Independent Pricing and Regulatory Tribunal

Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014

Transport — Final Report and Recommendations
February 2014

IPART
New South Wales

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1 Introduction

Transport for NSW (TfNSW) has asked IPART to review taxi fares across NSW and the number of new annual Sydney taxi licences to be released from July 2014.

We will recommend to TfNSW:

- maximum taxi fares from July 2014 for Sydney, other urban areas and country areas
- the number of new annual Sydney taxi licences (other than licences for wheelchair accessible taxis (WATs)) to be released from July 2014.

This report sets out our recommendations on maximum taxi fares for Sydney and other urban areas and the number of new annual Sydney taxi licences. Our recommendations on maximum taxi fares for country areas are set out in a separate report, *Review of maximum taxi fares in country areas of NSW from July 2014.*

1.1 Overview of our recommendations

Our recommendations for the 2014/15 year are for a fare freeze (in nominal terms) combined with 150 additional unrestricted licences and 40 additional Peak Availability Licences (PALs) to be released to meet increases in demand for taxi services, to improve service to customers and to make entry into the taxi market more affordable. This is consistent with our draft recommendations. These additional licences would represent an increase in the taxi fleet of 3.3%.[1]

This combination of measures would make taxis more affordable and reduce waiting times for passengers. This would improve occupancy rates, make entry into the taxi industry more affordable for operators and lead to a busier, more productive taxi industry. We also expect our recommendations would lead to a moderate fall in licence lease values (which are both an income to licence owners and a cost to operators). While some stakeholders have argued that this is not an appropriate outcome, a reduction in licence lease values *is* necessary to meet the objectives in our terms of reference, which mirror those of the 2009 licence reforms.

1 IPART analysis based on data provided by TfNSW.

This would be the second year that fares have not changed (except for a $2.50 surcharge on Friday and Saturday nights that was added to the hiring fee in September 2013) at the same time as additional growth licences are being released.

The taxi industry is an important part of the transport network and makes a valuable contribution to the NSW economy. With more taxis on the road and more passengers using taxis the taxi industry would contribute even more to the NSW economy.

Both industry and customers would benefit from these recommendations being implemented as a package. As fares are proposed to remain unchanged, any costs of changing meters and reprinting fare stickers are avoided. However, in order to meet the review objectives more licences need to be released. Holding fares constant without releasing the additional licences would worsen waiting times for passengers and make operating taxis more expensive because leasing a taxi licence would become more expensive.

Following on from our 2013 recommendations, licence lease values have now begun to fall gradually. There has been continued strong investment in the industry by drivers and operators. For example, there were 502 bids for 65 unrestricted licences and 508 bids for 280 PALs in the most recent tenders in 2013.[2] This provides strong support for a continuation of our approach to recommending licence numbers and fares concurrently to meet the 2009 reform objectives.

We are monitoring what is happening in the industry to ensure that our advice remains consistent with the objectives of the 2009 licence reforms and we will continue to do this. We are also recommending that TfNSW put in place a data collection regime similar to what is in place in Victoria and we will work with TfNSW and Roads and Maritime Services (RMS) to develop a comprehensive and useful dataset.

One of the main aims of this recommendation is to ensure that we have better quality information on the impact of our recommendations on the industry, to inform future licence and fare recommendations. To this end, we will repeat the taxi driver and operator cost survey that was last conducted in 2011[3] to update our industry-specific cost data. We will also continue to undertake passenger surveys on a regular basis.

Because some annual licences are relinquished or not renewed, we are also recommending that an additional 100 unrestricted licences and 65 PALs be tendered for future attrition and 30 unrestricted licences and 35 PALs added for

2 Data provided by TfNSW.

3 The CIE conducted a survey of taxi drivers and operators on behalf of IPART in 2011/12. The data set is available on our website, as is the final report on the survey results: The CIE, *Reweighting of the taxi cost index – final report*, April 2012.

historical replacement. These licences would not add to the stock of licences in Sydney. As we expect annual licence prices to fall over time, the rate at which annual licences are not renewed is likely to increase as more people make use of the annual tender process to trade in their licence for one at a lower price.

We also recommend that 13 unrestricted licences be subtracted from the adjustment licences to account for WATs released outside the tender process.

Ensuring that the taxi industry is well informed about tender prices is also very important. We recommend that TfNSW publish preliminary results of tenders within 4 weeks of tenders closing.

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

1.2 How our recommendations meet the objectives of the reviews

Our terms of reference (produced in full in Appendices A and B) provide that the key objectives of this review are to:

- reduce barriers to entry and encourage competition, but to balance the need for a more affordable means of entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders
- consider the need for greater efficiency in the supply of services so as to reduce costs and put downward pressure on fares
- ensure that the supply of taxis responds closely to growth in passenger demand.

A recommendation that does not involve at least some downward pressure on licence lease values would not meet our terms of reference. Licence lease values need to be reduced so that barriers to entry will be reduced, entry into the taxi industry made more affordable. Fares will also become more efficient as the proportion of fare revenue allocated to licence lease costs fall (because the licence lease cost is an economic rent rather than an efficient cost of providing taxi services). However, we are also required to ensure that the benefits of releasing additional licences (making taxis easier and cheaper for passengers to catch, and entry to the taxi industry easier and cheaper for operators) must be balanced with the need to avoid an unreasonable impact on licence holders.

We are making our recommendations for 2014/15 in the context of a 25% reduction in licence lease costs by 2017/18. After carefully considering the objectives of our review and the submissions from stakeholders, we still consider that releasing enough licences and setting fares at a level that results in 25% real reduction over 5 years from 2012/13 is an appropriate balance between better outcomes for passengers, drivers and operators, while still avoiding unreasonable impacts on existing licence holders.

A 25% real reduction in licence lease costs equates to $24,000 per year in nominal terms by 2017/18. However, our recommendations apply only to the 2014/15 year and we will review licence numbers and fare levels each year.

1.3 Why we have prioritised more unrestricted licences over nominal fare reductions and PALs

We considered a number of different combinations of licences and fare levels, from small nominal reductions and a lower number of licences, to fares increasing in line with CPI and many more licences. These combinations had different impacts on affordability, waiting times, total trips and taxi occupancy, but had the same estimated impact on licence lease values.

Our recommendations prioritise more licences over a nominal fare reduction, and a higher number of unrestricted licences over PALs to ensure that unrestricted licence lease prices would adjust downwards faster towards the expected 25% real reduction, easing the transitional impacts on drivers and operators. More unrestricted annual licences would allow more operators who are currently leasing perpetual licences to bid for an annual licence at a lower price to manage their costs. This would put greater downward pressure on lease prices to fall, in line with a 25% reduction in licence lease prices over 5 years.

Many of our stakeholders consider that driver earnings are too low.[4] Our 2011 taxi driver and operator cost survey showed that average driver earnings for standard urban taxis were around $10 to $11 per hour (although the NSW Taxi Council considers that driver earnings are higher)[5]. More taxis would also increase the demand for drivers, which should improve the bargaining position of drivers. Operators would be more likely to discount their pay-in (so that drivers keep a higher proportion of fare revenue), if drivers have increased options to go elsewhere. Over time, this would be expected to put upward pressure on driver earnings.

Our recommendations would still improve the affordability of taxi services for customers over time. Freezing fares for a second year (except for the $2.50 surcharge on Friday and Saturday nights introduced in September 2013) would make taxi fares more affordable. Our recommendations would also ensure that waiting times do not deteriorate at peak times.

4 For example, see NSWTDA submission on draft report, 31 January 2014, unnumbered pages.
5 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 38; NSW Taxi Council submission on draft report, 7 February 2014, pp 19-20.

1.4 Review process

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

- Released an issues paper on 15 October 2013, which outlined the key issues we would consider, and invited interested parties to make a submission in response to this paper. We received 10 submissions, which are listed in Appendix C and available in full on our website.
- Held a public roundtable on 22 October 2013. Roundtable participants are listed in Appendix C and a transcript of proceedings is available on our website.
- Commissioned a survey of Sydney residents about their taxi use, a repeat of the survey we undertook in November 2012. The survey report, *Survey of Taxi use in Sydney*, November 2013, is available on our website.
- Released a draft report on 17 December 2013, which outlined our draft recommendations and invited interested parties to make a submission. We received 12 submissions that commented on this report, which are listed in Appendix C and are available in full on our website.
- considered all submissions and stakeholder comments we received.

1.5 How this paper is structured

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

- Chapter 2 explains the context for the 2 reviews, including changes to the *Passenger Transport Act 1990* made in 2009
- Chapter 3 explains how our approach meets the objectives of the changes to the *Passenger Transport Act 1990* made in 2009 and addresses the factors in our terms of reference
- Chapter 4 sets out our recommendations for growth licences and fares and summarises our approach
- Chapter 5 discusses the existing supply and demand balance, including current occupancy rates, and the likely passenger demand for taxi-cab services, including latent demand
- Chapter 6 discusses the costs of providing taxi services
- Chapter 7 summarises the performance of taxi services in terms of how well they meet customers' needs
- Chapter 8 explains how we decided which combination of fares and licences gives the best balance of outcomes

- Chapter 9 sets out the number of licences we are recommending be released to replace licences relinquished or not renewed
- Chapter 10 discusses our analysis and recommendations regarding the licence tender process
- Chapter 11 discusses our consideration of fare structure, including analysis of the Sydney Harbour crossing return toll
- Chapter 12 discusses fares in urban areas outside Sydney
- Appendices A and B provide the terms of reference for the fare and licence reviews
- Appendix C lists submissions received and participants in our public roundtable
- Appendix D sets out the sensitivity testing we have undertaken on key inputs to the taxi industry model we used to develop our recommendations
- Appendix E includes an overview of the KPI and customer feedback reported to TfNSW by taxi networks
- The Glossary defines the terms and acronyms used in this report.

1.6 List of final recommendations

2 Context of our reviews

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

To address these problems, the *Passenger Transport Act 1990* was amended in 2009, so that TfNSW is now required to decide how many new annual licences to be released each year. The objectives of the reforms, as set out in our terms of reference for the licence review, are to:

- ensure the supply of taxis responds to growth in passenger demand
- reduce barriers to entry to the taxi market and make entry more affordable, without having an unreasonable impact on licence holders
- place downward pressure on taxi fares.

Since 2001, we have also been making annual recommendations on taxi fares to TfNSW. TfNSW sets the maximum fares that may be charged. Our review of fares requires 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.

This is the second year that IPART has been asked to provide advice to TfNSW on the number of licences that should be released. However it is the first year that we have made recommendations on licence numbers and fares concurrently.

This chapter explains

- that every taxi in Sydney is required to have a licence, and there are a number of different types of licences in Sydney
- how a restricted number of licences and inefficient fare levels create barriers to entering the taxi industry
- what has happened in Sydney since the 2009 licence reforms.

Additional background information about the taxi industry is available in a separate document, *Stakeholder guide: The NSW Taxi Industry*, available from our website.[6]

2.1 Taxis in Sydney are required to have a taxi licence

Every taxi in Sydney must have a taxi licence in order to operate. Most licences are 'unrestricted' – that is, they allow taxis to operate at any time of the day. However, around 8.2% of the fleet have 'peak availability licences' (PALs), which only allow the taxi to be on the road between midday and 5 am.

An operator can own or lease a perpetual or ordinary licence,[7] or pay an annual fee to TfNSW for an annual licence (which is renewable for up to 10 years).[8]

There are currently 4,716 perpetual and ordinary licences in Sydney.[9] These types of licences are no longer being issued in Sydney by TfNSW. Existing perpetual and ordinary licences are transferable; that is, they can be bought and sold on the secondary market. The average transfer price for an unrestricted licence for the calendar year 2013 was around $380,000.[10] Almost 60% of urban taxi operators lease perpetual or ordinary licences, rather than own them. Our most recent taxi driver and operator cost survey undertaken in late 2011 found that the average cost of leasing a licence was around $29,000 per year (excluding GST).[11]

Since the 2009 licensing reforms, every year TfNSW must decide how many new annual licences to release by tender or auction (all have been tendered to date). Winning tenderers pay the amount they bid to TfNSW for an annual licence, which can be renewed at the same price each year for up to 10 years. As at 1 January 2014, there were 642 of these annual licences on issue (316 unrestricted and 326 PALs). Some are 'growth licences' that are additional to the stock of licences that existed prior to the 2009 reforms, while others replaced short term licences that have expired since 2009 (and are no longer being issued). The growth in licences is discussed in section 2.3.

6 IPART, *Stakeholder guide: The NSW Taxi Industry*, October 2013.

7 Ordinary licences have terms up to 50 years but are renewable at the end of the term so are effectively perpetual.

8 Operators also have the option of obtaining a Wheelchair-Accessible Taxi (WAT) licence on request, for $1,000 per year in urban areas, or for free in country areas.

9 As at January 2014 (IPART analysis based on data provided by TfNSW).

10 IPART analysis based on data provided by TfNSW.

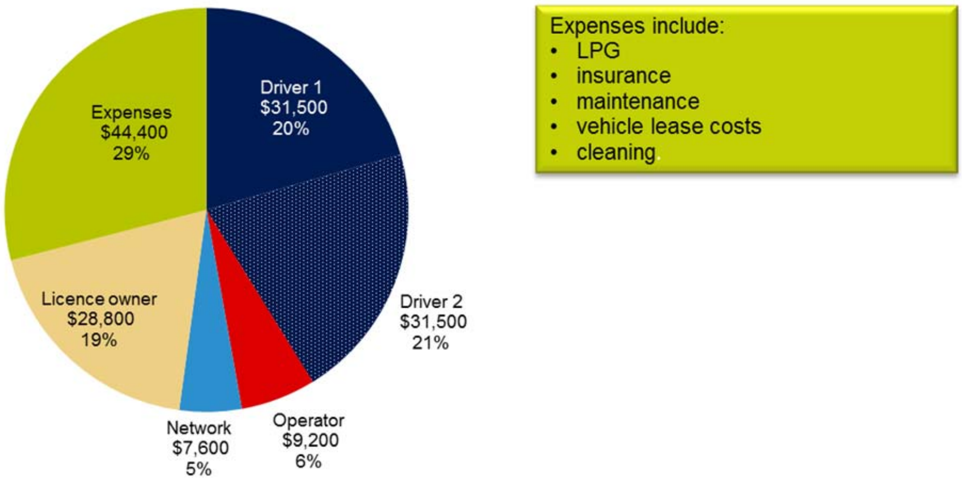
11 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 44, found that the average cost of leasing an unrestricted Sydney taxi licence was $28, 789, ex GST (in nominal $2011/12).

2.2 Scarcity of licences and inefficient fares has increased licence lease costs

The number of taxi licences available in Sydney is limited. This limit creates a scarcity value, which means that taxi licences are worth money, and anyone who holds one can earn an income from it by leasing it to someone else to operate. The extent to which the 'cost' of obtaining a licence is based on its scarcity (that is, as a direct result of the supply of licences being limited) is known as 'economic rent'. The fare paid by customers in Sydney covers both the economic rent associated with the licence and the other costs of providing taxi services, including remuneration to drivers and operators (Figure 2.1). In 2011/12, on average, economic rent (reflected by the percentage of fare revenue going to the licence owner) accounted for almost 20% of the revenue earned by a standard taxi in Sydney.[12]

In places where anyone who wants to operate a taxi is able to obtain a licence at a cost equal to the administrative cost of providing one, there is no scarcity value associated with licences and the economic rent covered by fares is zero.

Figure 2.1 Average distribution of annual revenue per standard urban taxi ($2011/12)



Data source: The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 9.

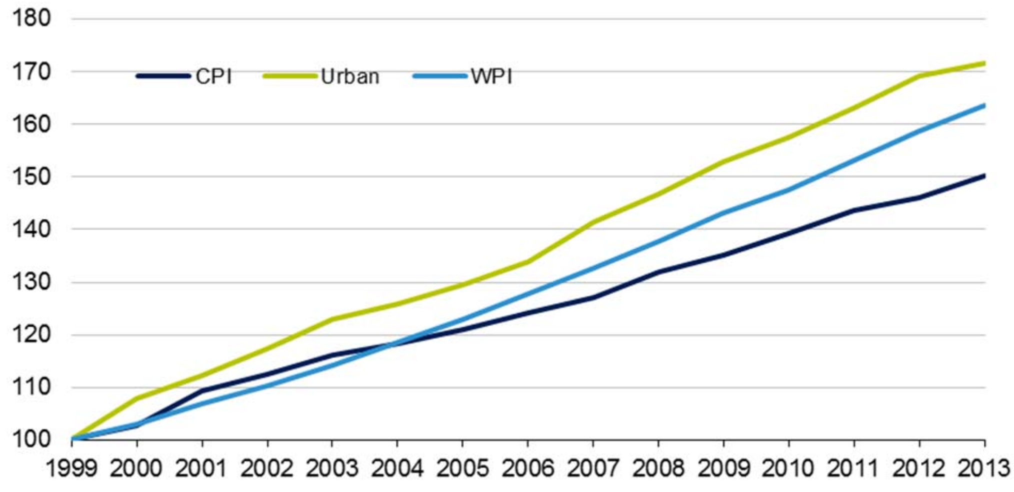
12 2011 taxi driver and operator cost survey data, IPART analysis. The NSW Taxi Council (submission on the draft report, 7 February 2014, pp 19-20) considers that the survey figures understate the average revenue per taxi. We explain the basis of our figures and why they may be different from the NSW Taxi Council's estimates in section 6.1.1. The economic rent as a proportion of revenue depends on the number of shifts the taxi is on the road each week – it would be lower for taxis that are on the road for more than the average 11 shifts and higher for those on the road for less.

2.2.1 Fares have also contributed to higher licence lease costs

Between 2002/03 and 2011/12, licence lease costs increased in nominal terms from around $20,000 to $29,000.[13] This is an average annual increase of around 3.5%, outpacing inflation over the same period, which averaged 2.7%.[14] This means that economic rents rose in real terms.[15] In the past, IPART's fare-setting methodology contributed to the rising economic rent included in taxi fares, which is why we have changed our methodology.

Between 2001 and 2012, we recommended changes to maximum taxi fares in line with the estimated average change in the financial costs of providing taxi services over the previous 12 months, as measured by the urban Taxi Cost Index (TCI). Figure 2.2 shows that urban fares increased every year between 2000 and 2012 at faster than the rate of inflation (CPI) and the rate of increase of labour costs in the economy (WPI).

Figure 2.2 Increases in urban taxi fares compared to CPI and WPI, 1999 to 2013



Source: IPART fare review reports.

Under the TCI approach driver labour costs were inflated by the wage price index (WPI). However, the current low level of driver earnings suggests that

13 NSW Ministry of Transport, *Benefit/Cost Assessment of Options for Reform of Taxi Licensing, Final report*, September 2005, p 18, NSW Taxi Council data provided to IPART for fare reviews, the CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 44.

14 ABS – Sydney consumer price index 6401.0http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Jun%202013?OpenDocument.

15 Rising economic per taxi does not necessarily mean that revenue per taxi has been rising at the same pace. Cost efficiencies, and particularly downward pressure on driver earnings (which account for about 50% of the costs of providing taxi services) as a result of expanding labour supply, may have allowed economic rent to rise faster than revenue.

those earnings have not kept up with WPI. As a result, using WPI to inflate these costs in the TCI may have contributed to higher licence lease costs.

The licence lease cost is an economic rent, reflecting the difference between the revenue a taxi earns and the economic costs of providing taxi services. Its inclusion in the TCI meant that when lease costs rose, IPART would recommend fare increases that in part reflected these increases – which would allow the value of economic rent to continue to rise and licence owners to further increase their lease fees. In 2012, we set the inflator for licence lease costs in the TCIs to zero to avoid the circular feedback between licence costs and fares in the future.[16] However, this did not address the accumulated rents in fares from past application of the TCI methodology.

These problems led us to stop recommending fare increases in line with the TCI in 2013. Last year we recommended a 1% fare decrease to start transitioning fares to more efficient levels.[17] In response, TfNSW froze most components of urban fares, but introduced a peak hiring surcharge on Friday and Saturday nights, with the net result of a 1.4% increase in urban fares.[18]

2.3 What has happened since the 2009 licence reforms?

TfNSW has tendered a total of 568 unrestricted annual licences and 464 PALs since the Government started tendering them in 2010 (Table 2.1). However, the growth in the taxi fleet has only been around half of this.

Since January 2010, the net growth in licences has been 264 unrestricted licences, 212 PALs, and 101 WATs. Figure 2.3 shows the increase in the taxi fleet over this time; an increase of around 11% in total (equivalent to 2.6% average annual growth).

16 IPART, 2012 Review of taxi fares in NSW, Maximum fares from July 2012, June 2012, pp 29-31.
17 IPART, 2013 Review of taxi fares in NSW, Maximum fares from July 2013, June 2013, p 1.
18 IPART modelling result.

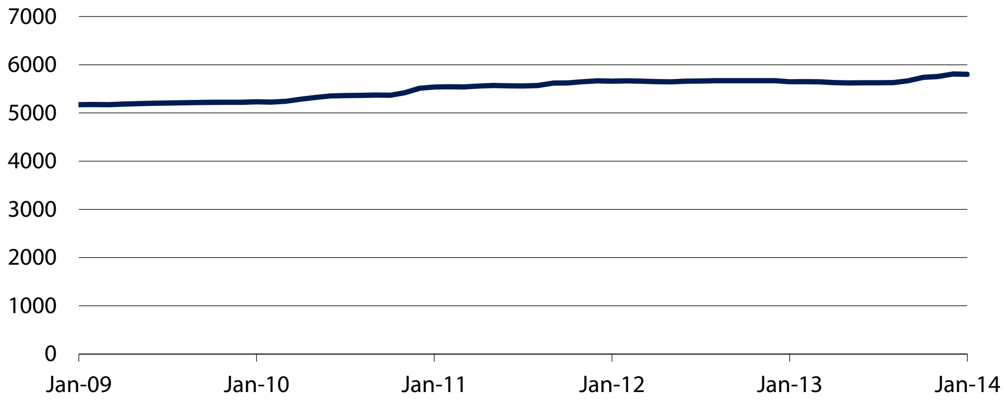
Table 2.1 Annual taxi licences issued in Sydney since January 2010 (other than WAT and Fringe Area licences)

	Licences tendered	
	Unrestricted	**PAL**
2010	319	90
2011	129	48
2012	55	46
2013	65[a]	280[a]
Total	568	464

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

Source: TfNSW, *2013/14 Sydney Annual Taxi Licence Determination*, 27 March 2013, http://www.transport.nsw.gov.au/sites/default/files/b2b/taxireform/sydney-taxi-licence-determination.pdf, Data provided by TfNSW.

Figure 2.3 Total Sydney taxi licences January 2009 to January 2014



Data source: TfNSW.

The increase in the number of licences is less than the number of new licences tendered by TfNSW over the same period because:

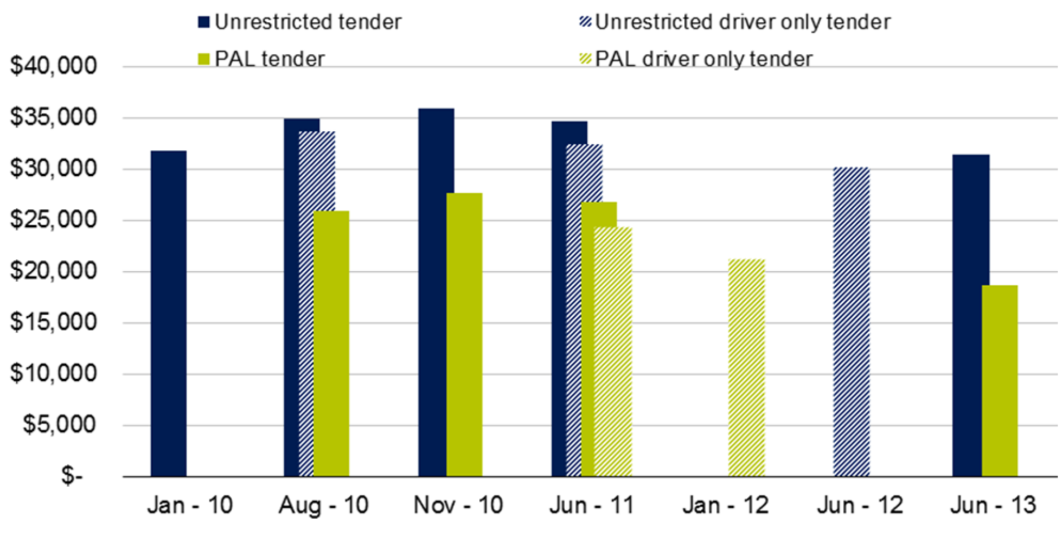
- some of the issued licences have subsequently been relinquished or not renewed
- some licences were forfeited before they were issued
- some of the issued licences replaced short-term licences that expired during the period (all Sydney short-term licences have now been replaced by annual licences and no new licence types have been introduced).

2.3.1 Are barriers to entry being reduced?

Since 2009, the demand for licences has remained high. There has been a strong take up of the new annual licences. Each of the tenders of licences since the first tender in 2010 has been over-subscribed except the 2011 driver-only issue of PALs. Unissued licences from that tender were subsequently re-tendered and the re-tender was over-subscribed. In the most recent tenders in 2013, there were 502 bids for 65 unrestricted licences and 508 bids for 280 PALs.[19]

As mentioned previously, the winning tenderers pay the amount they bid to TfNSW for an annual licence, which can be renewed at the same price each year for up to 10 years. All winning bids have been over $28,000 for unrestricted licences and over $15,000 for PALs.[20] Figure 2.4 shows that the average unrestricted licence price rose in 2013 compared to the average price in the previous tender (although we note that the 2012 tender was only open to drivers). However, in the year to January 2014, the average annual price of all active unrestricted annual licences that have been issued across all tenders fell by 4.5% in real terms (after taking into account the effect of 2.6% inflation over this period).

Figure 2.4 Average successful bid price for each tender (nominal)



Note: TfNSW has conducted 7 rounds of licence tenders. Different rounds offered different mixes of unrestricted licences and PALs, including 3 rounds where only 1 type of licence was tendered. Some of the tenders offered within a round were only open to drivers and some were open to anyone.

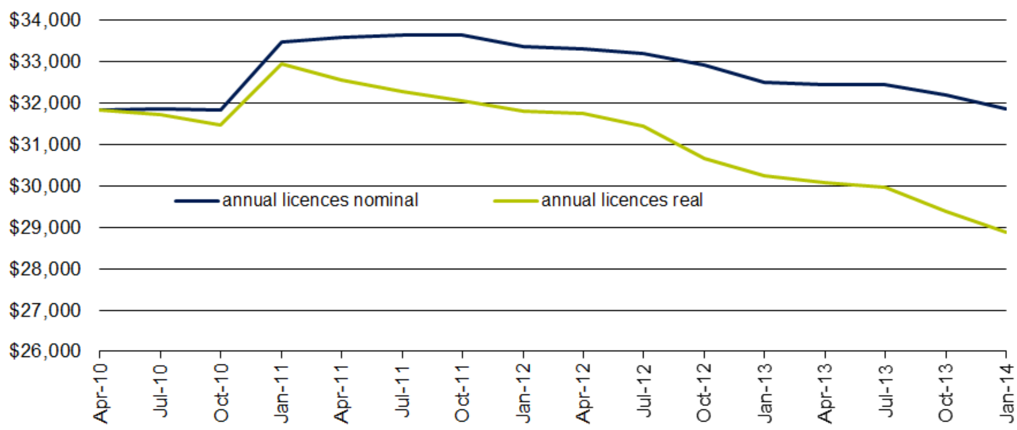
Data source: TfNSW.

19 Data provided by TfNSW.

20 Data provided by TfNSW.

Figure 2.5 shows that as at January 2014, the average annual price of all active unrestricted annual licences was $31,854 compared to $32,506 in January 2013. The average price across all active licences was lower both because the average successful bid price for the June 2013 tender was lower than all previous unrestricted tender successful bid averages except June 2012, and because many of the annual licences relinquished during 2013 were the more expensive licences that had been purchased in earlier years.

