IPART
New South Wales

Independent Pricing and Regulatory Tribunal

2013 Review of taxi fares in NSW

Maximum fares from July 2013

Transport — Final Report and Recommendations
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1 Introduction

Each year the NSW Government asks the Independent Pricing and Regulatory Tribunal of NSW (IPART) to review taxi fares in urban and country NSW[1] and recommend changes in maximum fares to the Director-General of Transport for NSW.

We are recommending a 1% decrease in average fares for urban areas (including Sydney). Table 1.1 shows our recommended fare components for urban areas commencing from July 2013.

Table 1.1 Recommendation on maximum fares for urban taxis

Fare component	2012/13	2013/14 Recommendation	Difference
Base flag fall	$3.50	$4.00	14%
Standard distance rate ($/km when the vehicle is travelling more than 26 km/h)	$2.14	$2.00	-7%
Night distance rate ($/km when the vehicle is travelling more than 26 km/h) (20% surcharge)	$2.57 (10 pm – 6 am)	$2.40 (12 am – 5 am)	-7%
Waiting time ($/hour when vehicle slower than 26km/hour)	$55.30 (92 c/min)	$53.00 (88 c/min)	-4%
Friday to Saturday peak surcharge	None	$2.50 (5 pm – 5 am)	New charge
Booking fee (booked fares only)	$2.40	$2.40	No change
Maxi taxi surcharge (on total fare)[a]	50%	50%	No change

[a] Applies when a maxi cab is pre booked (regardless of the number of passengers) or if a maxi cab is hired from a taxi zone or street hail to carry 5 or more passengers

Note: Applying all of these changes will result in an estimated reduction of 1% to average fares. Prices are expressed in nominal $.

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

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

For country areas, our draft recommendation is for no change to fares this year. Table 1.2 shows our recommended country taxi fare schedule.

Table 1.2 Recommended country taxi fare schedule (unchanged from 2012/13)

Fare component	
Flag fall	$4.00
Distance charge - first 12km	$2.20
Distance charge - after first 12km	$3.05
Waiting time charge (when speed drops below 26 km/h)	$56.24
Booking fee	$1.10
Night time surcharge (on distance rate between 10pm and 6 am)	20%
Sunday/Holiday surcharge (on distance rate between 6 am and 10 pm on a Sunday or public holiday)	20%
Maxi taxi surcharge (on total fare)	50%

Note: Prices are expressed in nominal $.

Other recommendations include:

- extending taxi licensing reforms to urban areas other than Sydney and country areas, giving priority to areas where licence plate values exceed $200,000
- removing the northbound ('return') toll on the Sydney Harbour Bridge and Tunnel.

We expect our recommendations to result in better outcomes for passengers, including more taxis available and lower waiting times at peak times and for short trips, and more affordable fares for long-distance travel.

In the long term, lower fares will reduce economic rent embedded in fares (via lower licence lease costs), which will mean that fares move towards efficient levels. Lower licence costs will also mean it will be easier and cheaper for operators to enter the taxi industry. Lower licence costs for operators mean lower income for licence owners from leasing their licences, but we expect these impacts to be reasonable.

This introduction provides an overview of our approach to recommending fares, our recommendations on changes to fare levels and fare structure (for urban fares), the estimated impacts on customers, drivers, operators and licence owners as a result of the recommended changes, and our findings on taxi service standards and the data we will need in the future.

1.1 Overview of our approach

In previous years, we have made our recommendations on fare levels based on the average change in the costs of providing taxi services over the previous 12 months, as measured by the Urban and Country Taxi Cost Indices (TCIs). However, for the 2013 review, we reconsidered our approach for setting taxi fares, as well as our approach for setting the structure of these fares.

We are recommending reducing taxi fares in urban areas, including Sydney, by an average of 1% from July 2013. This will move fare levels towards the efficient costs of providing taxi services.

1.1.1 Why we are changing our approach

Our terms of reference require us to consider the cost of providing the services concerned and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers.

The current TCI methodology is not achieving these aims. Fares are inefficient, affordability for passengers is lower than it otherwise would be, and even though previous fare increases have exceeded CPI, taxi driver incomes are low. Instead, the economic rent going to licence holders has increased.

In addition, the NSW Government has decided to release additional Sydney taxi licences this year. The change in annual licence costs and other outcomes will be affected by both the new taxis on the road and fare levels. This is the first year we have had the ability to model these interactions so we can ensure that our recommendation on fares complements the release of new licences.

Outside Sydney, where licence arrangements have not been reformed, we also consider that a change to our approach to setting fares is warranted in order to address the problems with the existing TCI approach. We consider that licence reforms should be extended in order to deliver more efficient outcomes and improve service levels. Priority should be given to areas that have significant licence-related costs.

1.1.2 What is our new approach?

We do not consider that it is appropriate to continue to base annual fare changes on the Taxi Cost Index (TCI) because the current level of fares includes a significant amount of economic rent. Applying annual indexation to fares which are inefficient just maintains or exacerbates their inefficiency. Therefore, we considered different options to reduce fares to transition them to more efficient levels.

We used the model of the Sydney taxi industry developed for our taxi licence review to examine the outcomes of different options for adjusting fares downward. Each option has a different impact on:

- outcomes for passengers – affordability and waiting times
- taxi use – the total number of trips we expect to be taken and taxi occupancy
- annual licence costs – costs for operators and income for licence owners.

Our decision was based on our view of the fare change that provides the best balance of outcomes for passengers and the industry. In coming to this view, we also took into account the change in the financial cost of providing services over the past year, as measured by the TCI.

Our framework also recognises that fluctuations in the price of LPG can have a significant effect on the cash flow of drivers and we would expect to see this reflected in fares if they were set at an efficient level. Therefore, we will recommend an adjustment to fares if LPG prices change by more than 20% in a 6-month period at the time of the annual fare change, and mid-way through each year.

1.1.3 Our modelling shows that lower fares deliver better outcomes for customers and the industry

On balance, we consider that reducing urban fares by 1% this year (along with our recommended changes to fare structure) provides the best set of outcomes and an appropriate balance between benefits for customers and impacts on the industry.

We expect our recommendations (including our recommended changes to fare structure), together with the additional 250 peak availability licences to be released from July 2013, to result over time in a:

- 6% reduction in licence lease costs
- 7% reduction in waiting times on Friday and Saturday nights
- 4% increase in occupancy (proportion of time each taxi has a passenger)
- 6% increase in total taxi trips.

Some industry stakeholders are concerned that the combined impact of more licences and lower fares would affect the income of drivers, operators and licence holders and ultimately jeopardise the viability of the industry. We do not expect fare reductions to reduce drivers' or operators' incomes in the long term because:

- Lower fares will encourage more people to use taxis – if more people use taxis, fare revenue per taxi will not fall by as much as 1%.
- Drivers will reduce the amount they are willing to pay to take a taxi for a shift if the fare revenue for that shift is expected to be lower, so pay-ins to operators will fall. At the same time, additional taxi licences should increase the demand for drivers. With fewer drivers available relative to the demand for them, taxi operators may need to reduce the amount they charge to drivers to take out the taxi for a shift.
- Operators will reduce the amount they are willing to pay to hold a taxi licence. We would expect bids to be lower for licences released through the annual licence tender process, and licence owners would reduce the amount they charge to operators to lease a licence.

Under our recommendations, total revenue to the industry is expected to increase. Fares will still provide sufficient revenue for all industry participants to share and provide a solid basis for participation and investment in the industry. We estimate that total fare revenue will be sufficient for drivers and operators to retain their existing level of earnings, new drivers and operators to enter the industry, and for licence owners to earn around $26,500 per year from leasing their licence to operators.

We recognise that our recommendations may have a transitional impact on the income of drivers and operators in the short term, and for this final report we have examined these potential short-term impacts in more detail. We estimate the reduction in average fare revenue per taxi per shift to range from zero to $13, depending on the day of the week and whether the shift is day or night. For most shifts the impact on a per taxi basis should be less than $2. Even if there were no adjustment and all the impact were to fall on drivers or on operators in the short term, the impacts will not threaten industry viability in the time it takes for adjustment to take place.

1.2 Our recommendations on restructuring some components of urban fares

Taxi fare components include a fixed flag fall, a distance rate (charged when taxis are travelling at more than a threshold speed, currently 26 km/h), a waiting time rate (charged when taxis are travelling at less than the threshold speed), and a booking fee (where applicable).

In past reviews, we have canvassed changes to fare structure in response to anecdotal evidence about driver resistance to accepting short fares, and passenger concerns about the difficulty of catching taxis on Friday and Saturday nights. However, in the past we have concluded that due to lack of evidence we should not make changes.

We still consider that there is not sufficient information available for us to determine an *optimal* fare structure. However, there is sufficient information to determine the *direction* of changes to different fare components from new data about the demand and availability for taxis from the taxi use survey we commissioned,[2] and about taxi use patterns from the survey of taxi drivers and operators we commissioned.[3]

We are recommending changing the urban fare structure by:

- increasing the flag fall (from $3.50 to $4) and reducing the distance rate (by 7%) and waiting time rates (by 4%) to increase the incentives for drivers to accept short fares, and to make travelling longer distances by taxis more affordable
- adding a $2.50 peak surcharge between 5 pm and 5 am on Friday and Saturday nights to provide more incentive for taxis to be on the road when they are needed
- changing the hours at which the current night time 20% surcharge applies to commence at midnight rather than 10 pm every night of the week, and stop at 5 am rather than 6 am.

These changes to fare structure will mean that the impact on affordability will depend on when and how far passengers travel. Increasing the flag fall and reducing the distance and waiting time rates should make taxi travel more affordable for passengers travelling longer distances and more expensive for those travelling shorter distances, particularly on Friday and Saturday nights.

However, for passengers who see price increases, we expect corresponding improvements in taxi availability. This is because the number of taxis on the road should increase at peak times and may fall in lower demand times – our recommendations on fare structure are likely to have an impact on which shifts drivers and operators choose to put a taxi on the road.

2 Taverner Research, *Survey of Taxi Use in Sydney*, November 2012.
3 The CIE, *Reweighting of the Taxi Cost Index, Final Report*, April 2012.

1.3 Our recommendations on fares for country areas

For country areas, we are recommending that fares should not change this year.

This is because fares are likely to be inefficient due to the current TCI methodology, as for urban fares. However, due to the wide variation in cost structures between the many country towns with taxi services, the absence of data or a model to analyse the impacts of changes, and the fact that taxi licence reforms have not been extended to country areas, we have decided on balance to leave fares unchanged.

1.4 Taxi service performance

Independent, objective and transparent information on service performance is essential for accountability and good regulation which promotes competition and productivity. We have used information about taxi service performance from the survey we commissioned of taxi use in Sydney to guide our recommendations on fare level and fare structure for this review.

As in previous years, we have also received information from Transport for NSW about the performance of standard and wheelchair accessible taxis (WATs) in Sydney, reported by taxi networks against key performance indicators (KPIs). We have analysed some of the KPI information, for example on booking acceptance time and 'no car available' declarations, but we have again identified some significant limitations in the KPI data that render it less useful than it might otherwise be.

As a result, we reiterate the recommendation we made in our licence review, that Transport for NSW should investigate the cost and feasibility of mandating and collecting specific data direct from taxis.

1.5 How this paper is structured

This report sets out our recommendations. It is structured as follows:

- Chapter 2 explains in more detail why we need to change our approach to recommending taxi fares for Sydney this year
- Chapter 3 outlines our considerations in reaching our recommendations on fare levels for Sydney
- Chapter 4 discusses fares for country and other urban areas
- Chapter 5 outlines our considerations in reaching our recommendations on fare structure for Sydney and other urban areas
- Chapter 6 provides more information on the possible short term, transitional impacts on drivers and operators
- Chapter 7 outlines the estimated impacts of the recommendations on passengers, the industry, NSW Government and the environment
- Chapter 8 sets out our findings on taxi service performance and the data that underpins those findings.

1.6 List of recommendations

1. The maximum fare schedule for taxis in urban areas should be as set out in Table 1.1.

2. The maximum fare schedule for taxis in country areas should be as set out in Table 1.2.

3. Transport for NSW should reform taxi licensing arrangements outside Sydney. Initially Transport for NSW should focus on urban areas and on country areas with licence transfer values above $200,000.

4. That Transport for NSW remove the ability for taxis to charge customers a toll when travelling north across the Sydney Harbour crossings.

5. That Transport for NSW investigates the cost and feasibility of mandating and collecting specific data directly from taxis.

2 Why we have changed our approach to recommending Sydney taxi fares

As Chapter 1 indicated, in previous taxi fare reviews we have recommended fare changes based on the estimated average change in the financial costs of providing taxi services, as measured by the TCI. However, for the 2013 review, we decided to reconsider this approach, as well as the structure of these fares.

It has become apparent that the existing TCI methodology is not achieving its aims. Fares are inefficient, affordability for passengers is lower than it otherwise would be, and even though previous fare increases have exceeded the cost of living (as measured by the Consumer Price Index (CPI)) and the general increase in the price of labour in the economy (as measured by the Wage Price Index (WPI)), taxi driver incomes are low. This is because additional fare revenue from fare increases has gone to licence holders as economic rent rather than to operators and drivers.

In 2009, the Government introduced an annual Sydney taxi licence release program, where the number of new licences to be released from July each year is reviewed and determined by 31 March that year. The change in annual licence costs and other outcomes will be affected by both the number of new licences released and fare levels. This is the first year we have had the ability to model these interactions so we can ensure that our recommendation on fares complements the release of new licences.

This chapter provides more information on each of these issues. Chapter 3 sets out our decision on the approach we have taken to address these issues.

Fares outside Sydney are considered separately in Chapter 4.

2.1 The current approach has led to inefficiencies and has not made passengers, drivers or operators better off

Since 2002 we have recommended maximum changes in 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 Taxi Cost Index (TCI). This approach has resulted in fare increases that have made taxis relatively expensive and discouraged the use of taxi services (particularly in Sydney). At the same time, annual licence costs have increased and driver earnings are low.

In past reviews, stakeholders have raised a range of problems facing the Sydney taxi industry – including that there are too many taxis relative to the demand for them;[4] but despite this, licence values remain uneconomically high;[5] and that fares are so high that many passengers cannot afford to use taxis;[6] while at the same time do not provide an adequate living for taxi drivers.[7]

However, there was not a lot of support in submissions for a change to our approach this year. The Taxi Council and some other submitters on our issues paper challenged our arguments supporting a change:

- the existing process is transparent and rigorous and should not be replaced by something that is arbitrary and simplistic[8]
- fares are not that expensive – international comparisons are not a sound basis for recommending fare reductions.[9]

Some taxi drivers, while agreeing that past fare increases had not made their way to taxi drivers, continued to argue that applying an increase to existing fare levels is the best approach.[10] Some argued for significant increases in fares this year.[11]

However, there was some support for addressing the uneconomic costs (rents to licence owners) in fares:

- fare increases go to the licence plate owners – taxis can operate with lower fares[12]
- fare levels should exclude the cost of leasing a taxi plate.[13]

And at our public roundtable, economists agreed that 'it made no great sense… to keep following an index up when it was clear that, in the marketplace, there was very significant under-utilisation of vehicles'.[14]

We remain of the view that taxi fares are too high relative to the efficient cost of providing taxi services and that an adjustment should be made to fares to remove some of the uneconomic costs (economic rents) included in current fares. If we continue to increase fares, licence lease costs will continue to increase, and services will become less affordable and less available for passengers.

4 For example, NSWTDA submission to 2012 taxi fare review draft report, 15 May 2012, p 34.
5 For example, P Abelson submission to 2012 taxi fare review draft report, 11 May 2012.
6 For example, P Abelson submission to 2012 taxi fare review draft report, 11 May 2012.
7 For example, ATDA submission to 2012 taxi fare review draft report, 10 May 2012, p 19; NSWTDA submission to 2012 taxi fare review draft report, 15 May 2012, p 3; E Mollenhauer, submission to 2012 taxi fare review draft report, 14 May 2012.
8 NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 3.
9 NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 11.
10 NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 1; T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, p 1.
11 T Bradley, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 27.
12 Anonymous submission to 2013 taxi fare review issues paper, 25 March 2013.
13 Anonymous submission to 2013 taxi fare review issues paper, 25 February 2013.
14 D Cousins IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 10.

2.1.1 Fares are inefficient

Our terms of reference require us to consider the cost of providing the services concerned and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers.

As we discussed in our 2012 fare review final report, there are likely to be a number of uneconomic costs reflected in taxi fares, including the licence lease costs.

We agree with the Taxi Council that the licence cost is a real financial cost incurred by operators.[15] However, it is not an efficient cost because it has no productive value. As explained by Peter Abelson in his submission to our 2012 taxi fare review, the licence lease cost is instead an economic rent:

> ….the economic costs of taxi operations are the real costs to the community of operating taxis. This is the cost of other goods and services foregone due to the provision of taxi services. This excludes the price of a taxi plate because this does not reflect any use of an economic resource and is not an economic cost. The taxi licence price is a transfer payment —a levy on taxi users to sustain the asset values of a piece of paper that has no economic value and provides no economic service.[16]

Therefore we do not agree with the Taxi Council that fares are currently efficient.

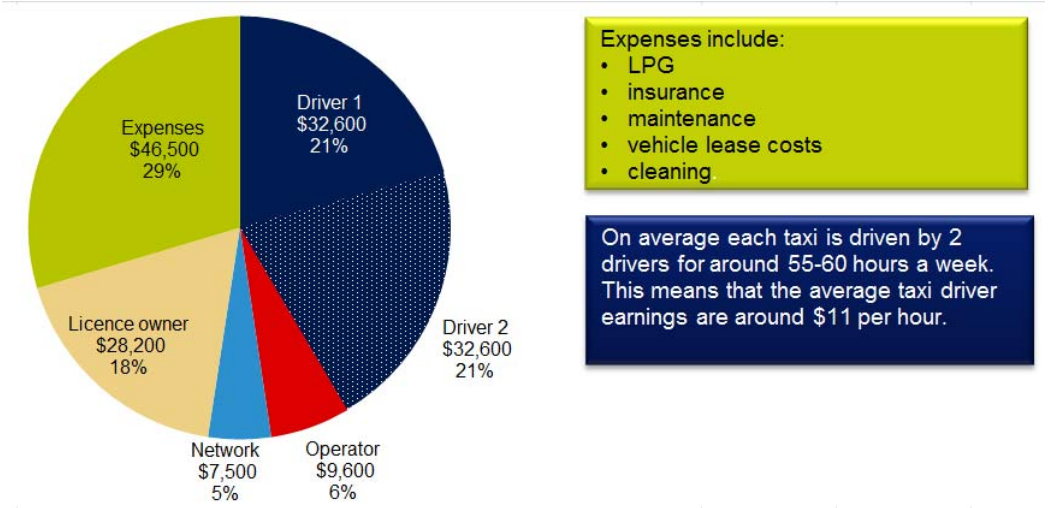
Figure 2.1 shows that around 18% of fare revenue for standard urban taxis currently goes to the licence holder. Over the 10 years between 2002 and 2012, there was an increase in licence lease costs from around $20,000[17] to $28,000 per year. This is an average annual increase of around 3.5%, compared to an average annual inflation rate of 2.7% over the same period.

Licence lease costs are real costs to operators but they are not determined independently of fares. Rather they are a function of the supply (or scarcity) of taxi licences, and the demand to lease these licences.

Because of the restricted supply of taxi licences, operators have a limited opportunity to 'shop around' for another licence when licence owners increase their lease fees. This means that when fares have gone up, licence owners have put their lease fees up, and the operators have continued to lease their licence at this higher price. Historically, when we used the TCIs to set fares, we would then recommend fare increases that in part reflected these increases in licence lease costs – which meant that the licence owners could further increase their fees.

15 NSW Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 7.
16 P Abelson submission to 2012 taxi fare review issues paper, 3 February 2012, p 2.
17 NSW Ministry of Transport, *Benefit/Cost Assessment of Options for Reform of Taxi Licensing, Final Report*, September 2005, p 18.

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



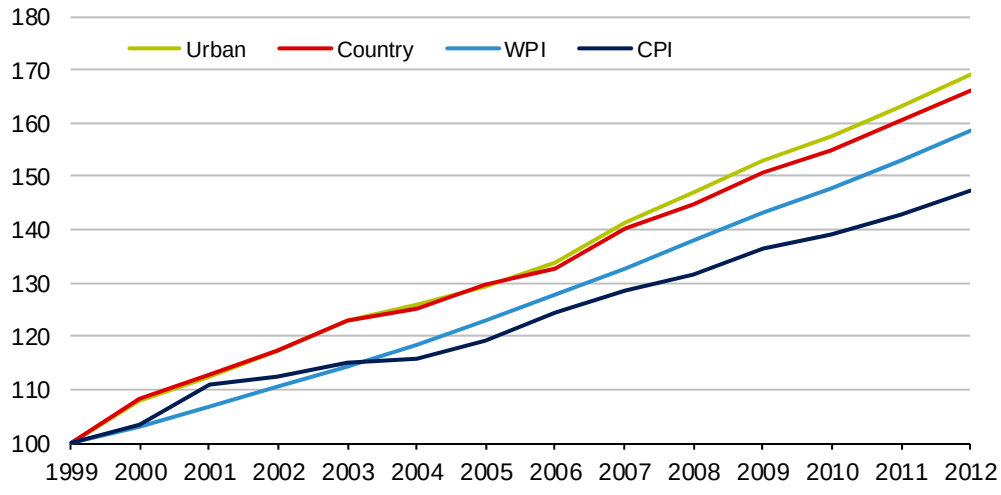
Data source: Taxi cost index 2012/13, CIE taxi cost survey data.

