city trip	$16.40	$17.00	$17.10	$18.20	$19.20
To the shops	$14.80	$15.40	$15.50	$16.10	$16.70
Friday night trip home	$44.90	$46.60	$46.30	$44.30	$42.20
Airport Trip	$54.00	$56.10	$55.70	$53.30	$50.90

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

[a] Airport fees are not included.

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

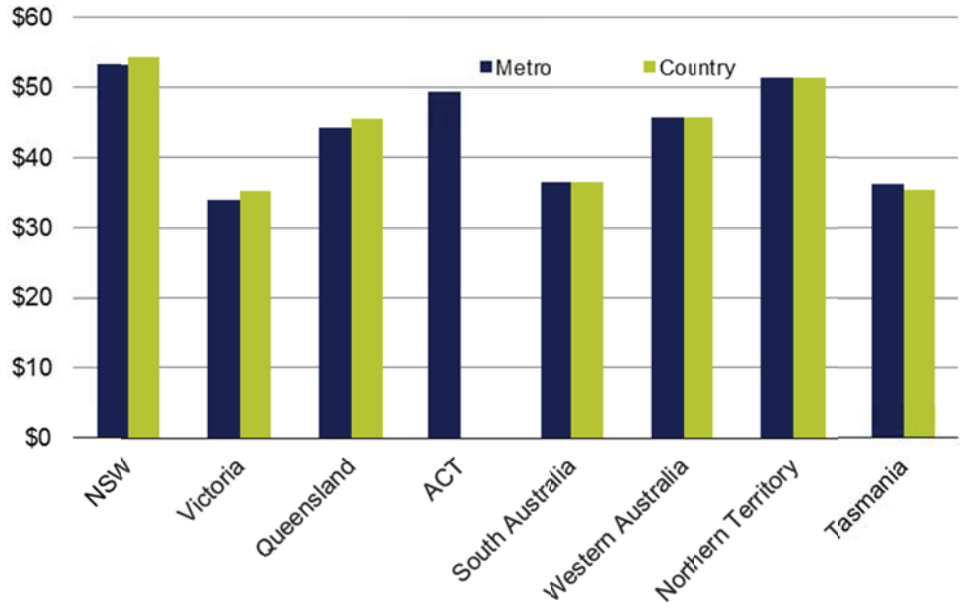
Waiting time is the charge that currently applies when a taxi is travelling with a passenger at less than 26 km per hour (including when it is stopped). It can be charged from the appointed time that the taxi arrives at the passenger's pick up point.[89]

The waiting time rate is currently $53.33 per hour for urban fares and $52.40 for country fares. These rates are equivalent to the revenue a taxi would earn when it is travelling at 26 km per hour on the distance rate. Figure 4.3 shows the waiting time rates in NSW are the highest in Australia, with the Sydney waiting time rate almost 60% higher than the current rate in Melbourne.[90]

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

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

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



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

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

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

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

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

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

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

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

An individual submits that the waiting time component of the urban fare should be increased by up to 65% (this would be the rate a taxi would earn if it was travelling 50 km per hour on the distance rate),[91] due to the changes in the waiting/distance composition of an average trip as a result of congestion. In order to maintain an overall increase that is consistent with the TCI, increasing the waiting time rate by 65% would require a 14% decrease in the distance rate.

91 E Mollenhauer, 3 February 2012, p 5.

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

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

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

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

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

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

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

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

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

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

- For off peak times, the fares should be equal to the marginal costs of supply. The submission argues that the current fare for these services should be significantly lower, because it does not need to cover the fixed costs of supply, which include licence lease costs, insurance costs, vehicle lease payments or network fees.
- For other periods (or the 'shoulder' period), the fares should be equal to the marginal costs of supply, including all the allowances for taxi capacity.[92]

Table 4.4 includes sample fares that illustrate a simple peak pricing fare structure. The fare levels in Table 4.4 are consistent with a 3.7% overall fare increase, and attempt to ensure that the fixed costs of providing taxi services are recovered in peak times.[93]

Table 4.4 Sample time of use fare structure

Fare components		2011	Peak		Off Peak		Shoulder	
Flag fall[a]	$	$3.40	$4.50		$4.50		$4.50	
Distance charge	$/km	$2.06	$3.06		$0.88		$1.64	
Waiting time charge	$/hr	$53.33	$74.66		$31.46		$46.40	
Booking fee	$	$2.30	$2.30		$2.30		$2.30	
Sample journeys								
Short city trip		$16.40	$23.10	41%	$11.50	-30%	$15.50	-5%
To the shops		$14.80	$20.30	37%	$10.80	-27%	$14.10	-5%
15 km night trip home		$44.90	$56.60	26%	$20.30	-55%	$32.80	-27%
Airport Trip[b]		$54.00	$78.00	44%	$28.60	-47%	$45.60	-16%

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

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

b Does not include airport charges.

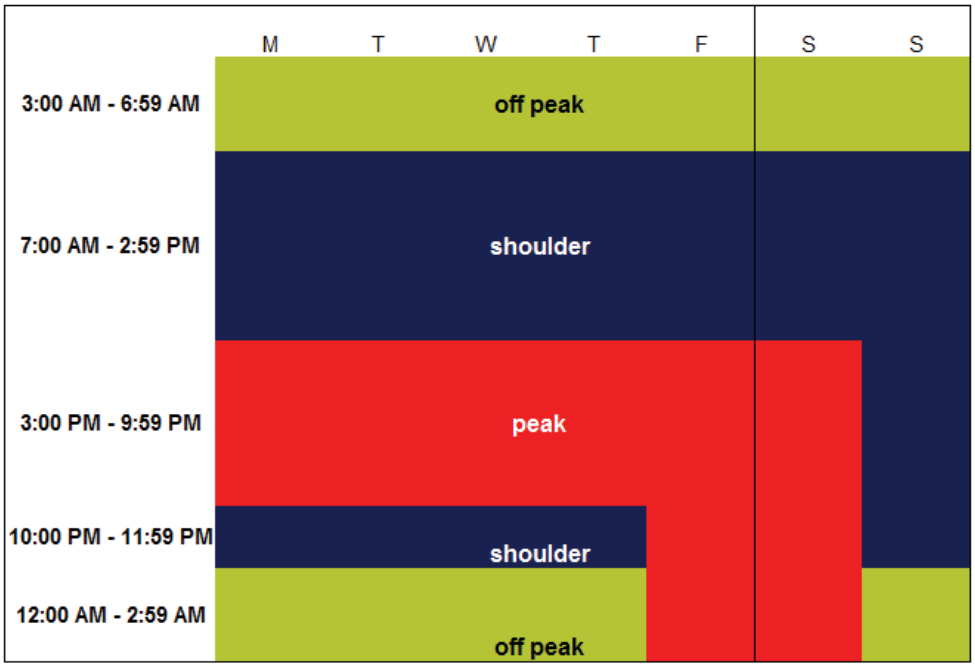
c A late night surcharge would no longer apply.

92 Abelson submission, 3 February 2012, p 3.

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

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

Figure 4.4 Sample time of use fare structure



The fare structure in Table 4.4 represents a significant departure from the way passengers are currently charged for taxi services. The NSW Taxi Council considers that it could create significant confusion for customers about whether the correct fare is being charged. It submits that mandated auto-tariff change meters and printed receipts from taxi meters would be required to promote passenger confidence for the implementation of time of use pricing.[94]

We agree that a fundamental change to the way passengers are charged would need to be part of a broader taxi reform to ensure that an appropriate implementation strategy is in place if such changes were supported. Further analysis and appropriate consultation would need to be undertaken so we could better understand how a move to time of use charges would change taxi usage patterns, taxi availability and fare revenue.

94 NSW Taxi Council submission, 11 May 2012, pp 2-3.

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

The NSWTDA, the ATDA, and an individual submission argue that the night-time surcharge for urban fares should be extended to all hours on weekends and public holidays to compensate drivers for working periods of lower demand and unsocial hours, consistent with workers conditions for other industries.[95] These stakeholders also argued for this extension in past reviews.