Figure 2.5 Average annual unrestricted licence prices, all active licences, nominal and real ($2009/10), 2010 to 2014



Data source: TfNSW.

3 Review objectives and scope

IPART has been asked to make recommendations on:

- maximum fares from 1 July 2014
- the number (and type) of annual licences to release for tender in 2014/15
- a number of issues relating to the tender process (for example, whether there should be restrictions on who can bid for licences).

When making our recommendations on these issues we need to consider the factors listed in our terms of reference, which include, among other things, the objectives of the 2009 licence reforms (which introduced the annual tender process). We received a submission from the NSW Taxi Council arguing that our approach is inconsistent with the objectives we are required to consider. We also received comments from taxi driver associations asking us to broaden our review to consider the objective of raising driver earnings. This chapter addresses the issues raised by these stakeholders and shows how we have taken the factors in our terms of reference into account when making our recommendations.

3.1 Why our approach meets the objectives of the 2009 licence reforms

We expect our recommendations would make taxis easier and cheaper for passengers to catch and would make entry to the industry easier and cheaper for operators. We also expect our recommendations would lead to a fall in licence lease values (which are both an income to licence owners and a cost to operators). While some stakeholders have argued that this is not an appropriate outcome, a reduction in licence lease values *is* necessary to meet the objectives in our terms of reference, which mirror those of the 2009 licence reforms.

The NSW Taxi Council submits that by adopting an approach that involves a reduction in licence lease values IPART is 'deliberately defying the will of the NSW Parliament' that went to some length to ensure that existing industry participants would not be adversely affected by the reforms.[21] The NSW Taxi Council considers that any recommendation with a negative impact on existing owners and operators is unacceptable and seeks a return to the Sydney Taxi Growth Model (STGM) approach.[22]

However, unless licence lease values come down to some degree barriers to entry will not be reduced, and entry into the taxi industry will not be made more affordable. Some reduction in licence lease income was clearly intended by the 2009 reforms. Our terms of reference explicitly acknowledge the need for licence lease values to fall, by including the caveat that the impact on existing licence holders should not be *unreasonable*.

Following on from our 2013 recommendations licence lease values have not collapsed, and all successful bids for annual licences have been over $28,000. Far from being a situation where the industry is not financially viable, there has been continued strong investment in the industry by drivers and operators. There were 502 bids for 65 unrestricted licences and 508 bids for 280 PALs in the most recent tenders.[23] This provides strong support for a continuation of our approach to recommending licence numbers and fares as a sensible and reasonable way of meeting the reform objectives.

These results are significant and compare very favourably with the former method, the STGM, which was used to calculate the number of additional licences between 2010 and 2012. Licence lease values reflect the economic rent and as such, are a key indicator of whether sufficient taxi licences are available to meet demand and whether fares are at the right level. The STGM approach maintained licence lease values at their existing levels in real terms and preserved the status quo for industry performance.[24]

In addition to raising concerns that IPART is not fulfilling its terms of reference, the NSW Taxi Council also submits that our analysis is biased and based on pursuit of our own economic ideals.[25] The NSW Taxi Council considers that we have given too much weight to the views put to us by stakeholders that support our own views and have not given due weight to the views put to us by other submitters.[26]

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21 NSW Taxi Council submission on the draft report, 7 February 2014, p 3.

22 NSW Taxi Council submission on the draft report, 7 February 2014, pp 5, 9 and 14.

23 Information provided by TfNSW.

24 For a more in-depth discussion of the STGM see IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, Chapter 3.

25 NSW Taxi Council submission on the draft report, 7 February 2014, p 6 and p 12.

26 NSW Taxi Council submission on the draft report, 7 February 2014, p 11 and p 41.

IPART is an independent regulator. We have an obligation to act within our terms of reference and to take account of the views and concerns of all stakeholders without giving any one party undue weight. The NSW Taxi Council is an important stakeholder but it is not the only stakeholder whose views we need to consider. The NSW Taxi Council does not speak for non-industry stakeholders and its views run contrary to those we have received from these groups. Nor does the NSW Taxi Council represent the entirety of views within the taxi industry. While many industry stakeholders agree with elements of the NSW Taxi Council's submission, many do not.

The majority of the submissions we received were from industry participants who are directly and potentially significantly affected by our recommendations. As a result, most submissions argued against any change from the status quo. While we take these concerns seriously we are also aware that the 2009 reforms should have wide ranging benefits for passengers by improving affordability and reducing waiting times. Importantly, the passengers who stand to benefit from these reforms include a significant number of lower income earners, many of whom have limited transport options due to age or disability. Our terms of reference require us to consider the impact of our decisions on all stakeholders even when they do not attend our public hearings or make individual submissions to us. The importance of having a regulator like IPART provide advice on these matters is that the benefits to the broader population can be weighed impartially with the financial impact on licence owners.

We have been monitoring what is happening in the industry to ensure that our advice remains consistent with the objectives of the 2009 licence reforms and we will continue to do this.

3.2 How we considered the factors in our terms of reference

We received 2 separate terms of reference – one for each review. The items listed in these terms of reference are factors we are required to consider when we make the recommendations we have been asked to make. They are not objectives we can consider in their own right. For example, we are required to consider the need to maintain ecologically sustainable development when we make recommendations on fares. This means that we need to consider the likely impact of our fare recommendations on ecologically sustainable development, not that we should, or could, explore all of the ways in which the taxi industry could improve its environmental outcomes.

As requested by TfNSW, we have run the 2 reviews concurrently and have made our recommendations on licence numbers and fares at the same time. We consider that it is important to consider the recommendations for both reviews as a package because fares and licence numbers have a combined impact on the outcomes of the industry. Our terms of reference for both reviews require us to consider these impacts when making recommendations.

Table 3.1 and Table 3.2 list the factors we are required to consider and summarise how we have taken each factor into account when making our recommendations on fares and licence numbers. With respect to the second factor that we are required to consider under our licence review, "balancing the need for more affordable entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders", we are of the view that owners of perpetual or ordinary licences are the relevant 'licence holders' contemplated by our terms of reference.

The ATDA submitted that the taxi operator is the relevant 'licence holder', rather than the licence owner, as a licence owner who leases out his or her licence does not actually 'hold' the licence.[27] We are of the view that it is clear from the Parliamentary debate at the time of the 2009 reforms and the wording of our terms of reference that the impacts being contemplated are a reduction in the income that can be obtained from ownership of a licence. As a result, we use the terms licence holder and licence owner interchangeably in this report.

Table 3.1 Consideration of factors in our licence terms of reference

Factor	How we have considered it
Ensuring the supply of taxis responds closely to the growth in passenger demand	Incorporated into the Sydney taxi model – see Chapters 4 and 5
Balancing the need for more affordable entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders	Factors that formed the basis of this judgment are discussed in Chapter 4 and our assessment of trade-offs and impacts is in Chapter 8
Reducing barriers to entry and encouraging competition	Part of assessment of trade-offs and impact of different outcomes – see Chapters 4 and 8
Placing downward pressure on fares over time	Part of assessment of trade-offs and impact of different outcomes – see Chapters 4 and 8
Simplifying existing taxi licence structures	We have not recommended any additional types of licences or changes to licence conditions
Likely passenger demand and latent demand for taxi services	Incorporated into the Sydney taxi model (see Chapter 4). Basis for demand estimate in model discussed in Chapter 5
Performance of existing taxi services	Available information on performance and overview of current indicators in Chapter 7. Impact of our recommendations in Chapter 8
The demand for new taxi licences	Historical demand in Chapter 2. Also discussed in Chapter 8
Viability and sustainability of the taxi industry	Licence lease values as an indicator of economic rent discussed in Chapter 2, Impact of our recommendations on industry viability considered in Chapter 8
Any other matter with regard to the objective of improved taxi services	Chapter 8

27 ATDA submission on draft report, 26 January 2014, p 5.

Table 3.2 Consideration of factors in our fare terms of reference

Factor	How we have considered it
Cost of providing the services concerned and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of customers	Incorporated into the Sydney taxi model – see Chapters 4 and 6. Occupancy rates/efficiency discussed in Chapter 6
Protection of customers from abuses of monopoly power in terms of prices, pricing policies and standards of service	Chapter 7 looks at affordability and Chapter 8 considers the impacts of our recommendations
Need to maintain ecologically sustainable development	There is limited scope to further this objective by changing taxi fares – see Chapter 8
Impact on customers	Part of assessment of trade-offs and impact of different outcomes in Chapter 8
Standards of quality, reliability and safety of the services	Available information on service quality and standards in Chapter 7. Impact of our recommendations in Chapter 8
The effect of any pricing recommendation on the level of Government funding	Chapter 8 considers the impact of our recommendations on Government funding

3.3 Why our recommendations would not have a significant impact on driver earnings

Driver associations have submitted to this and previous reviews that IPART should directly consider ways of raising driver earnings as part of our reviews. However, we have not been asked to make recommendations on driver earnings, nor are driver earnings a factor we are directed to consider by our terms of reference. Our reviews have nevertheless considered driver earnings as part of our examination of costs (driver labour is one of the most significant costs of providing taxi services). Drivers on average earn an effective hourly rate that is below the minimum wage.

Our analysis has also led us to conclude that our recommendations on the level of fares and licences would not have a significant impact on driver earnings. Although our recommendations would affect the fare revenue per taxi, this is not what determines drivers' earnings. Drivers' earnings consist of fare revenue less drivers' costs and the largest driver cost, the pay-in, is likely to move in the same direction as fare revenue, leaving the driver with the same level of earnings. Thus, drivers' earnings are effectively negotiated between drivers and operators, and are determined by the supply of and demand for drivers. IPART cannot set the proportion of fare revenue that is kept by drivers.

The ATDA has also submitted that if the taxi industry were structured such that drivers received the equivalent of the minimum wage, there would be insufficient fare revenue at current fare levels to cover this cost. We make our recommendations based on current industry structure. If there were a change to industry structure we would take this into account in future reviews.

The following sections explain these issues in more detail.

3.3.1 Driver associations have submitted that IPART should consider ways of raising driver earnings

The NSWTDA considers that IPART should recommend raising the earnings of drivers as a fundamental objective of our review:[28]

> IPART's job is to devise ways to prevent the … drivers and operators being robbed. And to reinstate the past earnings increases that are the fair, equitable overdue of the drivers and operators that are the backbone of the taxi industry! That is IPART's moral, ethical, and logical responsibility…

The ATDA submitted that it wants a minimum wage safety net for drivers as employees.[29] In its submission on our issues paper, it also stated:

> That rate of earnings, noting as it does a complete lack of community standard Entitlements or … Superannuation, is half the Australian minimum hourly rate of wages for a casual worker…. If the industry were to pay fair wages and meet its legal obligations, under the current structure… the Industry and its operator participants would be financially bankrupt.[30]

However, we have not been asked to make recommendations on driver remuneration or industry structure and neither is included as a factor in our terms of reference. Nevertheless, our analysis of the costs of providing taxi services (of which driver labour is the largest component) has led us to conclude that neither our fare nor our licence recommendations would have a significant impact on driver earnings.

3.3.2 Why fare revenue does not determine driver earnings

Most taxi drivers do not own or operate the taxis that they drive.[31] Instead, they pay a fee or 'pay-in' to a taxi operator to take the taxi out (bail the taxi) for a shift. Bailee drivers also pay for the fuel used during a shift, and night-shift bailee drivers pay for the vehicle to be washed at the end of the shift. Drivers' earnings are the difference between the fare revenue they receive from passengers and these expenses. Our 2011 taxi driver and operator cost survey found that drivers were earning an average of $10 to $11 per hour (in $2011/12).[32]

Fuel and wash costs are determined by factors external to the taxi industry and are not affected by fare revenue. However, pay-ins **are** affected by the amount of revenue that is available to be shared between bailee drivers and operators.

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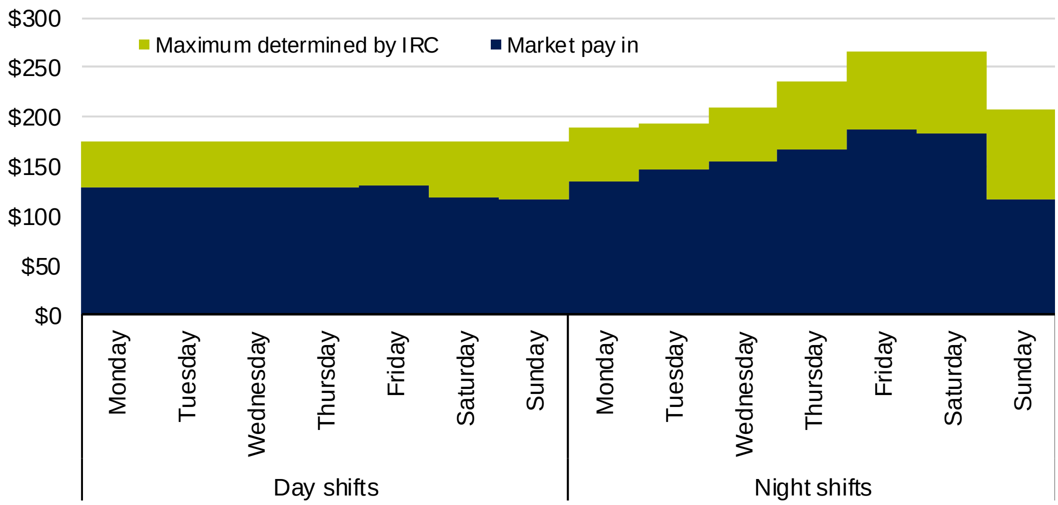
28 NSWTDA submission on draft report, 31 January 2014, unnumbered pages.
29 ATDA submission on draft report, 26 January 2014, p 2.
30 ATDA submission on issues paper, 11 November 2013, p 2.
31 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 89.
32 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 38.

The contractual relationship between bailee drivers and operators in Sydney is regulated by the NSW Industrial Relations Commission, which sets maximum pay-ins for each shift. However, in practice, market pay-in rates are below the maximum pay-in rates for all shifts. This means that the pay-in a driver actually makes to an operator is determined by agreement between the driver and operator. Figure 3.1 shows that the average pay-in for a shift is generally around 25% to 30% less than the maximum pay-in for that shift (and around 45% lower for a Sunday night shift).

Figure 3.1 Average market pay-ins compared to maximum allowed pay-ins ($2012/13)



Data source: Taxi industry (contract drivers) contract determination, 1984, http://www.industrialrelations.nsw.gov.au/biz_res/oirwww/pdfs/Awards/Award_0103.pdf, the CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 40.

The pay-in varies with the amount of revenue that can be earned, which is different for each shift. The pay-in is also affected by the relative bargaining position of drivers and operators. The relative bargaining position of drivers and operators in the negotiation is determined by the demand for drivers, relative to the supply of drivers:

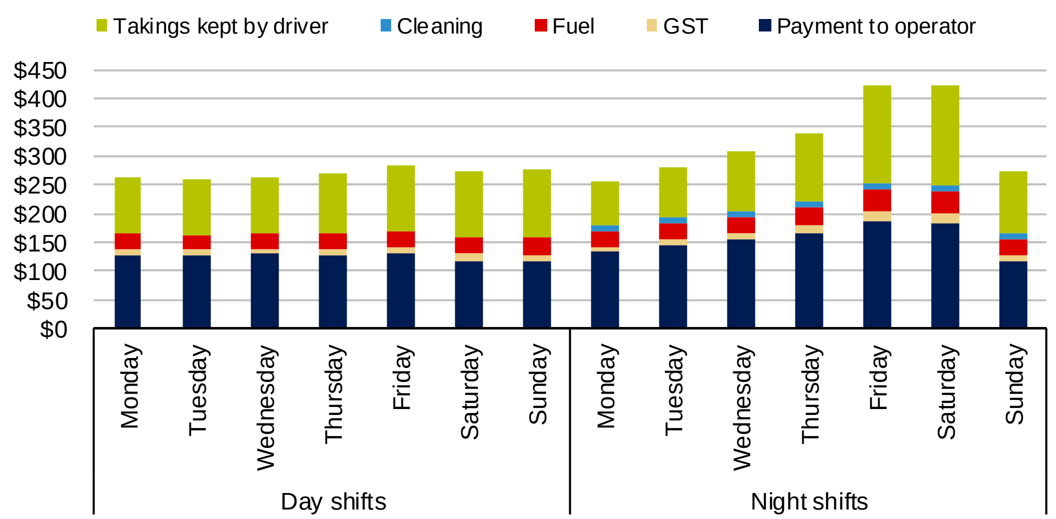
- If there are not many taxis, and a lot of drivers who want to drive taxis, operators are more likely to charge a higher pay-in, and so drivers would take home less of the total fare revenue. Keeping the supply of taxis (and therefore the demand for drivers) fixed, together with a growing number of drivers, suppresses driver earnings.
- On the other hand, increasing the number of taxis (and therefore the demand for drivers) would tend to improve the bargaining position of drivers. Operators might have to reduce their pay-ins in order to get drivers for their taxis, as drivers are better able to 'shop around' for the best pay-in deal. This would mean that the take-home earnings for drivers would be higher.

Some stakeholders considered that the number of available drivers has fallen as a result of reduced net migration, a reduction in the number of international students in Australia, and an ageing population. They state that operators are finding it increasingly difficult to get reliable drivers for their vehicles.[33] One stakeholder submitted that around 100 new drivers are accredited each month, while 300 drivers leave the industry.[34]

A driver shortage should increase the earnings of drivers. If there was an insufficient supply of drivers for the number of taxis, drivers would be in a position to retain more of the fare revenue by shopping around for the lowest pay-in offer. However, the current supply of drivers is sufficient to keep their effective hourly pay at well below current minimum wage rates.

Figure 3.2 shows the average fare revenue per shift, and the amount that is kept on average by drivers, based on data from our 2011 taxi driver and operator cost survey. For example, for a Thursday night shift, on average drivers collected $340 in fares and kept $120, after paying $166 to the operator to bail out the taxi, $31 for fuel, $11 for cleaning, and $12 in GST (all figures are in $2011/12). The pay-in to the operator varies by shift, even though the operator's costs are primarily fixed; that is, they do not vary with the number of shifts or kilometres driven. The operator's costs include insurance, maintenance, and the licence lease costs.[35]

Figure 3.2 What happens to fare revenue for each shift? ($2011/12)



Data source: 2011 taxi driver and operator cost survey data.

33 NSW Taxi Council submission on issues paper, 18 November 2013; Ernie Mollenhauer submission on issues paper, 15 November 2013, p 2.

34 M Burrage submission on draft report, 30 January 2014, unnumbered pages.

35 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, pp 9, 15 and 21.

Because drivers' earnings are the difference between fare revenue and costs, and because pay-in costs are not independent of the amount of fare revenue available, earnings do not necessarily increase as fare revenue increases. As indicated above, as fare revenue increases, any potential increase to drivers' earnings can be offset by operators increasing pay-ins. As a result, our recommendations on fares and licences would have limited impact on driver earnings. An illustrative example is set out in Box 3.1 showing how if fare revenue increases, pay-ins can increase, and if fares fall, pay-ins can fall – the net position of the driver being unchanged.

Box 3.1 Fare revenue does not determine drivers' take home earnings: an illustrative example

The amount drivers earn for a shift is the fare revenue minus the amount to pay the operator to take out or 'bail' the taxi, minus cleaning and fuel expenses. The following illustrative example shows how both fare revenue and costs can change, leaving the driver's earnings unchanged.

For example in a typical Wednesday night shift, the driver might:

- take $267 in fare revenue
- pay $120 to bail out the taxi
- pay $35 for fuel, and $12 to wash the car at the end of the shift.

This would mean the taxi driver would earn $100 for the shift.

If fares go up, 'the pay-in', can go up in response. For example:

- the driver's fare revenue might increase to $277
- but the driver's pay-in could increase to $130 to bail out the taxi
- and the driver would continue to pay $35 for fuel, and $12 to wash the car at the end of the shift.

This would mean that the taxi driver would still earn $100 for the shift, even though the driver's fare revenue increased by $10. Because the pay-in also increased, the driver is no better off.

Similarly, if fare revenue were to fall, the pay-in to take out the taxi could also fall, so that the driver is no worse off. For example, the driver might:

- take $257 in fare revenue
- pay $110 to bail out the taxi
- pay $35 for fuel, and $12 to wash the car at the end of the shift.

Despite the reduction in fare revenue, the driver's take home earnings in this example would still be $100.

While Box 3.1 is an illustrative example, the NSWTDA submission on the draft report also gave anecdotal evidence of this mechanism operating in practice in the recent experience of drivers who get the additional late night flag fall:

> Disturbingly, the last years IPART 'nightowl' late Fri/Sat nights fee incentive was soon followed by unregulated Networks radio fee rises and consequently by some operator payin increases.[36]

As is demonstrated by the above, IPART cannot set the proportion of fare revenue that is kept by drivers. If the NSW Industrial Relations Commission were to make a variation to the contract determination in a way that affected driver earnings, we would consider this in future reviews.

3.3.3 IPART makes recommendations within the context of existing industry structure

The ATDA's submission on our issues paper submits that fare revenue at current fare levels is insufficient to cover costs if drivers were to be paid award wages.[37] This is also consistent with the findings of the Victorian Taxi Industry Inquiry. It found that in Melbourne, if driver earnings were equivalent to the driver award rates, then they would exceed the total taxi revenue in some shifts.[38]

However, we have not been asked to make recommendations on industry structure. We make our recommendations on fares and licences within the context of industry structure as it currently stands. If there were a change to industry structure that had an impact on driver earnings, we would take this into account in future reviews.

36 NSWTDA submission on draft report, 31 January 2014, unnumbered pages.

37 The ATDA submitted that if occupancy and utilisation improved to the levels of 2006, the operation of a taxi would be marginally viable. ATDA submission on issues paper, 11 November 2013, pp 2-3.

38 Victorian Taxi Industry Inquiry: draft report, May 2012, pp 296-297.

4 Recommended Sydney fares and licence numbers and overview of our approach

Releasing more licences and keeping fares as low as they need to be to cover efficient costs would meet the objectives of the 2009 reforms to:

- ensure the supply of taxis responds to growth in passenger demand
- reduce barriers to entry to the taxi market and make entry more affordable
- place downward pressure on taxi fares.

However, our terms of reference also require that these objectives be balanced with the need to avoid unreasonable impacts on existing licence owners who receive income from leasing out their licence plates.

This chapter sets out our recommendations on the number of new annual taxi licences to release in 2014 and the corresponding level of fares. It then explains:

- how we have balanced the need for more affordable entry into the taxi industry with avoiding unreasonable impacts on licence holders
- how we have used our taxi industry model to consider the number of licences and fare levels in the context of this balance.

The following 3 chapters discuss the inputs to our modelling in more detail. Chapter 8 then provides more information on how we assessed the impact of various options and why we decided on the growth licence and fare combination in our recommendations.

4.1 Our recommendations for growth licences and fares

For the 2014/15 year, we are recommending a fare freeze (at current nominal rates) in combination with 150 unrestricted growth licences, and 40 growth peak availability licences (PALs).[39] Our recommendations to increase the number of licences in Sydney and reduce fares in real terms are designed to meet increases in demand for taxi services, improve service to customers and make entry into the taxi market more affordable.

We are also recommending that TfNSW put in place a data collection regime similar to what is in place in Victoria. One of the main aims of this recommendation is to ensure that we have better quality information on the impact of our recommendations on the industry to inform future licence and fare recommendations.

Recommendations

1 A fare freeze combined with an additional 150 unrestricted licences and 40 peak availability licences to be offered for tender in 2014/15 to meet increases in demand for taxi services, to improve service to passengers and to make entry into the taxi market more affordable. Table 4.1 sets out recommended maximum fares.

Table 4.1 Recommended maximum fares for 2014/15

Fare component	Rate
Hiring charge[a] (all times except Friday and Saturday nights and public holidays 10pm to 6am)	$3.50
Peak hiring charge (Friday and Saturday nights and public holidays 10pm to 6am)	$6.00
Standard distance rate ($/km when the vehicle is travelling more than 26km/hr)	$2.14
Night distance rate ($/km when the vehicle is travelling more than 26km/hr, 10pm to 6am)	$2.57
Waiting time ($/hr when vehicle is slower than 26 km/hr)	$55.30 (92.1c per min)
Booking fee (booked fares only)	$2.40
Maxi taxi surcharge (on total fare)[b]	50%

a The hiring charge was previously called the flag fall.

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

Source: TfNSW www.transport.nsw.gov.au.

2 TfNSW put in place a data collection regime similar to what is now in place in Victoria.

[39] Chapter 9 discusses the additional licences we are recommending to allow for attrition during 2014 and replacement of net licences removed from the stock of Sydney taxi licences during 2013. The attrition and replacement licences will not add to the total number of licences in Sydney over time.

4.2 Balancing more affordable entry into the taxi industry with impacts on existing licence-holders

An increase in the number of licences and a reduction in fares in real terms would each put downward pressure on licence lease values. We have recommended a combination of these measures this year. As discussed in section 3.2, a recommendation that did not involve at least some downward pressure on licence lease values would not meet our terms of reference. However, we do need to ensure that we balance the benefits of lowering licence lease costs with the impact on existing licence holders that would flow from reduced licence lease income.

In considering this balance, we have again focused our analysis on the annual income that is derived from leasing a taxi licence rather than the 'paper' value of the licence. There are 2 reasons for this. The first is that the cost of the licence to the owner depends on when it was purchased and is not related to current market value. The second is that the current market value of the licence is determined by investors' expectations of future returns. This depends on many things (including economy wide factors) and as a result market values are volatile and difficult to predict.

We remain of the view that a 25% real reduction (that is, after taking into account the effects of inflation)[40] in unrestricted lease values from 2012/13 levels by 2017/18 is an appropriate balance between:

- improved affordability for passengers and easier entry into the market for operators and drivers, and
- not having an unreasonable impact on licence owners.

We have received mixed reactions from stakeholders on this position:

- The NSW Taxi Council argued that there should be no reduction in licence lease values.[41] We also received 3 submissions from individuals arguing that the value of licence leases should not be reduced, and that our draft decision is unfair and shows disregard for licence owners who rely on the income from these licences.[42]

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40 So, for example, a taxi licence lease that cost $30,000 in 2012/13 and $27,000 in 2017/18 (in nominal dollars of those years) has reduced by 20% in real terms but only 10% in nominal terms if inflation averages 2.5% per year over that period.

41 NSW Taxi Council submission on draft report, 7 February, p 3, p 15.

42 Anonymous submission on draft report (W13/2402), 31 December 2013, unnumbered page; R Montanari submission on draft report, 18 December 2013, unnumbered page; P Fletcher submission on draft report, 31 January 2014, p 1.

- NCOSS supported a 25% reduction over 5 years stating that it agrees with IPART's assessment that historically, concern about the impact on licence holders has outweighed other considerations. NCOSS submitted that taxis are an integral part of the public transport system and provide an essential service to many people and that "this service should not be compromised in order to preserve historic investment returns at unreasonably high rates".[43]
- Former Victorian Taxi Industry Inquiry Commissioner David Cousins submitted that licence lease prices should not be sustained at such a high level and indicated that efficiency would suggest a bolder approach (than 25% over 5 years) to reducing lease prices is needed.[44]
- The ATDA submission supported reducing licence lease costs to around $5,000, resulting from the release of 3,200 new unrestricted licences.[45] The ATDA submitted that IPART should not be concerned with protecting investors because as explained in section 3.2, it considers that the operator is the relevant 'licence holder' and his/her interests are supported by the release of as many licences as possible.

We also received submissions that suggested we are attempting to implement unregulated (unlimited) entry in the NSW taxi market.[46] Several other jurisdictions have deregulated their taxi industries, including New Zealand, Ireland, Sweden, Netherlands, and regions in America. In these places there is an unlimited supply of taxi licences available and the value of those licences, and correspondingly the income that can be earned from leasing them out, is zero. The reduction in licence lease income that we are contemplating in this review in no way reflects what would occur in a deregulated market.