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

2.1.2 Fare increases have made taxis expensive

Using the TCI to change taxi fares has resulted in fare increases above the general rate of inflation (CPI) and even above the rise in wages (WPI) (Figure 2.2).

Figure 2.2 Change in urban and country taxi cost indices compared with CPI and WPI



Data source: IPART, ABS – Wage Price Index, ABS – Sydney Consumer Price Index.

Stakeholders continue to argue that fares are becoming unaffordable, and note that this has a disproportionate impact on people who have limited transport options.[18] Our recent survey of Sydney taxi users supports this. It found that almost half of the people surveyed had not used taxis in the last 6 months. Around two thirds of people surveyed who had considered taking a taxi but in the end did not, said the reason why was that taxis are too expensive.[19]

The survey showed that of the people who had caught a taxi in the past 6 months, 35% rated fares as unsatisfactory, compared to 13% to 20% dissatisfaction for other aspects of the journey (such as waiting time, knowledge of Sydney, and route taken).[20]

Some industry stakeholders also made submissions to our licence review suggesting that fares are too high. For example, the Australian Taxi Drivers Association argued that fares should be frozen or fall.[21] Legion Cabs and several individual submitters[22] suggested that input costs other than lease costs should be regulated so that fares could come down, while others argued that fares should be reduced to increase demand for taxi services before any additional licences are released.

2.1.3 Fare increases have not benefited drivers or operators

Under the current approach, taxi fare increases are based on the assumption that the incomes of taxi drivers and operators increase at the same rate as wages in the rest of the economy. However, submissions from drivers have consistently argued that their income has not increased at this rate. The survey of industry costs undertaken for us by The Centre for International Economics (The CIE) last year supports the view that driver earnings remain relatively low.[23]

The CIE final report provided 3 reasons why fare increases do not benefit drivers, except in the very short term. They are:

- Higher fares reduce passenger demand – fewer people use taxis so fare revenue does not increase by as much as initially expected.
- Pay-ins to operators rise – increased fare revenue encourages more drivers to drive (in the anticipation that they will earn more). With more drivers available, taxi operators can increase the amount they charge to drivers to take out the taxi for a shift (the 'pay-in'), which means that there is less fare revenue left over for the driver (see Box 2.1).

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18 See IPART, *2012 Review of Taxi Fares in NSW - Maximum fares from July 2012 – Final Report and Recommendations*, June 2012, p 64.
19 Taverner Research, *Survey of Taxi Use in Sydney*, November 2012, p 36.
20 IPART, *Fact Sheet - Survey of Taxi Use in Sydney*, December 2012, p 46.
21 ATDA submission to taxi licence review draft report, 23 January 2013, p 7.
22 Submissions to taxi licence review draft report: Legion Cabs, 15 January 2013, p 4; J Barber, 16 January 2013; G Pavlis, 20 January 2013; S Porcaro, 21 January 2013; H Batth, 21 January 2013.
23 The CIE, *Reweighting of the Taxi Cost Index, Final Report*, April 2012, p 61.

- The number of taxis on the road increases –the prospect of higher earnings may encourage more taxis onto the road, resulting in more taxis servicing a given level of demand.

The CIE final report also noted that higher pay-ins to operators would be expected to bid up licence plate lease costs, resulting in the largest part of any increase to fares being ultimately captured by licence owners.[24]

Box 2.1 How fare revenue is divided between drivers and operators

While all fare revenue is initially paid to drivers, they must use some of this revenue to pay the operator for allowing them to take the cab out for a shift (the 'pay-in'). The driver's earnings are what is left of the fare revenue after covering the pay-in to the operator and other costs the driver is responsible for, such as fuel and cleaning (where relevant).

Pay-ins are a financial cost to drivers, but are revenue for operators. The pay-ins received by operators are used to fund the various costs under the operator's responsibility, such as licence plate costs, vehicle costs, insurance and network fees. The operator's earnings are determined by the pay-in revenue left over after all other costs have been paid.

2.1.4 Fare structure could be unbalanced

In past fare reviews we have applied the determined fare increase as equally as possible (subject to rounding requirements) across fare components. Consequently, the fare structure has changed little over the past decade. While many stakeholders have supported the current fare structure, there has been anecdotal evidence presented to IPART in recent fare reviews that a rebalancing of fares may be desirable, for example to overcome the perceived incentives for drivers to refuse short fares or not honour bookings, and to encourage more taxis onto the road at peak times.[25]

We have previously taken the view that in the absence of hard data about the need for change to fare structure and the impact of any such change, we should take a conservative approach and retain the existing structure.[26]

24 The CIE, *Reweighting of the Taxi Cost Index, Final Report*, April 2012, p 61.
25 See for example, IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, Chapter 4.
26 See for example, IPART, *2012 Review of Taxi Fares in NSW - Final Report*, June 2012, p 47.

However, this year we have some new information relating to a number of these issues. For example, our survey of Sydney residents about taxi use has provided evidence that we can use to consider these issues. In particular, it provides information on differences in waiting times at different times of the day and days of the week and for different ways of acquiring a taxi (booking, taxi rank or street hail).

Any increases to particular fare components may need to be offset by changes to other fare components to ensure that fares remain at the desired level overall. This is discussed further in Chapter 5.

2.2 Decisions on fares need to complement the NSW Government's decision to release additional taxi licences in Sydney

On 27 March 2013, Transport for NSW determined that, in addition to replacing licences that have expired or been handed back, they would release 250 new Peak Availability Licences (PALs) (but no new unrestricted licences).[27]

In the long term, increasing the number of licences will have an impact on annual licence lease costs, and increase passenger demand as waiting time falls. Fare levels will also influence the level of passenger demand for taxi services, and the amount of revenue available to be distributed between drivers, operators and licence owners.

For our licence review we used a taxi industry model to predict what will happen to key outputs in the long term if there are changes to the number of licences, the level of fares and/or the cost of providing taxi services. We also used this model to inform our decision on the long term impact of reducing fares in order to remove some of the economic rent (inefficiency) currently included.[28]

This is the first year we have been able to take these interactions between fares and licence numbers into account to ensure that our fare recommendations complement the NSW Government's decision to release additional taxi licences.

We also consider that we should make decisions in our fare review that do not undermine the objectives of the taxi licence review that we undertook for Transport for NSW.

27 Transport for NSW website < http://www.transport.nsw.gov.au/taxi-licence-release>

28 A copy of the model updated for this fare review is available on our website on the 2013 taxi fare review page and the accompanying stakeholder guide has been updated to explain the changes made since the earlier version of the model.

The sections below outline 3 aspects of the taxi licence review that specifically interact with our decision on fares:

- The objective of lowering barriers to entry and putting downward pressure on fares.
- The need to avoid unreasonable impacts on licence holders.
- The requirement to take into account latent demand for taxi services.

2.2.1 Lowering barriers to entry and putting downward pressure on fares

Tightly restricting the number of taxi licences pushes up the costs of providing taxi services and creates pressure for fare increases. Gradually increasing additional licences to meet the underlying growth in demand should ensure that these licence-related costs do not increase – we consider a minimum of 140 additional unrestricted licences should be released every year in order to achieve this aim.[29] If more licences are released, annual licence costs should start to fall.

The change in annual licence costs is likely to be sensitive to fare levels. If fares were to increase in line with inflation, licence lease costs are likely to fall by less than if fares are held at current levels. This occurs because if total revenue increases as fares rise, licence owners are able to earn more from their licence.

There is also a close relationship between costs and taxi utilisation (that is, how much each taxi is used). Demand for taxi services is affected by the level of fares. Increasing taxi fares means that fewer people will use them. Increasing supply of taxis at the same time as increasing taxi fares means that each taxi spends more time without a paying passenger than it did before. Over time, this leads to falling productivity and creates pressure for fewer taxis and/or higher fares (because the cost per taxi trip is higher).

2.2.2 Avoiding unreasonable impacts on licence holders

For a given number of new licences, rental income from leasing a taxi licence would fall by less if fares were increased and by more if fares are reduced.

As indicated earlier in this chapter, we consider that fare increases are likely to have contributed to high annual licence lease costs. This suggests that reducing fares would be an effective way of lowering licence lease costs. However, too much emphasis on reducing fares in order to achieve a lower licence cost raises two potential issues that we need to consider.

[29] IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 3.

The first is a possibility that in the short term drivers and operators would suffer financially and that this would affect service delivery. Operators will need to reduce their pay-ins to attract drivers if fare revenue is lower. In the past, when pay-ins have risen (as a result of fare increases), licence lease costs for operators have also risen. We expect this to work in both directions; in other words, in the long run fare reductions will lead to lower licence lease costs, leaving operators no worse off. However, we also accept that in the transition some operators may see their revenue fall by more than their costs. How long this transition process takes largely depends on how quickly licence lease costs adjust. Ensuring that enough new licences are released each year to enable operators to relinquish a more expensive licence in favour of a cheaper one helps speed up the transition process and minimise the impact of fare reductions. We discuss transition issues further in Chapter 6.

The second issue is the impact on licence owners. When we provided advice to the NSW Government on the number of taxi licences to release this year, we were required to ensure that our recommendations do not have an unreasonable impact on existing licence holders.[30] In our final licence report we indicated that our modelling showed a reduction in annual licence lease costs of around 10% in the first year as a result of releasing our recommended number of additional licences, which we considered to be an appropriate balance between improved affordability for operators and reduced income for licence owners.[31]

The level of fares and the release of additional licences are complementary processes. We consider that the objectives for the industry will be best achieved by considering them together.

2.2.3 Taking into account latent demand

As most people see taxis as a discretionary service, there is likely to be latent demand for taxi travel – that is, demand that we cannot directly observe. This includes the demand by people who would have liked to travel by taxi but didn't. For example, they may have thought taxi travel was too expensive or the waiting time would be too long or the taxi might not turn up, and so made alternative arrangements, such as driving their own car, catching public transport, or booking a hire car instead. Alternatively, they may have decided not to travel at all.

30 See the terms of reference for the Review of Sydney taxi licences to be released from 1 July 2013 on our website.

31 IPART, *Annual taxi licence release for Sydney 2013/14: final report*, February 2013, p 5.

In our taxi licence number review we noted that additional demand could be generated by changes to the number of taxis on the road, and the price of taxi services. In particular:

- if there were more taxis on the road, additional trips will be taken because passengers will not have to wait as long to catch a taxi
- if fares fall, additional trips will be taken because it costs less to use taxi services.

In our review of licence numbers we modelled an increase in expected taxi trips if fares stayed at their current nominal levels.[32] This was because more trips would be made in taxis if fares become relatively more affordable (for example, compared to other services with rising prices – such as public transport). If fares were to increase in line with inflation in 2013/14 instead, we estimated that there would be fewer new taxi trips.

In coming to our recommendations on fares this year, we used our taxi industry model to predict the impact of fare changes on demand, given the additional licences that will be released this year. This model is a long-term equilibrium model and as such, shows what the estimated outcomes are when the market has fully adjusted to the changes brought about by additional licences. It does not map out the transition path, or the time it takes to achieve the outcomes, but it is clear about the direction of the path.

The level of latent demand is also affected by fare structure – that is, how fares differ by distance, time of day and how the taxi was obtained. It also affects the supply of taxis (and hence waiting times) for different types of trips. Changing the fare structure may also stimulate additional demand for taxi services.

[32] IPART, *Annual taxi licence release for Sydney 2013/14 – Draft Report*, December 2012, p 36.

3 Our recommended average change in taxi fares in Sydney

This chapter sets out our recommendation on how much taxi fares should change this year, on average, in Sydney, and the approach we used to develop that recommendation.

We consider that taxi fares are too high relative to the efficient cost of providing taxi services. In particular, licence lease costs are an economic rent that needs to be reduced to achieve a more efficient market and reduce costs for the benefit of customers. We recommend reducing fares by 1% to remove some of the uneconomic costs (economic rents) currently included, as well as increase demand for taxi services. In reaching this recommendation we also considered the change in the costs of providing taxi services over the past year.

The next chapter discusses our recommendations in relation to fares in other parts of NSW. Chapter 5 discusses our recommended changes to the structure of fares in urban areas.

3.1 Approach we used to develop our recommendation

Historically we have used an industry-specific cost index to determine fare increases (the Taxi Cost Index, or TCI). This is a common approach to setting taxi fares where they are regulated. Many stakeholders supported continuing to base fare changes on the change in the TCI.[33]

The TCI has some advantages over other approaches – it is transparent, well understood and delivers fairly stable, predictable fare changes. However, an industry cost index has problems when applied to the taxi industry in its current form in Sydney (and most other jurisdictions):

- an index does not take into account whether the current level of fares is appropriate, but applies measured cost changes to legacy fares
- an index does not take into account changes in revenue resulting from changes in demand (include price response)

[33] For example, NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, pp 3, 5-6 and submission to the 2013 taxi fare review draft report, 31 May 2013, pp 4-7; ATDA submission to the 2013 taxi fare review issues paper, 8 April 2013, p 5; NSWTDA submission to the 2013 taxi fare review draft report, 31 May 2013, p 1; T Bradley IPART Taxi fare review roundtable 2013 transcript, 21 May 2013, p 27.

- it is difficult to find a labour cost inflator that accurately tracks changes in driver and operator earnings (which is a particular problem when the industry structure allows licence owners to capture any excess of nominal earnings over actual)
- there is no appropriate way to treat licence lease costs, as they are a residual profit or rent, rather than an economic cost.

As noted in Chapter 2, we consider that taxi fares are too high relative to the efficient cost of providing taxi services. In particular, licence lease costs are an economic rent that needs to be reduced to achieve a more efficient market and reduce costs for the benefit of customers. Therefore, we are recommending reducing fares to remove some of the uneconomic costs (economic rents) currently included.

In forming our recommendation to reduce fares in Sydney by 1%, we used our taxi industry model to consider the impacts of making a downward fare adjustment in order to move towards a fare level that is more consistent with efficient costs. We also calculated the TCIs in order to monitor the change in financial costs faced by the industry over the past year and took this into account when making our decision.

3.2 Why we chose to reduce fares by 1%

We examined a number of options for lowering fares to remove some of the inefficiencies in fare levels. We used the taxi industry model that was developed for our licence review to understand the longer term impact of each of these options, including the long-term impact on drivers, operators and licence owners.

The taxi industry model helps us to consider the interaction between fares and licence numbers, including how the demand for taxi services responds to changes in these. Therefore we took into account Transport for NSW's decision to release an additional 250 Peak Availability Licences from 1 July 2013.

We have also taken the change in costs experienced by drivers and operators over the past year into account by calculating and considering the urban TCI.

3.2.1 Lower fares deliver better outcomes for customers and the industry

We considered a number of options to remove some of the economic rent embedded in fare levels, and considered the long term outcomes predicted by our model once the market has fully adjusted to the changes brought about by additional licences and our recommendations on fares. Using the taxi industry model to assess each option, Table 3.1 shows different long term impacts on:

- outcomes for passengers – affordability and waiting times
- taxi use – the total number of trips we expect to be taken and taxi occupancy
- annual licence costs – costs for operators and income for licence owners.

Table 3.1 Summary of outcomes under different fare scenarios

Nominal fare change	0% fare change	1% fare reduction	2.5% fare reduction	5% fare reduction
Without fare restructuring				
Flagfall (per journey)	$3.50	$3.50	$3.40	$3.30
Distance charge (per km)	$2.14	$2.11	$2.09	$2.03
Waiting time rate (per hour)	$55.30	$55	$53.80	$52.70
Change in average occupancy	3%	4%	5%	7%
Change in kilometres per year	2%	3%	4%	6%
Change in total trips	5%	6%	7%	9%
Change in licence lease costs	-5%	-6%	-9%	-14%
Change in average waiting time	-1%	0%	1%	2%
Change in average waiting time Friday and Saturday nights	-4%	-3%	-2%	-1%
With fare restructuring				
Flagfall (per journey)	$4.00	$4.00	$4.00	$4.00
Peak surcharge (per journey)	$2.50	$2.50	$2.50	$2.50
Distance charge (per km)	$2.04	$2.00	$1.98	$1.90
Waiting time rate (per hour)	$52.80	$53.00	$50.60	$50.00
Change in average occupancy	3%	4%	5%	7%
Change in kilometres per year	3%	3%	4%	6%
Change in total occupied kilometres	5%	6%	7%	9%
Change in licence lease costs	-4%	-6%	-8%	-13%
Change in average waiting time	0%	0%	1%	3%
Change in average waiting time Friday and Saturday nights	-7%	-7%	-6%	-5%

Table 3.1 illustrates that there are trade-offs between different outcomes. For example, improving affordability is likely to limit improvements in waiting times because it encourages more people to use taxis. It will also tend to lead to greater falls in annual licence costs (which is good for operators but has a negative impact on licence owners[34]). Smaller fare reductions mean fewer people use taxis and as a result, each taxi spends more time without a paying passenger (improvements in occupancy are lower) and as a result, waiting times for those who do use taxis are shorter. However, lower occupancy also means lower productivity and higher costs per trip compared with the other options.

On balance, we consider that reducing fares by 1% this year (along with our recommended changes to fare structure) provides the best set of outcomes and the most appropriate balance between benefits for customers and impacts on the industry. This is consistent with our draft decision.

Some participants at our public roundtable supported the proposed reduction in fares. The NSW Council on Social Services (NCOSS) and the Physical Disability Council both supported a reduction in fares on the basis that it makes taxi travel for disadvantaged groups, in particular, more affordable.[35] Economist participants in the roundtable described the reduction as a modest move in the right direction.[36]

Other stakeholders did not support reducing fares. As noted in section 3.1 above, there was continued support for fares to be increased in line with the change in the TCI over 2012/13 to reflect increasing financial costs in the industry. The Taxi Council described this as 'a reasonable increase that appropriately compensates drivers and operators for providing taxi services, whilst remaining at competitive levels for taxi passengers'.[37] Other stakeholders considered that fares should be frozen.[38]

34 Our terms of reference for the licence review we undertook for Transport for NSW required us to ensure that our recommendations on the number of new licences to release in 2013/14 do not have an unreasonable impact on existing licence owners.

35 R Robinson, Physical Disability Council representative, IPART roundtable on the taxi fare review 2013 transcript, 21 May 2013, p 15; C Elenor, NCOSS representative, IPART roundtable on the taxi fare review 2013 transcript, 21 May 2013, p 16.

36 D Cousins, IPART roundtable on the taxi fare review 2013 transcript, 21 May 2013, p 11; P Abelson, IPART roundtable on the taxi fare review 2013 transcript, 21 May 2013, p 20.

37 NSW Taxi Council submission to the 2013 taxi fare review draft report, 31 May 2013, p 5.

38 For example, G Polimos, IPART roundtable on the taxi fare review 2013 transcript, 21 May 2013, p 27.

3.2.2 The change in the cost of providing taxi services over the past year

We do not consider it is appropriate to continue to base annual fare changes on the Taxi Cost Index (TCI) because the current level of fares includes a significant amount of economic rent. Nevertheless, we need to monitor the change in costs faced by the industry and ensure that our decisions take them into account. After reviewing the TCI outcome for this year we still consider that it is appropriate to make a small adjustment to reduce the economic rent in fares.

This year's urban TCI is shown in Table 3.2.

Table 3.2 Urban Taxi Cost Index

Cost item	2012 Weight	Inflator	Value
Driver labour costs	41.4%	CPI[a]	2.2%
LPG fuel	10.8%	LPG price (FUELtrac)	6.4%
Cleaning	2.1%	CPI	2.2%
Operator administration	6.2%	CPI[a]	2.2%
Maintenance Costs	4.9%	CPI Repair and Servicing	4.3%
Licence Lease Costs	16.5%	0	0.0%
Insurance	9.1%	CPI Insurance	9.2%
Vehicle Lease Payments	4.0%	CPI Motor Vehicles	-1.7%
Network Fees	4.9%	CPI	2.2%
Productivity adjustment	-	-	-0.2%
Total	**100%**	**-**	**2.7%**

[a] Prior to this year the inflator for this item was the Wage Price Index published by ABS.

Note: Percentages may not add due to rounding.

Note: Based on latest available data at April 2013. All ABS data is average of four quarters to March 2013 divided by the average of four quarters to March 2012. FUELtrac data is average price for May 2012 to April 2013 divided by the average price from May 2011 to April 2012.

Source: Australian Bureau of Statistics, 6401.0 (Consumer Price Index Australia, March 2013), Table 5 (All Groups Sydney CPI) and Table 11 (sub-groups). Average retail LPG prices from FUELtrac.

With one exception our approach to calculating the TCI was consistent with what we did last year. In our draft report we discussed proposed modifications to the labour cost inflator (changing from WPI to CPI) and the insurance cost inflator (changing from CPI-insurance to CPI) that were being used for the TCI. For our final report, we have decided to change the labour cost inflator but not the insurance inflator. These decisions are discussed in more detail in the following sections.

The final urban TCI is higher than the indicative TCI in our draft report due to the inclusion of additional fuel costs and our decision to retain CPI-Insurance as the inflator for insurance costs.

We recognise that fluctuations in the price of LPG can have a significant effect on the cash flow of drivers and we would expect to see this reflected in fares if they were set at an efficient level. Therefore we will recommend an adjustment to fares if LPG prices change by more than 20% in a 6 month period at the time of the annual fare change, and mid-way through each year.