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

An individual submission also suggests that a third (higher) tariff rate should apply to urban journeys from midnight on Friday and Saturday nights to compensate drivers for passenger violence occurring during this period.[96] We consider that the night-time surcharge already compensates drivers for additional safety risks of night time travelling.

4.4 We do not support any new charges or minimum fares

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

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

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

---

95 NSWTDA, 3 February 2012, p 8; ATDA submissions, 2 February 2012, p 15, 10 May 2012, p 12, E Mollenhauer, 3 February 2012, p 3. E Mollenhauer also suggested that the night-time surcharge should be aligned with double demerit periods (p 5).

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

4.4.1 Why we do not support a higher booking fee or a minimum fare for booked trips

The NSWTDA argues that the booking fee should be increased to $6.00 or more, and an individual submission considers that a $20 minimum fare should apply to booked journeys to account for the costs of accepting a booked journey and to compensate drivers for the possibility of the passenger not being there when the taxi arrives.[97]

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

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

An individual submission argues that a $20 'fare floor' should apply to customers using electronic payments.[98] We consider that the differences in transaction time between cash and electronic transactions are likely to be minimal (less than 2 minutes or $2 in waiting time), therefore a $20 fare floor is not justified for electronic payments. In addition, we note that customers are already subject to electronic processing fees of 10% of the fare (IPART does not make recommendations on these fees).[99]

4.4.3 Why we do not support a $1 superannuation levy

The ATDA submits that a designated superannuation levy of $1 should be added to every fare in addition to the fare increase determined through the TCI to directly fund drivers' superannuation. It considers that if we designate a portion of the fare to superannuation, drivers will be entitled to this amount as a superannuation contribution from operators under the current NSW Taxi Drivers Contract Determination.[100]

---

97 NSWTDA submission, 15 May 2012, p 35-36, E Mollenhauer submission, 3 February 2012, pp 4-5.

98 E Mollenhauer submission, 3 February 2012, p 5.

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

100 ATDA submissions, 10 May 2012, p 11, 2 February 2012, p 14.

We do not agree. In our 2008 reweighting of the TCI, we considered that a portion of labour costs related to superannuation and we added a separate line item for superannuation in our TCI to reflect this. Based on our estimates of fare revenue, we noted that the current fare levels should already account for the costs of superannuation. In Chapter 2 we discuss why we think additional fare increases will not flow to drivers. For the same reasons, we think that a $1 "superannuation surcharge" is not likely to go towards providing for the retirement of drivers.

IPART has no power to determine how fare revenue is distributed to cover the different costs of providing taxi services. It is the role of the IRC to determine how fare revenue is apportioned between operators and drivers so that drivers receive the entitlements and conditions that it sets. If the IRC's determinations increase the proportion of labour costs relative to other costs, this will be reflected in the next reweighting of the TCI.

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

The NSW Taxi Council and an individual submission consider that an additional fee should apply to special requests such as a baby capsule and station wagon.[101] Taxis with additional features are likely to increase their competitive advantage over other taxis, and therefore we do not consider that they require particular compensation for providing these services.[102] We also note that WATs, which are required to provide a baby capsule,[103] have access to subsidised licences.

4.4.5 Why we do not support increasing the WAT incentive payment

An individual submission argues that taxi drivers need additional compensation for jobs that are eligible for a partial fare rebate under the Taxi Transport Subsidy Scheme (TTSS).[104] Drivers of WATs currently receive an incentive payment of $8.47 (including GST) from the NSW government for every journey with a passenger in a wheelchair.[105] The submission suggests that this incentive payment be pegged to the equivalent of 12 minutes waiting time ($10.70 at current rates).

---

[101] NSW Taxi Council submission, 11 May 2012, p 3; E Mollenhauer submission, 3 February 2012, pp 2 and 5.

[102] 10% of the taxi fleet are required to provide baby capsules. *Passenger Transport Regulation 2007*, Cl 176, http://www.legislation.nsw.gov.au/sessionalview/sessional/subordleg/2007-421.pdf

[103] Ibid, Cl 108(b).

[104] E Mollenhauer, 3 February 2012, p 5.

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

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

- a booking fee ($2.40)
- a flag fall $3.50)
- waiting time charged while the wheelchair is being loaded ($4.61 – 5 minutes)
- a WAT incentive payment ($8.47 – paid from the Government directly).

These fare components are equal to around $19.00 before any distance has been travelled. Therefore, we do not consider that there is evidence that the incentive payment should be increased.

5 Reviewing taxi fares in the future

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

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

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

The NSW Taxi Council argues that there is no clear nexus between the reversal of the LPG adjustment in 2016 and a need to reweight the TCIs, preferring that the next major review occur in 2017.[106] We note that this current review has occurred 4 years after the last major review (the TCIs were last reweighted in 2008, based on results from a 2007 survey) and that stakeholders expressed concern over our proposal to automatically index fares for 5 years (see below). We therefore consider a 4-year period between major reviews is appropriate, especially given the nature of the industry and the potential for changes in costs.

5.2 We will continue to undertake annual reviews of taxi fares

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

[106] NSW Taxi Council submission, 11 May 2012, p 3.

While there was some stakeholder support for this approach, several stakeholders expressed concerns. The NSW Taxi Council noted "the risk that movements in the inflators may not accurately reflect changes in costs experienced in the NSW taxi industry".[107] The NSWTDA is concerned that "new and other issues" are able to be addressed through the framework as they arise, and not be excluded by any mechanical updating and this concern was also expressed by an individual submission.[108] Another individual submission recommends that fares be adjusted as and when the market changes significantly, "neither mechanically … nor only annually".[109]

Having considered the views of stakeholders, and consistent with the proposal in our draft report, we propose to continue to undertake annual reviews of taxi fares.

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

In response to stakeholder concerns about the volatility of LPG fuel prices, since 2008 we have undertaken a review of fuel prices midway through the review year. In November each year, we look at the average daily LPG cost for the 6 months to the end of October and compare it to the average daily LPG cost for the 12 months to the end of April, which is the cost incorporated into the TCIs. If the cost of LPG has increased or decreased by more than 20%[110], we recommend a change in taxi fares from December.

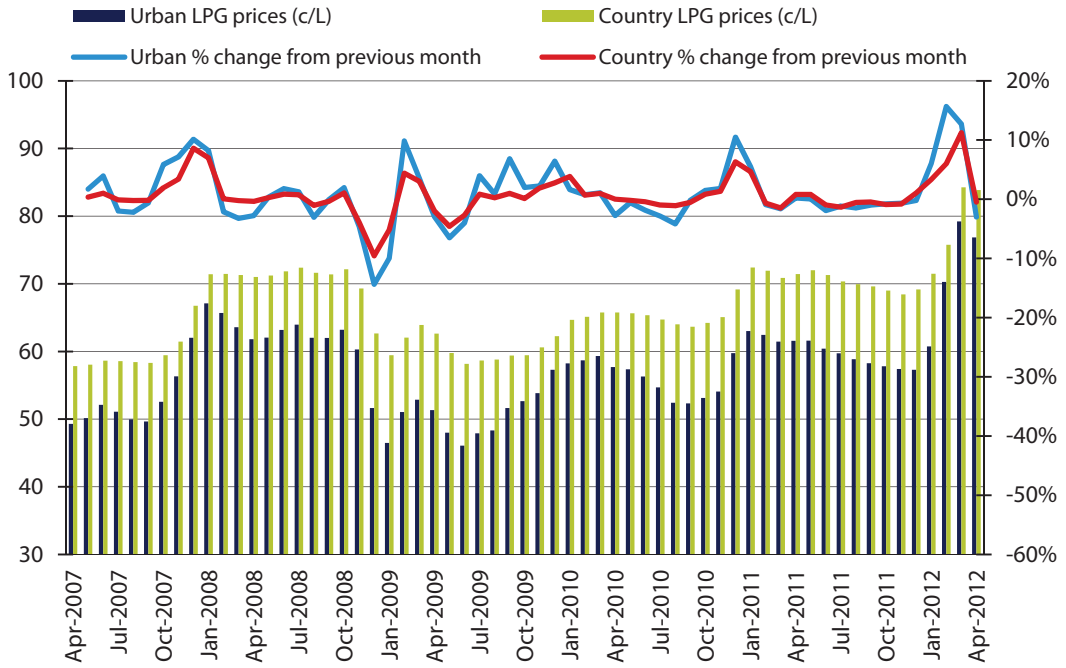
After the 2011 mid-year review of fuel costs the Director-General of Transport for NSW wrote to us questioning whether mid-year reviews are warranted and proposing that IPART only conduct mid-year reviews where "market reports of significant volatility make it likely that a review would be warranted".[111] In response we committed to considering whether or not to continue the mid-year review as part of this current fare review.

