

INFORMATION PAPER

2011 Review of Taxi Fares

March 2011

IPART is reviewing taxi fares to apply in NSW from July 2011.

This information paper explains our 2011 review of taxi fares. It sets out the review's scope and process, our preliminary estimates of the likely fare increases we will recommend (3.4% for urban taxis and 3.5% for country taxis), and some specific issues on which we seek comment. We welcome submissions on these issues and on any other matters that are relevant to the scope of our review.

Submissions are due by close of business on Friday 15 April 2011.

How taxi fares are set

Each year the NSW Government asks IPART to review taxi fares and make recommendations on maximum fares to the Director-General of Transport NSW, who has the legal responsibility for setting taxi fares in NSW.

The Government's terms of reference specify the factors that we must consider when making recommendations on fares. The factors include:

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

The full terms of reference for this review can be found on our website (www.ipart.nsw.gov.au).

The taxi charges on which we make recommendations

We make recommendations on the following charges:

- ▼ Flag fall
- ▼ Distance rate
- ▼ Night-time and public holiday surcharges
- ▼ Waiting time rate

- ▼ Booking fees
- ▼ Surcharge for maxi cabs.¹

These charges are listed in a schedule of maximum fares. Different maximum fare schedules apply in urban areas and country areas.² The current maximum fare schedules are published on Transport NSW's website (www.transport.nsw.gov.au).

How we develop fare recommendations

We use 2 cost indices, 1 for urban areas and 1 for country areas, to assess changes in the cost of providing taxi services over the previous year. (See below for further detail on how we calculate the Taxi Cost Indices (TCIs).) We then determine how the various fare components should change so that the 'average fare' is increased in line with the change in the relevant TCI.

We take into account submissions made on cost and other relevant issues, and seek information from Transport NSW on quality, reliability and safety of taxi services.

The Taxi Cost Indices

The Taxi Cost Indices (TCIs) consist of a basket of taxi cost items weighted according to their proportion of overall costs. The cost items in the TCIs and their weightings were calculated and assessed as part of our 2008 review of taxi fares, using data obtained from a survey of taxi drivers and operators in 2007, and other sources.

Each cost item is adjusted annually by its 'inflater', a relevant measure of how the cost item has changed over the preceding year. We use publicly available information for TCI inflators, except for the licence plate lease cost inflater, where we obtain information from the NSW Taxi Council. We have consulted on the inflators in previous years and established the current set of inflators in 2010.

Both the weightings of cost items in the TCI and the values of the inflators influence our fare recommendations. To calculate the annual change in the TCI, we take the weighting of each cost item and multiply it by the relevant cost inflater (expressed as a percentage). This gives the contribution of each cost item to the TCI. We then sum the contributions for each of the cost items to give the percentage change in the TCI.

¹ A maxi cab is a taxi with seating for 5 or more adults, in addition to the driver. The surcharge applies if a maxi cab is pre-booked, or if the maxi-cab is hired from a taxi zone or street hail and there are 5 or more passengers.

² Urban areas include: Sydney Metropolitan; Camden, Picton; Thirlmere, Tahmoor and Bargo; Blue Mountains; Newcastle and Fern Bay, Toronto, Minmi, Williamtown, Medowie, Ferodale, Raymond Terrace, Campvale, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago and Cams Wharf; Gosford and Wyong; Wollongong and Shellharbour. Country areas include all of NSW except: the urban areas listed above and exempted areas - Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin.

The weights vary slightly from year to year because the costs of individual items in the TCI change at different rates.³

The weightings and inflators that we will use to calculate 2011 TCI are set out in Table 1.

Table 1 Weightings and inflators to be used to calculate the Taxi Cost Index in 2011

