

Review of taxi fares outside Sydney to apply from July 2015

Transport — Final Report and Recommendations
June 2015

Review of taxi fares outside Sydney to apply from July 2015

Transport — Final Report and Recommendations
June 2015

© Independent Pricing and Regulatory Tribunal of New South Wales 2015

This work is copyright. The *Copyright Act 1968* permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

ISBN 978-1-925193-95-4

S9-106

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chairman

Ms Catherine Jones

Mr Ed Willett

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

Jennifer Vincent (02) 9290 8418

Sarah Blackwell (02) 9113 7763

Independent Pricing and Regulatory Tribunal of New South Wales

PO Box K35, Haymarket Post Shop NSW 1240

Level 15, 2-24 Rawson Place, Sydney NSW 2000

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

www.ipart.nsw.gov.au

Contents

1	Executive summary	1
1.1	Overview of our findings and recommendations	1
1.2	Review process	5
1.3	Structure of this report	6
1.4	List of findings	6
1.5	List of recommendations	8
2	Context and approach	9
2.1	Participants in the industry	10
2.2	Current taxi fares and how they have changed over time	11
2.3	Current taxi licensing arrangements, licence values and operating areas	15
2.4	Our terms of reference for this review	17
2.5	Areas are covered by this review	17
2.6	Our analytical approach	18
3	Cost of supplying taxi services	19
3.1	Summary of findings on costs	20
3.2	Efficient costs and economic rent	21
3.3	Cost of regulatory compliance	25
3.4	Driver and operator survey results	27
3.5	Changes in costs	31
3.6	Fare regulation in a market with economic rent	33
3.7	Pre-paid fares	34
4	Demand for point-to-point transport services	36
4.1	Summary of findings on demand for point-to-point transport	36
4.2	External factors driving the demand for point-to-point transport	37
4.3	Demand for taxis	40
5	Supply of taxi services	45
5.1	Summary of findings on supply of taxi services	45
5.2	Current supply of taxi licences	46
5.3	Recent growth in taxi licence numbers	46
5.4	Barriers to entering the taxi market	47

6	Supply of alternative point-to-point transport services	56
6.1	Summary of findings on competition with the taxi industry	56
6.2	Hire cars	56
6.3	Community transport and courtesy transport	59
6.4	Car share and rideshare services	61
6.5	Impact of alternative forms of point-to-point transport on the taxi industry	62
7	Fare structure	64
7.1	How does the fare structure influence the taxi market?	64
7.2	Is fare structure an issue outside Sydney?	65
8	Other considerations	66
8.1	The need to maintain ecologically sustainable development	66
8.2	The effect of any pricing recommendation on the level of Government funding	66
8.3	Service standards	68
9	Our recommendations	71
9.1	Summary of recommendations	71
9.2	A nominal fare freeze	72
9.3	Need to reform taxi licensing arrangements	74
9.4	Review of the regulatory framework for all point-to-point transport services	76
9.5	Ongoing review of LPG prices	79
	Appendices	81
A	Terms of reference	83
B	List of submissions	84
C	Comparison of fares in other Australian jurisdictions	86
D	Glossary	89

1 | Executive summary

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

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

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

This report presents the findings and recommendations of our second review, focusing on fares outside Sydney.

Our key recommendation is that maximum fares be frozen in nominal terms in all areas outside Sydney during 2015-16.

1.1 Overview of our findings and recommendations

We found that the cost of a taxi licence is high in many other urban and country areas, indicating that current fares in these areas include economic rent. We also found that the cost of a taxi licence (and therefore the level of economic rent in fares) is also very variable between different country areas.

Economic rent arises from an imbalance between supply of taxi services and demand for those services, and also indicates that competition – either within the taxi industry or with the taxi industry from alternative transport services – is not effective in all areas. If competition were effective, the economic rent would be competed away.

¹ This review also considered and made recommendations on the number of new annual Sydney taxi licences to be released. IPART, *Sydney taxi fares to apply and new licences to be released from July 2015 - Final Report*, February 2015.

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

We also found that some of the cost inputs to providing taxi services (for example, network fees) are likely to be inefficient and/or include economic rent. Cost inputs are also much more variable across country areas than they are in Sydney or other urban areas.

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

We therefore recommend that maximum fares be frozen in nominal terms in all areas outside Sydney during 2015-16.

We considered the suitability of a more light-handed approach to fare regulation to deal with the variability of costs across areas outside Sydney, but concluded that the lack of effective competition in some areas does not permit moving to more light-handed regulation at this stage.

Lack of effective competition in the taxi market is caused by barriers to the entry of new taxi operators. The most significant barrier to entry is the high cost of obtaining a new taxi licence in some areas. High prices for ordinary licences are entrenched due to the method Transport for NSW prescribes for calculating the issue price of a new licence, and are most prohibitive in areas which need new licences the most. The lack of transparency in the process for and cost of obtaining a new licence is also a concern.

Industry expectations that ordinary taxi licences will appreciate in value as investments, and concerns that Wheelchair Accessible Taxi (WAT) licences involve higher set-up costs but require annual re-application, as well as being 'for wheelchair jobs only', potentially impede the take-up of free WAT licences as a way of entering the market.

We therefore recommend that the Government reform taxi licensing arrangements outside Sydney to reduce barriers to entry to the taxi market and allow the market to better match the supply of taxis with the demand for their services.

When we looked at the demand for taxi services, we found that on average, the demand for point-to-point transport services³ in areas outside Sydney is increasing due to external factors such as population growth and economic activity (albeit more slowly than in Sydney). However, as is the case in Sydney, it appears that much of the increasing demand for point-to-point transport has been met by alternatives to taxis such as courtesy transport, hire car services and community transport.

³ Point-to-point transport is a mode of transport where the transport operates from the passenger's pick-up point to the passenger's ultimate destination. Most public transport is not point-to-point, as it requires the passenger to get to and from an access point (eg, bus stop, railway station) at each end of the journey. Taxi transport is one type of point-to-point transport.

It was clear from submissions and public hearings that many in the industry are feeling under stress from what they perceive to be falling demand for taxis, increasing costs, and competition from service providers with different regulatory requirements.

In our Draft Report, we considered that both the lack of effective competition *in* the taxi market and *with* the taxi market were contributing to economic rent in licence values and fares. After considering stakeholder feedback through submissions and roundtables, we have revised our finding on competition *with* the taxi industry. It appears that, at least in some (but not all) areas outside Sydney, competition from alternative modes of point-to-point transport is having an impact on the taxi industry.

This is beneficial for consumers, as competition has the potential to offer more choice, drive service improvements and incentivise more efficient service provision. Competition from alternatives can also drive down taxi licence costs, which lowers barriers to entry to the taxi market.

But competition from other sources of point-to-point transport also means that the taxi industry must change to ensure its viability. The taxi industry will only be a viable, sustainable industry if it meets the needs of passengers in the face of this increasing competition. Putting up fares is not the answer. Any increase in fares at this stage would encourage more consumers to use alternatives more often.

Nor is the answer to arbitrarily increase the regulatory burden on competitors. All competitors should be subject to the appropriate regulation for safety of passengers and drivers and protection of consumers. However, we consider that rather than competitors being under-regulated,⁴ it is more likely that the taxi industry is burdened with higher costs due to inappropriate or outdated regulatory obligations. Technological change represents an opportunity to the taxi industry.

We found that regulatory compliance adds to the cost of providing taxi services and reform of regulatory requirements could reduce costs and enhance efficiencies in the provision of taxi services, without compromising safety or quality of services. We consider that reform of the regulatory requirements for taxis could also help the taxi industry modernise. For example, some current requirements prescribe specific technologies for safety. New technologies, such as GPS tracking, may be able to achieve the same regulatory outcomes at lower costs.

⁴ We note that commercial ridesharing services exist in Sydney, and perhaps in Newcastle, although it is not legal. However, in most areas outside Sydney, taxi alternatives such as hire cars, courtesy transport and community transport are operating legally but with different regulatory requirements from taxis.

Lower costs of regulatory compliance would mean that taxi operators could offer more cost-competitive services.

We therefore recommend that the Government should commission a review of the regulatory framework for all point-to-point services. The review should be undertaken by an independent body such as IPART, tasked to make recommendations about a regulatory framework that:

- ▼ addresses the impact of new technology
- ▼ functions fairly across the point-to-point transport market
- ▼ encourages innovation and competition, and
- ▼ includes appropriate consumer and industry protections (including safety of drivers and passengers, consumer protection, and availability of wheelchair accessible services).

We consider that our recommendations would make it cheaper and easier to catch a taxi, and would lead to a busier and more productive taxi industry. Existing licence owners would be adversely impacted by a drop in licence values. The terms of reference for our review of the number of new annual taxi licences to release in Sydney required us to ‘balance the need for a more affordable means of entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders’. We made recommendations on the number of new licences and fare levels that we estimated would result in a 25% real reduction in value of licence leases over five years, and we considered this was not unreasonable. The review of the regulatory framework for all point-to-point services should consider the impacts on existing licence owners outside Sydney.

The findings and recommendations in this report are substantially the same as the draft findings and recommendations which were published in our Draft Report. However, as a result of our consultation we have modified our finding on competition and added findings on the cost of network fees and the cost of regulatory compliance.

During the consultation process, stakeholders raised the issue of the cost impact of fare evasion and sought the extension of pre-paid fares from the small number of times and areas where they are now permitted. We support the Government extending pre-paid taxi fares to other areas where non-payment of fares is a problem.

Stakeholders also commented on the Taxi Transport Subsidy Scheme, in particular the fact that the maximum subsidy has been the same in nominal terms for 30 years. We note that the Government has announced that it will investigate whether the subsidy could be increased.

We also considered whether IPART should continue to conduct ongoing reviews of liquefied petroleum gas (LPG) prices outside the annual review process and found that the economic rent in fares outside Sydney is likely to be sufficient to cover any increases in the costs of providing taxi services, including LPG costs.

We therefore recommend that IPART no longer conduct ongoing reviews of LPG prices outside the annual fare review process.

1.2 Review process

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

- ▼ Sought and considered submissions from stakeholders in response to an Issues Paper released in October 2014.
- ▼ Sought and considered submissions from stakeholders in response to a Draft Report released in April 2015.
- ▼ Held three public roundtables in Newcastle, Port Macquarie and Wagga Wagga.
- ▼ Conducted several surveys on the costs and revenue of providing taxi services, demand for these services and the adequacy of supply, and barriers to entering the taxi industry:
 - We conducted a short self-selecting survey targeting people who have used or have considered using taxis outside Sydney. The survey was available on IPART's website for six weeks following the release of the Issues Paper.
 - We engaged Taverner Research to conduct a more extensive online survey of taxi use. We have commissioned the same survey for Sydney for three consecutive years. This was the first time we extended the survey to selected areas outside Sydney. The final Taverner survey report is available on our website (www.ipart.nsw.gov.au).
 - We also engaged The Centre for International Economics (the CIE) to conduct a driver and operator survey to collect data on their costs, revenues and taxi operating patterns. The survey was sent to all taxi drivers and operators in NSW. The CIE's survey report on areas outside Sydney is available on our website (www.ipart.nsw.gov.au).
- ▼ Examined publicly available data on the demand for point-to-point transport services outside Sydney.
- ▼ Examined data on the supply of taxi licences and alternative forms of point-to-point transport, such as hire cars. Most of this data is collected by Roads and Maritime Services and was provided to IPART for this review by Transport for NSW.

1.3 Structure of this report

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

- ▼ Chapter 2 outlines the context for the review and our analytical approach to the review. It includes information about participants in the taxi industry, current taxi fares and how they have changed over time, and the current taxi licensing arrangements.
- ▼ Chapter 3 discusses the results of the CIE's driver and operator cost survey and presents our findings on the costs of operating taxi services outside Sydney and their relevance to setting fares.
- ▼ Chapter 4 presents our analysis of the demand for taxi services and alternative modes of point-to-point transport.
- ▼ Chapter 5 examines the supply of taxis outside Sydney and presents our findings on the barriers to entering the taxi market.
- ▼ Chapter 6 examines the extent of competition with the taxi industry outside Sydney from alternative point-to-point transport services.
- ▼ Chapter 7 examines the influence of fare structure on the taxi market.
- ▼ Chapter 8 discusses the impact of taxi fares on sustainable development and the impact of our recommendations on the level of government funding. It also presents our findings on the standard of services provided by the taxi industry outside Sydney.
- ▼ Chapter 9 summarises our findings and explains the recommendations we have made in response to these findings.

1.4 List of findings

Findings regarding the cost of supplying taxi services

- | | | |
|---|--|----|
| 1 | Licence costs are not an efficient cost - rather, they reflect the scarcity of licences, and thus are economic rent. | 22 |
| 2 | There are barriers to the entry of new taxi networks which arise due to the burden of regulation and network effects. These barriers to entry result in network fees that contain economic rent and/or inefficient costs. | 25 |
| 3 | Regulatory compliance adds to the cost of providing taxi services and reform of regulatory requirements could reduce costs and enhance efficiencies in the provision of taxi services, without compromising safety or quality of services, which could underpin lower fares. | 26 |

- 4 On average, licence costs are a significant cost of providing taxi services outside Sydney – accounting for around 10% of the total costs/revenues per standard taxi in other urban areas, and around 12% in country areas. Network fees account for a further 6% to 7% of total costs. 29
- 5 The costs of providing taxi services, including licence costs, are more variable across country areas than they are in Sydney or other urban areas. 29
- 6 High licence transfer prices in many areas indicate that there is sufficient economic rent present in taxi fares in country and other urban areas to cover any increases in efficient costs experienced during 2014-15. 33
- 7 The presence of economic rent in fares indicates that there is insufficient competition in the point-to-point transport market across the state to move to a more light-handed approach to regulating fares at this stage. 34

Findings regarding the demand for point-to-point transport services

- 8 On average, demand for point-to-point transport services outside Sydney is increasing but more slowly than in Sydney. Demand growth varies significantly amongst areas outside Sydney. 40
- 9 On average, demand for taxi services outside Sydney is likely to be growing more slowly than demand for point-to-point transport services more generally. 42

Findings regarding the supply of taxi services

- 10 The growth in taxi licence numbers in areas of NSW outside Sydney is not keeping pace with the demand for point-to-point transport services. 47
- 11 The primary barrier to entering the taxi market outside Sydney is the high cost of obtaining a new taxi licence, which is determined on the basis of recent sales transactions in the relevant area or two other alternative methods if there are insufficient recent sales. This process is prescribed by Transport for NSW. 51
- 12 The process for and cost of obtaining a new taxi licence outside Sydney lacks transparency. 53
- 13 High network fees in areas outside Sydney can be a barrier to joining a network. As network affiliation is mandatory for operators the high fees can be a deterrent to entering the taxi industry. 55

Findings regarding the supply of alternative point-to-point transport services

- 14 Hire cars are not perfect substitutes for taxis but they are a significant source of competition with taxis outside Sydney in the market for booked trips. However, the cost of obtaining a new hire car licence, which is based on the market value of existing licences, could be a barrier to more hire car operators entering the market. 59
- 15 Community transport and courtesy transport are not perfect substitutes for taxis but they are significant sources of competition with taxis outside Sydney. 61

Finding regarding fare structure

- 16 The existing structure of fares outside Sydney is not a significant impediment to the availability of taxi services or demand for taxi services. 65

1.5 List of recommendations

- 1 A nominal taxi fare freeze for operating areas outside Sydney subject to the urban fare schedule. 72
- 2 A nominal taxi fare freeze for operating areas subject to the country fare schedule. 72
- 3 That the Government reform taxi licensing arrangements outside Sydney to allow the market to better match the supply of taxis with demand for their services. 75
- 4 That the Government include areas outside Sydney in a review of the regulatory framework for point-to-point transport. 79
- 5 That IPART no longer undertake an ongoing review of LPG prices outside the annual fare review process. 80

2 Context and approach

Each year IPART reviews and recommends maximum taxi fares to Transport for NSW.⁵ After considering our final recommendations, Transport for NSW decides on the maximum taxi fares.⁶

Two taxi fare schedules apply in NSW:

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

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

This year, we are conducting two separate fare reviews – one for the Sydney Metropolitan Transport District (which we have completed);⁷ and this review, which covers all areas outside Sydney (see Table 2.1). As part of this review, we have sought to more closely examine data for taxi services in areas outside Sydney, including data about the costs of operating taxi services, the demand for taxi and alternative point-to-point transport services and the responsiveness of supply to changes in demand for these services.

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

- ▼ participants in the industry
- ▼ current taxi fares and how they have changed over time, and
- ▼ current taxi licensing arrangements, licence values and operating areas.

⁵ Under Section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*.

⁶ *Passenger Transport Act 1990*, s 60A (prior to 12 December 2014); *Passenger Transport Act 2014* (from 12 December 2014), s 125 (1).

⁷ Our final recommendations for maximum taxi fares and the number of new annual taxi licences in Sydney are set out in a separate report, which is available on our website (www.ipart.nsw.gov.au).

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

Table 2.1 Operating areas covered by this review

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

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

2.1 Participants in the industry

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

While this figure shows each of the industry participants in separate boxes, in areas outside Sydney the taxi industry is typically more vertically integrated than it is in Sydney. For example, many taxi networks are cooperatives owned by taxi operators. There are also more operators who own their own licence rather than lease it from someone else. Only around 30% of licences are leased in country areas, compared to almost 80% in Sydney.⁸

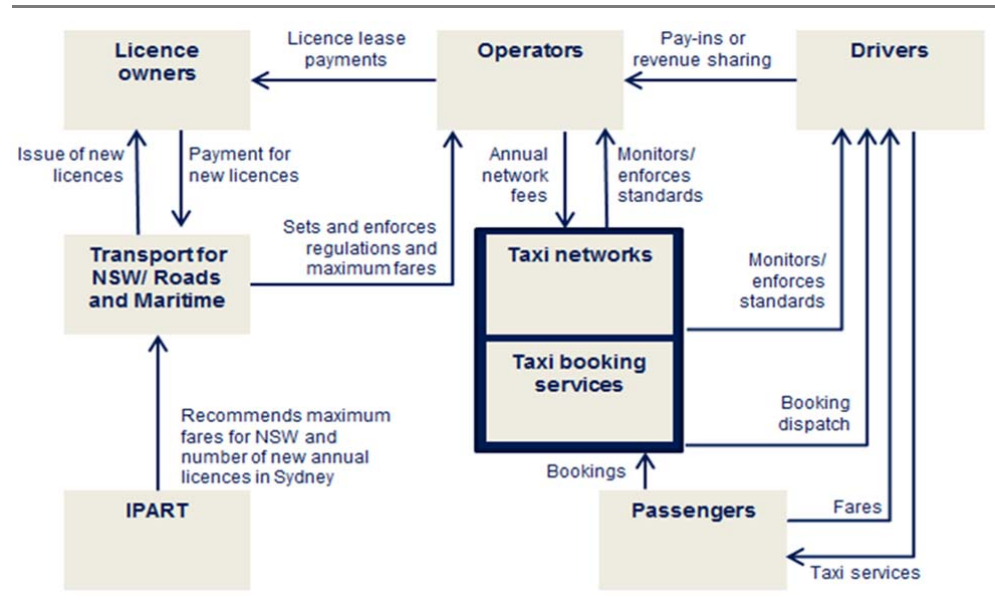
Taxi operators are responsible for the day-to-day management of one or more taxis. They must be accredited by Roads and Maritime Services and hold a taxi licence for each vehicle they operate. Operators also have to organise drivers and insure and maintain their vehicles.

