

Independent Pricing and Regulatory Tribunal
New South Wales

Review of taxi fares in NSW and taxi licences outside Sydney from July 2018



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ISBN 978-1-76049-125-3

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Invitation for submissions

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

Submissions are due by 13 October 2017.

We would prefer to receive them electronically via our online submission form <www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

You can also send comments by mail to:

Taxi review
Independent Pricing and Regulatory Tribunal
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If you would like further information on making a submission, IPART's submission policy is available on our website.



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1 Introduction

For many years, the taxi industry was the dominant provider in NSW of point to point transport services – that is, services that take customers from A to B at the time and via the route they choose. The taxi industry has also been highly regulated. For example, the NSW Government has regulated how many taxis are licensed to operate, where and when they can operate, how they may accept hirings, and the maximum fares taxi drivers can charge customers. The Independent Pricing and Regulatory Tribunal (IPART) recommended these maximum fares each year from 2001 to 2015.

However, in recent years the industry has undergone significant change. New service providers have emerged to compete with taxis to provide booked point to point transport services. Transport for NSW (TfNSW) has changed the way it issues taxi licences in the Sydney market to better balance supply and demand for taxi services. IPART recommended the number of new annual licences to be released in this market each year from 2013 to 2015.

Now, further changes are occurring. From 1 November 2017, a new regulatory framework will apply to all point to point transport service providers including:

- ▼ **taxis**, which can provide booked trips and accept hirings from taxi ranks and street hails (rank and hail services), and
- ▼ **hire vehicles**, which include traditional hire cars and rideshare providers, and can only provide booked trips.¹

Under this new framework, the fares for booked taxi trips will no longer be regulated. Like hire vehicles, taxis will be able to set their own charges for these trips, and customers can readily shop around to find a price and service that best suits their needs. Transport for NSW will continue to regulate maximum fares for rank and hail services, although it envisages more flexibility for taxi service providers to set their own rank and hail fares as long as they do not exceed the regulated maximums. Transport for NSW expects taxi service providers to begin to compete on price as well as service quality, with customers able to make choices about what rank or hail services they use.

In addition, from 2018 Transport for NSW will use the approach it now uses in Sydney to issue taxi licences in all other markets in the state. That is, by 31 March each year, it will decide on the number of new licences to be released from July that year. Then, it will issue these as annual licences that are renewable for up to 10 years. The (annual) price of the licences will be set by a tender process.

¹ TfNSW, *Media Release - NSW to welcome a fairer playing field for taxis and hire vehicles*, 18 August 2017.

1.1 What has IPART been asked to do?

The Government has asked IPART to review and make recommendations on:

1. The maximum fares for rank and hail taxi services both **in Sydney** and **outside Sydney** from July 2018.
2. The number of new annual taxi licences to be released **outside Sydney only** from July 2018.²

We will conduct parallel reviews, with a common process, to address both these matters. This Issues Paper sets out our proposed approach to the reviews and the issues we will need to consider, and seeks input from stakeholders.

In making our recommendations, we must consider each of the matters listed in the relevant statutory provisions. (See Box 1.1 for more detail.)

Box 1.1 Considerations for fare and licence reviews

Summary of factors we must consider in making recommendations on fares:

- ▼ The cost of providing the services
- ▼ The need for greater efficiency in their supply so as to reduce costs for the benefit of consumers and taxpayers
- ▼ The protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service.
- ▼ The social impact of the recommendation.
- ▼ The impact on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport.
- ▼ Standards of quality, reliability and safety of the services concerned.
- ▼ The effect of any recommendation on the level of Government funding.
- ▼ Any matter specified in our referrals.
- ▼ Any other matters we consider relevant.

Summary of factors we must consider in making recommendations on licences:

- ▼ Likely passenger demand and latent demand for taxi services.
- ▼ The performance of existing taxi services.
- ▼ The demand for new taxi licences.
- ▼ The viability and sustainability of the taxi industry.

Any other matters we consider relevant, having regard to the objective of ensuring improved taxi services.

² The Government has previously announced that it will not issue any new “growth” annual taxi licences in Sydney in 2018-19, although it may issue replacements. (NSW Government, *Point to point transport – The NSW Government response to the taskforce report*, p 2).

The NSW Government has also specified in our referrals certain additional matters that we must consider in making our recommendations. These matters are set out in Box 1.2.

Box 1.2 Matters specified in our referrals for fare and licence reviews

Additional matters we must consider in making recommendations on fares:

- ▼ The Point to Point Transport Taskforce Report and the NSW Government's response to this report.
- ▼ Whether TfNSW should continue to determine the components of the maximum fare including flagfall, distance rate and waiting time rate.

The full terms of reference for the fare reviews are set out in Appendix A.

Additional matters we must consider in making recommendations on licences:

- ▼ The Point to Point Transport Taskforce Report and the NSW Government's response to this report.
- ▼ Whether there should be any restrictions placed on any of the taxi licences to be issued.
- ▼ Whether the taxi licences to be issued should specify the operating area to be anything other than outside the Metropolitan transport district.

The full terms of arrangement for the licence review are set out in Appendix B.

1.2 What is our objective for this review?

In recommending maximum taxi fares and new licence numbers, our objective is to help to improve taxi services so that:

- ▼ Passengers can catch taxis at a rank or by hailing when they want them, with waiting times that aren't too long.
- ▼ Fares for rank and hail services are affordable for passengers and passengers understand what fares they will be charged.
- ▼ Taxi service providers can cover the efficient costs of providing rank and hail services, including their own labour.
- ▼ Prospective taxi service providers can enter taxi markets outside Sydney without prohibitive set-up or operating costs.

1.3 How will we approach this review?

Although IPART has made recommendations on taxi fares since 2001, and on annual taxi licences for Sydney since 2013, the rapid changes in the point to point transport industry mean that the way in which we approach this review will be different from the past.

In our view, the most effective way to encourage the efficient supply of taxi services and protect customers from abuses of monopoly power is through competition. In fully competitive markets, businesses cannot set prices above the efficient costs of supply without

losing customers to their competitors or new entrants. The level of competition also influences the type of fare and licence regulation that is necessary.

Therefore, the first step in our proposed approach for this review will be to assess the current level of competition in the market for taxi services across NSW. The Government has already decided that competition for booked taxi services is sufficient to deregulate fares for these services entirely. We will consider our findings on competition to decide:

- ▼ whether there is scope to move to a more light-handed approach to regulating fares for rank and hail services, where taxi service providers have more flexibility in setting fares, or
- ▼ whether a more prescriptive approach remains necessary, similar to the way in which taxi fares have been regulated in the past, or
- ▼ a mix of the two approaches, differentiated by area.

We will then consider the appropriate structure and level of fares to recommend in light of this decision.

We will also consider the appropriate number of new taxi licences to be released outside Sydney in light of our findings on competition in this market. Releasing additional licences is one way to encourage competition. We will consider how many new licences should be released for the first year of this new process, and whether the Government should specify where any new licences go, or allow the market to determine that.

1.4 How will we conduct this review?

In conducting the review, we will undertake public consultation and do research and analysis. This Issues Paper is the first step in our consultation process, and identifies the key issues on which we seek stakeholder input. We invite all interested parties to make submissions in response to the paper by 13 October 2017. Page iii (at the front of this paper) explains how to make a submission.

