

Sydney taxi fares to apply and new licences to be released from July 2015

Transport — Final Report
February 2015

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Contents

1	Introduction and overview	1
1.1	Overview of our recommendations	1
1.2	Our approach	1
1.3	Review process	4
1.4	How this report is structured	5
1.5	List of recommendations	5
2	Context for the review: Sydney taxi fares and licences	7
2.1	Amendments to taxi licensing in Sydney made in 2009	7
2.2	Sydney taxi fares	10
2.3	What has happened in the market for taxi services since 2011?	11
2.4	How we considered the factors in our terms of reference	16
2.5	What do the changes in the market for taxi services mean for IPART's approach to recommending fares and licences?	18
2.6	It is time for a review of the regulatory framework of all point-to-point transport services	19
3	Recommended fares and licences for growth	23
3.1	Our approach	24
3.2	Why we are recommending a fare freeze in combination with no additional growth licences	24
3.3	Taxi industry model inputs	28
3.4	Ongoing review of LPG fuel cost	32
4	Replacing licences and making allowance for future attrition and wheelchair accessible taxi (WAT) licences	34
4.1	The importance of licence churn	35
4.2	Unrestricted licences and PALs	36
4.3	Fringe area licences	38
5	Process for releasing licences	39
5.1	Tender process	39
5.2	Should there be a reserve price for tenders?	42
5.3	Reserving some licences for drivers and/or restricting the number that can be granted to the same applicant	42

6	Performance of taxi services	44
6.1	The performance of existing taxi services	45
6.2	Service performance aspects of alternative forms of point-to-point transport	49
6.3	The impact of our recommendations on performance levels	52
7	Other considerations	53
7.1	The need to maintain ecologically sustainable development	53
7.2	The effect of any pricing recommendation on the level of Government funding	53
	Appendices	55
A	Terms of reference	57
B	List of submissions	60
	Glossary	61

1 Introduction and overview

Transport for NSW (TfNSW) asked IPART to review taxi fares across NSW and the number of new annual Sydney taxi licences to be released from July 2015.

This report sets out our recommendations on maximum taxi fares for Sydney and the number of new annual Sydney taxi licences (other than licences for wheelchair accessible taxis (WATs)) to be released from July 2015.

Our draft report on maximum taxi fares for other urban and country areas will be released in April.

1.1 Overview of our recommendations

Our recommendations for the 2015-16 year are for a fare freeze (in nominal terms) combined with maintaining the stock of taxi licences. We also recommend a review of the regulations for all point-to-point transport.

Because some annual licences are relinquished or not renewed, our recommendation is also to tender 39 unrestricted licences and 71 peak availability licences (PALs) for historical replacement and as an allowance for future attrition. These licences will not add to the permanent stock of licences in Sydney.

We also recommend that two fringe area licences for Richmond/Windsor be issued to replace two which were surrendered during 2014.

We propose to discontinue our ongoing review of LPG prices outside the fare and licence review process.

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

1.2 Our approach

This review was undertaken in the context of reforms to taxi licensing arrangements made in 2009 to address taxi numbers not keeping pace with demand, licences becoming expensive to obtain and fares becoming more expensive than they needed to be. The reforms sought to balance improvements for passengers and new entrants to the taxi industry with the need to avoid unreasonable impacts on existing licence holders.

Survey results suggest that the environment for providing taxi services has changed in the last two to three years. Competition from alternatives to taxis is helping to meet passenger demand and reduce barriers to entry to the taxi industry, and is making more affordable transport available to consumers. Our modelling shows that impacts on existing licence holders (measured as a drop in income from leasing out licences) are coming from these external developments rather than from changes to fares or the number of taxi licences available. We have made our recommendations in the context of these external changes.

We have used our existing model of the Sydney taxi industry to model the expected impact of changes to numbers of licences and fares on outcomes for passengers, taxi industry participants and existing licence owners, and continued to make decisions in the context of a 25% drop in licence lease costs over five years from 2012-13 to 2017-18.

1.2.1 Survey results show changes to the way people use taxis

Results from two surveys we conducted¹ show that the way people use taxis in Sydney has changed as alternative point-to-point transport services such as hire cars with drivers, carsharing and commercial ridesharing (even though it is currently illegal) have become more popular over the past few years.

Our survey of more than 2,000 Sydney residents, undertaken annually since 2012, and conducted for us by Taverner Research in November 2014, found that:

- ▼ the use of hire cars with drivers grew from 14% of Sydney residents to 18% between 2012 and 2014
- ▼ commercial carsharing services were used by 13% of Sydney residents during 2014, and
- ▼ in the first six months that commercial ridesharing services operated in Sydney, they were used by 11% of Sydney residents despite being illegal.

Results from our survey of taxi drivers and operators, conducted for us by the CIE, indicate that:

- ▼ revenue per taxi on the road per shift has fallen in real terms, and a lower share of taxis is on the road per shift, indicating a drop in taxi patronage since 2011
- ▼ taxi licence lease costs have dropped in nominal terms from around \$29,000 (ex GST) to around \$27,500 (ex GST) for unrestricted licences, which is a reduction of about 12% in real terms over three years

¹ The CIE, *Final report – 2014 survey of taxi drivers and operators –survey results for the Sydney metropolitan transport district*, February 2015 (a survey of all taxi drivers and operators in NSW, conducted by the CIE on behalf of IPART) and Taverner Research, *Survey of Taxi Use*, December 2014 (a survey of NSW residents, conducted by Taverner on behalf of IPART). Both survey reports are available on IPART's website.

- ▼ total driver earnings per taxi are about the same in nominal terms as they were in 2011 – that is, they are lower in real terms now than in 2011, and
- ▼ this shows that driver incomes did not increase as a result of nominal fare increases in 2012, 2013 and 2014.

1.2.2 Additional licences released and fare increases implemented on the last two years have had no impact on licence lease costs

In the last two years Transport for NSW has released 345 additional PALs and increased taxi fares by a nominal 3.9%.

We modelled the impact these additional licences and changed fares alone would have had, and determined that these changes would have improved waiting times for taxis and made them somewhat more affordable (because the fare increase was lower than the rate of inflation over that time), but would have put no downward pressure on licence lease costs, an ‘economic rent’ that reflects the scarcity of licences and accounts for around 20% of every fare.

1.2.3 Competition from alternatives to taxis has driven down taxi licence lease costs

We used the survey results in our taxi model to assess why licence lease costs have fallen in real terms. The model shows that the lower demand for taxis, as revealed by the survey of taxi drivers and operators, led to the drop in licence lease costs: as fare revenue per taxi dropped, there was less economic rent available to pay licence lease costs.

However, we consider that the demand for point-to-point transport actually grew over that period. Sydney’s population continues to grow every year, as does business and tourism activity and household spending, and all these things drive demand for point-to-point transport services. We can only conclude that the growth in demand for point-to-point transport services appears to have been taken up by alternatives to taxis, while demand for taxi services has dropped.

Competition is changing the industry and driving down taxi licence lease costs faster than any changes made in terms of additional licences and subdued fare increases over the past two years. The intensifying competition means the market is delivering cheaper and more reliable point-to-point transport in response to consumer demand.

1.2.4 We have made our recommendations with regard to the impacts of competition on the taxi industry

Our recommendations for 2015-16 are to freeze fares and maintain the number of taxi licences in Sydney. We also recommend a review of the regulations for all point-to-point transport.

The point-to-point transport industry is changing rapidly and the regulatory framework should be reviewed in light of both what is happening now and possible future scenarios. Recommendations about future taxi fares and licence numbers are being made in the context of these significant market changes.

Competition drives more efficient service provision and has the potential to drive service improvements and more choice for consumers, but competitors should also be subject to regulation for safety of passengers and drivers and protection of consumers.

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.

Despite a fare increase implemented by TfNSW last year, drivers are earning less now in real terms than they were in 2011, demonstrating that fare increases do not benefit drivers or operators.

We consider that the process for tendering annual licences has been working well, with some improvements made in 2014, and that the 2015 process should take the same form as the 2014 process.

1.3 Review process

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

- ▼ Released an issues paper in October 2014, which outlined the key issues we would consider, and invited interested parties to make a submission in response to this paper. We received six submissions, which are listed in Appendix B and available in full on our website.
- ▼ Commissioned a survey of NSW residents about their taxi use, a repeat of the survey we undertook in November 2012 and November 2013. The survey report, *Survey of Taxi Use*, is available on our website.
- ▼ Commissioned a survey of all taxi drivers and operators in NSW. The final report on the survey responses from Sydney drivers and operators, *Final report – 2014 survey of taxi drivers and operators – survey results for the Sydney metropolitan transport district*, is available on our website.

- ▼ Released a Draft Report in December 2014 and invited interested parties to make a submission. We received 12 submissions, which are listed in Appendix B and available in full on our website.
- ▼ Held a public roundtable on 27 January 2015. A transcript of proceedings is available on our website.

1.4 How this report is structured

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

- ▼ Chapter 2 explains the context for the review, including amendments to taxi licensing arrangements made in 2009 and what has happened to the taxi market since then.
- ▼ Chapter 3 sets out our recommendations for growth annual licences and fares for Sydney from July 2015, and discusses the options that we considered to meet the objectives of the review.
- ▼ Chapter 4 explains our recommendations for replacing licences and making allowance for future attrition and wheelchair accessible taxi (WAT) licences.
- ▼ Chapter 5 discusses the process for releasing annual taxi licences in Sydney.
- ▼ Chapter 6 discusses performance of taxi services.
- ▼ Chapter 7 discusses other considerations for the review.
- ▼ Appendix A provides the terms of reference for the fare and licence reviews.
- ▼ Appendix B lists submissions received on the review.
- ▼ The Glossary defines the terms and acronyms used in this report.

1.5 List of recommendations

- 1 That the Government appoint an independent body such as IPART to make recommendations on the regulation of point-to-point transport that: 21
 - applies to all point-to-point transport services 21
 - takes account of the impact of new technology 21
 - focuses on the safety of drivers and passengers and consumer protection, and 21
 - encourages innovation and competition. 21
- 2 A fare freeze (at current nominal rates) in 2015-16 and no additional growth licences to be released in 2015-16. 23
- 3 That IPART no longer undertake an ongoing review of LPG prices outside the annual fare review process. 32

4	That 39 unrestricted licences and 71 PALs be tendered in 2015, comprised of:	35
	– a historical adjustment of five unrestricted licence and 12 PALs for licences relinquished since 1 January 2013	35
	– a historical adjustment of minus 6 (-6) unrestricted licences as a historical adjustment for growth in WATs since 1 January 2013, and	35
	– 44 unrestricted licences and 59 PALs, to allow for licences we expect to be relinquished or not renewed during 2015.	35
5	That two (2) fringe area licences for the Richmond/Windsor area be tendered in 2015, as replacement for fringe area licences relinquished in 2014.	35
6	That Roads and Maritime Services keep track of how many successful applicants for annual licences are existing annual licence holders who relinquish their older licence in favour of the new one. This will provide data on the churn of licences.	35
7	That Roads and Maritime Services continue to use the existing tender process, that is, a sealed electronic tender, with pay-as-bid prices for successful tenderers.	40
8	That Roads and Maritime Services continue to publish preliminary results of tenders within four (4) weeks of tenders closing.	42
9	That Roads and Maritime Services continue to include up to date contextual information such as past tender prices, alternative sources of licences, objectives of licence reforms, and fare levels, to help tenderers reach an informed decision about the appropriate value to them of a taxi licence.	42
10	That maximum taxi fares for Sydney from July 2015 be announced before the annual licence tender process commences to provide information to potential tender bidders.	42

2 Context for the review: Sydney taxi fares and licences

This review is being undertaken in the context of reforms to taxi licensing arrangements made in 2009 to address taxi numbers not keeping pace with demand, licences becoming expensive to obtain and fares becoming more expensive than they needed to be. The reforms sought to balance improvements for passengers and new entrants to the taxi industry with the need to avoid unreasonable impacts on existing licence holders.

Survey results suggest that the environment for providing taxi services has changed in the last two to three years. Competition from alternatives to taxis in the point-to-point transport market, such as hire cars, carshare services and commercial ridesharing, has increased. This competition is helping to meet passenger demand, reduce barriers to entry both to the taxi industry and the broader point-to-point transport market, and is making more affordable transport available to consumers. Survey data and our modelling show that impacts on existing licence holders and other taxi stakeholders are coming from these external developments rather than from changes to fares or the number of taxi licences available.

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

2.1 Amendments to taxi licensing in Sydney made in 2009

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

To address these problems, the *Passenger Transport Act 1990* (the Act) was amended in 2009 so that TfNSW was required to decide how many new licences would be released each year. The new licences are annual, renewable by right for up to 10 years, and are obtained by tender. The annual cost of the licence is the nominal price originally tendered, with no indexing.²

² *Passenger Transport Act 1990*, ss32C-32D.