We have adopted CPI as the labour cost inflator

As we explained in Chapter 2, taxi driver earnings are determined by the supply of and demand for taxi drivers. Changes to the labour cost inflator used to calculate the TCI will not lead to higher or lower earnings for taxi drivers. (See Chapters 6 and 7 for more discussion of the expected impact of our recommendations).

In terms of obtaining an accurate assessment of the changes to driver labour costs from year to year we consider that the very low level of current earnings suggests that driver earnings are unlikely to have increased by as much as WPI, at least in recent years. This view is supported by some stakeholders,[39] although in submissions to this review both Cabcharge and the NSW Taxi Council asserted that driver incomes have increased.[40]

We expect to undertake another taxi cost survey in 2015 or 2016 and we hope to be able to derive a more accurate labour cost inflator by comparing that data to the 2011 taxi cost survey data. In the meantime, we have decided to change the labour cost inflator to CPI because driver and operator earnings do not appear to have risen by an amount equal to the change in the WPI. This inflator assumes that their incomes at least rise to keep pace with the cost of living.

We have applied CPI Insurance as the inflator for insurance costs

Insurance costs are significant to taxi operators. They make up around 9% of the financial costs of providing taxi services in urban areas. We have used the CPI Insurance subgroup as the inflator for insurance costs in the TCI for several years.

In our 2012 fare review and again during this current review, we observed that CPI Insurance was over-inflating the changes to taxi insurance costs. As CPI Insurance is a weighted average of the changes in vehicle insurance and households' house and contents insurance, any changes to the price of home insurance, for example from natural disasters, will affect this index, but not actually reflect the insurance costs for taxi operators.

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39 For example, NSWTDA submission to 2012 taxi fare review draft report, 15 May 2012, pp 4, 36.

40 NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013 and Cabcharge submission to 2013 taxi fare review issues paper, 25 March 2013.

In our draft report, we proposed to use CPI rather than CPI Insurance as an inflator for insurance costs, to try to correct for the over-estimate.

In its submission on our draft report, the NSW Taxi Council highlighted a near 60% increase in taxi CTP insurance costs over the past 5 years.[41] Stakeholders at our roundtable also raised the cost of green slips as an input cost that had risen at well above CPI over the past few years.[42] While CTP is not the only component of taxi insurance, we re-examined the data we have for taxi insurance costs[43] and concluded that CPI is likely to under-estimate changes to taxi insurance costs by more than CPI Insurance over-estimates it.

On balance we have decided to apply CPI Insurance as the inflator for taxi insurance costs.

41 NSW Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, pp 8-9.

42 N Sevdalis, IPART roundtable on the taxi fare review 2013 transcript, 21 May 2013, p 30; A Turner, NSWTDA representative, IPART roundtable on the taxi fare review 2013 transcript, 21 May 2013, p 47.

43 From the PricewaterhouseCoopers cost survey in 2007 and the CIE cost survey in 2011.

4 Fares in other parts of NSW

Outside Sydney, where licence arrangements have not been reformed, we also consider that a change to our approach to setting fares is warranted in order to address the problems with the existing TCI approach. However, we consider that licence reforms should be extended in order to deliver more efficient outcomes and improve service levels. Priority should be given to areas that have significant licence-related costs.

This chapter sets out our recommendations on how much taxi fares should change, on average, in urban areas outside Sydney and in country areas:

- For urban areas other than Sydney (where the fare is currently the same as in Sydney), we recommend retaining a single maximum fare schedule that is the same as Sydney's, so fares would also be reduced by an average of 1% from 1 July 2013.
- For country areas (where a different fare scale currently applies), our recommendation is to make no change to fares this year.

Chapter 5 discusses our recommended changes to the structure of fares for Sydney and other urban areas. For country areas we propose no change to fare structure.

4.1 Licence arrangements outside Sydney

The new licensing arrangements currently apply only in Sydney. However, Transport for NSW states that:

> The new licensing arrangements have commenced initially in the Sydney Metropolitan Transport District. Further consideration will be given to introduction to Newcastle, Wollongong, the Central Coast and country areas.[44]

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

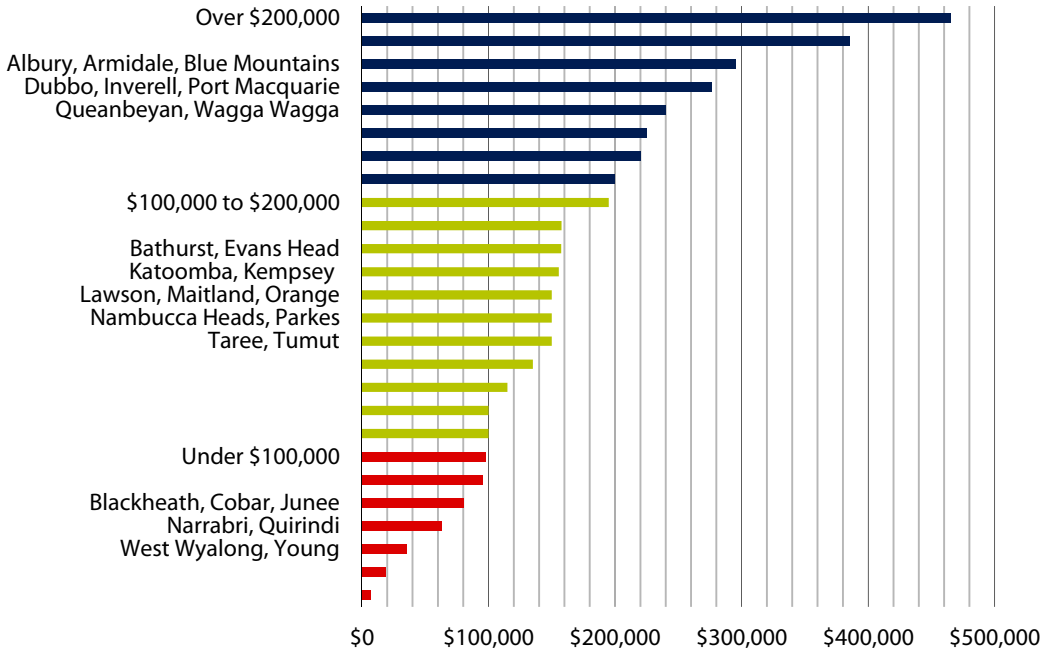
The 2009 reforms were made because growth in the taxi fleet had not kept pace with demand for taxi services and this led to high transfer values for licences and upward pressure on fares:

> Prior to the licensing changes in late 2009, the growth in the taxi fleet had generally not kept pace with demand for services, despite there being no cap on new licences since 1990. A contributing factor to this slow growth take up was the cost of obtaining a new licence had been higher than lease rates on the open market.
>
> Licence values and lease returns have varied significantly over the years due to many factors including market demand, economic conditions (particularly unemployment) and changes in regulatory activity. However, transfer values had climbed significantly in the recent years prior to the reform.
>
> Operators were facing difficulties in servicing increasing licensing costs, when licence values and lease rates continued to increase. In June 2009, the Independent Pricing and Regulatory Tribunal estimated that licensing costs had increased by over 8% in the previous year and represented the second largest cost of operating a metropolitan taxi.
>
> This led industry groups to call for sustainable fleet growth to better match passenger demand and for stabilisation of the past growth in licensing costs to more certain and affordable levels.[45]

Licence transfer values differ significantly across country NSW. Figure 4.1 shows the average value of licences transferred in country areas between April 2011 and March 2012. The lowest transfer value was around $7,000 and the highest was $465,000.

[45] Transport for NSW website <http://www.transport.nsw.gov.au/content/background>

Figure 4.1 Average licence transfer values in various NSW towns (April 2011 to March 2012)



Note: Only includes licences transferred between April 2011 and March 2012. The towns listed for each group are in alphabetical order, which does not correspond with series order.

Data source: Transport for NSW information return.

The significant variation in costs and operation means that a single regulated maximum fare for all country areas is unlikely to be cost reflective for any one area and as a result, does not satisfy the terms of reference requirement to reduce costs and improve efficiency. However, the cost of setting regulated maximum fares for individual areas would be significant as the necessary information is not currently available and hence, also likely to be inefficient.

In order to facilitate more efficient taxi fares across NSW, we consider that Transport for NSW will need to reduce some of the barriers to entry into the industry. Licence cost is a significant barrier to competition in some areas and as a result, reforms should be made to licencing arrangements outside Sydney. If the process is to be done incrementally, we consider that Transport for NSW should initially focus on reforming licensing arrangements in urban areas other than Sydney and in country areas with high licence values (eg, above $200,000).

Recommendation

1 Transport for NSW should reform taxi licensing arrangements outside Sydney. Initially Transport for NSW should focus on urban areas and on country areas with licence transfer values above $200,000.

4.2 Approach to setting fares outside Sydney

The information we have from the CIE's taxi cost survey for country and other urban areas had relatively small response rates – not enough to provide quality information on costs in different areas. However, there is enough information to suggest that:

- Average costs are different in country areas and urban areas (including Sydney).
- Costs differ significantly across different country areas.
- There are operational and structural differences in country areas compared with Sydney. This is also true for other urban areas but to a lesser extent.

Cost and operational differences

Country taxis operate fewer shifts than urban taxis and report higher numbers of jobs per shift; but there is more variation across country responses than there is in urban areas.[46] In country areas, a greater proportion of jobs are booked through taxi networks than in either Sydney or other urban areas (Table 4.1).

Table 4.1 Radio bookings (% of jobs) – CIE driver survey

	Sydney	Other urban	Country
Mean	20%	54%	74%
Median	10%	50%	80%

Source: CIE survey responses. We note that for Sydney, 29% of respondents to the Taverner survey booked their trip through a network, while 30% of respondents to the Bureau of Transport's 2011/12 Household Travel Survey 5-years-pooled dataset using unlinked trips booked a their trip through a network.

On average, costs in country areas are lower than in urban areas. However, there is significant variation in costs between different country towns. Licence costs, fuel costs and network fees, which account for around a third of total costs, show significant variation:

- Licence costs – The CIE estimated[47] the cost of leasing a standard licence plate in urban areas was around $29,000 (ex GST) compared with $17,000 in country areas. The country cost estimate is based on a small sample of only 10 responses, possibly reflecting the fact that fewer operators in country areas lease their licence – around 25% compared with around 60% of urban operators. Licence transfer values differ significantly across country NSW. For example, between April 2011 and March 2012, licences traded for less than $10,000 in one area and more than $450,000 in another (see above).

46 The CIE, *Reweighting the Taxi Cost Index, Final Report*, April 2012, p 44.
47 The CIE, *Reweighting the Taxi Cost Index, Final Report,* April 2012, pp 43-44.

- Fuel costs – There are significant differences in fuel prices in different towns. For example, in January 2013 average prices varied from a low of 72 c/L (Albury) to a high of 106 c/L (Orange) compared with the average country price of 87c/L (based on the sample of towns used in the TCI calculation). The CIE survey found significantly more variation in fuel costs reported by country respondents[48] than by those in urban areas[49] (reflecting differences in both price and operating conditions).
- Network costs – The fees for each country network obtained by the CIE survey were very different, and different again from urban network fees.[50] Due to the co-operative structure in country areas costs are not allocated neatly into driver, operator, network and licence owner categories as they are in Sydney. Differing definitions and cost-sharing practices mean that country networks report fees that vary significantly between towns and over time.

4.2.2 Other urban areas

For urban areas other than Sydney, our decision is to retain a single maximum fare schedule that is the same as in Sydney. We consider that there is little benefit in establishing a separate approach to fare changes for other urban areas. At the end of the process, fares are unlikely to be very different from those applying in Sydney and there would be additional cost associated with constructing a separate urban (non-Sydney) TCI.

We consider that fares need to be reduced in Sydney because they are too high relative to the efficient cost of providing taxi services and that an adjustment should be made to fares to remove some of the uneconomic costs (economic rents) currently included. Licence costs in other urban areas, though not as high as Sydney, are also significant. Urban areas outside of Sydney (Wollongong and Newcastle) have licence values around $200,000 to $220,000. As a result, we are also of the view that there is scope to reduce fares in other urban areas.

As indicated earlier in this report, reducing fares without a complementary release of additional licences will not deliver all of the outcomes that are needed. We consider that the objectives for the industry will be best achieved by considering them together. As such, we support the extension of licence reforms to other urban areas (see Chapter 2).

48 Typically a fare sharing arrangement applies in country areas (50/50 between drivers and operators is the usual share). Operators in country areas pay for fuel out of their share (this is different from a Sydney fixed pay-in arrangement where drivers are responsible for fuel).

49 The CIE, *Reweighting the Taxi Cost Index, Final Report*, April 2012, p 99.

50 The CIE, *Reweighting the Taxi Cost Index, Final Report,* April 2012, p 47.

4.2.3 Country NSW

For country areas, our recommendation is that fares should not change this year. The current fare schedule is shown in Table 4.2.

Table 4.2 Recommended country taxi fare schedule (unchanged from 2012/13)

Fare component	
Flag fall	$4.00
Distance charge - first 12km	$2.20
Distance charge - after first 12km	$3.05
Waiting time charge (when speed drops below 26 km/h)	$56.24
Booking fee	$1.10
Night time surcharge (on distance rate between 10pm and 6 am)	20%
Sunday/Holiday surcharge (on distance rate between 6 am and 10 pm on a Sunday or public holiday)	20%
Maxi taxi surcharge (on total fare)	50%

Note: Prices are expressed in nominal $.

There are significant cost differences across country areas and we have made a recommendation that licence arrangements should be reformed across NSW, commencing with areas that have licence values above $200,000 (see above).

On balance, we consider that fares should remain at their current levels in country areas recognising that:

- the application of the TCI has more than likely led to inefficient fares in many country towns and potentially contributed to high licence values
- differences in licence values across NSW are such that it may not be appropriate to apply a fare reduction across the board in country areas
- it is not practical to determine maximum fares for each area separately (it would be very costly and we do not have access to the required information)
- an increase in fares may worsen the situation in regions with already high licence values
- we received one submission on our draft report that commented on the level of country fares – that submission asked that no fare change be applied this year, and for 'at least another two years'.[51]

[51] E O'Malley submission to the 2013 fare review draft report, 7 May 2013.

Nevertheless, our terms of reference require us to have regard to the change in costs faced by the industry and we have done this in making our recommendations. For country areas, we have continued to calculate the change in the TCI. However, a number of the changes we made to inflators for tracking costs in urban areas are also relevant to the country TCI. As a result, we consider that we should also change the inflator for labour costs. In our draft report we also proposed to change the inflator for insurance costs from CPI-Insurance to CPI. However, we have decided not to make this change, consistent with our approach in urban areas (see Chapter 3).

Based on these decisions and including a productivity adjustment (consistent with the approach we took in 2012) the country TCI has increased by 2.5% over the past year).

Table 4.3 Country Taxi Cost Index

Cost item	2012 Weight	Inflator	Value
Driver labour costs	42.2%	CPI[a]	2.2%
LPG fuel	11.1%	LPG price (FUELtrac)	5.2%
Cleaning	2.4%	CPI	2.2%
Operator administration	6.0%	CPI[a]	2.2%
Maintenance Costs	6.1%	CPI Repair and Servicing	4.3%
Licence Lease Costs	9.2%	0	0.0%
Insurance	6.3%	CPI Insurance	9.2%
Vehicle Lease Payments	4.8%	CPI Motor Vehicles	-1.7%
Network Fees	11.9%	CPI	2.2%
Productivity adjustment	-	-	-0.2%
Total	**100%**	**-**	**2.5%**

a Prior to this year the inflator for this item was the Wage Price Index published by ABS.

Note: Based on latest available data at April 2013. All ABS data is average of four quarters to March 2013 divided by the average of four quarters to March 2012. FUELtrac data is average price for May 2012 to April 2013 divided by the average price from May 2011 to April 2012.

Source: Australian Bureau of Statistics, 6401.0 (Consumer Price Index Australia, March 2013), Table 5 (All Groups Sydney CPI) and Table 11 (sub-groups). Average retail LPG prices from FUELtrac.

5 Structure of urban taxi fares

Fare structure refers to the relativities between the different components that make up the overall fare charged to a passenger. For taxis, the fare components include a fixed flag fall, a distance rate, a time rate, and a booking fee. Fare structure determines how the total fare will vary by distance travelled, the level of congestion on the road, by time of day/time of week and by how the taxi is caught (whether booked or hailed).

Our recommendation for urban fares in 2013/14 is shown in Table 5.1.

Table 5.1 Recommendation on maximum fares for urban areas

Fare component	2012/13	Recommendation 2013/14	Difference
Base flag fall	$3.50	$4.00	14%
Standard distance rate ($/km when the vehicle is travelling more than 26 km/h)	$2.14	$2.00	-7%
Night distance rate ($/km when the vehicle is travelling more than 26 km/h) (20% surcharge)	$2.57 (10 pm – 6 am)	$2.40 (12 am – 5 am)	-7%
Waiting time ($/hour when vehicle slower than 26km/hour)	$55.30 (92 c/min)	$53.00 (88 c/min)	-4%
Friday to Saturday peak surcharge	None	$2.50 (5 pm – 5 am)	NEW charge
Booking fee (booked fares only)	$2.40	$2.40	No change
Maxi taxi surcharge (on total fare) (applies when a maxi-cab is pre-booked (regardless of the number of passengers) or if a maxi-cab is hired from a taxi zone or street hail to carry 5 or more passengers).	50%	50%	No change

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

A 50 cent increase to the flag fall, with a reduction to the distance and waiting rates should improve the service for passengers booking short journeys, and make travelling longer distances by taxi more affordable.

The Friday and Saturday night surcharge of $2.50 from 5 pm to 5 am will encourage more taxis to be on the road during peak times when the demand for taxi services is the highest.

Most of the discussion and analysis in this chapter is based on information about the Sydney taxi market, but Chapter 4 explains why we think this fare structure should apply to all urban areas and not just in Sydney.

5.1 Moving towards a more efficient fare structure

An efficient fare structure balances the supply of and demand for taxis for different types of trips. For example, an efficient fare structure would provide a greater incentive for drivers to drive during peak times so that demand is met during these times. A different fare structure would apply during off peak times so there would not be an oversupply of taxis.

This will help ensure that the taxi industry becomes more customer focused – so that taxis are available when people need them, and that too many taxis are not being underutilised when they are not needed.

An efficient fare structure would also align the fare with the cost of providing each passenger trip so that:

- drivers would be indifferent between long and short trips (ie, over the course of a shift, drivers would earn broadly the same fare revenue by doing a larger number of short trips or fewer long trips)
- there is no incentive for drivers to take a slower route (either by sitting in congestion, or travelling a longer than necessary distance).

In past reviews, we have canvassed changes to fare structure but we have usually concluded that due to lack of evidence we should not make changes. This has meant that IPART has typically applied the fare increase equally across fare components.

We still consider that there is not sufficient information available for us to determine an *optimal* fare structure. However, there is sufficient information to determine the *direction* of changes to different fare components from new data about the demand and availability for taxis:

- Our passenger survey asked passengers about how long they wait for taxis at different times of the day and week for journeys that are hailed, booked, and taken from a rank. We can use this information to help identify whether the issues raised with us previously are issues that affect taxi passengers' willingness or ability to travel by taxi.[52]

[52] Taverner Research, *Survey of Taxi Use in Sydney*, November 2012.

- The CIE survey collected data on taxi earnings by shift, which provides information on taxi use patterns.[53]

Therefore, in 2013/14 we are recommending rebalancing the fare components by increasing the flag fall relative to the distance and waiting rates, and adding a flat rate peak surcharge on Friday and Saturday nights. David Cousins submitted that:

> It is better that this structure be heading in the right direction through pragmatic adjustment rather than not being altered at all because insufficient information is available to determine the optimum structure.[54]

Table 5.2 shows the impact of our proposed fare structure, compared to if no fare structure changes are made.

Table 5.2 Fare structure impacts for a -1% fare change (and 250 additional PALs on the road)

	No changes to fare structure (%)	Proposed fare structure changes (%)
Average occupancy	3.6%	4.0%
Occupied kilometres per year	3.2%	3.3%
Plate lease costs	-6.5%	-5.6%
Average waiting time	-0.2%	0.3%
Total number of trips	5.6%	5.7%
Average waiting time Fri and Sat nights	-3.1%	-6.5%

Source: Taxi industry model.

53 The CIE, *Reweighting the Taxi Cost Index*, April 2012.

54 David Cousins submission to 2013 taxi fare review draft report, 31 May 2013, p 4.

5.2 Relativities between fares for short and long journeys

We are recommending making longer journeys cheaper, and making very short trips slightly more expensive. This was supported by some submissions,[55] and not supported by others.[56]

We are recommending achieving this by decreasing the per kilometre charge by 7% from $2.14 to $2 and the waiting time rate by 4% and increasing the flag fall by 50 cents, from $3.50 to $4.