Once we have undertaken our analysis and considered the submissions we receive, we will release a Draft Report in December that explains our draft findings and recommendations, and seek further submissions. We will also hold at least two public forums early in 2018 – one in Sydney and one in a regional area – to provide stakeholders with another opportunity to comment on the Draft Report.

We will consider all submissions and public forum comments on the Draft Report before making our final recommendations, and provide our Final Report to the Minister for Transport and Infrastructure by 9 March 2018.

Table 1.1 sets out an indicative timetable for the review. We will update this timetable on our website as the review progresses.

Table 1.1 Indicative review timetable

	Date
Issues Paper release	12 September 2017
Issues Paper submissions due	13 October 2017
Draft Report release	December 2017
Public Hearings	January/February 2018
Draft Report submissions due	February 2018
Final Report submission to Minister	9 March 2018
Transport for NSW determine number of new licences	31 March 2018

1.5 How is this paper structured?

The remaining chapters provide more information on the review, our proposed approach and the issues we will consider:

- ▼ Chapter 2 explains the context for the review, including information on the new regulatory framework that will apply to taxi and other point to point transport service providers in NSW from 1 November 2017.
- ▼ Chapter 3 outlines the issues we propose to analyse to assess whether the market for rank and hail services is a competitive market.
- ▼ Chapter 4 discusses our proposed approach to recommending maximum fares.
- ▼ Chapter 5 discusses the issues we propose to consider and our preliminary views on an approach to recommending the number of new licences to be released outside Sydney.

Each chapter identifies the issues on which we particularly seek stakeholder comment. For convenience, they are also listed below.

1.6 Which issues are we seeking comment on?

This section lists all the questions on which we particularly seek stakeholder comment. You do not need to comment on every question.

1.6.1 We are seeking comments on the level of competition in the market

- 1 What is your view on the level and nature of competition in the rank and hail market?
Does it vary by region of NSW or by time of day? 27
- 2 How do you think the new regulatory framework for point to point transport will affect competition in the rank and hail market in the future? 27

1.6.2 We are seeking comments on maximum fare regulation

3	Do you agree with the principles we have established to guide our approach to assessing the structure of fares for rank and hail services? What other factors should we consider?	29
4	Should TfNSW's fares order continue to specify rank and hail tariff components, or is there merit in an alternative for regulating maximum fares, such as flat maximum fares per distance travelled?	31
5	If TfNSW's fares order continues to specify rank and hail tariff components:	32
	– What should those components be? (Currently they are hiring charge, distance rate and waiting rate).	32
	– Should they include a minimum fare? (Currently there is no minimum fare).	32
	– Should they include a higher distance rate for longer trips? (Currently a higher distance rate applies for each km travelled over 12km in country areas only)	32
6	Should TfNSW's fares order specify the time period when peak tariffs may apply, restrict the number of hours peak tariffs may apply, or not restrict the time or number of hours when peak tariffs may apply?	33
7	Should TfNSW's fares order change the relativities between different tariff components, and/or between tariffs at different times of the day or week? Or should the fares order allow taxi service providers the flexibility to make decisions about relativities themselves?	35
8	Do you agree that the cost of providing taxi services is stable or declining? If not, what evidence is there that costs are increasing?	38
9	Are current fare levels too low, too high or about right?	38
10	What are the risks and potential benefits of setting maximum tariff components above the level of efficient costs? Are current fare levels sufficient to allow price and service innovation by taxi industry participants?	38
11	What non-tariff charges should be included in TfNSW's fares order? What amount should be charged in the following circumstances:	40
	– a taxi is hired for more than four passengers from a rank or hailed from the street?	40
	– a passenger soils a taxi?	40
12	Should TfNSW's fares order specify that the Passenger Service Levy may be charged directly as a non-tariff charge, or should we take the cost of the levy into account when recommending maximum tariff components?	40
13	There are currently two fare zones ('urban areas' and 'country areas') in TfNSW's fares order. How many fare zones should there be, and why?	41
14	What, if any problems are there with the current arrangements for out-of-area fares? What could be done to address these problems?	41

15	Are the fare notification requirements in the <i>Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017</i> sufficient to facilitate comparison of the fares offered by different rank and hail service providers?	42
1.6.3 We are seeking comments on the release of taxi licences		
16	Are there particular characteristics of the rank and hail market that require the supply of licences to continue to be regulated?	43
17	Should all new licences be allowed to operate anywhere outside the Sydney Metropolitan Transport District? Alternatively, should new annual licences only be issued for areas with an identified shortage of rank and hail services? If you think additional operating area restrictions should be applied, what should they be, and why?	49
18	Should a large number of new taxi licences be issued to effectively remove supply constraints on the provision of taxi services outside Sydney? If so, should the licences be issued in one release, or gradually over several years?	49
19	Should a number of new annual licences be allocated to replace country taxi short-term and short-term fringe licences? If so, should these new annual licences be restricted to operating in the same areas as the current country taxi short-term and short-term fringe licences?	49
20	What are the likely impacts of the different options for issuing new licences on the sustainability of the rank and hail market?	51
21	Should there be any restrictions on:	52
	– The areas of operation for new licences in cross border areas?	52
	– The operation of new licences? If so, what type of restrictions?	52
22	Should some new taxi licences be reserved for persons authorised to provide taxi services?	52
23	Should there be a limit on the number of taxi licences issued to the same applicant or related applicants?	52

2 Context for this review

As Chapter 1 discussed, from November this year a new regulatory framework will apply to taxi and other point to point transport service providers in NSW. The new framework builds on earlier reforms in response to the increasing competition in the point to point transport industry, spurred by technologies such as smartphones. These technologies have changed the ways people obtain information about, and access to, point to point transport services, and have enabled the development of commercial ridesharing as a new option.

The new framework is provided by the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* ('Point to Point Act') and the *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017* ('Point to Point Regulation'). It clarifies and simplifies the primary service and regulatory responsibilities for point to point transport and the entities which are responsible for them.

This new framework also affects how taxi fares are regulated across NSW and the way that taxi licences are issued outside Sydney, and so provides important context for this review. The sections below outline the current arrangements for regulating taxi fares and issuing licences, and the new arrangements to apply from November 2017.

2.1 What are the current regulatory arrangements?

Until recently, commercial ridesharing services were illegal in NSW and the taxi and hire car industries were highly regulated. From December 2015, the Government introduced the first set of changes to the point to point transport industry. For example:

- ▼ Commercial rideshare was legalised, and rideshare drivers were required to obtain a hire car driver accreditation and register their car as being used for business purposes.
- ▼ Some of the more prescriptive requirements for taxi drivers (such as wearing a uniform) and operators (such as completing an operators' training course) were removed.
- ▼ Some of the more prescriptive requirements for hire cars (such as minimum vehicle size and value specifications) were removed. The requirement for a hire car licence was also removed.

However, the current regulatory arrangements for taxi fares and licensing are still relatively prescriptive.

2.1.1 There are currently two designated taxi fare zones in NSW

Maximum taxi fares are specified by a fares order issued by Transport for NSW. The current taxi fares order dates from 2014. Although fare components are set as maximums (rather than being prescribed), in practice taxi meters are all set to the regulated maximum fare. Taxi drivers may charge what is on the meter (plus any additional authorised charges such

as the airport access fee),³ or can discount from that, although in practice discounting rarely occurs.

There are two designated fare zones: urban and country. The urban zone is specified as:

- ▼ Metropolitan Transport District (Sydney)
- ▼ Newcastle Transport District
- ▼ Wollongong Transport District
- ▼ Blue Mountains Local Government Area
- ▼ Gosford Local Government Area and Wyong Local Government Area
- ▼ Shellharbour Local Government Area
- ▼ The townships of Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo.