4.2.1 Why we consider that a 25% (real) reduction in licence lease income over 5 years is not an unreasonable impact on existing licence holders

The NSW Taxi Council has submitted that licences have derived their value from successive Government policies.[47] Because taxi licences do derive their value from supply constraints set by Government, taxi licences carry a high degree of risk. This is the risk that the Government may increase the number of licences on issue, or change their operating conditions and immediately affect the value of the licence. The NSW Taxi Council acknowledges that this risk has already been priced into the value of taxi licences and is a key reason that investors have received higher returns than would be available on a low-risk alternative:

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43 NCOSS submission on issues paper, 14 November 2013, p 2.

44 D Cousins submission on issues paper, 10 November 2013, p 1.

45 ATDA submission on draft report, 26 January 2014, pp 9-10.

46 R Hedley submission on draft report, 2 January 2014, unnumbered page; Cabcharge submission on draft report, 31 January 2014, pp 13-14; NSW Taxi Council submission on issues paper, 18 November, 2013, p 4.

47 NSW Taxi Council submission on issues paper, 18 November 2013, unnumbered pages.

> Investment in taxi plates in NSW, either as an owner operator or a third party investor, is a discretionary activity based on the purchasers' assessment of risk and return. As identified in a number of submissions to IPART, an investment in a taxi plate carries a range of risks that are not necessarily relevant to other financial instruments. In this regard, a taxi plate carries a risk premium that responds to this environment, and the returns that have occurred as consequence reflect this.
>
> A key component to this risk environment for a taxi licence is 'sovereign risk'.[48]

As part of the National Competition Policy reform package, all Australian states and territories agreed to review the regulatory regimes for taxis and hire-cars. In a research paper intended to complement this review process from 1999, the Productivity Commission wrote that it "had been unable to identify benefits to the community that justify restrictions on taxi numbers" and that it "considers that there is a strong case for the removal of such restrictions."[49]

The NSW Government has undertaken several reviews of taxi regulation since 1999.[50] TfNSW advises existing and prospective buyers that the value of transferable licences may vary over time, and TfNSW makes no representation as to the future market value of any licence.[51] In 2009, the licensing reforms to the *Passenger Transport Act 1990* introduced the annual determination of new annual licences. All of these developments have created market uncertainty about the value of licences and the income that it is possible to earn from leasing them.

This uncertainty has been priced into the capital value of taxi licences, and is reflected through their yields. The yields between 2001 and 2012 were consistently high, at around 12.4%[52]. This return compensates investors for the risk of losing money, including as a result of regulatory change.

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48 NSW Taxi Council submission on issues paper, 18 November 2013, p 13.

49 Productivity Commission, *Regulation of the Taxi Industry,* 1999, p ix.

50 See the TfNSW website for a list of reviews and links to the reports: http://www.transport.nsw.gov.au/content/taxi-reports

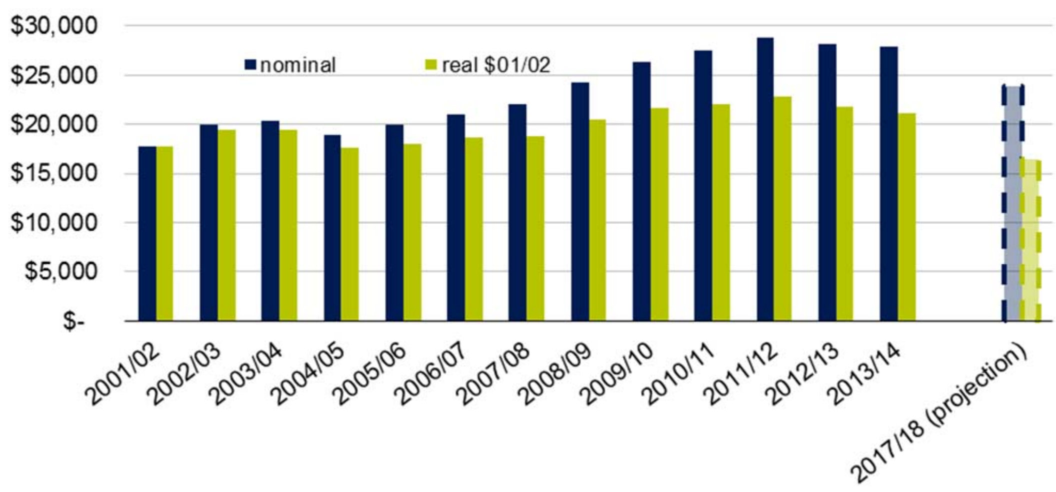
51 The TfNSW website carries the following notice:
Important notice:
The value of a licence may vary over time due to a number of factors, including market demand, economic conditions and regulatory activity. Intending licensees contemplating acquiring a licence should seek independent advice on the suitability of the licence for the intending licensee's purposes.
Transport for NSW makes no representation as to the future market value of any licence.
Existing and prospective licensees are informed that in circumstances where the market value of a licence is impacted by the effects of regulatory reform or other factors, Transport for NSW cannot be held liable to pay any compensation to the licensee.
TfNSW, Taxi licences, last updated 28 March 2013, http://www.transport.nsw.gov.au/content/taxi-licences, accessed 26 February 2014.

52 IPART analysis based on data supplied by TfNSW.

No arguments were advanced from owners as to what an acceptable alternative impact would be (apart from 'none at all'.) After carefully considering the objectives of our review and the submissions from stakeholders, we still consider that releasing enough licences and setting fares at a level that is expected to result in 25% real reduction over 5 years from 2012/13 is an appropriate balance between better outcomes for passengers, drivers and operators, while still avoiding unreasonable impacts on licence owners.

A 25% reduction in licence lease costs by 2017/18 (in real terms) equates to an annual lease income of around $24,000 (nominal) per licence in 2017/18.[53] See Figure 4.1.

Figure 4.1 Unrestricted licence lease prices 2001/02 to 2013/14, nominal and real ($2001/02)



Data source: IPART analysis based on CIE, *Reweighting of the taxi cost index – final report*, April 2012, NSW Taxi Council data provided to IPART for fare reviews, IPART calculations. 2012/13 and 2013/14 licence lease values are estimated based on the annual change in all active annual licences.

4.2.2 Why the taxi industry would continue to be viable and sustainable under this approach

As we noted in our draft report, a viable, sustainable taxi industry is one that meets the needs of passengers. Increasing the number of licences in accordance with our recommendations would mean that more taxis are available and waiting times would be lower at peak times. We expect that as demand from population growth, income, and tourism grows, and more people are motivated to use taxis as they become cheaper and more available, the occupancy rate for taxis would rise, improving the efficiency of taxi services.

53 This is in nominal terms, assuming a 2.5% annual rate of inflation.

The NSW Taxi Council and Cabcharge have submitted that releasing large numbers of taxi licences can have negative impacts on the industry as a whole, and not just existing licence owners. The NSW Taxi Council submits that IPART "wishes to flood the market" and Cabcharge describes the inundation of markets with taxi licences in jurisdictions which deregulated supply.[54] The taxi fleet in Sydney has increased by an average of 2.6% per year since 2010. The supply of taxis is not deregulated in Sydney, and the numbers of new licences we are recommending are well below the numbers of new licences associated with deregulation of taxi licences (see Table 4.2).

Table 4.2 Growth in the number of taxis in Sydney compared with what has occurred in deregulated markets

	Growth in the number of taxis	Annual growth
Sydney	11% in 4 years	2.6%
Dublin	231% in 4 years	34.9%
Netherlands	50% in 4 years	10.6%
New Zealand	48% in 5 years	8.1%
Seattle	33% in 8 years	3.6%
Phoenix	83% in 5 years	12.8%
San Diego	127% in 8 years	10.8%
Sweden (large municipalities)	16% in 1 year	16.1%

Note: While all of these jurisdictions deregulated the numbers of taxis, some also deregulated other parts of the taxi market. For example, Sweden also deregulated its fares.

Sources: http://www.taxi-library.org/kang0898.htm; Teal and Berglund, *Impact of taxi deregulation, journal of transport economics and policy*, pp37-56; Garling, Tommy et al (1995) *A Note on the short term Effect of Deregulation of Swedish Taxi Cab Industry*, Journal of Transport Economics and Policy, V ; *Goodbody economic review of the small public service vehicle industry*, p 32; *Ten years of the taxi deregulation in the Netherland - the case for re-regulation and decentralisation,* p 7.

While we expect that there would be lower fare revenue per taxi for some shifts under our recommendations, our modelling shows that there would continue to be enough fare 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 stay in the taxi industry. The extent to which drivers, operators, networks or licence holders would share the impact of the reductions in fare revenue per taxi during the transition period, and for how long, would depend on the timing of the adjustment of lease costs.

How much would fare revenue per taxi change?

Under our recommendations we expect that the revenue per taxi would increase from around $160,000 to $175,000 between 2012/13 and 2017/18, and costs would increase from around $130,000 to $150,000 (in nominal terms).[55]

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54 NSW Taxi Council submission on draft report, 7 February 2014, p4; and Cabcharge submission on draft report, 31 January 2014, pp 13-14.

55 The survey data collected from drivers and operators about their costs and revenues by CIE in 2011/12 forms the basis of this analysis.

Because costs would increase by more than revenue, the net revenue would fall by around $5,000 in nominal terms during this period. Table 4.3 shows our estimate of how the net revenue would fall per shift between 2012/13 and 2017/18. Over time we expect this impact would flow through to licence owners through lower licence lease payments.

Table 4.3 Estimated change in net revenue per taxi of our recommendations ($ per taxi, per shift, nominal terms)

	Mon	Tues	Wed	Thurs	Fri	Sat	Sun
Day shifts	-$5	-$5	-$5	-$5	-$5	$1	$0
Night shifts	-$1	-$12	-$16	-$19	-$15	-$10	-$2

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.

These forecasts are based on:

- assuming a nominal fare freeze until 2017/18, but increased demand which increases revenue per taxi in nominal terms[56]
- our expectation that total unit costs (the combined costs of labour, vehicle costs, fuel etc) will change by CPI each year
- an additional real increase in costs would result from an 8% increase in kilometres driven per taxi as demand and occupancy increases.

What would the reduction in fare revenue mean for licence owners?

As previously stated, by 2017/18, a 25% real reduction in licence lease values would mean that licence owners would still receive around $24,000 per year in nominal terms.

The NSW Taxi Council submitted that a reduction in licence lease prices will have a material impact on existing investors, and therefore will have negative consequences for the future viability and sustainability of the industry.[57]

However, as we noted in Chapter 2, as additional licences have been released since the 2009 reforms, there has been continued strong investment in the industry. Releasing more licences would continue to make it more affordable and easier for new entrants to invest in the taxi industry.

In our view licence lease income of $24,000 per year in 2017/18 dollars would provide a solid basis for continued participation in the NSW taxi industry.

56 However, nominal revenue increases more slowly than the rate of inflation, so in real terms it is reducing.

57 NSW Taxi Council submission on issues paper, 18 November 2013, p 21.

What would the reduction in fare revenue mean for taxi operators and drivers?

Several stakeholders have submitted that drivers and operators will bear the loss in fare revenue, rather than licence owners.[58] The NSW Taxi Council and Cabcharge note that 3 large operators in Melbourne failed following 5 years of fare freezes, and submit that fare increases are necessary to maintain the viability of the industry.[59] The NSW Taxi Council submits that "there will be an increasing unfunded gap between the revenue received by taxi drivers and operators and the cost of providing taxi services".[60]

As discussed above, there is sufficient economic rent that the expected reduction in fare revenue (what the NSW Taxi Council refers to as the 'unfunded gap') could be fully funded from licence lease income and still provide annual licence lease income of around $24,000 per year in 2017/18 (2017/18 dollars).

The allocation of fare revenue is negotiated between drivers, operators and licence owners. In the short term, the revenue impact may be shared by drivers, operators and licence owners. However, over time, licence owners would bear this reduction in revenue, because drivers and operators cannot capture any economic rent. If operators did not lower the pay-ins drivers would leave the industry. Similarly, if lease prices did not fall, operators would be unable to cover their economic costs. Therefore, licence lease costs would adjust downwards so that licence owners could continue to lease out their licences.

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 Industry Inquiry Commissioner David Cousins pointed out in his submission on 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.[61]

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58 ATDA submission on draft report, 26 February 2014, p 6; NSWTDA submission on draft report, 31 January 2013, unnumbered pages; NSW Taxi Council, submission on draft report, 7 February 2014, p 5; Cabcharge submission on draft report 31 January, p 17.

59 NSW Taxi Council submission on draft report, 7 February 2014, p 90; Cabcharge submission on draft report, 31 January, p 11.

60 NSW Taxi Council submission, 7 February 2014, p 33.

61 D Cousins submission on taxi licence review Draft Report, 15 January 2013, p 3.

4.3 How we translated this balance into licence numbers and fares

We used our model of the Sydney taxi industry to help us to understand the likely outcomes of changes to fares and licence numbers. Our Sydney taxi industry model is an equilibrium model, which means that it shows expected outcomes once all the changes have filtered through the industry. We considered the impact of changes to licence numbers and fares over a 5-year period, between 2012/13 (which is the first year IPART began making recommendations on licence numbers) and 2017/18.

Even though we are making recommendations within this 5-year context, we will make annual recommendations afresh each year, so that we can take into account changing circumstances. In future years, we will make our annual recommendation after modelling fares and licences for the same 5-year period (2012/13 to 2017/18) using a model that has been updated to reflect historical changes to licences and fares and any step changes in costs.

The NSW Taxi Council submitted that limited certainty is provided by a 5-year timeframe and argued that we should be clear about what will occur beyond this.[62] However, they were also critical of us for not waiting to observe the full impact of our latest recommendations before recommending further changes.[63] There is an inherent tension between providing certainty for the industry and being open to new information. In our view, there is a need to balance these aims and we consider that a 5-year modelling period with annual assessments that take into account actual changes that have occurred is the most appropriate way of doing this.

We used our model to consider combinations of licences and fares that had the same impact on licence lease values, but different impacts on affordability, waiting times, total trips and taxi occupancy. Chapter 8 explains how we decided to prioritise these outcomes given the objectives in our terms of reference and the comments we received from stakeholders.

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

- changes in demand (discussed in Chapter 5), as a result of:
  - demand growth from growth in population, income, and tourism, which we have estimated as 2.5% per year
  - demand response as a result of changes in taxi fares (we adopted an elasticity of -0.8, which means that a 1% fall in fares would result in a 0.8% increase in demand)

62 NSW Taxi Council comments at public roundtable, 22 October 2013, p 10 of transcript; NSW Taxi Council submission on the draft report, 7 February 2014, pp 16-17.

63 NSW Taxi Council submission on the draft report, 7 February 2014, p 3.

  - demand response as a result of changes in waiting times (we adopted an elasticity of -0.17, which means that a 1% fall in waiting time would result in a 0.17% increase in demand)

- cost changes faced by the industry (discussed in Chapter 6) – we have allowed for an annual cost increase of 2.5% per year in nominal terms
- CPI (2.5% per year).

Some stakeholders have questioned the accuracy of some of these estimates. For example, the ATDA considered that more is needed to substantiate the data in the model.[64]

We are confident that we have used the best available information to construct our taxi industry model. Nevertheless, in many cases we have had to make assumptions or estimates. As a result, we have undertaken sensitivity testing on the key model inputs and we intend to bring forward the next taxi driver and operator cost survey (the latest was undertaken for us by the Centre for International Economics, the CIE, in late 2011) so that we have the most up to date information for our reviews.

We have been monitoring what is happening in the industry to ensure that our advice remains consistent with the objectives of the 2009 licence reforms and we will continue to do this. To make sure we have relevant information for this purpose, our recommendations on licences and fares are accompanied by an additional recommendation that TfNSW put in place a data collection regime similar to that which is in place in Victoria. Box 4.1 shows the dataset that is collected in Victoria.

We consider that NSW networks could provide a similar dataset at low cost to them and to the NSW Government, and that this data would greatly improve the information available about the industry. We will work with TfNSW and RMS to develop a comprehensive and useful dataset.

64 ATDA submission on draft report, 28 January 2014, pp 1-2.

Box 4.1 Taxi data collected in Victoria

In Victoria, the networks provide the Taxi Services Commission the following data for every Melbourne taxi trip (around 25 million trips per year):

- geographic coordinates (latitude and longitude) of the origin and destination
- start and finish time
- driver and vehicle number
- distance of all trips
- how a taxi was procured (pre-booked, ready to ride or street hail)

And for each booked taxi trip in Melbourne:

- the time the booking was made
- the time a driver accepted a booking
- distance of driver from booking at time of acceptance
- time and place for bookings made and not fulfilled
- driver and vehicle number.

5 Ensuring the supply of taxis responds closely to the growth in passenger demand

One of the objectives of the review of taxi licences is to ensure the supply of taxis responds closely to the growth in passenger demand. In making our recommendations, we must have regard to the likely passenger demand for taxi-cab services, including latent demand, and the performance of existing taxi services.[65]

We considered a number of different elements of demand for taxi services including:

- As a starting point, the existing supply and demand balance of taxis. This analysis considers the comments we received that there are already too many licences on the road and that taxi utilisation rates are currently too low.
- The relationship between taxi fares, licences and occupancy rates and what impact they have on taxi efficiency.
- The long term average growth in demand from external factors. Last year we estimated this to be 2.5% per year and we have again adopted this value for this review.
- Changes in demand as a result of changes to taxi fares (price elasticity) and the supply of taxis (waiting time elasticity).

The demand that would be generated by changes to the number of taxis on the road and the price of taxi services is known as latent demand. It includes, for example:

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

This type of demand is stimulated by changes to fares and licences because some people are not currently making these trips, but would make them if waiting time or prices were reduced. As part of our assessment of latent demand we looked at the performance of existing taxi services by surveying Sydney residents to measure the current time taken to catch a taxi.

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65 These factors are listed in our terms of reference and come from section 32C(3) of the *Passenger Transport Act 1990* (NSW).

5.1 Existing supply and demand balance

Many submissions to this review and to last year's taxi licence review consider that there are currently too many taxis on the road, and assert that demand for taxi services has fallen over recent years at the same time the size of the fleet has been growing.[66] There has also been some concern amongst stakeholders that the occupancy rate of taxis is too low and that this supports the idea that there is currently an over-supply of taxis relative to demand for them.[67]

5.1.1 Are there too many taxis on the road?

Some stakeholders consider that there has been falling demand for taxi services due to increased use of alternative transport options, such as hire cars following the deregulation of the hire car industry, and private shuttles, an increase in the number of people working from home, and businesses cutting taxi expenditure.[68]

Some stakeholders have claimed that the global financial crisis in 2009 had a significant impact on the demand for taxi services.[69] There was a 2% downturn in the NSW economy in 2009; however, it followed almost a 5% increase in growth in the NSW economy in 2008, and there have been 3 successive years of growth since, including a 4% upturn in 2010. Over the period between 2008 and 2012, state final demand has risen by an average of 2.5% per year.[70]

Some submissions stated that over time the number of fares per shift has fallen, and the NSW Taxi Council also provided us with pictures of empty taxis at taxi ranks.[71]

66 For example, NSWTDA submission on draft report, 31 January 2014, unnumbered pages; NSW Taxi Council submission on draft report, 7 February 2014, p 4; P Fletcher submission on draft report, 31 January 2014; R Hedley submission on draft report, 2 January 2014. See also IPART, *Annual taxi licence release for Sydney 2013/14 – final report, February 2013*, p 46, footnote 95 for submissions to last year's review which stated or implied that no new licences should be released.

67 For example, ATDA submission on draft report, 26 January 2014 p 8; M Burrage submission on draft report, 30 January 2014, unnumbered pages.

68 M Burrage submission on draft report, 30 January 2014, unnumbered pages.

69 NSWTDA submission on draft report, 31 January 2014, unnumbered pages; M Burrage submission on draft report, 30 January 2014, unnumbered pages.

70 Figures as set out in the draft report for this review, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – draft report*, December 2013, Table 5.1, p 39. Original source - 5206.0 Australian National Accounts: National Income, Expenditure and Product - Table 21. State Final Demand, Summary Components by State: Chain volume measures (Seasonally adjusted).

71 M Burrage submitted that the number of fares have fallen from 22 to 24 per shift to 16 to 18. M Burrage submission on draft report, 30 January 2014, unnumbered pages. The ATDA submitted that trips have fallen from 19 to 14 trips per shift. ATDA submission on draft report, 26 January, p 7. See also the NSW Taxi Council presentation to the public roundtable, 22 October 2013, transcript p 12.

At the time of our 2011 taxi driver and operator cost survey, the annual economic rent per taxi (indicated by the licence lease value) was around $29,000 (in nominal $2011/12) for each taxi.[72] This level of economic rent does not support the view that there were too many taxis on the road at this time. As noted in Chapter 2, annual licence lease costs have fallen by a small amount in real terms since then, suggesting that recent licence releases have begun to improve the supply/demand balance (in accordance with the objectives of the 2009 licence reforms), but not put too many taxis on the road.[73] All else being equal, lowering the number of taxi licences would increase economic rent per taxi, and be borne as a cost to consumers through higher waiting times, particularly during peak periods.

5.1.2 Do occupancy rates show that demand is falling?

When developing the taxi industry model in 2012, our consultants, the CIE, used taxi meter data provided by the ATDA to calculate that the average occupancy rate (that is, the percentage of time that a taxi has a paying occupant) per taxi was about 30%.[74] This figure is comparable with the Victorian Taxi Industry Inquiry finding that the average occupancy rate for taxis in Melbourne was 28% in 2012.[75]

A 25% to 30% average occupancy rate across the week is consistent with an industry where the demand is not uniform across the week. As in many industries, the level of capital (the number of vehicles) required to meet peak period demand is substantially greater than that required at other periods.

Figure 5.1 shows this variation in demand for taxi services. For example, on the busiest shifts (Friday and Saturday night):

- around 60% more trips are taken compared to Tuesday and Wednesday shifts (when the demand on day and night shifts are similar)
- around double the trips are taken compared to low demand shifts on Monday nights, Saturday day shifts, and Sunday shifts.

Demand also varies throughout the year, with the number of trips peaking in December, and at its lowest in January.

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72 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 44: standard licence – urban, estimated licence lease cost, excluding GST - $28,789.

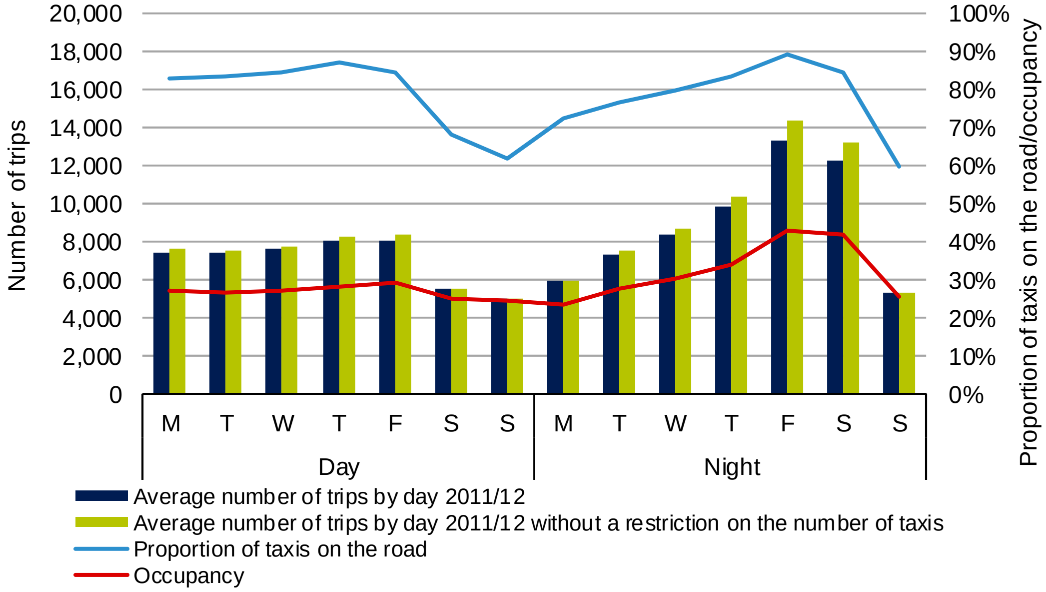
73 See Figure 2.5 in section 2.3.1 of this report.

74 Taxi Industry Model, IPART website, 'Base model' sheet, Cell B148: average occupancy 29.85%. Our stakeholder guide to this model discusses how we used the ATDA data (see IPART, *Guide to the taxi industry model*, p 9). Both documents are available on IPART's website: http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review_of_fares_for_Taxis_in_NSW_and_number_of_new_Sydney_Taxi_Licences_to_be_released_-_both_from_1_July_2014.

75 Victorian Taxi Industry Inquiry, Final Report, September 2012, p 59.

Figure 5.1 shows that the proportion of taxis on the road adjusts to meet demand. In low demand shifts, the proportion of taxis on the road falls to 60% to 70%, compared to 80% to 90% for most other shifts, so that the average level of occupancy is relatively constant at around 25% to 30%. On Friday and Saturday night, the average occupancy rate across the shifts rises to almost 45%, and around 90% of taxis are on the road. We note that these occupancy rates are the average across the shift – there are also peak times *within* shifts, which mean that at some times occupancy rates are substantially higher or lower than the average.

Figure 5.1 Average number of trips per shift across all taxis 2011/12



Data source: 2011 taxi driver and operator cost survey data, Taxi industry model.

It is possible that occupancy has fallen over many years, due a higher proportion of taxis on the road for each shift, rather than because of falling demand. A submission on a previous review stated that in the 1980s taxis were more likely to be off the road during quiet shifts:

> Around 1980 when I first drove a Taxi, there would be large numbers of managed Taxis locked up in yards on quiet nights. As business increased during the week, the surplus Taxis would be utilised and, no doubt, fully utilised during the peak periods.[76]

Since licences became transferrable, so that operators can lease a licence rather than own one, taxis are more likely to be on the road for more shifts even if they are not as busy, so the operator can cover the costs of leasing the licence. Data from our 2011 taxi driver and operator cost survey shows that the average

76 R Prideaux, submission on *Issues Paper – Annual taxi licence release for Sydney 2013-14*, 26 October 2012, pp 2-3.

number of shifts per week for an operator who leases a licence is around 11 shifts, compared to around 9 for an owner-operator.

5.1.3 Interaction between fares, licences and occupancy rates

Some stakeholders consider that no new licences should be issued in order to improve the efficiency of each taxi.[77] One submission suggested reducing fares to increase occupancy rates while issuing no growth licences.[78] The ATDA considered that improving occupancy rates would improve driver wages.[79]

Holding the number of taxi licences constant would increase the number of paid trips per taxi, or increase the proportion of taxis that are on the road for each shift as demand grows with growth in population, income, and tourism. Both would increase the revenue per taxi (if fares are held constant). However:

- It would become harder for customers to catch taxis during peak times.
- There would be a lower number of taxi trips taken overall. On the other hand, there would be more trips taken at most times during the week (and particularly on Friday and Saturday nights) if more growth taxi licences were issued, because waiting times would be lower. If fares were reduced, then the unmet demand for taxi services would be even larger, as some people would switch from substitutes (such as public transport, hire cars, privately owned cars, and hire cars with a driver).[80]
- Drivers would not be better off, because as explained in Chapter 3 more revenue would allow operators to increase their pay-ins.
- It would allow licence owners to increase their licence lease fees. This would make it more expensive for new operators to enter the taxi industry, which is counter to the objectives of the review. One way to avoid licence lease costs increasing with rising occupancy rates is to reduce fares. While this would make it more affordable for customers, if it is the only measure taken it would lead to supply problems (higher waiting times) at peak times and passengers would not be able to catch taxis when they want them.

It is possible to improve occupancy while increasing the number of licences, depending on the growth in demand. As explained in Chapter 8, we forecast that if the number of new licences in each of the next 4 years is the same as our recommendations for 2014/15, and fares remain frozen for this period, demand would increase by 24%, and occupancy would improve by 10%.

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77 NSWTDA submission on draft report, 31 January 2014, unnumbered pages; ATDA submission on draft report, 26 January 2014, p 1; T Hirsch submission on issues paper, 18 November 2013, p 14.