5.2.1 Why we are changing the relativities between long and short distance fares

Improving the services for passengers for short booked journeys

For several years we have received anecdotal evidence that some customers have trouble getting taxis for short journeys when they book them.[57] For example:

- At our public roundtable, a representative from the Physical Disability Council said:

  > The other thing is we know, from what people are telling us and from experience, that actually a lot of taxi drivers are not very keen on taking people on short distances now anyway. So we would like to see them to be more enthusiastic about the short journey trip but also we are also very, very concerned that the increased cost of that is going to reduce the people's capacity to manage that.[58]

- In its submission to the 2012 fare review NCOSS noted that its Transport Policy Advice Group's stakeholders were continuing to find that some taxi drivers will not accept passengers travelling short distances,[59] and the NSW Taxi Drivers' Association (NSWTDA) agreed that there is "an acute unmet demand for short fares."[60]

- In 2010 the NSWTDA submitted that

  > …taxi fares are skewed in favour of the longer fare, for the driver, and against the shorter fare, for the passengers. …drivers overlook short fares that may become available as they wait for longer fares that have more to offer the driver…. The NSW TDA laments the inconvenience that this causes to the short fare patron but unless those short fares are made competitive with the rest they will continue to be scorned.[61]

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55 P Fletcher submission to 2013 taxi fare review issues paper, 2 April 2013, p 2, T Bradley submission to taxi fare review draft report, 17 May 2013, pp 4-5.
56 NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2.
57 Drivers cannot refuse short journeys when the journey starts at a rank or is hailed. *Passenger Transport Regulation 2007*, s146.
58 R Robinson, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 40.
59 NCOSS submission to 2012 taxi fare review issues paper, 15 March 2012, p 2.
60 NSWTDA submission to 2012 taxi fare review draft report, 15 May 2012, p 35.
61 NSWTDA submission to 2010 taxi fare review, 29 April 2010, p 9.

While the Taverner survey showed that overall the waiting time for taxi bookings were lower for short distance journeys compared to long distance journeys, it also showed that passengers travelling less than 10 km were more likely to wait more than 40 minutes than for passengers travelling more than 10 km (See Figure Figure C.1 in Appendix C).

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

- …short fares are priced far too low to be viable in a host of circumstances, though perhaps not all. (Only when a passenger walks up to a ranked cab is the short fare price close to reasonable and then only if the drop point is very close to the next pickup point, i.e. closer than returning to the same rank).[62]
- Currently, drivers do not like short fares, so the balance is clearly wrong. The flag fall is too small, so it needs to be increased. Ideally, the flag fall could be just increased and have no effect on the distance rate. However, if IPART refuses to do this, then the second best option is to increase the flag fall at the expense of the increase in the distance rate measured against the average fare.[63]

The blue line in Figure 5.1 shows that (after fuel costs, and assuming an average 31 minutes between fares) a taxi will currently earn:

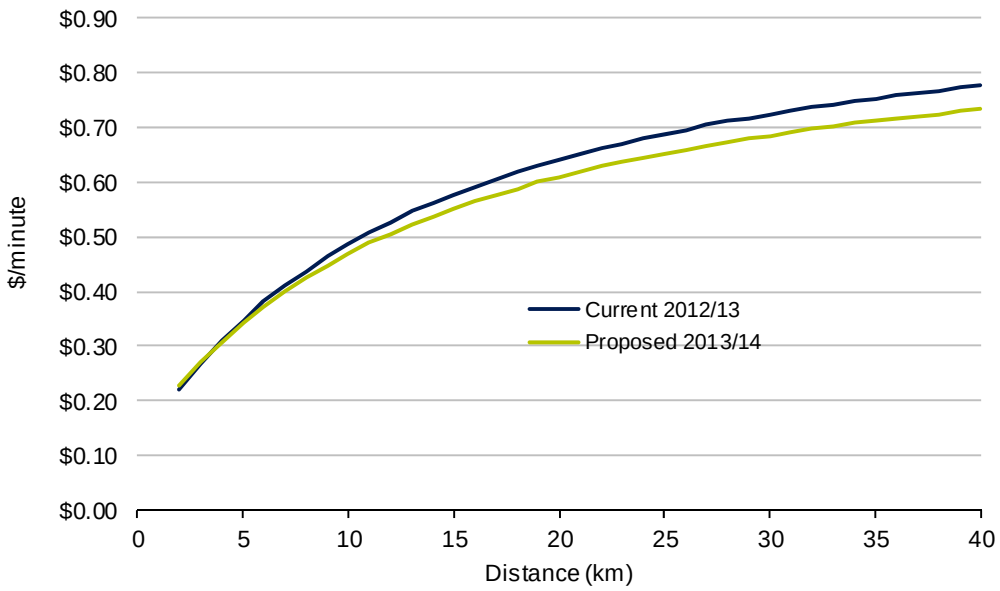
- 31 cents per minute for a 4 km fare, compared to
- 69 cents per minute for a 25 km fare.[64]

62 E Mollenhauer submission to 2012 taxi fare review issues paper, 3 February 2012, p 2.

63 T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, pp 4-5.

64 The profit per minute is significantly higher and not as pronounced for different distances if a taxi can get their next fare more quickly. For example, currently, if a taxi can get their next fare in 10 minutes, it will earn $0.74 for a 4 km fare, and $0.93 for a 25 km fare.

Figure 5.1 Taxi earnings per minute by distance for booked journeys (after fuel costs) – day fares



Note: Based on the average of 31 minutes between journeys. CIE industry survey.
Data source: IPART calculation.

Many submissions considered that increasing the booking fee would be a better way to encourage drivers to pick up short booked fares.[65] Our reasons for not recommending increasing booking fees are considered in section 5.5.1 below. Instead, we are recommending increasing the flag fall by 50 cents to $4. This will align the flag fall for urban areas with the flag fall for country areas, which was $4 for this year.[66]

Several stakeholders said that a 50 cent increase in the flag fall is not sufficient to alter the existing incentives and make drivers more likely to accept short booked fares.[67] Figure 5.4 above confirms that a 50 cent flag fall increase will still mean that drivers will make more revenue per minute from longer journeys compared to short distance journeys.

65 For example, ATDA submission to 2013 taxi fare review draft report, 22 May 2013, p 3.

66 A $4 flag fall remains in the range of flag falls for capital cities in other states ($2.90 (Brisbane) - $4.75 (Canberra)), and better aligns the relativities between long and short fares with other states. Road Transport Information Management ACT, *Taxi fares,* http://www.rego.act.gov.au/aboutus/publictaxifares.htm, Northern Territory Government, *Tariff indicator,* http://www.transport.nt.gov.au/__data/assets/pdf_file/0015/31290/DWN-Standard-Tarrif-Dec-2012.pdf, Queensland taxi fares – south-east Queensland Effective 22 September 2012, http://www.tmr.qld.gov.au/~/media/busind/Taxi%20and%20limousine/pdf%20taxi%20fares%20stickers%20seq.pdf, Department of Transport, *Taxi fares,* effective from December 2012, http://www.transport.wa.gov.au/taxis/15154.asp, Taxi fares South Australia, http://www.taxicouncilsa.com.au/PDF%20Downloads/Latest_Meter_Fares.pdf.

67 E Mollenhauer submission to 2013 taxi fare review draft report, 30 May 2013, p 1; C Elenor, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 41.

However, we had to weigh up recommending a higher flag fall with the impact of higher short fares on lower socio economic groups.[68] In their submission, the Taxi Council referred to NCOSS's statements at our public roundtable:

> I want to endorse Ruth's (Ruth Robinson, Physical Disability Council of NSW) remarks about the importance of taxis for people with a disability who in fact use taxis as their only form of public transport. Other forms of public transport are not available to them and certainly there is a real issue about the short journeys, in the sense of anything that puts up the price of those short journeys, of course, would further disadvantage.[69]

However, David Cousins pointed out that

> Obviously, from the customers' point of view, you don't like to see fare rises, but it is actually better to have a cab available to you than not.[70]

Therefore we have increased fares for short distances to improve the willingness of drivers to pick up these fares, but capped the fare increases during the day at $0.50. A passenger travelling 2 km will only pay 20 cents more. Figure 5.2 also shows that for journeys during the day:

- passengers travelling more than 4 km will pay less than they currently pay
- a passenger travelling 25 km will pay $3.10 less than they do now.

While we acknowledge that the incentives still favour long distance fares, our recommendations will move fares in the right direction to improve the service for short distance customers.

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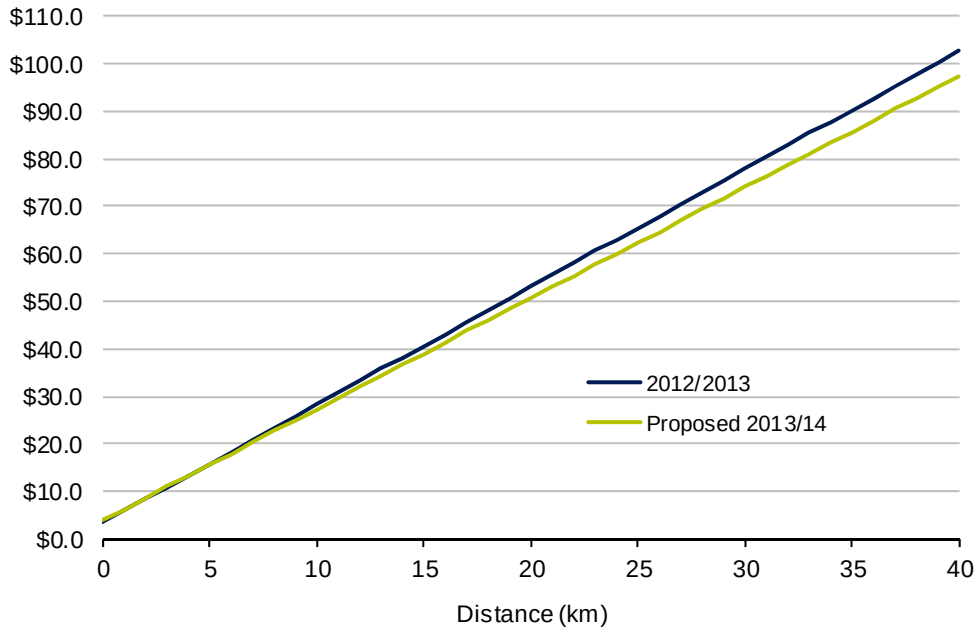
68 Several submissions were concerned that these groups would be disproportionally affected. Action for Public Transport submission to 2013 taxi fare review issues paper, 25 March 2013, p 2; Cabcharge submission to 2013 taxi fare review issues paper, 25 March 2013, p 13; Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 12.

69 Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 14.

70 D Cousins, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 42.

Figure 5.2 Fares between 6 am and 5 pm on all days



Note: Comparison excludes airport charges and booking fees.
Data source: IPART calculations.

Making fares for longer distances more affordable

High fares for long distances may be suppressing demand for longer distance taxi journeys, and encouraging some passengers travelling long distances to use other modes of transport instead. For example, in the past some stakeholders have submitted that the high long distance fares made taxis less able to compete with hire car services that charge less.[71] The Taverner survey confirmed that 14% of respondents had used a hire car (with a driver) in the last 6 months, and 32% said that one of the reasons why they used hire cars instead of taxis is because they were cheaper.[72]

Trevor Bradley submitted that:

> In no circumstances should the general distance rate actually go down… however, one thing that could be done is a drop in the distance rate after 30km. There is already a distance rate change set into the meters of country cabs, so it is already technically achievable. The reason for it is that taxis are uncompetitive on very long fares.[73]

71 NSW Taxi Council submission to 2011 taxi fare review, 15 April 2011, p 1.
72 Taverner survey data.
73 T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, p 5.

The Taverner survey also showed that only 15% of passengers' last journey was more than 25 km, compared to around 50% of passengers who travelled less than 10 km.[74] It also showed that when people who did not end up catching a taxi after thinking about it for a particular journey, a key reason for not catching a taxi was it would be too expensive. For longer journeys, an even greater proportion of people said this was a reason why they did not end up catching the taxi (See Figure C.3 in Appendix C).

The Taxi Council submitted that

> …longer fares are usually taken by market segments that have greater capacity to pay and are less sensitive to [price] increases. Many journeys involve corporate clients who are undertaking trips in support of business related activity. The fares are usually funded by corporations and therefore users in this category are less sensitive to price movements.[75]

This suggests that if fares for longer distances were less expensive, other customers – not just corporate clients – could afford to take taxis for these journeys. And while business travellers may be less sensitive to price than non-business travellers, they are not entirely insensitive either – a study undertaken for the Victorian Taxi Inquiry found that business travellers had an elasticity of -0.6 to price compared to the average elasticity to price across all taxi travellers of -1.[76] And, as a participant in our roundtable on taxi fares in 2012 put it:

> We then had other declines like workplace agreements. We used to take airline crews to work before 6 o'clock. That was a workplace agreement within the airline - Ansett and others this was in - but they lost that fringe benefit. I am sure this has happened with your staff here, for you to cut costs. Staff used to go home at 6.30 by taxi. Businesses are cutting costs. Half of the legal places around here go home at 8 o'clock. That's been our decline in the last 10 years and nobody, even our own people, has acknowledged this.[77]

Therefore, our recommendation should increase the demand for taxis for longer distance journeys.

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74 IPART, *Fact Sheet - Survey of Taxi Use in Sydney*, December 2012, p 1.

75 Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 12.

76 The Hensher Group, *Demand for Taxi and Hire Car Services in Melbourne, Victoria*, 23 April 2012, p 14, http://www.taxiindustryinquiry.vic.gov.au/__data/assets/pdf_file/0008/67652/DemandForTaxiAndHireCarServices-HensherGroup-PDF.pdf.

77 M Burrage, IPART roundtable on taxi fares 2012: Transcript, 29 February 2012, p 54.

A modest reduction in the waiting time rate should not result in reduced levels of service for passengers

Taxis are currently allowed to charge passengers 92 cents per minute when the taxi speed falls below 26 km per hour. We are recommending reducing the waiting rate by 4% to 88 cents per minute ($53 per hour)[78].

Most submissions did not support reducing the waiting time rate. The ATDA considered that it should be increased to $1 per minute.[79] On the other hand, at the public roundtable, Peter Abelson stated that the waiting time is excessive.[80]

When we looked at the fare structures in other cities for our issues paper, we found that waiting rates are not charged in some cities. In other cities, including Brisbane, waiting times are only charged when the taxi is not moving at all.[81]

Without a waiting time rate, a taxi will make lower revenue if it is travelling slowly, and no revenue if it is not moving at all. At our public roundtable, Trevor Bradley stated:

> The reason for [the waiting time rate] is that day drivers don't want to go into the city because they are going to get stuck in a traffic jam, where if they have some work around the suburbs they can travel faster and make more money.[82]

We agree that taxis in Sydney require an incentive to pick up passengers from congested areas.

The Taxi Council submitted that a reduction in the waiting time rate will provide a direct disincentive for drivers to operate in periods of peak congestion.[83] However, reducing the waiting time rate in line with the reduction in the distance rate will maintain the existing incentive – that is the drivers will earn the equivalent of travelling on the distance rate at 26 km per hour. There is no evidence that this existing incentive should be changed:

- There is no evidence that drivers are currently unwilling to drive in congested conditions. For example, the Taverner survey shows 25% of passenger journeys go to the city, and 38% of journeys are picked up from the city.[84]
- There will still be a very strong incentive for taxis to go to areas of high demand, such as the congested city centre, so they will get a fare.

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78 This is slightly higher than the recommendation in our draft report of 87.5 cents per minute due to an adjustment made in modeling the average fare.

79 ATDA submission to 2013 taxi fare review draft report, 22 May 2013, p 5.

80 Peter Abelson, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 43.

81 Queensland taxi fares – south-east Queensland Effective 22 September 2012, http://www.tmr.qld.gov.au/~/media/busind/Taxi%20and%20limousine/pdf%20taxi%20fares%20stickers%20seq.pdf

82 Trevor Bradley, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 53.

83 Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 14.

84 Taverner survey data.

- Even with a 4% reduction Sydney has one of the most attractive waiting time rates in the world (See Figure C.5 in Appendix C).

Therefore we do not expect that a 4% reduction in waiting time will lead to reduced service levels for customers at these times.

5.3 Fares for night journeys

Our recommendation is to add a $2.50 peak surcharge to fares on Friday and Saturday night between 5 pm and 5 am when demand is highest. In practice this will mean that between these times a $6.50 flag fall will apply. This should make taxis more available at times of high demand. We expect our recommendations to result in a 7% fall in waiting times on Friday and Saturday nights.

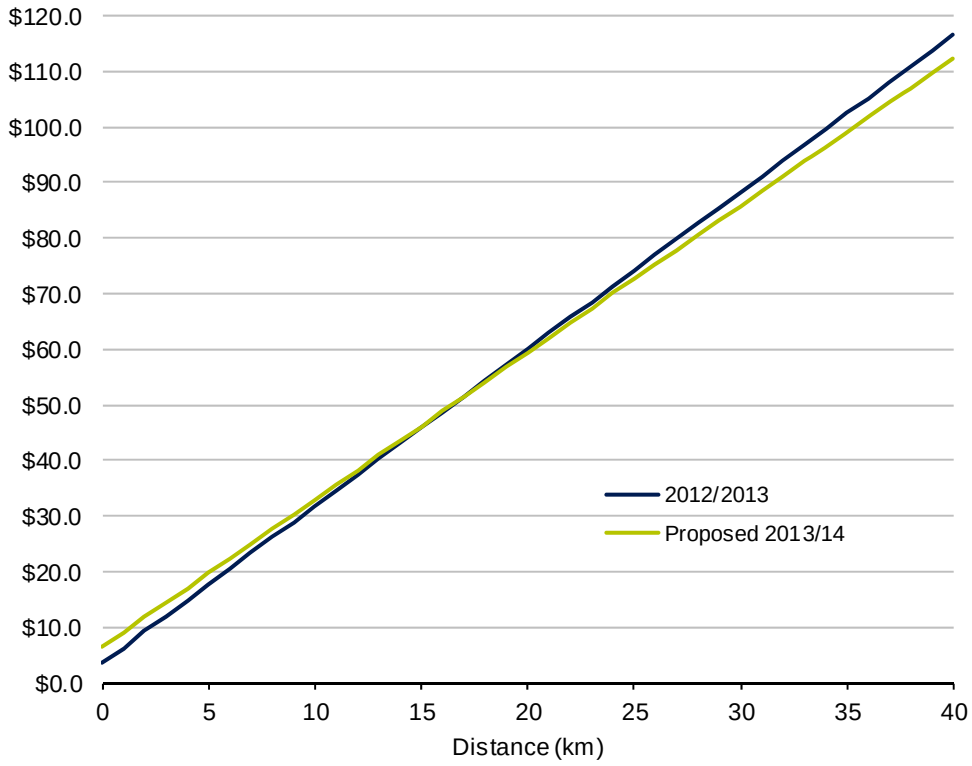
We are also recommending keeping the 20% surcharge on distance rates on all nights of the week, but changing the hours that the surcharge applies to start 2 hours later (from 12 midnight instead of 10 pm) and finish at 5 am instead of 6 am.

Table 5.3 shows how customers will be affected on Friday and Saturday nights, and Figure 5.3 shows the current fares and the proposed fares between 12 midnight and 5 am.

Table 5.3 Impact on customers on Friday and Saturday night

	Customers who will pay more	Customers who will pay less	Difference in fare for a 2 km journey	Difference in fare for a 25 km journey
5 pm - 10 pm	Travelling less than 21 km	Travelling further than 21 km	$2.70	-$0.60
10 pm - 12 midnight	Travelling less than 6 km	Travelling further than 6 km	$1.80	-$11.50
12 midnight - 5 am (Figure 5.3)	Travelling less than 17 km	Travelling further than 17 km	$2.60	-$1.50
5 am – 6 am	Travelling less than 1 km	Travelling further than 1 km	-$0.70	-$14

Figure 5.3 Fares on Friday and Saturday nights between midnight and 5 am



Source: IPART calculations.

5.3.1 Why we are recommending a peak surcharge on Friday and Saturday night

Several submissions to our licence review and participants in our public roundtable considered that there is a shortage of taxis on Friday and Saturday nights.[85]

The Taverner survey showed that passengers wait longer for taxis on Friday and Saturday nights compared to other days of the week:

- around 30% of people waited more than 10 minutes to catch a taxi after 6 pm on Friday and Saturday nights, compared to 20% of passengers waiting more than 10 minutes at all other times[86]

[85] Sydney City Council submission to taxi licence review issues paper, 16 November 2012, p 1; P Louridas, submission to taxi licence review issues paper, 5 November 2012; S Guy, submission to taxi licence review draft report, 16 January 2013, p 1.

[86] Taverner Research, *Survey of Taxi Use in Sydney*, November 2012, p 28, http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review_of_Sydney_Taxi_Licences_to_be_released_from_1_July_2013/10_Dec_2012_-_Consultant_Report/Consultant_Report_-_Taverner_Survey_Report_-_Taxi_Use_Sydney_-_November_2012

- around 60% of passengers that hailed a taxi or caught a taxi from a rank on a Friday or Saturday night or evening had to wait more than 5 minutes for a taxi, compared to 25% to 50% that had to wait more than 5 minutes during other times.[87]

The survey also showed that people are also more dissatisfied with the wait time on Friday and Saturday nights than any other night – less than 50% of passengers on these nights are satisfied with the length of time they have to wait to catch a taxi (See Figure C.2 in Appendix C).

The NSW Government has announced that an additional 250 taxis (with peak availability licences) will be available in the afternoon and nights to help lower waiting time for passengers.