⁸ Roads and Maritime Services data from Transport for NSW.

Unless exempted by Roads and Maritime Services, operators must be affiliated with an authorised taxi network, and are required to fit out their vehicles with their network's livery and install the network's communications equipment. In country areas, Roads and Maritime Services has exempted some operators from network affiliation because the area and fleet of taxis is too small to justify having a network.⁹ About 18% of licences held by country operators are not attached to a network.¹⁰

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

Figure 2.1 Overview of the taxi industry in NSW



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

Source: IPART.

2.2 Current taxi fares and how they have changed over time

Table 2.2 shows the current maximum taxi fares in NSW. Most of the components of the country fare schedule are higher than the urban schedule, (eg, the hiring charge in the country is 50 cents higher and the base distance rate is seven cents per km higher). However, the average fare paid is lower.¹¹

⁹ Information from Transport for NSW.

¹⁰ Roads and Maritime Services data from Transport for NSW.

¹¹ The CIE, *2014 survey of taxi drivers and operators - Survey results for areas outside Sydney, Final Report* p 21. Taverner Research, *Survey of Taxi Use*, December 2014, p 70.

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

In April 2015, Transport for NSW announced that maximum taxi fares in Sydney will remain unchanged in 2015-16.¹² This is consistent with IPART's recommendation for fares in Sydney over this period.¹³

Table 2.2 Maximum taxi fares from 1 July 2014

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

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

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

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

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

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

¹² Transport for NSW, *Transport for NSW announces freeze on taxi fares and new licences*, Media Release, 24 April 2015.

¹³ IPART, *Sydney taxi fares to apply and new licences to be released from July 2015 - Final Report and Recommendations*, February 2015, pp 5, 23.

2.2.1 Fare recommendations and changes in 2013 and 2014

In 2013 and 2014, IPART recommended that fares decrease in real terms to move fares closer to efficient levels:

- ▼ In country areas, we recommended freezing fares in nominal terms.¹⁴ In 2013, the Government accepted our recommendation,¹⁵ but in 2014 Transport for NSW decided to increase fares by the Consumer Price Index (CPI).¹⁶
- ▼ In urban areas, we recommended a 1% reduction in nominal fares in 2013, and freezing nominal fares in 2014.¹⁷ In 2013, Transport for NSW decided to freeze all existing fare components, but introduced a peak hiring charge on Friday and Saturday night.¹⁸ We estimated that the result was a 1.4% average increase in fares. In 2014, Transport for NSW increased urban fare components by the CPI (except for the \$2.50 peak surcharge that applies on Friday and Saturday nights).¹⁹

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

Table 2.3 Fare changes 2013 and 2014 (nominal)

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

^a Transport for NSW froze most components of urban fares, but introduced a peak hiring surcharge on Friday and Saturday nights, with the net result of a 1.4% increase in urban fares.

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

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

¹⁴ IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, p 2; IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, p 2.

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

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

¹⁷ IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, p 1; IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 1.

¹⁸ Transport for NSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

¹⁹ Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014.

2.2.2 Fare recommendations prior to 2013

Between 2001 and 2012, we recommended changes to maximum taxi fares in line with the estimated average change in the financial costs of providing taxi services over the previous 12 months, as measured by our Taxi Cost Indices (TCIs). Every four or five years we undertook a major review of the cost items and the weightings in the TCIs.

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

- ▼ If the initial fare was above the efficient costs of supply, then inflating it by the Taxi Cost Index allows the inefficiencies to persist.
- ▼ As the index includes licence costs, which are an economic rent derived from scarcity rather than an efficient cost of providing taxi services, the Taxi Cost Index over-inflates the fare by providing a feedback loop between fares and the licence prices.²⁰

Further, for areas outside Sydney, some of the industry-specific costs this index attempts to capture are:

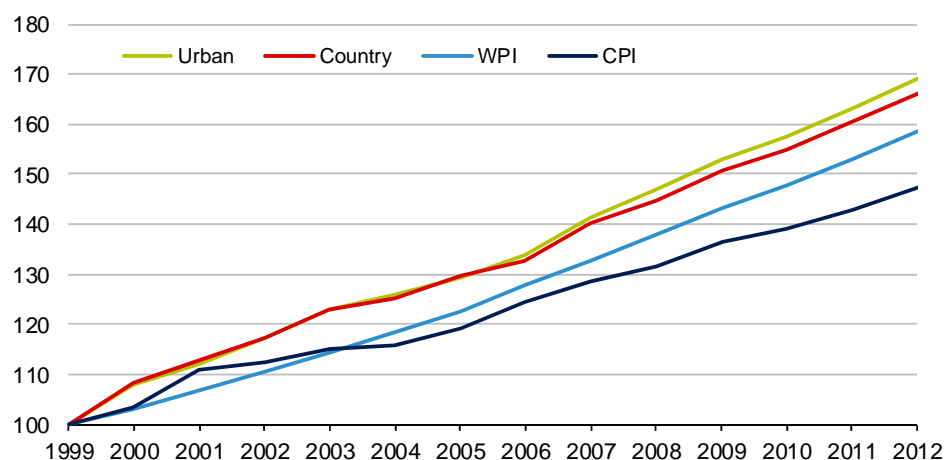
- ▼ hard to measure (eg, driver and operator labour costs)
- ▼ highly variable between businesses and across the state, and
- ▼ dependent on patterns of operation (eg, how many shifts a taxi is on the road) about which we have little data.

Given these problems, we consider that continuing to use the TCI to recommend fares would not address the requirement in our terms of reference to consider the need for greater efficiency when considering costs.²¹

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

²⁰ When we set fares in 2012, we removed this circularity by setting the annual licence cost inflator to zero. However, we did not seek to remove the additional costs already included in fares through applying this approach in the past.

²¹ Our terms of reference require us to consider 'the cost of providing the services concerned and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers' (see Appendix A).

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

Source: IPART fare review reports and ABS data.

2.3 Current taxi licensing arrangements, licence values and operating areas

In NSW a taxi operator must hold a licence (either by owning or leasing it) in order to conduct a taxi business.²² Each taxi licence lists the conditions that apply to the operation of the taxi service, including the licensed 'area of operation'.

Outside Sydney, operators can obtain a licence by:

- ▼ buying an existing ordinary or perpetual licence from a licence owner
- ▼ leasing an existing ordinary or perpetual licence from a licence owner
- ▼ buying a new ordinary or short-term licence from Roads and Maritime Services at 'market rates',²³ or
- ▼ obtaining a new WAT licence from Roads and Maritime Services for an annual fee of \$1,000 in Wollongong and Newcastle, or for no fee in other areas.²⁴

²² *Passenger Transport Act 1990*, s 30.

²³ Information from Transport for NSW, 27 August 2014.

²⁴ Transport for NSW, *Wheelchair accessible taxi (WAT) licence information*, <http://www.transport.nsw.gov.au/content/taxi-licences>, accessed 28 July 2014. WAT licence holders must reapply every 12 months for the licence.

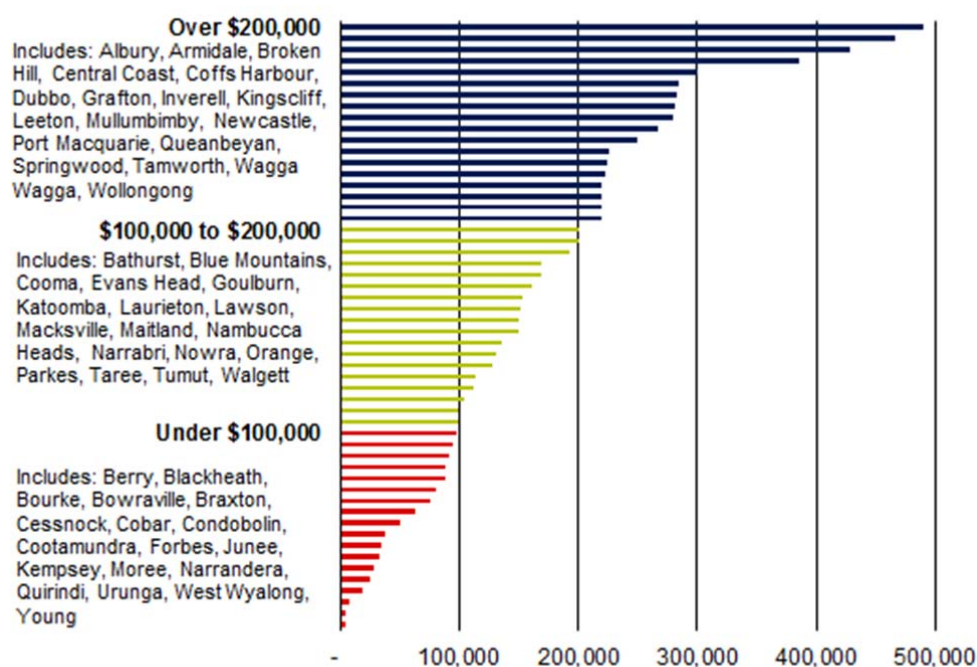
These are similar to the arrangements that used to apply in Sydney. However, in 2009, the licensing arrangements in Sydney were reformed and Roads and Maritime Services no longer issues perpetual, ordinary or short-term licences. Instead, each year Transport for NSW must determine the number of new annual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

2.3.1 Licence values

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

Licence costs are not 'efficient costs' because they reflect 'economic rent'. Section 3.2 discusses this issue in more detail.

Figure 2.3 Average licence transfer values in various NSW locations (April 2011 to April 2015)



Note: The towns listed for each group are in alphabetical order, which does not correspond with series order. The values shown in this chart may not be the market values determined by Transport for NSW.

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

2.3.2 Operating areas

There are over 160 taxi operating areas outside Sydney.²⁵ These areas correspond with transport districts, local government areas (LGAs) or town boundaries (as defined by the Geographical Names Board) that were in place when the licence was issued. This has resulted in overlapping areas and areas that are contained within another area. For example, some licences entitle the holder to operate in an area that is based on an LGA boundary but excludes specific towns or areas within that LGA, while at the same time other licences in that area entitle the holders to operate within the whole LGA.

2.4 Our terms of reference for this review

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

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

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

2.5 Areas are covered by this review

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

Our final recommendations for maximum taxi fares and the number of new annual taxi licences in Sydney are set out in a separate report, which is available on our website (www.ipart.nsw.gov.au).

²⁵ Roads and Maritime Services data from Transport for NSW.

2.6 Our analytical approach

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

1. **Analysing the costs and revenues of providing taxi services outside Sydney**, using the results of the CIE's driver and operator survey, as well as data on licence transfer values provided by Transport for NSW.
2. **Investigating demand for taxi and other point-to-point transport services outside Sydney**. We assessed the likely changes in this demand by reviewing the external drivers, such as population growth and economic activity, as well as considering feedback received via submissions and public hearings.
3. **Investigating the supply of taxi services and competition in the taxi industry outside Sydney**. We considered whether the change in supply matched the change in demand for **point-to-point transport services**, by reviewing changes in licence numbers and licence values, and examining whether any barriers to entering the taxi market are inhibiting competition.
4. **Investigating alternative forms of point-to-point transport services outside Sydney**, the extent to which they provide competition with the taxi industry, and whether there are any barriers to entering the market for these services.
5. **Considering the structure of taxi fares outside Sydney**, including whether it is efficient, and whether it acts as an impediment to the demand for or supply of taxi services.
6. **Considering the other matters required by our terms of reference**, including the need to maintain ecologically sustainable development; the effect of our pricing recommendations on Government funding; and the standards of quality, reliability and safety of taxi services.
7. **Making our recommendations on maximum fares outside Sydney and other matters**, based on the findings of steps 1 to 6. As part of this step, we also considered and made a recommendation on whether we should continue to conduct ongoing reviews of LPG prices outside the annual review process, based largely on the findings of step 1.

3 Cost of supplying taxi services

In recommending taxi fares IPART must consider the costs of providing taxi services and if possible, encourage greater efficiency in the supply of these services to benefit customers. We must also aim to protect customers from abuses of monopoly power, including higher than efficient prices and lower than acceptable service standards.

In our view, the most effective way to protect customers from such abuses is through competition in and with the taxi market (ie, competition in the market for point-to-point transport services). In competitive markets, businesses cannot set prices above the efficient costs of supply without losing customers to their competitors. Therefore, to assess whether competition in and/or with the taxi market is effective we investigated whether the price of taxi services (ie, fares) is above the efficient costs of supplying taxi services.

This firstly involved identifying the costs incurred in providing taxi services and distinguishing between financial costs, efficient costs and economic rent. We then commissioned the CIE to survey taxi drivers and operators across NSW about their costs, revenues and taxi operating patterns. We asked the CIE to analyse the survey data, as well as taxi licence transfer (sale) data provided by Transport for NSW.

We had planned to use the survey data directly in recommending fares (as we did in our review of taxi fares in Sydney), and also to assess differences in cost structures between taxi operating areas. Unfortunately, the survey response rate and data quality were not sufficient to allow this. However, the CIE's analysis of *average* taxi costs and revenues across the Sydney, other urban and country areas provided insight into the level of economic rent and inefficient costs recovered through fare revenue.

In response to stakeholders' feedback on our Draft Report, we also looked more closely at network fees and the cost of regulatory compliance.

Finally, we assessed the changes in costs in areas outside Sydney relative to changes in fares and the economic rent component of fares.

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

3.1 Summary of findings on costs

We consider that taxi fares in areas outside Sydney should be aligned with the efficient costs of providing taxi services in these areas.

Our cost analysis for this review indicates that fares are currently higher than the efficient costs. In particular, current fares recoup the cost of a taxi licence which is an economic rent, not an efficient cost. We found that there may also be economic rent and/or inefficient costs in network fees.

We also found that several cost components, including licence costs, are much more variable across country areas than they are in Sydney and other urban areas. However, on average, licence costs account for a significant share of the total costs/revenue per taxi outside Sydney (around 10% in other urban areas, and around 12% in country areas).²⁶ On average, network fees account for a further 6% to 7% of the total costs/revenue per taxi in areas outside Sydney. These results indicate there is considerable scope to reduce fares to better reflect efficient costs.

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

The presence of economic rent in fares also indicates that competition in the market for point-to-point transport services is not effective in all areas outside NSW. If it was effective new operators would enter the market and put downward pressure on the cost of taxi licences and potentially network fees. Ineffective competition means that we cannot be confident that taxi operators would not be able to exercise monopoly power if they were to set their own fares. Therefore, we found that there is limited scope for a more light-handed approach to regulating fares at this stage.

The above findings are the same as in our Draft Report, with the exception of the finding on network fees, which is a new finding.

Additionally we made a new finding on the cost of regulatory compliance in this Final Report. We found that regulatory compliance adds to the cost of providing taxi services and reform of regulatory requirements could reduce costs and enhance efficiencies in the provision of taxi services, without compromising safety or quality of services. Reducing these costs can lead to lower fares and help create a level playing field for different types of point-to-point transport.

²⁶ In some areas, licence costs may account for a much higher proportion of total costs/revenue.

3.2 Efficient costs and economic rent

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

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

However, taxi licence costs are different. While these costs are financial costs incurred by taxi operators (when they purchase or lease a taxi licence), they are not ‘efficient costs’ because they reflect ‘economic rent’. There may also be some economic rent and/or inefficient costs in network fees because there are barriers to the entry of new taxi networks.

Box 3.1 Definition of key terms

Economic rent

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

Efficient costs

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

Financial costs

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

3.2.1 Licence costs are an economic rent

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

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

Some stakeholders do not agree that licence costs are economic rent. For example, the Taxi Council likens licence lease costs to shop rent.²⁷ We address the shop rent analogy in Box 3.2.

IPART finding

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

²⁷ Newcastle Public Roundtable Transcript, pp 5-6; Port Macquarie Public Roundtable Transcript, pp 6-7; Wagga Wagga Public Roundtable Transcript, pp 6-7.

Box 3.2 Why taxi licence lease costs are not like shop rent

Some stakeholders, including the Taxi Council, have argued that the cost of a taxi licence is a legitimate cost of doing business for a taxi, in the same way that paying rent for a shop premises is a legitimate cost of doing business for a retail shop.

The shop analogy is useful, but the comparison of shop rent with licence lease cost (an 'economic rent') is incorrect.

To set up, for example, a food and beverage business requires procuring and fitting out premises, just as starting a taxi business requires procuring and fitting out a vehicle. Shop rent reflects the cost of obtaining land and the costs of the building on the land. Land has a higher value where it is scarce. However, there is no scarcity of vehicles, so leasing or buying a car to operate it as a taxi just reflects the cost of manufacturing the car.

A taxi licence is merely a permission to conduct a taxi business, and is therefore analogous to any permits required to conduct a retail business in a shop. A food and beverage business usually requires development approval (DA) from the local government authority, which costs a few hundred dollars and is issued to any business which can fulfil the requirements of a DA. While food and beverage businesses are also subject to a range of regulations to protect customer and staff safety and well-being, a food and beverage business is only required to notify the NSW Food Authority (at no cost) that it has commenced operations, and not hold a licence.

The supply of taxi licences outside Sydney, on the other hand, is restricted, not by legislation, but by other barriers to entry such as the high price of licences. This artificial scarcity drives up the cost of a licence, as there is more demand for the licences than there is sufficient supply. The equivalent for a shop would be having to bid for one of a limited number of DAs. This is why we refer to the cost of a taxi licence as 'economic rent', as it has no productive value and only exists due to the artificial scarcity of licences.

3.2.2 Economic rent or inefficient costs in network fees

All taxi operators in NSW must be affiliated with an authorised network and are required to fit out their vehicle(s) with that network's livery and install the network's communications equipment.²⁸ Taxi networks must provide a radio booking service, as well as security monitoring services for drivers and taxi passengers.

In some cases, networks also provide additional services to operators and drivers, such as training, leasing or sub-leasing taxi licences, insurance broking, and repairs and maintenance. The NSW Taxi Council and NSW Country Taxi Operators Association (CTOA) noted that some networks offer additional services that are separate to the costs of operating and driving a taxi in NSW but

²⁸ Roads and Maritime Services data from Transport for NSW indicate that there are 172 taxis that are not affiliated with a network as at 1 April 2015.

argued that the costs for these services are not relevant to this fare review.²⁹ We consider that they are relevant because they can unnecessarily add to the cost of network fees.