2.1.1 Number of taxi licences in Sydney

Following the 2009 amendments, annual Sydney taxi licences (other than fringe area licences) have been released as set out in Table 2.1. In total, 685 unrestricted annual licences and 662 annual PALs were tendered between January 2010 and December 2014.

Table 2.1 Taxi licences tendered in Sydney since January 2010

	Licences tendered	
	Unrestricted	PAL
2010	319	90
2011	129	48
2012	55	46
2013	65	283
2014	117 ^a	195 ^a
Total 2010-2014	685	662

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

Source: RMS data provided by TfNSW.

Table 2.2 Change in the stock of Sydney taxi licences 1 January 2010 to 1 January 2015

	Unrestr- icted	PAL	WAT	Fringe area licence	All
Total licences at 1 January 2010	4,419	265	528	19	5,231
Net change 2010	+254	+10	+45	0	+309
Net change 2011	+84	+8	+33	-6	+119
Net change 2012	-28	+3	+12	+1	-12
Net change 2013	-46	+191	+9	0	+154
Net change 2014	+45	+142	-3	-2	+182
Total licences as at 1 January 2015	4,728	619	624	12	5,983
Net change between 1 January 2010 and 1 January 2015	309	354	96	-7	752

Source: RMS data provided by TfNSW.

Table 2.2 shows the net growth in the number of Sydney taxi licences between January 2010 and January 2015 was 752 licences, or around 14% increase in the size of the taxi fleet. The increase in the number of licences is less than the number of new licences tendered over the same period because:

- ▼ some of the issued licences have subsequently been relinquished or not renewed
- ▼ some licences were forfeited before they were issued, and/or

- ▼ some of the issued licences replaced short-term licences³ that expired during the period.

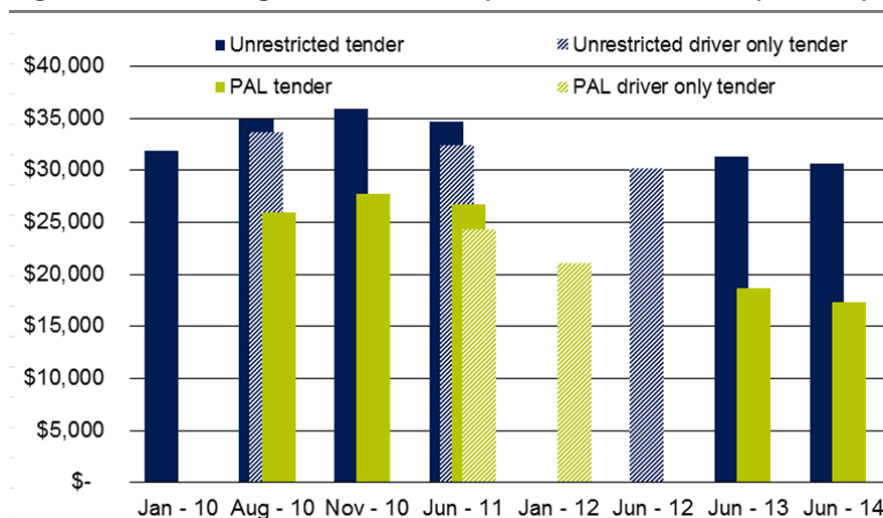
As at 1 January 2015, there were 5,983 taxi licences in the Sydney metropolitan transport district, including WAT licences and fringe area licences.

2.1.2 Price of taxi licences in Sydney

The price of a new annual taxi licence is the amount that a successful tenderer bid for the licence. There has been a strong take up of the new annual licences. Each of the tenders of licences since the first tender in 2010 has been over-subscribed except the 2011 driver-only issue of PALs. Unissued licences from that tender were subsequently re-tendered and the re-tender was over-subscribed. In the most recent tenders in 2014, there were 603 bids for 117 unrestricted licences and 619 bids for 195 PALs.⁴

All winning bids have been over \$28,000 for unrestricted licences and over \$15,000 for PALs.⁵ Figure 2.1 shows the average tender prices for each tender conducted since January 2010. If the winning tenderer renews the licence in subsequent years (up to a maximum of 10 years), the annual price is the same as the original bid price.

Figure 2.1 Average successful bid price for each tender (nominal), 2010-14



Note: This figure shows the results of all eight rounds of licence tenders conducted to date. Different rounds offered different mixes of unrestricted licences and PALs, including three rounds where only one type of licence was tendered. Some of the tenders offered within a round were only open to drivers and some were open to anyone.

Data source: RMS data provided by TfNSW.

³ Taxi licences with fixed terms between 1 and 6 years were issued in Sydney up until 2005 and are still available in areas outside Sydney. All Sydney short-term licences have now been replaced by annual licences.

⁴ RMS data provided by TfNSW.

⁵ RMS data provided by TfNSW.

Taxi operators can also lease existing perpetual or ordinary licences, either directly from a licence owner or through an intermediary such as a taxi network or licence broker. These lease prices are not publicly available.

Existing perpetual and ordinary taxi licences can be transferred (ie, bought and sold) for a price agreed between the parties. Transfer prices must be reported to RMS. Transfer prices for unrestricted perpetual and ordinary licences averaged \$373,376 in 2014.⁶

2.2 Sydney taxi fares

The current urban taxi fare schedule is shown at Table 2.3. It applies in Sydney, Newcastle, Wollongong and surrounding areas. However, for this review, we are only considering fares to apply in Sydney and we are considering other urban fares together with country fares in a separate review.

Table 2.3 Urban fare schedule 2014-15 (commenced July 2014)

Fare component	Maximum charge
Hiring charge ^a (all times except for Friday and Saturday night 10pm – 6am)	\$3.60
Peak time hiring charge (an additional surcharge payable Friday and Saturday nights, and public holidays, 10pm – 6am)	\$2.50
Standard distance rate (\$/km when the vehicle is travelling more than 26 km/h)	\$2.19
Night distance rate (\$/km when the vehicle is travelling more than 26 km/h, 10pm – 6am) (20% surcharge)	\$2.63
Waiting time (\$/hour when vehicle slower than 26 km/hour)	\$56.68 94.4 c per minute
Booking fee (booked fares only)	\$2.50
Maxi taxi surcharge (on total fare) ^b	50%

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

^b Applies when a maxi cab is pre booked (regardless of the number of passengers) or if a maxi cab is hired from a taxi zone or street hail to carry five or more passengers.

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

Between 2001 and 2012, IPART recommended changes to maximum taxi fares in line with the estimated average change in the financial costs of providing taxi services over the previous 12 months, as measured by the urban Taxi Cost Index (TCI). Taxi fares rose by 69% between 1999 and 2012, faster than the rate of inflation (CPI) and the rate of increase of labour costs in the economy (WPI).

In 2013, we changed to a methodology for recommending fares that considered the high economic rents embedded in fares, and the interactions between the number of licences, fares and the demand for taxi services.⁷

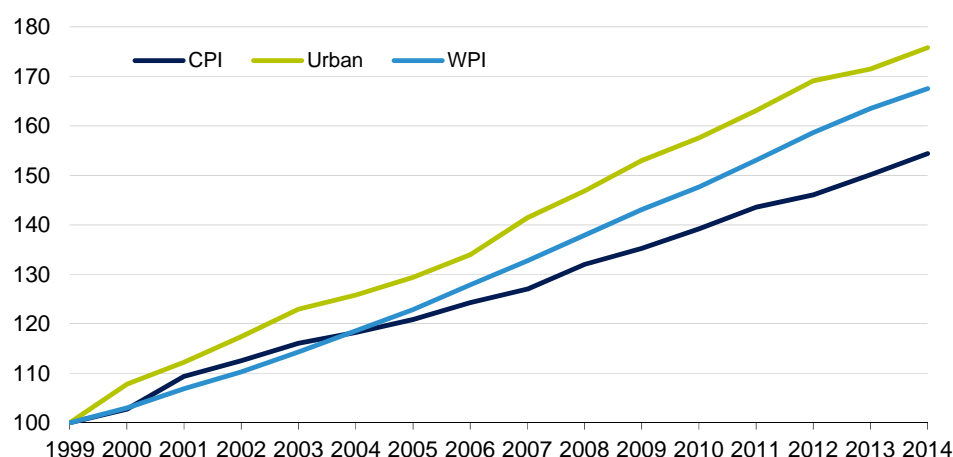
⁶ RMS data provided by TfNSW.

⁷ IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013.

In 2013, we recommended a 1% nominal fare reduction and a restructuring of fare components; TfNSW froze fare components at their nominal level and introduced a \$2.50 peak time hiring charge on Friday and Saturday nights.⁸ In 2014, we recommended a freeze; TfNSW increased fare components by CPI (2.5%) before rounding, except the peak time hiring charge which didn't change.⁹ We have calculated the weighted average price change over the two years as 3.9% nominal.

Figure 2.2 shows how urban fares changed between 1999 and 2014.

Figure 2.2 Urban taxi fare changes 1999-2014, index of nominal prices



Data source: IPART fare review reports; ABS data: Sydney CPI 1999 to 2014 and WPI 1999 to 2014.

2.3 What has happened in the market for taxi services since 2011?

For this review we have obtained survey data and undertaken modelling that suggests there have been major changes in the market for taxi services since 2011, and that these changes have been brought about by competition from alternative providers of point-to-point transport services, such as hire cars, carshare services and commercial rideshare providers, and not by the changes in fares or the number of new licences issued during that period.

⁸ IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, p 1; TfNSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

⁹ IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 1; TfNSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014.

2.3.1 Results from a survey of taxi drivers and operators in Sydney show that demand for taxi services is down, and so are driver and operator incomes, as well as licence lease costs

We engaged the CIE to repeat a survey of all taxi drivers and operators in NSW about their costs, revenue and taxi operating patterns. The survey was last undertaken in 2011. The CIE's final report on the Sydney taxi data is being released at the same time as this report, and is also available on our website.¹⁰

The survey results for Sydney indicate that:

- ▼ revenue per taxi on the road per shift has fallen in real terms, and a lower share of taxis is on the road per shift, indicating a drop in taxi patronage since 2011¹¹
- ▼ taxi licence lease costs have dropped in nominal terms (\$27,315 in 2014 compared to \$29,394 in 2011) as well as in real terms¹²
- ▼ total input costs (including driver and operator labour, insurance, fuel and vehicle costs) are similar in nominal terms to 2011 ie, there has been a real decrease in input costs¹³
- ▼ total driver earnings per taxi per year are the same in nominal terms as they were in 2011, indicating a drop in real terms,¹⁴ in spite of nominal fare increases in 2012, 2013 and 2014¹⁵
- ▼ operator labour costs have dropped significantly in nominal terms, although this result needs to be interpreted with caution, as the sample size was relatively small, and operator labour costs are small relative to revenue and other costs, so small variations in revenue and/or other costs can have a big impact on the operator labour costs.¹⁶

2.3.2 Our taxi industry model shows that the pressure on licence lease costs is coming from the drop in demand for taxi services, not from changes to fares or licence numbers

The CIE has updated the Sydney taxi industry model using data from results of the 2014 driver and operator survey and from other sources.

¹⁰ The CIE, *2014 survey of taxi drivers and operators – Final Report*, February 2015.

¹¹ Ibid, pp 3, 18, 22-23.

¹² Ibid, p 25.

¹³ Ibid, p 18.

¹⁴ Ibid, p 18.

¹⁵ Maximum urban taxi fares increased by 3.7% in 2012 (per IPART's recommendation); a peak time hiring charge was added in 2013 and a CPI increase to most fare components was implemented in 2014 (resulting in a 3.6% average fare increase across the two years as set out in section 2.2 of this report).

¹⁶ Ibid p 27.

We used the model to assess the changes in inputs and outcomes between 2012-13 and 2014-15, and our assessment is:

- ▼ the actions the Government has taken to restrict fare increases and release licences did not put any pressure on taxi licence lease costs by themselves. Licence lease costs would have increased in real terms (by about 3.5%) if our assumptions about demand for taxi services and costs of providing taxi services had held, and
- ▼ a reduction in demand appears to be the main factor putting downward pressure on licence lease costs.

2.3.3 Demand for point-to-point transport services hasn't reduced, even though demand for taxi services has

Point-to-point transport services operate from the passenger's pick-up point to the passenger's ultimate destination. Private vehicle use, carshare services, hire cars with drivers, rental cars, commercial ridesharing and taxis are all forms of point-to-point transport. (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.)

In our last two reviews of the number of new annual licences to be released, we used 2.5% as the estimate of annual growth in demand for **taxi services** from external sources such as population growth, and business and tourism activity (as opposed to demand for taxi services generated by lower fares or shorter waiting times). Implicitly, we assumed that the growth in demand for taxi services from these sources would be the same as the growth in demand for all point-to-point transport.