78 M Burrage submission on draft report, 30 January 2014, unnumbered pages.

79 ATDA submission on draft report, 26 January 2014, p 2.

80 When demand is lowest – on the weekend during the day, and on Monday and Sunday nights - more taxi licences would not result in more trips being taken. It would most likely result in a lower proportion of taxis on the road.

The ATDA also submitted that occupancy can be improved by new technology, including apps "and a different approach to the despatch systems."[81] The ATDA suggests that apps can increase productivity by offering work in advance and allowing the driver to plan his day.

Other ways that the taxi industry could promote better occupancy include discounting taxi fares in off-peak periods (currently possible as the Government sets maximum fares) and potentially offering different types of services to passengers. The Victorian Taxi Industry Inquiry completed last year explored a number of these in more detail in the Victorian context but they are outside the scope of our review.

5.2 How is demand likely to change over time?

In our last review of the number of new annual Sydney taxi licences, we considered demand for taxis from factors external to the taxi market: growth in population, household and business income, economic activity and tourism activity, which will increase the size of the potential market of taxi users, and increase the frequency with which people use taxi services. By examining trends in NSW state final demand, population growth and airport passenger numbers, we formed the view that demand for taxi services is likely to grow by around 2.5% per year over the longer term.[82]

This year we have again used a 2.5% estimate for growth in demand as a result of these external sources consistent with this forecast being a long term estimate. If the number of licences does not increase in line with this 2.5% demand growth (assuming fares and costs remain constant in real terms), licence lease costs will rise and waiting times will deteriorate (particularly in peak times when there is limited spare capacity). In order to make taxi licences more affordable, either additional licences over and above growth from growth in population, income, and tourism; or lower fares, will be required.

When we developed our long term demand estimate last year, we noted a number of submissions that argued that demand has fallen in recent times.[83] We received similar comments again this year. Submissions stated that demand has been decreasing over the last 4 years, as a result of falling consumer confidence, leading to fewer retail and restaurant passengers, a shortened Christmas season, and reduced overtime for workers.[84] Many of these factors would have been reflected in the state final demand measure we considered last year when developing our forecast (we considered the average growth in state final demand for NSW between 2008 and 2012).

81 ATDA submission on draft report, 26 January 2014, p 7.

82 IPART, *Annual taxi licence release for Sydney 2013/14*, Final Report, February 2013, p 28.

83 IPART, *Annual taxi licence release for Sydney 2013/14*, Final Report, February 2013, p 30.

84 NSWTDA submission on draft report, 31 January 2014, unnumbered pages; M Burrage submission on draft report, 30 January 2014, unnumbered pages.

Cabcharge submitted that we should update our demand forecast to account for the relative user share of substitute modes of transport such as hire cars, shuttles buses, and car share options in our demand forecasts.[85]

Actual taxi trip data would improve our understanding of how the number of journeys responds to our recommendations on fares and taxi licence numbers in addition to providing information on the underlying change in demand over time. As discussed in Chapter 4, we are recommending that TfNSW put in place a taxi network data collection regime similar to what is in place in Victoria. We will work with TfNSW to develop a comprehensive and useful data set.

Some information is available from our customer survey of taxi use among Sydney residents. The 2013 survey showed that almost 60% of people surveyed caught a taxi during the last 6 months, with 30% catching a taxi once a month or more, and more than 10% catching a taxi at least once a week. This is similar to the proportion of passengers who caught taxis in our 2012 survey.[86]

Most people surveyed in 2013 said that their taxi use did not change in the last year, with 18% reporting that they caught taxis more, and 21% reporting that they caught taxis less.[87] Our passenger surveys provides useful information specific to taxi use and as such, we will continue to undertake taxi passenger surveys regularly as a means of obtaining information on changes in demand for taxi services.

As explained in Chapter 4, we have made a recommendation to improve the available data about the taxi industry. This will allow us to better monitor the change in demand over time.

5.3 How we considered latent demand

The terms of reference for our licence review require us to consider latent demand for taxi services.[88] Latent demand refers to taxi trips that would be taken if fares were lower or waiting times were shorter.

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85 Cabcharge submission on draft report, 31 January 2014, p 13.

86 Taverner Research, *Survey of taxi use in Sydney*, November 2013, pp 10-11.

87 Taverner Research, *Survey of taxi use in Sydney*, November 2013, pp 16-17.

88 This factor is listed in our terms of reference and comes from section 32C(3) of the *Passenger Transport Act 1990* (NSW).

5.3.1 Lower fares

Lower fares would increase demand for taxis, as passengers respond to the increased affordability of taxi travel. In last year's review we assumed that for every 1% fall in real prices, the number of new trips increases by 0.8% (which is an average price elasticity value across all shifts of -0.8).[89] This is comparable with the Victorian Taxi Industry Inquiry's final report, which suggests an elasticity of around -1 for Melbourne.[90] Our estimate is also within the range of the majority of international studies of -0.2 to -1.[91]

Some stakeholders do not consider that the decrease in fares would have a stimulatory effect.[92] The NSW Taxi Council submitted that demand for taxis is derived demand (that is, it only exists as the result of the need to get to a place of employment or entertainment) and therefore not affected by the price or availability of taxis (that is, fares or waiting times).[93] While this argument could be made about the demand for transportation services more generally, taxis are only one means of transport and the price and availability of taxis relative to other forms of transport will affect the demand for taxis. Indeed, this very phenomenon has also been observed by the NSW Taxi Council with respect to hire cars, the closest substitute for taxis in many cases.[94]

The NSW Taxi Council and others have also submitted that because people can't catch 2 taxis at once, or travel 10% further than their homes if taxi fares are 10% cheaper, demand will not change in response to cheaper fares.[95] However, across the market, twice as many taxis could be caught, or 10% further distance travelled, because more people make the decision to catch a taxi for trips where in the past they would have used a different form of transport or decided not to make that trip at all.

There is evidence to suggest that lower prices will result in higher demand. More affordable taxi travel would allow people to use taxis more often than they can afford to at the moment, rather than an alternative mode of transport. Our 2013 customer survey showed that:

- Almost half of the respondents nominated cheaper fares as the one thing that would most likely lead to increased taxi use in the next 12 months (compared to only 15% of respondents nominating service improvements).[96]

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89 IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 36.

90 Victorian Taxi Industry Inquiry, *Customers First: Service, Safety, Choice,* final report, September 2012, p 260.

91 Booz Allen Hamilton, *Appraisal of taxi fare structure issues*, 2003, p 10.

92 NSW Taxi Council submission on issues paper, 18 November 2013, p 5; E Mollenhauer submission on issues paper, 15 November 2013, p 2.

93 NSW Taxi Council submission on issues paper, 18 November 2013, p 5.

94 NSW Taxi Council submission on issues paper, 18 November 2013, p 18.

95 NSW Taxi Council (Mr Fred Lukabyo), IPART taxi review public hearing transcript, 22 October 2013, p 13; Ernie Mollenhauer submission on issues paper, 15 November 2013, p 2.

96 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 22.

- Of the 682 respondents who did not consider catching a taxi in the last 6 months, over half said that one of the reasons why is that taxis are too expensive. This is consistent with the findings in our 2012 survey.[97]
- Of the 726 respondents who said that in the last 6 months they thought about catching a taxi, but in the end did not, almost 3 quarters said that one of the reasons why they did not end up catching a taxi is because they thought it would be too expensive. Similarly, of the 542 respondents in our 2012 survey who said that they thought about catching taxi in the last 6 months but in the end did not, two thirds did not do so because they thought it would be too expensive.[98]
- Of the respondents who reported lower taxi usage than last year, expense was cited as the main reason why. Of people surveyed who said that they have caught taxis less compared to last year, 57% said that the reason why was because they find them more expensive. Only 8% of people who caught taxis more said they did so because they found them less expensive.[99]

In addition, NCOSS cited a survey of the Home Care Service in Northern Sydney from 2004, where 61% of the 4000 respondents said that their use of taxis was restrained by expense.[100]

5.3.2 Shorter waiting times

Demand will also increase in response to better services. Around 30% of taxi users in our survey said that their main reason for catching a taxi is because it was quicker (or more direct) than other options.[101] Therefore, it is clear that customers value short waiting times.

Increasing the number of licences by more than 2.5% is one of the measures that would reduce waiting time for customers during peak times. As waiting times reduce, demand for taxi services increases because passengers are more likely to catch taxis when they do not have to wait as long. Our survey showed that some respondents are not catching taxis because it takes too long to get one. For example:

- Of the 682 passengers surveyed who didn't even consider catching a taxi in the last 6 months, almost 25% said the reason why they didn't consider catching a taxi was because they thought the waiting times would be too long, or they were worried that a taxi would not show up after they booked one.[102]

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97 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 80.
98 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 52.
99 Taverner Research, *Survey of taxi use in Sydney*, November 2013, pp 20-21.
100 NCOSS submission on issues paper, 14 November 2013, p 1.
101 Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 72.
102 Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 80.

- Of the 209 taxi users (20% of the taxi users) surveyed who tried to catch a taxi but in the end did not:
  - 24% gave up because the wait at the taxi rank was too long
  - 34% gave up because they didn't wait long enough to see any vacant taxis driving by
  - 28% booked a taxi but it did not arrive.[103]
- Similarly, of the 726 passengers surveyed who thought about catching a taxi but in the end decided not to:
  - 15% chose not to catch a taxi because they were not sure if it would turn up in a reasonable period of time if they booked a taxi
  - 9% considered hailing, but they thought the wait would be too long
  - 7% thought that the wait at the taxi rank was too long.[104]

In our previous review, we assumed that for a 1% decrease in waiting time, demand would increase by 0.17% (based on a value of time of $30 per hour while waiting, and using the same price elasticity as for fares).[105]

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[103] Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 50.
[104] Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, pp 51-52.
[105] IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 91.

6 Costs of providing taxi services

Under the terms of reference for our fare review, we are required to consider the costs of providing taxi services, and the need for greater efficiency when we set fares.

We have extensively considered the costs of providing taxi services, which include the costs of driver and operator labour, vehicle costs, network fees and fuel. We have concluded that taxi licence lease costs, while a financial cost of doing business to a taxi operator, are in fact an economic rent left after other costs are deducted from taxi revenue.

As such, increases to costs such as labour, vehicle costs, network fees and fuel can be funded through any or all of the following, rather than by customers through higher fares:

- a reduction in taxi licence lease costs (and therefore a reduction in the income of licence owners)
- cost savings from efficiency gains
- additional revenue from more passengers, as more trips are taken as underlying demand grows, and in response to (real) fares.

However, under the terms of reference for our licence review, we are required to avoid unreasonable impacts on existing licence holders, so we need to consider the change in licence lease values that is likely to result from both our fare and licence recommendations.

We have used our taxi industry model to assess the likely outcomes of changes to licence numbers and fares. A key input to the model is the cost (other than licence lease costs) of providing taxi services. We have reviewed our assumption that overall costs are likely to rise at the same rate as other prices in the economy and decided that it is reasonable, given the available data. We also intend to conduct a survey of taxi driver and operator costs towards the end of 2014 to obtain up-to-date data for our next reviews of fares and licences.

We have also considered the particular case of fuel costs. Because of the volatile and cyclical nature of fuel costs, and because fuel costs are borne by drivers in the first instance and may have a significant short-term impact on driver income, we have decided to review LPG prices on an ongoing basis outside the regular fare review cycle. We will recommend fare changes to reflect the change in fuel costs at any time that the average LPG price over 6 months changes by more than 20% (up or down) compared to the same 6 months the year before.

This chapter explains in more detail how we have considered costs in our recommendations on fares and licences.

6.1 What are the costs of providing taxi services?

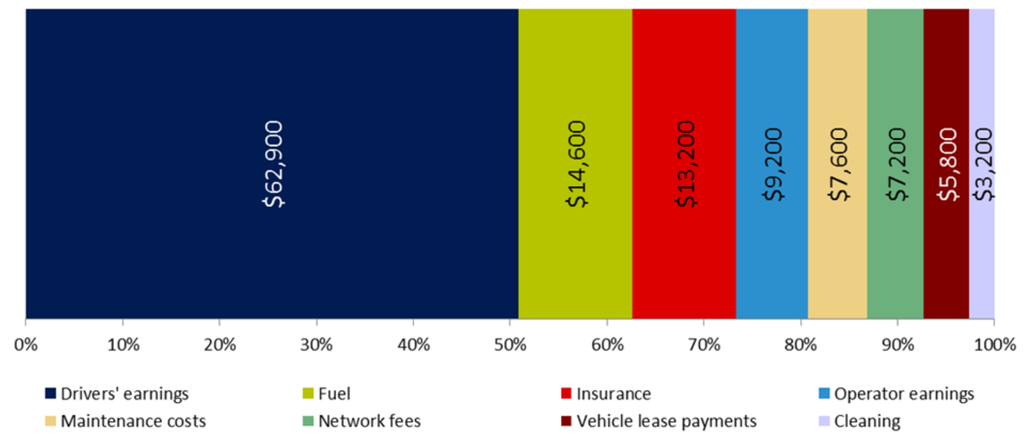
Figure 6.1 shows that the costs of providing taxi services include driver and operator labour, vehicle costs (such as owning or leasing a vehicle, maintaining it, insuring it and keeping it clean), network fees, and fuel costs. These costs are determined by people's willingness to work as drivers or operators for a particular financial reward, by the labour and parts involved in constructing and then maintaining a vehicle, and so on. Driver earnings are discussed in more detail below.

The cost of leasing a taxi licence (the permission to use a vehicle to provide taxi services), is not determined by the cost of providing permission to use a vehicle – it is an economic rent, that is, an amount created by the artificial scarcity of taxi licences.[106] While the licence cost is a real **financial** cost incurred by operators, it is not an **efficient** economic cost because it has no productive value.

In the past, fares have been set by reference to costs including licence lease costs, allowing the economic rent to become embedded in fares, as explained in Chapter 2. Therefore fares at the level they are today are sufficient to cover efficient costs but also to provide for economic rent which is captured by the licence holder as income for leasing their licence.

106 As a submission from an economist to the 2012 taxi fare review issues paper explained: 'economic costs … [are] 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.' P Abelson submission on 2012 taxi fare review issues paper, 3 February 2012, p 2.

Figure 6.1 Composition of the average annual cost of providing taxi services for a standard vehicle (2011/12)



Data source: The CIE, Reweighting of the taxi cost index – final report, April 2012, p 9.

6.1.1 Driver earnings

Some stakeholders agree that our results are an accurate reflection of driver earnings.[107] However the NSW Taxi Council has submitted that we have underestimated labour costs.

We have estimated that the average revenue for a standard taxi was around $153,000 in 2011/12.[108] The NSW Taxi Council considers that the total revenue per taxi is around 20% higher than this, and the difference goes toward driver earnings.[109] This would mean that labour costs comprise a higher proportion of total costs.

Our estimates of driver earnings come from our 2011 taxi driver and operator cost survey, which had responses from more than 2,600 drivers (or 11% of authorised drivers) in Sydney, and applied across a range of different taxi operations, including single-shifted owner-operated vehicles.[110] We would expect the revenue to be higher than $153,000 for a taxi that was on the road for 14 shifts a week, and lower for single-shifted taxis.

107 ATDA submission on draft report, 26 January 2014, p 3; NSWTDA submission on draft report, 31 January 2014, unnumbered pages.

108 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 9.

109 NSW Taxi Council submission on draft report, 7 February 2014, pp 19-20.

110 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, pp 9, 25.

The NSW Taxi Council cited a Deloitte Access Economics (DAE) report in support of their view that we have understated labour earnings.[111] DAE has based its findings on:

- benchmarks for the taxi industry from the Australian Taxation Office (ATO)
- the observation that drivers must be earning at least 50% of the fare revenue because there is the option to do so under the Contract Determination
- ABS census information.[112]

Chapter 8 of the CIE's final report provides information about how the CIE verified whether the driver earnings figures were robust.[113] It addresses the ATO benchmarks, and the Contract Determination, which are discussed below in more detail.

ATO benchmarks

ATO taxi industry benchmarks were considered in detail at the time of our last taxi driver and operator cost survey and we consider that our survey has better information than that used in setting the ATO benchmarks.[114] The ATO benchmarks are not specific to Sydney. They assume that taxis travel 150,000 km per year.[115] However, our survey found that the average distance driven in Sydney was around 75% of this (around 110,000 km per year).[116] This average includes single-shifted taxis. Figure 6.2 shows that although many taxis drove around 150,000 km per year, around half of the sample drove less than 120,000 km. The lower number of kilometres from our survey may account for revenue being lower than the ATO benchmark.

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111 NSW Taxi Council submission on draft report, 7 February 2014, pp 19-20.

112 Deloitte Access Economics, The economic and social contribution of the NSW taxi industry, 12 December 2013 p 18.

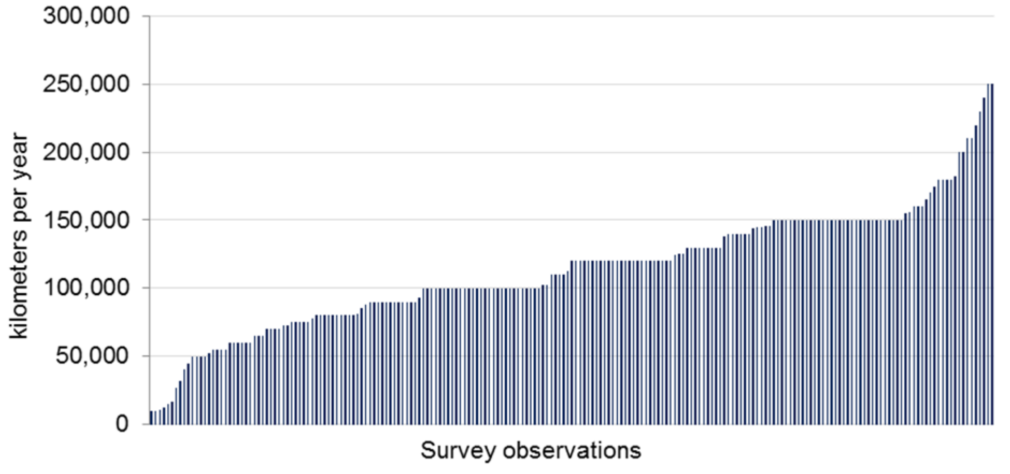
113 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, pp 64-69.

114 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, pp 64-69.

115 Australian Taxation Office, Taxi drivers and operators – issued 2013, http://www.ato.gov.au/Business/Small-business-benchmarks/In-detail/Benchmarks-A-Z/R-Z/Taxi-drivers-and-operators---issued-2013/

116 The CIE, *Reweighting of the taxi cost index – final report*, April 2012, p 64.

Figure 6.2 Kilometres per taxi per year for standard urban taxis (2011/12)



Data source: 2011 taxi driver and operator cost survey data.

Methods of driver remuneration

Under the Sydney Contract Determination, drivers can bail the taxi by either paying the operator 50% of the revenue earned in a shift[117] (Method 1), or a fixed amount (Method 2), which must not exceed the amount specified in the Contract Determination.[118] This implies that drivers earn at least 50% of the fare revenue – and drivers who use Method 2 to bail the taxi would be earning more than 50% of fare revenue. However, the results of our 2011 taxi driver and operator cost survey showed that drivers take home around 41% of fare revenue.[119] Over the years, stakeholder have submitted that the reason for this is that in reality drivers cannot choose Method 1, and earn less than 50% of fare revenue under Method 2:

- Drivers are neither offered any choice of Methods 1 or 2 pay-ins, as required by the IRC, nor ABLE to exercise any choice, let alone to forego entitlements…many drivers are unaware of the existence, let alone the availability of Method 1.[120]
- What, once upon a time, was an equivalence between the set pay-in and 50% of the fare box, is no longer. Other than a lone Sydney driver on Method I (who relies on the IRC to maintain his bailee status), the average Sydney taxi driver obtains or retains less than 33% of the fare, be he a "bailee" or an "owner" driver.[121]

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117 First year drivers are entitled to 45% of fares only. Industrial Relations, *Taxi Industry (Contract Drivers) Contract Determination, 1984,* p 103, accessed 28 February 2014, http://www.industrialrelations.nsw.gov.au/biz_res/oirwww/pdfs/Awards/Award_0103.pdf

118 Ibid.

119 The CIE, *Reweighting of the Taxi Cost Index – final report*, April 2012, p 10.

120 NSWTDA submission on information paper, 15 April 2011, unnumbered pages.

121 ATDA submission on draft report, 26 January 2014, p 6.

ABS data

The 2011 census collected information on employment and income. This data suggests that the average hourly earnings for Sydney drivers working in the taxi and other private vehicle sector were around $14.50 in 2011. However in addition to bailee taxi drivers, this category of earnings also includes hire car drivers and operator/drivers (who do not pay a pay-in), and operator/owner/drivers who would also include the economic rent as income.

This estimate is still well below the estimate DAE obtained from 2011 census data.[122] This is because our estimate only includes those who also identified themselves as automobile drivers as an occupation. We understand that DAE's estimate includes the income of anyone working in the taxi and other vehicle sector, which would include non-drivers, such as licence owners who lease out their licence.

6.2 Why fares do not have to go up even when costs go up

The efficient costs of providing taxi services do tend to increase each year, as do costs in general throughout the economy. Many stakeholders considered that fares should be increased in line with cost increases, and specifically that IPART should go back to using the TCI, which measured changes in the costs of providing taxi services (including licence lease costs) and applied this change to fares.[123] The NSW Taxi Council submitted that the last time IPART used the TCI we set the inflator for the licence lease cost item to zero, which froze licence lease costs as a component of the TCI and fixed the problem of a feedback loop between licence lease costs and fares.[124]

However, even after freezing licence lease costs as a component of the TCI, fares still contain embedded rent. The existence of licence lease costs of around $28,000 per year indicates that sufficient economic rent exists such that licence owners can fund increases in efficient costs through a reduction in their rental income, instead of passengers funding further cost increases through higher fares. This allows taxi fares to become more efficient by reducing the economic rents embedded in the fares.

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122 Deloitte Access Economics, The economic and social contribution of the NSW taxi industry, 12 December 2013, p 35, http://www.nswtaxi.org.au/user_files/file/DAE%20NSW%20Taxis%20Final%2012Dec2013.pdf, accessed 27 February 2014).

123 NSW Taxi Council submission on draft report, 7 February 2014, p 30; Cabcharge submission on draft report, 31 January 2014, p 10.

124 NSW Taxi Council submission on draft report, 7 February 2014, pp 31, 42.

As we noted in our draft report, there are also likely to be other cost savings available to the taxi industry from efficiency gains. For example, the NSW Government is reviewing NSW passenger transport legislation, including the regulatory framework for taxi networks.[125] Changes could increase competition for booking services, for example, by clarifying the role of independent apps. This should drive down costs for booking services. Amendments may also help lower barriers to entry for new taxi networks. If new networks can provide services more cheaply than existing networks then network fees should fall.

The NSW Taxi Council submitted that more efficient booking services would result in a reduced level of customer service.[126] However, apps can improve a customer experience by providing more information about whether their booking has been accepted, and the current location of the vehicle, so they can more effectively plan their trip. Currently, there is no obligation for booking services to inform customers whether their booking has been accepted.

Another source of funding for any cost increases while holding fares constant, as noted in our draft report, is additional revenue from more passengers, both as more trips are taken as underlying demand grows, and in response to more affordable fares.

6.2.1 What is the impact on taxi drivers and operators if costs go up but fares do not?

Some stakeholders submitted that if fares do not increase, drivers and operators would have to absorb cost increases, lowering their earnings.[127]

As we explained in Chapter 3 and in our draft report, driver and operator earnings are independent of fares, except in the very short term. Whether fares go up or down, the amount of the fare revenue that stays with the driver or operator is determined by the supply of drivers and the demand for their labour. The NSWTDA submission on the draft report also gave an example of how this operates in practice in the recent experience of drivers who get the additional late night flag fall.

> Disturbingly, the last years [sic] IPART 'nightowl' late Fri/Sat nights fee incentive was soon followed by unregulated Networks radio fee rises and consequently by some operator pay-in increases.[128]

125 NSW Passenger Transport Legislation Review, http://www.transport.nsw.gov.au/nsw-passenger-transport-legislation-review, (accessed 27 February 2014).

126 SW Taxi Council submission on draft report, 7 February 2014, p 22.

127 NSW Taxi Council submission on draft report, 7 February 2014, p 35.

128 NSWTDA submission on draft report, 31 January 2014, unnumbered pages.

6.2.2 What is the impact on licence owners if costs go up but fares do not?

As outlined in section 6.1.1, we expect increases in costs to be met largely by licence owners through lower licence lease income. Because our licence review terms of reference require us to avoid an unreasonable impact on existing licence holders, it is important to understand what the extent of this impact is likely to be. Section 4.2 discusses the forecast impact on licence owners and the way in which we have considered costs in our modelling of this impact.

6.3 How are costs likely to change?

Under the terms of reference for our licence review, we are required to avoid unreasonable impacts on existing licence holders, so we need to consider the change in licence lease values that is likely to result from our licence recommendations.

We have used our taxi industry model to estimate the likely impact of our licence and fare recommendations on licence lease values. The model includes the forecast costs of operating taxi services (other than licence lease costs) as a key input that helps determine how much economic rent is left to become the licence lease value after costs are taken out of revenue.

We consider that over time taxi costs are likely to increase by around CPI each year (that is, there is no real change to taxi costs over time, because they increase at the same rate as costs in the rest of the economy) and have used this assumption in our modelling.

We have tested the sensitivity of our model to our cost assumption. The model is quite sensitive to this assumption: if costs actually do increase by 0.5% above inflation per year on average, we would expect licence lease values to drop by 33% in equilibrium as a result of our recommendation between 2012/13 and 2017/18 (assuming our recommendations for the next 3 years are the same as for 2014/15). If annual costs increase by 0.5% less than inflation, we would expect licence lease values to drop by 18%. Full details of the sensitivity testing are contained in Appendix D.

In order to make sure that the model is based on the most up to date, accurate and comparable industry data, we will repeat the taxi driver and operator cost survey that was conducted in 2011 towards the end of 2014 to update the industry-specific cost data.

6.3.1 Why we assume that costs will increase at the same rate as inflation

As we noted in our draft report, we consider that CPI is an appropriate assumption for medium term movements in the costs of providing taxi services. This is because even though some cost components may increase by more than CPI on average, others typically increase by less than CPI.

The data suggests that over the past few years insurance costs (which account for just over 10% of costs), have risen by more than CPI. However, around 50% of total costs is made up of driver labour, which has historically been subject to downward pressure as the supply of labour has expanded. Survey evidence from Melbourne referenced in the Victorian Taxi Industry Inquiry also indicates that driver incomes did not keep pace with inflation between 1992 and 2012.[129] Vehicle costs (which account for around 5% of total costs) have fallen even in nominal terms (as measured by the ABS's CPI subgroup, CPI-Motor vehicles).[130]

Some submissions considered we should measure the changes in costs using the historical TCIs, which applied inflators to each of the cost components.[131] The TCIs are estimates of the changes to taxi costs from year to year. As explained in Chapter 2, we stopped measuring costs using the TCI in 2012 because we did not think it accurately captured the actual change in costs (even without licence lease costs included).

Apart from LPG, where the inflator was based on data provided by FUELtrac, the inflators were external published indices which we used as proxies for industry data because they were public and verifiable. As we stated in our final fares report in 2012, we had concerns about the accuracy of the labour cost inflator (WPI)[132] and the inflator for insurance costs. The TCI also included licence lease costs, which is a measure of economic rent. This is why it is now captured in our model as an output, rather than a cost input.

Insurance costs

Insurance costs (CTP, comprehensive and worker's compensation) represent 11% of total costs of providing taxi services. Some stakeholders submitted that insurance costs in general have been increasing for taxis at greater than the rate of inflation.[133] We agree that total costs of insurance have undoubtedly been growing in real terms, and this is accounted for in our estimate that costs are likely to change by CPI overall.

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129 Victorian Taxi Industry Inquiry draft report, pp 280, 284. These labour cost changes may not be comparable to Sydney because the driver requirements are more stringent in Sydney (for example, there is a requirement to have held a NSW drivers licence for one year – there is no corresponding requirement for Victoria).