| Cost item | Urban TCI weighting in 2011 | Country TCI weighting in 2011 | Inflator (measure of cost increases over the past year) |
|---|-----------------------------|-------------------------------|--|
| Notional drivers' wages | 39.1% | 42.2% | Productivity adjusted WPI ^c |
| Driver entitlements (notional self funded) ^a | 1.4% | 6.3% | Productivity adjusted WPI ^c |
| Superannuation | 4.0% | 4.4% | Productivity adjusted WPI ^c |
| Fuel costs ^b | 6.6% | - | LPG prices from FUELtrac ^d |
| Other drivers' costs | 2.4% | 1.6% | CPI – Sydney |
| Total drivers' costs | 53.5% | 54.6% | |
| Operators' salary equivalent | 6.8% | 7.4% | Productivity adjusted WPI ^c |
| Driver legal entitlements | 4.4% | - | IRC determination cost |
| Fuel costs ^b | - | 6.1% | LPG prices from FUELtrac ^d |
| Maintenance costs | 4.8% | 4.1% | CPI Motor Vehicle Repairs and Servicing subgroup ^e |
| Licence Plate lease costs | 13.9% | 11.7% | Quotes for leasing licence plates provided by the NSW Taxi Council |
| Insurance costs | 8.2% | 5.0% | CPI Insurance sub-group ^c |
| Vehicle lease payments | 2.3% | 2.4% | CPI Motor vehicles sub-group ^c |
| Network fees | 3.1% | 4.7% | CPI – Sydney |
| Other operators' costs | 3.0% | 4.1% | CPI - Sydney ^c |
| Total operators' costs | 46.5% | 45.4% | |
| Total Costs | 100.0% | 100.0% | - |

^a Driver entitlements in the TCI are allocated between drivers and operators based on the estimated cost of legal obligations imposed on operators in the IRC contract determination.

^b Fuel costs are paid by drivers under the maximum pay-in system and by operators in other cases. Fuel costs in the urban TCI are allocated to drivers and in the country TCI to operators, reflecting differences in practice between the 2 areas.

^c The annual percentage change as measured by comparing the average of 4 quarters to 31 March 2011 with the average of 4 quarters to 31 March 2010.

^d The annual percentage change as measured by comparing the daily average LPG price over the year to 30 April 2011 with the daily average price over the year to April 2010.

Note: WPI is the Wage Price Index and CPI is the Consumer Price Index – both published by the Australian Bureau of Statistics.

³ For example, in 2011 LPG fuel costs account for 6.6% of the urban TCI, slightly lower than their 7.2% weight in the 2010 urban TCI, due to falls in LPG prices.



Generally, we recommend that maximum taxi fares increase at 1 July each year in line with the cost increases that have occurred between 1 April of the previous year and 31 March of the current year. Data for the full year to 31 March will be available in time for us to make recommendations to Transport NSW in June. For our preliminary estimates we use the latest data available.

The process for this review

We intend to use the TCIs with the same composition as last year

We intend to use the Taxi Cost Indices with the same cost items and inflators as last year, with weightings as set out in Table 1 above. In 2008 we extensively reviewed and consulted on the costs associated with taxi services. Hence, in this review we do not intend to review the weights of the various cost items of driving and operating a taxi as these were settled in the 2008 fare review. We have also reviewed and consulted on various inflators in 2008, 2009 and 2010 and do not intend to revisit them this year.

We plan to undertake a full review of the TCIs next year

We review the composition of the TCIs from time to time (approximately every 5 years) to ensure the cost items, weightings and inflators are still relevant and to accommodate changes that may have occurred in the industry. We plan to undertake a major review of the composition of the TCIs as part of our 2012 review. We will be gathering data to inform that review this year. See below for more detail on our planned review of the composition of the TCIs in 2012.

We are seeking comment on a short list of identified issues

For this year, we have identified a short list of issues on which we particularly seek comment, as outlined below, and we will consider these and any other relevant issues raised by submissions. We will conduct our own analysis and finalise our recommendations and report to Transport NSW in early June in time for fare changes to take effect from July 2011.

Timetable for the 2011 review

Our final report and fare recommendations will be available from our website in mid-June. We will also mail a copy to people who make a submission to the review or on request.

The approximate timetable for the review is set out in Table 2. This timetable may change. You can find an up-to-date timetable on our website.

Table 2 Timetable for 2011 taxi review

| Event | Date |
|--|----------------|
| Information paper released | Mid March 2011 |
| Submissions due | 15 April 2011 |
| IPART release final recommendations and report | 15 June 2011 |
| Fare changes effective | July 2011 |

Preliminary estimate of the fare changes we will be recommending

Our estimates of changes in the urban and country TCIs are in Tables 3 and 4 below. As a result, we estimate that we will be recommending an increase of 3.4% for urban taxi fares and 3.5% for country taxi fares.