There has been little stakeholder enthusiasm for any alternatives to the mid-year fuel review. While no stakeholders explicitly addressed the issue of whether or not the mid-year fuel review should be retained, the ATDA recognised the increase in fuel prices over the summer months,[112] and the NSW Taxi Council supports the use of the (higher) 20% threshold for the review, given the costs associated with fare changes.[113] We consider that the underlying reasons for establishing the mid-year fuel review remain, and that a transparent, predictable method is preferable to an ad hoc approach. Given the volatility of fuel prices recently and over the last few years (see Figure 5.1 below), we will retain the mid-year fuel review in its current form. This is

107 NSW Taxi Council submission, 3 February 2012, p 2.
108 NSWTDA submission, 3 February 2012, p 7.
109 E Mollenhauer submission, 3 February 2012, p 6.
110 The threshold to trigger a recommendation was 10% in 2008 and 2009, and in 2010 we changed the threshold to 20%.
111 Lock, C. Letter to Mr Jim Cox, 11 January 2012.
112 ATDA supplementary submission, 22 February 2012, p 1.
113 NSW Taxi Council submission, 11 May 2012, p 3.

consistent with our November 2011 decision for fares for private ferries and our draft decision on this issue.

Figure 5.1 Monthly LPG prices



Note: Excludes GST.
Data source: FUELtrac.

6 Stakeholder impacts

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

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

6.1 Findings on stakeholder impacts

We consider that the fare increases we have recommended would not have a significant impact on most taxi passengers, the Government or the environment. Under these fare changes, the cost of an average taxi trip will rise by 3.7% in urban areas and 3.6% in country areas.

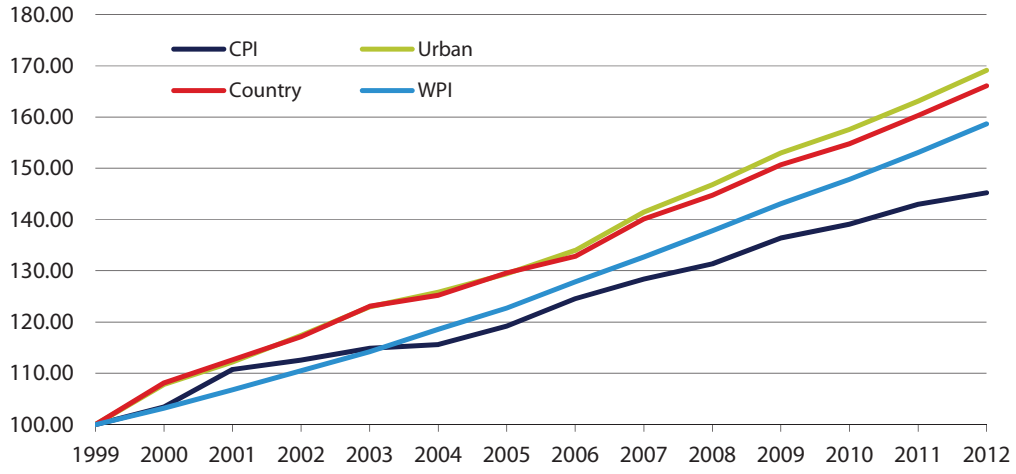
Although the recommended fare increases are above the change in the cost of living over the past year, they are still relatively small.[114] In addition, they do not involve any significant changes to the structure of fares that would affect the cost of some types of taxi trips more than others.

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

Between 1999 and 2012, taxi fares in NSW have increased by around 69% in urban areas and 66% in country areas. This increase is significantly more than the increase in the CPI over the same period (45%) and more than the increase in the WPI over the same period (59%) (Figure 6.1).

[114] As measured by the change in the Sydney Consumer Price Index (CPI), which was 3.1% for the year ending 31 March 2012.

Figure 6.1 Index of fare increases for taxis since 1999



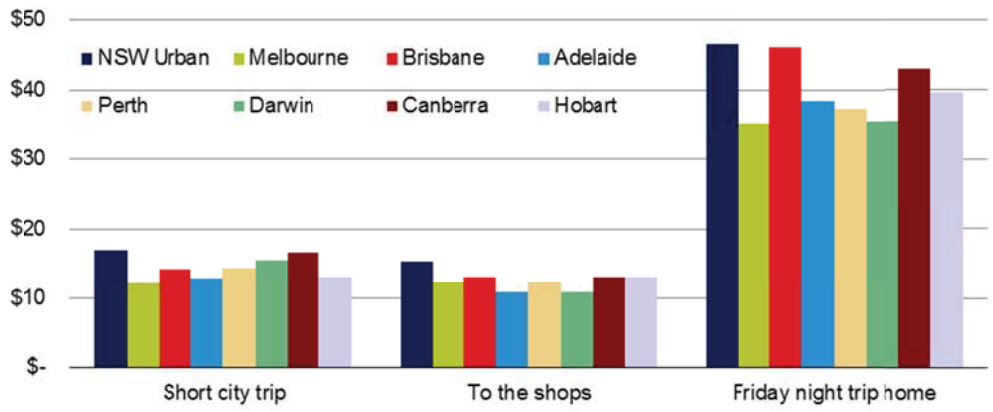
Data source: IPART reports and ABS data.

6.2.1 Comparison of fares in NSW with those in other states

We have also considered how taxi fares in NSW, after applying our recommended fare changes, compare with those currently in place in other states of Australia for a selection of different types of taxi trips. NSW taxi fares are in general higher than in other areas of Australia. Both the distance rate and waiting time charges are higher in NSW than in the other areas considered, although our urban flag fall is lower than in Perth, Darwin and Canberra.

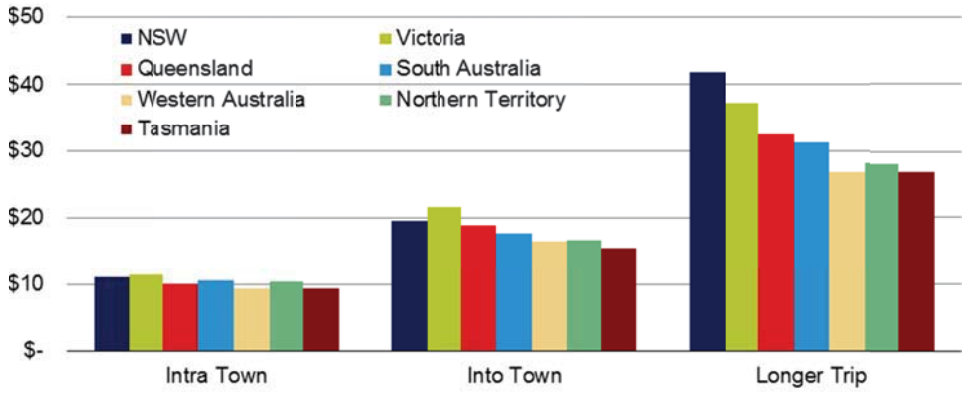
The figures below (Figure 6.2 and Figure 6.3) illustrate the difference in selected trip fares between states. Fares in NSW are based on the maximum fares recommended in this report. Assumptions underlying trip comparisons depicted below are shown in Table 6.1.