130 ABS, 6401.0 - Consumer Price Index, Australia, Dec 2013, Sydney, Series ID A3599826L.

131 NSW Taxi Council submission on draft report, 7 February 2014, p 36; Cabcharge submission on draft report, 31 January 2014, p 10.

132 IPART, *2012 Review of taxi fares in NSW – Maximum fares from July 2012,* June 2012, p 35.

133 NSW Taxi Council submission on draft report, 7 February 2014, p 35.

3 submissions refer to large increases in compulsory third party (CTP) green slips for taxis.[134] The NSWTDA submitted that CTP will increase from $5400 to $6300 in March (a 17% increase).[135]

CTP has increased at significantly more than the rate of inflation over the 3 years since our 2011 taxi driver and operator cost survey (at approximately 12% pa). However it only accounts for around a third of total insurance costs, or 3.5% of total costs.[136] We obtained quotes from 2 taxi insurance brokers[137] for the remaining two thirds of insurance costs, comprehensive taxi insurance and worker's compensation insurance. For 2014 and these appear to have been stable or declining.

Fuel costs

4 submissions noted a recent LPG price spike, and submitted that LPG price spikes disadvantage drivers (who pay for LPG).[138] Cabcharge submitted that LPG rose by 20% in December alone.[139]

Fuel prices are both volatile (change rapidly and may increase or decrease in the short term) and cyclical (tend to be higher at certain predictable times of the year, and lower at others). We obtain monthly data from FUELtrac about average daily fuel prices in 33 cities and towns across NSW to track movements in LPG prices. Figure 6.3 shows the pattern of urban LPG prices over the past 6 years.

A 20% rise in one month is therefore not inconsistent with a much smaller average increase over a longer period. The change in fuel costs is also highly dependent on the period measured. For example, the annual change in fuel costs over:[140]

- the 4 years to January was 11%, compared to 8% for the 6 years to November
- the 6 years to January was 4%, and 4% for the 6 years to November.

The change in fuel prices for the 6 months between August 2013 and January 2014, compared to the same 6 months to January 2013, was 12%.

We agree with submissions that fluctuations in the price of LPG can have a significant effect on the cash flow of drivers in the short term.

134 Cabcharge submission on our draft report, 31 January 2014, p 11; NSWTDA submission on draft report, 31 January 2014, unnumbered pages; NSW Taxi Council submission on draft report, 7 February 2014, p 35.

135 SWTDA submission on, 31 January 2014, unnumbered pages.

136 The CIE, *Reweighting of the Taxi Cost Index – final report*, April 2012, p 49.

137 CabSure and TaxiCare.

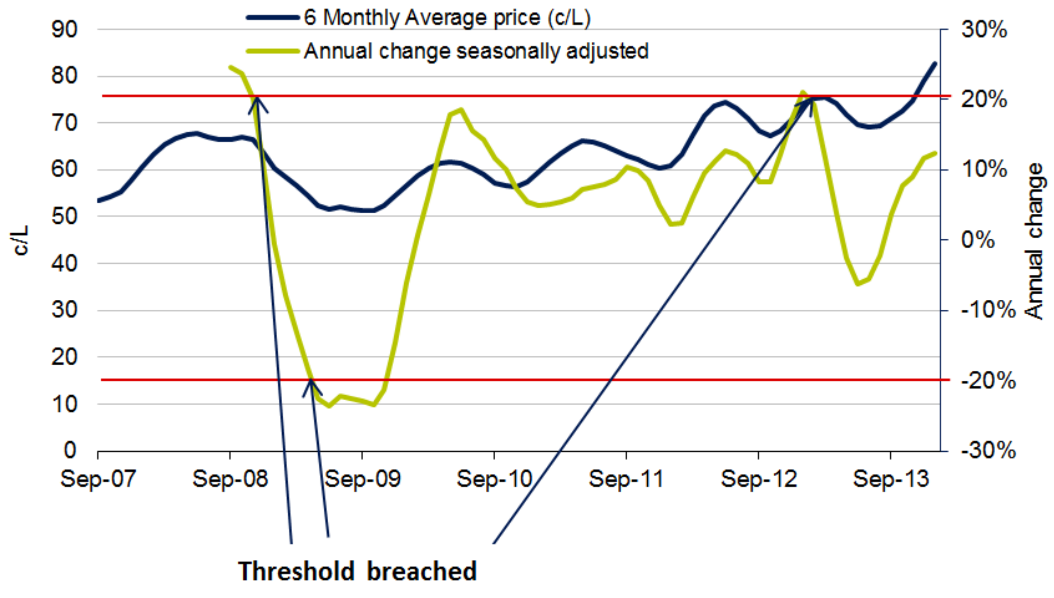
138 Anonymous submission on draft report, 29 December 2013, p 1; Cabcharge submission on draft report, 31 January 2014, p 11; ATDA submission on draft report, 26 January 2014, p 5; M Burrage submission on draft report, 30 January 2014, unnumbered pages.

139 Cabcharge submission on draft report, 31 January 2014, p 11.

140 FUELtrac data.

Our final decision is the same as our draft decision, that we will review LPG prices on an ongoing basis outside the regular fare review cycle. We will recommend fare changes to reflect the change in fuel costs at any time that the average LPG price over 6 months changes by more than 20% (up or down) compared to the same 6 months the year before (to avoid capturing seasonality effects). We will recommend that fares change by the proportion of LPG to total costs (as measured in our 2013 fare review at 11%). So, for example, if LPG costs rise by 25% we will recommend that fares be increased by 2.75% (plus the cost of making the meter change).

Figure 6.3 Historical changes in urban LPG fuel prices



Data source: FUELtrac.

Because of the administrative costs involved with fare changes (including meter changes and printing and distributing new fare stickers), if the 20% threshold is triggered and IPART recommends a fare change, we will not make further fare recommendations to reflect LPG changes for another 6 months.

The NSW Taxi Council submitted that isolating LPG for consideration is discriminatory against operators and sought a return to calculating all costs per the TCIs.[141] We are recommending tracking LPG costs because, unlike other costs, they are particularly volatile and are borne directly by drivers. Drivers' take home earnings would be affected by this volatility if they cannot negotiate a lower pay-in with operators in response to spiking LPG prices in the short term.

141 NSW Taxi Council submission on issues paper, 18 November 2013, p 5.

This is a slightly different mechanism to the existing 'mid year fuel review' that we have conducted in previous years, because the timing of our fare recommendations has changed. Previously, IPART would give our final recommendations to TfNSW on fares one month before fares were due to increase in July, which would account for the annual change in LPG costs to April. Then, in the following December, we would measure the change in LPG prices for the 6 months between May and October and if we found they had changed by more than 20% we would recommend an additional fare change to apply from January. However, because we have now been asked to make our final recommendations 5 months in advance of the July fare change, we have reconsidered the way we undertake this process.

Driver labour

Cabcharge submitted that an advantage of the TCI is that it provides a fair way of increasing nominal driver remuneration, because historically it used WPI for the change in labour costs.[142]

However, because we have no control over the allocation of fares between participants in the industry, in practice any surplus revenue was captured by the licence owners rather than drivers. This has made WPI a poor proxy for the changes in driver labour. Inflating the driver cost component by WPI because taxi drivers 'should' get that increase does not mean that drivers **will** get that increase – it just provides more surplus to be captured by licence owners.

Similarly, using CPI as the forecast change in costs does not mean that driver and operator earnings cannot rise in real terms. For example, if the supply of labour falls relative to the demand for taxi drivers, operators may need to lower the pay-in to attract drivers (which would mean that drivers would keep more of the fare revenue).

If there were a step-change to driver earnings, we would review the cost forecast in the taxi industry model.

Our proposed repeat of the 2011 taxi driver and operator cost survey towards the end of 2014 should also provide data about changes to driver and operator earnings, which will assist us to review our long-term cost estimates.

142 Cabcharge submission on draft report, 31 January 2014, p 10.

6.4 Costs and the timing of our fare recommendations

Cabcharge considers that our recommendations on fares should occur close to the time at which the changes will be implemented to ensure that adjustments reflect the most up to date information on costs.[143] Cabcharge is concerned that there may be considerable cost increases between the end of February (when the final report is provided to Government) and July when prices change, and then these will not be accounted for in our fare recommendation. While we acknowledge that there is potentially a delay of several months between new fares being recommended and being implemented, we do not think that this is of concern:

- As explained in Chapter 10, we consider that it is crucial that the fares are known in advance of the annual licence tenders, so that bidders have the best information available to make revenue forecasts on which to submit their bids.
- Although our recommendations are made in a 5-year context, we make annual recommendations on licence numbers and fares. If costs rise faster than inflation, licence lease costs would reduce slightly faster than forecast. In this case, we would be able to recommend a lower number of licences to be released in coming years, so that over the 5-year period the impact on licence lease costs is not unreasonable.

143 Cabcharge submission on draft report, 31 January 2014, p 12.

7 Are taxis meeting the needs of customers?

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

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

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

- the key performance indicators provided by the taxi networks, which relate to booked trips, and
- TfNSW's index of passenger satisfaction, which is based on the results of a survey that asks people to rate their level of satisfaction with 38 different service characteristics that are not based on network standards and KPIs.

The evidence indicates that although there are some affordability concerns with taxi travel, taxi services are largely meeting the expectations of most customers. Performance in relation to waiting times has been relatively stable since the 2009 licence reforms, and the network KPI data shows small improvements in relation to booked trips. As apps allow drivers and passengers to be better connected, services for passengers should continue to improve.

We consider that steadily improving taxi services provides support for continuing our approach to recommending licences and fares.

7.1 The performance of existing taxi services

The number of taxis on the road is one of the key factors that will determine the time it will take for customers to catch a taxi. We agree with stakeholders that there are other factors that will also influence this such as traffic conditions, adequate kerb space for stopping, and individual driver behaviour (such as accepting bookings, and then later deciding not to honour the booking or 'recalling' it).[144] However, this does not mean that waiting time is not a good indicator of adequate supply. Clear trends showing increasing waiting times, or increasing numbers of bookings where there is 'no car available' to complete the job, are likely to indicate that a substantial number of additional taxi licences are required.

Our recommendations have been made in the context of 25% real reductions in licence lease costs over 5 years. Because the performance of taxi services has been reasonably consistent over the past few years, we have made our recommendations for 2014/15 on the basis of equal instalments of licences in each of the next 4 years (which will be reconsidered each year to account for any new information). If the performance data indicated a material deterioration in waiting times, we may have been inclined to "front-load" our recommendations so that a higher number of licences were released this year, compared to in the later years of the 5-year envelope.

One of the problems with the Sydney Taxi Growth Model (STGM) was that an improvement in performance was captured in the formula as a negative growth factor for new licences. This meant that if more licences were released one year, and then performance subsequently improved, rather than continuing to improve performance through continuing to release more licences, the rate of release was slowed. We consider that it is better to encourage performance improvements to continue, rather than the preserving the status quo.[145]

7.2 Reliability and waiting times

It is clear that customers value short waiting times. Around 30% of taxi users in our survey said that their main reason for catching a taxi is because it was quicker (or more direct) than other options.[146]

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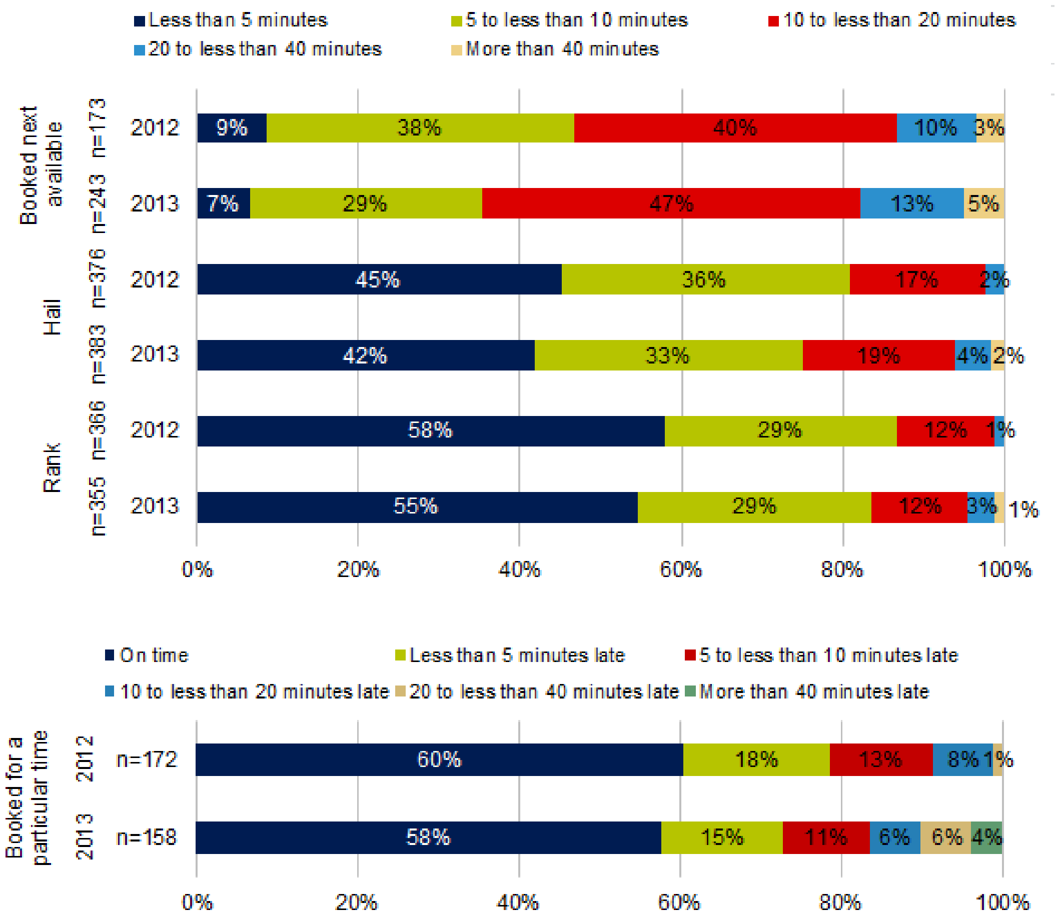
144 NSW Taxi Council submission on draft report, 7 February 2014, p 25. Also T Hirsch submission on issues paper, 18 November 2013, pp13-17 and anonymous submission on draft report, 29 December 2013, p 1.

145 For a more in-depth discussion of the STGM see IPART, *Annual taxi licence release for Sydney 2013/14, Final Report*, Chapter 3.

146 Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 72.

Figure 7.1 Time for taxi to arrive by how taxi is obtained



Data source: Taverner survey data.

Figure 7.1 shows that in 2013:

- of the respondents in the taxi survey that took their most recent taxi trip from a rank or by hailing one, around 80% were able to catch one within 10 minutes[147]
- around 85% of taxis arrived within 10 minutes of the specified pick-up time, when taxis were booked for a particular time[148]
- more than 80% of respondents who booked their last journey were able to get a taxi within 20 minutes.[149]

147 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 24, Taverner survey data.
148 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 25, Taverner survey data.
149 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 24, Taverner survey data.

Our survey results on waiting time are reasonably consistent with the survey conducted by TfNSW that found that 83% of passengers were satisfied with the availability of taxi services.[150] However, as discussed in Chapter 5, for the people who did not catch a taxi, either on particular occasions, or at any time in the last 6 months, waiting time was one of the reasons why.

Taxi network performance data

Taxi networks report to TfNSW against a range of key performance indicators. These KPIs relate to booked trips, which account for 20 to 30% of all trips.[151]

The 2013 data shows a general aggregate improvement compared to 2012 in the:

- average pick up time of passengers, which is now around 6 minutes
- bookings where either no car was available to fulfil the booking or the passenger was not there when the taxi arrived, that is, bookings where a customer wasn't picked up.

Appendix E contains a summary of the performance data provided to us by TfNSW.

The NSW Taxi Council submitted that network performance data is required "to gain a proper picture of performance."[152] We agree that the network KPIs are a useful indicator of performance and we take these into account when making our decisions. However, this data also has limitations, which include:

- It relates only to journeys booked through a network which are only around 20% to 30% of all taxi trips taken. Therefore, it does not provide a full picture of customer experience for those taking a taxi.
- It does not provide information about some things that we consider to be very important to the task we are required to undertake (for example, why a person who considered taking a taxi, in the end did not take one).
- The networks' call management strategy can influence how KPIs are recorded.[153]
- The data is aggregated. Therefore we can judge neither the performance across the week, for example during peak periods, nor the variation in service performance.

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150 TfNSW, Customer Satisfaction Index Appendix 2013, released 20 November 2013.

151 In the CIE's 2012 survey of driver and operator costs, drivers estimated, on average, that 20% of trips were booked (IPART analysis of survey data). 29% of respondents to the Taverner survey booked their trip through a network (25% by phone and 4% on the internet) (Taverner Research, Survey of taxi use in Sydney, November 2013, p 23).

152 NSW Taxi Council submission on draft report, 7 February 2014, p 25.

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

In our view, we should consider or seek out all sources of information, especially when they provide insights about the taxi industry which other data does not. In line with this view, we are recommending TfNSW and RMS collect a larger data set which would include information about individual trips, similar to the information collected by the Taxi Services Commission in Victoria (see section 4.3).

7.3 Affordability of taxi services

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

Our passenger survey found that around 80% of taxi users do not consider that taxis offered good value for money overall,[154] but half of the taxi users were satisfied with the fare for their most recent journey.[155] TfNSW's 2013 customer satisfaction survey showed a higher rate of satisfaction for the cost of services, with 61% of respondents mildly to very satisfied.[156] However, the level of dissatisfaction with cost was the highest out of the 38 indicators surveyed and significantly higher than the next highest.[157]

As shown in Chapter 2, Sydney fares rose by more than CPI and WPI in the ten years to 2012. Sydney taxi fares are currently amongst the most expensive in Australia. For any trip – long or short, booked or hailed, weekday or weekend - Sydney taxis are either the most expensive or second most expensive of any Australian capital city.[158] Only Canberra, for unbooked short trips during the week, and Perth, for short late-night weekend trips, are more expensive when like is compared with like. Figure 7.2 shows the price for an indicative journey (a 7 km booked fare on a weekday tariff) in Australian capital cities.

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154 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 79.

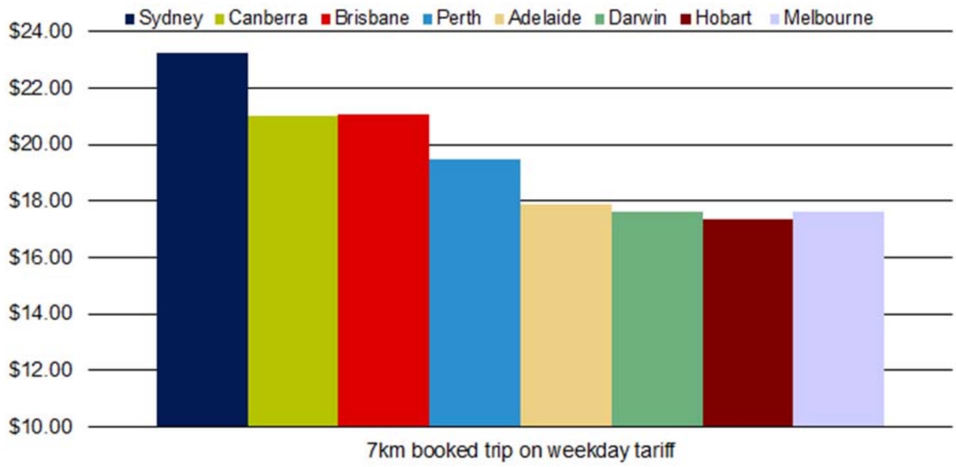
155 Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 65.

156 TfNSW, Customer Satisfaction Index Appendix 2013, released 20 November 2013.

157 The second highest indicator on which passengers were dissatisfied was the comfort at taxi ranks where 20% were dissatisfied. On all other indicators the level of dissatisfaction was below 15%. The overall level of dissatisfaction with taxi services in Sydney was 10%.

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

Figure 7.2 Taxi fares in Australian capital cities for an indicative journey (nominal $2014)



Note: This assumes that taxi trips in each city spend the same amount of time on the waiting time and distance rate per kilometre travelled. For this analysis we have assumed that 84% of the total trip is charged on the distance rate and that while on the waiting rate a taxi travels at 13km/h on average.

Data source: IPART calculations, http://www.rego.act.gov.au/aboutus/publictaxifares.htm, http://translink.com.au/tickets-and-fares/fares/taxi-fares, http://www.transport.wa.gov.au/taxis/15154.asp, http://www.taxicouncilsa.com.au/PDF/fares.pdf, http://www.transport.nt.gov.au/__data/assets/pdf_file/0015/31290/DWN-Standard-Tarrif-Dec-2012.pdf, http://www.transport.tas.gov.au/miscellaneous/understanding_taxis_and_luxury_hire_cars, http://www.taxi.vic.gov.au/passengers/taxi-passengers/taxi-fares

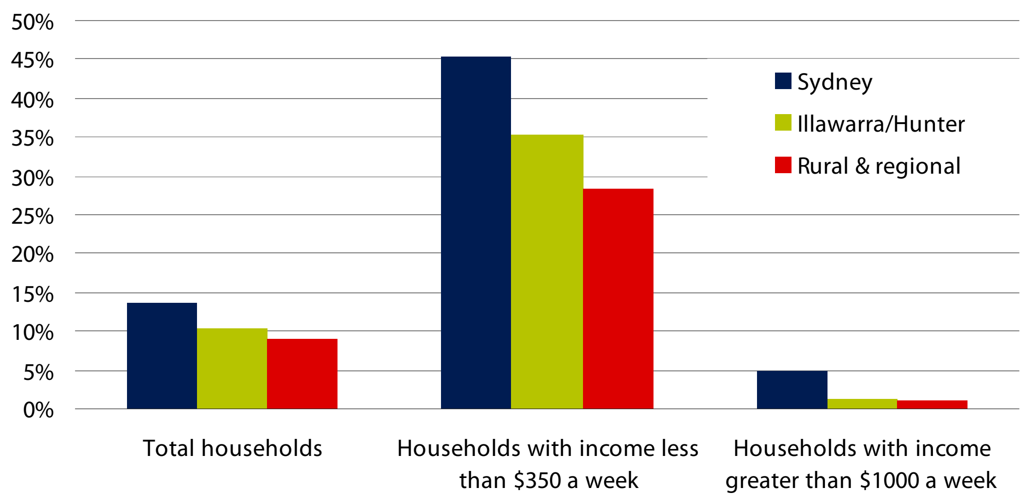
The impact of high fares is more likely to be felt by customers with limited transport options and low incomes. A survey of household expenditure by the ABS confirms that while those in the highest income quintile spend proportionately more of their expenditure on taxis than other groups, those in the lowest income quintile spend the second highest proportion.[159] These findings are supported by census data, which indicates that the proportion of low income households that do not have access to a motor vehicle, and hence are likely to have fewer transport alternatives, is significant (Figure 7.3).

Our taxi passenger survey showed that household income is one of the factors that affect taxi use. Figure 7.4 shows that the proportion of people who caught a taxi in the last 6 months increases with income from 41% of those with incomes under $20,000 pa to 77% of those with incomes of $180,000 pa or more. As incomes increase, the percentage reporting use at least once a week also rises.

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

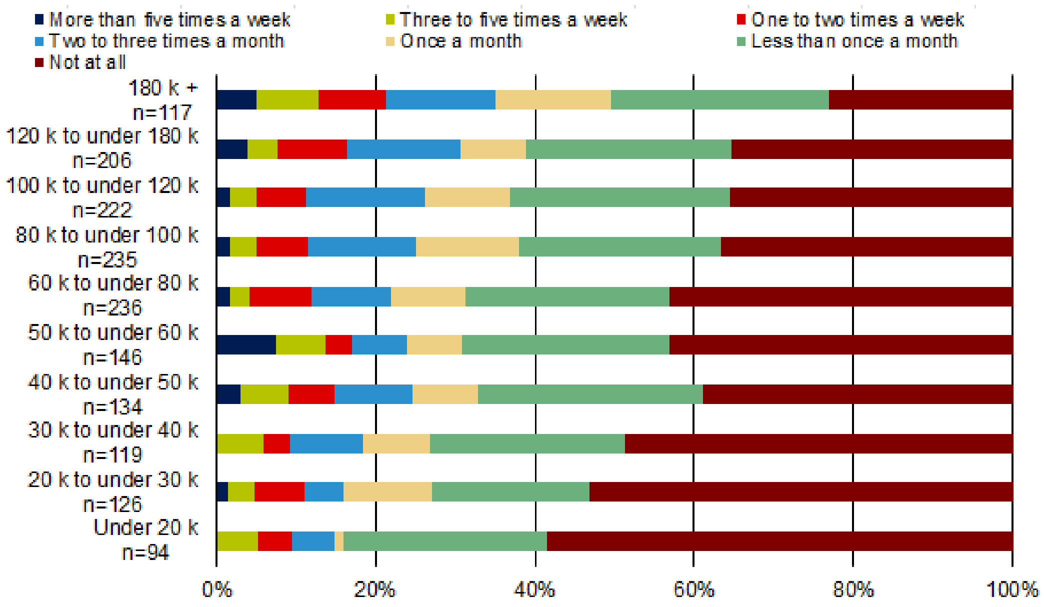
However, the 10% of people surveyed with a disability were significantly more likely than those without a disability to use a taxi 5 or more times a week (7% compared to 2%). Amongst those eligible for the taxi subsidy scheme, 28% used taxis at least 5 times a week, and 52% used taxis at least once a week.

Figure 7.3 Households without access to a motor vehicle (%)



Data source: ABS, 2006 census.

Figure 7.4 Taxi use by income



Data source: Taverner survey data.

8 Expected outcomes of our recommendations

Our terms of reference require us to consider objectives which are outcomes of our recommendations about licence numbers and fare levels, including:

- balancing more affordable entry to the taxi market with avoiding unreasonable impacts on existing licence holders
- reducing barriers to entry to the taxi market and encouraging competition
- the viability and sustainability of the taxi industry
- placing downward pressure on fares
- ensuring improved taxi-cab services
- the need to maintain ecologically sustainable development
- the effect of any pricing recommendation on the level of Government funding.

We forecast that our recommendation on licence numbers and fares would result in a 25% real reduction in licence lease values. Chapter 4 set out our views that this is an appropriate balance between improved affordability of entry and impacts on existing licence holders that are not unreasonable. Chapter 4 also explained that the taxi industry would continue to be viable and sustainable under this approach.

However, there are numerous combinations of licences and fares which would have the same impact on licence lease values, but different outcomes for taxi occupancy, total trips taken, fare affordability and passenger waiting times, and potentially different transitional impacts on drivers and operators. In our issues paper we considered a range of options, from small nominal reductions to fares and a lower number of licences, to fares increasing in line with CPI and more licences.

Releasing some licences as PALs rather than unrestricted licences also has different outcomes.

Deciding on a particular combination of unrestricted licences, PALs and fares requires making trade-offs between these outcomes.

Given the objectives in our terms of reference and the comments we received from stakeholders, this chapter explains why we are recommending the particular combination of 150 unrestricted licences and 40 PALs and fares remaining at current nominal levels.