For this review, we have again considered these indicators and concluded that 2.5% continues to be a good estimate of long-term annual growth in demand for point-to-point transport services, as Sydney's population continues to grow, as do economic activity and tourism activity. However, we have assumed that all this growth in demand is absorbed by taxi substitutes, rather than leading to a growth in demand for taxis. Section 3.4.1 deals with these indicators in more detail.

2.3.4 Demand for taxi services appears to have dropped due to competition from alternative providers of point-to-point transport services

The last few years have seen growth in alternative methods of booking taxis and hire cars, growth in carshare services and the introduction of commercial rideshare services.¹⁷

¹⁷ It is currently illegal to transport a passenger for a fee unless you are an authorised taxi or hire car driver in an authorised vehicle; RMS has issued fines to offending rideshare drivers.

There is little reliable statistical data that quantifies these trends and their impact on the demand for taxi services. However, we have some data from our survey of Sydney residents about their point-to-point travel that indicates the direction and magnitude of these trends.

Use of hire cars has increased, carsharing services continue to expand, and 11% of Sydney residents say they have used a rideshare service in the last six months (which is as long as they have been operating).

Section 6.2 deals in more detail with these competitors to taxi services and the possible impact they have had on demand for taxis.

2.3.5 Impact to date on existing licence holders: comparison of licence lease values

Since we began reviewing licence numbers in 2012, we have assessed the impact on existing licence holders by considering the change in the lease price of unrestricted Sydney taxi licences, because it represents the income that most licence holders could earn by leasing their licences to an operator.

We use information from RMS's database of annual licences to estimate the change in lease price from year to year. We compare the average price of all active annual unrestricted licences as at the end of each calendar year. While unrestricted annual licences represent less than 10% of total number of unrestricted licences in Sydney, we consider this to be a reasonable estimate for the market rate for unrestricted licence leases (as leasing a perpetual or ordinary licence and holding an annual licence are very close substitutes). We use this source of data because of its ongoing availability and transparency.

Table 2.4 shows the average nominal unrestricted annual licence price between 2011 and 2014.

Table 2.4 Average nominal unrestricted annual licence cost, Sydney, 2011-2014

	2011	2012	2013	2014
Annual licences (no GST) ^a	\$33,357	\$32,512	\$31,847	\$31,302

^a The values in this table are the average of all active unrestricted annual licences at the end of December.

Source: RMS data provided by TfNSW.

Analysis of this data shows that between 2012 and 2014, the period of time IPART has been making recommendations on annual licence numbers, the average price of active annual unrestricted licences decreased by 7.8% in real terms.

We have also received data from the Taxi Council about the lease rates being charged by two major networks. The data are commercial-in-confidence but they indicate that the average lease amount charged for unrestricted licences decreased by 6.6% in real terms between 2012 and 2014, slightly less than the impact estimated by examining the change to active annual unrestricted licences.

A third source of data about the change to licence lease costs over time is the taxi operator surveys conducted for IPART by the CIE in 2011 and 2014. The surveys show change over three years rather than two, but the results are consistent: the surveyed average licence lease price in 2014 was 12.9% lower in real terms than the surveyed average licence lease price in 2011.¹⁸

It is clear that there has been an impact on existing unrestricted licence holders, but we do not consider it to be unreasonable within the context of a 25% real decrease over five years from 2012-13.¹⁹

However, as discussed above, we consider that the impact is a result of competition from alternatives rather than as a result of licences released or fare changes.

At the public hearing for this review, the Taxi Council noted that, while IPART has tracked the prices of unrestricted licences to measure impact on existing licence owners, the Government has focused on issuing PALs for growth during this time, and the price of PALs has fallen further than the price of unrestricted licences.²⁰

There are 4,517 perpetual or ordinary licences in the Sydney taxi market, of which 151, or only 3.3%, are PALs.²¹ The rest are unrestricted licences. This preponderance of unrestricted licences is why we have focused on assessing changes in their prices when we consider the impact on existing licence holders.

Our assessment of whether the impact on licence holders is not unreasonable is based on the average impact across all licence-holders and the impact on any individual licence-holder will depend on when and how they obtained their licence, as well as on the type of licence held. Furthermore, as for unrestricted licences, some of the impact on PAL holders is as a result of increased competition rather than Government decisions on licence numbers.

¹⁸ The CIE, *2014 survey of taxi drivers and operators - Final Report*, February 2015, p 25.

¹⁹ In our 2013 review we made a judgment about the number and mix of licences that provided the best mix of outcomes for taxi passengers, drivers and operators, and impacts on existing licence holders that were not unreasonable. We considered that a real reduction of 25% in licence lease costs over five years from 2012-13 was not unreasonable. (IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 5.)

²⁰ Mr F Lukabyo (NSW Taxi Council), Public Hearing Transcript, 27 January 2015, p 23. Data from the RMS annual licence database indicates that the average value of all active annual PALs fell by 27.4% in real terms between the end of 2012 and the end of 2014. The supply of PALs has more than doubled from 286 licences to 619 licences over this period.

²¹ RMS data provided by TfNSW.

2.4 How we considered the factors in our terms of reference

We received two separate terms of reference – one for the review of fares, and one for the review of the number of new licences to be released. We have run the reviews of Sydney fares and number of licences to be released concurrently and have made our recommendations on licence numbers and fares at the same time. We consider that it is important to consider the recommendations for both reviews as a package because fares and licence numbers have a combined impact on the outcomes of the industry. Our terms of reference for both reviews require us to consider similar factors when making recommendations.

Table 2.5 and Table 2.6 list the factors we are required to consider and summarise how we have taken each factor into account when making our recommendations on fares and licence numbers. With respect to the second factor that we are required to consider under our licence review, “balancing the need for more affordable entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders”, we are of the view that owners of perpetual or ordinary licences are the relevant ‘licence holders’ contemplated by our terms of reference.

The ATDA again submitted that the taxi operator is the relevant ‘licence holder’, rather than the licence owner, as a licence owner who leases out his or her licence does not actually ‘hold’ the licence.²² We are of the view that it is clear from the Parliamentary debate at the time of the 2009 reforms and the wording of our terms of reference that the impacts being contemplated are a reduction in the income that can be obtained from ownership of a licence. As a result, we use the terms licence holder and licence owner interchangeably in this report.

²² ATDA submission, 29 January 2015, p 4.

Table 2.5 Consideration of factors in our licence terms of reference

Factor	How we have considered it
Ensuring the supply of taxis responds closely to the growth in passenger demand	We have considered the evidence about growth in demand for taxi services as distinct from growth in demand for point-to-point transport services. (See section 2.3 above.) Section 2.5 below sets out how we responded to that information.
Balancing the need for more affordable entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders	Factors that formed the basis of this judgment are discussed in section 3.2. Impact to date is discussed in section 2.3.5.
Reducing barriers to entry and encouraging competition	Discussed in section 3.2.
Placing downward pressure on fares over time	Part of assessment of impact of different outcomes – see section 3.2.
Simplifying existing taxi licence structures	We have not recommended any additional types of licences or changes to licence conditions.
Likely passenger demand and latent demand for taxi services	Incorporated into the Sydney taxi industry model (see section 3.3).
Performance of existing taxi services	Available information on performance and overview of current indicators in Chapter 6. Impact of our recommendations in section 6.3.
The demand for new taxi licences	See section 2.1.2.
Viability and sustainability of the taxi industry	See section 2.5.
Any other matter with regard to the objective of improved taxi services	Chapter 7.

Table 2.6 Consideration of factors in our fare terms of reference

Factor	How we have considered it
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	Incorporated into the Sydney taxi model – see section 3.3.5.
Protection of customers from abuses of monopoly power in terms of prices, pricing policies and standards of service	Section 3.2.2 considers affordability impacts and section 6.1 considers affordability and service performance from a customer viewpoint.
Need to maintain ecologically sustainable development	There is limited scope to further this objective by changing taxi fares – see Chapter 7.
Impact on customers	Section 3.2.2 considers affordability impacts and section 6.1 considers affordability and service performance from a customer viewpoint.
Standards of quality, reliability and safety of the services	Available information on service quality and standards in Chapter 6.
The effect of any pricing recommendation on the level of Government funding	Chapter 7 considers the impact of our recommendations on Government funding.

2.5 What do the changes in the market for taxi services mean for IPART's approach to recommending fares and licences?

While some of the outcomes of the taxi licensing reforms are being met – taxis (and other forms of point-to-point transport) are easier and cheaper to catch, and entry to the taxi industry is easier and cheaper – it is not the licence release and fare recommendation process that has produced those outcomes, but competition in the market.

The question for IPART is how to respond to that observation. We consider that we have two options, either of which would be consistent with our terms of reference:

- ▼ we can continue to recommend licences and fares based on assessing the impacts of our recommendations in isolation, so our licence and fare recommendations are likely to follow a similar course to previous years, or
- ▼ we can take into account the other changes in the point-to-point transport market and the drop in observed demand for taxi services, and make our recommendations based on our assessment of the **combined** impact of our recommendations and other changes in the market.

The likely outcomes for the taxi industry of these two alternative courses for releasing licences and setting maximum fares:

- ▼ Proceeding with our established path in isolation of other market developments will see a greater than 25% real impact on existing licence holders' income in a relatively short time.
- ▼ Taking into account other external developments essentially involves the regulator stepping back and allowing competition to match supply and demand for point-to-point transport services.

After considering these two options, we have decided that we should take into account the change in external circumstances and recommend a fare and licence combination that, when combined with the expected impact from competition, is within the context of 25% real reduction in licence lease costs over five years.

There was generally a preference from existing industry stakeholders for the latter approach, based on their preference for fewer licences to be released.²³ Submissions from industry stakeholders tended to conflate impacts on licence owners with impacts on the industry as a whole:

As an industry, it must be competitive but given its private funding, it must make a reasonable return to have a viable future.²⁴

²³ S Porcaro submission, January 2015, p 1; Taxi Council submission, February 2015, p 3.

²⁴ Taxi Council submission, February 2015, p 3.

The ideology of releasing hundreds of additional licenses to improve competition and benefit the customer was flawed and has yielded only marginal success at a huge cost to the viability of the industry.²⁵

However, as former Victorian Taxi Inquiry Commissioner David Cousins pointed out in his submission to our taxi licence review in 2013:

A clear distinction needs to be made between the viability and sustainability of individual industry participants and the industry as a whole. The industry may be quite viable and sustainable whilst some members of it are unable to operate profitably. In competitive industries, entry and exit are a normal and healthy aspect of market operation.²⁶

The Sydney taxi industry as a whole continues to remain viable, with continued strong demand for new annual licences from operators, and regulated service standards continuing to be met (see Chapter 6). Licence owners do not ‘fund’ the industry with their purchase of a licence – passengers fund the industry through fares.

Some submissions supported us continuing with our established path and expressed the view that we should take ‘deeper and speedier’ action to eliminate economic rent²⁷ and that governments ‘should in no way feel obliged to continue to protect the returns of plate owners at the expense of reducing excessive fare pricing’.²⁸

On balance, we consider that an approach where we consider the combined outcomes of our recommendations and changing external circumstances is the appropriate approach at this stage, but it needs to be complemented by a review of the regulatory framework for point-to-point transport services, as set out in the next section.

2.6 It is time for a review of the regulatory framework of all point-to-point transport services

Whether we follow our established path or a modified path for fare and licence recommendations, we consider that the current regulatory framework for the taxi industry, including issuing of licences and setting fares, is rapidly being overtaken by the emergence of substitutes for point-to-point transport.

We consider that it would be timely for the Government to review the regulatory framework for point-to-point transport, including taxis and hire cars as well as new entrants such as rideshare companies, so that all players in the market are regulated appropriately for safety and quality, but not hampered by inappropriate or outdated regulation.

²⁵ S Porcaro submission, January 2015, p 1.

²⁶ D Cousins submission, 15 January 2013, p 3.

²⁷ D Cousins submission, 16 January 2015, p 2.

²⁸ goCatch submission, 30 January 2015, unnumbered pages.

Ridesharing is not currently 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. Taxi licensing requirements require drivers to be fit and proper persons and to undergo a police check, for taxis to have GPS tracking and security cameras (among other things).²⁹

We consider that competition from new entrants and existing players in the point-to-point transport market is irrevocably changing the landscape for the taxi industry in a fundamental way. How this will continue to develop is complicated by the different regulations applying to hire cars and taxis and the current illegal, unregulated status of ridesharing.

The current regulatory framework provides an uneven playing field for services that are effectively alternatives. We consider 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 (safety of drivers and passengers, quality of service, availability of wheelchair accessible services³⁰).