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



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

Figure 6.3 Country fares by state, selected trips, 2012



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

Table 6.1 Assumptions for trip comparisons – urban and country

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

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

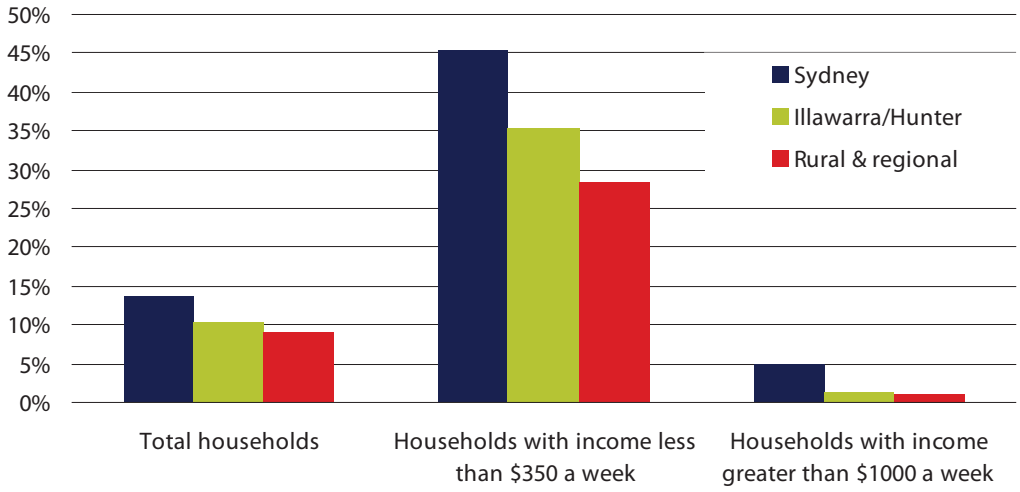
6.3 Implications for passengers

The overall impact of the fare increases we have recommended on passengers is likely to be small. This is because the fare increases are relatively low and spending on transport fares (including taxi fares) represents the equivalent of less than 1% of average Australian household incomes.[115]

However, we recognise that the increases are above the rise in the cost of living and will have a larger impact on some taxi users – in particular, lower income passengers and those with limited transport options.

A survey of household expenditure by the ABS confirms that while those in the highest income quintile spend proportionately more of their expenditure on taxis than other groups, those in the lowest income quintile spend the second highest proportion.[116] These findings are supported by census data, which indicates that the proportion of low income households that do not have access to a motor vehicle, and hence are likely to have fewer transport alternatives, is significant (Figure 6.4).

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



Data source: ABS, 2006 census.

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

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

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

We have previously noted stakeholder views that taxi fare increases have a significant impact on passengers with disabilities because the subsidy provided under the TTSS has not kept up with increases in fares.[117] We have also noted that the subsidy has not been changed since 1999 and since that time taxi fares have risen significantly. Stakeholders have again raised this issue in this year's review.

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

> Increases in taxi fares are likely to have a disproportionate impact on these groups of people by making the only viable form of transport unaffordable. For some people, this may mean they are no longer able to access opportunities that should be available to everyone: education, employment, social and family networks, appropriate and timely health care etc.[118]

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

The Physical Disability Council of NSW (PDCN) also submits that an increase in taxi fares without a corresponding increase in the Government subsidies such as the TTSS will further disadvantage those who rely on taxis for transport.[119] PDCN submits that there are many additional costs associated with having a severe physical disability (including the cost of aids, equipment, personal care and increased electricity costs):

> People with physical disabilities in receipt of the full or part pension need to manage their budget tightly often needing to make extreme compromises, and consequently find the cost of taxi travel often excessive.[120]

PDCN notes that the Western Australian Government provides a more generous subsidy for passengers requiring the use of wheelchair accessible taxis (75% for a trip costing $35), especially given the lower levels of congestion in Perth compared to Sydney.[121]

Another submission from the Spinal Cord Injury Association (SCIA) also noted the rising cost of fares relative to the subsidy provided. To address the concern of the impact of increasing fares on people suffering from disability who rely on taxis for transport SCIA is seeking an increase in the TTSS subsidy to 75% (from 50%) and the taxi fare limit to increase to $120 per fare (from $60). These suggested amendments were derived from the Taxi Transport Subsidy Schemes provided in South Australia and Victoria after these states underwent a review in 2006 and 2008 respectively.[122]

---

117 IPART, *2008 Review of Taxi Fares in NSW - Final Report,* pp 114-115.
118 NCOSS submission, 15 March 2012, p 2.
119 PDCN submission, March 2012, p 2.
120 Ibid, p 3.
121 Ibid.
122 SCIA submission, February 2012, p 2.

The Select Committee on the NSW Taxi Industry considered this issue and recommended in December 2010 that Transport for NSW should increase the cap on the TTSS subsidy from $30 to $50. The Committee also recommended that the Premier ask IPART to consider the value of the subsidy as part of our annual fare reviews.[123] To date neither of these recommendations has been adopted. However, Transport for NSW has advised that it is about to commence an examination of the incentives and subsidies which support the provision of wheelchair accessible taxis to identify how service to customers can be improved. They have advised us that the TTSS will be considered as part of that work.

6.4 Implications for Government

Government funding of taxi fares is limited to rebates provided via the TTSS for people whose transport options are restricted due to a severe and permanent disability. In 2008/09, the Government paid $23.1 million in subsidies to 71,000 registered participants in the TTSS, who undertook more than 2.1 million subsidised journeys over that year.[124] By 2010/11, there were over 76,000 registered participants[125] and $25.7 million was paid in subsidies.[126]

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

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

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

6.5 Implications for the environment

We do not expect that the fare increases we have recommended would have significant implications for the environment. The Bureau of Transport Statistics' Household Travel Survey found that taxi trips as a proportion of total trips made have stayed constant at 0.7% since 2001.[127] This survey suggests that the proportion of taxi trips is small in terms of overall travel, is relatively stable over time, and is not particularly sensitive to relatively small incremental changes in fares, as have occurred in recent years. As a result, the impact of the fare increases in terms of pollution and congestion is likely to be small.

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

7 Service standards

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

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

This year we have examined:

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

We received data from Transport for NSW for the year to 31 March 2012 and compared it to data for the year to 31 March 2011.

This chapter provides an overview of the information we considered and our findings and recommendations on taxi service standards.

7.1 Findings and recommendations on service standards

We found that, as measured by performance information reported by taxi networks, service levels for booked trips appear to be about the same as for the year to 31 March 2011. Performance on some indicators has improved, while it has declined on others. Compared to the previous 12 months, there has been:

- No significant change in performance against the telephone answering times KPIs for standard taxis.
- An improvement in the abandoned calls KPI in aggregate and for most networks individually.
- A slight deterioration in performance on pick up time and ring back KPIs for standard taxis.

- A significant improvement in the proportion of standard taxi bookings accepted by drivers and in the number of pick ups made as a proportion of bookings required.
- A significant decrease in events when there is "no car available".
- No significant change in phone answering times for WAT bookings.
- A decline in the 'pick up in less than 15 minutes' and the 'pick up in less than 30 minutes' KPIs for WATs .
- A significant decrease in the number of ring backs for WAT bookings (ie, a performance improvement).

However, we also observed a significant increase in the number of complaints and a decline in compliments through the Customer Feedback Management System, which may indicate a fall in customer satisfaction over the same period.

Information about service performance is more useful when it is disaggregated

We commend Transport for NSW's commitment to publishing monthly service performance data by network for both standard taxis and WATs. In recent reviews, we have also recommended that Transport for NSW publish WATs results by geographical area, to get a better sense of whether and how WATs performance varies by region.

We need more comprehensive information about taxi service performance

Most of the available information on service standards relates to booked taxi trips, which only make up around 20%[128] of total taxi trips taken. Given the small proportion of total trips which are booked over the phone, the KPIs are only a partial measure of taxi service performance. In past reviews, we have recommended that Transport for NSW should undertake regular surveys of taxi passengers across NSW and publish the results.