However, less than 90% of the fleet is currently on the road on Friday and Saturday nights.[88] The Taxi Council submitted that there are a number of reasons for this, including some taxis are being serviced or repaired, and some drivers are ill or injured.[89]

The Taxi Council also notes that some drivers are reluctant to work on Friday and Saturday nights as they consider that there are greater security risks, and more fare evasion. Similarly some operators are not willing to risk the higher chances of damage to their vehicles at these times.[90] In its submission, the Taxi Council quoted Peter Louridas from our public roundtable:

> It was said that there are less than 90% of cabs in Sydney working on Friday and Saturday nights and that is because a lot of the financial rewards are offset by the fact that you are putting up with people who may be less than polite towards you.[91]

Because there is excess demand on Friday and Saturday nights, increasing fares on Friday and Saturday nights will mean that more revenue can be earned by each taxi, which increases the financial rewards for drivers and operators. This should encourage some of these drivers and operators who are currently unwilling to operate on these nights. We disagree with the NSWTDA that 'nearly all of the serviceable taxis are already on the road at those times so there are no more taxis to induce into operation.'[92]

87 Taverner survey data.
88 The CIE, *Reweighting of the taxi cost index,* April 2012, pp 30-31.
89 Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 11.
90 Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 11-12.
91 Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 12.
92 NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2.

Stakeholders suggested surcharges in the range of $3.50 to $5.[93] We note that Perth currently has a $4.85 surcharge on Saturday and Sunday mornings between 12 midnight and 5 am.[94] The ATDA suggested increasing the distance rate surcharge to 25% instead.[95]

Higher prices in peak periods were supported by some stakeholders.[96] Some stakeholders only supported a surcharge if the increase was not offset in other fare components.[97] Other stakeholders did not support a surcharge.[98]

We are recommending introducing a $2.50 surcharge on Friday and Saturday night to apply between 5 pm and 5 am because there is high demand during these times. Because we have added 50 cents to the flag fall at all times as well, from 5 pm there will be $6.50 on the meter when a passenger enters a taxi instead of $3.50. This is similar to the $6.30 flag fall that applies in Brisbane after midnight.[99]

The reason why we are recommending a fixed amount for all distances, rather than a higher distance based surcharge is because a distance surcharge would make long distance fares even more attractive compared to short distance fares, as shown in Figure 5.4. This is likely to make drivers even less inclined to accept short bookings.

93 Australian Hotels Association submission to taxi licence review issues paper, 2 November 2012, p 7, Anonymous submission to 2013 taxi fare review issues paper, 26 February 2013, p 1, T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, p 4.

94 Department of Transport, *Taxi fares,* effective from December 2012, http://www.transport.wa.gov.au/taxis/15154.asp.

95 ATDA submission to 2013 taxi fare review draft report, 22 May 2013, p 3.

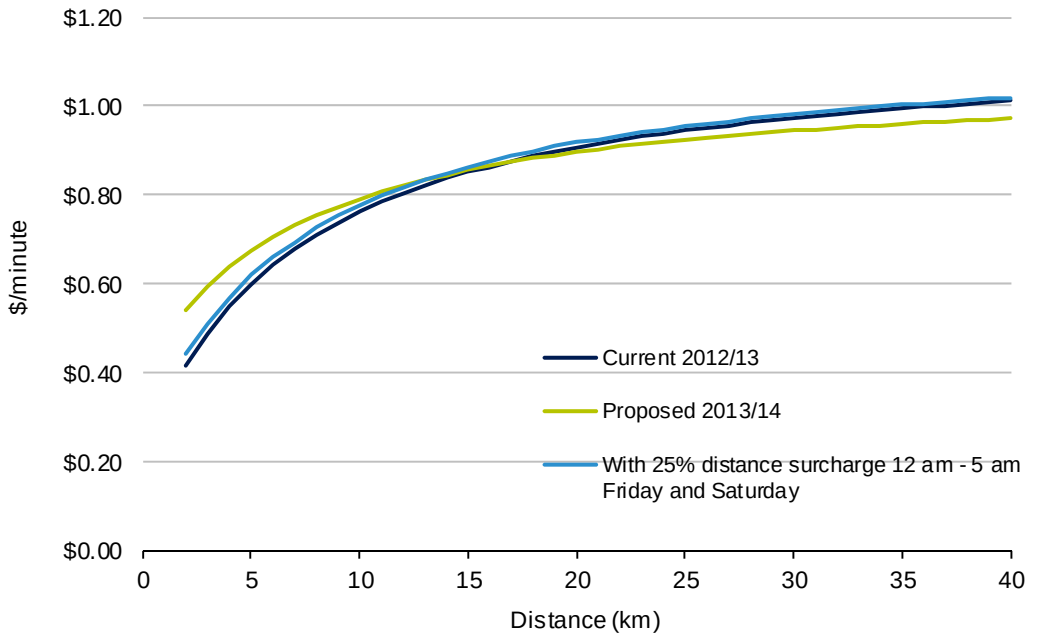
96 D Cousins, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 42.

97 T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, p 4.

98 Anonymous submission to 2013 taxi fare review draft report, 10 May 2013, p 1.

99 Queensland Taxi fares – south-east Queensland, effective 22 September 2012, http://www.tmr.qld.gov.au/~/media/busind/Taxi%20and%20limousine/pdf%20taxi%20fares%20stickers%20seq.pdf

Figure 5.4 Taxi earnings per minute by distance for booked journeys (after fuel costs) – Friday and Saturday night (12 am – 5 am)



Note: The 25% discount option uses a $4 flag fall, a distance rate of $2.07/ km, and a waiting rate of $53 for an overall fare change of -1%. Based on 16 minutes between fares for Friday and Saturday night.

We recognise that some stakeholders are concerned that this increased flag fall at these times may lead to customers questioning the legitimacy of the charge and this could lead to disputes.[100] There has already been substantial media reporting of the possible introduction of the Friday and Saturday night surcharge. We consider that this change should continue to be highlighted to customers.

We estimate the average waiting time on Friday and Saturday nights will fall by 7% under our fare proposal in combination with an additional 250 taxis being on the road. If we made no changes to the fares structure on Friday and Saturday night, we estimate that the waiting time would only fall by around half of this.

As noted above, some of the increase in the tariff 2 flag fall will be offset by reductions in the distance and waiting time rates. This means that the further passengers travel, the less they will pay compared to how much they pay now (shown in Figure 5.3 above).

[100] NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2; M Burrage, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 49; B Ridge, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 48; T Bradley submission to 2013 taxi fare review draft report, 21 May 2013, p 3.

5.3.2 Why we are recommending applying the 20% distance rate surcharge between 12 midnight and 5 am

Currently passengers pay 20% more per kilometre of travel between 10 pm and 6 am (they pay $2.57 per kilometre instead of $2.14) than at other times. We are recommending reducing the hours that the surcharge applies to start at midnight and end at 5 am.

Starting the distance surcharge at midnight on Friday and Saturday nights

As mentioned above, we have recommended that on Friday and Saturday nights a $2.50 surcharge apply after 5 pm when demand is the highest. However if this surcharge were to apply in isolation, we are concerned that this could mean that there would not be enough taxis on the road after midnight, because:

- PALs may be more inclined to work in earlier part of the shift (12 noon to 12 midnight)
- unrestricted night shift taxis may come off the road earlier if they can make more revenue between 3 pm and 12 midnight and avoid the perceived risks and inconvenience of driving after 12 midnight on Friday and Saturday nights.

Therefore, an additional incentive after midnight is likely to be required so that sufficient taxis remain on the road. The current 20% night surcharge will fulfil this need if it starts 2 hours later than it does now.

Perth and Brisbane also have additional incentives after midnight to ensure that supply meets demand after this time:

- Perth – $1.85 surcharge between 6 pm and 6 am, and an additional $3 between 12 midnight and 5 am.[101]
- Brisbane – $1.40 surcharge between 7 pm and 7 am and an additional $2 between 12 midnight and 5 am.[102]

[101] Department of Transport, *Taxi fares,* effective from December 2012, http://www.transport.wa.gov.au/taxis/15154.asp.

[102] Queensland Taxi fares – south-east Queensland, effective 22 September 2012, http://www.tmr.qld.gov.au/~/media/busind/Taxi%20and%20limousine/pdf%20taxi%20fares%20stickers%20seq.pdf

Reducing the distance surcharge hours on Sunday – Thursday nights

Most stakeholders support retaining the existing night surcharge on all nights of the week,[103] although some supported reducing the hours that it applies.[104] From Sunday to Thursday there is some evidence that there are too many taxis on the road relative to the level of demand. The Taverner survey found that waiting times are lowest on Monday to Thursday nights, with more than 70% of passengers able to get a taxi within 5 minutes.[105]

The survey results suggest that the night surcharge may not be needed at all on these nights, or may be needed at a lower rate or for fewer hours. We agree with the Taxi Council that reducing the hours that the surcharge applies is likely to discourage some taxis from being on the road during these times.[106] This may mean that some operators may change how they operate their taxis, and some drivers will no longer be required for certain shifts.

We disagree with the Taxi Council that this will contribute to supply challenges[107] – on the contrary, it will better match the supply of taxis with the lower level of demand, particularly on Sunday to Thursday evenings. This will help ensure that the taxi industry becomes more customer focused – so that taxis are available when people need them, and that too many taxis are not being underutilised when they are not needed.

Retaining the surcharge with reduced hours between 12 midnight and 5 am is more consistent with the available evidence and means that the same hours will apply for the 20% surcharge across the week.

It also means that taxis will be more affordable for passengers travelling between 10 pm and midnight on Sunday to Thursday nights: they will pay 70 cents less for a 2 km journey and around $14 less for a 20 km journey.

Ending the surcharges at 5 am

Some stakeholders submitted that that ending the surcharge at 5 am would potentially lead to supply problems between 5 am and 6 am, which coincides with a high level of travel to the Sydney airport.[108]

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[103] Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 13, ATDA submission to 2013 taxi fare review draft report, 22 May, p 8, NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2; T Bradley and P Louridas, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, pp 54-55.

[104] Anonymous submission to 2013 taxi fare review draft report, 10 May 2013, p 1.

[105] Taverner Research, *Survey of Taxi Use in Sydney*, November 2012, p 28, http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review_of_Sydney_Taxi_Licences_to_be_released_from_1_July_2013/10_Dec_2012_-_Consultant_Report/Consultant_Report_-_Taverner_Survey_Report_-_Taxi_Use_Sydney_-_November_2012.

[106] Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 13.

[107] Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 3.

[108] Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 13.

We disagree. There is no evidence to suggest that there is currently a shortage of taxis between 5 am and 6 am. As at any other time of the day when the surcharge does not apply, taxis will be on the road if there is demand for their services. We also note that the surcharge ends at 5 am in Melbourne.[109]

Peak Availability Taxis must come off the road at 5am, which indicates that additional supply is not required after 5 am. Rather, removing the surcharge between 5 am and 6 am will help remove any incentive for peak availability taxis to operate outside of the conditions of their licence.

Ending the surcharge at 5 am will mean that between 5 am and 6 am, passengers will pay 70 cents less for a 2 km journey and around $14 less for a 20 km journey.

5.4 Our recommended levels for the different fare components give a 1% overall fare reduction

The combined effect of the changes in the fare components is a 1% reduction in fares. If overall fare levels were changed by a different amount, the changes in the fare components would also have to be different. For example, in order to restructure fares to make taxis more available for short fares and in peak times, and cheaper for long distance fares, the fare structure in Table 5.4 would apply if fares were held constant.

[109] Victorian Taxi Directorate, *Taxi fares,* effective 13 December 2008, http://www.taxi.vic.gov.au/passengers/taxi-passengers/taxi-fares#metropolitan.

Table 5.4 Fare structure changes for different fare levels

Fare component	Change in overall fare levels	
	-1%	0%
Base flag fall	$4.00	$4.00
Standard distance rate ($/km when the vehicle is travelling more than 26 km/h)	$2.00	$2.04
Night distance rate ($/km when the vehicle is travelling more than 26 km/h) (20% surcharge)	$2.40 (12 am – 5 am)	$2.45 (12 am – 5 am)
Waiting time ($/hour when vehicle slower than 26km/hour)	$53.00 (88 c/min)	$52.80 (88 c/min)
Friday to Saturday peak surcharge	$2.50 (5 pm – 5 am)	$2.50 (5 pm – 5 am)
Booking fee (booked fares only)	$2.40	$2.40
Maxi taxi surcharge (on total fare) (applies when a maxi-cab is pre-booked (regardless of the number of passengers) or if a maxi-cab is hired from a taxi zone or street hail to carry 5 or more passengers).	50%	50%

5.5 Other charges

Fares can also include a range of other charges, including booking fees, the maxi taxi surcharge and road tolls. In the interests of improving the efficiency of fares more generally and meeting our terms of reference requirements, we have considered whether changes could be made to these charges, or the way they are levied.

5.5.1 We are not recommending changes to the booking fee

Some 20% to 30% of all taxi trips in Sydney are booked, rather than hailed or started from a rank.[110] Currently fares include a regulated booking fee ($2.40) that is charged for trips booked with a network by phone or internet. In our issues paper we proposed the deregulation of booking fees. This was not supported by any stakeholders.

[110] 29% of respondents to the Taverner survey booked their trip through a network, while 30% of respondents to the Bureau of Transport's *2011/12 Household Travel Survey 5-years-pooled dataset using unlinked trips* booked a their trip through a network. IPART has previously used an estimate of 20% of trips being booked, and the average response from drivers in the CIE survey about proportion of journeys booked was 20% (see Table 4.1).

We consider that when there is effective competition in booking services, that booking fees should be deregulated. The NSW Government is currently reviewing aspects of passenger transport legislation, including taxi network regulation and booking arrangements. Given that these arrangements are still under review, it cannot be said that effective competition in booking services has been established. Therefore, we are continuing to recommend the maximum price for the booking fee this year.

The regulated booking fee is at the right level

We received some submissions stating that the booking fee was at the right level.[111] The Taverner survey showed that satisfaction levels for booked fares with a $2.40 booking fee are not worse than for journeys that started at a taxi rank or hailed down on the street that don't incur the booking fee (See Figure C.4 in Appendix C).

We also received a number of submissions seeking increases in the booking fee as a greater incentive to attend bookings.[112] As discussed in section 5.2.1, the incentives for drivers to attend short booked journeys are currently low. Some drivers are also reluctant to attend bookings as a significant number of passengers who make a booking are not there when the taxi arrives.

We agree with stakeholders that increasing the booking fee would improve the incentive for driver to pick up booked fares. However, as we noted in last year's review, increasing the cost of the booking fee is likely to worsen the problem of passenger 'no shows' as a higher charge gives passengers a greater incentive to dishonour the booking (for example, by flagging down a passing taxi).[113] More dishonoured bookings further discourage drivers from attending bookings. Therefore we think that increasing the booking fee from its current level will further exacerbate the problems with service for short booked journeys.

In addition we note that increasing the booking fee is likely to most affect disadvantaged groups, such as disabled or elderly passengers who rely on booking services rather than hailing a taxi or taking a taxi from a rank.[114]

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111 Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 16; Cabcharge submission to 2013 taxi fare review issues paper, 25 March 2013, p 15; Anonymous submission to 2013 taxi fare review issues paper, 26 February 2013, p 1.

112 NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2, Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 14; T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, pp 5-6; T Hirsch submission to 2013 taxi fare review draft report, 31 May 2013, p 7.

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

114 As noted by David Cousins, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 43.

5.5.2 We are not recommending changes to the maxi taxi surcharge

In Sydney, a maxi taxi surcharge may be charged where a maxi taxi is pre-booked (regardless of the number of passengers) or if a maxi taxi is hired from a taxi zone or street hail to carry five or more passengers. Passengers in Sydney pay an additional 50% on the metered fare.

All capital cities except Darwin have some form of maxi taxi surcharge, although it is different in each city – some are a percentage of the total fare, others are a fixed rate. In Brisbane, the surcharge has been deregulated for pre-booked maxi taxis (as well as luxury and premium taxis). A fixed surcharge of $11 to $12 typically applies in Brisbane.[115] The Victorian Taxi Industry Inquiry recommended a fixed fee of between $10 and $15 for Melbourne.[116]

There was no support for changing the way the maxi taxi is levied.[117] We agree that the current arrangements appear to be working well, and we do not have the problem that exists in Melbourne, where the percentage surcharge attracts too many of the wheelchair accessible vehicles out of the city to the airport, where the fares are longer.[118]

5.5.3 Tolls in taxis

Tolls incurred during a passenger trip are paid by passengers. When there is no passenger in the taxi, the toll is covered by drivers.

Currently, taxi meters cannot automatically record the tolls incurred during a trip and any tolls are added manually to the meter by the driver at the end of the journey. Given the increasing complexity of distance and time-based tolling on Sydney's roads, automatic inclusion of tolls would reduce confusion and the risk of error or deliberate fraud.

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[115] For example see, Black and white cabs, http://www.blackandwhitecabs.com.au/cms/pages/TAXI_MENU/Estimate/!/Services/Taxi+Fares/display.html
Yellow cabs, Maxi taxis, http://www.yellowcab.com.au/customer-services/content.cfm/Maxi_Taxis/411/

[116] Victorian Taxi Industry Inquiry, *Final Report: Customers First – Service, Safety, Choice*, September 2012, p 207.

[117] T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, p 6, Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 18, Cabcharge submission to 2013 taxi fare review issues paper, 25 March 2013, p 19, Anonymous submission to 2013 taxi fare review issues paper, 26 February 2013, p 1.

[118] Victorian Taxi Industry Inquiry, *Final Report: Customers First – Service, Safety, Choice*, September 2012, pp 201 and 207.

This is an issue for Transport for NSW to consider. We note that the Victorian Government recently agreed to the Victorian Taxi Inquiry's recommendations on taxi meters, including that they should include all components of the fare, including tolls, and that the Victorian Government should seek the support of other Australian jurisdictions for a more cooperative national approach to setting standards for taxi meters.[119]

5.5.4 We recommend removing the 'return toll' on Harbour crossings

The Sydney Harbour Bridge and Tunnel tolls are treated differently to other tolls: the Harbour crossing toll is levied on passengers travelling in both directions over the Bridge or through the Tunnel, even though it is only charged to vehicles going south. This means that when a taxi takes a passenger north over the Harbour, and takes another passenger south over the Harbour, the taxi will receive 2 toll payments from customers, even though the taxi is only charged for one trip.

We reviewed this issue in 2008, and our final decision was to keep the return toll. However, since 2008, the toll now varies with the time of the day - it is $2.50 at night, $3 during the day, and $4 during peak hour. The current northbound toll is charged at the southbound toll rate applicable at the time of crossing.

We recommend removing the toll because we do not think that passengers should pay for a toll that is not incurred when they are travelling in the taxi. This was supported by several submissions.[120] This will make the treatment of the Harbour crossing tolls consistent with how tolls apply to customers on all other toll roads.

We consider that because the toll now varies by the time of day, the amount that the driver adds to the meter is even less transparent and can undermine confidence in the accuracy of the taxi fare. This can lead to unhappy customers[121] and disputes.[122]

The NSW Taxi Council acknowledged the challenge to customers in their submission:

> For customers the payment of a toll for a reverse journey by the driver who may secure a booking on the return is counter intuitive and represents potential 'double dipping' by the driver. This in turn can lead to disputation between the driver and the passenger, and anecdotal evidence suggests that a number of drivers don't press for this charge as a consequence.[123]

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119 *Victorian Government Response: Taxi Industry Inquiry Final Recommendations*, May 2013, p 9.

120 D Cousins submission to 2013 taxi fare review draft report, 31 May 2013, p 5; Anonymous submission to 2013 taxi fare review draft report, 10 May 2013, p 1.

121 P Louridas IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 55.

122 B Ridge, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 48.

123 NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 17.

There is no evidence to suggest that removing the ability to charge a return toll would mean that taxis would be less willing to take customers over the Harbour.

Many stakeholders did not support removing the ability to charge the northbound toll because they were concerned that drivers would have to bear the costs of the toll when they used the south-bound Harbour crossings without a passenger and this would impact on driver earnings.[124] Michael Hatrick submitted that this could be approximately $70 a week (which is about 4-5 south-bound journeys per shift without a passenger).[125]

Some stakeholders proposed alternative options:

- Charging the toll to passengers travelling northbound over the Harbour if their destination is within a specified boundary, so that passengers travelling longer distances would not have to pay.[126] We do not consider that this is practical.
- Charging customers 50% of the toll when they travel north.[127] We do not consider that this overcomes the current problems.
- Exempting taxis from being charged in either direction by the tolling companies.[128] We do not have the authority to exempt taxis from tolls.

We recognise that under our recommendation to remove the toll, taxis will have to bear the cost of the southbound toll if they return to the city across the Harbour without a customer. However, in the long term we expect that pay ins to operators will adjust to reflect the increase in costs.

Recommendation

2 That Transport for NSW remove the ability for taxis to charge customers a toll when travelling north across the Sydney Harbour crossings.

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124 ATDA submission to 2013 taxi fare review draft report, 22 May, 2013, p 4; M Hatrick submission to 2013 taxi fare review draft report, 27 May 2013, p 3; E Mollenhauer submission to 2013 taxi fare review draft report, 20 May 2013, p 1; NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2; T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, p 6.

125 Assuming a driver works 5 shifts per week. M Hatrick submission to 2013 taxi fare review draft report, 27 May 2013, p 3.

126 NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 18.

127 NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 18.

128 ATDA submission to 2013 taxi fare review issues paper, 8 April 2013, p 6; NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2; M Burrage, IPART taxi fare review 2013 public roundtable transcript, 21 May 2013, p 51.

6 Drivers and operators in the transition

Our terms of reference require us to consider the cost of providing taxi services and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers. In the long term, lower fares and increased licence numbers will lower revenue per taxi, reducing the economic rent embedded in fares (via lower licence lease costs) and moving fares towards efficient levels. Lower licence costs will also mean it will be easier and cheaper for operators to enter the taxi industry.