Stakeholders were generally supportive of the need for a review of point-to-point transport,³¹ although one described it as a ‘waste of time’³² and the Taxi Council was of the view that:

...the NSW Parliament has only in the last four months passed new legislation that has upheld the fundamentals of a well regulated and managed taxi industry in NSW. It is therefore considered that the issue at hand is not yet another review, but ensuring that the laws that have been established through proper process are properly upheld.³³

²⁹ TfNSW, *TfNSW statement regarding ridesharing apps*, 30 April 2014, <http://www.transport.nsw.gov.au/media-releases/transport-nsw-statement-regarding-ride-sharing-apps>.

³⁰ NCOSS raised availability of wheelchair-accessible transport as a key concern in the growth of unregulated point-to-point transport. (Ms J Prichard (NCOSS), Public Hearing Transcript, 27 January 2015, p 20).

³¹ D Cousins submission, 16 January 2015, p 3; Uber submission, 30 January 2015, p 3; goCatch submission, 30 January 2015, unnumbered page; Action for Public Transport submission, 30 January 2015, unnumbered page; ATDA submission, 30 January 2015, p 1.

³² T Hirsch submission, 2 February 2015, unnumbered page.

³³ NSW Taxi Council submission, 2 February 2015, p 4.

IPART considers that the review of aspects of passenger transport legislation that led to the passage of the *Passenger Transport Act 2014* dealt only with a specific set of issues for the taxi industry (relating to network bookings, affiliation and coverage, accommodating apps as an alternative method for bookings, network performance reporting, and IPART's role in recommending licence numbers)³⁴ rather than considering the regulatory framework as a whole. The review was also undertaken prior to the advent of smartphone-enabled ridesharing. We see a review of all point-to-point transport is required to ensure all players in the market are regulated appropriately for safety and quality while encouraging innovation and competition.

Recommendation

- 1 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 previous reviews, we have recommended that TfNSW put in place a data collection regime similar to what is in place in Victoria.³⁵ One of the main aims of this recommendation was to ensure that we have better quality information on the impact of our recommendations on the industry to inform future licence and fare recommendations. However, the *Passenger Transport Act 2014*, once fully commenced, will provide IPART with the powers to obtain this information.

Obtaining access to better demand data would assist in ongoing reviews of fares and licences; however, given the fundamental changes to the point-to-point market, the future market might not require fare regulation in its current prescriptive form for all services. A well-functioning competitive market (which includes the threat of increased competition from new entrants) is the most effective way to protect customers from higher than efficient fares, for booked fares where comparison shopping is possible. Competition also drives innovation and efficiency improvements. Consequently, it may not be prudent to impose data collection at this stage. Rather we consider that on-going information requirements should be considered as part of the recommended regulatory review.

³⁴ See TfNSW, *Review of NSW Passenger Transport Legislation: Discussion Paper*, September 2012, pp 32 to 37.

³⁵ See, for example, IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 27.

We asked in our issues paper whether there is sufficient competition for booking services already to allow the taxi booking fee to be deregulated. However, for our draft report we decided that, given the changes that appear to be under way in the point-to-point transport market at present, deregulating booking fees should be considered as part of the broader review. Stakeholders did not comment on this issue, and we continue to be of the view that it is best considered as part of a broader review.

3 Recommended fares and licences for growth

Our recommendations for the 2015/16 year are unchanged from our draft report: a fare freeze (at current nominal rates) in combination with no additional growth licences.

This is the third year we have used our model of the Sydney taxi industry (developed initially for the 2013 licence review) to consider and compare different combinations of fares and licences to be released. We have continued to consider and compare the different combinations in the context of a real decrease in licence lease costs of 25% over a 5-year period, from 2012-13 to 2017-18.

We have reviewed the inputs in our model in light of new data and developments in the market for point-to-point transport services. Our finding is that while growth in demand for point-to-point transport services continues to be strong, taxi substitutes appear to be absorbing this growth. As a result, in developing our recommendations we have assumed that the demand for taxi services since 2012-13 has been constant and will remain at current levels over the next three years.

We consider that in this context our recommendations for a fare freeze and no additional growth licences for 2015-16 deliver an appropriate balance between better outcomes for passengers, drivers and operators, while still avoiding unreasonable impacts on existing licence holders.

We also considered whether to retain the ongoing review of LPG prices outside the annual fare review process. Our recommendation is that IPART no longer undertake an ongoing review of LPG prices outside the annual fare review process because LPG costs, like all other costs, are sufficiently exceeded by fares such that any variations can be absorbed.

Recommendation

- 2 A fare freeze (at current nominal rates) in 2015-16 and no additional growth licences to be released in 2015-16.

3.1 Our approach

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

- ▼ updated the model to take into account TfNSW's decisions on licences and fares since 2012-13
- ▼ changed our assumption about annual growth in demand for taxi services to take into account the absorption of demand for point-to-point transport by taxi substitutes
- ▼ based on the results of the taxi driver and operator cost survey made no other changes to our assumptions about change in costs over time, CPI, elasticity or change in value of time
- ▼ modelled different combinations of fares and licences for the remaining three years to 2017-18 and assessed the outcomes predicted by the model, and
- ▼ arrived at a recommendation on licences and fares for 2015/16 that in our view provides the best mix of estimated outcomes.

As in past years, the NSW Taxi Council objects to the five-year time horizon used in our modelling, submitting that it gives no indication about what will happen to licence values beyond five years.³⁶ We maintain that modelling over a 5-year period provides an appropriate balance between annual assessments that can take account of current conditions and longer-term certainty about the direction of fares and numbers of licences to be released.

3.2 Why we are recommending a fare freeze in combination with no additional growth licences

Our recommendations are for a fare freeze in nominal terms and no additional licences for growth for 2015-16. We consider that our recommendations will make it cheaper for passengers to get a taxi (in real terms). We also consider that they will have little direct impact on barriers to entry to the market, as the number of taxi licences in the market will not grow, and the fare freeze will only have a small impact on demand. However, our assessment is that this is the most suitable fare and licence combination, in the context of increased competition putting downward pressure on licence lease costs. If we had recommended releasing additional licences to make it cheaper and easier to enter the market, then the likely impact on existing licence holders would be much greater than 25% over five years.

³⁶ NSW Taxi Council submission, 11 November 2014, unnumbered pages.

Submissions from industry generally supported the 'no growth licence' recommendation³⁷ and opposed the 'freeze fares' recommendation.³⁸

David Cousins and the Australian Taxi Drivers Association (ATDA) supported releasing unlimited licences at a lower fixed price.³⁹ However, our terms of reference are derived from the *Passenger Transport Act 1990*, which does not currently permit this.

David Cousins and goCatch both sought a reduction in fares, Mr Cousins seeking to remove all economic rent and goCatch suggesting fares be reduced to result in licences under \$6000 per annum within three years.⁴⁰

While we agree that there is scope for more licences and lower fares based on the level of economic rent in fares, we are constrained by our terms of reference to not have an unreasonable impact on existing licence owners.

The NSW Taxi Council and the NSW Taxi Operators and Drivers Association (NSWTODA) urged a return to the Taxi Cost Index for indexing fares, which Taxi Council commissioned accounting firm Grant Thornton to calculate and advises is 3.7%.⁴¹

Proponents of higher fares believe that revenue from higher fares can be captured by drivers or operators, but this is not borne out by theory or the evidence from past fare rises. Further, some proponents of higher fares represent the interests of those who do benefit from higher fares, namely, the licence owners.

This section discusses the scenarios we considered and why we decided on a fare freeze and no additional licences for growth.

3.2.1 The scenarios that we considered

We considered several fare and licence scenarios for 2015-16 to 2017-18 that result in the same impact on existing licence holders over five years (see Table 3.1). However, we have only recommended a fare and licence combination for 2015-16. This allows us to take into account current market conditions, and demand for taxi services when making recommendations in future years.

³⁷ NSW Taxi Council submission, 2 February 2015, pp 8 and 16; NSW Taxi Operators and Drivers Association (NSWTODA) submission, 29 January 2015, unnumbered pages; S Porcaro submission, 2 February 2015, p 2.

³⁸ NSW Taxi Council submission, 2 February 2015, p 8; NSWTODA submission, 29 January 2015, unnumbered pages.

³⁹ D Cousins submission, 16 January 2015, pp 2-3.

⁴⁰ D Cousins submission, 16 January 2015, p 2; goCatch submission, 30 January 2015, unnumbered pages.

⁴¹ NSW Taxi Council submission, 2 February 2015, p 19 and appendix; NSWTODA submission, 29 January 2015, unnumbered pages.

Table 3.1 Possible fare and licence combinations

Scenario	Annual fare change for the next 3 years from 2015-16 to 2017-18	Total additional unrestricted licences (before adjustments for replacement and attrition) to be released over 3 years between 2015-16 and 2017-18	Additional unrestricted licences (before adjustments for replacement and attrition) per year if released in equal tranches as unrestricted
Scenario 1	Increase fares by CPI	255	85
Scenario 2	Freeze fares in nominal terms	0	0
Scenario 3	2% nominal fare reduction	-195	-65

3.2.2 Impacts of the scenarios that we considered

The scenarios set out in Table 3.1 have different impacts on:

- ▼ outcomes for passengers – affordability and waiting times, and
- ▼ taxi use – the total number of trips we expect to be taken and taxi occupancy.

The modelled change in waiting times, taxi trips and taxi occupancy are shown in Figure 3.1.

We considered these outcomes when selecting our recommended combination of fares and additional licences for 2015/16. We also considered the impact on the competitiveness of the taxi industry.

Our recommended scenario, Scenario 2, makes fares more affordable for customers in real terms, so total taxi trips increase. The modelling also shows a small increase in waiting time overall but a decrease in waiting time on Friday and Saturday nights. The shorter average waiting time on Friday and Saturday nights is due to the increase in PALs in 2013-14 and 2014-15. In these two years, the Government introduced an additional 345 PALs.⁴²

A CPI fare increase (Scenario 1) results in the greatest improvement in waiting time, because there are more taxis on the road, but as a result, occupancy rates decline. In this scenario, there is only a very small increase in taxi trips.

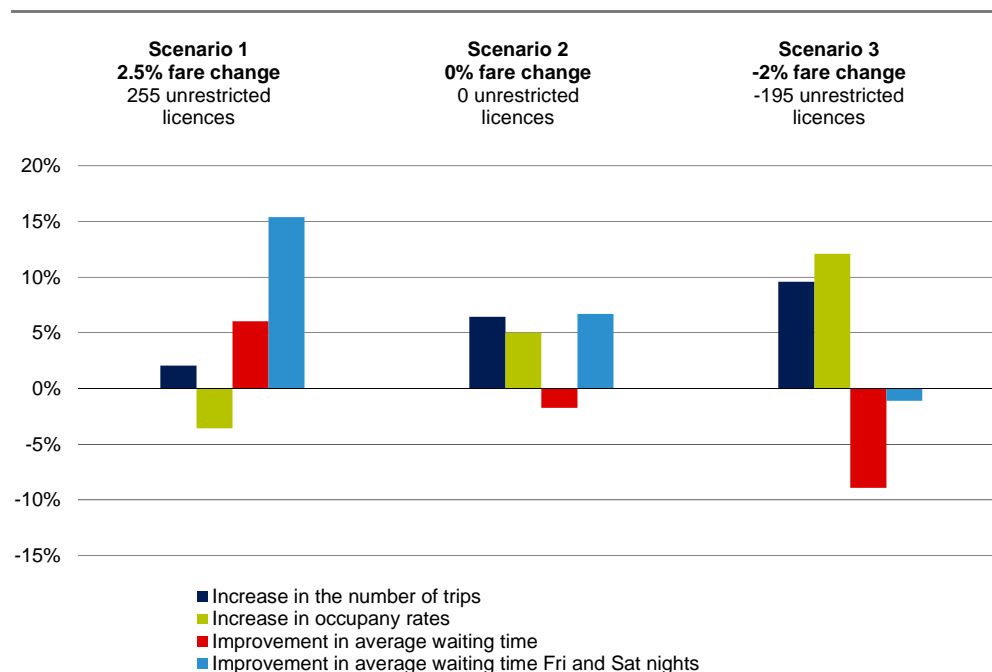
We are also concerned that if fares increase, taxis will be less competitive with taxi substitutes, such as hire cars. This could exacerbate the decline in demand for taxi services which appears to have occurred in recent years.

⁴² Minister for Transport, *More taxis for nights and busy periods*, Media Release, 27 March 2013; TfNSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014.

Scenario 3, which has the lowest fares, is the most affordable for customers, so total trips increase the most. However, because more trips will be taken as people respond to lower fares, and there are fewer taxis on the road, there is no improvement in average waiting times, even on Friday and Saturday nights.