Although there are no statutory limits on the number of taxi networks that can be established in NSW, in most areas outside Sydney there is only one network, and we consider it likely that non-statutory barriers to entry exist.

For example, incumbent taxi networks experience economies of scale and density, due to the nature of network services, which connect passengers and taxis to each other. As more taxis join, the network's coverage improves, so would-be passengers are more likely to make a booking with that network, and in turn operators will find the network more valuable as a source of bookings. These network effects make it more difficult for any new entrant networks to compete.

The extent of the current regulatory requirements for network authorisation, as reflected in the conditions of network authorisation in the *Passenger Transport Regulation 2007* and the associated network services standards,³⁰ also create a barrier to entry. Networks must provide a booking service, and must comply with an extensive list of conditions of authorisation including obtaining approval from Roads and Maritime Services for livery and uniforms, as well as prescriptive requirements for security arrangements including cameras and communications equipment. The burden of compliance with these conditions, which may be overly prescriptive and potentially outdated, adds to the cost of establishing a new network, leaving an incumbent with no competition.

In the absence of competition, networks may charge fees that exceed the efficient cost of providing network services. There is also little incentive for them to operate efficiently.

We received a submission that agreed “with the finding that Networks have a monopoly and like all monopolies are inefficient through the lack of opposition” and agreed “that more Networks are required”.³¹ Two stakeholders from the Newcastle area also mentioned high network fees and the absence of competing networks.³²

²⁹ NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 12.

³⁰ *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 and *Interim standards for authorised taxi-cab networks for networks in country areas*, February 1993.

³¹ Anonymous submission to Draft Report, 14 May 2015, unnumbered page.

³² Mr Ferguson, Newcastle Public Roundtable Transcript, p 18; J Madden submission to Draft Report, p 1.

We note that, on its commencement, Part 5 of the *Passenger Transport Act 2014* will introduce regulatory changes to network services by separating the functions of taxi networks and booking services in NSW.³³ This provides for the regulation of independent taxi booking apps which have entered the market in recent years in response to the emergence of new types of technology. The separation of functions may also enhance competition in the market for network services and consequently reduce the economic rent or inefficient costs in network fees.

IPART finding

- 2 There are barriers to the entry of new taxi networks which arise due to the burden of regulation and network effects. These barriers to entry result in network fees that contain economic rent and/or inefficient costs.

3.3 Cost of regulatory compliance

A number of stakeholders at the public roundtables and in submissions raised the cost of regulatory compliance.³⁴ Some of them mentioned it in the context of regulatory requirements that applied to taxis but not competitors such as hire cars or courtesy transport.³⁵

The *Passenger Transport Regulation 2007* requires operators to meet specifications for seating, vehicle age, vehicle condition, taxi-meters, safety equipment, air conditioning, display of information, child restraint bolts, signs, lights, livery, decals, registration details, notices and authority card holders.³⁶ The Regulation also requires operators to maintain particular insurances and undertake administrative activities.³⁷

Many of these requirements are appropriately intended to ensure driver and passenger safety. However, they do impose costs on operators that are passed on to passengers by way of higher fares.

³³ While the *Passenger Transport Act 2014* received assent in September 2014, not all parts have commenced.

³⁴ For example: Mr Saunders, Port Macquarie Public Roundtable Transcript, pp 18-19; Mr Clark-Smith, Port Macquarie Public Roundtable Transcript, p 34.

³⁵ For example: Anonymous submission to Draft Report, 14 May 2015, unnumbered page; Mr Haverfield, Port Macquarie Public Roundtable Transcript, p 23.

³⁶ *Passenger Transport Regulation 2007*, clauses 109-116, 118, 120-123, 125, 126, 129.

³⁷ *Passenger Transport Regulation 2007*, clauses 107, 130-131.

Most requirements apply state-wide, although there are several exceptions:

- ▼ the maximum age of taxis (other than WATs) in the Metropolitan transport district is six years, compared to eight years in other areas³⁸
- ▼ vehicle inspections are required every four months in the Metropolitan, Newcastle and Wollongong transport districts, every 12 months in the Western Division, and every six months elsewhere³⁹
- ▼ operators in the Metropolitan, Newcastle or Wollongong transport district or within the City of Gosford or the Wyong local government area must ensure that their taxis are fitted with vehicle tracking devices whereas operators in other areas are not required to fit these devices.⁴⁰

Other things being equal, being able to operate older vehicles would make providing taxi services cheaper outside Sydney. Similarly, less frequent vehicle inspections and no requirement for vehicle tracking devices would make it cheaper to providing taxi services outside Urban Areas.

Nevertheless, we consider that there could be cost savings from the reform of regulatory requirements that apply across the taxi industry. This may include removing some obligations, making regulations less prescriptive, and/or further differentiating between the requirements for different areas.

Reform of the regulatory requirements for taxis could also help the taxi industry modernise. For example, some current requirements prescribe specific technologies for safety. New technologies, such as GPS tracking, may be able to achieve the same regulatory outcomes at lower costs.

We do not consider that services to passengers would be enhanced by applying additional regulation to alternatives to taxis where it is not warranted by passenger or provider safety or consumer protection requirements.

Revised regulations for taxi services will be made under the *Passenger Transport Act 2014*. The drafting of the revised regulations provides an opportunity to reduce the cost of regulatory compliance for taxi services.

IPART finding

- 3 Regulatory compliance adds to the cost of providing taxi services and reform of regulatory requirements could reduce costs and enhance efficiencies in the provision of taxi services, without compromising safety or quality of services, which could underpin lower fares.

³⁸ *Passenger Transport Regulation 2007*, clause 110.

³⁹ *Passenger Transport Regulation 2007*, clause 119.

⁴⁰ *Passenger Transport Regulation 2007*, clause 113.

3.4 Driver and operator survey results

To inform our reviews of maximum taxi fares for both Sydney and areas outside Sydney, we commissioned the CIE to conduct a driver and operator survey. The CIE sent a survey questionnaire to all authorised taxi drivers and accredited taxi operators in NSW, to obtain information about their costs, their usage patterns (eg, which shifts they drove or operated a taxi, the number of paid trips they had per shift), and their revenue. It analysed the results and prepared a Draft Report and Final Report on its findings, which are available on IPART's website.⁴¹

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

These average cost models indicate that while typically lower than in Sydney, licence costs in many areas outside Sydney are a significant component of the costs of providing taxi services. On average, they represent around 10% of the total costs/revenues per standard taxi in other urban areas, and around 12% in country areas. The cost models also show that on average, network fees account for a further 6% to 7% of the total costs/revenue per taxi.

Given our findings that licence costs are largely economic rent and that network costs may also include economic rent and/or inefficient costs, there appears to be considerable scope to reduce fares in many areas outside Sydney to better reflect efficient costs.

⁴¹ The CIE, *2014 survey of taxi drivers and operators – Survey results for areas outside Sydney*, Draft Report, March 2015 and Final Report, May 2015.

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

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

^a In most instances driver earnings are shared amongst multiple drivers.

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

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

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

- ▼ Average total revenue per taxi is higher outside Sydney than in Sydney, particularly in other urban areas.
- ▼ Average driver and operator earnings are higher in other urban and country areas than in Sydney.
- ▼ Insurance costs are highest in Sydney and are also higher in other urban areas than in country areas. In particular, a higher compulsory third party (CTP) insurance rate applies in Sydney, Newcastle and Wollongong, while a lower country rate (approximately half that of the city areas) applies in all other areas. As 'other urban' covers some city-rated vehicles (in Newcastle and Wollongong) and some country-rated vehicles (in other urban areas, such as the Blue Mountains), the survey estimate for insurance costs in 'other urban' areas falls between the city and country rates.
- ▼ Network fees vary significantly across country areas and are, on average, higher than they are in Sydney and other urban areas. This is consistent with the findings of the CIE's previous survey of taxi drivers and operators.⁴² Most networks in country areas are small and are often structured as cooperatives, which appears to influence both their opportunities for economies of scale and their accounting and charging practices. This means that network fees can be quite variable from year to year, as well as between taxi networks in any given year.

⁴² The CIE, *Reweightings of the taxi cost index*, April 2012, p 47.

- ▼ Several other cost/revenue components including licence costs, and total revenue are much more variable across country areas than they are in Sydney or other urban areas.⁴³

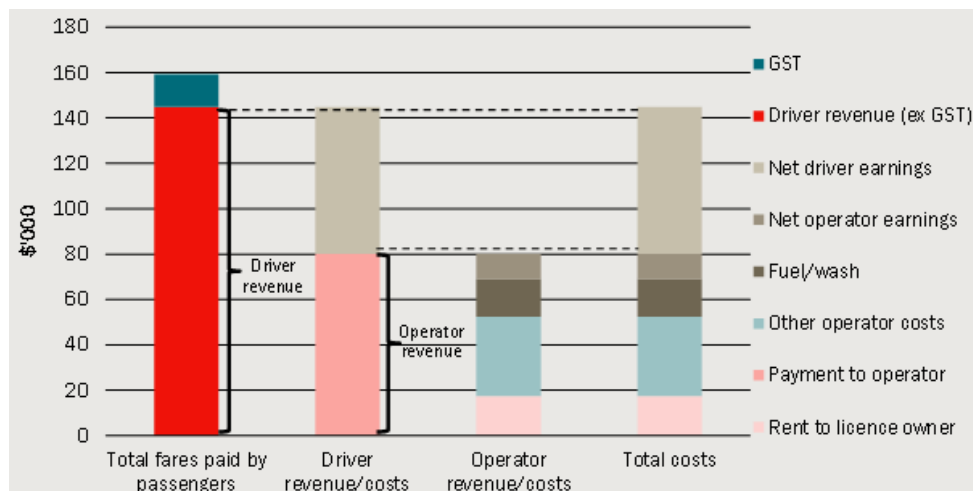
IPART findings

- On average, licence costs are a significant cost of providing taxi services outside Sydney – accounting for around 10% of the total costs/revenues per standard taxi in other urban areas, and around 12% in country areas. Network fees account for a further 6% to 7% of total costs.
- The costs of providing taxi services, including licence costs, are more variable across country areas than they are in Sydney or other urban areas.

3.4.1 Distribution of fare revenue

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

Figure 3.1 Distribution of fare revenue — Standard taxi outside Sydney



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

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

⁴³ The CIE, *2014 survey of taxi drivers and operators – Survey results for areas outside Sydney*, Final Report, May 2015, p 14.

As the survey results indicate that the distribution of costs and revenue vary between areas, the CIE undertook econometric analysis to better quantify the relationship between cost and revenue variables and the licence price (using the transfer values reported to Transport for NSW). It found that each \$100,000 increase in licence transfer value was associated with around \$23 (excluding GST) extra revenue per shift. Most of this extra revenue (\$16) is ultimately received by the licence owner.⁴⁴ However, unlike in Sydney, some is retained by the driver (around \$6 per shift).⁴⁵

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

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

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

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

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

^a In most instances driver earnings are shared amongst multiple drivers.

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

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

⁴⁴ The CIE, 2014 survey of taxi drivers and operators - Survey results for areas outside Sydney, Final Report, May 2015, p 43.

⁴⁵ The CIE, 2014 survey of taxi drivers and operators - Survey results for areas outside Sydney, Final Report, May 2015, p 43.

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

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

The difficulty in distinguishing between driver, operator and licence owner earnings is another reason why we have not used the CIE data directly to analyse and recommend maximum fare levels.

3.5 Changes in costs

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

On the limited data available when preparing our Draft Report we concluded that any overall increase in the costs of providing taxi services outside Sydney in 2014-15 is likely to be small. We noted that over the past year, some of the costs of providing taxi services outside Sydney may have increased, while others may have decreased or remained the same.

In response to our Draft Report and recommendations a number of stakeholders pointed to significant cost increases in recent years, particularly increases in the cost of insurance premiums and fuel.⁴⁶

⁴⁶ Mr Grace, Newcastle Public Roundtable Transcript, p 12; NSW Taxi Council, Port Macquarie Public Roundtable Transcript, p 13; K Cole submission to Draft Report unnumbered page; Mr Clark-Smith, Port Macquarie Public Roundtable Transcript, p 32; Mr Weidner, Wagga Wagga Public Roundtable Transcript, p 19; J Madden submission to Draft Report p 1; Mr Bernard, Newcastle Public Roundtable Transcript, p 10.

The NSW Taxi Council commissioned a consultant to investigate changes in costs. To measure changes in the cost of insurance during 2014, the consultant used the CPI Insurance subgroup.⁴⁷

IPART previously used the CPI Insurance subgroup as the inflator for insurance costs in the TCI. By this measure, the consultant estimates that insurance costs in Sydney increased by 5.4% during 2014.⁴⁸ However, when we last used the TCI in 2013, we raised concerns about the appropriateness of CPI Insurance subgroup for measuring changes in the cost of taxi insurance. We observed that because the CPI Insurance subgroup is a weighted average of the changes in vehicle insurance and households' house and contents insurance, any changes to the price of home insurance, for example from natural disasters, will affect this index, but not actually reflect the insurance costs for taxi operators.⁴⁹ We instead considered using the CPI All Groups but concluded at that time that that CPI All Groups is likely to under-estimate changes to taxi insurance costs by more than CPI Insurance over-estimates the changes.

We consider that the CIE's driver and operator survey results for Sydney provide a more robust measure of changes in the cost of insurance for the taxi industry than either the CPI All Groups or CPI Insurance. This survey found that insurance costs for taxis in Sydney increased at an average of around 2.3% a year between 2011 and 2014.⁵⁰ As noted in our Draft Report, we consider it is likely that insurance costs in areas outside Sydney increased by a similar annual rate over this period.

We have also looked at recent changes in fuel costs by examining FUELtrac data. The data show that average LPG prices in areas of NSW outside Sydney were 1.5% higher in the 12 months to April 2015 than the previous 12 months.⁵¹

While research commissioned by the Taxi Council found that total industry costs increased in excess of 3.5% in 2014,⁵² our review of two significant cost components – insurance and fuel – indicates that the 3.5% increase may be overstated. However, even if efficient industry costs have risen by 3.5%, we consider that the economic rent embedded in fares in most areas is sufficient to cover these cost increases.

⁴⁷ NSW Taxi Council and CTOA submission to Draft Report - Attachment B, 22 May 2015, p 4.

⁴⁸ NSW Taxi Council and CTOA submission to Draft Report - Attachment B, 22 May 2015, p 7.

⁴⁹ IPART, *2013 Review of taxi fares in NSW - Final Report and Recommendations*, June 2013, pp 24-25.

⁵⁰ The CIE, *2014 survey of taxi drivers and operators - Survey results for the Sydney metropolitan transport district*, Final Report, February 2015, p 2.

⁵¹ FUELtrac data, purchased by IPART.

⁵² NSW Taxi Council and CTOA submission to Draft Report, p 15.

We do not have licence transfer data for every operating area and there is a chance that in some areas taxi service provision is at or close to the margin of profitability and fares may include little or no economic rent. In these areas there is little scope for operators to fully absorb cost increases without an increase in utilisation or an increase in fare levels. An increase in fares is not the solution for taxis operating in these areas where a combination of 'one style fits all regulation', high fixed costs and low demand make taxi services not viable. Further, increases in fares would have a deleterious and unfair impact on the rest of the industry.

All taxi businesses would benefit through lowering the cost of regulatory compliance as discussed in section 3.3.

IPART finding

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

3.6 Fare regulation in a market with economic rent

The presence of economic rent in fares indicates that competition in the market for point-to-point services is not effective in all areas outside NSW. If it was effective, new operators would enter the market and put downward pressure on the cost of licences and potentially network fees.

As we explained in our Issues Paper and Draft Report, unless we are confident that taxi operators would not be able to exercise monopoly power if they were to set their own fares, we consider that Transport for NSW should continue to set maximum taxi fares.

In later chapters we consider why competition is not effective and make recommendations to improve competition in areas outside Sydney to facilitate a more light-handed approach to regulating fares in the future.

Box 3.3 discusses some examples of a more light-handed approach to regulating fares.

As noted earlier in this chapter, the costs of operating taxi services vary significantly across areas outside Sydney. A more light-handed form of regulation than setting maximum fares provides operators with the opportunity to set fares that more closely reflect the costs incurred in their specific circumstances. It also reduces the regulatory burden of collecting and analysing cost data.

However, if competition is not effective, a posted price regime or other alternative to setting maximum fares may expose passengers to significant overcharging. While some people see taxis as discretionary, there are others who rely on taxi transport (for example, people with limited mobility). There is also likely to be limited public transport in rural and regional areas that can provide an alternative to taxis.

Box 3.3 Light-handed approaches to regulating fares

Where effective competition in the market for point-to-point transport services exists, it may be appropriate to move to a more light-handed form of regulation than setting maximum fares.

One example of such regulation applies in Victoria, where taxi operators in regional and country zones can set their own fares but are required to notify the Essential Services Commission of fare changes, and display their prices on the outside of the taxi.^a This is known as a posted price regime.

Another example of light-handed regulation would be to set an average maximum increase in fares and allow taxi businesses to structure their fares within this cap.

^a Taxi Services Commission, *Price notification*, <http://www.taxi.vic.gov.au/taxi-reform/reforms-implemented/price-notification>, accessed 1 October 2014.

IPART finding

- 7 The presence of economic rent in fares indicates that there is insufficient competition in the point-to-point transport market across the state to move to a more light-handed approach to regulating fares at this stage.

3.7 Pre-paid fares

A number of stakeholders at our roundtable in Port Macquarie explained that non-payment of fares is a problem in the mid-north coast region that contributes to the cost of providing taxi services.⁵³ The Taxi Council also support the introduction of pre-paid fares in rural and regional NSW to give drivers greater confidence when taking trips over longer distances.⁵⁴

⁵³ Mr Saunders, Port Macquarie Public Roundtable Transcript, pp 14-15; Mr Clark-Smith, Port Macquarie Public Roundtable Transcript, p 33.

⁵⁴ NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 22.

The Government has introduced pre-paid taxi fares at nine taxi ranks in the Sydney CBD Entertainment Precinct. Drivers at these ranks may request that passengers pre-pay their taxi fares for journeys between 9pm and 6am on Friday and Saturday nights and other nights publicised from time to time, such as Christmas or New Year. Drivers of taxis connected to the Central Coast Taxis network can request the prepayment of taxi fares at any time.⁵⁵

The Transport for NSW representative at the roundtable sought IPART's advice on the merits of extending pre-paid fares more widely.

We support the Government extending pre-paid taxi fares to other areas where non-payment of fares is a problem, including country areas.