The taxi industry model, which we developed for our licence review and used to develop this year's fare recommendations, helps us to understand longer term impacts of changes to the taxi industry. In the long term we expect the lower fare revenue per taxi to flow from drivers back to operators via lower pay-ins and then from operators to licence owners through lower licence lease costs. However, as a long term equilibrium model, its outcomes are based on what happens when the market has fully adjusted to the changes brought about by additional licences and our recommendations on fares.

In our draft report we discussed the potential for our recommendations to impact the earnings of drivers and operators in the short term until the industry adjusts to the changes. In response we received many submissions concerned about what these impacts might be. In particular, stakeholders are worried that in the short term, reductions in fare revenue will reduce the income of drivers and operators and jeopardise the viability of the industry.[129] The sections below set out our analysis of the potential transitional impacts on drivers and operators.

The actual impact on drivers and operators income depends on how quickly licence lease costs fall. If licence lease costs adjust quickly to the changes in available revenue, as they have when fare revenue has increased, the impact on drivers and operators will be less.

[129] For example, NSW Taxi Council submission to 2013 taxi fare review issues paper, 25 March 2013, p 6.

6.1 Impact on industry viability

Under our recommendations we expect an increase in revenue for the industry as a whole as more people use taxis more often. However, we expect our recommendations (including our recommended changes to fare structure), together with the additional 250 peak availability licences to be released from July 2013, to lower fare revenue per taxi for some shifts. For most shifts the impact on a per taxi basis should be less than $2 (Table 6.1).

Table 6.1 Estimated change in net revenue per taxi of our recommendations ($ per taxi, per shift)

Day shifts	Mon	Tues	Wed	Thurs	Fri	Sat	Sun
	-$1	-$1	-$1	-$1	-$1	$0	$0
Night shifts	**Mon**	**Tues**	**Wed**	**Thurs**	**Fri**	**Sat**	**Sun**
	$0	-$10	-$11	-$13	-$1	$0	$0

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

Source: IPART calculations

In the long term we expect any reduction in fare revenue per taxi to flow to licence owners through lower licence lease costs. However, there may be some impact on the earnings of drivers and operators in the short term as the industry adjusts to the changes. How fare revenue is shared between drivers, operators and licence owners is negotiated between them. It is in the interests of drivers and operators to begin renegotiating immediately in order to minimise the impact of the changes. Until the impact has been fully absorbed by licence owners it is likely that drivers, operators and licence owners will share the reduction in income rather than it being borne by any particular part of the industry.

In last year's fare review we discussed strong views put by stakeholders that a change in our approach was needed as increasing fares has led to declining taxi use, falling productivity and higher costs. Increasing fares has also failed to improve driver incomes and allowed licence values (and lease costs) to rise. Competition from other modes of transport, especially hire cars, has also been raised with us as a significant cause of concern from taxi industry participants.

A viable, sustainable taxi industry is one that meets the needs of passengers. Continuing to raise fares will not promote a viable, sustainable industry. We are recommending small reductions in fare revenue per taxi this year. We expect this to result in better outcomes for passengers, including more taxis available and lower waiting times at peak times and for short trips, and more affordable fares for long-distance travel. As a result, we expect more revenue for the industry as a whole and an improvement in the viability and sustainability of the taxi industry over the longer term.

The NSW Taxi Council submits that any reduction in fare revenue will jeopardise the viability of the industry. The NSW Taxi Council submits that our recommendations will place the industry in the position of operating at a loss.[130] The Taxi Council argues that:

> … should the process recommended by IPART be implemented by Government, there will be an increasing unfunded gap between the revenue received by taxis drivers and operators and the costs of providing taxi services. … this funding gap will be greater than the industry can afford … which will have significant economic and social impacts on industry participants, particularly operators and drivers. These impacts will ultimately force operators and drivers out of the industry, and will also materially impact upon licence holders.[131]

The NSWTDA is also concerned that our recommendations will produce a marginal benefit for passengers but have a significant detrimental impact on the industry.[132] Others consider that a significant increase in fare revenue is required in order to ensure that there is enough income to provide a reasonable income for everyone in the taxi industry.[133]

As noted above, we expect an increase in revenue for the industry as a whole despite the fact that there will be lower fare revenue per taxi for some shifts. We consider that our recommendations will provide sufficient revenue for drivers and operators to retain their existing level of earnings, for new drivers and operators to enter the industry, and for licence owners to earn around $26,500 per year from leasing their licence to operators (down around 6% from their current level). In our view this still provides a solid basis for participation and investment in the NSW taxi industry.

We note that the Victorian Government has recently announced changes to the Victorian taxi industry licence arrangements that will lead to a one off reduction in income from leasing a licence of around $8,000 or 25% from around $30,000 per year to $22,000.[134]

Whether it is the drivers, the operators, the networks or the licence holders who bear the impact of the reductions in fare revenue per taxi in the short term, and for how long, will depend on the timing of the adjustment of lease costs. The NSW Taxi Council assumes that lease costs will adjust only slowly; we consider that they could adjust more quickly. We consider that the NSW Taxi Council could also help the transition by working with networks (who manage many licences on behalf of owners) and owners to transition to lower market rates for leased licences without undue disruptions to drivers and operators.

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130 NSW Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 7.

131 NSW Taxi Council submission to 2013 taxi fare review draft report, 31 May 2013, p 10.

132 NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 2.

133 For example, T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, pp 1,4.

134 Victorian Taxi Industry Inquiry, Draft Report, *Customers First*, p 58, *Government Response, Taxi Industry Inquiry Final Recommendations*, May 2013, p 9.

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

> A clear distinction needs to be made between the viability and sustainability of individual industry participants and the industry as a whole. The industry may be quite viable and sustainable whilst some members of it are unable to operate profitably. In competitive industries, entry and exit are a normal and healthy aspect of market operation.[135]

6.2 Potential short term impacts on drivers' earnings

How much of the fare revenue collected is kept by drivers and how much is paid to operators is determined by 'pay-in' arrangements made directly between drivers and operators.[136] The pay-in rates offered by operators who want to bail their taxis out depend on the supply of drivers and the demand for them. These factors in turn depend on the level of fare revenue that can be earned from driving (which affects the supply of drivers) and the number of taxis on the road (which affects the demand for drivers). We expect that market pay-in rates will change to reflect changes in the level of fare revenue that can be earned for a particular shift as well as changes in the number of taxis on the road.

Until pay-ins adjust, driver incomes may be reduced in some shifts. There was concern among stakeholders (particularly drivers and their representatives) that the impact on their income may be significant. Our model estimates how much fare revenue per taxi will change by on a shift by shift basis. For most shifts we expect either no change or a very small change in fare revenue per taxi (less than $2 per shift). However, for Tuesday, Wednesday and Thursday night shifts, we expect fare revenue to fall by between $10 and $13 per shift – somewhere in the vicinity of a dollar an hour. In order to maintain driver earnings at their existing level (estimated in 2011 to be in the range of $8 to $15 per hour for a driver of a Sydney standard taxi, depending on the shift[137]) pay-ins would need to reduce by the amounts indicated in Table 6.2 (which is the same as shown in Table 6.1).

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135 D Cousins submission to taxi licence review draft report, 15 January 2013, p 3.

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

137 The CIE, *Reweighting the Taxi Cost Index*, April 2012, p 38.

Table 6.2 Estimated change in pay-ins per shift required to maintain driver earnings at their current level ($ per taxi, per shift)

Day shifts	Mon	Tues	Wed	Thurs	Fri	Sat	Sun
	-$1	-$1	-$1	-$1	-$1	$0	$0
Night shifts	**Mon**	**Tues**	**Wed**	**Thurs**	**Fri**	**Sat**	**Sun**
	$0	-$10	-$11	-$13	-$1	$0	$0

Note: Figures have been rounded to the nearest dollar.
Source: IPART calculations.

One of the concerns raised with us is that the impact on the income of drivers will differ depending on what shifts they drive.[138] Our recommendations are about ensuring that the taxi industry becomes more passenger-focused. At particular times of the week there is less passenger demand for taxi services and at other times there is more. The industry must meet the needs of passengers if it is to remain viable. As a result, we acknowledge that there will be different impacts on drivers depending when they drive – and these impacts will act as a signal about passenger demand and when more or less taxis are needed on the road.

Some submissions say that drivers' earnings will be further reduced beyond their already low level rather than the recommendations resulting in a change to the level of the pay-in. For example, the ATDA argued that a reduction in earnings of $10 a shift will result in some drivers' earnings being reduced to below $10 an hour, which it submits is unacceptable.[139] We received comments from a number of stakeholders arguing that an important part of IPART's role is to ensure that taxi drivers receive a reasonable level of income.[140] For example, one submission stated that it is 'IPART's responsibility to see that taxi drivers work for a living wage'.[141] IPART does not determine driver's wages or earnings. As David Cousins submitted, there should be 'a separate exercise to determine how best to deal with the problem of poor terms and conditions of work' for drivers.[142]

In NSW there is already a Taxi Industry (Contract Drivers) Contract Determination in place that governs the contractual relationship between drivers and operators in Sydney. This determination, made by the NSW Industrial Relations Commission, also sets maximum pay-ins for bailee drivers.[143] The maximum pay-ins set out in the Contract Determination are significantly above the pay-ins negotiated in the market (around 30% above) and as a result, the

138 NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 1; ATDA submission to 2013 taxi fare review draft report, 22 May 2013, p 3.
139 ATDA submission to 2013 taxi fare review draft report, 22 May 2013, p 7.
140 For example, NSWTDA submission to 2013 taxi fare review draft report, 31 May 2013, p 1; ATDA submission to 2013 taxi fare review draft report, 22 May 2013.
141 T Bradley submission to 2013 taxi fare review draft report, 17 May 2013, p 4.
142 D Cousins submission to 2013 taxi fare review draft report, 31 May 2013.
143 *Taxi Industry (Contract Drivers) Contract Determination 1984*.

Contract Determination currently has no impact on the earnings of most taxi drivers.

The ATDA submission on our draft report noted that the Transport Workers Union has an application before the NSW Industrial Relations Commission to reduce maximum pay-ins below their current market levels in order to return them to a level consistent with historical revenue sharing.[144] If this application is accepted by the IRC then the Contract Determination may directly determine the share of revenue between drivers and operators. This has the potential to remove the transitional impact of our recommendations on drivers altogether by mandating lower pay-ins immediately (and therefore allowing drivers to retain more of the shift revenue).

6.3 Potential short term impacts on operators' income

Operators receive revenue from pay-ins. They have a number of costs that they need to pay out of this revenue including vehicle costs, insurance, network fees, maintenance costs and licence lease costs. Whatever is left after paying these costs is retained by the operator as income. The CIE survey found that operators' income was around $9,000 per year for each taxi, which is around $40 an hour (on average, operators do around 4 hours of administration each week for each taxi).[145]

As discussed above, we expect that operators will need to reduce the pay-ins they charge drivers for shifts where fare revenue falls. In particular, for Tuesday, Wednesday and Thursday night shifts. As their income is the residual once other costs are paid, until operators can reduce their input costs we expect our recommendations will reduce their earnings.

One of the main costs faced by operators is the cost of leasing a licence. Because this cost represents an uneconomic cost (that is, it is not a true cost of business but an economic rent), it partly depends on the level of fares. High annual licence lease costs for operators are not in the interests of operators, passengers or the taxi industry. Preventing further escalation of these costs by reducing the amount of fare revenue available per taxi is one of the reasons underpinning our recommendation to reduce fares this year.

In the past, when pay-ins have risen (as a result of fare increases), licence lease costs for operators have also risen. We expect this to work in both directions; in other words, in the long run fare reductions will lead to lower licence lease costs, leaving operators no worse off. In Sydney, the majority of operators lease their licences from someone else. We expect that in the long term, the impact of our recommendations (including the impact of the release of 250 additional Peak Availability Licences) would be a reduction in licence lease costs of around 6%.

144 ATDA submission to 2013 taxi fare review draft report, 22 May 2013, p 6.
145 The CIE, *Reweighting of the Taxi Cost Index*, April 2012, pp 55-56.

Once operators are able to reduce their licence costs by this amount, they will retain their existing level of income.

How quickly operators are able to reduce their licence cost, is likely to depend on their existing lease arrangements. We accept that, in the transition to lower licence costs, some operators may see their revenue fall by more than their costs. For operators that are unable to reduce their input costs we expect that our recommendations may reduce their earnings from operating by around $8 an hour.

The NSW Taxi Council and the ATDA submitted to our licence review that lease costs will be slow to adjust and drivers and operators will go out of business before this occurs.[146] We note that even if operators are unable to reduce any of their input costs (and drivers earnings are maintained at their current levels), based on the 2011 rates of earnings from the CIE survey, they would still earn around $32 an hour from operating their taxis, all else being equal.

In our view, it is quite feasible that licence lease costs will adjust more quickly than envisaged by the NSW Taxi Council and in that case, the transitional impact on operators will be less than this. As noted in our recommendations on licences, ensuring that enough licences are released each year to enable operators to relinquish a more expensive licence in favour of a cheaper one is one way to speed up the transition process and minimise the transition effects of reform on taxi operators.

[146] NSW Taxi Council submission to 2013 taxi fare review issues paper, 21 January 2013, p 25, ATDA submission to 2013 taxi fare review draft report, 22 May 2013, p 6.

7 Expected impact of our recommendations

We are required to consider the impact of our recommendations on stakeholders and we have done this in making our recommendations. Specifically, we considered the impact of our recommendations for passengers, the industry, the NSW Government and the environment.

In our view, the combined impact of Transport for NSW's decision to release additional licences and the small reduction in fares we have recommended will further the aims of the 2009 licensing reforms and ensure that customers benefit through greater affordability and lower waiting times.

7.1 Implications for passengers in urban areas

We recommend reducing urban fares by 1% on average this year. However, we are also recommending a number of changes to fare structure that mean that the impact on passengers will depend on when and how far they travel (Table 7.1).

Our recommendations to increase the flag fall and reduce the distance and waiting time rates should make taxi travel more affordable for passengers travelling longer distances and more expensive for those travelling shorter distances, particularly on Friday and Saturday nights. Some passengers will see small price increases. For those passengers, we expect corresponding improvements in taxi availability.

The change in the overall fare paid is not pronounced for most journeys. The journey types that will be most affected are:

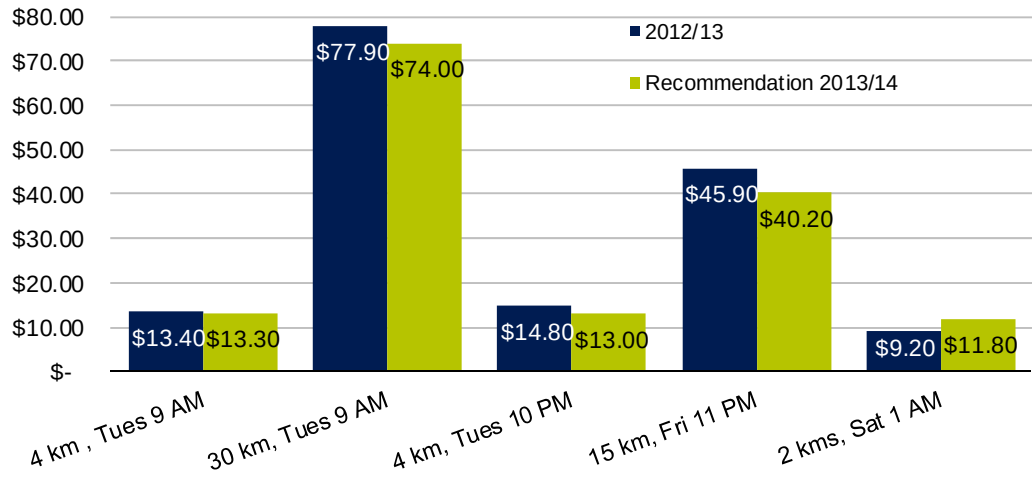
- Very short trips on a Friday and Saturday night after midnight - passengers will pay an average of $2 more when they travel less than 10 km. This should help improve the supply of taxis for these trips.
- Long journeys, particularly those between 10 pm and midnight. A passenger travelling 25 km will save around:
  - $1.50 between midnight and 5 am on a Friday and Saturday night
  - $3 between 6 am and 5 pm every day
  - $14 between 10 pm and midnight on week nights, and between 5 am and 6 am every day.

Table 7.1 Summary of the impact of our recommendations on taxi fares

	Customers who will pay more	Customers who will pay less	Difference in fare for a 2 km journey	Difference in fare for a 25 km journey
Sunday to Thursday				
5 am – 6 am	Travelling less than 1 km	Travelling further than 1 km	-$0.70	-$14
6 am – 10 pm	Travelling less than 4 km	Travelling further than 4 km	$0.20	-$3.10
10 pm – 12 am	Travelling less than 1 km	Travelling further than 1 km	-$0.70	-$14
12 am – 5 am	Travelling less than 3 km	Travelling further than 3 km	$0.10	-$4
Friday and Saturday				
5 am – 6 am	Travelling less than 1 km	Travelling further than 1 km	-$0.70	-$14
6 am – 5 pm	Travelling less than 4 km	Travelling further than 4 km	$0.20	-$3.10
5 pm - 10 pm	Travelling less than 21 km	Travelling further than 21 km	$2.70	-$0.60
10 pm - 12 am	Travelling less than 6 km	Travelling further than 6 km	$1.80	-$11.50
12 am - 5 am	Travelling less than 17 km	Travelling further than 17 km	$2.60	-$1.50

A sample of the fares for different kinds of trips before and after the fare structure changes is shown in Figure 7.1.

Figure 7.1 Fares for different types of trips



Note: Comparison excludes booking fees.

Data source: IPART calculations.

7.1.1 Travelling during the day

Most passengers travelling during the day are likely to see a lower fare than they currently pay. However, our recommendation to raise the flag fall and make corresponding reductions in the distance and waiting time rates will mean that passengers who travel very short distances will see a small fare increase.

The maximum increase for day time journeys (6 am to 5 pm) would be 50 cents – for a passenger traveling less than 1 kilometre. A person travelling 2 kilometres would pay only 20 cents extra and once a trip reaches 4 kilometres, the fare would be lower than it currently is. A passenger travelling 25 kilometres would save around $3 (see Chapter 5 for more information).

7.1.2 Travelling in the evening or night time

Our recommendations include:

- Changing the hours the night time surcharge applies to start 2 hours later and finish 1 hour earlier (we recommend that it applies from midnight to 5 am every night of the week, rather than the current 10 pm to 6 am)
- Introducing a $2.50 peak surcharge to fares on Friday and Saturday night between 5 pm and 5 am.

Passengers travelling between 10 pm and midnight on Sunday to Thursday nights are likely to see lower fares. However, on Friday and Saturday evenings, the new peak surcharge would mean that passengers travelling short distances between 5 pm and midnight would pay more (up to $3 more than the current fare). This is offset by the lower distance charges. Passengers travelling further than 5 kilometres between 10 pm and midnight would pay less than they currently do, but only passengers travelling further than 20 km between 5 pm and 10 pm would pay less than they currently do.

After midnight on Friday and Saturday nights, passengers who travel less than 10 kilometres would pay an average of $2 more than they do now. Passengers who travel further than 17 kilometres would pay less than they currently pay.

One of the main reasons we are recommending the introduction of a peak surcharge on Friday and Saturday nights is to make taxis more available at times of high demand. We expect our recommendations to result in a 7% fall in waiting times on Friday and Saturday nights.

7.2 Implications for passengers in country areas

As we are recommending no changes to country fares, we expect the impacts on passengers to be minimal.

7.3 Implications for the industry

Some stakeholders argued that lowering fares will lower fare revenue for the industry and as a result, threaten its viability.[147] In our view, the taxi industry will only be a viable, sustainable industry if it meets the needs of passengers. A 1% reduction in fares (along with our recommended changes to fare structure) provides better outcomes for passengers, including more taxis available and lower waiting times at peak times and for short trips, and more affordable fares for long-distance travel. As a result, we expect an improvement in the viability and sustainability of the taxi industry over the longer term, which is in the interests of drivers and operators.

Some stakeholders were concerned that no longer applying the TCI as we have in the past means that we have not considered costs as part of our decision-making[148]. On the contrary, we closely considered costs and the nature of those costs when we decided we needed to change our approach.

There are currently considerable uneconomic costs that are compensated for through fare revenue. As a result, there is scope to reduce fares and increase the supply of taxis (both of which benefit passengers) without jeopardising the financial viability of the industry. We consider that under our recommendations, taxi fares will provide sufficient revenue for drivers and operators to retain their existing level of earnings and for licence owners to earn around $26,500 per year from leasing their licence to operators (down around 6% from their current level). In our view this still provides a solid basis for participation and investment in the NSW Taxi Industry.

The sections below set out the expected outcomes for drivers, operator and licence holders in more detail. As we noted in our licence review, there may be short-term impacts on drivers and operators as the taxi industry adjusts to the changes. The impact will depend on how quickly the transition process occurs. We have included a more detailed discussion of the possible short term, transitional impacts on drivers and operators in Chapter 6.

[147] NSW Taxi Council, submission to 2013 taxi fare review issues paper, 25 March 2013, p 14; K McNiven, submission to 2013 taxi fare review issues paper, 21 March 2013, p 2.

[148] For example, NSW Taxi Council, submission to 2013 taxi fare review draft report, 31 May 2013, pp 4-5.