In addition, Scenario 3 includes a *reduction* in the number of taxi licences. In practice, TfNSW could only achieve this if it does not reissue annual licences when they are relinquished or not renewed. As TfNSW does not have any control over the number of licences that are relinquished or not renewed, reaching the required reduction target could take some time.⁴³ Also, reducing the number of licences inhibits the market's price adjustment mechanism which we consider is an important feature of the current annual licensing arrangements, and will help to maintain the competitiveness of the taxi industry by facilitating lower licence lease costs.

Figure 3.1 Modelled impact of fare and licence scenarios



Note: All scenarios have a modelled impact on licence lease values of -25% over the 5-year period, 2012-13 to 2017-18.

Data source: IPART.

⁴³ Annual licences from RMS are renewable by right for up to 10 years (Section 32D, *Passenger Transport Act 1990*).

3.3 Taxi industry model inputs

The outcomes predicted by the model depend on a number of different inputs. This year we updated the model to take into account TfNSW's decisions on licences and fares since 2012-13, and reviewed our forecasts of:

- ▼ changes in demand for point-to-point transport services, as a result of growth in population, income, and tourism, which we have retained as 2.5% per year
- ▼ changes in demand for taxi services:
 - the growth in demand from external sources for taxi services: we have assumed no change in demand for taxi services (0% per year for the next three years)
 - the demand response as a result of changes in taxi fares (we retained an elasticity assumption of -0.8)
 - the demand response as a result of changes in waiting times (we retained an elasticity assumption of -0.8, and an assumption that the value of time is \$30 an hour in 2012-13 dollars)
- ▼ inflation, which we have retained as 2.5% per year
- ▼ cost changes faced by the industry (we have retained our assumption that cost changes move in line with inflation; that is, no real cost increase over time), and
- ▼ the value of time, which we assumed was \$30 an hour in 2012-13, and we have retained our assumption that cost changes move in line with inflation; that is, no real change over time.

Other than our forecast of annual growth in external demand for taxi services, these inputs are the same as those we used in our previous review of Sydney taxi fares and licences.

3.3.1 External demand for point-to-point services

We have considered the demand for point-to-point services from factors external to the point-to-point service market: growth in population, economic activity and tourism and business travel will increase the demand for point-to-point travel. By analysing trends and long term forecasts of State final demand (an indicator of economic activity), population growth and passenger movements at Sydney airport (see Box 3.1) we have made a judgement that the demand for point-to-point services is likely to grow by around 2.5% per year over the long term.

This estimate of 2.5% growth in demand for point-to-point services due to external sources is the same as we have used in previous years for growth in demand for taxi services due to external factors. The recent growth of taxi substitutes has meant that while we judge that demand for point-to-point services will increase by 2.5% each year, we do not expect demand for taxi services to grow at this rate (see next section).

Box 3.1 Indicators of demand for point-to-point transport services

State final demand:

- ▼ Between 2009 and 2014, state final demand has grown by 2.8% each year on average.^a
- ▼ NSW Treasury forecasts state final demand will increase by 3.25% each year.^b

Population growth:

- ▼ Between 2008 and 2013, Sydney's population grew at around 1.6% each year on average.^c
- ▼ NSW Department of Planning and Environment forecasts Sydney's population will grow by around 1.7% each year.^d

Passenger movements at Sydney airport:

- ▼ Between 2008 and 2013, passenger movements at Sydney airport grew at 3.0% each year on average.^e
- ▼ Bureau of Transport, Infrastructure and Regional Economics forecast that air passenger movement at Sydney would grow by 3.6% each year on average.^f

^a IPART calculation based on *ABS Australian national accounts: national income, expenditure and product June 2014* Table 21. State Final Demand, Summary Components by State: Chain volume measures.

^b NSW Budget Statement 2014-15, *Budget paper no 2*, Table 2.1, p 2-2.

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

^d 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.

^e 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.

^f 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, p 4.

3.3.2 External demand for taxi services

The last few years have seen growth in alternative methods of booking taxis and hire cars, growth in carshare services and the introduction of commercial rideshare services (which are currently illegal).

We need to ensure that decisions about future taxi fares and licence numbers do not happen in isolation of these significant market changes. However, little reliable statistical data exists that quantifies these trends and their impact on the demand for taxi services.

Data from the CIE's operator and driver survey indicates that there has been a *reduction* in the demand for taxi services since 2011.⁴⁴ However, given the regulatory uncertainty in the point-to-point transport industry, especially with respect to rideshare services, we have used a more conservative assumption of change in demand of 0% per year.

3.3.3 Latent demand for taxi services (elasticity)

Latent demand represents the additional taxi trips that would be taken if waiting time for taxi services fell, or if fares were reduced. To capture latent demand in our model we have assumed an average price elasticity value across all shifts of -0.8, which means that for every 1% fall in fares, the number of new trips increases by 0.8%.⁴⁵

We note that the changes to the market for point to point transport services discussed in this report are likely to have had an impact on the elasticity of demand for taxis, as well as on the growth in demand for taxis from external sources. With the greater availability of substitutes, demand for taxis is likely to be more elastic; that is, for every 1% fall in prices, the number of new trips would increase by more than 0.8%. However, in the absence of data to quantify any change to elasticity, we have decided to retain the existing assumption.

The Sydney taxi industry model also puts a 'price' on waiting time (see section 3.3.6) and then uses the same price elasticity of demand as for fares. A 1% increase in waiting time (from the current average of around 8 minutes), is valued at approximately 4 cents by the average taxi user (assuming their 'value of time' is \$30 an hour). This has the same effect as an increase in the average fare of around 4 cents (or 0.2%): the number of new trips would fall by 0.17%.

3.3.4 Inflation (CPI)

We have forecast inflation of 2.5% per year, which is the mid-point of the Reserve Bank of Australia's inflation target range.

⁴⁴ The CIE, *2014 survey of taxi drivers and operators - Final report*, February 2015 (The CIE final report), p 2.

⁴⁵ A value of elasticity of -0.8 is comparable with the Victorian Taxi Inquiry's final report, which suggests an elasticity of around -1 for Melbourne (Taxi Industry Inquiry, *Customers First - Final Report*, Annex, September 2012, p 260). Our estimate is also in the range reported by Booz Allen Hamilton, in a report for IPART in 2003. It noted that the majority of international studies reported a price elasticity of demand of -0.2 to -1.81 (Booz Allen Hamilton, *Appraisal of taxi fare structure issues*, July 2003, p 10).

The input cost data in the model is in real \$2012-13. The inflation forecast converts nominal fare changes (scenario input) to real fare changes, for consistency with the cost data.

3.3.5 Costs

Analysis of returns to the CIE's 2014 driver and operator cost survey indicates that total costs are almost unchanged in nominal terms since 2011; that is, there has been a real drop in costs, driven by a real decline in drivers' and operators' earnings.

We consider that the decline in real earnings for drivers and operators is likely to be a transitional result of changes to the industry, including increased competition. After a period of adjustment, we expect that licence owners would bear the full impact of reduced revenue. If operators do not lower pay-ins, drivers would leave the industry. Similarly, if lease prices did not fall, operators would be unable to cover their costs. Therefore, we expect licence lease costs will adjust further downwards.

Offsetting the decline in real earnings for drivers and operators, fuel and vehicle costs have increased at slightly greater than the rate of inflation, while insurance costs and network fees have increased at or slightly under the rate of inflation.⁴⁶

On balance, we consider that total costs, excluding licence lease costs, are likely to increase in line with inflation over the forecast period. We have therefore retained our assumption that there is no real change to costs over time.

In response to our issues paper, the Australian Taxi Drivers Association submitted that an application now before the Industrial Relations Commission (IRC) to vary the *Taxi Industry (Contract Drivers) Contract Determination 1984* may increase the costs of operating a taxi by up to \$100,000 a year and that this would render the industry unviable in its present construct.⁴⁷ An individual stakeholder also asked how the IRC proposal would impact IPART's recommendations.⁴⁸

We will monitor the progress of the IRC hearing. However, given the current uncertainty over the outcome, we have not modelled any resulting change to driver earnings.

⁴⁶ The CIE final report, p 2, Table 1; assumes the inflation rate from September 2011 to September 2014 was 6.7% (The CIE final report, p 10). These findings differ slightly from those in the CIE's draft report. For the CIE's final report, insurance costs and vehicle lease costs were estimated using industry quotes rather than survey returns in order to allow comparison between 2011 and 2014 results (The CIE final report, pp 12, 25, and 26).

⁴⁷ Australian Taxi Drivers Association submission, 4 November 2014, unnumbered pages.

⁴⁸ T. Hirsch submission, 4 November 2014, unnumbered pages.

3.3.6 Value of waiting time

We have assumed that the value of a passenger's time spent waiting for a taxi is \$30 per hour (in \$2012-13) and that this will increase in line with inflation over the forecast period (ie, it will remain constant in real terms).

3.4 Ongoing review of LPG fuel cost

Our recommendation is that IPART no longer undertake an ongoing review of LPG prices outside the annual fare review process. A review is not necessary because LPG costs, like all other taxi costs, are sufficiently exceeded by fares which contain economic rent such that cost increases (or reductions) can be covered by fares.

Recommendation

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

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 (or windfalls for) drivers of spikes (up or down) in LPG prices. In our last review 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).

In June 2014 we found that LPG prices in urban 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 TfNSW 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.

In our October 2014 issues paper we said that we would consider whether to continue the ongoing review of LPG prices outside the regular fare review cycle.⁴⁹ We asked stakeholders for their views on whether or not to retain the review of LPG prices. Stakeholders were generally in favour of retaining and/or extending the review.⁵⁰

⁴⁹ IPART, *Review of Sydney taxi fares to apply and new annual taxi licences to be issued in Sydney – issues paper*, p 5.

⁵⁰ IPART, *Review of Sydney taxi fares to apply and new annual taxi licences to be issued in Sydney – draft report*, pp 26-27.

We considered these responses but our draft recommendation was to discontinue the ongoing review of LPG prices outside the annual fare review cycle. We did not consider that stakeholders had provided evidence for the need to retain or extend the review.

Two submissions on our draft report supported discontinuing the review – unless there was a sustained upsurge in prices.⁵¹ However, this amounts to maintaining the review, but in an asymmetric fashion and we do not support these proposals.

⁵¹ S Porcaro submission, 2 February 2015, unnumbered page; Taxi Council submission, 2 February 2015, p 8.

4 Replacing licences and making allowance for future attrition and wheelchair accessible taxi (WAT) licences

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

We consider that the stock of taxi licences in Sydney should match the level intended by TfNSW's growth licence decisions since 2013, with no additional growth licences for 2015. This means we need to make adjustments for:

- ▼ any difference between the *target stock* of licences at 1 January 2015 and the *actual stock* of licences at 1 January 2015 (historic attrition adjustment), and
- ▼ any licences that we expect to be relinquished or not renewed during 2015.

These adjustments also need to reflect changes in the number of WAT licences as WATs are a substitute for taxis with standard licences, but are released on request outside the annual tender process.

We also need to consider whether any fringe area licences should be tendered in 2015.

This chapter explains in more detail how we reached the adjustment recommendations and fringe area licence recommendation. The final numbers of licences we recommend differs from the estimates in our draft report because we have amended our method for calculating the historic attrition adjustment and we have received updated data from RMS.

We also include a new recommendation that RMS keep track of how many successful applicants for annual licences are existing annual licence holders who relinquish their older licence in favour of the new one. This will provide data on the churn of licences.

Recommendations

- 4 That 39 unrestricted licences and 71 PALs be tendered in 2015, comprised of:
 - a historical adjustment of five unrestricted licence and 12 PALs for licences relinquished since 1 January 2013
 - a historical adjustment of minus 6 (-6) unrestricted licences as a historical adjustment for growth in WATs since 1 January 2013, and
 - 44 unrestricted licences and 59 PALs, to allow for licences we expect to be relinquished or not renewed during 2015.
- 5 That two (2) fringe area licences for the Richmond/Windsor area be tendered in 2015, as replacement for fringe area licences relinquished in 2014.
- 6 That Roads and Maritime Services keep track of how many successful applicants for annual licences are existing annual licence holders who relinquish their older licence in favour of the new one. This will provide data on the churn of licences.

4.1 The importance of licence churn

We consider that the ability to easily relinquish a licence in favour of a cheaper option (licence churn) is an important feature of the current arrangements.

The *Passenger Transport Act 1990* requires the annual licence renewal price for subsequent years to be equal to the price in the first year, with no scope for a reduction in licence fees to be built in.⁵² This means that if annual licence costs are falling rather than rising, as we expect to happen in future years, bidding a lower value in a future tender and handing back the more expensive licence is the only means by which operators can reduce the costs of holding an annual licence from RMS.