Table 3 Urban Taxi Cost Index - estimated

| | 2011 cost | 2011 weight | Inflator (increases in cost since 2010) | Fare Impact |
|-----------------------------------|-----------|-------------|--|----------------|
| Driver costs | | | | |
| Notional drivers labour costs | \$87,812 | 39.1% | 3.3% ^a | 1.3% |
| Notional self-funded entitlements | \$3,243 | 1.4% | 3.5% ^a | 0.1% |
| Driver superannuation | \$9,089 | 4.0% | 3.3% ^a | 0.1% |
| LPG fuel | \$14,732 | 6.6% | 5.0% ^b | 0.3% |
| Other | \$5,413 | 2.4% | 2.7% ^a | 0.1% |
| Total driver costs | \$120,288 | 53.5% | | |
| Operator costs | | | | |
| Driver entitlements | \$9,929 | 4.4% | 3.3% ^a | 0.1% |
| Operator salary equivalent | \$15,334 | 6.8% | 3.3% ^a | 0.2% |
| Maintenance costs | \$10,702 | 4.8% | 2.4% ^a | 0.1% |
| Plate lease costs | \$31,244 | 13.9% | 4.4% ^c | 0.6% |
| Insurance | \$18,432 | 8.2% | 4.0% ^a | 0.3% |
| Vehicle lease payments | \$5,115 | 2.3% | -2.1% ^a | 0.0% |
| Network fees | \$7,009 | 3.1% | 2.7% ^a | 0.1% |
| Other operator costs | \$6,755 | 3.0% | 2.7% ^a | 0.1% |
| Total operator costs | \$104,520 | 46.5% | | |
| Total Urban increase | | | | 3.4% |

^a The annual percentage change as measured by comparing the average of 4 quarters to 31 December 2010 with the average of 4 quarters to 31 December 2009 for WPI and CPI.

^b The annual percentage change as measured by comparing the daily average LPG price over the 9 months to 31 January 2011 with the daily average price over the year to 30 April 2010.

^c Plate lease cost information received from the NSW Taxi Council for the year to March 2011.

Note: No productivity adjustment has been included. Totals may not add due to rounding.

Table 4 Country Taxi Cost Index - estimated

| | 2010 cost | 2010 weight | Inflator (increases in cost since 2010) | Fare Impact |
|------------------------------------|------------------|-------------|---|-------------|
| Driver costs | | | | |
| Notional drivers labour costs | \$89,163 | 42.2% | 3.3% ^a | 1.4% |
| Notional self –funded entitlements | \$13,374 | 6.3% | 3.3% ^a | 0.2% |
| Driver superannuation | \$9,228 | 4.4% | 3.3% ^a | 0.1% |
| Other | \$3,426 | 1.6% | 2.7% ^a | 0.0% |
| Total driver costs | \$115,192 | 54.6% | | |
| Operator costs | | | | |
| Operator salary equivalent | \$15,570 | 7.4% | 3.3% ^a | 0.2% |
| LPG fuel | \$12,882 | 6.1% | 7.4% ^b | 0.4% |
| Maintenance costs | \$8,693 | 4.1% | 2.4% ^a | 0.1% |
| Plate lease costs | 24,621 | 11.7% | 4.4% ^c | 0.5% |
| Insurance | \$10,500 | 5.0% | 4.0% ^a | 0.2% |
| Vehicle lease payments | \$5,115 | 2.4% | -2.1% ^a | -0.1% |
| Network fees | \$9,878 | 4.7% | 2.7% ^a | 0.1% |
| Other operator costs | \$8,638 | 4.1% | 2.7% ^a | 0.1% |
| Total operator costs | \$95,896 | 45.4% | | |
| Total Country increase | \$211,088 | | | 3.5% |

^a The annual percentage change as measured by comparing the average of 4 quarters to 31 December 2010 with the average of 4 quarters to 31 December 2009 for WPI and CPI.

^b The annual percentage change as measured by comparing the daily average LPG price over the 9 months to 31 January 2011 with the daily average price over the year to 30 April 2010.

^c Plate lease costs received from the NSW Taxi Council for the year to March 2011.

Note: No productivity adjustment has been included. Totals may not add due to rounding.

The above are estimates only. We will update the TCIs with revised inflator data once the following data are available: CPI and WPI figures for the March 2011 quarter and daily average LPG prices to 30 April 2011. We will also make a judgement on productivity adjustments for labour costs, based on information in submissions and other data on productivity.