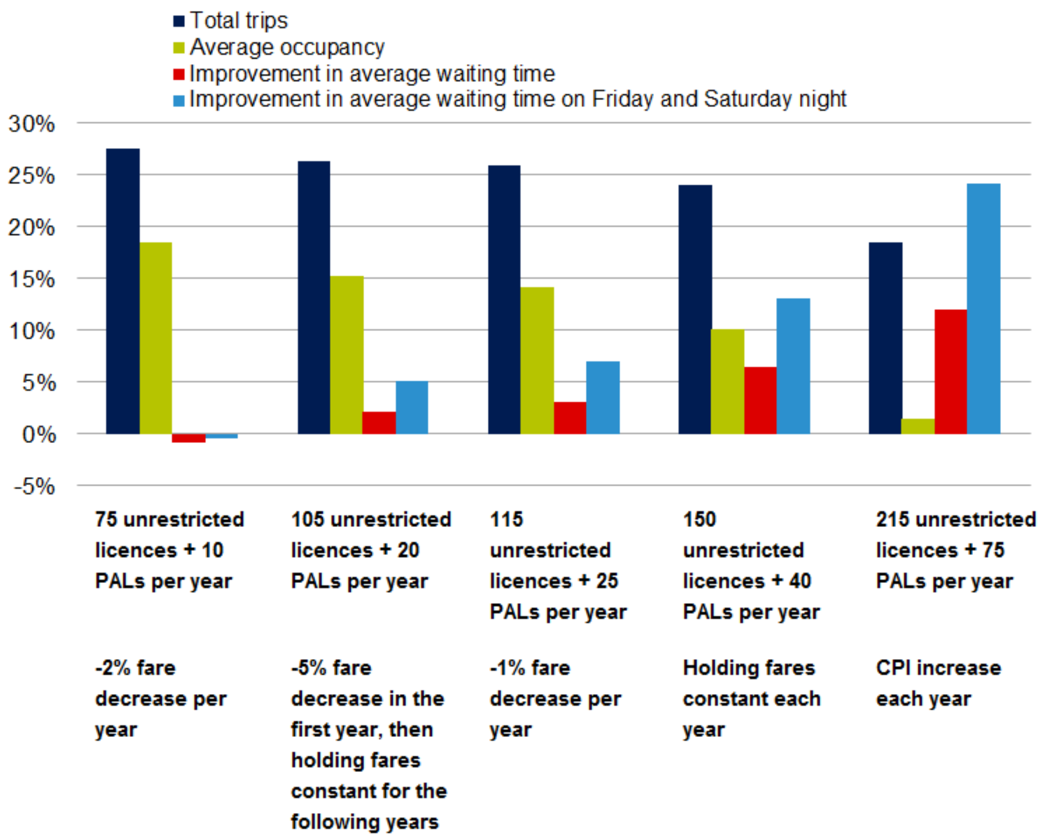
8.1 The trade-offs between more licences and lower fares

There are trade-offs between more licences and lower fares:

- lower fares and fewer licences improve affordability, increase total number of trips, and improve occupancy or efficiency
- more licences and higher fares result in lower waiting times for customers, more opportunity for existing operators to manage their costs by bidding for a new licence, and greater ease of entry into the industry for new operators by bidding for new licences, and a better bargaining position for drivers.

Figure 8.1 shows the outcomes of different licence and fare combinations between 2012/13 and 2017/18. Our modelling assumes fares remain frozen, and the same number of licences is released for each of the next 4 years (and accounts for the 250 PALs released last year and the addition of the night time surcharge, while other fare components were held constant). We make assumptions about future licence releases and future fares to model over a 5-year period, but licence number and fare decisions may vary from our assumptions, as they will be reviewed each year.

Figure 8.1 Outcomes for different licence and fare scenarios between 2012/13 and 2017/18 with a 25% reduction in licence lease costs in equilibrium



Data source: Taxi industry model.

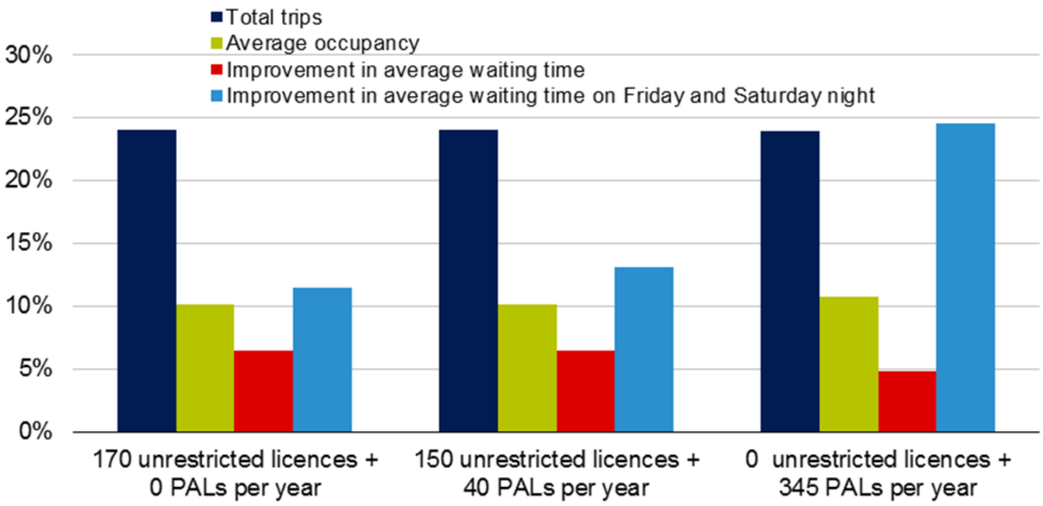
8.2 The trade-offs between unrestricted licences and PALs

Unrestricted licences allow operators to make their own decisions on the best way to use their licences, as would be the case in an efficient market.

However, the high fixed costs of providing taxi services (the largest being the licence lease cost) mean that part-time operation is not currently viable for those with unrestricted licences. Releasing some licences as PALs provides a better match of supply and demand while we transition to lower unrestricted licence values, which would ultimately allow operators of unrestricted licences greater flexibility about when the taxi is on the road.

Figure 8.2 shows the different outcomes of releasing unrestricted licences and PALs for a given fare level and licence lease impacts (we use constant fares, and a 25% reduction in licence lease costs for illustration). PALs do not dilute revenue in morning shifts, so more PALs can be released for the same real reduction in licence lease costs. PALs also give significantly larger improvement in waiting times on Friday and Saturday nights, and slightly lower average waiting times throughout the week.

Figure 8.2 Comparison of average and peak waiting times under different mixes of PALs and unrestricted licences



Data source: IPART modelling.

PALs also provide operators an opportunity to run a different business model. Rather than put their taxis on the road for as many shifts as possible a PAL allows operators to single shift their taxis when demand is the highest between midday and 5 am. This means that PALs provide an opportunity for drivers to operate their own taxi without the need to arrange other drivers.

But there is a balance between these benefits and bringing down the cost of unrestricted licences so that the market can begin to operate more efficiently on its own. Enough unrestricted licences need to be released to lower licence costs for operators of unrestricted taxis.

8.3 Assessing the trade-offs and making recommendations

Stakeholders had a variety of views about how to assess the trade-offs. NCOSS commented that affordability should be the primary goal of our review,[160] and former Victorian Taxi Industry Inquiry Commissioner David Cousins noted that the evidence in Sydney suggests that consumers have significant concerns about the level of taxi fares.[161] Several stakeholders also thought that IPART's recommendations should focus on improving the efficiency or occupancy rates of each taxi. These stakeholders considered that lower fares should be prioritised over more licences.

We also considered that we should give weight to minimising transitional impacts on drivers and operators.

Most submissions supported releasing unrestricted licences, and said that no more PALs should be released.[162] However, the NSW Taxi Council considered all growth licences should be PALs.[163]

The following sections explain how we balanced stakeholders' preferences for more affordable taxi services, and increasing occupancy, with improving the opportunity for existing operators to manage their costs by bidding for new licences and greater access to the industry for new operators, ensuring that waiting times do not deteriorate in peak times, and putting upward pressure on driver earnings.

8.3.1 Our recommendation should minimise transition impacts by lowering licence lease costs faster

In each of the scenarios in Figure 8.1, costs rise faster than revenue, resulting in a 25% reduction in economic rent per taxi. As explained above, the licence lease costs would be lower when the market has fully adjusted to our recommendations, but in the shorter term reduction in revenue could be shared by drivers and operators.

One of the main reasons that we have prioritised a higher number of licences over a nominal fare reduction is so the market adjusts licence costs downwards more quickly. More annual licences would allow more operators who are currently leasing perpetual licences to bid for an annual licence at a lower price to manage their costs. This would encourage licence holders to reduce their licence lease prices, in order to remain competitive with annual licences, and retain an operator for their licence. This would mean that there is greater

160 NCOSS submission on issues paper, 14 November 2013, p 2.

161 D Cousins submission on Issues Paper, 10 November 2013, p 2.

162 For example, D Cousins submission on Issues Paper, 10 November 2013, p 3, ATDA submission on issues paper, p 3, NSWTDA submission on draft report, 31 January 2014, unnumbered pages.

163 NSW Taxi Council submission on draft report, 7 February 2014, p 9.

downward pressure on lease prices to fall faster, reducing the transitional impacts on drivers and operators.

We have prioritised unrestricted licences over PALs for the same reason. TfNSW did not release any unrestricted growth licences in 2013/14 but issued 250 growth PALs. As noted in Chapter 2 there were more than 500 bids for the 65 unrestricted licences (which were issued as an attrition allowance), and the average price for unrestricted licences rose compared to the previous year. Therefore, this year we are recommending that the majority of growth licences should be unrestricted licences. This would provide greater opportunity for operators to get a cheaper unrestricted licence, and therefore put more downward pressure on licence lease prices.

While we recommend that unrestricted licences should be prioritised, the release of a small proportion of PALs would provide operators and drivers with a more affordable option to enter the market. As shown in Chapter 2, in the 2013 tender, most operators were able to successfully bid for a PAL for a third less than the price of an unrestricted licence (reflecting their reduced opportunity to generate revenue – in practice they operate up to 7 shifts a week instead of 14).

8.3.2 Our recommendation would improve waiting times

More licences would also ensure that waiting times do not deteriorate, especially in peak times. Around 30% of taxi users in our survey said that their main reason for catching a taxi is because it was quicker (or more direct) than other options.[164] As a result, it is clear that customers value short waiting times.

As mentioned in Chapter 7, around 80% of customers can get a taxi within a reasonable time, and 40% to 60% of people who caught their last taxi at a rank or by hailing were able to catch a taxi within 5 minutes. However, in the last 6 months, around 15% of taxi users tried to catch a taxi, and in the end did not because either a booked taxi did not arrive, or because it was taking too long to hail a taxi or take one from a rank. Similarly around 30% of taxi users decided not to catch a taxi at least once in the last 6 months because they thought it might take too long, including half that were not sure if it would turn up in a reasonable period of time if they booked a taxi.[165]

Of the 682 passengers surveyed who didn't even consider catching a cab in the last 6 months, almost 25% said the reason why they didn't consider catching a taxi was because they thought the waiting times would be too long, or they were worried that a taxi would not show up after they booked one.[166]

164 Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 72.
165 Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, pp 51-52.
166 Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 80.

In equilibrium, we expect our recommendations to improve waiting times by an average of 6% throughout the week, and for Friday and Saturday night waiting times in particular to improve by an average 13%. At the busiest times within these shifts, waiting times are likely to improve by significantly more than this.

8.3.3 Our recommendation would put greater upward pressure on driver earnings

We explained in Chapter 2 that our review will have limited impacts on driver earnings because we do not set the proportion of fare revenue that drivers take home. Instead, earnings are set by the market based on the demand and supply of labour.

However, increasing the number of taxis on the road would increase the demand for driver labour, improving the bargaining position of drivers. This would make it more likely that operators would discount their pay-ins (so drivers keep a higher proportion of revenue) to retain or attract a driver. If a driver's usual operator does not reduce their pay-ins, there would be an improved opportunity for the driver to negotiate a better deal elsewhere. Therefore, we do not agree with the NSW Taxi Council's submission that IPART is recommending a 10% pay cut for drivers.[167]

8.3.4 Our recommendation would improve affordability

As explained in Chapter 2, between 2000 and 2012 taxi fare increases outstripped the general rate of inflation (CPI) and the rise in wages (WPI). This meant that taxi services became less affordable relative to other goods and services, and Sydney's taxi fares are the most expensive in Australia.

The results of our passenger survey, undertaken by Taverner,[168] and by TfNSW's passenger survey[169] indicate that the level of fares is of greater concern to passengers than other factors, including waiting times. This means the cost of taxi travel is stopping people from using taxis as much as they would like to. The impact of this is more likely to be felt by customers with limited transport options and low incomes. The results of the 2 surveys are discussed in more detail in Chapters 5 and 7.

For our draft report, we considered whether to recommend a one-off 5% reduction (nominal) from current fare levels, and a smaller number of licences. This was similar to the more gradual approach in our issues paper, which reduced fares by 1% (nominal) per year. These options are shown above in Figure 8.1.

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167 NSW Taxi Council submission on draft report, 7 February, p 9.

168 Taverner Research, *Survey of taxi use in Sydney*, November 2013.

169 TfNSW, *Customer Satisfaction Index Appendix 2013*, released 20 November 2013.

Although we have prioritised releasing more licences over nominal fare reductions, our recommendations to freeze fares would mean this is the second year that fares would be frozen (except for the $2.50 surcharge that was added in 2013 on Friday and Saturday nights). Fares from July 2014 would be around 3.5% lower in real terms than they were 2 years ago, making taxi fares more affordable as the prices of other things increase. If we continue to recommend fare freezes in future reviews, they would be 10.5% lower in real terms by 2017/18.

8.3.5 Our recommendation would improve occupancy rates

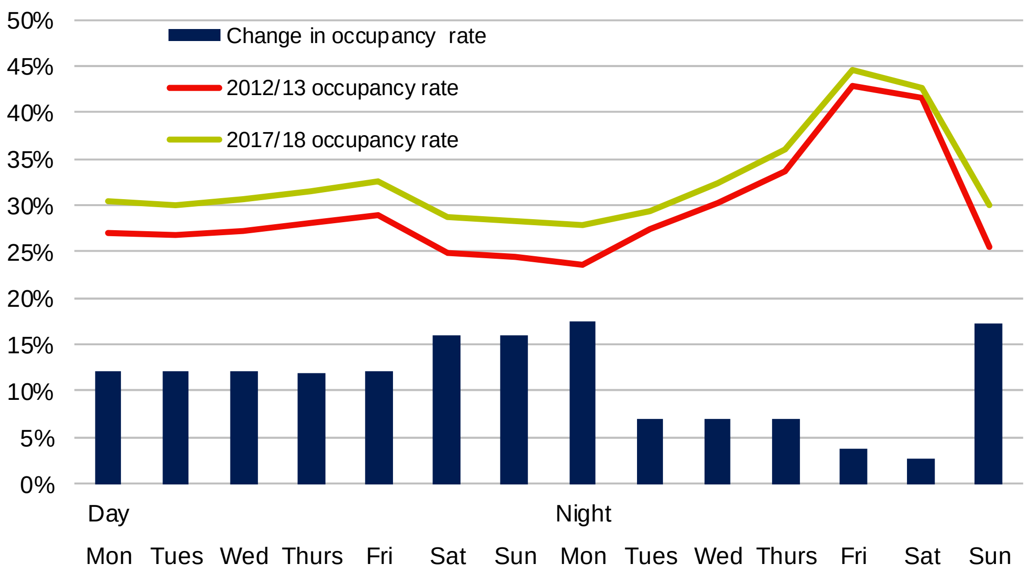
We expect occupancy rates would increase by an average of 3% to 18% per shift, resulting in an average improvement in occupancy of 10% across the week. This assumes a fare freeze combined with releasing annual licences at the same rate is maintained to 2017/18.

Occupancy would improve primarily because of demand growth. We expect from 2011/12, the total number of trips would increase by 24% by 2017/18, as a result of growth in population, household and business income, economic activity and tourism, and in response to falling real fares and waiting times.

Holding fares constant in nominal terms would mean they become relatively cheaper as the prices of other things increase. As mentioned in Chapter 2, we have assumed that for every 1% real fare decrease, demand should increase by 0.8%. Our recommendations result in a 2.5% real fare reduction. Assuming that fares are held constant for the next 4 years, between 2012/13 and 2017/18, around 8.5% of the increase in demand would be attributable to falling real fares. Some additional demand would occur as the time taken to catch a taxi is reduced as more taxis are put on the road.

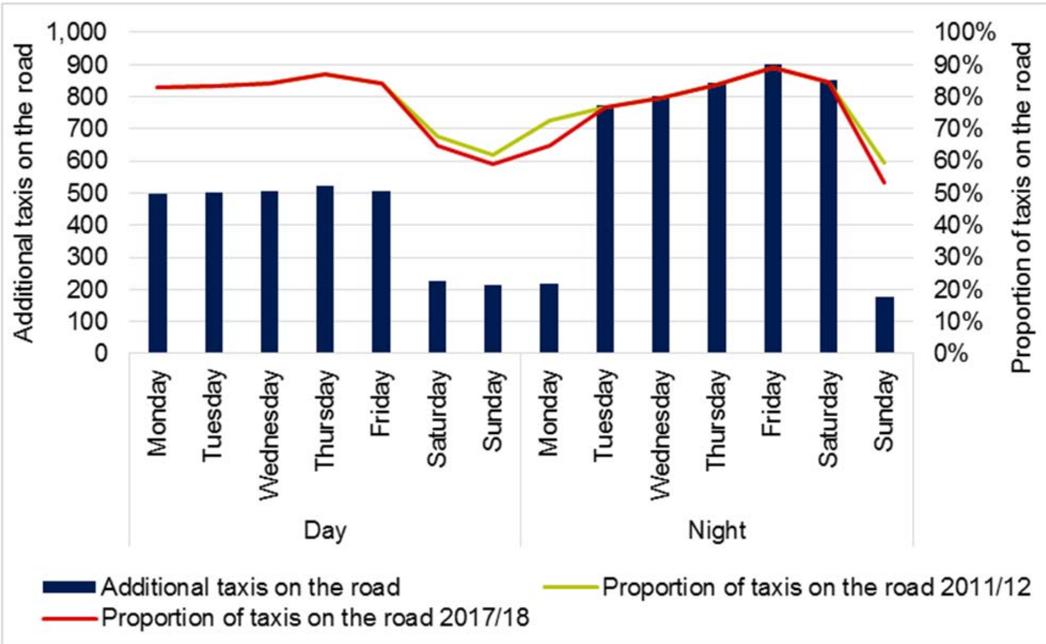
Figure 8.3 shows that day shifts would have a higher growth in occupancy rates because if the same number of plates are put out each year that we are recommending for 2014/15 until 2017/18, there would only be 600 additional taxis for these shifts, compared to 1000 for night shifts (because we are recommending around 20% of licences to be released as PALs, and 250 growth PALs were released in 2013/14). However the occupancy rates would still be highest on Thursday to Saturday nights when demand is the highest. Figure 8.4 shows how many more taxis would be on the road for each shift.

Figure 8.3 Change in occupancy rates as a result of our recommendation



Data source: Taxi industry model.

Figure 8.4 Change in taxis on the road by 2017/18



Data source: Taxi model.

Submissions considered that improving occupancy would increase efficiency, increasing revenue per taxi, and improve driver earnings.[170]

We agree that improving occupancy would increase the efficiency of taxi services, however under our scenarios, net revenue would not increase. This is because our scenarios make entry into the taxi industry more affordable by reducing licence lease costs by 25% over 5 years in equilibrium. If we had adopted a scenario where occupancy rates increased by more, fares would have fallen in nominal terms - offsetting any increases in net revenue from higher occupancy.

The scenarios with higher occupancy rates have a lower number of new growth taxis. These scenarios would put less upward pressure on driver earnings, because the demand for taxi drivers would not increase as much.

8.4 Other impacts we considered

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

8.4.1 Implications for the environment

While our terms of reference require us to consider the need to maintain ecologically sustainable development, we consider that there is limited scope to further this objective through our fare or licence recommendations. We expect our recommendations would not have a significant impact on the environment. Taxi trips are currently a very small proportion of total trips.[171] As a result, the impact of our recommendations on pollution and congestion is likely to be small.

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170 ATDA submission on draft report, 26 January 2014, p 2.

171 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 (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).

8.4.2 Implications for NSW Government funding

Our terms of reference require us to consider the impacts of our fare recommendations on the level of Government funding. 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.[172]

The Government subsidises these customers up to 50% of the fare, for up to $30 per trip. In 2012/13, $25.9 million was paid in subsidies to more than 67,500 people registered for the scheme.[173]

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

172 See http://www.transport.nsw.gov.au/ttss for details about the scheme.
173 TfNSW, *Annual Report 2012/13*, p 55.

9 Replacing licences and making allowances for future attrition and wheelchair accessible taxi (WAT) licences

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

Our recommendations are for the stock of licences to increase by 150 new unrestricted licence and 40 PALs, so we need to make an adjustment to account for the licences that we expect to be handed back or not renewed during 2014.

We are making this adjustment in advance for how many licences we expect to be relinquished (based on the number of licences relinquished last year); actual numbers of relinquishments or non-renewals may differ. In order to maintain the existing stock of licences at the same level, we have to make a further adjustment to account for any difference between last review's allowance and the actual number of relinquishments and non-renewals during 2013.

In addition, as WAT licences are available on application from TfNSW and they compete for the same work as unrestricted licences, we need to release fewer annual taxi licences through the tender process to account for the WAT licences that we expect to be released outside the tender process. This number also needs to be adjusted to account for any differences between last year's allowance and the actual net number of WAT licences released during 2013.

We are recommending that an additional 100 unrestricted licences and 65 PALs be tendered for future attrition and 30 unrestricted licences and 35 PALs added for historical replacement. We also recommend that 13 unrestricted licences be subtracted to account for WATs released outside the tender process.

This chapter explains in more detail how we reached those recommendations. The analysis and the conclusions are the same as in the draft report, but the final numbers of licences recommended differ from the estimates in the draft report as they are based on updated information from TfNSW.

As we expect annual licence prices to fall over time, the rate at which annual licences are not renewed is likely to increase as more people make use of the annual tender process to try to get a better price for a licence. This chapter also considers what arrangements TfNSW could put in place to assist operators to reduce their costs using this mechanism.

9.1 Additional licences that need to be released

We recommend adjustments to the number of licences offered for tender in order to account for:

- annual licences that we expect will no longer be operated
- the difference between last year's allowance for licences we expected would no longer be operated during 2013 and the actual number relinquished or not renewed since December 2012
- the expected issue of additional WAT licences outside the annual tender process – specifically, we recommend that fewer licences need to be issued through the tender process as a result of additional WAT licences likely to be issued.

9.1.1 Annual licences that we expect will no longer be operated

Every year some annual licences are handed back ('relinquished') or not renewed. There are a number of reasons that a licence holder might hand back a licence, including that they have been successful in obtaining a cheaper licence in a subsequent tender release. We consider that the ability to easily relinquish a licence in favour of a cheaper option is an important feature of the current arrangements.

The *Passenger Transport Act 1990* requires the annual licence renewal price for subsequent years to be equal to the price in the first year, with no scope for a reduction in licence fees to be built in.[174] This means that if annual licence costs are falling rather than rising, as we expect to happen in future years, bidding a lower value in a future tender and handing back the more expensive licence is the only means by which operators can reduce the costs of holding an annual licence from TfNSW.

Licences handed back are no longer in circulation and as a result, some adjustment needs to be made to the number of licences released to ensure that licences lost through attrition do not reduce the number of available licences.

[174] *Passenger Transport Act 1990*, section 32JA (3).

We consider that an adjustment for attrition should be made on a prospective basis. Last year we made an adjustment for attrition during 2013 (70 unrestricted and 30 PALs) based on the number of licences handed back during 2012. TfNSW accepted this adjustment.

We consider that this year's relinquishments are a reasonable guide to next year's. Therefore we are recommending 100 unrestricted licences and 65 PALs in line with the relinquishments between January and December 2013.

Recommendation

3 That 100 additional unrestricted and 65 additional PALs be added to the number of licences to be tendered, to allow for licences we expect to be relinquished and not renewed during 2014.

9.1.2 Adjustment to account for the difference between last year's attrition allowance and actual attrition

When we undertook a review of new annual licences for the first time in 2012/13, we constructed our taxi industry model using 2012/13 as the base year. The number of licences in the base model is the number of valid licences in the Sydney market as at 31 December 2012. Therefore when we undertook the licence review we made an allowance for licences we expected to be relinquished or not renewed during 2013, but we did not make an adjustment for licences that actually were relinquished or not renewed during 2012.

Now that we are in our second year of reviewing licence numbers, we also need to assess how our attrition allowance for 2013 compared to the experience in the market during 2013 and adjust the number of licences to be released accordingly.

As noted above, last year we made an adjustment for attrition during 2013 of 70 unrestricted and 30 PALs.[175] This compares to 100 unrestricted licences and 65 PALs that were actually relinquished. Therefore, we are adding an additional 30 unrestricted licences (because our unrestricted estimate of 70 was 30 less than actual) and 35 additional PALs (because our PAL estimate of 30 was 35 less than actual).

Recommendation

4 That 30 additional unrestricted and 35 additional PALs be added to the number of licences to be tendered, to replace licences relinquished and not renewed during 2013 over the allowance we made for attrition for the same period.

175 IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 1.

9.1.3 Expected release of wheelchair accessible taxi licences and adjustment for actual 2013 outcomes

TfNSW issues WAT licences on application for $1,000 per year[176] (in Sydney; outside Sydney WAT licences are free). Last year we made an adjustment to the modelled number of growth licences to account for WAT licences released during the year, as these are another source of taxis that can substitute for taxis with standard licences. We deducted 0.45 of a licence for each additional WAT, on the assumption that 90% of WAT jobs are standard jobs that could be performed by any taxi, and that a WAT only operates 50% of the time (because WAT licence conditions mean they are usually single-shifted rather than double–shifted).[177]

Last year we subtracted 5 licences from our recommended number of new annual taxi licences to account for the 12 additional WAT licences which we expected to be released outside the tender process.[178]

The NSW Taxi Council has submitted that WATs should be regarded as equivalent to unrestricted licences and a one for one adjustment made.[179] Our taxi industry model treats WATs as equivalent to unrestricted in terms of shift patterns, so we agree that this change makes our treatment of WATs more consistent between the modelling and the licence recommendations.

In 2013, 9 WATs have been issued. Applying the one for one replacement, this is 4 more WATs than our allowance forecast, so we need to subtract 4 as a historical adjustment, and subtract 9 as a future allowance.

Recommendation

5 That 13 unrestricted licences be subtracted from the number of licences to be tendered, to allow for WATs issued outside the tender process in 2013 and expected to be issued outside the tender process in 2014.

9.2 What could be done to help operators relinquish a more expensive licence in favour of a cheaper one?

To date, every tender has resulted in annual unrestricted licences with a higher average (mean) price than leases for perpetual licences available through taxi networks. This suggests that bidders for annual unrestricted licences (which have a fixed annual renewal price which cannot be indexed) have been factoring in an expectation that lease prices would continue to rise. Once it becomes clear

176 TfNSW, *Taxis Background*, 28 March 2013, http://www.transport.nsw.gov.au/content/background

177 This was based on PwC's approach in earlier annual taxi licence reviews. See, for example, *Annual taxi licence release 2012/13 – Final Report*, 15 March 2012, p 71.

178 IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 1.

179 NSW Taxi Council submission, 18 November 2013, p 20.

that the annual licence release process will continue to add new licences to the fleet each year, we expect bidding behaviour to change. We also expect that greater numbers of existing annual licence holders will bid in subsequent licence releases and obtain a licence at a lower annual cost than the one they already hold.

As noted above, we consider that the ability to obtain a cheaper licence in a subsequent tender and relinquish the more expensive licence without interrupting the operation of the taxi service or requiring the licence holder to pay for 2 licences is vital to the success of the 2009 reforms. This process is the only means by which operators can reduce the costs of holding an annual licence from TfNSW. When annual licence costs are falling, as we expect to happen under our recommendations, the smooth operation of this process is very important.

The tender information packages issued each year state:

> Where a licence holder obtains a new licence under a subsequent tender process, RMS will make every reasonable effort to align expiry and commencement dates to allow for continuity of operation.[180]

Several submissions to last year's licence review said that this 'churn' mechanism would be too costly, quoting $4000 for operators to churn because of insurance being cancelled/reissued, new decals, radio changes and mismatched licence periods.[181] TfNSW estimated a cost imposed by RMS of around $1,000, providing the operator is using the same vehicle, consisting of the requirement to obtain a blue slip (taxi roadworthiness certificate), and to deregister and register a vehicle.[182] However, RMS has subsequently advised that these requirements do not apply if the new licence is the same type (ie, unrestricted or PAL) as the old licence.[183]

We sought feedback from stakeholders regarding financial and other costs of tendering for a new licence and then relinquishing an old one, but we did not receive any submissions on this issue. The next chapter discusses other aspects of the tender process and makes recommendations that should improve the process for operators wanting to bid for a licence to effectively replace an existing one.