⁵⁵ Transport for NSW, *Pre-paid taxi fares*, <http://www.transport.nsw.gov.au/content/prepaid-taxi-fares>, accessed 7 May 2015.

4 Demand for point-to-point transport services

In the previous chapter we found that current taxi fares contain economic rent (and/or inefficient costs). This indicates that competition in and/or with the taxi market is not effective. If it was effective new operators would enter the market and put downward pressure on the cost of licences.

The market for taxi services is part of a broader market for point-to-point transport that also includes other services such as hire cars, community transport and courtesy transport. To varying degrees – depending on things such as eligibility for a service – passengers can choose between different modes to meet their point-to-point transport requirements. Therefore, to understand what is happening to demand and supply for taxi services, we must first understand what is happening to demand and supply in the broader market for point-to-point transport services.

In this chapter we consider changes in demand due to factors external to the point-to-point transport market, such as change in population, economic activity and tourism activity. We also consider whether the changes in demand for taxi services are different from the changes in demand for point-to-point transport more broadly.

This chapter also discusses the way in which demand for taxis varies during the week, and also considers latent demand for taxi services; that is, the additional trips that would be taken if fares were cheaper or waiting times shorter.

In the following two chapters we consider the supply of point-to-point transport services.

4.1 Summary of findings on demand for point-to-point transport

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

We found that, on average, demand for taxis is likely to be growing more slowly than demand for point-to-point services more generally due to the impact of competition from non-taxi transport services.

We observed that demand for taxis is highest at particular times of the week and also that demand for taxis is responsive to price and service signals, although we do not have sufficient data to quantify these relationships.

The sections below discuss our findings on demand and our analysis in detail.

4.2 External factors driving the demand for point-to-point transport

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

4.2.1 Population growth

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

- ▼ 1.2% a year in Newcastle-Maitland
- ▼ 1.0% a year in Wollongong, and
- ▼ 1.0% a year in the 'rest of NSW'.⁵⁶

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

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

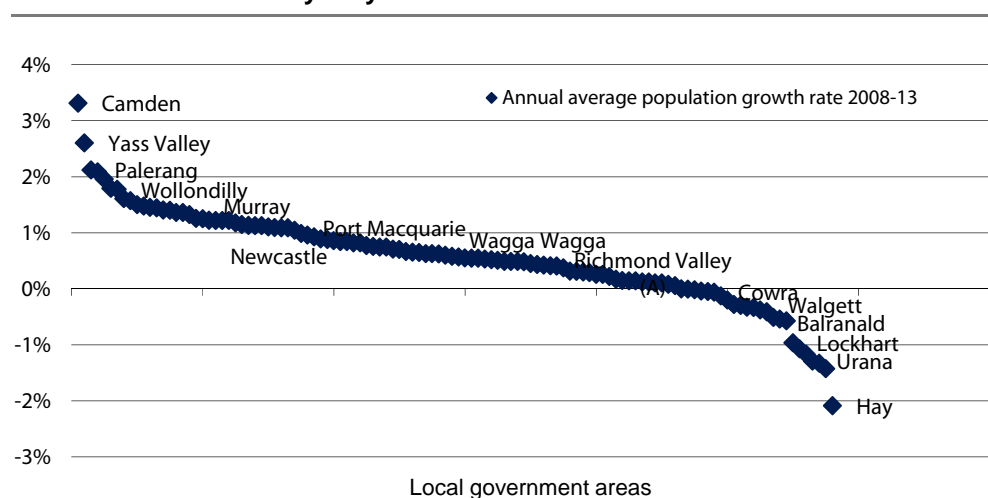
- ▼ 1.1% a year in Lower Hunter and Central Coast
- ▼ 0.9% a year in the Illawarra, and
- ▼ 0.6% a year in regional NSW.⁵⁷

⁵⁶ IPART calculation based on ABS 3218.0, *Regional population growth, Australia*.

⁵⁷ NSW Department of Planning and Environment, *2014 NSW population projections data*, regional summary page, <http://www.planning.nsw.gov.au/en-us/deliveringhomes/populationandhouseholdprojections/data.aspx>, accessed 10 December 2014.

To look more closely at population growth in areas outside Sydney, we estimated the annual average change in the population in each local government area (LGA) over the five years from 2008 to 2013. We found there was wide variation across LGAs – ranging from population growth of more than 3% per year to population *decline* of more than 2% per year (Figure 4.1). For example, the population in the Hay shire fell by an average of 2% per year, while the population in the Camden, Yass Valley, Palerang and Maitland LGAs grew by an average of over 2% per year.

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



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

4.2.2 Economic activity

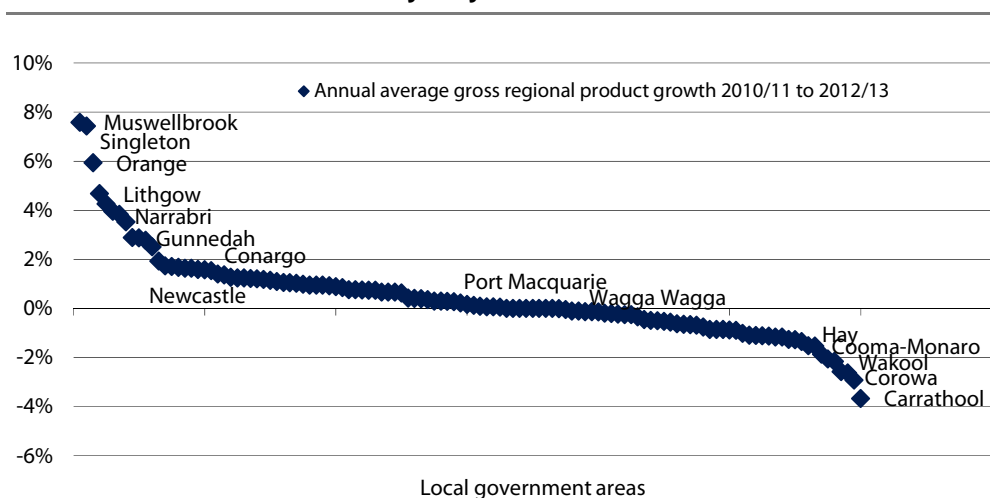
We looked at changes in gross domestic product (GDP) (which is available in a capital city/rest of state breakdown) and gross regional product (available at LGA level) to consider changes in economic activity across NSW:

- ▼ GDP growth rates indicate that economic activity in areas outside Sydney is growing, but more slowly than in Sydney. In the 10 years to 2013-14, GDP in the rest of NSW grew by an average of 0.9% a year (compared to an average of 2.5% a year in Sydney).⁵⁸

⁵⁸ SGS Economics and Planning, *Australian cities accounts 2013-14*, November 2014, p 3.

- ▼ Gross regional product growth rates suggest that, like population growth, there is wide variation in trends in economic activity across LGAs outside Sydney. Between 2010-11 and 2012-13, the average annual change in gross regional product per LGA ranged from growth of just under 8% per year to decline of just under 4% per year (Figure 4.2). For example, in the Narrabri, Lithgow, Orange, Singleton, Muswellbrook LGAs, gross regional product grew by over 4% per year, while in Corowa, Balranald, Kyogle, Cooma-Monaro it declined by 1.5% or more per year.⁵⁹

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



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

4.2.3 Airline passenger movements

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

⁵⁹ IPART calculation based on .id, *National economic indicators series, national economic indicators for local government areas 2010/11, 2011/12 and 2012/13*, accessed 25 February 2015 <http://economic-indicators.id.com.au/?Year=2011>.

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

- ▼ Regular air passenger services to Cooma, Mudgee, Narrabri and Cobar have ceased since 2010.⁶⁰
- ▼ Between 2008-09 and 2012-13 air passenger movements:⁶¹
 - Declined by more than 8% a year in Lismore and Grafton, and by 5% in Taree.
 - Grew by over 3% a year in Tamworth, Coffs Harbour, Ballina, Armidale and Port Macquarie. (For comparison, passenger movements at Sydney airport grew at 3.6% a year on average during this period.)

Looking ahead, the Bureau of Transport, Infrastructure and Regional Economics forecasts that air passenger movement through smaller airports (ie, all those in the areas outside Sydney excluding Newcastle) will increase by an average of 2.3% a year until 2030-31. In comparison, the Bureau forecasts that air passenger movements at Sydney will grow by an average of 3.6% a year.⁶²

IPART finding

- 8 On average, demand for point-to-point transport services outside Sydney is increasing but more slowly than in Sydney. Demand growth varies significantly amongst areas outside Sydney.

4.3 Demand for taxis

In this section we look more closely at the demand for taxi services only, as a subset of the demand for point-to-point transport.

We used the results of our survey of residents of regional areas to assess the current use of taxis outside Sydney. The survey found that residents in other urban and country areas currently use taxis less frequently than those in Sydney, and are more likely to book a taxi by phone rather than obtain one by other means.

⁶⁰ NSW Legislative Council Standing committee on State Development, *Regional aviation services*, 2014, p 14.

⁶¹ IPART calculation based on Department of Infrastructure and Transport, Bureau of Infrastructure, Transport and Regional Economics, *Airport Traffic data 1985-86 to 2013-14*, https://www.bitre.gov.au/publications/ongoing/airport_traffic_data.aspx, accessed 10 December 2014.

⁶² Department of Infrastructure and Transport, Bureau of Infrastructure, Transport and Regional Economics, *Air passenger movements through capital and non-capital city airports to 2030-31*, Report 133, November 2012, pp 4, 59.

We also looked at the way in which competition from alternatives to taxis may have affected demand for taxi services, and found that demand for taxis is likely to be growing more slowly than demand for point-to-point transport more generally.

We considered the change in demand over the week for taxis, which tends to peak at particular times, as well as the way in which demand for taxis is affected by price and availability of taxi services.

4.3.1 Taxi use in other urban and country areas

The 2014 Taverner Research survey found that residents in other urban and country areas use taxis less frequently than those in Sydney. They also most commonly book a taxi by phone (rather than hail on the street or go to a taxi rank). In particular, it found that:

- ▼ 61% of people in other urban areas and 55% in country areas had not used a taxi in the previous six months (compared to 42% in Sydney)⁶³
- ▼ 7% of people in other urban and country areas used taxis at least once per week (compared to 13% in Sydney)⁶⁴
- ▼ 57% of taxi trips in other urban areas are booked and 70% in country areas are booked, compared to 39% in Sydney⁶⁵
- ▼ 62% of taxi users in country and 47% in other urban areas had made a phone booking for their last trip (23% in Sydney) but fewer trips are booked through the internet (1% of taxi users in country areas and 3% in other urban areas, 6% in Sydney).⁶⁶

4.3.2 Impact of competition on demand for taxis

To understand what is happening to the demand for taxi services we need to know something about people's preferences for alternative modes of point-to-point transport, which is in turn a function of the availability, price and quality of these services relative to the availability, price and quality of taxi services.

In the section above we found that on average demand for point-to-point transport services is growing, but that change in demand is variable across the state. This means it may be decreasing in some areas. The impact of competition may also vary between areas, which makes analysing the demand for taxis more complex.

⁶³ Taverner Research, *Survey of Taxi use*, December 2014, p 11.

⁶⁴ Taverner Research, *Survey of Taxi use*, December 2014, p 11.

⁶⁵ Taverner Research, *Survey of Taxi use*, December 2014, p 29.

⁶⁶ Taverner Research, *Survey of Taxi use*, December 2014, p 29.

In areas where demand for point-to-point transport services is increasing, demand for taxi services will generally be increasing if there is either no change or a decrease in competition from alternative point-to-point transport. However, if competition from alternative point-to-point transport is increasing, the demand for taxis may be static or decreasing.

In areas where demand for point-to-point transport services is decreasing, demand for taxi services will generally be decreasing as well, unless there is a more significant reduction in alternative transport services.

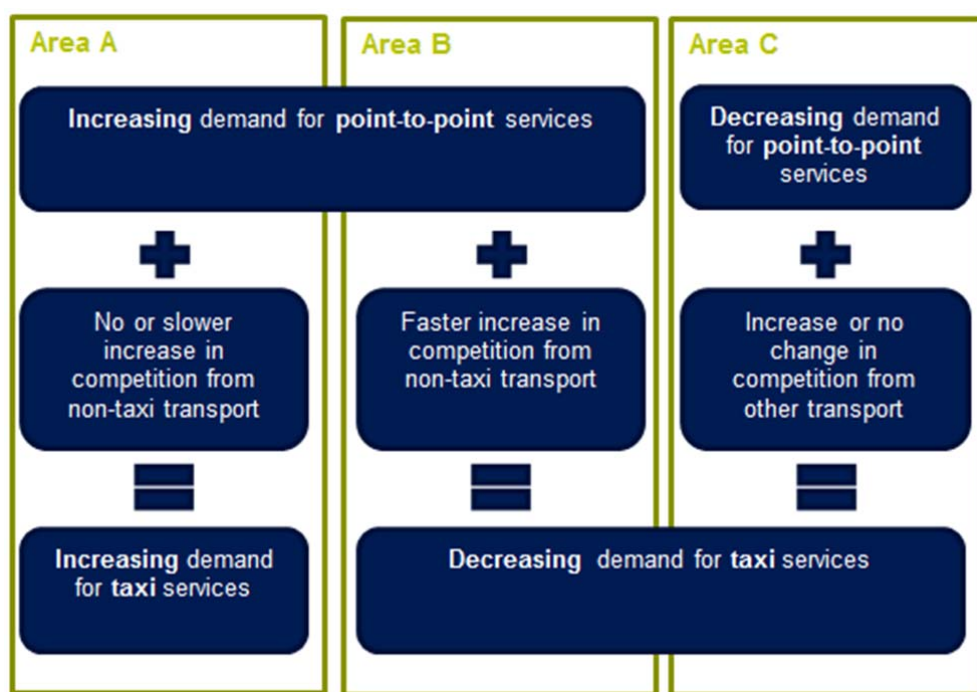
The possible outcomes for demand for taxis resulting from various combinations of movement in the demand for point-to-point transport and competition are shown in Figure 4.3. Areas A, B and C are hypothetical areas.

We consider that, on average, demand for taxis is likely to be growing more slowly than demand for point-to-point services more generally due to the impact of competition from alternative transport services. We explore the role and impact of competition in more detail in Chapter 6.

IPART finding

- 9 On average, demand for taxi services outside Sydney is likely to be growing more slowly than demand for point-to-point transport services more generally.

Figure 4.3 Relationship between demand for point-to-point transport and demand for taxis



Source: IPART.

4.3.3 Peak demand

The demand for taxis is higher at some times of the week than others. Stakeholders described a typical weekly pattern of demand characterised by two short peak periods of demand early on Saturday and Sunday mornings when licensed premises close.⁶⁷ As an example, stakeholders said that demand has become more 'peaky' in Newcastle with introduction of regulated 3am closing times.⁶⁸

Stakeholders generally were of the view that it was unreasonable to expect that taxis would be able to meet peak demand, arguing that if there are enough taxis to meet the peak, the business will be unviable the rest of the time as there will be 'too many taxis'.⁶⁹

4.3.4 Changes in demand for taxis due to price or availability of taxis

Demand for taxis can also respond to the changes within the industry itself. We have considered the responsiveness of demand for taxis to changes in the price of taxis and changes in the time it takes to obtain a taxi (waiting time). This type of demand is also referred to as latent demand.

Although we do not have data with which to make a precise assessment we consider that demand for taxis is responsive to price and service signals and that there is latent demand for taxi services.

Some industry stakeholders thought that a price freeze or fares reduced through the removal of economic rent would not increase demand for taxis.⁷⁰ The NSW Taxi Council submitted that a \$2.00 fare reduction 'given the extent of subsidised and/or free competition... will have a negligible impact on the competitive position of the industry'.⁷¹ Stakeholders did not discuss the responsiveness to demand to change in waiting time.

⁶⁷ Mr Collins, Wagga Wagga Public Roundtable Transcript, pp 13, 25, 35; F Richards submission to Draft Report, p 2.

⁶⁸ F Richards submission to Draft Report, p 2; Anonymous submission to Draft Report, p 1.

⁶⁹ NSW Taxi Council, Port Macquarie Public Roundtable Transcript, p 38; Mr Bernard, Newcastle Public Roundtable Transcript, p 11; F Richards submission to Draft Report, pp 1-2; Mr Collins, Wagga Wagga Public Roundtable Transcript, pp 13, 35; Newcastle Hire Cars submission to Draft Report, p 6; K Cole submission to Draft Report, p 2; A McKenzie submission to Draft Report, p 2.

⁷⁰ Mr Collins, Wagga Wagga Public Roundtable Transcript, p 40; NSW Taxi Council, Wagga Wagga Public Roundtable Transcript, p8.

⁷¹ NSW Taxi Council and NSW CTOA, Attachment to submission to Draft Report, p 19.

The existence of latent demand is suggested by:

- ▼ Some taxi services have introduced initiatives to stimulate demand outside the peaks by introducing lower fares for particular groups. For example, Wagga Wagga has a seniors club targeted at people over 60 which provides a 33% reduction on the taxi distance charge on weekdays during business hours. Another initiative is books of \$5 taxi vouchers pre-purchased at a 10% discount.⁷² Anecdotally we have been told of fixed price fares being offered for specified trips (for example between two towns, or to health services on the outskirts of a town). In some towns, taxi services are relying for their continuing survival on contract work (with Department of Veterans' Affairs and Education and Communities).⁷³ We understand that these contracts are sometimes at reduced rates.⁷⁴
- ▼ Stakeholders identifying the price disparity between taxis and alternative point-to-point transport as central to taxi industry losing ground to the competition.⁷⁵

These points reinforce the importance of the taxi industry responding to technological change, consumer preferences and opportunities created by changes in transport funding arrangements such as the National Disability Insurance Scheme (NDIS).⁷⁶

⁷² Mr Collins, Wagga Wagga Public Roundtable Transcript, p 28.

⁷³ Mr Favero via Mr Collins, Wagga Wagga Public Roundtable Transcript, p 27; NSW Taxi Council, Port Macquarie Public Roundtable Transcript, p 30.

⁷⁴ Phone conversation with taxi operator, 10 March 2015.

⁷⁵ Mr Saunders, Port Macquarie Public Roundtable Transcript, pp 16-17; NSW Taxi Council and NSW CTOA submission to Draft Report, p 14; Port Macquarie Taxis submission to Draft Report p 2; Newcastle Hire Cars submission to Draft Report pp 6-7.

⁷⁶ For more on NDIS transport funding see: National Disability Insurance Scheme, *Participant transport funding information*, <http://www.ndis.gov.au/document/872> (accessed 15 June 2015).

5 Supply of taxi services

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

We also looked at whether there are any barriers to entering the point-to-point transport market because identifying barriers to entry helps identify ways to improve competition and the efficiency of fares.

The sections below summarise our findings on the supply of taxi services and the barriers to entering the taxi market. Chapter 6 discusses our findings on the supply of other modes of point-to-point transport.