The country zone is all areas in NSW excluding Urban Areas and Exempt Areas. Exempt Areas are the townships of Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin.

Current urban and country fare schedules are set out in Table 2.1.

Table 2.1 Maximum taxi fares from 12 December 2014

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

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

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

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

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

Source: Section 125 Fares Order for Taxi Services, NSW Government Gazette, No 116, 5 December 2014, pp 4430-4432.

³ Drivers may charge more than the authorised maximum fare only if the passenger's destination is outside the taxi's area of operations and an additional amount is agreed between driver and hirer before the start of the journey (*Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017* ('Point to Point Regulation'), cl 57).

2.1.2 Taxi licences are limited in number and contain various restrictions

In NSW, a taxi licence authorises its holder to use a vehicle as a taxi; that is, they can supply booked services and accept hires from taxi ranks and street hails. Every taxi must have a taxi licence to operate.

A range of different types of taxi licence are currently valid. Licences can be defined by where, when and how the taxi concerned can be operated, as well as by how long the licence is valid and whether or not it can be sold or leased.

All taxi licences are valid for rank and hail services in a specified geographical area only – for example, the Sydney Metropolitan Transport District, or the Orange Local Government Area. (Since December 2015, taxi licences have been valid for **booked** services anywhere in NSW.) If there are no other conditions on their operation, then licences are known as unrestricted licences.

However, some taxi licences do place further conditions on how a taxi can be operated. These are:

- ▼ *Peak Availability Licences (PALs)* – Sydney only – can only be operated between 12 noon and 5 am, and are typically driven for a single shift per day.
- ▼ *Fringe Area Licences* – are authorised for hire only within the area of operation. They can only accept hires that originate outside their area of operation where the hiring has been pre-booked and the person is being taken to a place within the area of operation.
- ▼ *Wheelchair Accessible Taxi (WAT) licences* – must be operated to give preference to transporting wheelchair users.

In addition to the conditions on licences, the Government issues some taxi licences for a certain timeframe, and issues some types of licence that may be traded and others which may not. The different kinds of licence in NSW, by tenure category, are:

- ▼ *Ordinary licences* – can be freely traded and, in effect, last forever.⁴ These licences are no longer issued.
- ▼ *Annual licences* – are valid for a year, but are automatically renewable for a term of up to 10 years. The ownership of these licences cannot be transferred; however, the owners may lease them to another operator.
- ▼ *Short-term licences* – are valid for a term of up to six years. The ownership of these licences cannot be transferred; however, the owners may lease them to another operator.

Until 2009 in Sydney and 2015 elsewhere in NSW, new ordinary or short-term licences were available on application from the Government at the current market value.

Since December 2009, Transport for NSW has controlled the number of taxis in Sydney through an annual determination of the number of annual licences (other than WAT licences)⁵ to be released through a public tender process. The Government asked IPART to recommend the number of licences that TfNSW should determine for release each year

⁴ Ordinary licences have 50-year terms; however, they come with a right of renewal, so they are effectively perpetual.

⁵ Annual WAT licences are available for free from Roads and Maritime Services on request. Previously there was a \$1000 per year licence fee in Sydney, Newcastle and Wollongong.

between 2013 and 2015. In 2015, the Government announced that no “growth” annual licences (except WAT licences) would be issued for four years in Sydney, although an annual determination of the number of replacement licences would continue.⁶

2.2 What are the new regulatory arrangements?

Since December 2015, the Government has developed, enacted and partially commenced the new Act, and developed and published the new Regulation. Together, they focus on driver and passenger safety and consumer protection outcomes rather than unnecessarily prescriptive requirements. The new regulatory framework will commence fully on 1 November 2017 (except for the Passenger Service Levy, which will commence in February 2018). Under this framework:

- ▼ Taxis and hire vehicles can provide booked services, but only taxis can provide rank and hail services.
- ▼ Both taxi service providers and booking service providers need to be authorised.
- ▼ Taxi drivers and hire vehicle drivers no longer need to be authorised.
- ▼ Only fares for rank and hail services will be subject to regulated maximums.
- ▼ Booked service providers, whether in taxis or hire vehicles, must give a fare estimate to customers before their trip starts.
- ▼ Only operating areas for rank and hail services will be regulated.
- ▼ Booked service providers, whether in taxis or hire vehicles, may provide services anywhere in NSW.
- ▼ Taxi service providers and booked service providers will be required to pay the Government a Passenger Service Levy of \$1 per trip.
- ▼ The same arrangements for annual renewable licences as in Sydney will apply to licences outside Sydney, with Transport for NSW determining a number to issue by tender each year.
- ▼ WAT licences will continue to be available on application to the Point to Point Commissioner.

This section sets out more detail of the key elements of the new framework that are relevant to our review.

2.2.1 The regulatory framework differentiates taxis and hire vehicle

The new regulatory framework makes a distinction between booked services and rank and hail services. Both taxis and hire vehicles can provide booked services, but only taxis can provide rank and hail services. Additional regulatory requirements for identification of drivers and vehicles, security arrangements for vehicles and vehicle occupants and for fares apply to rank and hail work. This is because drivers and customers for these types of trips are not identified by a booking process, and because customers have less information about the availability of alternative services and alternative prices than those who make bookings.

⁶ NSW Government, *Point to point transport – The NSW Government response to the taskforce report*, December 2015, p 2.

A **taxi**:

- ▼ must be licensed (with a T or TC number plate)
- ▼ can be used to provide rank and hail services only within the operating area specified in the licence
- ▼ can be used to provide booked services anywhere within NSW
- ▼ requires a roof light and a sign that says “TAXI”, and, in some areas, specified security equipment, and
- ▼ must have seating accommodation for the driver and for at least four and not more than 11 other adults.⁷

A **hire vehicle (eg, hire car and rideshare car)**:

- ▼ does not require a licence
- ▼ can be used to provide booked services anywhere within NSW, and
- ▼ requires signage that clearly identifies it as a hire vehicle while providing a passenger service (except for motor cycles).⁸

2.2.2 Both taxi service providers and booking service providers must be authorised

To provide a **taxi service**, a person, company or partnership must be an authorised taxi service provider or be affiliated with one:

- ▼ **An authorised taxi service provider** sets their own fares and has their own branding.
- ▼ **An affiliated taxi service provider** adopts the fares and branding of the authorised provider with which they are affiliated.

Most current taxi operators will automatically transition to the new regulatory system as **affiliated** taxi service providers.

To provide bookings for a point to point transport passenger service – whether in a taxi or hire vehicle - a person, company or partnership must be an **authorised booking service provider**.

Current authorised **taxi networks** will automatically transition to being authorised taxi service providers **and** authorised booking service providers.

Current accredited **hire car operators** and accredited **4WD tourist service operators** and **motorcycle tourist service operators** will automatically transition to being authorised booking service providers. Standalone **booking facilities for hire vehicles (including rideshare)** are not recognised under the current legal framework, but will be required to become authorised booking service providers under the new framework.

⁷ *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* No 34 ('Point to Point Act'), s 47 and s 56; *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017* ('Point to Point Regulation'), Pt 2, Div 3.

⁸ *Point to Point Regulation*, cl 20.

The current conditions for authorised taxi service providers and authorised booking service providers are outlined in Table 2.2. The Point to Point Commissioner may also impose additional conditions.