Issues we have identified for consideration

Taxi licensing changes

In late 2009 the NSW Government announced changes to the arrangements for taxi licensing. Existing ordinary and short term licences will be replaced as they expire with annual licences renewable at a fixed price for up to 10 years, and each year the Director-General of Transport NSW will determine how many additional licences

will be made available on the same terms. Additional and replacement licences will be issued by public auction or tender process.

At the moment we use information provided to us by the Taxi Council on a confidential basis to calculate the licence lease cost inflator. We have indicated our preference for a transparent, verifiable inflator for this taxi cost item inflator. Public information is now available about the newly tendered licences, including the amounts of each successful bid, as well as information about the successful bidders and the total number of bids.

Last year we advised that we would consider this issue in the 2011 review once more information was available on the value (and change in value over time) of the new licences. There is now information about 3 tranches of unrestricted licences, tendered in January and September 2010, available on Transport NSW's website. However, we still do not have annual comparison data, nor can we assess whether the licensing reforms have had an impact on the value of existing leases, which would require reweighting of the TCIs as well as changing the inflator.

At this stage we intend to use the existing inflator for the licence lease cost item and review both the weighting and the inflator in 2012.

The announced introduction of excise on LPG fuel

An excise of 2.5 cents per litre on LPG to be introduced from 1 July 2011, rising to 12.5 cents per litre by 1 July 2015, was announced by the then Commonwealth Government in 2004 and subsequently confirmed by the new Commonwealth Government in 2010. On 24 January 2011 the Assistant Treasurer announced that the introduction of the excise would be delayed to 1 December 2011. Draft legislation has been released for comment.

The TCIs take into account changes over the year prior to the fare changes. In the past stakeholders have expressed concern about the impact of fuel price volatility on the industry and we have instituted a mid-year fuel price review to help manage the impact of volatility. At this stage we think that the announced (but not yet legislated) introduction of LPG fuel excise is unlikely to have a big enough impact to warrant an adjustment to this element of the cost index.

Issues on which we seek comment

Particular issues on which we welcome comment are:

- ▼ How the overall change in costs, demonstrated by the Taxi Cost Index, should be distributed among the various fare components (flag fall, waiting time, distance charge etc).
- ▼ The extent to which changes in labour costs should be adjusted to take account of any productivity gains made by the industry.

- ▼ Any changes to the level of taxi standards of service.
- ▼ Whether we should continue to undertake a 6 monthly review of LPG costs, with a view to making a further fare recommendation in December if LPG costs have changed significantly.⁴
- ▼ How we might best gather data in 2011 to prepare for our planned major review of the composition of the TCIs in 2012 (see the section below on the planned 2012 review of the TCIs for more information).

It is helpful if submissions address the factors that we are obliged to consider in our terms of reference for the review.

Please note that we cannot consider issues raised in submissions that are outside the scope of this fare review.

Some things this review does not cover

Our role in the industry is to recommend changes to the maximum taxi fare. We have no direct role in allocating fare revenue to different industry participants (eg, drivers and operators).⁵ We do not regulate network fees or the surcharge for electronic payments. Nor do we play a role in industry regulation more generally, including taxi licensing arrangements, network regulation, or driver or operator authorisations.

Taxi service standards

As per the terms of reference of this review, we are required to consider service standards of taxis in terms of quality, reliability and safety.

We consider independent, objective and transparent information on service standards is essential for accountability and good regulation. We do not directly take account of service standards in making fare recommendations unless there has been a regulatory change to service standards. Nevertheless, we will review the available data on service performance and will summarise our findings in our report.

⁴ In 2008, in view of the volatility of fuel prices, IPART reviewed movements in LPG prices in December 2008 and recommended a mid-year fare increase to apply from 1 January 2009, because LPG prices had risen by more than 10% over the previous 6 months. Transport NSW did not accept this recommendation, nor one the following year to decrease taxi fares. In 2010 we increased the threshold for triggering a recommendation to a 20% change in prices.

⁵ IPART does not have a direct role in determining the maximum amount a driver has to pay to a taxi operator - 'the pay-in' - to drive a taxi for a shift. This is determined by the NSW Industrial Relations Commission. IPART understands that the Industrial Relations Commission uses IPART's reports when making its determination and IPART seeks to assist the Commission by separately identifying driver and operator costs.