5.1 Summary of findings on supply of taxi services

We found that the annual average growth in taxi licence numbers in recent years was lower than the annual average growth in demand for point-to-point transport outside Sydney.

We identified a number of barriers to entering the taxi industry outside Sydney, which have led to slow growth in the supply of licences.

The most significant barrier is the high cost of obtaining a new taxi licence in some areas. High prices for ordinary licences are entrenched due to the method Transport for NSW prescribes for calculating the issue price of a new licence, and are most prohibitive in areas which need new licences the most. The lack of transparency in the process for and cost of obtaining a new licence is also a concern. Based on these findings, we consider that the current taxi licensing arrangements inhibit entry to and effective competition in the taxi industry outside Sydney, resulting in an undersupply of licences in many areas.

High network fees may be another barrier to entry, as network affiliation is mandatory for operators unless exempted by Roads and Maritime Services.

5.2 Current supply of taxi licences

As at 1 April 2015, there were 1,358 taxi licences for areas outside Sydney. Of these, 173 were in Newcastle, 136 were in Wollongong, and the remainder were in country areas.⁷⁷ The majority of these are ordinary taxi licences. WAT licences made up around 10% in Newcastle and Wollongong combined (which is similar to Sydney) and almost 20% in country areas.⁷⁸

Table 5.1 Number of taxi licences, 1 April 2015

Area	Total taxi licences	WAT licences
Newcastle	173	21
Wollongong	136	11
Country	1,049	202
Total outside Sydney	1,358	234

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

Licences on hold

A taxi operator is able to put a taxi licence ‘on hold’ – that is, to maintain ownership of the licence but not have the licence attached to a vehicle which is operating as a taxi.⁷⁹ There are currently 55 licences on hold outside Sydney.⁸⁰

Stakeholders have suggested that a high number (or indeed any number) of licences on hold indicates that there are already too many taxis.⁸¹ A taxi operator might put a licence on hold because they consider that there is insufficient demand for taxi services to make it worthwhile to operate the taxi. However, in a market where there are barriers to entry such as high licence prices, putting a licence on hold rather than discounting pay-ins or otherwise dropping the price of the licence may only serve to keep licence prices higher than they otherwise would be. This ultimately leads to higher waiting times for passengers and more expensive fares than would otherwise be the case.

5.3 Recent growth in taxi licence numbers

To assess whether the supply of taxi licences outside Sydney is keeping pace with growth in demand for point-to-point transport services, we looked at the recent growth in taxi licence numbers compared to the growth in demand (discussed in section 4.2).

⁷⁷ Roads and Maritime Services data from Transport for NSW.

⁷⁸ Roads and Maritime Services data from Transport for NSW.

⁷⁹ *Road Transport (Vehicle Registration) Regulation 2007*, clause 23.

⁸⁰ Roads and Maritime Services data from Transport for NSW.

⁸¹ Mr Collins, Wagga Wagga Public Roundtable Transcript, pp 26-27; Port Macquarie Taxis submission to Draft Report, p 2; NSW Taxi Council and NSW CTOA submission to Draft Report, pp 2, 5.

Since December 2008, Roads and Maritime Services has issued only 11 new unrestricted taxi licences in country areas and none in other urban areas.⁸² Over the same period, it issued 17 additional WAT licences in country areas, and 14 additional WAT licences in other urban areas.⁸³ This represents 3.2% growth in the number of taxi licences over six years, or average growth of 0.5% per year.⁸⁴

As section 4.2 discussed, over the same period of time, population and economic growth in areas outside Sydney indicate that demand for taxi and other point-to-point transport services grew by an average of around 1% per year. In some areas, growth in population and economic activity was much higher than 1%, indicating that growth in demand for point-to-point transport services was also likely to be higher in these areas.

This comparison clearly indicates that growth in the supply of taxi licences has not kept pace with population and economic growth in some areas.

In the absence of growth in the supply of alternative modes of point-to-point transport, this would lead to higher waiting times for passengers and higher licence values (via higher revenue per taxi). The following chapter considers the role of alternative modes of point-to-point transport in more detail.

IPART finding

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

5.4 Barriers to entering the taxi market

After we found that, on average, the growth in taxi licence numbers outside Sydney had not kept pace with the growth in demand for point-to-point transport, we considered whether any barriers to entry to the taxi market were contributing to the imbalance of supply of taxi services and demand for taxi services.

We consider that the major barrier is the high price of ordinary licences in areas that have the greatest demand for additional taxis. The mismatch between supply and demand creates economic rent which is reflected in the high price of a licence, which then serves to prevent new operators entering the market.

⁸² Roads and Maritime Services data from Transport for NSW.

⁸³ Roads and Maritime Services data from Transport for NSW.

⁸⁴ IPART analysis based on Roads and Maritime Services data from Transport for NSW.

The Taxi Council argues that there are no barriers to entry because there is no restriction on the number of new licences that can be issued in areas outside Sydney; a new operator can always obtain a licence from Roads and Maritime Services. However, we found that fees for new ordinary and short term licences can inhibit entry into the taxi industry. The fee-setting process is prescribed by Transport for NSW.

We also found that although WAT licences are available on request for an annual fee of \$1,000 in Wollongong and Newcastle, or for no fee in other areas,⁸⁵ there may still be barriers to the entry of more WATs. We consider that the demand for WAT licences is affected by expectations about the investment value of ordinary licences, and possibly by the way in which WAT licences are operated by the industry.

We also found that high network fees may be a barrier to entry for new operators.

This section discusses these barriers to entry in more detail.

5.4.1 Types of taxi licence that are available outside Sydney

Outside Sydney, there are three main categories of taxi licences available. Existing ordinary licences can be purchased from their current owner, or new licences can be issued on request from Roads and Maritime Services in any of the three categories. These are:

- ▼ Ordinary unrestricted licences, with a term determined by Roads and Maritime Services, normally 50 years; however, ordinary licences are renewable by right so are effectively perpetual, no matter what the nominal term is. These licences are transferrable.
- ▼ Short-term unrestricted licences, with a term not exceeding six years. These licences are not renewable. These licences are **not** transferrable.
- ▼ WAT licences, with a term of 12 months. Licence-holders may apply for a new 12-month term each year but renewal is not guaranteed. These licences are **not** transferrable.

⁸⁵ Transport for NSW, *Wheelchair accessible taxi (WAT) licence information*, <http://www.transport.nsw.gov.au/content/taxi-licences>, accessed 28 July 2014.

5.4.2 How Roads and Maritime Services determines the issue price for ordinary licences

The *Passenger Transport Act 1990* provides that licence fees for ordinary licences must be determined by inviting applicants to bid for such a licence at an auction, or to submit sealed tenders for it, or to use such other method as Transport for NSW considers would yield the amount equivalent to its current market value.⁸⁶ Roads and Maritime Services can only sell them for less than current market value in prescribed circumstances, eg, fringe area licences and restricted licences.⁸⁷

The approach used by Roads and Maritime Services to determine the current market value and then issue a licence varies depending on circumstances:

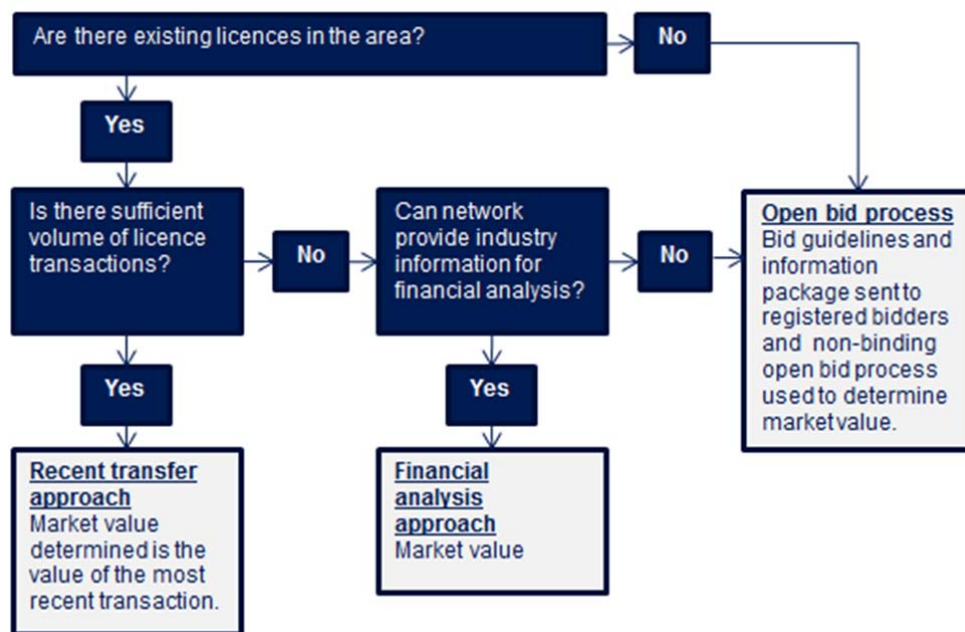
- ▼ If there are existing licences in the area and if there is sufficient volume of transfers, the market value is taken to be equal to value of the most recent transaction (**recent transfer approach**). The licence is offered to the applicant at this price.
- ▼ If there are existing licences but there is not sufficient volume of transfers, then the local network can be asked to provide industry information which is subject to financial analysis to determine the market value (**financial analysis approach**). The licence is offered to the applicant at this price.
- ▼ If there are existing licences but there is not sufficient volume of transfers and insufficient or unreliable industry information, then an open bid process is used to determine the market value (**open bid approach**). The licence is offered to the applicant at this price. The open bid process is not used to *issue* the licence.
- ▼ If there are no existing licences then an open bid process is used to determine the market value. The licence is offered to the applicant at this price. The open bid process is not used to issue the licence.

These approaches are summarised in the figure below. IPART confirmed these with Transport for NSW as part of this review.

⁸⁶ *Passenger Transport Act 1990*, s 32L.

⁸⁷ *Passenger Transport Regulation 2007*, clause 186.

Figure 5.1 Process for determining market value of new ordinary unrestricted licence



Source: Based on information provided by Roads and Maritime Services.

We have identified several issues with each approach to determining the market value.

Issues with recent transfer approach:

- ▼ Where high licence values exist they are entrenched in the system which can discourage new entrants.
- ▼ There is an incentive for existing licence owners to over-state transfer value or make paper transfers between related parties at inflated prices to discourage new entrants (although the transfers are subject to a 'per cent of value' transfer tax so higher recorded values increase the tax payable which may discourage this activity).
- ▼ The issue of a new licence immediately dilutes any economic rent, so as soon as the additional licence is issued, the 'market value' drops. In areas outside Sydney where the number of licences in any operating area is relatively small, this effect can be quite large. For example, if there are four licences and a fifth is issued, its price is based on the value of existing licences, that is, assuming a quarter of the economic rent goes to each licence, but each licence will only receive a fifth of it once the additional licence is operational.

Issues with **financial analysis approach**:

- ▼ The key issue is that there is an incentive for incumbents to over-state the current and prospective performance of the industry to inflate the price of a new licence to discourage new entrants.
- ▼ It is not clear what information is required by Roads and Maritime Services and how the information is used to assess the market value.
- ▼ Potentially, the same problem applies in terms of diluting the economic rent as for the 'recent transfer' method, although this could be overcome depending on how the information is used to determine price.

Issues with **open bid process**:

- ▼ There is an incentive for incumbents to bid an inflated price to discourage new entrants.
- ▼ As it is not binding it is not a market price.

IPART finding

- 11 The primary barrier to entering the taxi market outside Sydney is the high cost of obtaining a new taxi licence, which is determined on the basis of recent sales transactions in the relevant area or two other alternative methods if there are insufficient recent sales. This process is prescribed by Transport for NSW.

A submission from Muswellbrook Shire Council provides a case study example of how the existing licensing system is flawed (see Box 5.1).

Box 5.1 Licensing barriers to entering the taxi industry - Muswellbrook

Muswellbrook Shire Council identified a shortage of taxi services in the local area and sought to expand the supply of services by purchasing two new taxi licences, to be operated by the council. Transport for NSW determined a market value for a taxi licence, at the request of the council, through an expression of interest (open bid) process. Multiple bids were received and the council was not the highest bidder. The determined value was much higher than the council's assessment of what was financially viable. Because there was no obligation for other participants to proceed with the purchase of a licence, no licences were issued.

In its submission to IPART, the council expressed the following concerns about the process for determining the market value of a taxi licence:

Council is concerned that an expression of interest process for additional licences in circumstances where there are already five disused licences may not be an appropriate way of assessing the current value of a taxi licence. Council is concerned that the process may result in a monopoly provider bidding - which the regulations allow - in order to preserve the value of their existing taxi licences, possibly resulting in two perverse and unintended outcomes:

1. it may result in there being additional disused taxi licences; and
2. it may place the commercial interest of a monopoly private provider of taxi services ahead of the public interest.

Source: IPART based on: Muswellbrook Shire Council submission on Draft Report, 15 May 2015, unnumbered page; Information from Transport for NSW.

5.4.3 How Roads and Maritime Services determines the issue price for short term unrestricted licences

The *Passenger Transport Act 1990* gives Transport for NSW the authority to determine the fee for a short-term licence.⁸⁸ Currently, the fee is set at 14% (the Commonwealth long-term bond rate at the 1 July, 1990, a fortnight before the Act commenced) of the value of the last sale of an ordinary licence for the operating area where a new licence is sought.⁸⁹ We consider that this policy is outdated and lacks justification.

5.4.4 Transparency of the licence issue process

The Transport for NSW website does not contain any information on:

- ▼ the types of licences available
- ▼ how licences can be obtained, or
- ▼ how much a new licence costs.

⁸⁸ *Passenger Transport Act 1990*, s 32J.

⁸⁹ Information from Transport for NSW, 27 August 2014.

The website simply directs potential applicants to contact the Transport Operations Division for the latest information.⁹⁰

In our view, this lack of transparency makes it difficult for potential entrants to make informed decisions about the costs of operating a taxi service and may further inhibit competition. Providing more information about the licence types available, the method for calculating the issue price for a standard taxi licence, and the cost of WAT licences could help potential taxi operators assess their options.

The Taxi Council agreed that there could be more information made available on the process for obtaining a new taxi licence but it does not consider that there is anything wrong with the process or cost of obtaining a new taxi licence.⁹¹

Determining, and therefore publishing, average transfer values or indicative market values is complicated by the large number of operating areas of varying size and character. This suggests a need to consider the role and definition of operating boundaries as part of reforming licensing arrangements.

IPART finding

- 12 The process for and cost of obtaining a new taxi licence outside Sydney lacks transparency.

5.4.5 Industry expectations about the role of ordinary licences and WAT licences are a barrier to entry

As part of our review, we have been trying to establish why ordinary licence prices remain high in some areas, when a new operator could enter the market with a free or cheaper WAT licence.

We consider that there is a variety of reasons for this, related to industry expectations about the role of these two types of licence.

It appears that taxi operators may prefer ordinary taxi licences to WATs, even at an expensive issue price, because they expect the value of the ordinary licence to appreciate over time. Submissions and comments made at our public hearings bore out this view, with numerous stakeholders referring to taxi licences as an investment. For example, at the Wagga Wagga public hearing a taxi licence owner said:

The increase in value in taxis was mentioned. From my point of view that was an investment, plus it provided income, and with any investment you expect to get capital gain on it.⁹²

⁹⁰ Transport for NSW, *Taxi licences*, <http://www.transport.nsw.gov.au/content/taxi-licences>, accessed 30 March 2015.

⁹¹ Newcastle Public Roundtable Transcript, pp 15-16; Port Macquarie Public Roundtable Transcript, pp 9, 38; NSW Taxi Council and NSW CTOA submission to Draft Report, p 9.

⁹² Mr Breust, Wagga Wagga Public Roundtable Transcript, p 30.

Operators may also prefer ordinary licences because they are either perpetual, or renewable after 50 years, while the conditions of WAT licences are annual and provide for the licence to be cancelled if the operator fails to give preference to wheelchair jobs. A submission noted:

I purchased [an ordinary licence] in good faith and in the belief that I was buying a business that would stand the test of time ... This was forefront in my decision to purchase such plate at age 70 - to be a lasting legacy for my children.⁹³

Vehicle costs for WATs are also significantly higher than those for ordinary taxis, and there are additional training requirements for WAT drivers. Given the risk of licences being cancelled, operators and drivers may not be willing to make these investments.

Some commenters also indicated that WATs may be utilised differently from unrestricted licences (although there is nothing to prevent them from taking ordinary jobs, as long as they prioritise wheelchair jobs). For example, in Port Macquarie a roundtable participant said that: 'hardly ever are wheelchair accessible taxis in the roster with the other taxis. They either do wheelchair work or they are not doing anything at all in many places.'⁹⁴ A submission from Newcastle Hire Cars noted that 'WAT plates are unsustainable unless they operate as maxi-taxis on Friday and Saturday nights'.⁹⁵

5.4.6 Network affiliation

Unless exempted by Roads and Maritime Services, all taxi operators in NSW must be affiliated with an authorised network. In Chapter 3 we discuss the high cost of network fees. We consider these high fees may act as a barrier to joining a network. As network affiliation is mandatory for operators the high fees may be a deterrent to entering the taxi industry.

We also received a submission to our Issues Paper that mentioned the "attitudes of the incumbent" can also be a barrier to joining a taxi network.⁹⁶

A recent Taxi Industry Inquiry in Victoria found that network service providers were deriving income from mandatory operator affiliation fees with little incentive to provide good service to taxi operators or taxi users.⁹⁷ Since 30 June 2014, it has no longer been compulsory for Victorian taxi operators to belong to a network service provider or taxi booking service.⁹⁸

⁹³ P Brasher submission to Draft Report, 13 May 2015, p 1.

⁹⁴ Mr Saunders, Port Macquarie Public Roundtable Transcript, pp 42-43.

⁹⁵ Newcastle Hire Cars submission to Draft Report, p 14.

⁹⁶ Australian Taxi Drivers Association (ATDA) submission to Issues Paper, 18 November 2014, unnumbered page.

⁹⁷ Taxi industry inquiry, *Customers First – Final Report*, September 2012, pp 40, 43.

⁹⁸ Taxi Services Commission, *Taxi owners & Permit Holders (formerly Operators)*, <http://www.taxi.vic.gov.au/owners-and-permit-holders/taxi-owners-and-permit-holders>, accessed 31 July 2014.

In a submission on our Draft Report a stakeholder told us that it would be a “massive advantage” if they could pay reduced network fees for use of a network’s security system and not have to use some of the other network services.⁹⁹ Similarly, a WAT owner/operator objected to having to pay \$10,000 a year for a service they hardly used and said that they’d like to be part of a network for emergency/security purposes only.¹⁰⁰

IPART finding

- 13 High network fees in areas outside Sydney can be a barrier to joining a network. As network affiliation is mandatory for operators the high fees can be a deterrent to entering the taxi industry.