Table 2.2 Conditions for authorised taxi service providers and booking providers

Authorised taxi service providers and authorised booking service providers must:	
<ul style="list-style-type: none"> ▼ comply with safety standards (including having a safety management system in place to manage and eliminate risk) ▼ keep records to demonstrate compliance with safety standards ▼ keep a record of registration details for all cars in fleet ▼ keep a record of full names and driver licence numbers of all drivers ▼ keep a record, for at least two years of the date, start and end time of each journey, and the start and final location of each journey, and ▼ pay the Passenger Service Levy (from February 2018) to the NSW Government to fund the adjustment package for taxi and hire car licence owners. 	
In addition, authorised taxi service providers must:	In addition, authorised booking service providers must:
<ul style="list-style-type: none"> ▼ keep contact information for affiliated providers ▼ for each journey, keep a record for at least two years of the fare amount 	<ul style="list-style-type: none"> ▼ give passengers driver and vehicle details at the time of booking ▼ ensure hire vehicles have signage that clearly identifies them while providing a passenger service. ▼ for each booking, keep a record for at least two years of <ul style="list-style-type: none"> – the date and time of the booking – contact information for at least one of the passengers, or the person who made the booking or the person who paid for the journey. – if the booking was passed on to another booking service provider, the name of the booking service provider

Source: Point to Point Act and Point to Point Regulation

2.2.3 Only rank and hail fares will be subject to regulated maximums

Under the new regulatory framework, fares for all booked trips, **including those in taxis**, will not be subject to maximum fare regulation. Booked service providers must provide a fare estimate to prospective passengers before their trip commences. Fares for rank and hail services will continue to be subject to maximum fare regulation, set by Transport for NSW.

Transport for NSW envisages more competition for rank and hail services in the future, including competition on price and on service levels. Taxi service providers will be required to publish and display a “Taxi fare structure” setting out all their fees and charges for rank and hail services, in the same way they are currently required to display the maximum fare schedule. “Taxi fare structure” components will not be permitted to exceed the maximum fares set out in the fares order.

One of the issues we will consider in this review is whether the fare components should continue to be specified in the fares order, or whether taxi service providers should have flexibility to offer different fare structures, which may or may not include the traditional flag fall/distance rate/waiting time rate structure. This issue is discussed in Chapter 4.

The regulatory framework also moves away from prescribing taxi meters to describing a “fare calculation device”. In the short term, we expect taxi service providers will continue to use the existing meters installed in the taxis.

Although booked taxi fares will not be subject to maximum fare regulation after 1 November 2017, taxi service providers may continue to charge metered rank and hail fares for booked trips if they choose to. We also note that, for Taxi Transport Subsidy Scheme bookings,⁹ fares must be calculated using the fare calculation device as if the trip were a rank or hail service.¹⁰

2.2.4 The Government will issue new taxi licences outside Sydney

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

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

Outside Sydney, ordinary licences and short-term licences continued to be issued by the Government, with prices set at the ‘market value’ by a variety of methods.¹¹ However, similar issues with a mismatch of supply and demand emerged in some areas outside Sydney, where licence prices are as high as, or even higher than, Sydney.

The NSW Government has now decided to apply the same process as in Sydney to issuing licences in areas outside Sydney. There will be a determination of the number to be released, and one or more tender processes to set prices and release the licences. The Government has also announced that the new licences will be valid for operation anywhere outside Sydney, unless determined otherwise. The Government has asked IPART to advise on whether operating areas should be specified or not, and we will consider that as part of this review. Chapter 5 discusses issues around issuing licences in more detail.

2.2.5 We will make recommendations on taxi rank and hail fares and licences only

This review will not recommend fares for booked services provided in taxis or hire vehicles, as they are not regulated under the new framework. Nor will we make recommendations

⁹ The Taxi Transport Subsidy Scheme (TTSS) provides support for NSW residents who are unable to use public transport because of a disability. The subsidy covers 50 per cent of the total fare with a maximum subsidy of \$60 per journey and is claimed using travel dockets. (TfNSW, 2017, *Taxi Transport Subsidy Scheme*, accessed 29 August 2017, <<https://www.transport.nsw.gov.au/community/concessions-and-schemes/taxi-transport-subsidy-scheme>>).

¹⁰ Point to Point Regulation, cl 81(2).

¹¹ *Passenger Transport Act 2014*, s 107.

for courtesy transport or community transport, which are not covered by the new framework. However, we will consider booked services undertaken in taxis and hire vehicles, and services provided by courtesy transport and community transport in our assessment of competition in the point to point transport industry (see Chapter 3) and in our assessment of demand for rank and hail services (see Chapter 5).

2.3 What other reviews are relevant to point to point transport?

As noted earlier, the point to point transport industry is currently undergoing significant change, which has entailed reviewing regulatory, insurance, industrial and funding arrangements, among other things. This section describes some of the other reviews which deal with matters that are outside IPART's terms of reference for this review.

2.3.1 TfNSW is reviewing subsidies and incentives for disability transport

TfNSW is reviewing the subsidies and incentives for point to point transport services for people with a disability. The review will make recommendations on the future operation of the Taxi Transport Subsidy Scheme and the incentives provided to WAT operators and drivers to provide services to customers with a disability. It will assess the feasibility of moving to a service provider-neutral subsidy scheme, allowing customers more choice through booked service providers other than taxis.¹²

2.3.2 CTP insurance reform means premiums will be based on vehicle usage

As part of broader Compulsory Third Party (CTP) reforms, the Government has changed the way insurers must set CTP premiums for owners of point to point transport vehicles.

Premiums paid by point to point transport vehicle owners will include a vehicle usage component. This means that vehicles that are on the road more will pay higher premiums than those that are only used for commercial point to point transport for a limited time each week.

SIRA has the power to collect necessary data from point to point transport providers to assist in setting usage-based premiums.¹³

2.3.3 Taxi driver bailment arrangements will continue to be regulated for now

Many taxi drivers enter into contracts of bailment with taxi operators and, as such, are referred to as 'bailee drivers'.

Under Chapter 6 of the *Industrial Relations Act 1996* (NSW), the NSW Industrial Relations Commission (IRC) is empowered to make contract determinations for drivers under a bailment in respect of driver remuneration, annual, sick and long service leave, the

¹² TfNSW, 11 April 2017, *Disability subsidy scheme to be more efficient and effective*, accessed 30 August 2017, <<https://www.transport.nsw.gov.au/newsroom-and-events/media-releases/disability-subsidy-scheme-to-be-more-efficient-and-effective>>

¹³ SIRA, *Outcomes*, accessed 30 August 2017, <<https://www.sira.nsw.gov.au/consultations/review-of-ctp-motor-vehicle-insurance-point-to-point-transport-vehicles/outcomes>>.

minimum and maximum number of bailment hours and other matters it considers necessary.

The *Taxi Industry (Contract Drivers) Contract Determination 1984* regulates driver bailment arrangements for the Sydney Metropolitan Transport District, including the maximum “pay-in” that drivers make to “bail” the taxi from the operator for a shift.

The Determination does not apply to drivers outside the Sydney region, and so in regional and rural areas of New South Wales taxi operators are not obliged to provide annual, sick and long service leave to their permanent bailees.

The Parliamentary Standing Committee on Transport and Infrastructure completed an investigation on industrial relations across the point to point transport industry in October 2016.