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

Transport for NSW has again advised that it will start undertaking regular taxi customer surveys of customer satisfaction in 2012 and will publish the results of the surveys on its website.

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

7.2 Network performance for standard taxis in Sydney

Authorised taxi networks in Sydney, Wollongong, Newcastle and the Central Coast are required to report monthly against key performance indicators of service standards for standard taxis and Wheelchair Accessible Taxis. Network service standards for networks in urban areas were established in May 2008 and are currently being reviewed. Interim standards for networks in country areas were published in 1993 but are not reported against.

Since July 2010, Transport for NSW has published monthly urban taxi network performance data on its website.

For this review, we received urban taxi network performance data from Transport for NSW for the period April 2011 to March 2012. We observed that, on balance, service outcomes for standard taxis in Sydney for the year to 31 March 2012 were about the same as they were for the year to 31 March 2011. However, service outcomes differ between the various urban networks, with some networks failing to meet the required standard for some indicators.

7.2.1 Phone call answering times for booked trips

In aggregate, Sydney[129] networks met the standards for phone call answering times: 98.6% of calls were answered within one minute (against a standard of 85%) and 99.8% were answered within 2 minutes (against a standard of 98%). These levels of achievement are slightly lower for calls within one minute and slightly higher for calls within 2 minutes compared to the year to 31 March 2011.

All networks individually met the standard for percentage of calls answered within 1 minute, but 1 network, Lime, failed to meet the standard for percentage of calls answered within 2 minutes.

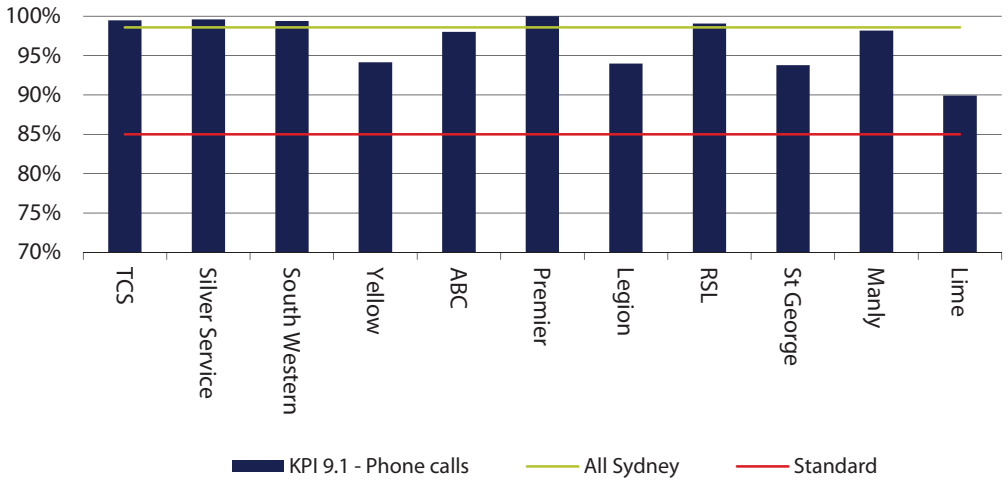
Sydney networks in aggregate also easily met the standard for abandoned calls:[130] only 1.9% of the total number of phone calls failed or were abandoned by callers before being answered compared with a target of no more than 5%. This represents an improvement in performance since the year to 31 March 2011, when callers abandoned 2.1% of calls.

Performance of individual networks has also improved since the year to 31 March 2011, with all networks meeting the standard (whereas 3 networks did not in the year to 31 March 2011) and all except 1 reporting a lower percentage of abandoned calls than last year.

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

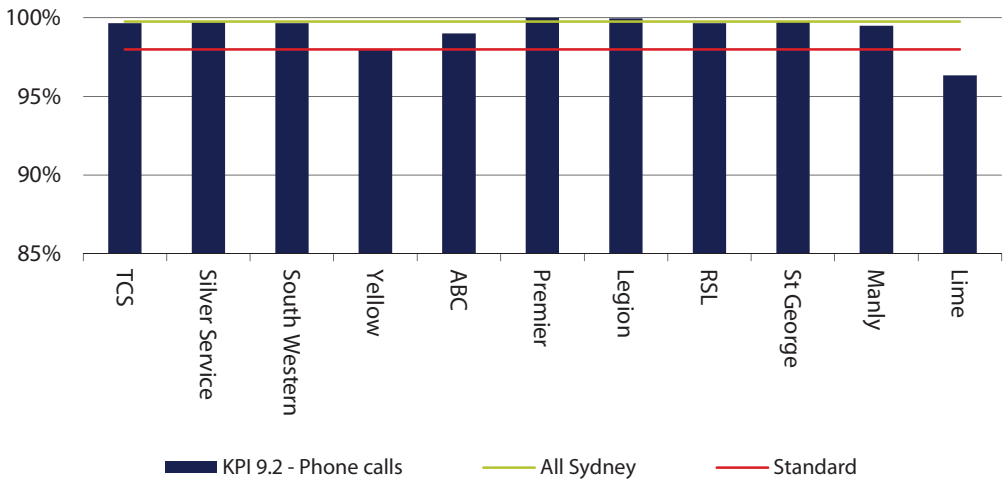
Figure 7.1, Figure 7.2 and Figure 7.3 (below) compare the individual performance of Sydney networks against the standards for phone call answering times and abandoned/ failed calls and the performance of the networks in aggregate.

Figure 7.1 Performance against standard for phone calls answered within 1 minute, all Sydney networks, year to 31 March 2012



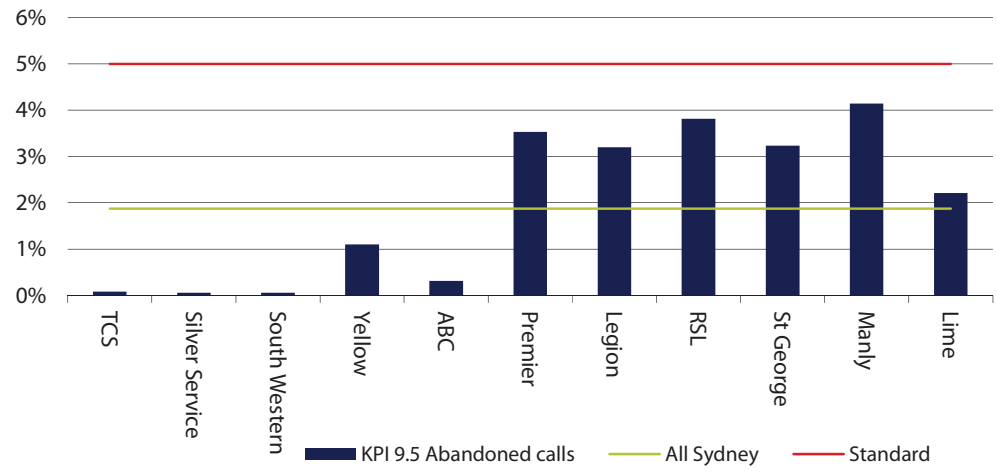
Data source: TfNSW.

Figure 7.2 Performance against standard for phone calls answered within 2 minutes, all Sydney networks, year to 31 March 2012



Data source: TfNSW.

Figure 7.3 Performance against standard for phone calls abandoned by customers/failed, all Sydney networks, year to 31 March 2012



Data source: TfNSW.

7.2.2 Passenger pick up times for booked trips

In aggregate, the Sydney networks also met the standards for passenger pick up times. For bookings where a pick up was made, 91.7% of taxis arrived within 15 minutes, 98.9% within 30 minutes and 100% within 60 minutes of the booking being made. However, as Table 7.1 shows, although pick up performance continued to be above the standard, it dropped off slightly compared to the year to 31 March 2011.