⁹⁹ Anonymous submission to Draft Report, 13 May 2015, unnumbered page.

¹⁰⁰ Anonymous submission to Draft Report, 13 May 2015, unnumbered page.

6 Supply of alternative point-to-point transport services

In chapter 5 we found that the growth in taxi licence numbers in areas of NSW outside Sydney is not keeping pace with the demand for point-to-point transport services. To gain a full understanding of the market for point-to-point transport we also need to consider the supply of non-taxi modes of transport.

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

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

6.1 Summary of findings on competition with the taxi industry

We found that while hire cars, community transport and courtesy transport are not perfect substitutes for taxis, they are the main competitors with taxis outside Sydney.

We did not find any regulatory barriers to the entry of new community transport or courtesy transport services, which operate within a different regulatory framework from taxi and hire car services. However, as for taxi licences, we found that the high cost of obtaining a new hire car licence may be a barrier to more hire car operators entering the market outside Sydney.

6.2 Hire cars

Hire cars must be pre-booked, vehicles must be in excellent condition and the fare must be notified to the passenger before the hire starts. Unlike a taxi, a hire car cannot pick up 'hail' jobs and cannot stand, park or ply for hire on a road or road related area. However, technological change in the form of booking apps is blurring the distinction between hailing and booking and reducing the competitive advantage that taxis held.

One stakeholder submission in response to our Issues Paper agreed with our view that hire cars can be an alternative for taxi services.¹⁰¹ However, the NSW Taxi Council and NSW CTOA submitted that hire cars and taxis serve very different market segments, and that therefore hire cars are not an alternative to taxis.¹⁰²

We maintain our view that the hire car and taxi markets overlap. Specifically, hire cars can compete with taxis for booked trips, which are the majority of taxi trips outside Sydney (see Chapter 4).¹⁰³

6.2.1 Are hire cars competing with taxis outside Sydney?

In April 2015 there were 408 hire cars operating outside Sydney, including 74 in Newcastle and 47 in Wollongong. Over the past 10 years, the number of hire cars in Sydney has increased much faster than the number of hire cars outside Sydney. However, the number of hire cars relative to the number of taxis is still greater outside Sydney (see Table 6.1).

There are 75 hire car operating areas outside Sydney, Newcastle and Wollongong (ie, within the broader country area).¹⁰⁴ It is difficult to compare the number of hire car licences with the number of taxi licences by small areas in the country because the operating areas for hire cars are not the same as the operating areas for taxis.

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

	Taxis	Hire cars	Hire cars as proportion of taxis
Sydney	5,940	1,223	21%
Newcastle	173	74	43%
Wollongong	136	47	35%
Country	1,049	287	26%
Total	7,298	1,631	22%

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

¹⁰¹ Australian Taxi Drivers Association submission to Issues Paper, 18 November 2014, unnumbered page.

¹⁰² NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 14. (This was also restated in NSW Taxi Council and NSW CTOA submission to Draft Report, 22 May 2015, pp 12- 13.)

¹⁰³ The Taverner survey of taxi use indicates that 57% of taxi trips in Other Urban areas are booked and 70% in Country areas are booked, compared to 39% in Sydney (Taverner Research, *Survey of Taxi Use*, December 2014, p 29).

¹⁰⁴ Roads and Maritime Services data from Transport for NSW.

In the 2014 Taverner survey of taxi use, 10% of respondents in other urban areas and 5% of respondents in country areas had used a hire car in the last six months.¹⁰⁵ This is less than the 18% of Sydney respondents who had used a hire car in the last six months.¹⁰⁶ Taxi use is also less common and less frequent outside Sydney than it is in Sydney¹⁰⁷ so we expect that the lower use of hire cars reflects the lower use of point-to-point transport more generally. As for Sydney, comfort and reliability were the dominant reasons given for using a hire car instead of a taxi.¹⁰⁸

An individual stakeholder as well as the NSW Taxi Council and NSW CTOA commented that private hire car operators have a competitive advantage over taxis because they do not have to meet the same safety, service performance and vehicle standards as taxis, and that their costs are therefore much lower.¹⁰⁹

The NSW Taxi Council and NSW CTOA also noted that “the definition of ‘pre-booked’ has become increasingly ambiguous and it is potentially open to interpretation that pre-booked may only mean a number of minutes, if anything at all.”¹¹⁰ Additionally they said that some hire car operators are acting illegally as taxis, noting a successful prosecution of a hire car company in Port Macquarie in 2012, and other ‘ongoing investigations’ in other areas.¹¹¹

6.2.2 Are there barriers to entering the hire car market?

Like taxi operators, hire car operators must own or lease a licence. Hire car licences were deregulated in Sydney only. Short-term hire car licences outside Sydney are available from Transport for NSW at a cost that reflects the market price of an ordinary hire car licence, with a floor price of \$3,000.¹¹² As for taxi licences, this means that where high licence values exist they are likely to be entrenched in the system and could be creating barriers to the entry of new hire car operators. We did not receive any comments from stakeholders that addressed this issue.

¹⁰⁵ Taverner Research, *Survey of Taxi Use*, December 2014, p 92.

¹⁰⁶ Taverner Research, *Survey of Taxi Use*, December 2014, p 92.

¹⁰⁷ Taverner Research, *Survey of Taxi Use*, December 2014, p 11.

¹⁰⁸ Taverner Research, *Survey of Taxi Use*, December 2014, p 94.

¹⁰⁹ Anonymous submission to Draft Report, 14 May 2015, unnumbered page; NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 14; NSW Taxi Council and NSW CTOA submission to Draft Report, 22 May 2015, p 13.

¹¹⁰ NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 13.

¹¹¹ NSW Taxi Council and NSW CTOA submission to Draft Report, 22 May 2015, p 12.

¹¹² Information from Transport for NSW.

IPART finding

- 14 Hire cars are not perfect substitutes for taxis but they are a significant source of competition with taxis outside Sydney in the market for booked trips. However, the cost of obtaining a new hire car licence, which is based on the market value of existing licences, could be a barrier to more hire car operators entering the market.

6.3 Community transport and courtesy transport

Community transport provides access to shopping, medical and social services, recreation and social contact for people who cannot use or have difficulty using regular public transport. As noted by the NSW Taxi Council and CTOA, community transport is heavily subsidised by government.¹¹³

Courtesy transport is provided by venues, such as pubs and clubs, for the patrons of the venue. Providing courtesy transport is a commercial decision of a venue's owner and the cost is likely to be incorporated into the venue's fees or prices (eg, membership fees or food/beverage sales).

Both community transport and courtesy transport operators offer limited services (for example, they may not operate at all times) and are only available to eligible passengers. Thus, while the markets overlap, these services are not perfect substitutes for taxi services.

6.3.1 Are community transport and courtesy transport services competing with taxis outside Sydney?

In our Draft Report we identified community transport and courtesy transport as competitors to taxi services. Feedback from stakeholders indicates that the impact of these services outside Sydney is far greater than we initially thought.

As noted by some stakeholders, community and/or courtesy transport services are often free which is likely to be the main reason passengers choose to use these services instead of taxis.¹¹⁴

¹¹³ NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, pp 14 -15; NSW Taxi Council and CTOA submission to Draft Report, 22 May 2015, p 14; Mr Saunders, Port Macquarie Public Roundtable Transcript p 13; Mr Collins, Wagga Wagga Public Roundtable Transcript, pp 25-27.

¹¹⁴ NSW Taxi Council, Port Macquarie Public Roundtable Transcript, p 22; Mr Saunders, Port Macquarie Public Roundtable Transcript, p 41; Mr Saunders, Port Macquarie Public Roundtable Transcript, pp 16-17; NSW Taxi Council and NSW CTOA submission to Draft Report, pp 5, 14; P Brasher submission to Draft Report, p 1; Port Macquarie Taxis submission to Draft Report p 2; Newcastle Hire Cars submission to Draft Report pp 6-7.

Community transport services compete with taxi services primarily during business hours on weekdays. This is when the demand for point-to-point transport is already quite low. As a result, there may be little demand remaining for taxi services at these times in areas where community transport is active.

Courtesy transport is primarily a peak-time service but in some areas services also run in off-peak times. Given the price differential, courtesy transport is likely to be an attractive option for people who are not time-sensitive. That is, they would be happy to wait for a free service rather than pay for a service that could arrive much faster.

The NSW Taxi Council and CTOA expressed concern that community transport services are not as efficient or as productive as taxis and therefore represent less value for money to government.¹¹⁵ The same argument may apply to courtesy transport compared to taxis. In both services, vehicle utilisation is likely to be much lower than for taxi services (and therefore costs per trip are likely to be much higher). Indeed, we consider that taxis may be able to provide such services more efficiently.

However, a significant cost advantage for both community and courtesy transport is the absence of high licence costs, as well as fewer regulatory requirements. Lower taxi licence costs and a lower cost of regulatory compliance would mean that taxi operators could offer more cost-competitive services.

There is also a strong volunteer workforce in community transport which confers a cost advantage compared to other transport options.

Although most stakeholders who commented on community transport and courtesy transport focussed on the negative impacts of these services on taxi demand, community transport and courtesy transport programs may in some instances support taxi operations by providing subsidies for taxi travel. One example is the Oberon community transport scheme.¹¹⁶ The NSW Taxi Council also noted that it is working closely with many community transport providers in providing sub-contracted services.¹¹⁷

6.3.2 Are there barriers to entering the community transport or courtesy transport market outside Sydney?

We have not identified any regulatory barriers to the entry of new community transport or courtesy transport services.

¹¹⁵ NSW Taxi Council and CTOA submission to Draft Report, 22 May 2015, p 13.

¹¹⁶ For more information see Transport for NSW, *Oberon Taxi Brokerage Voucher Scheme* <http://www.transport.nsw.gov.au/content/oberon-taxi-brokerage-voucher-scheme>, accessed 30 March 2015; Oberon Council, *Community Transport Services*, <http://www.oberon.nsw.gov.au/news/1162199-community-services-offered-by-council>, Media Release, 24 July 2014, accessed 30 March 2015.

¹¹⁷ NSW Taxi Council and CTOA submission to Draft Report, 22 May 2015, p 14.

IPART finding

- 15 Community transport and courtesy transport are not perfect substitutes for taxis but they are significant sources of competition with taxis outside Sydney.

6.4 Car share and rideshare services

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

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

Ridesharing is a low cost point-to-point service where private individuals use their own cars to drive passengers for a fee. These services are currently not legal in NSW. An example is UberX, which began operating in Sydney in April 2014.

6.4.1 Are car share and rideshare services competing with taxis outside Sydney?

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

- ▼ 6% of Other Urban and 3% of Country respondents had used car share services, compared to 13% in Urban Sydney¹¹⁸
- ▼ 4% of Other Urban and 3% of Country respondents had used rideshare services, compared to 11% in Urban Sydney.¹¹⁹

We are not aware of car share or rideshare services operating outside Sydney at the time of the survey.¹²⁰ Respondents may have used rideshare services in Sydney, even though they live outside Sydney, or they may have misunderstood the question.

UberX offered services in Newcastle during April 2015,¹²¹ but it is unclear whether this service is currently operating.

¹¹⁸ Taverner Research, *Survey of Taxi Use*, December 2014, p 95.

¹¹⁹ Taverner Research, *Survey of Taxi Use*, December 2014, p 95.

¹²⁰ UberX is operating in non-capital city locations elsewhere in Australia. For example, Mornington Peninsula, Geelong, Gold Coast (<https://www.uber.com/cities>).

¹²¹ Newcastle Hire Cars submission to Draft Report, p 18; Gizmodo, *Uber Expands Into Newcastle, Offers Free Rides After Devastating Storm*, <http://www.gizmodo.com.au/2015/04/uber-expands-into-newcastle-offers-free-rides-after-devastating-storm/>, accessed 3 June 2015.

6.4.2 Are there barriers to entering the car share or rideshare market outside Sydney?

We have not identified any regulatory barriers to the entry of car share services outside Sydney. However, commercial car sharing has lower costs and higher revenue opportunities in very urbanised areas where customers are within walking distance of available cars, and where there are significant disincentives to owning a car (such as limited parking facilities).

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

6.5 Impact of alternative forms of point-to-point transport on the taxi industry

In previous chapters we found that:

- ▼ on average, demand for taxis and other point-to-point transport services outside Sydney is increasing, and
- ▼ the growth in taxi licences is not keeping pace with the demand for point-to-point transport services.

In the absence of growth in the supply of alternative modes of point-to-point transport, these factors would lead to higher waiting times for passengers and higher licence values (via higher revenue per taxi).

However, stakeholders told us that revenue per taxi has been declining and that it is difficult to attract drivers because their potential income is low, especially in non-peak periods. Some operators have rostered on drivers to maintain service levels at times when drivers would otherwise not be working given the low demand.¹²²

We heard that some taxi licences and business have been for sale for many months with few or no interested buyers, even after significant discounting of the initial asking price. For example, a stakeholder reported that there have been two taxi licences for sale in Wagga Wagga for over 12 months and the asking price has been reduced by over \$50,000.¹²³ Licences in Albury were also reportedly discounted by almost \$70,000 in order to attract a buyer.¹²⁴

¹²² Mr Collins, Wagga Wagga Public Roundtable Transcript p 12; A McKenzie submission to Draft Report, p 2.

¹²³ Wagga Wagga Public Roundtable Transcript, pp 13, 43.

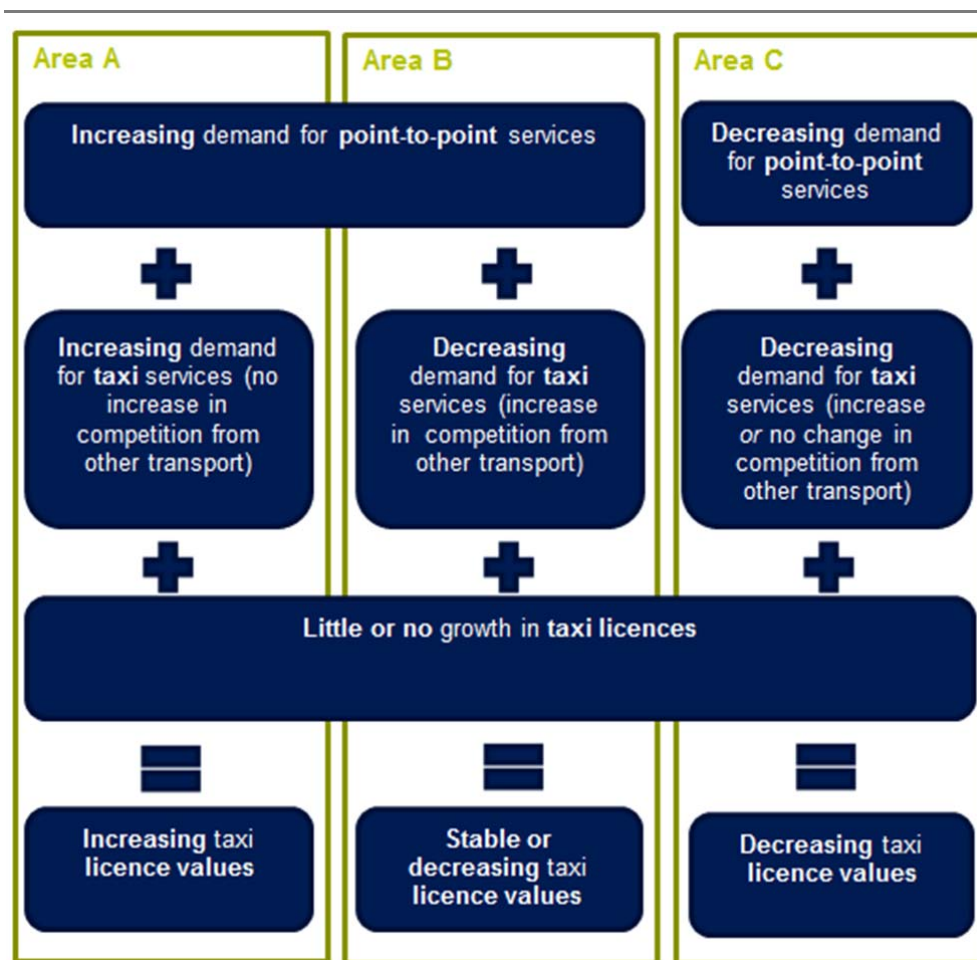
¹²⁴ Wagga Wagga Public Roundtable Transcript, p 18.

These anecdotes indicate that the demand for *taxi services* may have declined, even though the data on population and economic activity we analysed indicates that, on average, the demand for *point-to-point transport services* (of which taxi services are a subset) has increased in recent years. This can be explained by the impact of non-taxi transport, particularly hire cars, community transport and courtesy transport.

Alternatively these anecdotes may be from areas where demand for all *point-to-point transport services* has decreased in recent years. That is demand for taxis has declined, independent of any impact from hire cars, community transport and courtesy transport.

Figure 6.1 summarises what may be happening to licence values in different areas. This figure builds on the figure presented in Chapter 4.

Figure 6.1 Impact of demand for and supply of point-to-point transport on taxi licence values



Source: IPART.

7 | Fare structure

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

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

We did not receive any feedback on our draft finding on fare structure so it remains unchanged since our Draft Report.

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

7.1 How does the fare structure influence the taxi market?

Even if the overall level of fares stays the same, an increase in one fare component and a decrease in another component will affect the price of a particular journey.

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

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

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

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

7.2 Is fare structure an issue outside Sydney?

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

The NSW Taxi Council and CTOA noted that longer journeys are generally sought after by drivers and that passengers are therefore well served in this regard.¹²⁵

The 2014 Taverner survey of taxi use found that waiting times on Friday and Saturday nights were more likely to be considered too long than at other times.¹²⁶ Relevant to this issue, the NSW Taxi Council and CTOA noted that the introduction of a peak surcharge in the Sydney Metropolitan Transport District has raised interest in areas outside of Sydney. But they acknowledge that in regional areas most, if not all, taxis are already operating at peak times in these towns, and that while it could be an incentive for taxi drivers to stay out longer, there are broader implications for workplace health and safety issues, particularly in relation to fatigue.¹²⁷

IPART finding

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

¹²⁵ NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 23.

¹²⁶ Taverner Research, *Survey of Taxi Use*, December 2014, p 69.

¹²⁷ NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 23.

8 Other considerations

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

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

8.1 The need to maintain ecologically sustainable development

While our terms of reference require us to consider the need to maintain ecologically sustainable development, we consider that there is limited scope to further this objective through our fare or licence recommendations. We know that taxi trips are currently a very small proportion of total trips in Sydney¹²⁸ and we expect that the proportion is even smaller in areas outside Sydney. Therefore, we expect the impact of our recommendations on pollution and congestion is likely to be very small.