Source of our data

Service standards are regulated by Transport NSW. Transport NSW has published taxi performance information against network standards on its website since July 2008, initially on a quarterly aggregated basis.⁶ For the period commencing 1 July 2010, Transport NSW has been publishing monthly data by network. This is something we have called for in our previous reports and we commend them for this initiative. For the purposes of this issues paper, however, we do not consider that there is sufficient data yet to make meaningful comparisons between networks. The 2010/11 data below is for the 6 months to December 2010. For our final report an additional three months of data will be available.

Performance of Sydney taxi networks

Transport NSW's benchmarks for pick ups within 15 minutes, 30 minutes and 60 minutes of booking are 85%, 98% and 99% respectively. For the first two quarters of 2010/11, Sydney taxi networks performed above their performance targets for passenger pick up time - 94% of taxis arrived within 15 minutes, 99% arrived within 30 minutes and 100% arrived within 60 minutes. This level of performance is similar to the previous period's performance.

Table 5 Pick up times as a proportion of total pick ups – Sydney networks

| | Within 15 minutes of booking | Within 30 minutes of booking | Within 60 minutes of booking |
|---------|-------------------------------------|-------------------------------------|-------------------------------------|
| 2006/07 | 92.2% | 99.2% | 100.0% |
| 2007/08 | 91.4% | 98.9% | 100.0% |
| 2008/09 | 92.9% | 99.2% | 100.0% |
| 2009/10 | 94.3% | 99.3% | 100.0% |
| 2010/11 | 94.0% | 99.4% | 100.0% |

Note: Figures for 2010/11 are up to December 2010.

Source: TNSW data.

Performance of Wheelchair Accessible Taxi (WAT)

The pick up benchmarks for WATs are the same as those for standard taxis. In aggregate, the networks' performances have remained below the required benchmarks despite improvements over the past 4 years.

⁶ See <http://www.transport.nsw.gov.au/taxi-network-performance>

Table 6 Pick up times as a proportion of total pick ups – Wheelchair accessible taxis

| | Within 15 minutes of booking | Within 30 minutes of booking | Within 60 minutes of booking |
|---------|-------------------------------------|-------------------------------------|-------------------------------------|
| 2006/07 | 70.9% | 91.3% | 99.1% |
| 2007/08 | 77.9% | 95.2% | 99.5% |
| 2008/09 | 78.3% | 96.1% | 99.7% |
| 2009/10 | 82.9% | 96.8% | 99.8% |
| 2010/11 | 81.0% | 97.0% | 99.7% |

Note: Figures for 2010/11 are up to December 2010.

Source: TNSW data.

Customer feedback on urban taxis

Complaints and compliments are recorded by Transport NSW's Customer Feedback Management System (CFMS). It is an important indicator of passengers' satisfaction with taxi services. For the past three years we have noted an overall decrease in the number of complaints recorded by the CFMS. While this has occurred at a time when we estimate that numbers of taxi trips also decreased, the decrease in complaints is larger than the indicated decrease in taxi trips.

However, only a small number of passengers are likely to be motivated to make a formal complaint or compliment to the CFMS and as a result it does not provide a full picture of service outcomes. We have previously recommended that Transport NSW undertake regular passenger surveys as a means of gauging customer satisfaction. We note that the Government, in its response to the Legislative Council Select Committee on the NSW Taxi Industry report, advised that Transport NSW plans to conduct a regular random survey of taxi passenger satisfaction and publish the results.

We intend to undertake a major review of the TCIs in 2012

We do not intend to change the composition of the TCIs in this review. However, we are gathering information this year to inform a major review of the TCIs next year. We will be undertaking a survey of drivers and operators this year to gather information about the costs of operating a taxi.

We are also seeking information from the taxi networks about "utilisation data" – information on the amount of time drivers and taxis spend on the road each year, the number of fares per shift and so on. We use this kind of data when we are reviewing the composition of the TCIs to cross-check whether the estimated revenue generated by our fare changes is at an appropriate level.

We are interested in stakeholders' views on the best way to obtain accurate, verifiable, representative data for our needs.

How to make a submission

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 15 April 2011.

Submissions received after the deadline will not be accepted unless an extension has been granted prior to 15 April.

We would prefer to receive submissions by email <ipart@ipart.nsw.gov.au>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

2011 Review of Taxi Fares

Independent Pricing and Regulatory Tribunal

PO Box Q290

QVB Post Office NSW 1230

Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning a member of the taxi review team on (02) 9290 8400.

If you would like further information on making a submission, IPART's submissions policy is available on our website.