7.3.1 Drivers

Taxi driver earnings are governed by supply of and demand for taxi drivers. Except in the very short term, fare increases do not benefit drivers (see Chapter 2 for more information). Correspondingly, we do not expect fare reductions to reduce drivers' incomes. What we do expect is that:

- Lower fares will encourage more people to use taxis – if more people use taxis, fare revenue per taxi will not fall by as much as 1%.
- Pay-ins to operators should fall – drivers will reduce the amount they are willing to pay to take a taxi for a shift if the fare revenue for that shift is expected to be lower. At the same time, additional taxi licences should increase the demand for drivers. With fewer drivers available relative to the demand for them, taxi operators may need to reduce the amount they charge to drivers to take out the taxi for a shift.
- The number of taxis on the road should increase at peak times and may fall in lower demand times – our recommendations on fare structure are likely to have an impact on which shifts drivers and operators choose to put a taxi on the road.

Each of these outcomes is affected by both the overall level of fares and by fare restructuring, which changes the amount of fare revenue expected at different times of the day and days of the week.

As we noted in chapter 2, driver earnings will also be affected in the short term by fluctuations in fuel costs, so we will continue to undertake a mid-year review of LPG prices and to recommend an additional December fare change if LPG prices have increased or decreased by more than 20%.

7.3.2 Operators

One of the main costs faced by operators is the cost of leasing a licence. As discussed in Chapter 2, the level of this cost partly depends on the level of fares. We consider that past fare increases have contributed to high annual licence lease costs for operators, which is not in the interests of operators, passengers or the taxi industry. Preventing this from continuing is one of the reasons underpinning our recommendations.

As noted above, we expect that operators will need to reduce their pay-ins to attract drivers for some shifts as a result of the fare changes under our recommendations. In the past, when pay-ins have risen (as a result of fare increases), licence lease costs for operators have also risen. We expect this to work in both directions; in other words, in the long run fare reductions will lead to lower licence lease costs, leaving operators no worse off. However, we also accept that, in the transition, some operators may see their revenue fall by more than their costs.

The transition process largely depends on how quickly licence lease costs adjust. The NSW Taxi Council submitted to our licence review that lease costs will be slow to adjust and drivers and operators will go out of business before this occurs.[149] However, it is quite feasible that lease costs will adjust more quickly than envisaged by the NSW Taxi Council, and we consider that the NSW Taxi Council could assist the industry to make a quicker transition.

Issuing more licences should speed up the transition by offering operators a lower priced alternative. As noted in our recommendations on licences, ensuring that enough licences are released each year to enable operators to relinquish a more expensive licence in favour of a cheaper one is one way that Transport for NSW can speed up the transition process and minimise the transition effects of reform on taxi operators.

7.3.3 Licence plate owners

Fare levels will influence the level of passenger demand for taxi services, and the amount of revenue available to be distributed between drivers, operators, and licence owners. These factors in turn affect the change in annual licence costs that will result from increasing the number of taxi licences available in Sydney. As a result, it is important that our approach to recommending taxi fares Transport for NSW's decision to release additional taxi licences.

We expect our recommendations on taxi fares in Sydney (including our recommended changes to fare structure), in combination with Transport for NSW's decision to release an additional 250 Peak Availability Licences from July 2013, would result over time in a 6% reduction in licence lease income for existing licence holders.

[149] NSW Taxi Council submission to 2013 taxi fare review issues paper, 21 January 2013, p 25.

7.4 Implications for the NSW Government

NSW Government funding of taxi fares is limited to rebates provided via the Taxi Transport Subsidy Scheme (TTSS) for people whose transport options are restricted due to a severe and permanent disability.[150] In 2011/12, $26.1 million was paid in subsidies to more than 72,000 people registered for the scheme.[151]

All else being equal, the small reduction in taxi fare levels would be likely to slightly reduce the level of NSW Government funding required for the TTSS. Our recommendations also include incremental changes to the structure of fares (including changes to the balance between short and long distance fares, and changes to the surcharge for night time taxi travel). These changes in structure may also affect the level of NSW Government funding required depending when and how far eligible passengers travel, but we do not expect this effect to be significant.

7.5 Implications for the environment

We do not expect that our recommendations on fares would have significant implications for the environment. The Bureau of Transport Statistics' 2010/11 Household Travel Survey Summary Report found that taxi trips as a proportion of total trips made have stayed constant at 0.7% since 2001.[152] This survey suggests that the proportion of taxi trips is small in terms of overall travel, has remained relatively stable over time, and is not particularly sensitive to relatively small incremental changes in fares. As a result, the impact of the fare changes in terms of pollution and congestion is likely to be small.

[150] See http://www.transport.nsw.gov.au/ttss for details about the scheme.

[151] Transport for NSW, *Annual Report 2011/12*, p 87, p 33.

[152] Bureau of Transport Statistics, *2010/11 Household Travel Survey Summary Report*, 2012 Release, p 33 – proportion of trips by taxi (average weekday) in the Greater Sydney Metropolitan area.

8 Service standards

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

Our view is that transparent, accurate and targeted information on service performance is essential for accountability and good regulation that promotes competition and productivity.

In past reviews, we have noted the need for more comprehensive information about taxi service performance than is provided by the information for booked trips that Transport for NSW obtains from urban taxi networks. In 2012 we engaged Taverner Consulting to conduct a taxi passenger survey to obtain more information from a passenger viewpoint which we have used to inform our decisions on fare level and fare structure.

As in previous years we have also received information from Transport for NSW about the performance of taxi networks, as well as information from Transport for NSW's Customer Feedback Management System. The network information relates to booked taxi trips, which make up around 20% to 30% of total taxi trips taken.

In this chapter, we use the available data to analyse the service performance of taxis. However, limitations in the reported data make it difficult to draw conclusions on performance outcomes.

As a result, we again recommend, as we recommended in our taxi licence review, that Transport for NSW investigate the cost and feasibility of mandating collection of specific data directly from taxis, including individual taxi meter data. We consider that the information collected as part of that process would significantly improve the quality and relevance of information on taxi performance.

8.1 Taxi service performance from the consumer's point of view

In previous fare reviews we have emphasised the need for passenger surveys to provide a more complete picture of taxi service performance from the consumer's point of view.

For our review of new annual Sydney taxi licences to be released from July 2013, we commissioned Taverner Research to conduct a survey of 2000 Sydney residents to inform our estimates of responsiveness to price and the time taken to catch a taxi.[153] The survey report is available on our website.

For this fare review, we used the Taverner survey findings to inform our decisions about:

- the relative prices of short and long trips
- Friday and Saturday night surcharges
- starting the 20% distance rate surcharge from midnight instead of 10 pm.

At the moment we do not have sufficient data to undertake a time-series analysis of service performance for the industry as a whole. However, we plan to repeat our passenger survey each year to build a series, which can be analysed for changes over time.

Transport for NSW advised in its response to our 2011 and 2012 taxi fare reviews that its Bureau of Transport Statistics had scheduled customer satisfaction surveys for taxis, as part of a broader study which would develop consistent service quality attributes for measurement across transport modes. Transport for NSW has again advised that this 'customer scorecard' is still being developed.

8.2 Network performance data for Sydney taxis

All taxis must be affiliated with a taxi network. The NSW Government collects key performance indicators[154] (KPIs) from all the networks to:

- set and review performance benchmarks, against which individual Taxi Network performance will be measured[155]
- assist customers to make informed decisions when choosing a taxi service, and to make taxi networks more accountable for the services they provide.[156]

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153 Taverner Research, *Survey of Taxi Use in Sydney*, November 2012.

154 The *Passenger Transport Regulation 2007* (s182) requires networks to report on performance 'relating to the provision of taxi cab services' to Roads and Maritime Services (RMS). The regulation provides for reports to be requested at any time and for RMS to specify the content, format and timeframe in which they must be provided (provided such a request is reasonable).

155 *Guide for authorised Taxi-cab network providers and Taxi-cab network service standards*, 2008, http://www.transport.nsw.gov.au/sites/default/file/taxi/metro-net-standards.pdf, p 71.

156 http://www.transport.nsw.gov.au/content/taxi-performance-data

In analysing the data, we have again found that limitations inherent within the KPIs prevent it from effectively achieving its objectives. These include:

- technical aspects of KPIs make it difficult to make comparisons between networks
- call management strategy can influence how KPIs are recorded[157]
- inconsistency and possible inaccuracies in measuring and reporting make it difficult to make comparisons between networks
- the KPI data relates only to booked journeys which are only around 20-30% of all taxi trips taken[158]
- the data is not disaggregated and thus cannot be customised to fit other purposes – for example, by day of week or time of day or by geographical area.

We consider that some of these limitations can be overcome with an expanded data set, more targeted KPI data which focuses on customers' experience, clarification and standardisation of definitions and improved auditing measures to ensure data is accurate and comparable.

We note that Transport for NSW is currently finalising its review of aspects of the Passenger Transport Act[159], which incorporated a review of the taxi network service standards and KPIs. However, in the interests of obtaining more comprehensive data relating to a broader range of performance measures than network performance, we recommend that Transport for NSW investigate obtaining a data set direct from taxis. We note that the Victorian Government recently agreed to require ALL trip and fare data to be transmitted directly from taxi vehicles to the taxi regulator.[160]

Recommendation

3 That Transport for NSW investigates the cost and feasibility of mandating and collecting specific data directly from taxis.

157 For example, see Victorian Taxi Industry Inquiry Draft Report 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."

158 29% of respondents to the Taverner survey booked their trip through a network, while 30% of respondents to the Bureau of Transport's *2011/12 Household Travel Survey 5-years-pooled dataset using unlinked trips* booked a their trip through a network. IPART has previously used an estimate of 20% of trips being booked and the average response from drivers in the CIE survey about proportion of journeys booked was 20% (see Table 4.1).

159 The *Review of NSW Passenger Transport* Legislation Discussion Paper was released last September and is being considered by Transport for NSW

160 Victorian Government, *Government Response: Taxi industry inquiry final recommendations*, May 2013, p 15.

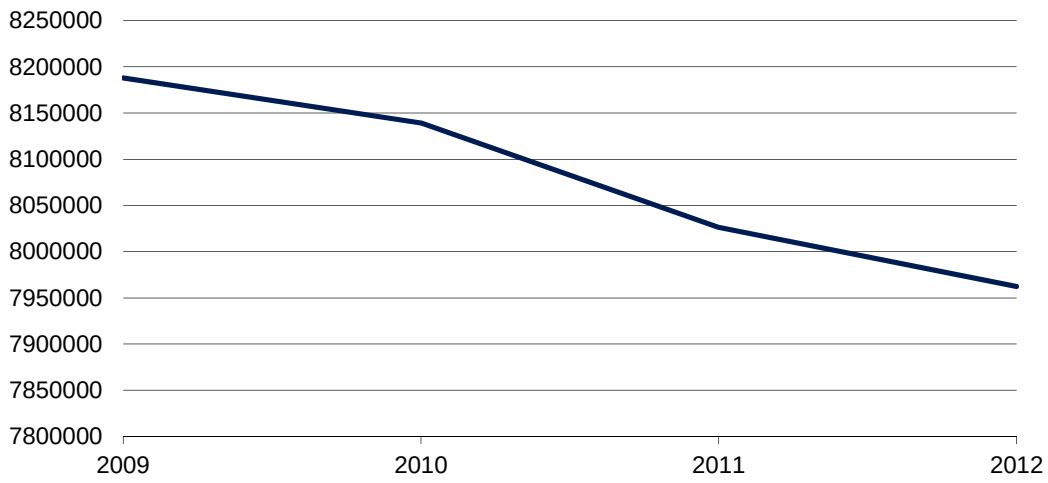
8.2.1 Taxi service performance: number of network bookings and number of network jobs

Since 2009[161], the total number of network jobs (ie, bookings that were picked up) has decreased by 3% (see Figure 8.1). In our Draft Report, we reported on the much larger decrease in the number of network booking requests (there has been a 16% decrease in network booking requests since 2009).

Obviously, the number of bookings requested is not the same as the number of network jobs eventually provided: booking requests record offloaded bookings multiple times and also record 'no shows' (where a taxi arrives to accept a booking but a passenger is not there) and 'no-cars-available' (where a network is unable to find a driver to accept a booking request).

From 2009 to 2012, offloaded bookings decreased from 2,496,043 to 984,791. As a result the number of booking requests decreased by a commensurate amount.

Figure 8.1 Network jobs



Note: All years finish on March 31. For example, 2012 is recorded from 1 April 2012 – 31 March 2013.

In the past, industry stakeholders have referred to the declining trend in booking requests as an indication that demand for taxis is decreasing[162]. This is despite the fact that the number of network jobs completed decreased by a much smaller amount and a decline in network bookings does not necessarily mean a decline in taxi use (there could be more hailed trips, trips booked through apps, or trips arranged direct with drivers).

[161] All years finish on March 31. For example, 2012 is recorded from 1 April 2012 – 31 March 2013.
[162] ATDA submission to taxi licence review issues paper, 2 November 2012, p 2.

Further, over the same period, the number of hire cars in the Sydney region rose from 786 to 973[163], which, in contrast, indicates a growth in demand for point-to-point passenger transport.

Between 2009 and 2012, changes to the number of network bookings fed through to recommendations about the number of new annual Sydney taxi licences to be released, via the Sydney Taxi Growth Model (STGM).

The STGM was an index of key indicators which the Government used to estimate changes in the demand for taxi services. Change to the number of network bookings requested was weighted as 10% of the STGM. Between 2010 and 2011, network bookings requested dropped by 8.6%, which was incorporated into the STGM as an indication of a 0.86% drop in demand for taxi services[164].

8.2.2 Standard taxi network performance

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

In our analysis of the Key Performance Indicators (KPIs) we focus on the average time it took to pick a customer up, the number of customer no-shows and no-cars-available. In our view, this data provides the clearest indication of network performance as these represent all the possible outcomes of a requested booking.[165]

Average pick-up time

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

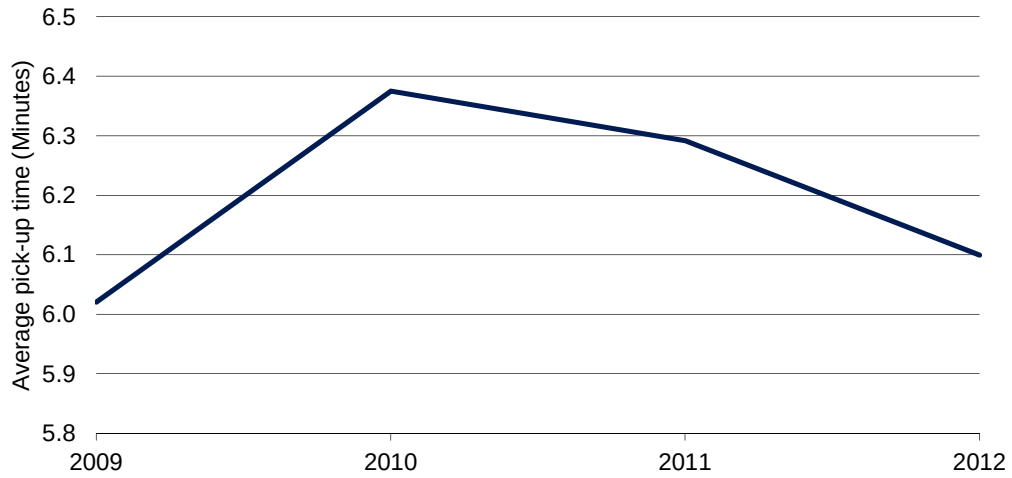
Since 2009, the average time it takes for a standard taxi to pick up bookings has remained steady, slightly over 6 minutes (see Figure 8.2). Respondents to the Taverner survey reported waiting around twice as long for a taxi when they booked it compared with when it was hailed or picked it up at a rank.

163 Data supplied by Transport for NSW, 20 November 2012.

164 PricewaterhouseCoopers/Transport for NSW, *Annual taxi licence release 2012/13 – Final Report, March 2012,* p 60.

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

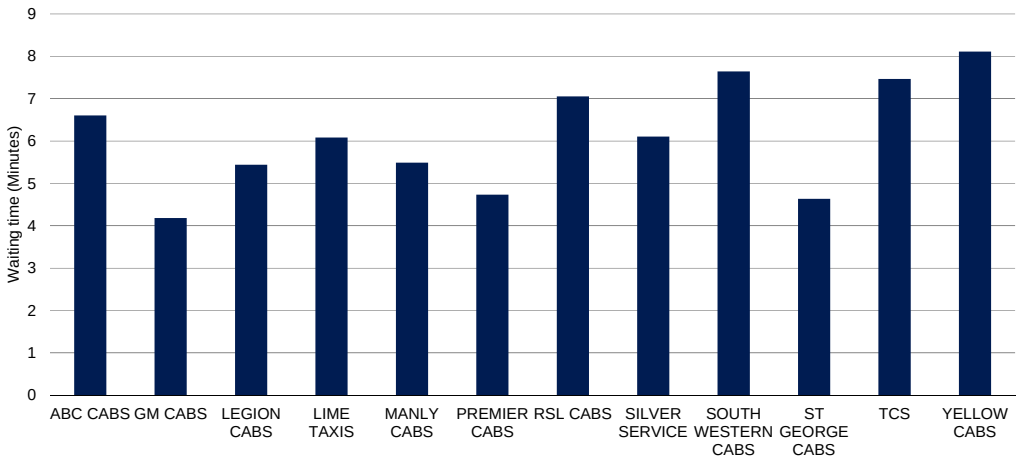
Figure 8.2 Average pick-up time



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

The average pick-up time varies substantially between networks. In order to help customers compare network performance, in Figure 8.3 we provide the average pick up time for each network for the year ending 31 March 2013. This shows that customers wait the longest for a taxi with Yellow Cabs, South Western Cabs and Taxis Combined – over 7 minutes; and wait the shortest for a taxi with St George Cabs, Premier Cabs and GM Cabs- under 5 minutes.

Figure 8.3 Network waiting time



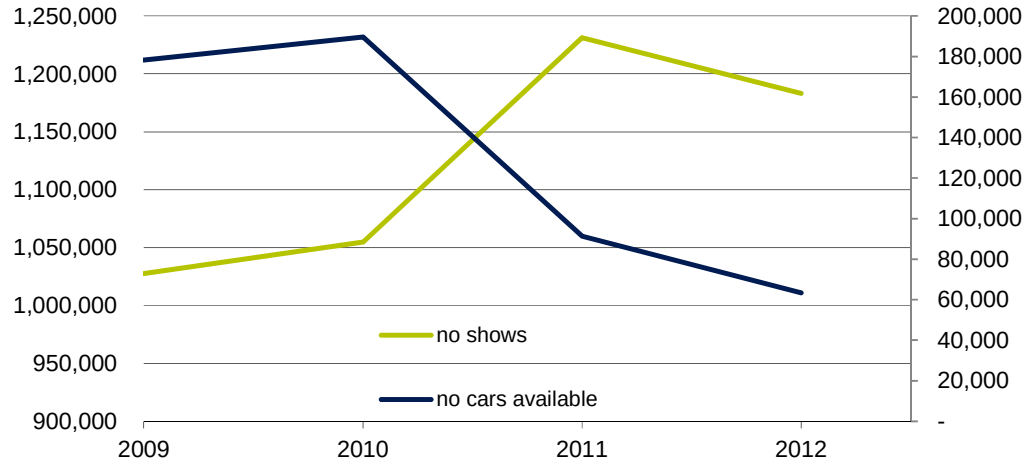
'No-cars-available' and passenger 'no shows'

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

The proportion of bookings which end in NCAs has fallen significantly since 2008 (see Figure 8.4): in 2008 there were 199,862 NCAs, and in 2011 there were 91,383 NCAs.

At the same time as the number of NCAs fell, there was a commensurate increase in the number of bookings where drivers attended a booking but the passenger was not there. In 2008, there were 1,095,059 'no shows'. This increased to 1,183,176 'no shows' in 2012, 12% of all accepted bookings.

Figure 8.4 Number of no shows and no-cars-available



There are many reasons why a passenger may not be there when a taxi arrives, but one reason that is likely to be significant is that the taxi has taken longer than expected and the passenger has found an alternative form of transport.

The average pick-up time won't reflect long waiting periods when customers didn't show up or when the network assigned the booking an NCA, because it only records the time taken for bookings actually picked up.

Between 2009 and 2012, changes to the percentage of NCAs fed through to recommendations about the number of new annual Sydney taxi licences to be released via the STGM, in the same way as network bookings.

From 2010 to 2011, the percentage of NCAs decreased by 32%. As NCAs made up 10% of the weights of the STGM, this decrease translated to a 3.2% drop in the value of that index.[166]

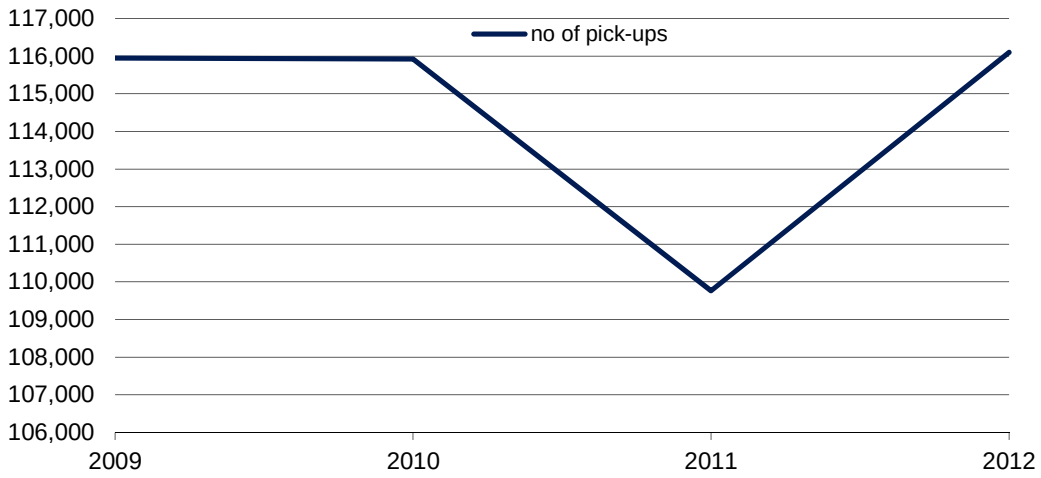
In that year, the STGM estimated a total decline in demand for taxi services of 2.2%. The decline was due to improvements in the number of NCAs, a decline in the number of network bookings, and an improvement in the annual average pick-up time.