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

The only direct source of Government funding for the taxi industry is through the Taxi Transport Subsidy Scheme. Holding fares constant in nominal terms would not have a significant impact on the call on Government funding for this scheme.

We address broader issues with respect to the scheme and its funding below. We also respond to stakeholders' comments about subsidies for other forms of public transport.

¹²⁸ The Bureau of Transport Statistics' 2012/13 Household Travel Survey Report indicates that taxi trips account for less than 1% of average weekday trips in Sydney. (Bureau of Transport Statistics, 2012/13 Household Travel Survey Report: Sydney 2012-13, November 2014, p 17.)

8.2.1 Taxi Transport Subsidy Scheme (TTSS)

The NSW Government provides funding to taxi **users** whose transport options are restricted due to a severe and permanent disability. The Taxi Transport Subsidy Scheme (TTSS) subsidises these customers up to 50% of the fare, for up to \$30 per trip.¹²⁹ At 30 June 2014, there were 67,500 people registered for the scheme and in 2013-14 almost \$25.6 million was paid in subsidies.¹³⁰

At the Newcastle roundtable IPART was asked whether we would be looking at the TTSS and whether the subsidy should be increased.¹³¹ Another stakeholder pointed to issues with the eligibility criteria for the TTSS and how it was easier for doctors in their area to refer clients to community transport services.¹³²

We note that the Government has announced a new electronic payment system for customers using the TTSS, to replace existing paper dockets. It also announced that it will investigate whether the taxi transport subsidy could be increased.¹³³

We consider that the electronic payment system could save time for drivers who have customers who use the TTSS. We also support the investigation of whether the existing taxi transport subsidy scheme can be operated more efficiently to ensure that people who are using the scheme are able to access the services they require.

8.2.2 Subsidising other forms of public transport

As noted by some stakeholders, the taxi industry is unlike other forms of public transport in that it does not receive any subsidy from Government.¹³⁴ IPART's current pricing methodology for rail, metro bus and ferry services involves setting the Government subsidy to the external benefit of the mode. We are currently reviewing the value of the external benefits of rail, bus and ferry services.¹³⁵

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

¹²⁹ Transport for NSW, *Taxi Transport Subsidy Scheme (TTSS)*, <http://www.transport.nsw.gov.au/ttss>, accessed 30 March 2015.

¹³⁰ Transport for NSW, *Annual Report 2013/14*, p 49.

¹³¹ Mr Greenwald, Newcastle Public Roundtable Transcript, p 21.

¹³² Ms Cristoforo, Port Macquarie Public Roundtable Transcript, p 44.

¹³³ Minister for Transport and Minister for Disability Services, *Improved services for customers with disability*, Media Release, 16 February 2015.

¹³⁴ NSW Taxi Council and CTOA submission to Draft report, pp 9-10.

¹³⁵ For further information see: http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/External_Benefits_of_Public_Transport.

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

8.3 Service standards

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

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

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

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

8.3.1 Network KPI data

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

- ▼ A network’s call management strategy can influence how KPIs are recorded.¹³⁶
- ▼ Inconsistencies and possible inaccuracies in measuring and reporting make it difficult to make comparisons between networks.
- ▼ the KPI data relates only to booked journeys.

¹³⁶ For example, see Victorian Taxi Industry Inquiry, *Customers First*, Draft Report, May 2012, p 80: “Further exploration ...indicated that the reason for the relatively stable waiting times is that the network call centres constrain the amount of bookings that are handled by their systems.”

The KPI data for Wollongong¹³⁷, Newcastle and the Central Coast shows that:

- ▼ In 2014 in Newcastle, almost 11,000 booking requests (1.2%) were unable to be serviced because there was no taxi available. On the Central Coast, in Wollongong and 'All Sydney' no car was available for less than 0.5% of booking requests. In all regions, performance met the 3% standard set by Transport for NSW.¹³⁸
- ▼ In all three areas, the number of jobs for which no car was available fell in 2014, compared with 2013.
- ▼ Average pick up times for passengers booking taxis in 2014 was around six minutes on the Central Coast, five minutes in Newcastle and one and a half minutes in Wollongong. (For comparison, the average pick up time in Sydney was around six minutes.)¹³⁹

8.3.2 Customer Feedback Management System

Transport for NSW has provided information from its Customer Feedback Management System for country areas (Table 8.1). There were fewer than 50 complaints recorded about country taxi services in 2014, most about driver behaviour. Newcastle taxi services received the most complaints of any of the regions outside Sydney, mostly about drivers and the network. Fewer complaints were received in 2014 in Newcastle, Central Coast and country areas compared to 2013.¹⁴⁰

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

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

Source: Transport for NSW.

¹³⁷ Wollongong data is based on the six months January to June 2014 as full year data was not available.

¹³⁸ Transport for NSW, *Standard Performance Reporting Criteria*, <http://www.transport.nsw.gov.au/sites/default/files/b2b/taxi/taxi-performance-data-definitions-standard-taxis.pdf>, accessed 28 May 2015.

¹³⁹ IPART calculations based on Transport for NSW data.

¹⁴⁰ Data from Transport for NSW.

8.3.3 Survey results

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

- ▼ Among people who reported problems when taking a taxi in the previous year, 47% in other urban and 56% in country areas reported being unable to get a taxi when they wanted one.¹⁴¹
- ▼ 54% of other urban users and 40% of country taxi users considered waiting times on Friday and Saturday nights were unreasonable (compared to 50% in Sydney).¹⁴²

These findings were also reflected in responses to a short on-line survey available on the IPART website in October and November 2014 where lack of availability of taxis or long waits, particularly at night were the most frequently cited difficulties with taxi services.¹⁴³

8.3.4 Submissions from stakeholders

Three submissions from individuals in response to our Issues Paper expressed concern about waiting times and the availability of taxis¹⁴⁴ and in response to our Draft Report Muswellbrook Shire Council reported that they routinely receive complaints about the scarce availability of taxis outside weekday business hours.¹⁴⁵ However, industry stakeholders consider that service levels are good and waiting times are not a problem in country areas,¹⁴⁶ evidenced by a low level of complaints¹⁴⁷ and high proportions (over 95%) of customers being picked up within 15 minutes,¹⁴⁸ although some observe that there may be a shortage early Saturday and Sunday mornings when licensed premises close.¹⁴⁹

¹⁴¹ Taverner Research, *Survey of Taxi Use*, December 2014, pp 60-61.

¹⁴² Taverner Research, *Survey of Taxi Use*, December 2014, p 69.

¹⁴³ The IPART on-line survey findings are not statistically significant as the survey was self-selecting, responses tended to be from areas where the survey was publicised in local media, and the number of responses was small (115 responses).

¹⁴⁴ Anonymous submission to Issues Paper, 18 October 2014; Anonymous submission to Issues Paper, 21 October 2014; P Trevaskis submission to Issues Paper, 18 November 2014.

¹⁴⁵ Muswellbrook Shire Council submission to Draft Report, p 1.

¹⁴⁶ Port Macquarie Taxis submission to Draft Report, p 2; A McKenzie submission to Draft Report, p 1; Mr Jeffries, Wagga Wagga Public Roundtable Transcript, p 30; Australian Taxi Drivers Association submission to Issues Paper, 18 November 2014 p 2; NSW Taxi Council and NSW CTOA submission to Issues Paper, 9 December 2014, p 10.

¹⁴⁷ NSW Taxi Council and NSW CTOA, submission to Draft Report, p 4.

¹⁴⁸ NSW Taxi Council, Port Macquarie Public Roundtable Transcript, pp 10, 40; Mr Collins, Wagga Wagga Public Roundtable Transcript, p 12.

¹⁴⁹ Newcastle Hire Cars submission to Draft Report, p13; K. Cole submission to Draft Report, p 3.

9 | Our recommendations

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

9.1 Summary of recommendations

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

As the previous chapters have discussed, high licence values in many areas outside Sydney indicate that current fares include economic rent. Given the level of economic rent in fares, we found that the current level of fares is sufficient to cover any increases in efficient costs experienced during 2014-15. A nominal fare freeze (a real fare reduction) in 2015-16 will reduce the amount of economic rent in fares. This will improve affordability for passengers.

The presence of economic rent also indicates that competition in the point-to-point transport market is not effective, because in a competitive market this rent would have been competed away by the entry of additional taxis or alternative modes of point-to-point transport.

We found that the primary barrier to entering the taxi market is the high cost of obtaining a new taxi licence, which is determined by a process prescribed by Transport for NSW. This is why we have recommended that the Government reform taxi licensing arrangements.

In addition to a taxi fare freeze and reform of taxi licensing arrangements, we have recommended that areas outside Sydney be included in a review of the regulatory framework for all point-to-point transport services. This should ensure that all players in the market are regulated appropriately for safety and quality while encouraging innovation and competition.

Finally, we are recommending that we no longer undertake an ongoing review of LPG prices. This is consistent with our recommendation for the ongoing review of LPG prices in our Sydney review of taxi fares and licences.¹⁵⁰

Our final recommendations, as summarised above, are unchanged since our Draft Report.

9.2 A nominal fare freeze

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

We also found that there may be economic rent and/or inefficient costs in network fees because there are barriers to the entry of new taxi networks.

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

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

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

Recommendations

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

¹⁵⁰ IPART, *Sydney taxi fares to apply and new licences to be released from July 2015 – Final Report and Recommendations*, February 2015, p 32.

9.2.1 Impact on licence owners, operators and drivers

Some stakeholders we heard from support a fare freeze but most do not. Many expressed concerns about the impact of a fare freeze on taxi drivers, operators and licence owners – and what this would mean for the viability of the industry.

A fare freeze is likely to mean a real reduction in revenue per taxi, although this may be in part offset by an increased demand resulting from more affordable fares.

A number of operators said that they would support a fare freeze if their costs could go down or not change. We expect that costs such as fuel, vehicle purchase or lease, vehicle maintenance and insurance will move in line with the broader markets for those goods and services. This is likely to involve nominal cost increases for at least some goods and services. However, one of our key findings is that there is scope for licence costs to fall. We also consider that there is potential for regulatory reform to reduce both regulatory compliance costs and network fees. Additionally, we note that a fare freeze will save any costs involved in recalibrating taxi meters.

In situations where operators do not own a licence then they can negotiate lower lease costs. For owner-operators, the distinction between operator income and owner income is less clear. Outside Sydney, more licences are owner-operated so a higher percentage of participants in the taxi industry will likely be affected outside Sydney than in Sydney. While we understand that existing licence owners would be adversely impacted by a reduction in the value of their licences, it is not in the long-term interests of the industry or of the community to maintain a high level of economic rent and the fares that are required to sustain it.

For drivers, a real reduction in revenue per taxis could also mean a fall in income, depending on the relationship between the driver and operator. Bailee drivers may be able to negotiate a lower pay-in or more favourable split of revenue in response to a fare freeze. However, we note that drivers outside Sydney are much more likely to also be taxi operators and/or licence owners than they are in Sydney. As such, the distinction between driver income and operator/ owner income is less clear.

9.2.2 Grouping operating areas into different fare schedules

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

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

- ▼ Inconsistently defined and overlapping operating area boundaries would make implementation of more than the existing two fare schedules very difficult.
- ▼ The few stakeholder submissions that commented on the appropriate number of fare schedules in response to our Issues Paper and Draft Report, did not support more than the existing two fare schedules.¹⁵¹

9.2.3 Fare adjustments

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

As for our Draft Report, this Final Report only recommends maximum fare levels for 2015-16. We have not made a recommendation on fares beyond 2015-16 because we consider that the Government should reform taxi licensing arrangements (see [section 9.3](#) below).

The NSW Taxi Council and CTOA suggest that fare adjustments be based on a Taxi Cost Index.¹⁵² We have concerns about the appropriateness of the Taxi Cost Index, particularly for areas outside Sydney. Some of the industry-specific costs this index attempts to capture are:

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

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

9.3 Need to reform taxi licensing arrangements

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

¹⁵¹ See for example NSW Taxi Council and CTOA submission to Issues Paper, 9 December 2014, p 16; Newcastle Hire Cars submission to Draft Report, p 23.

¹⁵² NSW Taxi Council submission to Draft Report, 22 May 2015, pp 17-18.

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

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

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

In our previous review of fares we recommended that Transport for NSW should initially focus licensing reforms on areas with licence transfer values above \$200,000.¹⁵³ Our current view is that the licensing arrangements for all areas outside Sydney should be considered together, in light of the difficulty targeting specific operating areas and the potential benefits of redefining and/or regrouping existing operating areas. The reforms could be considered in a standalone review, or be considered as part of a broader review of point-to-point transport (see [section 9.4](#) below).

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

- ▼ ensuring the supply of taxis responds closely to growth in passenger demand
- ▼ balancing the need for more affordable entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders
- ▼ reducing barriers to entry and encouraging competition
- ▼ placing downward pressure on fares over time, and
- ▼ simplifying existing taxi licence structures.¹⁵⁴

Recommendation

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

¹⁵³ IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 97; IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, p 13.

¹⁵⁴ *Terms of Arrangement – Annual Sydney Taxi Licence Review*, June 2014.

9.3.1 Availability and cost of new licences

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

These licensing reforms only apply in Sydney but Transport for NSW has stated that they could be rolled out across the state in future:

The new licensing arrangements have commenced initially in the Sydney Metropolitan Transport District. Further consideration will be given to introduction to Newcastle, Wollongong, the Central Coast and country areas.¹⁵⁵

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

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

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

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

In the context of our Sydney fare and licence review we recommended that the Government commission a review of the regulatory framework for all point-to-point services to ensure all players in the market are regulated appropriately for safety and quality while encouraging innovation and competition (see Box 9.1). We recommend that this review also include areas outside Sydney.

¹⁵⁵ Transport for NSW, *Background*, <http://www.transport.nsw.gov.au/content/background>, accessed 2 April 2015.

Box 9.1 Review of point-to-point transport regulation

In our Final Report on taxi licences and fares for Sydney, we recommended that the Government appoint an independent body such as IPART to make recommendations on the regulation of point-to-point transport that:

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

In our Draft Report, we found that competition both *in* and *with* the taxi industry was ineffective. In this Final Report, we maintain that more could be done to increase competition *in* the taxi industry and that this would improve outcomes for passengers (cheaper fares and better quality service). Our recommendation for reform of taxi licensing arrangements is intended to do this. We also consider that the review of broader point-to-point transport should look at any other barriers to entering the taxi industry, such as mandatory network affiliation.

However, since our Draft Report we have updated our findings on competition *with* the taxi industry (that is, from other modes of point-to-point transport). We now consider that impact of alternative modes of transport on the taxi industry is greater than we initially thought.

This is beneficial for consumers, as competition has the potential to offer more choice, drive service improvements and incentivise more efficient service provision. Competition from alternatives can also drive down taxi licence costs, which lowers barriers to entry to the taxi market.

Competition from other sources of point-to-point transport means that the taxi industry must change to ensure its viability. The taxi industry will only be a viable, sustainable industry if it meets the needs of passengers in the face of this increasing competition. Putting up fares is not the answer. Any increase in fares at this stage would encourage more consumers to use alternatives more often.

Nor is the answer to arbitrarily increase the regulatory burden on competitors. All competitors should be subject to the appropriate regulation for safety of passengers and drivers and protection of consumers. However, we consider that rather than competitors being under-regulated,¹⁵⁶ it is more likely that the taxi industry is burdened with higher costs due to inappropriate or outdated regulatory obligations.

¹⁵⁶ We note that commercial ridesharing services exist in Sydney, and perhaps in Newcastle, although it is not legal. However, in most areas outside Sydney, taxi alternatives such as hire cars, courtesy transport and community transport are operating legally but with different regulatory requirements from taxis.

Reducing taxi licence costs will make a difference but there are other changes that could create a more level playing field for different modes of point-to-point transport.

We found that regulatory compliance adds to the cost of providing taxi services and reform of regulatory requirements could reduce costs and enhance efficiencies in the provision of taxi services, without compromising safety or quality of services. We consider that reform of the regulatory requirements for taxis could also help the taxi industry modernise. For example, some current requirements prescribe specific technologies for safety. New technologies, such as GPS tracking, may be able to achieve the same regulatory outcomes, at lower costs.

The review of point-to-point transport should address these issues. In addition to, or as part of, the point-to-point transport review the Government could review current taxi regulation using IPART's Licensing Framework (see Box 9.2).

Box 9.2 Licensing Framework

In 2014 IPART completed a review of licences in NSW to identify licensing schemes where reform would produce the greatest reduction in regulatory burden (including red tape). Our definition of 'licence' included licence, registration, notification, authorisation, accreditation, permit, approval, and certification.

As part of the red tape review, we developed a Licensing Framework and Licensing Guide for assessing existing and proposed licensing schemes.

The Licensing Framework consists of 4 stages, which require a regulator to:

- ▼ justify that government action is required to address a specific problem or risk and that licensing is appropriate (**Stage 1**)
- ▼ assess whether the licence is well designed – taking into account how its objectives relate to its coverage, duration, reporting requirements, fees and charges, conduct rules and mandatory attributes (**Stage 2**)
- ▼ assess whether the licence is administered effectively and efficiently (**Stage 3**)
- ▼ confirm that licensing is the best response when comparing its costs and benefits against other options (**Stage 4**).

The review identified taxi driver authorities and taxi operator accreditations as priority licence types for reform.

The Licensing Framework and Licensing Guide are available on our website (www.ipart.nsw.gov.au)

Source: IPART, Reforming licensing in NSW— Draft Report, October 2013.

While we identified no regulatory barriers to entry to community transport and courtesy transport operators, we identified the potentially high cost of a hire car licence as a barrier to the entry of additional hire car operators. In response, we consider that the process for determining the issue fee for hire car licences should be reviewed through the review of broader point-to-point transport. The review could also consider the definition of 'pre-booked' in relation to hire cars, as called for by the NSW Taxi Council and CTOA.¹⁵⁷

In the longer term, increased competition and a more level playing field for all modes of point-to-point transport could facilitate a more light handed approach to taxi fare regulation in areas outside Sydney.

Recommendation

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

9.5 Ongoing review of LPG prices

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

Historically, IPART has reviewed LPG prices outside the regular fare review cycle. We commenced the practice of a mid-year review of LPG prices when we used an index approach to setting fares, to mitigate short term impacts on drivers of spikes (up or down) in LPG prices. In our review of fares from July 2014 we decided that we would recommend fare changes to reflect the change in fuel costs at any time that the average LPG price over six months changes by more than 20% (up or down) compared to the same six months the year before (to avoid capturing seasonality effects).¹⁵⁸

In June 2014 we found that LPG prices in urban (but not country) areas in the six months to the end of May had risen by more than the threshold 20% compared to the same period the previous year, indicating an increase in costs of 2.3%. However, as Transport for NSW had announced that taxi fares would be increasing by CPI, or 2.5%, from July, we considered that fares would be high enough to cover the increase in fuel costs.¹⁵⁹

¹⁵⁷ NSW Taxi Council and CTOA submission to Issues Paper, 9 December 2014, p 13.