The Committee recommended that the NSW Government consider amending the *Industrial Relations Act 1996* (NSW) to remove contracts of bailment from the jurisdiction of the IRC. In its response to the investigation the Government said that “the NSW Government will continue to monitor developments in the point to point transport industry to determine whether changes to Chapter 6 of the *Industrial Relations Act 1996* are required at a later time.”¹⁴

2.3.4 IPART is reviewing rural and regional bus fares

IPART has been asked to determine the maximum fares for rural and regional bus services from 1 January 2018, and provide advice to the NSW Government on the development of on-demand services in rural and regional areas of NSW.

In our issues paper for the review of rural and regional bus fares,¹⁵ we identified taxis and hire vehicles as among potential suppliers of on-demand transport services in regional areas. We also sought comment on what incentives could be developed to facilitate the provision of more on-demand services.

¹⁴ NSW Government response to the Legislative Assembly Committee on Transport and Infrastructure’s report entitled *Workplace Arrangements in the Point to Point Transport Industry*, 19 April 2017, p 1, <https://www.parliament.nsw.gov.au/committees/DBAssets/InquiryReport/GovernmentResponse/6081/Government%20Response%20to%20LA%20Transport%20and%20Infrastructure%20Comm%20Report%201-56.pdf>, accessed 11 September 2017.

¹⁵ IPART, *Review of rural and regional bus fares from January 2018 – Issues Paper*, May 2017

3 Assessing competition in the NSW taxi services market

The first step in our proposed approach for this review is to assess the level of competition in the market for rank and hail services across NSW. Our findings on competition will influence our recommendations on both fares for rank and hail services and the number of new licences outside Sydney.

If competition in the market is effective, customers have choices about the service provider they use, and can shop around for a better deal if they think the fare is too high. Service providers are discouraged from charging fares above the level of their efficient costs, or providing poor levels of service, by the threat of losing customers to competitors in the market (or potential competitors yet to enter the market).

Therefore, if competition is effective, the regulation of fares can be more light-handed. Allowing taxi service providers more flexibility to set fares for rank and hail services has the advantage that they know their business better than the regulator, so competitive pressure may drive fares down to a lower level than we set. In addition, more flexibility may allow them to innovate in how they deliver their services. These innovations may also drive fares lower, or result in services that better meet customer needs.

One factor that determines the level of competition for rank and hail services is the supply of taxi licences in the market. If there is an adequate supply of licences for a reasonable price, there are lower barriers to entry into the market and the number of taxis competing to provide rank and hail services is likely to rise until it matches the demand for these services. An adequate supply of taxis discourages higher than efficient fares, as suppliers do not need to recover the costs of high taxi licence fees and customers are more likely to shop around for a better deal if they don't have to wait for a long time for another service provider.

Another factor that determines the level of competition for rank and hail services is the availability of alternative services. Hire vehicles cannot provide rank and hail services, but if a customer can choose easily between waiting at a rank for a taxi or booking a hire vehicle via an app, then hire vehicles are competing with rank and hail services.

To assess whether the market for rank and hail services is a competitive market, we propose to analyse the following issues:

- ▼ the definition of the market, including the existence of alternatives to rank and hail taxi services
- ▼ the structure of the market, including who is contesting it and the barriers to entering it
- ▼ the conduct of the market, including whether there is competition on price and/or service, and whether customers are aware of the competing options and able to make an informed choice between the competing options, and

- ▼ customer outcomes, including whether customers are switching between different providers of taxi and taxi-substitute services.

The sections below discuss each of these issues in more detail, outline our preliminary views, and identify the questions on which we particularly seek comment.

3.1 How should the market be defined?

Markets are generally defined by four main factors:

1. the **product** being offered and how readily it can be substituted
2. the **geographic space** in which substitution can occur
3. the **functional** level of production in which competition occurs, and
4. the **time** when the product is available for sale.

We will consider each of these factors.

3.1.1 Taxis compete with other forms of point to point transport

While our recommendations for this review will apply to taxi licences and rank and hail services only, the service being offered may be defined more broadly than this. We need to consider whether there are alternative services available, and how closely and easily they may be substituted. If there are close substitutes available, they may effectively operate in the same market.

Our preliminary view is that other point to point transport services are a substitute for rank and hail services. Booked services provided by taxis or hire vehicles are a near perfect substitute for rank and hail taxi services. For example, a customer who arrives at a taxi rank to find no taxis there could easily use a smartphone app to book a taxi or hire vehicle for immediate pick-up. Similarly, if there are no cruising taxis in a street, a customer could use an app to book a taxi or hire vehicle for immediate pick-up.

Courtesy transport and community transport services are substitutes for booked and/or rank and hail taxi services, although imperfect. For example, a booked service or rank or hail service could take the place of most courtesy bus and community transport trips. However, community buses and courtesy transport can substitute for only some booked services or rank and hail taxi services. Courtesy buses provide transport only to or from the provider's premises (such as a club), and community transport is only available to eligible clients (generally people experiencing transport disadvantage, such as those who are financially disadvantaged, isolated or older).

For some customer groups, the cost of rank and hail services and booked services means they are not viable alternatives to the free or low-cost options provided by courtesy buses or community transport. For others, the lack of a smartphone or credit/debit card may mean that some of the booked services are not viable alternatives to rank and hail services.

Given the above, our preliminary view is to define the market to include all point to point transport services, including rank and hail services, booked services (in taxis or hire

vehicles), courtesy buses, community transport and, where available, on-demand bus services. We consider rank and hail is one segment of this larger market.

3.1.2 There are distinct geographic markets

There is an inherent geographic constraint to the market for point to point transport - the point to point transport vehicle must be near the customer to offer a service.

This inherent geographic constraint has been reflected in and reinforced by regulatory restrictions on where taxis can operate (the taxi operating area specified in the licence). However, the new regulatory framework and Government position statements are reducing these regulatory constraints. For example, the Government supports recommendations of the Point to Point Transport Taskforce¹⁶ which would result in:

- ▼ Maintaining a distinction between Sydney licences and other taxi licences.
- ▼ Releasing a small number of new taxi licences outside Sydney each year that can be used anywhere in NSW outside Sydney.¹⁷
- ▼ Retaining the operating area restrictions (for rank and hail services) on existing taxi licences outside Sydney in the shorter term, and reviewing boundaries over the next four years.
- ▼ Removing the operating area restrictions for booked service providers (so that booked services in taxis and hire vehicles may be provided anywhere in NSW).

The geographical expanse of a market is likely to increase when regulatory constraints are removed on where booked services can be provided by taxis, and if taxi licences do not have regulated operating areas.

3.1.3 Our focus is on competition for customers

Competition in the point to point transport industry can occur in different stages of the supply chain:

- ▼ **The provider stage** – taxi service providers and booking service providers are able to compete for businesses to provide point to point transport under their brand. For businesses seeking to provide point to point transport, taxi service providers and booking service providers create similar products that are close substitutes. This is reinforced by the regulatory changes that will make it easier to become an independent rank and hail service provider, and potentially use a booking service provider for booked trips.
- ▼ **The driver stage** – the bailment arrangements between taxi businesses and drivers, whereby drivers “pay in” to drive the taxi, create another functional dimension for potential competition. Drivers are able to drive both taxis and hire vehicles, and may choose to substitute taxis or hire vehicles based on relative profitability.

¹⁶ NSW Government, *Point to point transport – The NSW Government response to the taskforce report*, December 2015, pp 7-8.