Some industry stakeholders oppose any replacement licences being issued, believing there is already an 'over-supply' of taxis in Sydney.⁵³

The same stakeholders often describe licence relinquishment or churn as an indication that annual licences aren't working or aren't wanted.⁵⁴ However, our view is that 'churn' of annual licences (where existing annual licence holders are able to bid a lower price in a subsequent year and, if successful, relinquish their more expensive licence) is an important price-correction mechanism in a market where licence lease costs are falling but annual licence costs are fixed in nominal terms for up to 10 years.

⁵² *Passenger Transport Act 1990*, section 32JA (3).

⁵³ NSW Taxi Operators and Drivers Association (NSWTODA) submission, 29 January 2015, unnumbered pages. The NSW Taxi Council submits that no replacement plates should be issued on a prospective basis (NSW Taxi Council submission, 2 February 2015, pp 8-9, 13, 14).

⁵⁴ Mr M Jools, *Public Hearing Transcript*, 27 January 2015, p 18; Mr S Porcaro, *Public Hearing Transcript*, 27 January 2015, p 38.

In order to have data on the churn of licences, we recommend that RMS keep track of how many successful applicants for annual licences are existing annual licence holders who relinquish their older licence in favour of the new one.

4.2 Unrestricted licences and PALs

We recommend adjustments to the number of growth licences offered for tender (zero) to account for:

- ▼ any difference between the *target stock* of licences at 1 January 2015 and the *actual stock* of licences at 1 January 2015 (historic attrition adjustment), and
- ▼ any licences that we expect to be relinquished or not renewed during 2015.

These adjustments need to reflect changes in the number of WAT licences as WATs are a substitute for taxis with standard licences.

4.2.1 Historic attrition adjustment

We have amended our approach to recommending a historical adjustment for licence attrition.

In our draft report we said that we would base the historical adjustment on the difference between last year's attrition *allowance* and *actual* attrition in 2014, as reported to us by RMS using their annual licence database.

For our final recommendation we have compared the *target stock* of licences at 1 January 2015 with the *actual stock* of licences at 1 January 2015. The target stock of licences is equal to the stock of licences at 1 January 2013 plus TfNSW decisions on growth licences less the net growth in WATs.⁵⁵ The actual stock is reported to us by RMS as at 1 January 2015 from their database of all taxi licences, which is a more stable and up-to-date record of active licences than the annual licence database, which is periodically updated and revised.

Using this approach we recommend a historical adjustment of minus 5 unrestricted licences and plus 12 PALs. The calculation for these adjustments is shown in Table 4.1.

⁵⁵ WAT licences are released outside the annual tender process in 2014. The adjustment to the target number of unrestricted growth licences recognises that WATs are a substitute for taxis with standard licences.

Table 4.1 Historical adjustment for licence attrition

	Unrestricted licences	PALs
Total licences as at 1 January 2013	363	135
<i>add</i> growth licences	0	345
<i>subtract</i> additional WATs	6	n/a
Target licences as at 1 January 2015	357	480
Actual licences as at 1 January 2015	362	468
Historical adjustment	-5	12

Source: RMS data from TfNSW.

Our revised approach is similar to that proposed by the NSW Taxi Council in its submission on our draft report.⁵⁶ The Taxi Council was concerned that our attrition allowance calculation was not very transparent, as it only referred to reported relinquishments rather than to the stock of licences.

Our revised approach uses data on the actual stock of licences as suggested by the NSW Taxi Council. However, the Taxi Council proposes using the licence stock at 1 July 2014 as the comparison point for ‘existing licence numbers’ while we are using 1 January 2013. This is because 2012-13 is the base year of our taxi industry model and we have made our licence and fare recommendations with 1 January 2013 as our reference point, and the Government has made growth licence decisions based on the 1 January 2013 base number of licences.

4.2.2 Allowance for attrition during 2015

We consider that an adjustment for attrition should be made on a prospective basis. Last year we made an adjustment for attrition during 2014 based on the number of licences handed back during 2013.⁵⁷ TfNSW accepted this adjustment.

We consider that this year’s relinquishments are a reasonable guide to next year’s likely attrition.

Between 1 January 2014 and 1 January 2015, licence holders relinquished 44 unrestricted licences and 59 PALs. Therefore we are recommending 44 unrestricted licences and 59 PALs be issued in 2015.

Between 1 January 2014 and 1 January 2015, the total number of WAT licences decreased by three. Given the very small change in WAT licences in 2014, we consider that a reasonable forecast for 2015 is for no additional WATs.

⁵⁶ NSW Taxi Council submission on Draft Report, January 2015, pp 9 and 16.

⁵⁷ IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, pp 2, 6, 79, 81.

The Taxi Council does not want us to make any allowance for forecast attrition, only issue replacement licences in arrears. However, as there is a significant gap between when the licences are announced on 31 March, and actually commence operation between August and December the same year, we consider it is unacceptable for the licences to be out of operation until they can be replaced in arrears.

The Taxi Council is concerned that if we over-estimate the forecast allowance it might result in 'replacement' licences actually functioning as growth licences. While this is possible, the historical adjustment can correct for any 'overs' just as it can for 'unders'.

Our final allowance for attrition in 2015 is lower than in our draft report because of updated data on annual licence relinquishments from RMS.

4.3 Fringe area licences

Taxis with a fringe area licence are authorised for hire only within the area of operation. They can only accept hires that originate outside their area of operation where the hiring has been pre-booked and the person is being taken to a place within the area of operation. Fringe area licences are issued through the annual release process.

Two fringe area licences for the Richmond/Windsor area were relinquished during 2014.⁵⁸ Our recommendation is that two fringe area licences for the Richmond/Windsor area be offered for tender in 2015 as direct replacements for the relinquished licences.

⁵⁸ RMS data provided by TfNSW.

5 | Process for releasing licences

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

Our assessment is that the process established and used for the past five years has been successful and effective and there is no need for change to the mechanics of the tender process. We note that the tender documentation and information improved for the 2014 tenders, following our recommendations from previous reviews.

Although supported by some stakeholders, we do not see a need for reserving some licences for drivers or restricting the number that can be granted to the same applicant. Nor do we consider there should be a reserve price set for tenders.

This chapter sets out our analysis and recommendations regarding the tender process. These are unchanged since our draft report.

5.1 Tender process

The legislation offers the choice between an open auction and a sealed tender release; within a sealed tender, the price may be set either by 'pay-as-bid' or 'lowest successful bid'. Since 2009, annual licences have been issued under a sealed tender and priced using the 'pay-as-bid' method.

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

Tenders have mostly been held with a June closing date. Successful tenderers are usually notified in July and have six months to complete the registration process and get a taxi on the road. In August 2014, for the first time Roads and Maritime Services (RMS) published preliminary results of the June 2014 tenders rather than waiting until all tendered licences were activated.

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

The following sections discuss these issues in more detail.

5.1.1 Pay-as-bid or pay lowest successful bid

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

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

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

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

The NSW Taxi Council supports this recommendation in-principle but considers that replacement plates should be tendered retrospectively not prospectively.⁵⁹ As outlined above, in light of the significant gap between when the licences are tendered and when they actually commence operation, we consider this proposal is not appropriate.

Recommendation

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

⁵⁹ NSW Taxi Council submission, February 2015, p 9.

5.1.2 Access to market information

We consider that it is vital for the market to be informed about tender prices as soon as possible. In previous reviews, we have recommended releasing the information as soon as possible.⁶⁰ In August 2014, RMS released preliminary tender information for the first time.⁶¹ We commend this timely release and consider that it should continue for future tenders.

We also previously recommended improving the tender documentation to assist tenderers to develop a view of the appropriate price, by providing enhanced and up to date contextual information.⁶² For example, information about past tender prices, alternative sources of licences (such as the secondary market), the objectives of the licence reforms and fare levels should be included. We note that the 2014 licence documentation contained updated and relevant contextual information and we commend this enhancement to the documentation.⁶³

Between 2011 and 2013, the tender process opened before fares for the relevant year were announced. We consider that information about fares is an important factor in bidders determining the price they bid for an annual licence. Now that IPART reviews Sydney taxi fares and licences at the same time, early announcement of fares from July has been made easier. Fares from July 2014 were announced when the number of new licences was announced in April 2014 and we consider this approach should continue for Sydney fares.

Ultimately, as observed by the NSW Taxi Council, the timing of the announcement of taxi fare changes is a matter for the NSW Government.⁶⁴

⁶⁰ See, for example, IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, pp 86-87.

⁶¹ TfNSW, Previous annual taxi licence determinations and releases, <http://www.transport.nsw.gov.au/content/previous-annual-taxi-licence-determinations-and-releases>.

⁶² See, for example, IPART *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, pp 86-87.

⁶³ Roads and Maritime Services, *2014/2015 Unrestricted Class Annual Taxi Licence Request for Tender RMS.14.2749.0892*, pp 21-20.

⁶⁴ NSW Taxi Council submission, February 2015, p 9.

Recommendations

- 8 That Roads and Maritime Services continue to publish preliminary results of tenders within four (4) weeks of tenders closing.
- 9 That Roads and Maritime Services continue to include up to date contextual information such as past tender prices, alternative sources of licences, objectives of licence reforms, and fare levels, to help tenderers reach an informed decision about the appropriate value to them of a taxi licence.
- 10 That maximum taxi fares for Sydney from July 2015 be announced before the annual licence tender process commences to provide information to potential tender bidders.

5.2 Should there be a reserve price for tenders?

To date there has not been a reserve price set for tenders. One submission on our draft report reiterated support for the introduction of a reserve price for tenders, set at \$8,000 as a guide to the appropriate cost of a licence.⁶⁵

In our 2013 review, we considered whether it might be necessary to introduce a reserve price in order to ensure that the cost of new licences does not result in the market price for leases of perpetual licences falling more than we expect it to. We concluded that a reserve price is not desirable. More detail of our reasons for this decision can be found in the final report of the 2013-14 licence review.⁶⁶

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

When the 2009 licensing reforms were introduced into Parliament, the Government noted that the primary focus of the changes was on building a business based on delivering services to passengers. The Government wanted to provide opportunities for lessee operators and experienced drivers to take up a new licence and become their own boss.⁶⁷

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

⁶⁵ T Hirsch submission, 2 February 2015, p 3.

⁶⁶ IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, pp 76-77.

⁶⁷ Full Day Hansard Transcript (Legislative Assembly, 30 October 2009, Corrected Copy), p 19076, [http://www.parliament.nsw.gov.au/prod/parlment/hanstrans.nsf/V3ByKey/LA20091030/\\$File/541LA158.pdf](http://www.parliament.nsw.gov.au/prod/parlment/hanstrans.nsf/V3ByKey/LA20091030/$File/541LA158.pdf).

In this and previous reviews, there has been support for driver-only allocations and/or for drivers to have access to free or low cost licences.⁶⁸ However, even without a formal allocation, we expect that most tender bids for licences will come from drivers and operators who will use their licences to provide taxi services. Historically, most winning tenderers have been drivers in the open tenders as well as the driver-only tenders.⁶⁹ We do not see a need for reserving some licences for drivers or restricting the number that can be granted to the same applicant.

⁶⁸ ATDA submission, 29 January 2015, p 3; ATDA submission, 2 November 2012, unnumbered pages; J Soothill submission, 29 October 2012, unnumbered pages; NSWTD submission, 9 November 2012, pp 4; St George Cabs submission, 9 November 2012, unnumbered pages.

⁶⁹ Information provided by TfNSW.

6 | Performance of taxi services

We are required to have regard to the performance of existing taxi services in making our recommendation on the number of new licences. We must also consider the performance of taxi services – their quality, reliability, and safety – when recommending maximum taxi fares.

For the third consecutive year we surveyed around 2,000 Sydney residents on their experience with taxis in Sydney, and the reasons they do and do not catch taxis.⁷⁰ The results give us a better understanding of whether the taxi industry is currently meeting the needs of customers.

We have also considered other sources of information to form a view of trends in performance:

- ▼ the key performance indicators (KPIs) reported to RMS by the taxi networks, which relate to booked trips, and
- ▼ TfNSW's index of passenger satisfaction, which is based on the results of a survey that asks people to rate their level of satisfaction with 34 different service characteristics that are not based on network standards and KPIs.

The evidence indicates that although there are some affordability concerns with taxi travel, taxi services are largely meeting the expectations of most customers. Survey data suggest that performance in terms of waiting times has been reasonably steady except for taxis booked for a particular time which has deteriorated slightly. KPI data for taxi bookings shows a slight increase in waiting times but a reduction in bookings where there was no car available. As booking apps allow drivers and passengers to be connected more quickly, services for passengers should improve.

⁷⁰ We engaged Taverner Research to carry out the survey and analysis. Taverner Research's report is available on the IPART website.