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

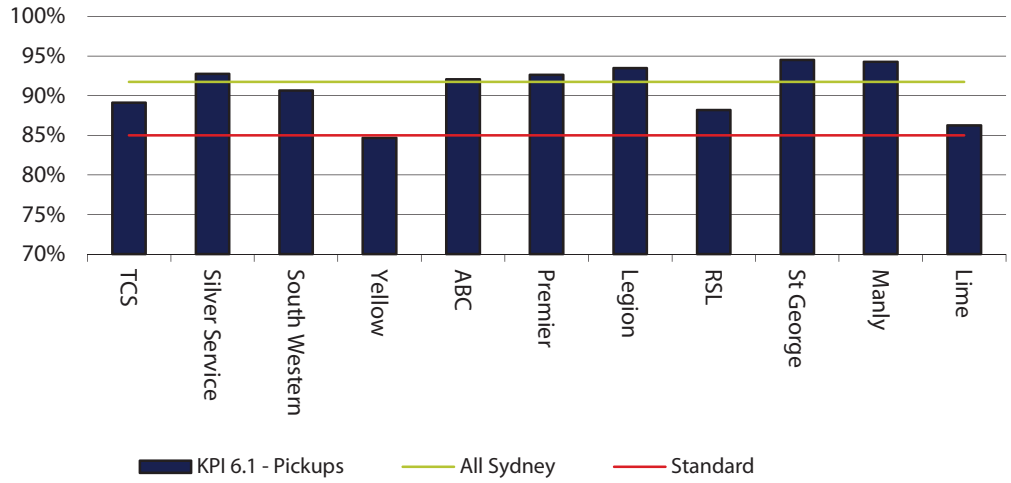
	Total booked pick ups (000)	Pick up in less than 15 min (%)	Pick up in less than 30 min (%)	Pick up in less than 60 min (%)
2009	8,752	92.8	99.2	100.0
2010	8,188	94.3	99.3	100.0
2011	8,139	93.3	99.2	100.0
2012	8,026	91.7	98.9	100.0

Note: Data is for the year to 31 March in each year.
Source: TfNSW.

Not all of the Sydney networks met the standards related to pick up times when their performance is examined on an individual network basis. Yellow Taxis did not meet the standards for percentage of pick ups within 15 or 30 minutes of the booking time, and Lime did not meet the standard for percentage of pick ups within 30 minutes of booking time.

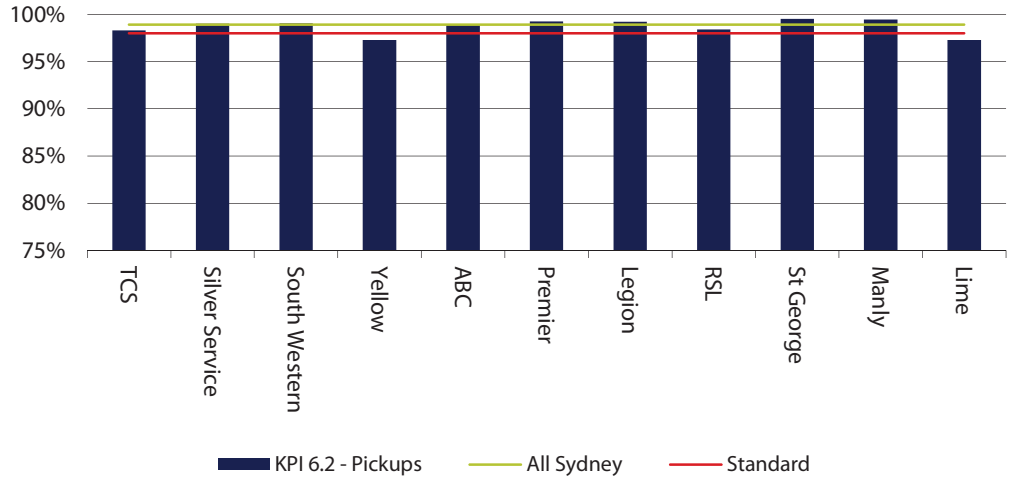
Figure 7.4 and Figure 7.5 show the performance of Sydney networks individually against the standards for pick up times, and compare the individual networks' performance to the performance for all networks in aggregate.

Figure 7.4 Performance against standard for pick up within 15 minutes, all Sydney networks, year to 31 March 2012



Data source: TfNSW.

Figure 7.5 Performance against standard for pick up within 30 minutes, all Sydney networks, year to 31 March 2012



Data source: TfNSW.

7.2.3 Bookings requested and bookings accepted

The network service standards define a booking request as 'a customer applying for the provision of one or more taxis to transport people or packages on a particular date and time between a defined origin and destination'.[131] Booking requests therefore include all bookings taken by a network, including ones where the customer subsequently cancels or is not present when the car arrives at the job, where no car is available to fulfil the request, or where the booking is off-loaded to another network. In the case of off-loads, a booking request will be counted twice, once when it is made with the first network and once when it is off-loaded by that network to another network.

Networks are also required to report the number of rejections they get from drivers (where a booking request is offered to a driver and s/he rejects it or doesn't respond), as well as the number of acceptances. Acceptances, as for requests, includes bookings that are subsequently cancelled or the passenger or the driver is a no-show.

Because of the definitions of these two KPIs, particularly the tendency of the "number of bookings requested" to overstate bookings, it is difficult to calculate an accurate measure of the percentage of would-be passengers who had their bookings accepted by a driver. However, we think that it is still worthwhile to look at the trend in the proportion of bookings accepted, as measured by the KPIs.

Table 7.2 below provides a comparison of the number of bookings requested compared to the number of jobs accepted by taxi drivers. It shows that the percentage of total bookings accepted by drivers improved to its highest level since the network standards were adopted in 2008.

Table 7.2 Proportion of bookings accepted by drivers, all Sydney networks, last 5 years

Year	Number of bookings/jobs requested (000)	Number of jobs offered to a driver who is not available to complete it (000)	Average number of times each job is offered to driver who is not available to complete it	Total number of bookings/ jobs accepted by drivers (000)	Percentage of bookings/jobs accepted by drivers
2008	13,331	35,595	2.7	10,701	80.3%
2009	12,736	34,575	2.7	10,122	79.4%
2010	12,545	31,536	2.5	9,550	76.1%
2011	12,005	31,617	2.6	9,631	80.2%
2012	10,871	30,894	2.8	9,521	87.6%

Note: Data is for the year to 31 March in each year.

Source: TfNSW.

[131] Ministry of Transport, *Guide for Authorised Taxi-cab Network Providers and Taxi-cab Network Services Standards for the Sydney Metropolitan, Newcastle and Wollongong Transport Districts and the Local Government Areas of Gosford and Wyong*, May 2008, p 73.

It is worth noting that the total number of bookings requested has continued its recent downward trajectory and fallen to its lowest level in the same period. Whether this indicates lower demand for taxi services generally, or just a decrease in demand for booked services, is difficult to assess.

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

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

There was a significant decrease in the total number of bookings requested and a smaller decrease in total pick ups made, resulting in an improvement in the total pick ups as a proportion of bookings made. However, the same caveats apply to these figures as to those which were discussed in section 7.2.3: "booking requests" overstates the demand for bookings, as off-loaded bookings are double-counted, and no adjustments are made for cancelled bookings or no-shows. The NSW Taxi Council also submits that the "pick ups" figure under-counts actual pick ups for technical reasons related to communication technology.[132] Nevertheless, we consider that it is still useful to look at the trend in these figures over time.