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180 See for example, *Annual Taxi Licence Tender 2013-14 Peak Availability Class Annual Taxi Licences for operation in the Metropolitan Transport District (Sydney) Request for Tender RMS.13.2749.0853, 2013*, p 6, https://appln.transport.nsw.gov.au/mint/docs/RFT%2013.2749.0853%20Peak%20Availability%20Class.pdf.

181 E Mollenhauer submission, 21 January 2013, p 1; T Bradley submission, 22 January 2013; ATDA submission, 23 January 2013, p 6.

182 Information provided by TfNSW via email, January 2013.

183 Information provided by TfNSW, personal communication, July 2013.

10 Process for releasing licences in Sydney

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

Our assessment is that the process established and used for the past 4 years has been successful and effective and there is no need for change to the mechanics of the tender process. However, we continue to be of the view that the tender documentation and information could be improved for the benefit of tenderers.

With two exceptions, our analysis and final recommendations are the same as in our draft report:

- Following advice from RMS, we are no longer recommending refunding the tender registration fee to unsuccessful bidders.
- We have also reviewed advice on how quickly preliminary tender information can be made available, and consider that a 4-week timeframe is reasonable, rather than the 2-week time frame proposed in our draft report.

This chapter sets out our analysis and recommendations regarding the tender process.

10.1 Tender process

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

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

Tenders have mostly been held with a June closing date. Successful tenderers are usually notified in July and have 6 months to complete the registration process and get a taxi on the road. TfNSW does not publish the results of a tender until all licences are issued and active, which can be more than 7 months from the tender close date depending on circumstances.

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

We also considered other tender process issues, including timing and the release of market information about tender prices, and recommend that TfNSW release preliminary information about tender prices as soon as possible to inform the market.

The following sections discuss these issues in more detail.

10.1.1 Pay as bid or pay lowest successful bid

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

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

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

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

Recommendation

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

10.1.2 Better access to market information

We consider that it is vital for the market to be informed about tender prices sooner. In our draft report, we recommended that RMS should publish preliminary results of tenders within 2 weeks of tenders closing. This followed our recommendation the previous year to release the information as soon as possible.

The NSW Taxi Council and CabCharge submitted that this timeline is too short and provides details in advance of all offers being accepted.[184] We agree that this information should not be made public before all offers are accepted. TfNSW has informed us that when RMS writes to the successful bidders with an offer for a licence it gives them 7 working days to provide their completion bond (15% of the total price). Therefore, allowing for postage and processing, we consider that 4 weeks is a more reasonable amount of time for all bidders to accept their offers.

We also see merit in improving the tender documentation to assist tenderers to develop a view of the appropriate price, by providing enhanced and up to date contextual information. For example, information about past tender prices, alternative sources of licences (such as the secondary market), the objectives of the licence reforms and fare levels should be included.

The NSW Taxi Council submitted that our 2 draft recommendations relating to information provision amount to a process of market signalling (as set out in Part IV of the *Competition and Consumer Act 2010* (Cth)), because they are intended to provide information to the market that will place further downward pressure on bid prices. The NSW Taxi Council recognised in its submission that these provisions only apply in certain circumstances.

We are recommending the Government release objective, timely information that helps tenderers reach an informed decision about the appropriate amount to bid for a licence. The *Competition and Consumer Act 2010* (Cth) does not apply to the provision of information by the NSW Government to the public, and in any case providing relevant, objective information to all participants in the process does not lessen competition in any way.

The NSW Taxi Council has also submitted that our recommendations are inconsistent with NSW Government procurement policy. The licence application process is prescribed by the *Passenger Transport Act 1990* (NSW). The NSW Government's procurement policy relates to contracts for the procurement of goods and services for the public sector and is not relevant to the licence application process.

[184] NSW Taxi Council submission on Draft Report, 7 February, p 10; Cabcharge submission on draft report, 31 January 2014, p 23.

One submission on our issues paper also noted the need to provide 'clear explicit tender information' to help those in the taxi industry who may be from a non-English speaking background and struggle to understand complex tender information, as well as better advertising the tenders to current drivers.[185]

We also consider it important that bidders have access to information about the maximum fares that will apply. Cabcharge considers that our recommendations on fares should occur close to the time at which the changes will be implemented to ensure that adjustments reflect the most current circumstances.[186] However, we consider that it is crucial that the fares are known in advance of the annual licence tenders, so that bidders have the best information available to make revenue forecasts on which to base their bids.

Recommendations

7 Roads and Maritime Services publish preliminary results of tenders within 4 weeks of tenders closing.

8 Roads and Maritime Services enhance the tender documentation to include up to date contextual information such as past tender prices, alternative sources of licences, and fare levels, to help tenderers reach an informed decision about the appropriate value to them of a taxi licence.

9 Maximum taxi fares for Sydney in 2014/15 be announced before the annual licence tender process commences to provide information to potential tender bidders.

10.1.3 Tender registration fee

Under the Passenger Transport Act, tenderers must pay a $100 registration fee per bid. We received one submission on our issues paper which proposed the refund of the registration fee.[187] In our draft report we recommended that RMS refund the tender registration fee to unsuccessful bidders to encourage more participation in the tenders and reduce the burden for existing annual licence holders seeking to replace an existing licence with a lower priced one as licence prices fall.

The NSW Taxi Council and CabCharge submitted that refunding the registration fee would encourage frivolous bidders.

RMS has advised that the fee represents the cost of providing this service to unsuccessful bidders as well as successful ones.

[185] T Hirsch submission on issues paper, 18 November 2013, p 5.
[186] Cabcharge submission on draft report, 31 January 2014, p 5.
[187] T Hirsch submission on issues paper, 18 November 2013, p 5.

While we still consider that lowering the entry costs would encourage genuine participation in the tenders, particularly for existing annual licence holders who may be concerned by the cost of churn, we acknowledge that recovery of administration costs is appropriate for RMS. Therefore, we are no longer recommending refunding the registration fee.

10.2 Should there be a reserve price for tenders?

To date there has not been a reserve price set for tenders. One submission on our issues paper supported the introduction of a reserve price for tenders, set at $8,000 as a guide to the appropriate cost of a licence.[188]

In our 2013 review, we considered whether it might be necessary to introduce one in order to ensure that the cost of new licences does not result in the market price for leases of perpetual licences falling more than we expect it to. We concluded that a reserve price is not desirable. More detail of our reasons for this decision can be found in the final report of the 2013/14 licence review.[189]

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

When the 2009 licensing reforms were introduced into Parliament, the Government noted that the primary focus of the changes was on building a business based on delivering services to passengers. The Government wanted to provide opportunities for lessee operators and experienced drivers to take up a new licence and become their own boss.[190]

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

188 T Hirsch submission on issues paper, 18 November 2013, p 5.

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

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

One submission supported only non-plate owners being eligible to bid for annual licences.[191] At our roundtable, and in last year's submissions, there was support for driver-only allocations and/or for drivers to have access to free or low cost licences.[192] However, even without a formal allocation, we expect that most tender bids for licences will come from drivers and operators who will use their licences to provide taxi services. Historically, most winning tenderers have been drivers in the open tenders as well as the driver-only tenders.

Provided enough licences are available that drivers and operators have ready access to affordable licences directly from TfNSW, we do not consider that there is any need to restrict the number that can be granted to the same applicant or to reserve licences for drivers only.

191 T Hirsch submission on issues paper, 18 November 2013, p 5.

192 ATDA submission, 2 November 2012, p 2; J Soothhill submission, 29 October 2012, p 2; NSWTDA submission, 9 November 2012, pp 2, 6; St George Cabs submission, 9 November 2012, p 8.

11 Fare structure in Sydney

As well as fare level, this review also considered whether any changes needed to be made to the fare structure.

Fare structure refers to the different components that make up the overall fare charged to a passenger. 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). Even if the overall level of fares stays the same, an increase in one fare component and a decrease in another component will affect the price of a particular journey.

In our 2013 fare review we consulted on a range of possible changes to fare structure in response to issues raised by stakeholders in the past, and recommended a number of changes to structure, including removal of the Harbour crossing return toll.

TfNSW's final decision on fares was to retain the existing structure with the addition of a peak hiring charge for Friday and Saturday nights. TfNSW also deferred a decision on the Harbour crossing return toll and asked us to conduct further analysis to assess the impacts of such a change.

In the issues paper for this review we discussed some of the changes that we recommended last year and sought stakeholder feedback on them. We continue to be of the view that there is evidence to suggest improvements could be made to fare structure, but the evidence is not sufficiently compelling to make the changes without stakeholder support for them.

Our draft report noted that there was little support for any further changes, so we did not recommend any.

In our draft report we also further considered the removal of the Harbour crossing return toll and we are no longer recommended its removal.

We received 2 submissions on fare structure matters on the draft report, but we do not think there is sufficient support for particular changes, so our final decision is the same as our draft decision, not to recommend any changes at this time.

This chapter discusses our consideration of fare structure in more detail and the feedback we received on fare structure issues.

11.1 Can the current fare structure be improved?

An efficient fare structure is one that balances the supply of and demand for taxis at different times of day and for different types of trips. This ensures that taxis are available when people need them, and that there are not a lot of underutilised taxis on the road at other times.

We have some evidence to suggest that the current fare structure is not efficient, including that it may be too expensive in quiet times like Sunday to Thursday nights and it may be too cheap for short journeys.

Ideally, we would like to determine what the most efficient (optimal) fare would look like – where the fare would align with the cost of providing each passenger trip so that:

- taxis would not be encouraged onto the road when demand for them is low
- there is no incentives for drivers to provide poor service, for example, taking a slower route (either by sitting in congestion, or travelling a longer than necessary distance)
- there is an incentive for drivers to pick up all customers (for example, taxis may not respond to bookings for short trips).

Our 2013 fare review and current review's issues paper discussed data about the demand and availability for taxis that suggests there is room for improvement and shows the direction of change required to move current fares towards a more efficient fare structure.

11.1.1 Level of fares on Sunday to Thursday nights

Currently fares between 10 pm and 6 am on all nights of the week are charged at a distance (per kilometre) rate that is 20% more expensive than during the day. The hiring charge is also higher on Friday and Saturday nights and public holidays ($6.00 compared to $3.50 in other times) to encourage more taxis on the road during these peak times.

From Sunday to Thursday, there is some evidence that there are too many taxis on the road relative to the level of demand. Both the 2012 and 2013 Taverner surveys found that waiting times are lowest on Monday to Thursday after 10 pm, with around 70% of passengers able to get a taxi within 5 minutes compared to just 28% on Friday and Saturday evenings.[193]

[193] Taverner Research, *Survey of taxi use in Sydney*, November 2013, p 42.

We remain of the view that there is evidence to support reducing or removing the 20% night surcharge on quiet nights (Sunday to Thursday) in order to make taxis at these times more affordable for passengers, encourage more people to travel by taxi and discourage too many taxis from being on the road at these times. We note that TfNSW sets maximum fares and industry participants could elect to charge lower fares to customers particularly in peak period. We received one submission on our draft report from a taxi user calling for the removal of the surcharge.[194]

On the other hand, the ATDA submitted that the 20% night surcharge should be extended to weekends during the day.[195] In our view, this would be counterproductive as it would increase fares when demand is at its lowest[196] and taxis are available.

11.1.2 Fares for short distances compared with long distances

If fares for short distances are too low, it may mean that some drivers may be reluctant to accept bookings for short distances, and instead wait for passengers travelling longer journeys to get higher fares. On the other hand, if fares are too high for long distance journeys, passengers may be discouraged from using taxis for these journeys. Some of these passengers are likely to be taking hire cars instead.

For several years we have received anecdotal evidence from many stakeholders that some customers have trouble getting taxis for short journeys when they book them.[197,198]

Previously drivers 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, ie closer than returning to the same rank).[199]
- 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.[200]

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194 J Hearn submission on draft report, 18 December 2013, p 1.

195 ATDA submission on draft report, 26 January 2014, p 4.

196 See CIE, *Reweighting of the cost index – final report*, April 2012, p 31.

197 Drivers cannot refuse short journeys when the journey starts at a rank or is hailed. *Passenger Transport Regulation 2007*, cl 146.

198 IPART, *2013 Review of taxi fares in NSW - Maximum fares from July 2013 - Final report and recommendations*, June 2013, p 36.

199 E Mollenhauer submission on 2012 taxi fare review issues paper, 3 February 2012, p 2.

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

After fuel costs, and assuming an average of around half an hour between fares a taxi will currently earn around:

- 30 cents per minute for a 4 km fare, compared to
- 70 cents per minute for a 25 km fare.[201]

At our last fare review we recommended an increase in the hiring charge (previously called the 'flag fall') and a reduction in the distance charge in order to bring the earnings for different length trips, and therefore, drivers' incentives, closer together.[202]

Our customer surveys suggest that making longer journeys cheaper may encourage greater use of taxis for longer distance journeys. Cost was a key reason people did not catch a taxi after considering it, particularly for longer journeys. Our 2013 customer survey also found that around 1 in 7 respondents had used a hire car (with a driver) in the last 6 months, and 29% said that one of the reasons why they used hire cars instead of taxis is because they were cheaper.[203]

Several stakeholders[204] argued that an increase in the booking fee would be a better way of increasing the incentive for drivers to attend short booked journeys.[205] This may improve the incentive for drivers to pick up booked fares, all else being equal. 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).[206] Passenger 'no shows' have been raised with us as a significant contributor to drivers' reluctance to attend bookings made through a traditional taxi network.

It is our view that the NSW Government should deregulate booking services to encourage competition, and at the same time deregulate booking fees, which could allow booking services to come up with innovative solutions to passenger 'no shows'. This is a decision for the NSW Government and we note that TfNSW is currently reviewing a number of aspects of passenger transport legislation, including taxi network regulation and booking arrangements.

201 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. IPART calculations.

202 IPART, *2012 Review of Taxi Fares in NSW - Final Report and Recommendations*, June 2012, pp 36-41.

203 Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, pp 62-64.

204 For example, T Hirsch submission on issues paper, 18 November 2013, p 14.

205 Currently fares include a regulated booking fee ($2.40) that is charged for trips booked with a network by phone or internet. We estimate that 20% to 30% of trips are booked through a taxi network. In the CIE's 2012 survey of the taxi industry, drivers estimated, on average, that 20% of trips were booked (the CIE, Reweighting the Taxi Cost Index, 2012, survey data). 30% of respondents to the Taverner survey booked their trip through a network (Taverner Research, *Survey of Taxi Use in Sydney*, November 2013, p 23).

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

In its submission on the issues paper, NCOSS said it did not support changes to the fare structure that would make shorter trips relatively more expensive. Rather, it believes the issue of short fare trip refusals should be further investigated and that other options for managing the problem should be explored.[207]

11.2 Sydney Harbour crossing return toll

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.

In our 2013 final report, we recommended removing the right to charge northbound passengers the southbound toll for a harbour crossing so that passengers did not have to pay a charge they did not incur.[208] TfNSW decided to defer consideration of this recommendation and noted that further analysis would be conducted as part of the 2013/14 fare review process to assess the impacts of such a change.

After considering stakeholder feedback we are no longer recommending the removal of the northbound toll.

Many submissions to our issues paper considered that the right to charge the toll for northbound journeys should not be removed. They were concerned that drivers would have to bear the costs of the toll when they made south-bound harbour crossings without a passenger and this would impact the drivers' earnings.[209] Some stakeholders highlighted the number of empty taxis southbound in the evening as evidence that taxis did not receive a return fare after they had travelled north.[210]

As explained in Chapter 3, drivers' earnings are determined by the fare revenue, minus driver costs, and the negotiated fee paid to the operator to take out the taxi (or the pay-in). This means that if fare revenue falls, or drivers' costs rise, they can be offset by a fall in the pay-in, which we would expect to be passed onto the licence lease holder in the longer term through lower licence lease costs. This means that the net impact on drivers would be limited.

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207 NCOSS submission on our Issues Paper, 14 November 2013, p 4.

208 IPART, *2013 Review of taxi fares in NSW - Maximum fares from July 2013 – Final Report and Recommendations*, June 2013, p 55.

209 For example, ATDA submission on 2013 taxi fare review Draft Report, 22 May 2013, p 4.

210 For example, ATDA submission on Issues Paper, 11 November 2013, p 5.

Similarly, when a $2.50 premium on the hiring charge was introduced on Friday and Saturday nights from September 2013, the anecdotal evidence is that the drivers' earnings did not increase. Rather, operators have increased their pay-ins to capture the increased fare revenue, leaving the net position of drivers' unchanged.

Previously we used data from taxi driver Michael Hatrick to estimate that removing the northbound Sydney Harbour crossing toll would reduce revenue by around $500 per year per taxi. This year Mr Hatrick made a submission on our issues paper explaining that the data had been misinterpreted, and estimated that the impact is around $3,500.[211]

We have conducted independent analysis on the possible revenue impacts on removing the right to charge the Sydney Harbour crossing toll for northbound journeys. We included a question in our Taverner survey about the use of the Sydney Harbour crossing for passengers' most recent journey. For their most recent journey, 18% of respondents said that they crossed the bridge going north, and 11% said they crossed the bridge going south. Based on the 2011/12 CIE industry survey of drivers and operators, the Taverner survey implies that for each shift:

- 2.7 trips go north over the harbour (around $90 a week in tolls, or $4,500 per year)
- 1.7 trips go south over the harbour (around $60 a week in tolls, or $2,900 per year).

Based on these estimates, removing the northbound toll would mean a reduction in fare revenue of $4,500. However, taxis are currently overcompensated by around $2,900 per year on average (by collecting the toll in both directions). This implies out of pocket expenses would be $1,600 if the toll was removed.

While the impact is higher than previously estimated, we note that we previously estimated that the $2.50 premium to the hiring charge on Friday and Saturday night would increase revenue by slightly more than this, at $1,700, which would offset these expenses.

Recommendation

10 We do not recommend removal of the northbound Sydney Harbour crossing return toll at this time.

211 M Hatrick submission on Issues Paper, 14 November 2013, p 2; in his submission on our draft report for 2013 fares, 27 May 2013, p 3, he estimated the impact to be around $70 a week or around $3,500 per year, which is substantially higher.

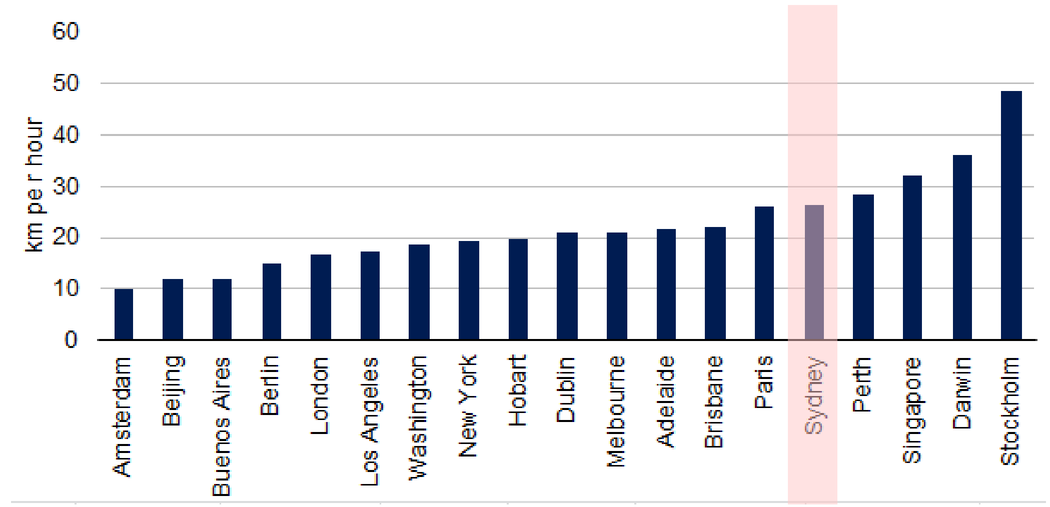
11.3 Waiting time fares compared to distance rate

In its submissions to the issues paper and draft report[212], the ATDA recommended that the waiting time rate be increased to $80 per hour to reflect daytime traffic conditions. According to the ATDA, waiting rates are 50% to 60% of the fares between 6:00 am and 7:30 am and only 10% to 15% of late night fares. The ATDA says that this adjustment would balance the earnings of day shift drivers and night shift drivers, who currently earn $25,000 and $37,000 a year respectively.

It is our view that the earnings of drivers are influenced by the market for drivers not the fare structure, see Chapter 3. If the waiting rate was increased such that day time shifts earned more revenue, then operators would compensate by increasing their pay-ins knowing drivers' willingness to drive. Therefore, increasing the waiting rate would have limited benefit to daytime drivers.

Also, Sydney has a relatively high waiting rate. For last year's fare review, we surveyed the waiting time rates in other cities as part of our issues paper. Figure 11.1 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 11.1 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.

Queensland Department of Transport and Main Roads website http://www.tmr.qld.gov.au/Travel-and-transport/Taxis.aspx, accessed 13 June 2013.

212 ATDA submission on Issues Paper, 11 November 2013, pp 3-4 and ATDA submission on draft report, 26 January 2014, p 4.

12 Urban fares outside Sydney

In urban areas other than Sydney, licensing arrangements were not affected by the 2009 amendments to the *Passenger Transport Act 1990* that set up the annual licence release process for Sydney. Instead, ordinary or short-term licences can be purchased from TfNSW at market rates. The fare schedule for urban areas other than Sydney, however, is the same as the Sydney fare schedule.

Last year we recommended, and TfNSW accepted, that fares in urban areas other than Sydney should move in line with Sydney fares.

This year our draft report again recommended that fares in urban areas other than Sydney should move in line with Sydney fares. We received no submissions on this matter. Our final recommendations are unchanged.

This chapter describes our analysis of and final recommendations for other urban areas.

12.1 Summary of recommendations

We are again recommending that fares in other urban areas move in line with Sydney fares. We also reiterate our view that TfNSW should review licence arrangements in these areas.

Recommendations

11 Maximum fares for other urban areas should continue to be the same as those in Sydney, with a single urban fare schedule as set out in Table 3.1.

12 TfNSW reform taxi licensing arrangements outside Sydney. Initially TfNSW should focus on areas with licence transfer values above $200,000.

12.2 Why we continue to recommend that fares should move in line with Sydney fares

The licensing amendments to the *Passenger Transport Act 1990* introduced in 2009 currently apply only in Sydney. Outside Sydney, new ordinary or short-term licences can be purchased from TfNSW at market rates, or existing ordinary and perpetual licences can be bought (transferred) on the secondary market.

This means that the combined recommendation we make on fares and licences in Sydney can only be partly implemented in other urban areas, as the additional licences we recommend for Sydney would not affect these areas.

Our 2011 taxi driver and operator cost survey for country and other urban areas had relatively small response rates – not enough to provide quality information to compare costs in different areas within those categories. However, there is enough information to suggest that there are differences between Sydney, country and other urban areas. The differences between Sydney and country are more significant than those between Sydney and other urban areas.[213]

Despite the differences, we consider that there is little benefit in establishing a separate approach to fare changes in other urban areas. As a result, we are recommending that maximum fares for Sydney continue to apply to other urban areas.

We are recommending a nominal fare freeze in Sydney this year because in our view, 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) currently included. Licence costs in other urban areas, though not as high as Sydney, are also significant. Urban areas outside Sydney (Wollongong and Newcastle) have licences that trade for around $200,000 to $250,000.[214] As a result, we also consider that there is scope to hold fares in other urban areas constant.

However, real fare reductions without a complementary release of additional licences would not deliver all of the outcomes that are needed. For example, it would not provide the same benefits of reduced waiting time that we consider would occur in Sydney due to the additional licences.

TfNSW has stated that new licensing arrangements that apply in Sydney could be rolled out across the state in future:

> The new licensing arrangements have commenced initially in the Sydney Metropolitan Transport District. Further consideration will be given to introduction to Newcastle, Wollongong, the Central Coast and country areas.[215]

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[213] There is a separate country fare schedule designed to take these differences into account. Our recommendations on how country fares should change in 2014/15 are set out in a separate document.

[214] Licence transfer data for 2013 provided by TfNSW.

[215] 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>.

NCOSS supports changes to licence arrangements that would lead to downward pressure on fares. NCOSS submitted to our issues paper that the arrangements that apply outside Sydney mean that most new entrants would purchase existing licences rather than new licences from the Government that add to the stock of licences, which drives up licence values, lease costs and fares, while not delivering service improvements. NCOSS considers that this impacts disproportionately on people experiencing disadvantage who depend on taxis for day to day living.[216]

However, the NSW Taxi Council does not support changes to licence arrangements and it does not support an arbitrary approach to releasing licences outside of Sydney, noting that 'the market is best to sort that out, as it does do at the moment'.[217]

We consider that the objectives for the industry would be best achieved by considering fares and licences together. As such, we continue to support the extension of licence reforms to other urban areas. We recognise that there are differences between Sydney and other urban areas and that these should be taken into account when determining an appropriate licensing regime.

If the process is to be done incrementally, we consider that TfNSW should initially focus on reviewing licensing arrangements in urban areas other than Sydney with high licence values (eg, above $200,000).

[216] NCOSS submission on Issues Paper, 14 November 2013, p 3.
[217] NSW Taxi Council comments at public roundtable, 22 October 2013, p 61 of transcript.

Appendices

A Terms of Reference – fare review

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 Terms of reference – licence review

Independent Pricing and Regulatory Tribunal Act 1992

Terms of Arrangement – Annual Sydney Taxi Licence 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 an arrangement with Transport for NSW (TfNSW) to review and make recommendations on the number of annual taxi licences (other than wheelchair accessible taxis) to be released in Sydney for the year commencing 1 July 2014.

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

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

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

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

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

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

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

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

The recommendations are to be provided by IPART in a Final Report to TfNSW by 21 February 2014, for consideration prior to an annual Determination by TfNSW before 31 March 2014.

The Hon Barry O'Farrell MP

Premier

Dated at Sydney 8 October 2013

C List of submissions received

Table C.1 List of submissions on issues paper received (due 15 November 2013)

Submitter	Date received
Australian Taxi Drivers Association	11 November 2013
Council of Social Services of NSW (NCOSS)	14 November 2013
Individual (Anonymous)	12 November 2013
Individual (D Cousins)	10 November 2013
Individual (P Fletcher)	15 November 2013
Individual (M Hatrick)	14 November 2013
Individual (T Hirsch)	18 November 2013
Individual (E O'Malley)	12 November 2013
Individual (E Mollenhauer)	15 November 2013
Individual (G Whitton)	16 October 2013
NSW Taxi Council	18 November 2013

Table C.2 Attendance at the roundtable held 22 October 2013

Organisation	Attendee
Australian Taxi Drivers Association	Michael Jools
Cabcharge Australia Ltd	Jessica Krimmer
Essential Services Commission (Vic)	Ron Ben-David
Individual	Peter Abelson
NSW Council of Social Services (NCOSS)	Rhiannon Cook
NSW Taxi Council	Fred Lukabyo
NSW Taxi Council	Roy Wakelin-King
NSW Taxi Drivers' Association	Anne Turner
NSW Taxi Drivers' Association	Trevor Bradley
TfNSW	Tim Reardon

Table C.3 List of submissions on draft report received (due 31 January 2014)

Submitter	Date received
Australian Taxi Drivers' Association	26 January 2014
Individual (P Fletcher)	31 January 2014
Cabcharge Australia Limited	31 January 2014
Individual (Anonymous)	29 December 2013
Individual (Anonymous)	31 December 2013
Individual (M Burrage)	30 January 2014
Individual (J Hearn)	18 December 2013
Individual (R Hedley)	2 January 2014
Individual (A Johnston)	23 January 2014
Individual (R Montanari)	18 December 2013
NSW Taxi Drivers' Association	31 January 2014
NSW Taxi Council	7 February 2014

D How our key inputs affect taxi industry outcomes

All models of markets are estimations of how things actually work. The forecasts produced by a model might not match the real world experience.

Our taxi model has been based on robust sources of data, but for some inputs we have had to use estimates. We are confident that our model outcomes are a reasonable estimate of likely real-world outcomes, however we assessed its sensitivity to key input assumptions.