6.1 The performance of existing taxi services

The number of taxis on the road is one of the key factors that will determine the time it will take for customers to catch a taxi. Although other factors also influence this (for example traffic conditions, peaks and troughs in demand, individual driver behaviour, such as accepting bookings, and then later deciding not to honour the booking or 'recalling' it) we consider waiting time is a good indicator of the adequacy of supply. Clear trends showing increasing waiting times, or increasing numbers of bookings where there is 'no car available' to complete the job, are likely to indicate that a substantial number of additional taxi licences are required.

While the industry appears to be meeting required standards and customers appear to be reasonably satisfied with waiting times, some customers are concerned about affordability of taxi services.

6.1.1 Reliability and waiting times

It is clear that customers value short waiting times. Around 30% of taxi users in our passenger survey said that their main reason for catching a taxi is because it was quicker (or more direct) than other options.⁷¹ Taverner Research conclude from the survey results that waiting less than 10 minutes is acceptable to most people and anything over 20 minutes is unacceptable to most people.⁷²

Around 75% of Sydney survey respondents were satisfied with the time they had to wait for a taxi on their last taxi trip.⁷³ Conversely around 25% were slightly to very dissatisfied with waiting times.

The survey results show that:

- ▼ Of the respondents in the taxi survey that took their most recent taxi trip from a rank or by hailing one, around 85% were able to catch one within 10 minutes. There has not been a significant shift in this pattern between 2012 and 2014.⁷⁴
- ▼ Around 50% of taxis arrived on time and a further 35% arrived within 10 minutes of the specified pick-up time, when taxis were booked for a particular time. Performance has declined since 2013 which was in turn not as good as in 2012.⁷⁵

⁷¹ Taverner Research, *Survey of Taxi Use*, December 2014, p 80.

⁷² Taverner Research, *Survey of Taxi Use*, December 2014, p 65.

⁷³ Taverner Research, *Survey of Taxi Use*, December 2014, pp 64-66.

⁷⁴ Taverner Research, *Survey of Taxi Use*, December 2014, pp 30-31.

⁷⁵ Taverner Research, *Survey of Taxi Use*, December 2014, pp 31-32.

- ▼ Around 50% of respondents who booked 'next available cab' for their last journey were able to get a taxi within 10 minutes. This is an improvement on 2013 survey results (36% reported waiting less than 10 minutes) and a return to 2012 levels.⁷⁶

Our survey results on waiting time are reasonably consistent with the survey conducted by TfNSW that found that over 80% of passengers were satisfied with the availability and time of arrival of taxi services.⁷⁷

Overall, the surveys suggest performance of Sydney taxis in terms of waiting times has been reasonably steady except for taxis booked for a particular time.

Taxi networks report to RMS against a range of KPIs. The 2014 KPI data show improved performance with respect to reliability but slightly longer waiting times:

- ▼ Average pick up time of passengers is now around 6.3 minutes, longer than in 2013 but shorter than in 2011.
- ▼ There has been a reduction in bookings where no car was available to fulfil the booking.

We note however that while the network KPIs are a useful indicator of performance this data also has limitations, which include:

- ▼ It relates only to journeys booked through a network which are only around 20% to 30% of all taxi trips taken.⁷⁸ Therefore, it does not provide a full picture of customer experience for those taking a taxi.
- ▼ It does not provide information about some things that we consider to be very important to the task we are required to undertake (for example, why a person who considered taking a taxi, in the end did not take one).
- ▼ The networks' call management strategy can influence how KPIs are recorded.⁷⁹
- ▼ The data is aggregated and we cannot judge performance across the week, for example during peak periods.

⁷⁶ Taverner Research, *Survey of Taxi Use*, December 2014, pp 30-31.

⁷⁷ TfNSW, *Customer Satisfaction Index: May 2014 Appendix*.

⁷⁸ Preliminary analysis of the CIE's 2014 survey of driver and operator costs, drivers estimated, on average, that 22% of trips were booked (Information provided by the CIE). Of respondents to the Taverner survey, 29% booked their trip through a network, 23% by phone and 6% on the internet (Taverner Research, *Survey of Taxi Use*, December 2014, p 29).

⁷⁹ For example, see Victorian Taxi Industry Inquiry, *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."

6.1.2 Affordability of taxi services

While customers appear to be reasonably satisfied with waiting times, customers report that the cost of catching taxis is stopping them from catching taxis as much as they would like to.

Our passenger survey found that:

- ▼ Around 80% of taxi users do not consider that taxis offered good value for money overall,⁸⁰ although half of the taxi users were satisfied with the fare for their most recent journey.⁸¹
- ▼ Around 75% of people who had thought about catching a taxi but decided to do something else, made that decision because they thought a taxi would be too expensive.⁸²

TfNSW's 2014 customer satisfaction survey showed a higher rate of satisfaction for reasonableness of fares, with around 70% of Sydney respondents partly to very satisfied.⁸³ However, reasonableness of fare was also the most common area of dissatisfaction with Sydney taxi services (around 20% partly to very dissatisfied).⁸⁴

Sydney taxi fares remain amongst the most expensive in Australia. For most trips – long or short, booked or hailed, weekday or weekend – Sydney taxis are either the most expensive or second most expensive of any Australian capital city.⁸⁵ Figure 6.1 shows the price for an indicative journey (a 7 km booked fare on a weekday tariff) in Australian capital cities.

⁸⁰ Taverner Research, *Survey of Taxi Use*, December 2014, p 89.

⁸¹ Taverner Research, *Survey of Taxi Use*, December 2014, p 74.

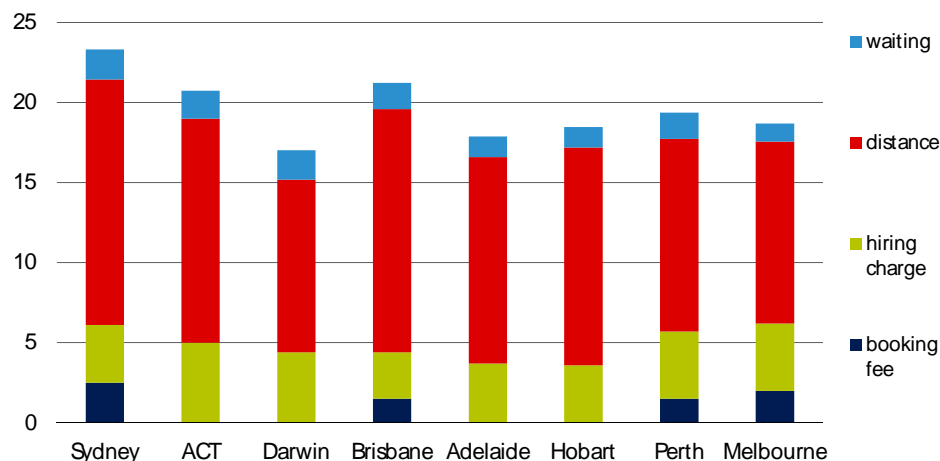
⁸² Taverner Research, *Survey of Taxi Use*, December 2014, p 57.

⁸³ TfNSW, *Customer Satisfaction Index: May 2014 Appendix*.

⁸⁴ TfNSW, *Customer Satisfaction Index: May 2014 Appendix*. Respondents were asked about 34 aspects of services.

⁸⁵ Taxi fares have multiple components, including night rates, peak weekend rates, booking fees and hiring charges. Each jurisdiction structures these components in its own way. This means that some fares in one jurisdiction may be more expensive in another. For instance, some jurisdictions with large hiring charges may be more expensive for short trips but less expensive for long trips. For this analysis we assume a short trip is 3km and a long trip is 15km.

Figure 6.1 Taxi fares in capital cities for an indicative journey (nominal \$2015)



Note: This assumes a weekday, booked, 7 km trip with two minutes waiting time.

Data source: IPART calculations, <http://www.rego.act.gov.au/more/public-vehicles/taxi-service-information/taxi-fares>, <http://translink.com.au/tickets-and-fares/fares/taxi-fares>, <http://www.transport.wa.gov.au/taxis/15154.asp>, <http://www.taxicouncilsa.com.au/PDF/fares.pdf>, http://www.transport.nt.gov.au/_data/assets/pdf_file/0015/, <http://www.transport.tas.gov.au/passenger/taxi/fares>, <http://www.taxi.vic.gov.au/passengers/taxi-passengers/taxi-fares>.

The impact of high fares is more likely to be felt by customers with limited transport options and low incomes. A survey of household expenditure by the ABS confirms that while those in the highest income quintile spend proportionately more of their expenditure on taxis than other groups, those in the lowest income quintile spend the second highest proportion.⁸⁶

Our taxi passenger survey showed that household income is one of the factors that affect taxi use. The proportions of people who caught a taxi in the last six months increases with household income from 49% of those with incomes under \$20,000 pa to 63% of those with incomes of \$180,000 pa or more. As incomes increase, the percentage reporting use at least once a week also rises.⁸⁷

Of the people surveyed, around 10% live with a physical disability and were more likely to use a taxi multiple times per week than people without a disability. This pattern was most marked amongst people who receive taxi subsidies.

- ▼ 16% of people surveyed who live with a physical disability use a taxi three or more times per week (compared to 2% without a disability)
- ▼ 46% living with a disability who receive taxi subsidies used taxis three or more times per week

⁸⁶ ABS, 6530.0 Household Expenditure Survey, Australia: Detailed Expenditure Items, 2009/10, Table 3A.

⁸⁷ Taverner Research, *Survey of Taxi Use*, December 2014, p 16.

- ▼ 6% of people living with a disability who do not receive taxi subsidies used a taxi three or more times per week.⁸⁸

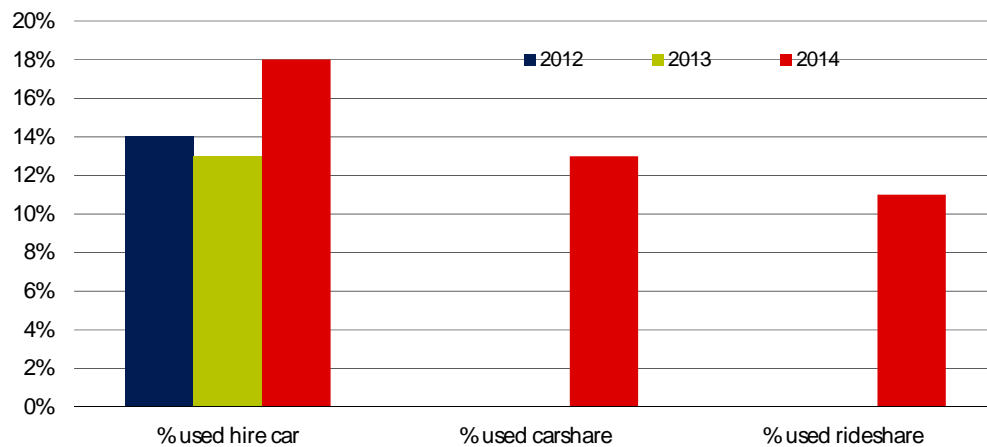
6.2 Service performance aspects of alternative forms of point-to-point transport

Recent years have seen growth in alternative methods of booking taxis and hire cars, growth in carshare services and the introduction of rideshare services (which are currently illegal). These services are described in Box 6.1.

There is little statistical data that quantifies these trends but the Taverner survey shows there has been rapid growth in the use of alternatives to taxis – hire cars, carshare and rideshare. Figure 6.2 indicates:

- ▼ 18% of respondents used hire cars in the previous six months compared to 14% in 2012.
- ▼ 11% had used rideshare services (for example UberX or RideSurfing) in the last six months. As rideshare services only became widely available in Sydney in April 2014, this represents very rapid uptake.
- ▼ 13% had used a carshare service (for example GoGet, GreenShareCar, Car Next Door or Hertz 24/7) in the last six months.

Figure 6.2 Use of taxi substitutes



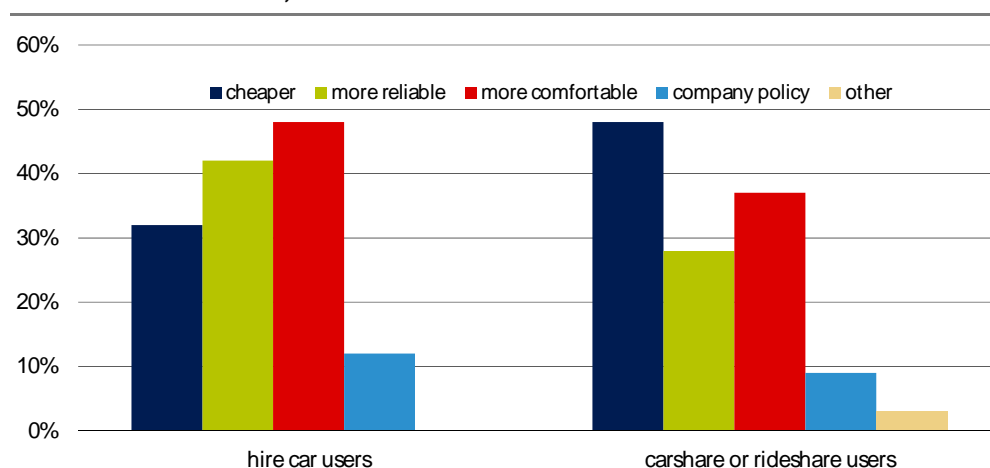
Note: The 2012 and 2013 surveys did not ask about use of carshare or rideshare services.