Table 7.3 Changes in performance measures between review periods, all Sydney networks, last 3 years

Measure	2010	2011	2012	Change (%)	
				Since 2010	Since 2011
Number of bookings requested (000)	12,545	12,005	10,870	-13.4%	-9.4%
Total pick ups (000)	8,188	8,139	8,026	-2.0%	-1.4%
Total pick ups as a proportion of bookings requested (%)	65%	68%	74%	13.1%	8.9%
Number of No Car Available (000)	178	190	91	-48.7%	-51.8%
Number of ring backs (000)	437	502	579	32.4%	15.4%

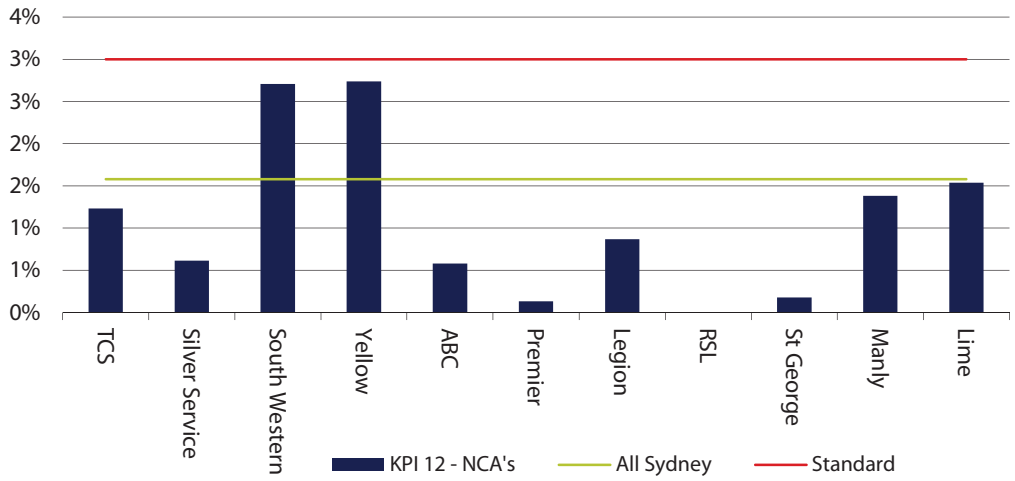
Note: Data is for the year to 31 March in each year.
Source: TfNSW.

Instances where no car was available to fulfil a booked job

Instances where no car was available fell significantly over the past year. All networks met the standard, compared to the year to 31 March 2011 when 3 networks did not. Figure 7.6 shows all Sydney networks' performance against the standard for no car available (ie, that instances where no cab is available when a booking was required should be no more than 3% of bookings requested).

[132] NSW Taxi Council submission, 11 May 2012, p 4.

Figure 7.6 Performance against 'no car available' standard, all Sydney networks, year to 31 March 2012



Data source: TfNSW.

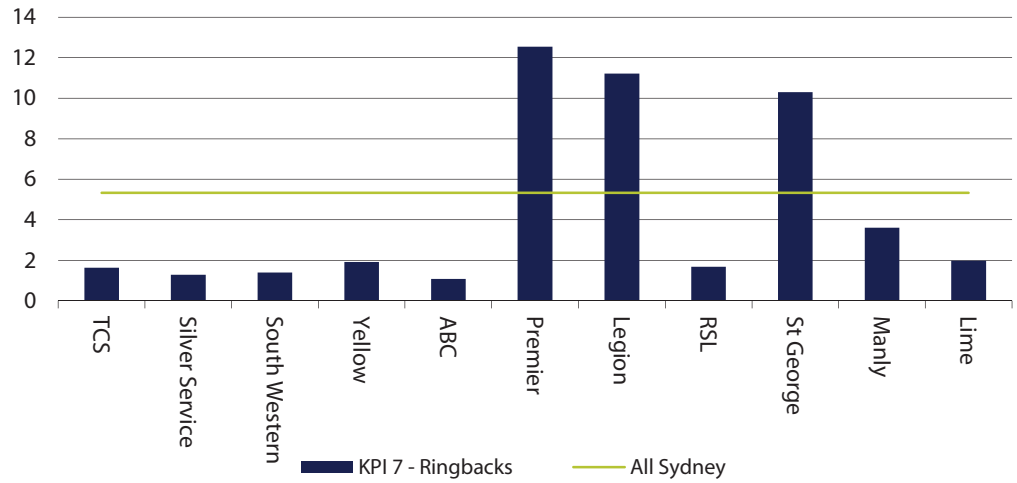
Instances where passengers rang the network back to ask about their booking

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

There was an increase in ring backs this year, consistent with the slight decline in performance in taxis arriving within 15 minutes of booking time and 30 minutes of booking time.

Figure 7.7 shows the number of ring backs per 100 bookings by Sydney network. It indicates that there is a large variation in networks' performance against this KPI. The number of ring backs varies from 1.1 to 12.5 ring backs for every 100 bookings, and the average number of ring backs for all Sydney networks is 5.3 per 100 bookings (up from 4.2 in the year to 31 March 2011).

Figure 7.7 Number of ring backs per 100 bookings required, all Sydney networks, year to 31 March 2012



Data source: TfNSW.

7.3 Service performance for wheelchair accessible taxis in Sydney

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

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

7.3.1 Phone call answering times for WATs

Table 7.4 summarises Zero200 performance against the standards for phone call answering times for WATs over the past 5 years. This table indicates that performance on these KPIs is similar to that for the year to 31 March 2011.

Table 7.4 WATs performance against standards for phone call answering times, last 5 years

Year	Calls answered within 1 minute (%)	Calls answered within 2 minutes (%)
2008	91.3	97.0
2009	94.2	97.8
2010	93.3	97.4
2011	93.5	97.4
2012	94.7	97.7
Performance standard	**85.0**	**98.0**

Note: Information is for WATs bookings through the Zero200 booking service only. Data is for the year to 31 March in each year.

Source: Data from TfNSW.

7.3.2 Pick up times for WATs

Table 7.5 summarises Zero200 performance against the standards for pick up times for WATs over the past 5 years. WATs services typically do not meet these performance standards, although in recent years their performance has been gradually improving. However, in the year to 31 March 2012 the 'pick up in less than 15 minutes' performance declined and was the worst of the last 5 years. The 'pick up in less than 30 minutes' performance has also declined since the year to 31 March 2011.

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

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

Note: Information is for WATs bookings through the Zero200 booking service only. Data is for the year to 31 March in each year.

Source: TfNSW.

7.3.3 Other KPIs that are relevant to WAT passengers' experience

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

As noted above in the discussion on standard taxi KPIs, "bookings requested" tends to over-count booking requests, while "total pick ups" may under-count pick ups. Nevertheless, the trend in total pick ups as a proportion of bookings requested is a useful indicator of service levels. For WATs, this figure remained very similar to that for the year to 31 March 2011.

Table 7.6 Changes in performance measures between review periods for booked jobs on the Zero200 booking service, last 3 years

Measure	2010	2011	2012[a]	Change (%)	
				Since 2010	Since 2011
Number of bookings requested (000)	131.1	127.0	124.5	-5.0	-1.9
Total pick ups (000)	114.8	112.1	109.4	-3.7	-1.3
Total pick ups as a proportion of bookings requested (%)	87.6	88.3	87.9	0.3	-0.4
Number of ring backs	1,457	470	138	-90.5	-70.6
Number of taxis operating on the network	529	583	614	16.1	5.3

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

Source: TfNSW.

Instances where passengers rang the network to ask about their booking

The 'number of ring backs' performance indicator measures the number of times passengers called the network back to inquire about a taxi booking request. There was a dramatic decrease in ring backs for WAT bookings this year, following a similarly large decrease for the year to 31 March 2011. This is a puzzling result, given that pick up performance has declined and it would be reasonable to expect that passengers waiting longer for a taxi would be more inclined to ring back to check the progress of their booking. Last year the NSW Taxi Council submitted that passenger confidence in WAT service reliability has improved and a higher percentage of WAT bookings are being made for immediate pick up rather than in advance, leading to lower numbers of ring backs.

7.4 Customer feedback – complaints and compliments

Complaints and compliments data from the Customer Feedback Management System (CFMS), which is administered by Transport for NSW, is obtained through direct feedback from passengers. It is an important indicator of passengers'

satisfaction with taxi services. However, only a small number of passengers are likely to be motivated to make a formal complaint or compliment to the CFMS and as a result it does not provide a full picture of service outcomes. For this reason, we reiterate our view that Transport for NSW should undertake regular passenger satisfaction surveys to obtain more robust statistical data.