¹⁵⁸ IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 49; IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, p 8.

¹⁵⁹ IPART, *Fact Sheet - Taxi fares will increase by CPI on 1 July*, June 2014, p 1.

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

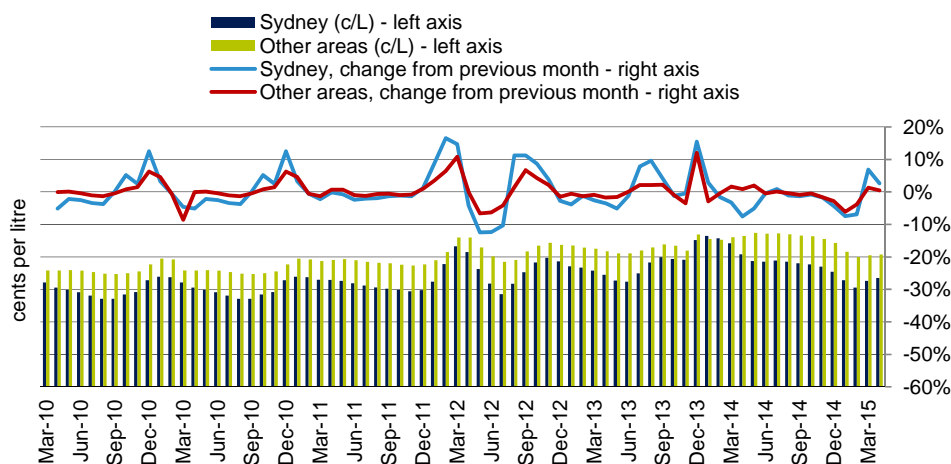
The NSW Taxi Council and NSW CTOA submitted that there is a higher level of fuel price volatility in rural and regional NSW and price increases can be significant over shorter timeframes.¹⁶⁰ However, we consider that the higher distance rate for fares in country areas reflects the higher cost of fuel, and FUELtrac data shows that country LPG prices are no more volatile than urban (See Figure 9.1).

Two stakeholders commented in their submissions to our Draft Report that taxi reliance on LPG fuel is diminishing so reviewing LPG prices is moot.¹⁶¹ One thought that there should be a broader range of fuel prices reviewed. Neither of these points affects our view that there is sufficient economic rent in fares to cover any increases in LPG (or other fuel) costs, so our recommendation is unchanged from our draft report.

Recommendation

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

Figure 9.1 LPG retail prices



Data source: FUELtrac data.

¹⁶⁰ NSW Taxi Council and CTOA submission to Issues Paper, 9 December 2014, p 22.

¹⁶¹ ATDA submission to Draft Report, p 2; Byron Bay Taxis submission to Draft Report, pp 1, 7.



Appendices

A Terms of reference

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992 TAXI INDUSTRY FARE REVIEW

I, Hon Mike Baird, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, approve the Independent Pricing and Regulatory Tribunal (IPART) entering into arrangements with Transport for NSW for one year to 2 August 2015 to provide services to Transport for NSW that are within its area of expertise. The services to be provided by IPART are the conduct of an investigation into, and the preparation of a report concerning, maximum fares for taxi services under the *Passenger Transport Act 1990*.

In providing these services, IPART should consider:

- i) the cost of providing the services concerned and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers;
- ii) the protection of customers from abuses of monopoly power in terms of prices, pricing policies, and standards of service;
- iii) the need to maintain ecologically sustainable development;
- iv) the impact on customers of the recommendations;
- v) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards); and
- vi) the effect of any pricing recommendation on the level of Government funding.

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

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



The Hon Mike Baird MP
Premier
Minister for Western Sydney
Minister for Infrastructure

Dated at Sydney.....2014

B | List of submissions

Table B.1 Issues Paper submissions received

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

Table B.2 Draft Report submissions received

Submitter	Date received
Australian Taxi Drivers Association	14 May 2015
Australian Taxi Federation	20 May 2015
Byron Bay Taxis and Limousines	15 May 2015
Individual (Anonymous) - confidential	15 May 2015
Individual (Anonymous)	14 May 2015
Individual (Anonymous)	13 May 2005
Individual (Anonymous)	13 May 2005
Individual (Anonymous) - confidential	12 May 2005
Individual (J Bishop)	12 May 2015
Individual (P Brasher)	13 May 2015
Individual (I Bridge)	19 May 2015
Individual (K Cole)	7 May 2015
Individual (R Grace) - confidential	14 May 2015
Individual (A McKenzie)	12 May 2015
Individual (J Madden)	13 May 2015
Individual (F Richards)	17 May 2015
Muswellbrook Shire Council	15 May 2015
Newcastle Hire Cars	12 May 2015
New South Wales Taxi Council and NSW Country Taxi Operators Association	22 May 2015
Port Macquarie Taxis	15 May 2015

C Comparison of fares in other Australian jurisdictions

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

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

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

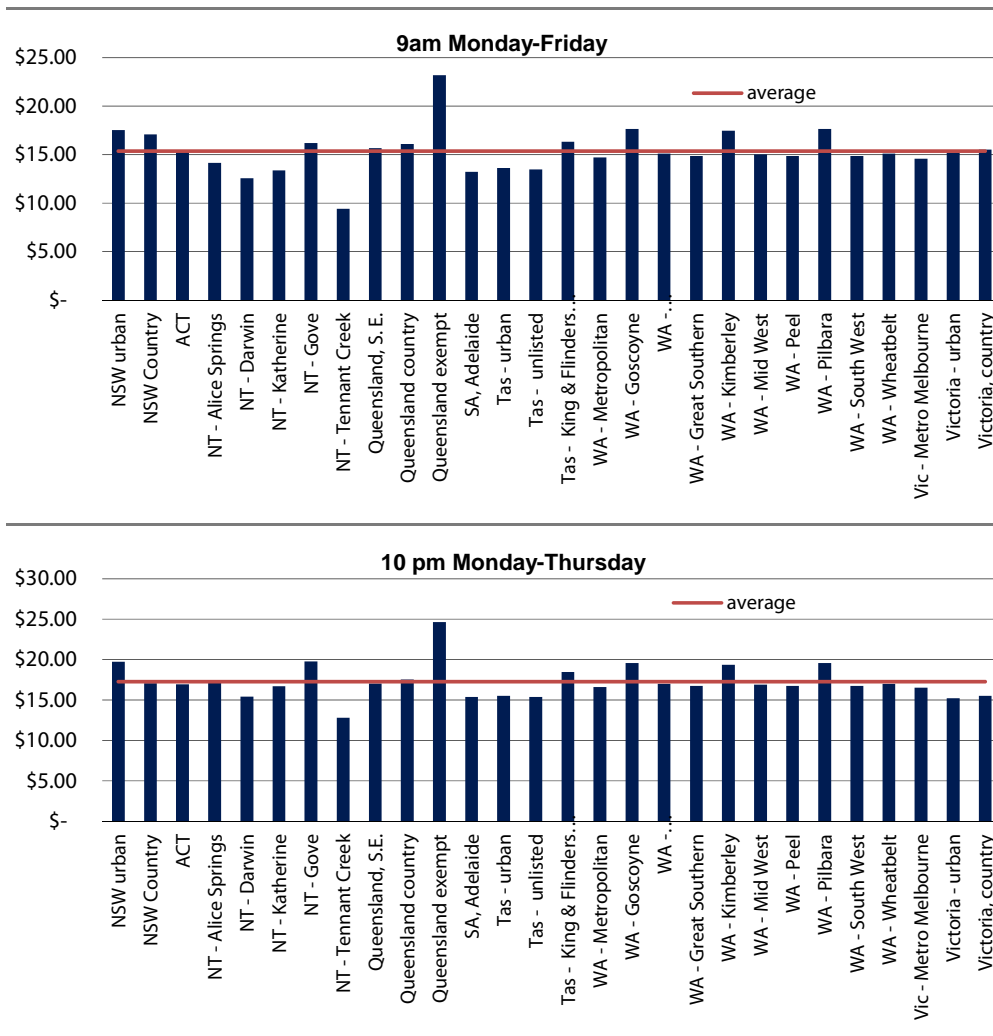
- ▼ Fares in NSW for daytime weekday trips (short and long) and long trips on weekday¹⁶² evenings are generally higher than the average across Australia. NSW Country fares for short evening trips are just below the Australian average.
- ▼ Longer trips in country NSW tend to be more expensive than in other areas. This is because the distance (per km) rate increases for journeys that exceed 12 km (the distance rate in all other areas is constant, regardless of the length of the journey). The clear exception, where fares are higher, is "exempted areas"¹⁶³ in regional Queensland.
- ▼ NSW urban fares are the highest of all capital cities and are higher than most regional areas except exempted areas in regional Queensland, at most times.

While the figures below use the regulated fare for country Victoria, we note that as of 6 March 2015, 27 operators in Victoria had price-notified (ie, chosen to set their own fares).¹⁶⁴ With one exception, all fare components are the same or higher than the equivalent regulated fare component. Some operators have retained the regulated flag fall and increased the distance rate and waiting time rate. Others have increased the flag fall and kept the other components at the regulated rate. Several operators have chosen to introduce additional time-of-day tariffs rather than have a late night fee.

¹⁶² Fares calculated for Monday-Thursday. Some cities (including Sydney) have additional charges late on Friday nights.

¹⁶³ Exempted taxi service licences are issued in areas with small populations which would be unlikely to support a full metered taxi service. (Queensland Government Department of Transport and Main Roads, *Taxi fares, service areas and maps*, <http://www.tmr.qld.gov.au/Travel-and-transport/Taxis/Taxi-fares-service-areas-and-maps.aspx>)

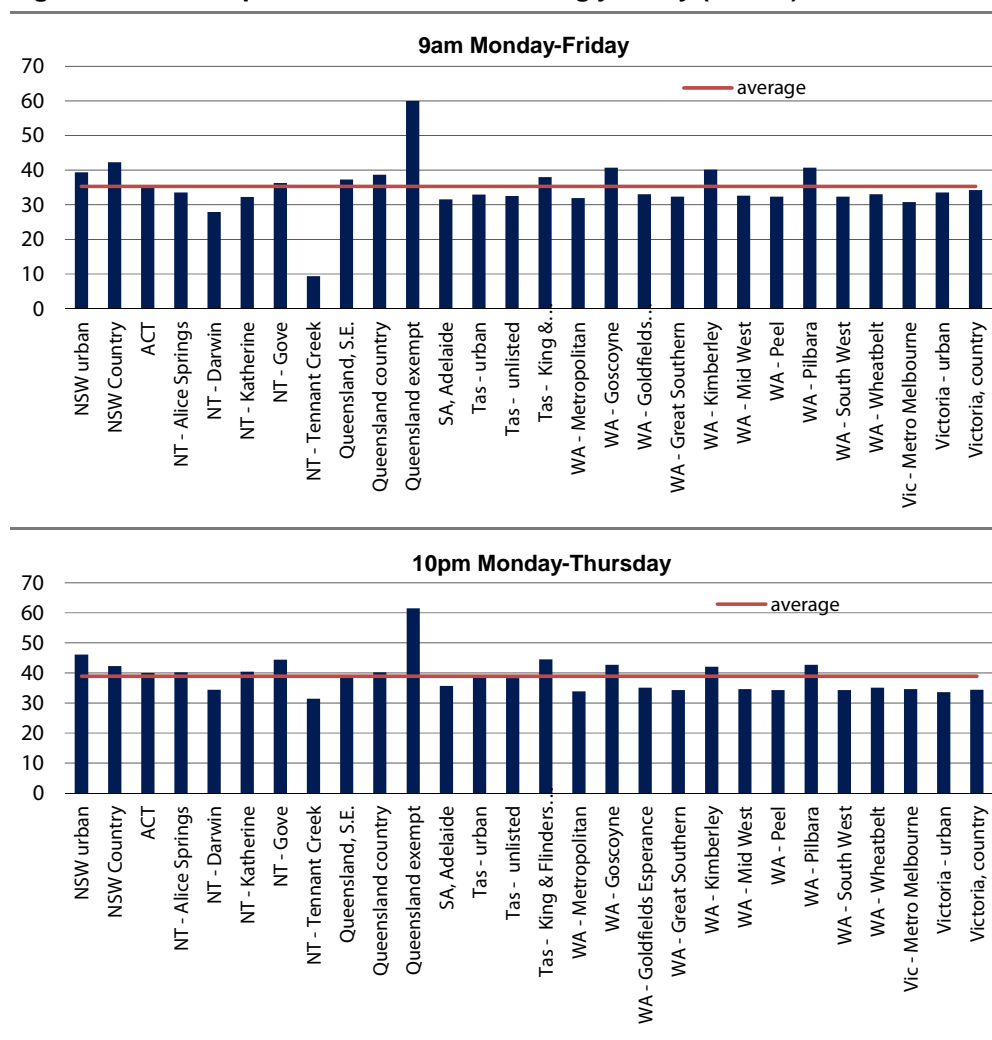
¹⁶⁴ Taxi Services Commission, *Operators who have price notified*, <http://www.taxi.vic.gov.au/taxi-reform/reforms-implemented/price-notification/operators-who-have-price-notified>, accessed 10 March 2015.

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

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

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

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



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

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

D | Glossary

ABS	Australian Bureau of Statistics
Areas outside Sydney	see Outside Sydney
Booking apps	These apps allow a person to request a taxi using a smartphone. Network booking apps offer an alternative means of making a network booking, while independent apps (such as UberTaxi, GoCatch and Ingogo) allow a passenger to book directly with a driver.
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
Car sharing	A type of car rental where any qualified driver joins a group (with or without a joining or monthly fee) and group members are able to rent a car for short periods of time (for example, one or two hours). Cars are parked in various locations and members usually do not have to meet anyone or complete paperwork to rent the car. Examples in Sydney include GoGet, GreenShareCar, Car Next Door and Hertz 24/7. We are not aware of carshare schemes operating in NSW outside Sydney.
CIE, The	The Centre for International Economics
Cost inflator	A measure of the change in the price of a cost over time.
Consumer Price Index (CPI)	A measure of inflation, or the change in the cost of living over time.
Distance rate	The fare rate charged when travelling more than a threshold speed, currently 26km/h.
Economic rent	Unearned income that results from the scarcity of goods and/or services.

Elasticity of demand	The amount by which demand changes in response to a given change in price or waiting time. The more that demand responds, the more elastic it is said to be.
Fares Order	The order made under section 125 of the <i>Passenger Transport Act 2014</i> which sets out the maximum fares that can be charged by NSW taxis. See www.transport.nsw.gov.au .
Flag fall	See Hiring charge.
Hire car	A point-to-point passenger service operated under licence issued by Roads and Maritime Services. Hire cars must be pre-booked, vehicles must be in excellent condition and the fare must be notified to the passenger before the hire starts. A hire car cannot pick up 'hail' jobs and cannot stand, park or ply for hire on a road or road related area.
Hiring charge	The fixed fee charged at the beginning of a taxi trip.
IPART	Independent Pricing and Regulatory Tribunal. Provides taxi fare recommendations to Transport for NSW on an annual basis.
Key performance indicator (KPI)	Measures network service performance in Sydney, Newcastle and Wollongong.
Latent demand	Latent demand describes the additional taxi trips that would be taken if waiting time for taxi services fell, or if fares were reduced. The amount by which trips would increase in response to a given improvement in waiting time or reduction in fares is known as the elasticity of demand.
LPG	Liquefied Petroleum Gas
Maxi-taxi surcharge	Fare component charged for hiring a maxi-taxi, except when it is hired from a taxi zone or hailed on the street to carry up to 4 passengers or as a multiple hiring. Calculated as a percentage mark-up on the entire fare (excluding tolls).

Network, taxi	Taxi networks provide a radio booking service to the taxi operators who are affiliated with them, as well as security monitoring services for taxi drivers and passengers. Networks must be authorised by Transport for NSW.
Nominal	Not adjusted for inflation. For example, if something cost \$100 in 1990 and the same thing cost \$100 in 2012, its nominal cost has not changed. However, adjusting for 22 years of inflation, its real cost is lower in 2012 than in 1990.
Operator, taxi	Taxi operators are responsible for the day-to-day management of one or more taxis. Operators may be individuals or corporations, and must be accredited by Roads and Maritime Services. They must also be affiliated with an authorised network, fit out their vehicle with the network's livery and install the network's communications equipment. They must insure and maintain their vehicle(s), and hold a taxi licence for each vehicle they operate.
Other urban areas	<ul style="list-style-type: none"> ▼ Newcastle Transport District ▼ Wollongong Transport District ▼ Blue Mountains LGA ▼ Gosford LGA ▼ Wyong LGA ▼ Shellharbour LGA ▼ townships of Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo.
Outside Sydney	All areas in NSW outside the Sydney Metropolitan Transport District.

Pay-in	The amount paid by a taxi driver to an operator for the use of a taxi. In areas outside Sydney, drivers and operators typically share fare revenue. In Sydney maximum pay-ins are determined by the NSW IRC and set out in the <i>Taxi Industry (Contract Drivers) Contract Determination 1984</i> but discounting below this rate is common.
Point-to-point transport	A mode of transport where the transport operates from the passenger's pick-up point to the passenger's ultimate destination. Most public transport is not point-to-point, as it requires the passenger to get to and from an access point eg bus stop, railway station at each end of the journey.
Real	Prices or costs that have been adjusted for inflation. So something that cost \$100 in 1990 and \$100 in 2012 has had a drop in its real price since 1990. If the measure of inflation (usually CPI) has risen by 30% over that time, the real price of the object in 2012 can be expressed as '\$76.92 in 1990 dollars' (or the real price of the object in 1990 can be expressed as '\$130 in 2012 dollars').
Ridesharing	A point-to-point transport service where private individuals use their own cars to drive passengers for a fee. An example is Uber's low cost service, UberX. It is currently not legal to transport a passenger for a fee unless you are an authorised taxi or hire car driver in an authorised vehicle. We are not aware of ridesharing operations in NSW outside Sydney, and possibly Newcastle.
Roads and Maritime Services	The NSW Government agency that issues taxi and hire car licences and other authorities and enforces taxi and hire car regulation.
TCIs	Taxi Cost Indices. Historically used by IPART to measure the change in taxi industry costs between fare review periods.
Transport for NSW	The NSW Government agency that has the primary role in regulating taxis and hire cars.

Wheelchair Accessible Taxi licence (WAT)	A licence to operate a Wheelchair Accessible Taxi. The operator is required to give preference to transporting wheelchair users. WAT licences are available on request from Roads and Maritime Services for \$1,000 a year in urban areas and for free in country areas.
--	--