Data source: Taverner Research, *Survey of taxi use*, December 2014, pp 92-96.

⁸⁸ Taverner Research, *Survey of Taxi Use*, December 2014, p 10.

The main reason people said they used carshare and rideshare services instead of a taxi was because they are cheaper (around 50% of respondents). The most common reason people used hire cars was comfort (48%) although 32% said it was because they are cheaper (Figure 6.3). Similarly, expense (around 75%) and reliability (around 15%) were the most commonly nominated reasons for people deciding against taking a taxi although they had thought about doing so.⁸⁹

Figure 6.3 Main reasons for using hire cars, carshares or rideshares instead of a taxi, 2014



Note: Respondents could nominate more than one reason.

Data source: Taverner Research, Survey of taxi use, December 2014, pp 92-97.

The Taverner and the CIE surveys together suggest that there has been no fall in demand for point-to-point transport services but that taxis have lost market share to these substitutes. It also indicates that there is room in the point-to-point transport market for services that, compared to taxis:

- ▼ cost less, or are
- ▼ more comfortable, or
- ▼ more reliable.

Although taxi service performance appears to be at similar levels to previous years, concerns about the cost and reliability of taxi services have made it possible for alternatives to flourish. In 2014, the market is providing a greater range of cost/reliability options than ever before. This is a benefit to consumers, provided appropriate protections are in place (for example car safety, driver safety, insurance.)

⁸⁹ Taverner Research, *Survey of Taxi Use*, December 2014, p 57.

Box 6.1 Emerging substitutes for taxi services

- ▼ **Hire cars** – A hire car service is a point-to-point passenger service operated under licence issued by RMS. Hire cars must be pre-booked and vehicles must be in excellent condition. They cannot pick up 'hail' jobs. They are often (but not always) more expensive than taxis and their charging method is different – they must offer a fixed price for a service and cannot have a metered service. In recent years smart phone booking apps have reduced the booking lead times for hire cars and have allowed them to compete more directly with taxis. At December 2014, there were 1,228 licensed hire cars in Sydney (a 56% increase since 2009).^a
- ▼ **Ridesharing** - Ridesharing is a low cost point-to-point service where private individuals use their own cars to drive passengers for a fee. An example operating in Sydney is UberX. It is currently illegal to transport a passenger for a fee unless you are an authorised taxi or hire car driver in an authorised vehicle and RMS has issued fines to offending UberX drivers. UberX was introduced in Sydney in late April 2014. The app has received wide publicity partly because of debate about its compliance with the *Passenger Transport Act 1990*.
- ▼ **Carsharing** – is a type of car rental where any qualified driver joins a group (sometimes for a 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 across the city 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.
- ▼ **Community transport program** – aims to help people who would have limited or no access to private transport and difficulty accessing conventional public transport by providing a greater number of flexible transport options to allow greater participation in life.^b The NSW Government funds local council and community organisations to provide transport services which can include shopping services, regular shuttle services and services where someone is picked up and taken to an appointment. In 2013/14 NSW Government allocated \$60.4 million to the NSW Community Transport Program and the Home and Community Care Community Transport program.^b

^a IPART calculation, RMS data provided by TfNSW.

^b TfNSW, *TfNSW Annual Report 2013-14*, p 57.

Taxis are more expensive than some taxi alternatives in part because of the regulatory framework. Maximum taxi fares are higher than they would be if there were more taxi licences and consequently less 'scarcity value' (or economic rent) incorporated into the licence cost and fares. On average, economic rent accounted for almost 20% of every fare earned by a standard taxi in Sydney in 2011-12.⁹⁰

⁹⁰ IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 - Final Report*, February 2014, p 10.

6.3 The impact of our recommendations on performance levels

We have recommended that in 2015 taxi fares should remain at their current nominal level) and that no new licences be issued for growth in licence numbers. These recommendations are explained in detail in Chapter 3.

We do not expect these recommendations to have a big impact on performance levels. Over the 5-year period, 2012-13 to 2017-18, we expect the number of taxi trips to increase by around 6% (as a nominal fare freeze is effectively a real fare decrease and will lead to some increase in demand in response to price) and taxi utilisation (the proportion of time that taxis are carrying passengers) to increase by around 5%. Our modelling also suggests that there will be a small increase in waiting time overall but a decrease in waiting time on Friday and Saturday nights. Further detail on the model outputs is provided in section 3.2.2.

7 | Other considerations

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

7.1 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 Sydney.⁹¹ Therefore, we expect the impact of our recommendations on pollution and congestion is likely to be very small.

We did not receive any stakeholder comments on ecologically sustainable development.

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

Our terms of reference require us to consider the impacts of our fare recommendations on the level of Government funding.

The NSW Government provides funding to taxi **users** whose transport options are restricted due to a severe and permanent disability. The Taxi Transport Subsidy Scheme (TTSS) subsidises these customers up to 50% of the fare, for up to \$30 per trip.⁹² Spinal Cord Injuries Australia (SCIA) note that TTSS has not increased since 1999 but taxi fares have increased by approximately 60% over the corresponding period.⁹³

⁹¹ The Bureau of Transport Statistics' 2011/12 Household Travel Survey Summary 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 Summary Report, December 2014, p 17.)

⁹² TfNSW, Taxi Transport Subsidy Scheme (TTSS), <http://www.transport.nsw.gov.au/ttss>, accessed 24 February 2015.

⁹³ Spinal Cord Injuries Australia (SCIA) submission, 6 January 2015, unnumbered page.

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.⁹⁴ Holding fares constant in nominal terms would not have a significant impact on the call on Government funding for the TTSS scheme.

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.⁹⁵ 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.⁹⁶

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

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

⁹⁴ TfNSW, *Annual Report 2013/14*, p 49.

⁹⁵ NSW Taxi Council submission, pp 4, 17, 18; Mr R Wakelin-King (NSW Taxi Council), *Public Hearing Transcript*, 27 January 2015, pp 14, 15, 48; Mr S Porcaro, *Public Hearing Transcript*, 27 January 2015, p 29.

⁹⁶ For further information see: http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/External_Benefits_of_Public_Transport.



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

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992

Terms of Arrangement – Annual Sydney Taxi Licence 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 an arrangement with Transport for NSW (TfNSW) to review and make recommendations on the number of annual taxi licences (other than wheelchair accessible taxis) to be released in Sydney for the year commencing 1 July 2015.

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

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

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

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

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

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

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

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

The recommendations are to be provided by IPART in a Final Report to TfNSW by 20 February 2015, for consideration prior to an annual Determination by TfNSW before 31 March 2015.



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	4 November 2014
Individual (T Hirsch)	6 November 2014
Individual (P Fletcher)	7 November 2014
Individual (S Porcaro)	7 November 2014
Action for Public Transport	7 November 2014
NSW Taxi Council	11 November 2014

Table B.2 Draft Report submissions received

Submitter	Date received
Action for Public Transport	30 January 2015
Australian Taxi Drivers Association	29 January 2015
goCatch	30 January 2015
Individual (anonymous)	13 January 2015
Individual (D Cousins)	16 January 2015
Individual (T Hirsch)	2 February 2015
Individual (L Lake)	19 December 2014
Individual (S Porcaro)	2 February 2015
NSW Taxi Council	2 February 2015
NSW Taxi Operators and Drivers Association (NSW TODA)	29 January 2015
Spinal Cord Injuries Australia (SCIA)	6 January 2015
Uber	30 January 2015

Glossary

ABS	Australian Bureau of Statistics
Annual taxi licence	A taxi licence obtained from RMS which is valid for a year, but can be automatically renewed each year for a term of up to 10 years. The holders of these licences can lease but not transfer (sell) them.
ATDA	Australian Taxi Drivers Association
Booking 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. These apps generally allow the customer to track the taxi's progress towards the pick-up location.
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
Carsharing	A type of car rental where any qualified driver joins a group (with or without a joining or monthly fee) and group members are able to rent a car for short periods of time (for example one or two hours). Cars are parked in various locations across the city 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.
CIE, The	The Centre for International Economics

Community Transport Program	A program funded by the NSW Government which aims to help people who would have limited or no access to private transport and difficulty accessing conventional public transport by providing a greater number of flexible transport options to allow greater participation in life. The Government funds local councils and community organisations to provide transport services which can include shopping services, regular shuttle services and services where someone is picked up and taken to an appointment.
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 26 km/h.
Economic rent	The profit of a service as a direct result of the supply of licences being limited.
Fringe area licence	A taxi licence which must be operated predominantly in nominated geographical areas on the outskirts of Sydney.
Hire car	A point-to-point passenger service operated under licence issued by RMS. 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. Previously known as the flag fall.
IPART	Independent Pricing and Regulatory Tribunal
Key performance indicator (KPI)	Measures network service performance. KPIs are collected by RMS. Some KPI information is published on the TfNSW website.
LPG	Liquefied Petroleum Gas
Latent demand	Latent demand represents the additional taxi trips that would be taken if waiting time for taxi services fell, or if fares were reduced.

Network	Taxi networks provide taxi booking services to the taxi operators who are affiliated with them. Taxi networks are also required to maintain security monitoring systems for the protection and benefit of the drivers connected to the network and their passengers. Networks must be authorised by RMS.
Nominal	Not adjusted for inflation. For example, if something cost \$100 in 1990 and the same thing cost \$100 in 2012, its nominal cost has not changed. However, adjusting for 22 years of inflation, its real cost is lower in 2012 than in 1990.
NSWTDA	New South Wales Taxi Drivers Association
Operator	Taxi operators are responsible for the day-to-day management of one or more taxis. Operators may be individuals or corporations, and must be accredited by RMS. They must also be affiliated with an authorised network, fit out their vehicle with the network's livery and install the network's communications equipment. They must insure and maintain their vehicle(s), and hold a taxi licence for each vehicle they operate.
Ordinary taxi licence	From 1990, ordinary licences with up to 50-year terms were issued by the Transport Department on request at the prevailing price for perpetual licences. These licences came with the right to renew them at the end of their term, so they are effectively perpetual.
Pay-in	The amount paid by a taxi driver to an operator for the use of a taxi. Maximum pay-ins for Sydney taxis are determined by the NSW IRC and set out in the <i>Taxi Industry (Contract Drivers) Contract Determination 1984</i> but discounting below this rate is common.
Peak availability licence (PAL)	A taxi licence that can only be operated between noon and 5am.
Peak time hiring charge	A fixed fee charged on top of the hiring charge between 10pm and 6am on Fridays, Saturdays and the days before a public holiday.

Perpetual licence	A taxi licence that does not expire. It can be transferred (sold) or leased. New perpetual licences have not been issued in Sydney since 1990.
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.
Price elasticity	The amount by which demand changes in response to price changes. For example, if the price elasticity of demand for taxi services is -1, a 10% increase in taxi fares will lead to a 10% drop in taxi use. If the elasticity is -0.2, a 10% increase in taxi fares will lead to a 2% drop in taxi use.
Real	Prices or costs that have been adjusted for inflation. So, something that cost \$100 in 1990 and \$100 in 2012 has had a drop in its real price since 1990. If the measure of inflation (usually CPI) has risen by 30% over that time, the real price of the object in 2012 can be expressed as '\$76.92 in 1990 dollars' (or the real price of the object in 1990 can be expressed as '\$130 in 2012 dollars').
Ridesharing	A point-to-point transport service where private individuals use their own cars to drive passengers for a fee. An example is Uber's low cost service, UberX. It is currently illegal to transport a passenger for a fee unless you are an authorised taxi or hire car driver in an authorised vehicle.
Roads and Maritime Services (RMS)	The NSW Government agency that issues taxi and hire car licences and other authorities and enforces taxi and hire car regulation.
Sydney taxi industry model	A model that takes into account inputs of the taxi market, such as costs, fares and number of taxis, and estimates the value of key outputs, such as waiting time and utilisation of taxis.
TCIs	Taxi Cost Indices. Formerly used by IPART to measure the change in taxi industry costs between fare review periods.

TfNSW	Transport for NSW (TfNSW) is the NSW Government agency that has the primary role in regulating taxis and hire cars.
Unrestricted licence	A taxi licence issued without operating restrictions.
Wheelchair accessible taxi licence (WAT)	A licence to operate a Wheelchair Accessible Taxi. The operator is required to give preference to transporting wheelchair users. Urban WAT licences are available on request from RMS for \$1,000 a year.