7.4.1 Customer feedback data

Based on the year to 31 March 2012, CFMS data shows a significant increase in the number of complaints compared with the year to 31 March 2011. In total, 11,636 complaints were recorded in the year to 31 March 2012 compared with 9,218 in the year to 31 March 2011, an increase of 26%.

Compliments fell for the same period, from 574 to 445.

Complaints have also increased and compliments also decreased compared to averages over the period 2005 to 2011. While caution is required in interpreting these figures for the reasons outlined above, they do seem to represent a significant decrease in customer satisfaction with taxi services. In particular, we note the large increase in complaints about network performance over the past 2 years, even as networks have continued to report meeting service standards.

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

Table 7.7 Summary of complaints and compliments for all taxis, last 3 years

	2010	2011	2012	Change (%)	
				Since 2010	Since 2011
Complaints	6,092	9,218	11,636	91%	26%
Driver -Total	4,255	6,531	8,216	93%	26%
Driver -Serious	94	117	155	65%	32%
Driver -Other	4,161	6,414	8,061	94%	26%
Fares	1,234	1,690	2,158	75%	28%
Network	395	761	1,030	161%	35%
Vehicle	208	236	232	12%	-2%
Compliments	1,024	574	445	-57%	-22%

Note: Figures are for years ending 31 March. Driver complaints include driving in an unsafe manner, rude to customer, refusal of a fare when 'for hire', lateness, and failure to provide reasonable assistance to a customer.

- Network complaints concern radio bookings and pick ups.

- Vehicle complaints concern the state of the vehicle.

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

Source: TfNSW.

Appendices

A Terms of Reference

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992
TAXI INDUSTRY FARE REVIEW

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

In providing these services, the Tribunal should consider:

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

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

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

The Hon Barry O'Farrell MP
Premier

Dated at Sydney 4. 8. 2011

B List of submissions received

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

Submitter	Date received
Australian Taxi Drivers' Association (ATDA)	2 February 2012
Australian Taxi Drivers' Association (ATDA) – supplementary submission	22 February 2012
Council of Social Service of NSW (NCOSS)	15 March 2012
Individual (P Abelson)	3 February 2012
Individual (N Baltaji)	21 March 2012
Individual (D Biggar)	5 March 2012
Individual (T Bradley)	9 February 2012
Individual (T Bradley) – supplementary submission 1	5 March 2012
Individual (T Bradley) – supplementary submission 2	5 March 2012
Individual (T Bradley) – supplementary submission 3	5 March 2012
Individual (D Godden)	2 February 2012
Individual (E Mollenhauer)	3 February 2012
Individual (K Naidu)	3 February 2012
NSW Taxi Council	3 February 2012
NSW Taxi Drivers' Association	3 February 2012
NSW Taxi Drivers' Association – supplementary submission	6 February 2012
NSW Taxi Drivers' Association – supplementary submission	19 March 2012
Physical Disability Council of NSW	20 March 2012
Spinal Cord Injuries Australia	14 February 2012

Table B.2 List of submissions received on draft report (due 11 May 2012)

Submitter	Date received
Australian Taxi Drivers' Association	10 May 2012
Individual (P Abelson)	11 May 2012
Individual (E Mollenhauer)	14 May 2012
Individual (Anonymous + Confidential)	17 April 2012
Individual (Anonymous + Confidential)	9 May 2012
NSW Taxi Council	11 May 2012
NSW Taxi Drivers' Association	15 May 2012

C Taxi industry statistics

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

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

A taxi driver must be licensed to drive in NSW and authorised to be a taxi driver by TfNSW. A driver may also be the operator of a taxi, or may drive the cab under arrangement with the operator. The most common arrangement in NSW is bailment, where the driver has the use of the vehicle for a specified period of time – a shift[133] - in return for a bailment payment. A bailee may be permanent or casual.[134] The bailment methods are determined by the NSW Industrial Relations Commission and may be either:

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

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

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

---

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

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

The driver pays for fuel and car washing under a "pay-in" arrangement and the operator pays for these items in other cases.[135]

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

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

Network	Standard	Wheelchair[a]	Total Taxis
SYDNEY	5041	613	5654
Taxis Combined Services (TCS)	2229	208	2437
Silver Service	935	107	1042
ABC Radio Taxi	54	1	55
Yellow Cabs	0	50	50
South Western	76	11	87
Premier	823	91	914
Legion	438	63	501
RSL	115	6	121
Manly	172	25	197
St George	173	15	188
GM Cabs	10	0	10
Lime	16	36	52
WOLLONGONG	125	10	135
NEWCASTLE	153	15	168
CENTRAL COAST	66	19	85
COUNTRY (attached to networks or booking services)	648	156	804
COUNTRY (not attached to network)	108	44	152

a Not all wheelchair accessible taxis are licensed WATs.

Source: TfNSW.

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

Area	Total licenced taxis	Total change since Dec 08	WAT sub-total	WAT change since Dec 08
Sydney	5,654	9.3%	613	28.0%
Newcastle	168	3.7%	15	50.0%
Wollongong	135	0.7%	10	11.1%
Country	1,043	1.7%	200	5.3%
NSW total	7,000	7.8%	838	21.8%

Source: TfNSW.

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

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

Area	Time restricted taxis	Total change since Dec 08	Leased taxis	Total change since Dec 08	New annual licences
Sydney	280	4.1%	4,358	1.6%	526
Newcastle	1	0.0%	84	55.6%	
Wollongong	0	N/A	72	-5.3%	
Country	0	N/A	301	-4.4%	
NSW total	281	4.1%	4815	1.7%	

Note: New annual licences does not include WATs

Source: TfNSW.

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

Area	Drivers authorities	Operator accreditations	Active operator accreditations	Taxi networks
Sydney	18,791	4,325	2,635	12
Newcastle	647	158	124	2
Wollongong	525	153	121	1
Country	3,621	686	531	53
NSW total	**23,584**	**5,322**	**3,411**	**68**
Change since December 2008	**1.7%**	**-0.6%**	**-1.3%**	

Source: TfNSW.

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

Number of Taxis	Number of operators operating
1	2,628
2 to 10	717
11 to 20	56
21 to 50	29
More than 50	0

Source: TfNSW.

Glossary

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

Holiday surcharge	Fare component charged on Sundays and public holidays for areas under the country fare scale. Calculated as a percentage mark-up on the distance rate.
IPART	Independent Pricing and Regulatory Tribunal. Provides fare recommendations to Transport for NSW on an annual basis.
IRC	New South Wales Industrial Relations Commission. The IRC sets conditions and pay-ins in the urban area according to the *Taxi Industry (Contract Drivers) Contract Determination 1984*.
KPI	Key Performance Indicators. Measure network service performance. KPIs are collected by Transport for NSW. Some KPI information is published on the Transport for NSW website.
LPG	Liquefied Petroleum Gas.
Maxi-cab surcharge	Fare component charged for hiring a maxi-cab, except when it is hired from a taxi zone or hailed on the street to carry up to 4 passengers or as a multiple hiring. Calculated as a percentage mark-up on the entire fare (excluding tolls).
Network fees	Fees paid by the operator of a taxi to belong to an authorised taxi network.
Night time surcharge/ Late night surcharge	Fare component charged for trips between 10pm and 6am. Calculated as a percentage mark-up on the distance rate.
NSWTDA	New South Wales Taxi Drivers Association.
Pay-in	The amount paid by a bailee driver to an operator for the use of a taxi. Maximum pay-ins for urban taxis are determined by the NSW IRC and set out in the *Taxi Industry (Contract Drivers) Contract Determination 1984* but discounting below this rate is common.
PWC	PricewaterhouseCoopers
Tariff II (Country)	Fare component charged for distance travelled beyond 12km. Charged in areas under the country fare scale only.
Taxi Transport Subsidy Scheme	Subsidy provided to qualifying passengers for WAT bookings. Currently provides a rebate of 50% on the total fare up to a maximum subsidy of $30.

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