At the time, PwC commented that this was 'considerably below a long term average demand growth rate of 3% to 5%, which could be expected'.[167] In our own licence review, we estimated a long-term annual average demand growth rate of 2.5%.[168]

8.2.3 Wheelchair Accessible Taxi performance

The number of Wheelchair Accessible Taxi booked trips taken this year is around the same as was taken in 2009 (see Figure 8.5).

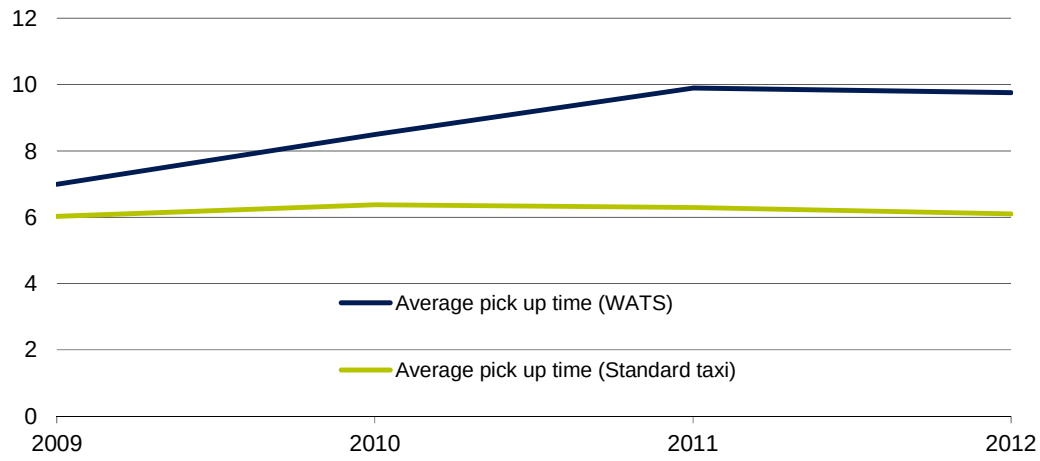
Figure 8.5 Number of WAT pick-ups



However, the average pick-up time for Wheelchair Accessible Taxis has increased by 2 minutes 20 seconds since 2009. Moreover, the average pick-up time for WATs is over 3 minutes longer than standard taxis (see Figure 8.6).

[166] PricewaterhouseCoopers/Transport for NSW, *Annual taxi licence release 2012/13 – Final Report, March 2012*, p 60.
[167] PricewaterhouseCoopers/Transport for NSW, *Annual taxi licence release 2012/13 – Final Report, March 2012*, p 7.
[168] IPART, *Annual taxi licence release for Sydney 2013/14*, February 2013, pp 29-30.

Figure 8.6 Pick-up time for WATs compared with the rest of the taxi fleet



8.2.4 Customer feedback data

The Customer Feedback Management System (CFMS) is a record of all the complaints and compliments made by members of the public about the taxi industry. During the year to 31 March 2013 (2012) there were 12,675 complaints and 398 compliments. This represents a 9% increase in complaints and an 11% decrease in compliments from the previous year.

It is of concern that this is the third straight year that complaints increased and compliments decreased. Since 2009, the number of complaints has increased 108% and the number of compliments has decreased 61%.

Table 8.1 Customer feedback

	2009	2010	2011	2012	Change from 2011 to 2012
Complaints	6,092	9,218	11,636	12,675	9%
Driver - serious	94	117	155	152	-2%
Driver - other	5395	8104	10219	11,068	8%
Network	395	761	1,030	1,198	16%
Taxi	208	236	232	257	11%
Compliments	1,024	574	445	398	-11%

Source: Transport for NSW Customer Feedback Management System.

Appendices

A Terms of reference

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992
TAXI INDUSTRY FARE REVIEW

I, Barry O'Farrell, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act* 1992, approve the Independent Pricing and Regulatory Tribunal (IPART) entering into arrangements with Transport for NSW for two years to 3 August 2014 to provide services to Transport for NSW that are within its area of expertise. The services to be provided by IPART are the conduct of an investigation into, and the preparation of a report concerning, maximum fares for taxi services under the *Passenger Transport Act 1990*.

In providing these services, IPART should consider:

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

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

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

The Hon Barry O'Farrell MP
Premier
Minister for Western Sydney

Dated at Sydney 11 October 2012

B List of submissions received

Table B.1 List of submissions on issues paper received (due 25 March 2013)

Submitter	Date received
Australian Taxi Drivers' Association	8 April 2013
Action for Public Transport	25 March 2013
Cabcharge Australia Limited	25 March 2013
Individual (Anonymous) – 8 submissions	Various
Individual (M Burrage)	23 March 2013
Individual (P Fletcher)	2 April 2013
Individual (D Hall-Johnston)	28 February 2013
Individual (A Johnston)	12 March 2013
Individual (T Keogh)	14 March 2013
Individual (D Levison)	26 February 2013
Individual (P Louridas)	24 March 2013
Individual (K McNiven)	21 March 2013
Individual (S Porcaro)	25 March 2013
NSW Taxi Council	25 March 2013
Southern Highlands Taxi Service	25 March 2013
Spinal Cord Injuries Australia	27 March 2013

Table B.2 List of submissions on draft report received (due 31 May 2013)

Submitter	Date received
Australian Taxi Drivers' Association	22 May 2013
Australian Taxi Drivers' Association - supplementary submission	31 May 2013
Individual (Anonymous)	10 May 2013
Individual (T Bradley)	17 May 2013
Individual (T Bradley) – supplementary submission	21 May 2013
Individual (M Burrage)	23 May 2013
Individual (D Cousins)	31 May 2013
Individual (E Ellis)	24 May 2013
Individual (P Fletcher)	31 May 2013
Individual (M Hatrick)	27 May 2013
Individual (T Hirsch)	31 May 2013
Individual (E Mollenhauer)	30 May 2013
Individual (E O'Malley)	7 May 2013
Individual (E O'Malley) – supplementary submission	7 May 2013
NSW Taxi Council	31 May 2013
NSW Taxi Drivers' Association	31 May 2013

C Fare structure charts

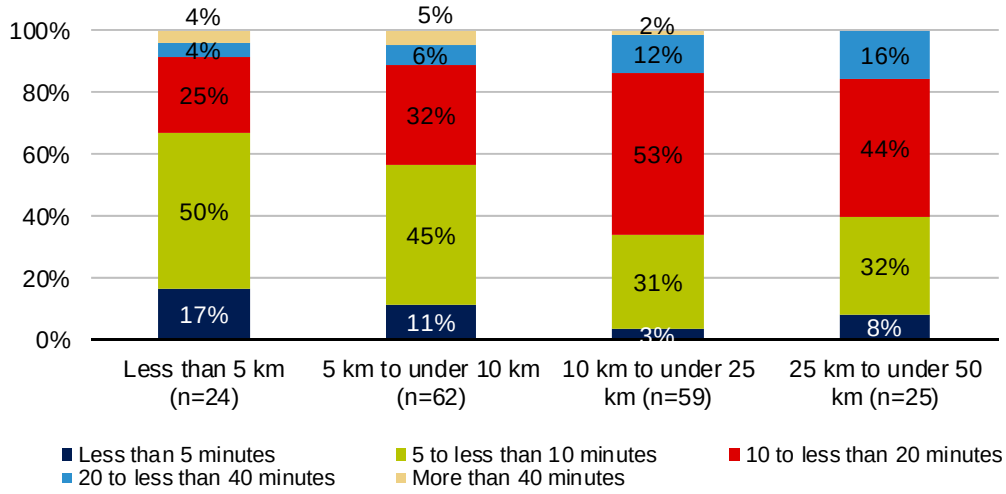
This appendix contains findings from the Taverner survey, and from other sources. We used these results do develop our recommendations on fare structure.

Waiting time by distance for booked journeys

The Taverner survey shows that

- overall the waiting time for taxi bookings were lower for short distance journeys compared to long distance journeys
- passengers travelling less than 10 km were more likely to wait more than 40 minutes than for passengers travelling more than 10 km.

Figure C.1 Waiting times for booked trips (next available taxi) by distance travelled

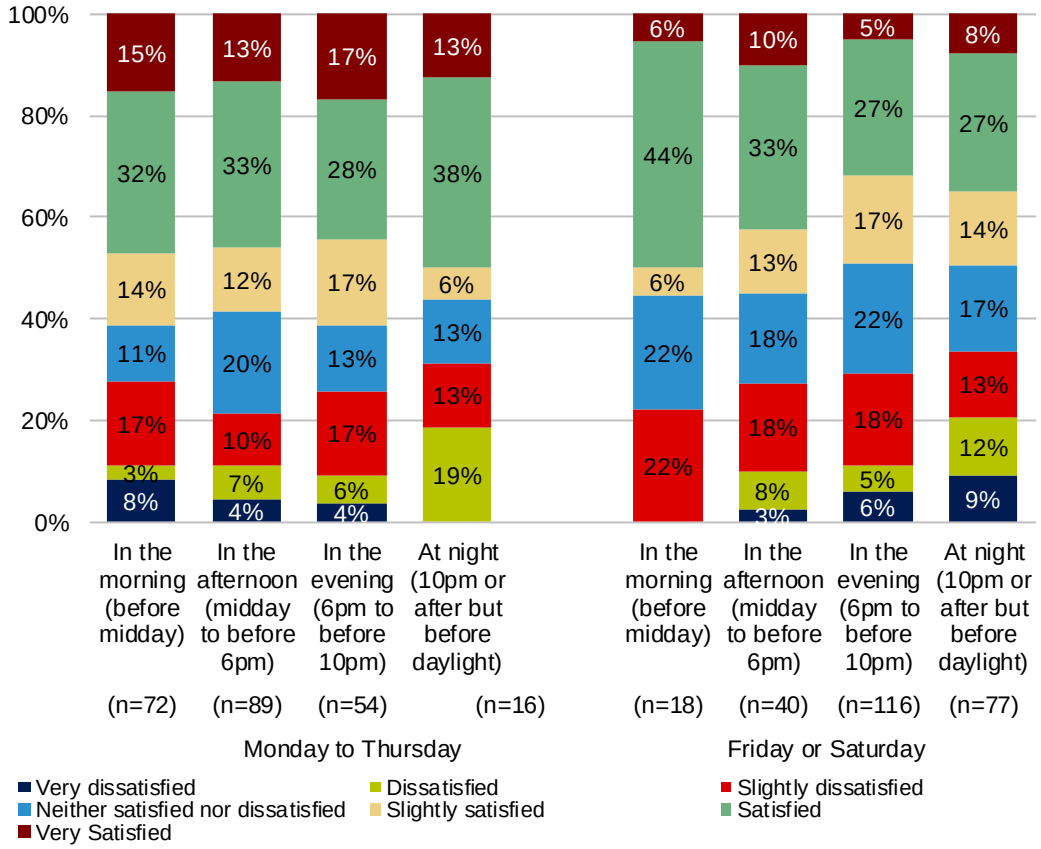


Data source: Taverner survey.

Satisfaction with the time taken to catch a taxi

The Taverner survey shows that people are more dissatisfied with the wait time on Friday and Saturday nights than any other night – less than 50% of passengers on these nights are satisfied with the length of time they have to wait to catch a taxi.

Figure C.2 Satisfaction with the time taken to catch a taxi



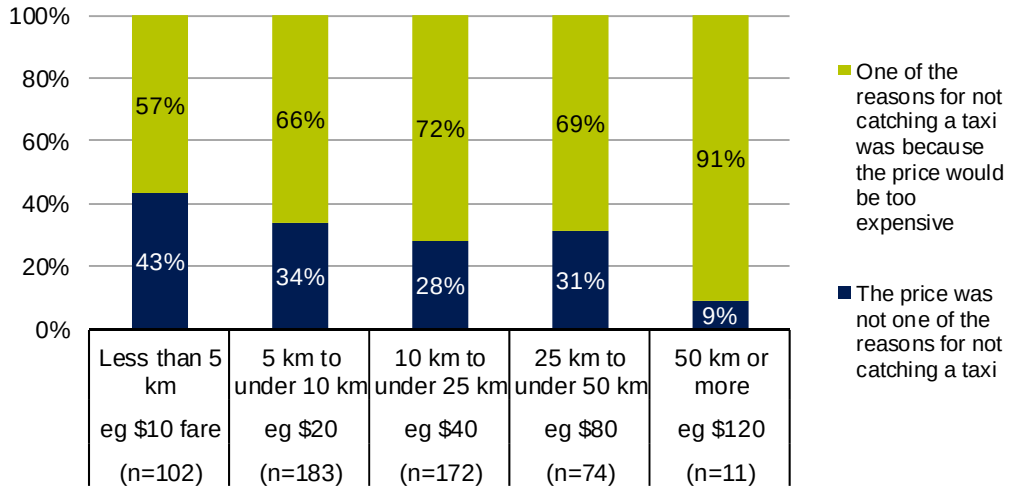
Data source: Taverner survey.

Long journeys

The Taverner survey shows thatL

- Only 15% of passengers' last journey was more than 25 km, compared to around 50% of passengers who travelled less than 10 km.[169]
- When people who did not end up catching a taxi after thinking about it for a particular journey, a key reason for not catching a taxi was it would be too expensive. For longer journeys, an even greater proportion of people said this was a reason why they did not end up catching the taxi.

Figure C.3 Reasons for not catching a taxi for particular trips where taxis were not caught after being considered



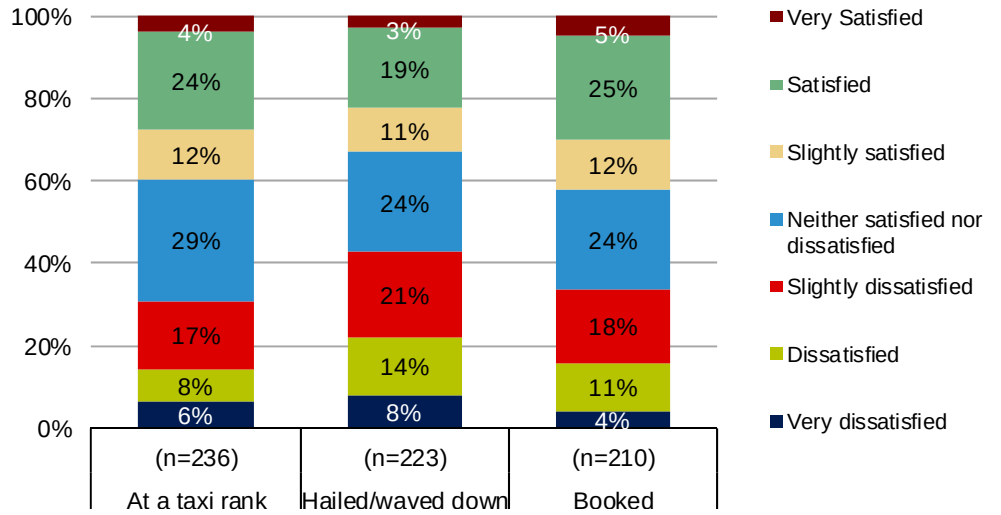
Data source: Taverner survey data.

Satisfaction with fares by how arranged

The Taverner survey showed that satisfaction levels for booked fares with a $2.40 booking fee are not worse than for journeys that started at a taxi rank or hailed down on the street that don't incur the booking fee.

[169] IPART, *Fact Sheet - Survey of Taxi Use in Sydney*, December 2012, p 1, http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review_of_Sydney_Taxi_Licences_to_be_released_from_1_July_2013/10_Dec_2012_-_Fact_Sheet_-_Survey_of_taxis_use_in_Sydney/Fact_Sheet_-_Survey_of_taxi_use_in_Sydney_-_December_2012.

Figure C.4 Satisfaction with fares by how arranged

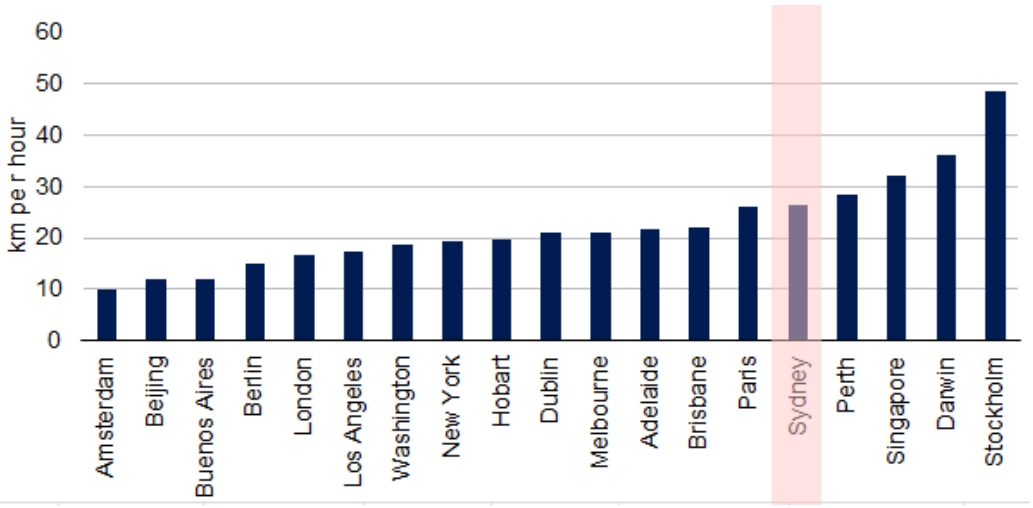


Data source: Taverner survey data.

Waiting time rates

We surveyed the waiting time rates in other cities as part of our issues paper. Figure C.5 shows that on the waiting rate, taxis in Sydney earn the equivalent to the amount they would earn on the distance rate if they were driving 26 km per hour. For the cities sampled the median waiting time rate is the same as if the taxi was driving at 21 km per hour.

Figure C.5 Comparison of waiting time rates (speed that the taxi would earn the equivalent earnings on the distance rate)



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

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City of Los Angeles Taxi Services, *Fares*, http://www.taxicabsla.org/, accessed 13 June 2013.

Glossary

ABS	Australian Bureau of Statistics
ATDA	Australian Taxi Drivers Association
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
CIE, The	The Centre for International Economics
Cost inflator	A measure of the change in the price of a cost over time.
Consumer Price Index (CPI)	A measure of inflation, or the change in the cost of living over time.
Distance charge	The fare rate charged when travelling more than a threshold speed, currently 26km/h.
Flag fall	The fixed fee charged at the beginning of a taxi trip.
Key Performance Indicator (KPI)	Measures network service performance. KPIs are collected by Transport for NSW. Some KPI information is published on the Transport for NSW website.
LPG	Liquefied Petroleum Gas
IPART	Independent Pricing and Regulatory Tribunal. Provides taxi fare recommendations to Transport for NSW on an annual basis.
Latent demand	Latent demand represents the additional taxi trips that would be taken if waiting time for taxi services fell, or if fares were reduced.

Maxi-taxi surcharge	Fare component charged for hiring a maxi-taxi, except when it is hired from a taxi zone or hailed on the street to carry up to 4 passengers or as a multiple hiring. Calculated as a percentage mark-up on the entire fare (excluding tolls).
Network, taxi	Taxi networks provide a radio booking service to the taxi operators who are affiliated with them, as well as security monitoring services for taxi drivers and passengers. Networks must be authorised by Transport for NSW.
Nominal	Not adjusted for inflation. For example, if something cost $100 in 1990 and the same thing cost $100 in 2012, its nominal cost has not changed. However, adjusting for 22 years of inflation, its real cost is lower in 2012 than in 1990.
NSWTDA	New South Wales Taxi Drivers Association
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 *Taxi Industry (Contract Drivers) Contract Determination 1984* but discounting below this rate is common.
Productivity adjustment	An adjustment to the Taxi Cost Index that accounts for productivity improvements in the Taxi Industry.
PwC	PricewaterhouseCoopers
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).
STGM	Sydney Taxi Growth Model. Method used by PwC to estimate the number of new annual Sydney taxi licences required for each of the years 2010/11, 2011/12 and 2012/13.

Taxi Industry Model	A model that takes into account inputs of the taxi market, such as prices and number of taxis, and estimates the value of key outputs, such as demand and utilisation of taxis.
TCIs	Taxi Cost Indices. Used by IPART to measure the change in taxi industry costs between fare review periods.
Transport for NSW	The NSW Government agency that regulates taxis.
Wage Price Index (WPI)	Price index measuring the cost of wages paid by business and government. Compiled by the Australian Bureau of Statistics.
Wheelchair Accessible Taxi licence (WAT)	A licence to operate a Wheelchair Accessible Taxi. The operator is required to give preference to transporting wheelchair users.