¹⁷ Note that, as part of this review, the Government has asked us to consider if there should be any restrictions placed on the proposed newly issued licences and whether the operating area should be anything other than outside the Sydney Metropolitan Transport District. This is discussed in Chapter 5.

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- ▼ **The retail/product stage** – the retail stage is competition for customers, which we have discussed above in section 3.1.1.

In our preliminary view, taxis and hire vehicles compete at all stages of the supply chain, with community transport and courtesy buses competing at the retail/product stage.

3.1.4 Customers require point to point transport services at points in time

Time is relevant to identifying the substitutability of products. Some forms of point to point transport are not close substitutes for rank and hail taxi services when considering when the transport is needed. For example, a taxi trip to a hospital on a Tuesday morning cannot practically be substituted by a courtesy bus taking patrons home from a hotel after it closes on a Saturday night.

In most instances, however, we consider that a taxi can be substituted for another form of point to point transport at any point in time. In general:

- ▼ rank and hail taxi services are available at all times in major centres of large cities and at more limited times in other areas
- ▼ booked trips are available in taxis at all times in most cities and towns in NSW
- ▼ rideshare services are available at all times in major centres of large cities and limited times in other areas of large cities
- ▼ hire vehicles are available at most times in most cities and towns in NSW, and
- ▼ courtesy buses and community transport are available at limited times in most cities and towns in NSW.

3.2 What is the structure of the market?

The structure of the market includes factors such as the number of participants and their relative market share, and whether there are barriers to entry by new participants. We will consider these factors and their impact on the scope for effective competition within the market.

3.2.1 Most geographic markets have one dominant network

Under the current regulatory framework, participants in the provision of rank and hail taxi services in NSW include taxi drivers, operators and networks. Unless exempted by Roads and Maritime Services, operators must be affiliated with an authorised taxi network. In country areas, Roads and Maritime Services has exempted some operators from network affiliation because the area and fleet of taxis is too small to justify having a network.

Taxi licences are concentrated in the greater metropolitan area – of the 6,870 taxi licences¹⁸ in NSW, 80% are licences for the Sydney Metropolitan Transport District, 3% for Newcastle and 2% for Wollongong. Outside Sydney, Newcastle and Wollongong, the largest concentrations of taxi licences are in the Gosford/Wyong and Blue Mountains areas. There

¹⁸ Includes WATs, short term and fringe area licences.

are around 40 LGAs with fewer than five taxi licences and 20 with more than 15 licences (see Table 3.1).¹⁹

Table 3.1 Distribution of country taxi licences across LGAs and significant urban areas (SUAs)^a

	less than 5 licences	5-14 licences	15-24 licences	25 licences or more
Number of LGA/significant urban areas	approximately 40	approximately 35	approximately 10	approximately 15
Examples of LGAs and SUAs	<ul style="list-style-type: none"> ▼ Bland ▼ Bourke ▼ Camden-Haven ▼ Cobar ▼ Cootamundra ▼ Harden ▼ Junee ▼ Narrandera ▼ Snowy Mountains ▼ Walgett ▼ Walcha ▼ Yass 	<ul style="list-style-type: none"> ▼ Bellingen ▼ Cooma-Monaro ▼ Cowra ▼ Forster/Tuncurry ▼ Grafton ▼ Griffith ▼ Moree ▼ Nowra-Bomaderry SUA, ▼ Parkes ▼ Tumut ▼ Wellington 	<ul style="list-style-type: none"> ▼ Armidale SUA ▼ Bowral-Mittagong ▼ Broken Hill ▼ Cessnock SUA ▼ Dubbo ▼ Port Macquarie area ▼ Canberra-Queanbeyan SUA ▼ Taree 	<ul style="list-style-type: none"> ▼ Albury-Wodonga SUA ▼ Blue Mountains ▼ Bathurst ▼ Central Coast ▼ Coffs Harbour SUA ▼ Gold Coast-Tweed Heads SUA ▼ Lismore ▼ Orange ▼ Wagga Wagga

^a Approximate figures as taxis operating areas differ in description and size, and some overlap.

Source: IPART estimation based on TfNSW data.

In Sydney there are two large taxi networks. Outside Sydney there is generally just one taxi network operating in an area.

The dominance of one network in most areas aside from Sydney, and consolidation in Sydney into two networks, indicate that under the current regulatory framework there has been a high level of market concentration in the taxi industry.

We consider that the new regulatory framework is likely to reduce this concentration as there will no longer be authorised taxi networks or accredited taxi or hire car operators. Instead there will be authorised taxi service providers and booking service providers and there will be fewer restrictions on where and how market participants operate. For example:

- ▼ Rideshare services have been legalised and are regulated in the same way as other booked passenger services.
- ▼ Booked services (whether provided by taxis or hire vehicles) can be provided anywhere in the state by an authorised booking service provider.
- ▼ Fares for booked services will not be subject to regulated maximums, creating more opportunities for organisations to differentiate their brand through pricing or service characteristics.
- ▼ A number of new taxi licences will be released for areas outside Sydney, and potentially allowed to operate anywhere outside Sydney (matters being considered by this review).

¹⁹ IPART calculation based on RMS data.

- ▼ Barriers to entry in the form of high taxi licence prices are reducing.

We consider these changes have already facilitated the entry of new service providers to the market (in the case of legalised rideshare) and will facilitate more in the future.

3.2.2 High licence values and network fees can be a barrier to entry

Under the current regulatory framework, high licence values in some geographic markets may have been a barrier to the entering the NSW taxi market, and thus have restricted competition. For example, between April 2011 and April 2017, average licence transfer values ranged from under \$1,000 to nearly \$500,000 across NSW. As these transfer values were used to determine the market price for new licences (see Box 3.1), this would have acted as a significant barrier to entry in certain areas.

High network fees may also have been a barrier to entry. As noted above, many areas outside Sydney only have one network service provider, resulting in little competition in the network fees charged or network services provided. As it is currently compulsory for taxi operators to be affiliated with a network, high network fees may have been a barrier to new entrants.

Our preliminary view is that both these barriers may be less significant in the future. Increased competition from other point to point transport service providers, our recommendations on the number of new licences to be released outside Sydney and potentially wider operating area for these new licences would be expected to lead to lower costs of entry into the market. In addition, affiliation with a network will no longer be compulsory under the new regulatory framework. However, benefits of scale are likely to continue as larger scale taxi service providers can offer wider coverage hours and shorter waiting times for booked services; and they can communicate with each other when there are prospective passengers waiting for rank and hail services.

Box 3.1 Method for determining the market value of an ordinary licence outside Sydney

The market value of a licence in a particular area of operation was determined having regard to recent licence sales in that area where there had been at least three recent licence transfers on the secondary market in the last three years “at arm’s length” (that is, they have not been sold between close associates for more or less than market value) and where the most recent completed sales did not vary by more than 15 per cent.

Where there were no recent sales of licences in a region, the market value of a licence was determined by asking the operators in that area to provide industry information about their business. This information was treated as strictly confidential and was analysed to determine the average revenues per vehicle and to determine the estimated market value of a licence.

Where there are no recent sales of licences in a region and where an operator was unable to provide sufficient information upon which to calculate a market value then value was determined by conducting an open bid tender. The open bid process was used to value the licence but not to issue it. Once the market value has been determined, based on the results of the bid process, the licence was offered to the applicant at that price.

Source: NSW Government Point to Point Transport Taskforce, *Report to the Minister for Transport and Infrastructure*, November 2015, p 88.