This section shows the taxi industry outcomes in equilibrium (for recommendations made during the 5 years between 2012/13 and 2017/18) using different estimates of demand growth, change in costs, and demand responsiveness to price elasticity and waiting time.

Our modelling assumes that fares remain frozen, and the same number of licences is released in each of the next 4 years (and accounts for the 250 PALs released last year and the addition of the night time surcharge, while other fare components were held constant). However, we will monitor the outcomes in the taxi industry each year and adjust our recommendations based on actual changes in the taxi industry where we have better information.

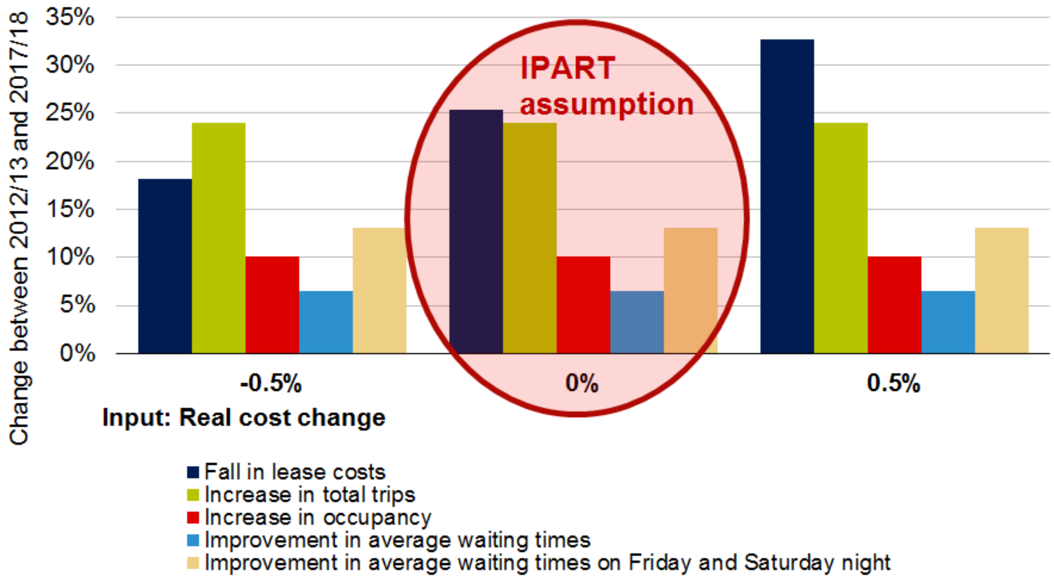
We intend to repeat the 2011 survey of taxi driver and operator costs towards the end of 2014 to obtain up-to-date data for our next reviews of fares and licences. We will continue to conduct regular passenger surveys.

D.1 Sensitivity to estimate of the changes in costs of providing taxi services

Chapter 6 explains why we consider that cost will increase in line with inflation over the medium term. This means that costs do not change in real terms.

Figure D.1 compares the outcomes of continuing our recommendations if costs fall by 0.5% in real terms, or if they increase by 0.5% in real terms. Changes in input costs does not impact demand, so occupancy and waiting times are the same in each scenario. However, there would be a significant impact on licence lease costs – from less than 20% reduction with a small reduction in real costs, to more than a 30% reduction with a 0.5% increase in real costs.

Figure D.1 Impact of changes in costs on taxi industry outcomes



Data source: Taxi industry model.

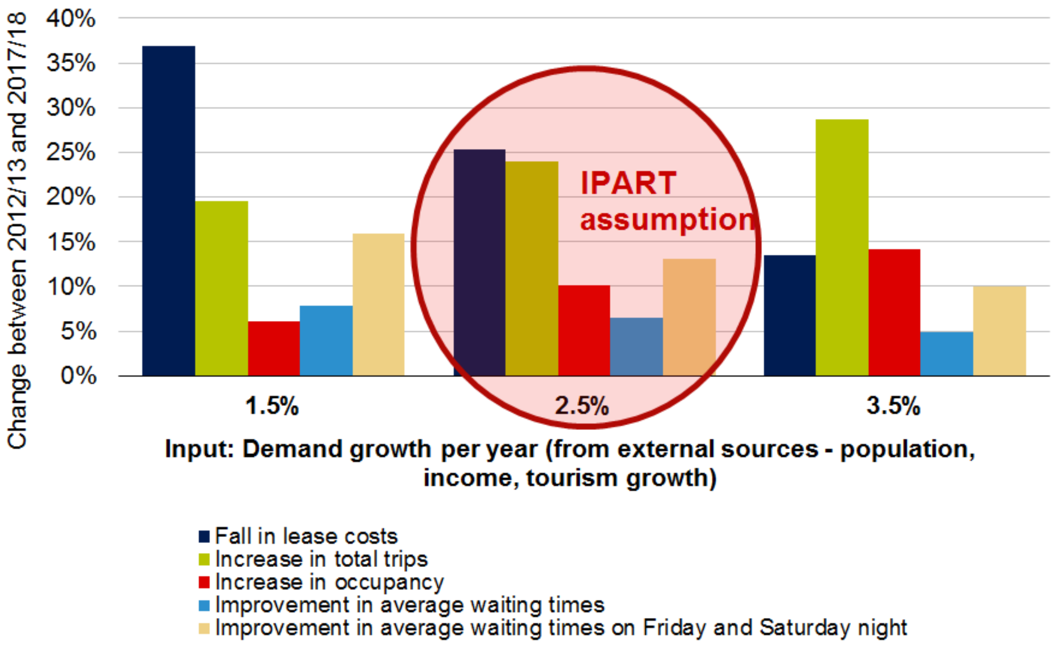
D.2 Sensitivity to estimate of change in demand from external sources

Chapter 4 explains why we consider that demand from population growth, tourism growth and income growth is likely to grow by 2.5% per year.

Figure D.2 compares the outcomes of continuing our recommendations if demand increases by 1.5% per year, and 3.5% per year.

Changes in demand would impact on licence lease costs, number of trips, occupancy and waiting times.

Figure D.2 Impact of changes in demand from external sources on taxi industry outcomes



Data source: Taxi industry model.

D.3 Sensitivity to assumption about price elasticity

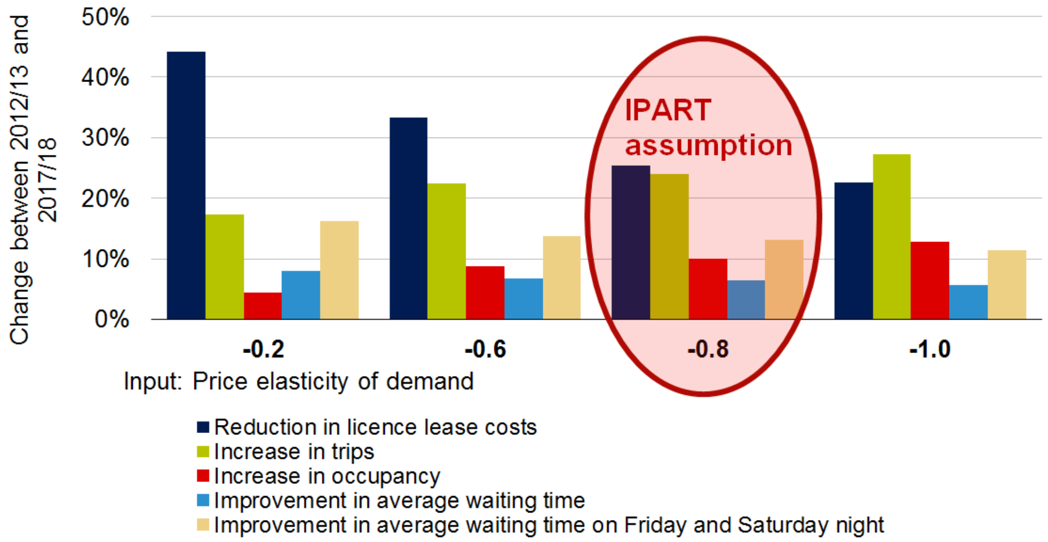
Chapter 4 explains that for every real 1% decrease in price, we consider that demand would increase by 0.8%. Holding fares constant in nominal terms is equivalent to a **real decrease** in fares of 2.5% based on our estimate of the rate of inflation. Therefore, demand would increase by 2% as a response to cheaper real fares, **additional** to the underlying growth from external factors.

This is a price elasticity estimate of -0.8 which falls within the range cited in the literature range of -0.2 to -1.[218] The Victorian Taxi Industry Inquiry used a price elasticity estimate of -1, which was derived from elasticity modelling for different customer segments undertaken by David Hensher based on stated preference surveys in Melbourne.

If we assume an elasticity of -1, trips and occupancy would increase by more. An elasticity of -0.2, would mean that trips increase by less, and licence lease costs fall by around 45%.

[218] Booz Allen Hamilton, *Appraisal of taxi fare structure issues*, 2003, p 10.

Figure D.3 Impact of price elasticity on taxi industry outcomes



Data source: Taxi industry model.

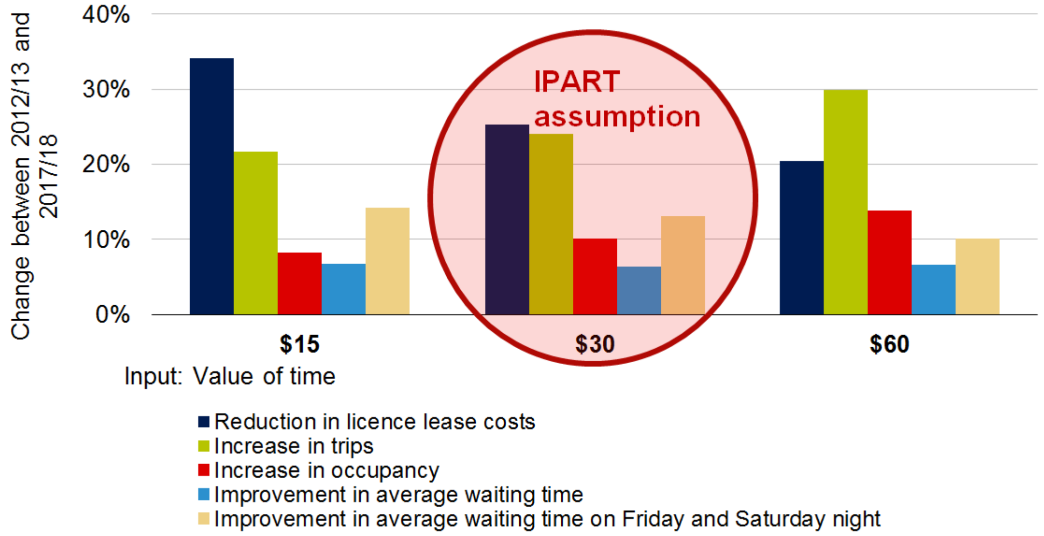
D.4 Sensitivity to assumption about value of time

The value of time generally used for cost benefit analyses lies between $12 and $18, but the value of time for taxi users is likely to be higher because a key reason for taxi use is to save time.[219] We have assumed the value of time for taxi users to be $30. We note that the Victorian Taxi Industry Inquiry used $60.[220]

If we assume an value of time of $60, there would be a greater demand response to lower waiting time, so licence lease costs would drop by around 20%. With a value of time of $15, a lower number of new trips would be taken in response to lower waiting times, so licence lease costs fall by around 33%.

219 Taverner Research, Survey of Taxi Use in Sydney, November 2013, p 72.
220 Information received from the Victorian Taxi Industry Inquiry.

Figure D.4 Impact of value of time assumption on taxi industry outcomes



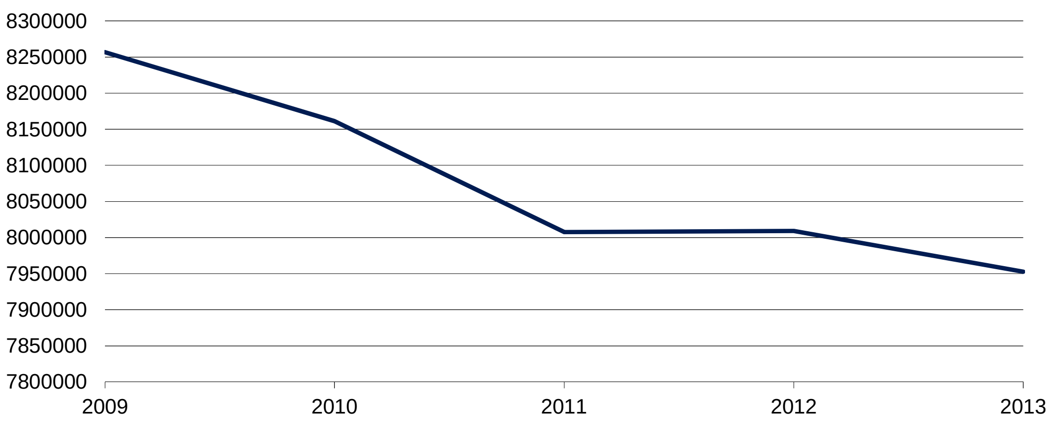
Data source: Taxi Industry model.

E Network performance information

E.1 Taxi service performance: number of network bookings and number of network jobs

Since 2009, the total number of network jobs (ie, bookings that were picked up) has decreased by 4% (see Figure E.1).

Figure E.1 Network jobs



Note: All years are calendar years.

E.2 Standard taxi network performance

The networks' 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.

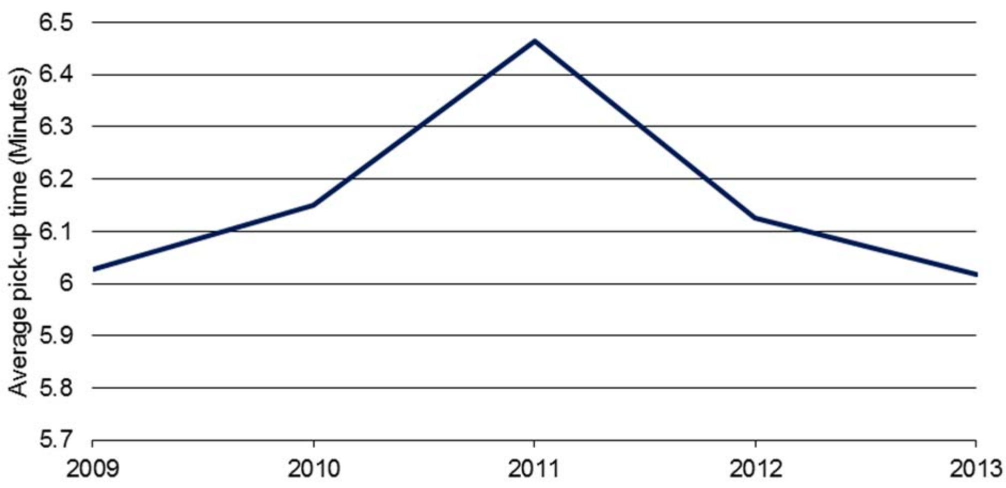
In our analysis of the Key Performance Indicators (KPIs) we focus on the average time it took to pick a customer up, the number of customer no-shows and no-cars-available. In our view, this data provides the clearest indication of network performance as these represent all the possible outcomes of a requested booking.[221]

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.

In the last year, the average time it takes for a standard taxi to pick up bookings decreased by 2% (see Figure E.2). As a result, the average pick-up-time in 2013 was around 6 minutes, an improvement on the previous 4 years.

Figure E.2 Average pick-up time



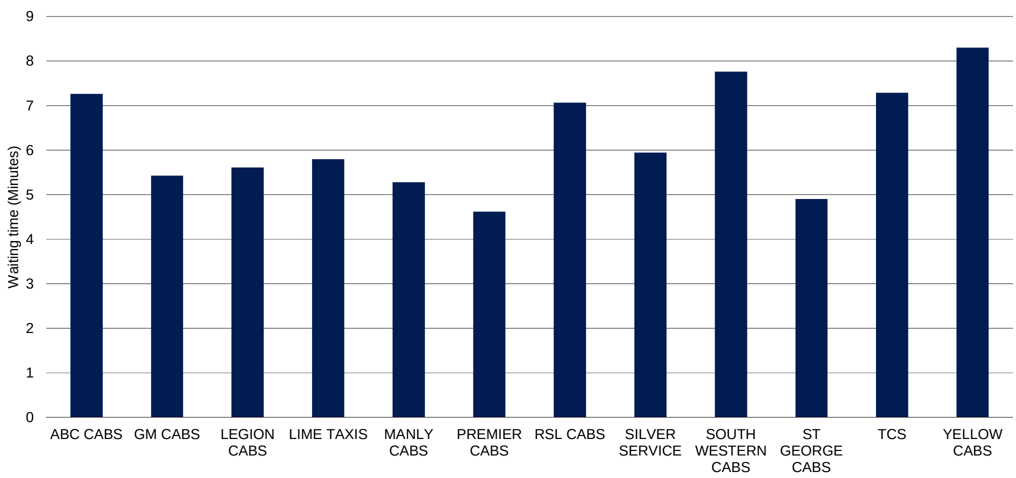
Note: We have calculated total average pick-up time using a weighted average when there is no offload and when there is an offload internally. Bookings which are offloaded externally are considered cancelled by the network where the booking originated. As a result, these bookings are not accurately recorded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

The average pick-up time varies substantially between networks. To help customers compare network performance we provide the average pick up time for each network for 2013 in Figure E.3.[222] This shows that customers wait the longest for a taxi with Yellow Cabs, South Western Cabs, ABC 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.

[221] 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

[222] Some networks specialise in serving particular areas of Sydney, for example, Manly Cabs in the Northern Beaches. As a result, a network's performance may not be consistent across regions.

Figure E.3 Network waiting time

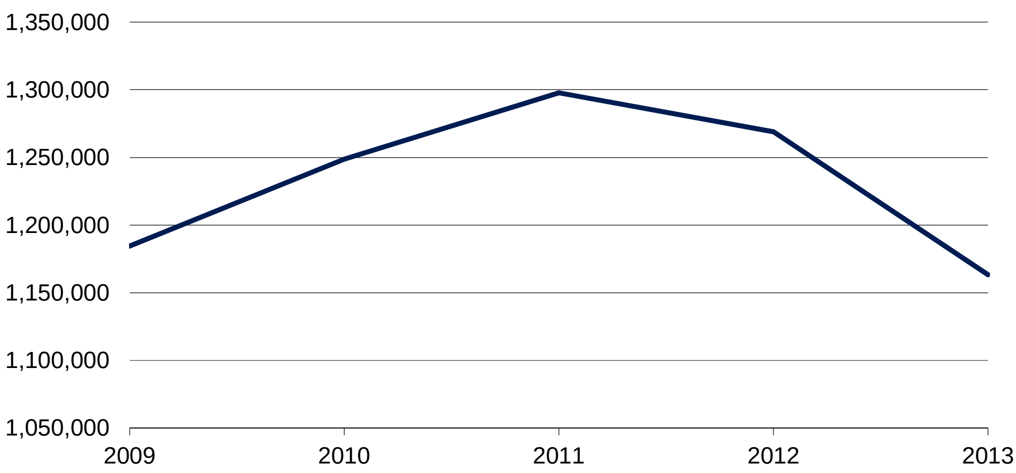


‘No-cars-available’ and passenger ‘no shows’

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.

We consider that the sum of the 2 KPIs is a useful indicator of taxi performance. No-cars-available and no-shows are both types of bookings where the passenger did not end up using the taxi service. Figure E.4 shows the total number of no-shows and no-cars-available.

Figure E.4 Total number of no shows and no-cars-available

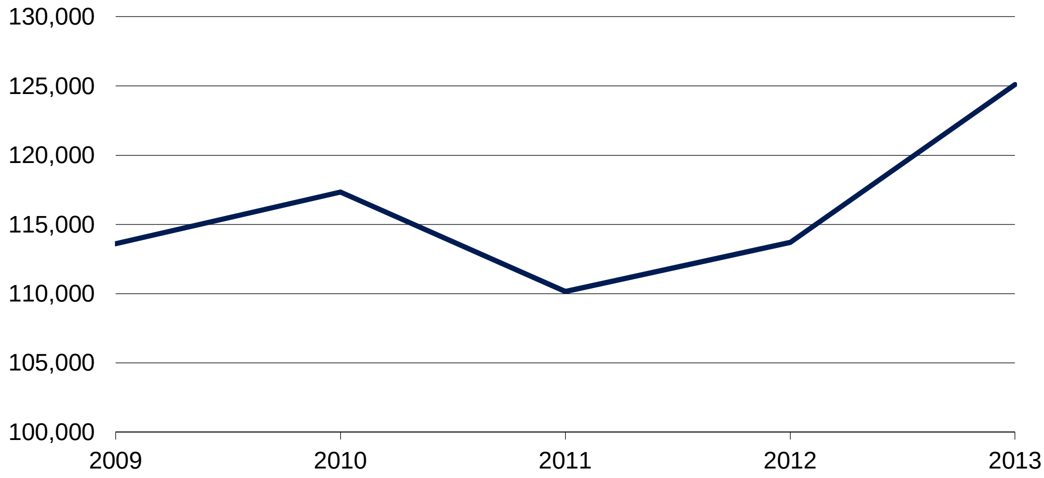


Note: All years are calendar years.

E.3 Wheelchair Accessible Taxi performance

The estimated number of Wheelchair Accessible Taxi pick-ups increased by 10% in 2013 (see Figure E.5).

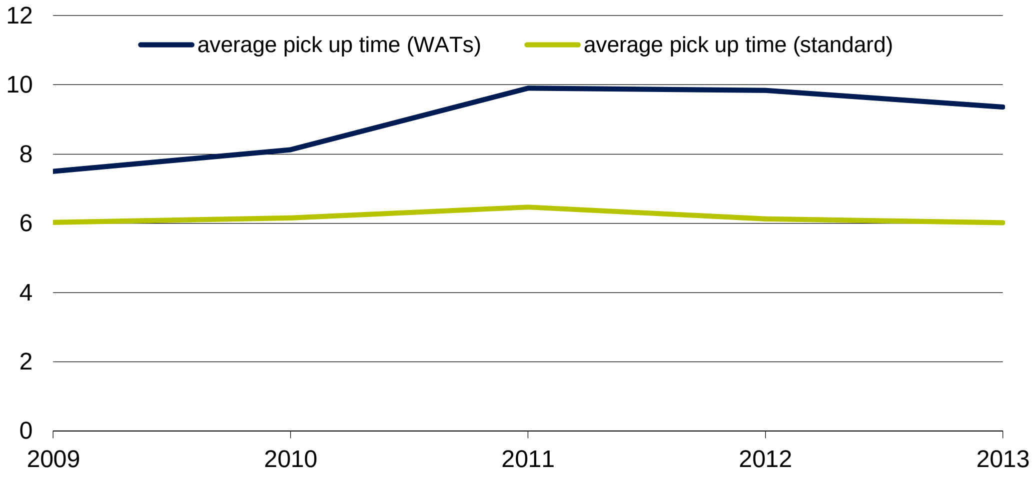
Figure E.5 Number of WAT pick-ups



Note: All years are calendar years. We estimated the number of WAT pick-ups for the last quarter of 2013 using the demand in 2012.

The average pick-up time for Wheelchair Accessible Taxis decreased by 5% compared to 2012. This led to an improvement in the gap between the average pick-up time for WATs and standard taxis (see Figure E.6) compared to 2011 and 2012, although the gap is greater than it was in 2009 and 2010.

Figure E.6 Pick-up time for WATs compared with the rest of the taxi fleet



E.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. There were 9,983 complaints and 375 compliments in 2013. This represents a 21% decrease in complaints and a 9% decrease in compliments from the previous year. However, over the longer term, complaints have increased and compliments decreased substantially. There are 62% more complaints and 62% less compliments than in 2009.

Table E.1 Customer Feedback Managements System data

	2009	2010	2011	2012	2013	Change from 2012 to 2013
Driver	4,271	5,703	7,765	8,657	6,861	-21%
Serious	98	103	150	162	137	-15%
Fares and Charges	1,213	1,530	2,061	2,378	2,133	-10%
Taxi	193	238	230	255	204	-20%
Network	391	631	999	1,234	648	-47%
Total	6,166	8,205	11,205	12,686	9983	-21%
Compliments	995	618	417	412	375	-9%

Source: TfNSW Customer Feedback Management System.

Glossary

ABS	Australian Bureau of Statistics
Annual taxi licence	A taxi licence obtained from TfNSW which is valid for a year, but can be automatically renewed each year for a term of up to 10 years. The holders of these licences can lease but not transfer (sell) them.
ATDA	Australian Taxi Drivers Association
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
CIE, The	The Centre for International Economics
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.
Economic rent	The profit of a service as a direct result of the supply of licences being limited.
Fringe Area Licence	A taxi licence which must be operated predominantly in nominated geographical areas on the outskirts of Sydney. There are 10 Richmond/Windsor FALs, 2 Richmond Windsor Fringe WATs and 2 Helensburgh FALs.
Hiring charge	The fixed fee charged at the beginning of a taxi trip. Previously known as the flag fall.
IPART	Independent Pricing and Regulatory Tribunal.
Key Performance Indicator (KPI)	Measures network service performance. KPIs are collected by TfNSW. Some KPI information is published on the TfNSW website.

LPG	Liquefied Petroleum Gas
Latent demand	Latent demand represents the additional taxi trips that would be taken if waiting time for taxi services fell, or if fares were reduced.
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 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 TfNSW.
Network fee	Fee paid by the operator of a taxi to affiliate with an authorised taxi network.
Nominal	Not adjusted for inflation. For example, if something cost $100 in 1990 and the same thing cost $100 in 2012, its nominal cost has not changed. However, adjusting for 22 years of inflation, its real cost is lower in 2012 than in 1990.
NSWTDA	New South Wales Taxi Drivers Association
Operator	Taxi operators are responsible for the day-to-day management of one or more taxi cabs. Operators may be individuals or corporations, and must be accredited by TfNSW. They must also be affiliated with an authorised network, fit out their vehicle with the network's livery and install the network's communications equipment. They must insure and maintain their vehicle(s), and hold a taxi licence for each vehicle they operate.
Ordinary taxi licence	From 1990, ordinary licences with up to 50-year terms were issued by the Transport Department on request at the prevailing price for perpetual licences. These licences came with the right to renew them at the end of their term, so they are effectively perpetual.

Pay-in	The amount paid by a taxi driver to an operator for the use of a taxi. Maximum pay-ins for Sydney taxis are determined by the NSW IRC and set out in the *Taxi Industry (Contract Drivers) Contract Determination 1984* but discounting below this rate is common.
Peak Availability Licence (PAL)	A taxi licence that can only be operated between noon and 5 am.
Peak time hiring surcharge	A fixed fee charged on top of the hiring charge between 10pm and 6am on Fridays, Saturdays and the days before a public holiday.
Perpetual taxi licence	A taxi licence that does not expire. It can be transferred (sold) or leased. New perpetual licences have not been issued in Sydney since 1990.
Price elasticity	The amount by which demand changes in response to price changes. For example, if the price elasticity of demand for taxi services is -1, a 10% increase in taxi fares will lead to a 10% drop in taxi use. If the elasticity is -0.2, a 10% increase in taxi fares will lead to a 2% drop in taxi use.
Real	Prices or costs that have been adjusted for inflation. So something that cost $100 in 1990 and $100 in 2012 has had a drop in its real price since 1990. If the measure of inflation (usually CPI) has risen by 30% over that time, the real price of the object in 2012 can be expressed as '$76.92 in 1990 dollars' (or the real price of the object in 1990 can be expressed as '$130 in 2012 dollars).
Short term taxi licence	From the late 1990s, some short-term licences with a term of up to 6 years were issued. Their owners can lease them to another person, but cannot transfer them, and they expire at the end of their term. New short-term licences have not been issued in Sydney since 2009.
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. Formerly used by IPART to measure the change in taxi industry costs between fare review periods.
TfNSW	The NSW Government agency that regulates taxis.
Unrestricted taxi licence	A taxi licence issued without operating restrictions.
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. Urban WAT licences are available on request from TfNSW for $1,000 a year.