3.3 Is the market acting competitively?

The conduct of the market refers to evidence that the market is competitive. Even quite concentrated markets may achieve competitive outcomes where businesses are motivated to compete for customers by making innovative price/service offers. We will consider the extent to which there is a diverse range of prices and services being offered.

Currently, there is little evidence that taxi service providers compete with each other or with non-taxi service providers by offering lower prices. As maximum taxi fares are regulated it is open to taxis to charge less than the maximum fares. But we understand this rarely happens. However, there are examples of service differentiation. For example Silver Service taxis are marketed as 'Sydney's most luxurious taxi fleet'.²⁰

We anticipate the new regulatory framework will encourage competitive behaviour among taxi service providers who may compete by charging less than the maximum regulated fare or compete on service characteristics.

There is already evidence of rideshare providers competing with each other and with taxi service providers by differentiating price and service offering. Rideshare services are operating in Sydney, Newcastle, Wollongong, Central Coast, Coffs Harbour and Byron Bay/Ballina. They offer a range of price/service combinations with fares generally calculated on a minimum fare, distance and duration (see Appendix C for detailed information). Off-peak Sydney and other urban rideshare fares range between:

- ▼ \$2.00 and \$4.13 for hiring charge
- ▼ \$1.10 and \$1.90 per km, and
- ▼ \$0.38 and \$0.60 per minute for trip duration.

Rideshare companies decide when and how to charge peak prices and this varies between companies. Some are also competing by differentiating their brand from others. For example, Shebah only uses female drivers, and accepts as passengers only women, children and boys aged 12-18 accompanied by a female guardian²¹ and Go Buggy has a GoGirl app which guarantees a female driver.

The geographic location of rideshare services currently operating suggests that the next tranche of regulatory changes are likely to have a bigger impact on competition in larger and more concentrated population centres.

Nevertheless, there is some potential for more competition in smaller non-metropolitan urban areas. Competition could eventuate from small booked service provider operations, where the provider is seeking supplementary income rather than a full-time wage. It will take time to see if this market develops.

²⁰ Web search results for Silver Service taxis Sydney, https://www.google.com.au/search?q=silver+service+taxis+sydney&rlz=1C1GPCK_enAU444AU446&oq=silver+service+taxis+sydney&aqs=chrome.69i59j0l5.8895j0j8&sourceid=chrome&ie=UTF-8, accessed 30 August 2017.

²¹ Shebah website, accessed 16 August 2017, <https://shebah.com.au/about/>.

There is also potential for more competition from local hire car services expanding their operations into immediate booking services and/or changing the service/quality offerings (for example, by using standard vehicles rather than limousines).

In country areas, around 80% of trips are booked (compared to around 45% in Sydney)²² so in theory relaxing rules around booked services may have a more noticeable impact on the competition in those areas. However, recent experience is that rideshare companies set up in larger and more densely populated centres first. We also consider that it is likely that the additional outside Sydney licences will be used in areas with high demand and/or high licence values (reflecting shortage of supply relative to demand).

3.4 Are customers benefiting from increased competition?

The final element we will consider in assessing the level of competition is the extent to which customers are benefiting from the increased competition that already exists (in the form of legalised rideshare) and are likely to benefit from changes in regulatory framework.

Our preliminary view is that customers in Sydney and, to a lesser extent, those in other urban areas have benefited from the increased competition since rideshare was legalised. The reasons for this view are the growth in the use of point to point transport services, and the significant variations in prices for these services. We expect this pattern to continue.

3.4.1 There has been rapid growth in the use of taxi alternatives

Our regular surveys of the use of point to point transport (bi-annual in Sydney, annual in other urban and country towns) show there has been rapid growth in the use of rideshare and other point to point transport services in recent years. We consider this growth provides evidence of rideshare competing for and with the market for rank and hail taxi services, and provides evidence of effective competition in some areas. The growing use of non-taxi point to point transport services concurrent with stable prevalence and frequency of taxi use being reported, suggest the realisation of previously latent demand for this type of service.

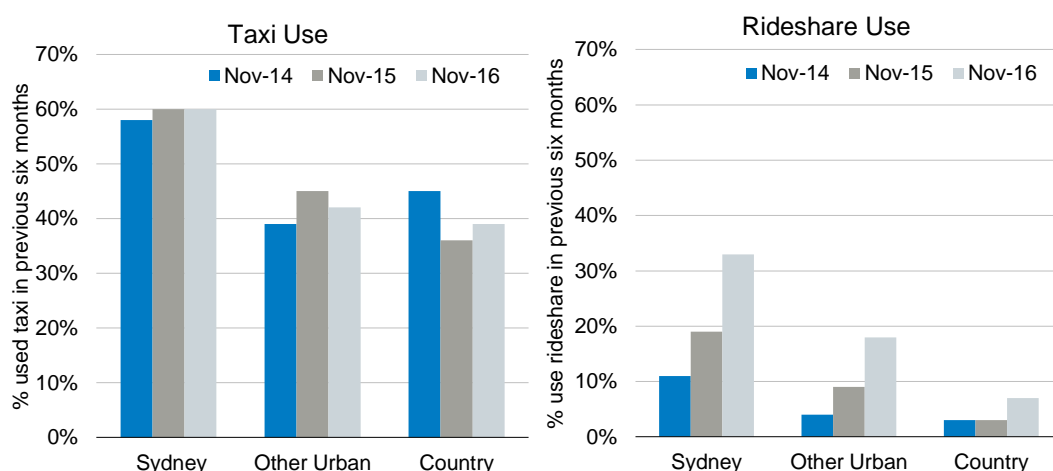
For example as shown in Figure 3.1, the surveys indicate that between November 2014 and November 2016 in Sydney:

- ▼ A significant increase in the proportion of people who had used the main forms of paid point to point transport services (taxis, rideshare, hire car) in the six months prior to being surveyed (from 58% to 65%).
- ▼ A significant increase in the proportion of people who had used rideshare (from 10% to 33%).
- ▼ A relatively stable proportion people who had used taxis in those six months (around 60% of adults).²³

²² Taverner Research, *Survey of Point to Point Transport Use (November 2016 survey)*, February 2017.

²³ Taverner Research, *Survey of Point to Point Transport Use, November 2014 to February 2017*, pp 17-18.

Figure 3.1 Prevalence of using a taxi or rideshare in the previous six months, 2014-2017



Data source: Taverner Research, Survey of Point to Point Transport Use (November 2016 survey), February 2017; Taverner Research, Survey of Taxi Use (November 2015 survey), December 2015; and Survey of Taxi Use (November 2014 survey), December 2014. Reports commissioned by IPART and available on IPART [website](#).

In other urban areas (Newcastle, Wollongong and Central Coast),²⁴ the surveys also show little change in the proportions of people who had used taxis, but increases over the previous 3 years in those who had used rideshare (18% in Other Urban, 7% in Country Towns).

We plan to conduct another survey of point to point transport use in late 2017 and will include these results in our Final Report.

3.4.2 Point to point transport services vary in price and quality

Our calculations of fares for a sample of trips show significant variations in the prices customers are charged for point to point transport in Sydney (Table 3.2 and Table 3.3). Fares can vary by almost \$8 on a short trip in heavy traffic, and by \$25 on a long trip in heavy traffic when peak fares are being charged. This price differentiation is indicative of effective competition in Sydney.

²⁴ Note: the survey findings are less reliable than for Sydney as sample size are smaller: around 500 for Other Urban and 250 for Country Towns. Note also that in Country areas the survey focussed on towns with 20 or more taxi licences.

Table 3.2 Our sample trips

Trip	Description	Distance	Duration
		(travelling faster than 26km/h)	(travelling slower than 26km/h)
A	Short – light traffic	2km (1.75km)	3.5 minutes (0.5 minutes)
B	Short – heavy traffic	2km (0km)	15 minutes (15 minutes)
C	Medium – light traffic	10km (9.5km)	15 minutes (3 minutes)
D	Medium – heavy traffic	10km (0.5km)	40 minutes (39 minutes)
E	Long – light traffic	25km (23km)	30 minutes (10 minutes)
F	Long – heavy traffic	25km (5km)	90 minutes (85 minutes)

Table 3.3 Indicative fares for taxi and booked trips in Sydney (\$)

Trip	Time and day	Sydney taxi	GoBuggy	GoCatch	SheBah	Uber X ^a
A	Weekday morning	7.90	9.12	8.00	8.85	9.00
	Late night Saturday	11.17	10.62	12.00	9.75	9.00
B	Weekday morning	17.70	16.30	10.84	15.40	11.95
	Late night Saturday	20.20	17.80	16.71	17.01	11.95
C	Weekday morning	27.23	31.50	21.88	27.48	23.55
	Late night Saturday	33.91	33.00	34.15	30.29	23.55
D	Weekday morning	41.36	46.50	31.38	41.23	33.55
	Late night Saturday	44.08	48.00	48.65	45.54	33.55
E	Weekday morning	63.37	69.00	48.28	58.38	51.30
	Late night Saturday	71.15	70.50	75.55	64.34	51.30
F	Weekday morning	94.45	105.00	71.08	91.38	75.30
	Late night Saturday	99.15	106.50	110.35	100.94	75.30

^b UberX does not have peak fares but rather applies a 'surge' price when demand is high relative to supply. This increases all fare components by a fixed percentage (eg, a 1.4x surge results in a 40% higher fare).

Note: Fares are based on a set of assumptions about duration of a trip in the case of rideshare fares, and time spent at the waiting time rate for taxi fares. Fares can vary considerably if different assumptions are made.

Source: IPART calculation based on maximum taxi fares and rideshare websites.

Each year we conduct surveys on point to point transport use. Our surveys have found that passengers are more satisfied with rideshare fares (82%) than with taxi fares (58%).²⁵ This suggests that customers are benefiting from price competition in the point to point transport industry.

Taxis and hire vehicles offer a variety of different quality services. Differences in quality can be:

- ▼ the type of vehicle (eg, Silver Service taxis, GoCatch's economy and premium rideshare options and luxury hire cars)

²⁵ Taverner Research, *Survey of Point to Point Transport Use*, November 2014 to February 2017, pp 98, 112.

- ▼ the convenience (eg, being able to hail taxis, immediate booking over smartphone apps such as Uber), and
- ▼ the service standards (eg, hire car chauffeurs meeting passengers at airport arrivals and Shebah guaranteeing female drivers).

3.4.3 Customers need information to make an informed choice

There is potential for further benefits for customers under the new regulatory framework. For example, as noted above, our preliminary view is that the deregulation of fares for booked services could put downward pressure on fares for rank and hail services (which will remain regulated). For example, if a customer is not happy with the fare offered by a taxi at a rank, they could easily use a smartphone app to book a taxi or hire vehicle for immediate pick-up. To compete, taxi service providers could lower their rank and hail fares. There is also opportunity for taxi service providers to differentiate their fare components rather than simply charge the maximum.

However, for this benefit to be realised, customers would need sufficient information to make an informed choice in the rank and hail submarket. Social norms of queuing and a widely held belief that you are obliged to take the taxi at the head of the queue at a taxi rank, inhibit customers exercising choice between brands at a rank. Information is also limited with hailed taxi trips as the customer does not know when another available cruising taxi may arrive or which brand of taxi it is.

Under the new regulatory framework, booked passenger service providers will be required to provide a fare estimate and information about how the fare may vary before the journey starts²⁶ and taxi service providers must display their fares in the taxi.²⁷

IPART seeks comments on the following

- 1 What is your view on the level and nature of competition in the rank and hail market? Does it vary by region of NSW or by time of day?
- 2 How do you think the new regulatory framework for point to point transport will affect competition in the rank and hail market in the future?

²⁶ Point to Point Act, s 79 and Point to Point Regulation, cl 52.

²⁷ Point to Point Regulation, cl 15.

4 Recommending rank and hail fares

Once we have assessed the level of competition in the market, we will consider our recommendations on the appropriate maximum fares for rank and hail services to apply in Sydney and outside Sydney from 1 July 2018. As the previous chapter discussed, our findings on competition will help us decide how ‘light-handed’ the regulation of these fares can be.

Our preliminary view is that there is sufficient competition in the market to allow authorised TSPs some flexibility in how they set fares: they have greater knowledge of their business and their passengers’ behaviour than the regulator does, and the threat of competition will constrain them from over-charging. However, we need to balance the benefits of greater flexibility with the potential risk of excessive charging in areas or instances where competition is not fully developed.

We are also mindful that the new regulatory framework for point to point transport entails major changes to the way the industry operates, both for providers and for customers. Therefore, there may be benefit in retaining a form of fare regulation that is similar to the current one as a transition measure until customers and providers have adjusted to the changes.

For example, TfNSW’s fares order could prescribe what tariff components authorised TSPs can include in fares, and the maximum number of tariffs they can have. This would provide some uniformity in the structure of fares and make it easier for passengers to compare fares of different TSPs, relative to a form of regulation with no restriction on the type of tariff components or the number of tariffs.

Additional regulation requiring authorised TSPs to display fare information on the **outside** of a taxi and/or to routinely provide the Point to Point Commissioner with fare information, could also enhance both competition and consumer protection. For example, the Commissioner could develop a central, publicly-accessible repository for fare information that would allow passengers to compare fares of different providers. Government could also use this information to assess whether authorised TSPs are setting fares below the regulated maximum, as an indicator of whether competition is effective.

We are interested in stakeholders’ views about:

- ▼ What tariff components, if any, should TfNSW prescribe?
- ▼ Should authorised TSPs have more flexibility about when peak and off-peak tariffs apply?
- ▼ Should authorised TSPs have more flexibility about relativities between the tariff components?
- ▼ What are the appropriate levels for tariff components?
- ▼ What are appropriate non-tariff charges?

- ▼ Should there be one or more fare zones (eg, country and urban)?
- ▼ How can customers obtain information about, and compare, the fares offered by TSPs?

4.1 What are the principles for an efficient fare structure?

Fare structure refers to the different components that make up the overall fare paid by a passenger, the relative levels of these components, and how the level of each component varies across time (eg, peak vs off-peak periods).²⁸

Fare structure can influence TSPs' willingness to provide rank and hail services, and passengers' willingness to use these services. An efficient fare structure allows TSPs to recover the costs of providing the services in a way that optimises the number of trips taken by passengers.

We propose to use the following principles to guide our approach to assessing the efficient fare structure for rank and hail services:

1. The fare structure should not provide an incentive for drivers to refuse certain trips.
2. The fare structure should not provide an incentive for drivers to take a longer or slower route than necessary, or to travel at excessively fast or slow speeds.
3. The fare structure should encourage service authorised TSPs to set fares that reflect the costs of supplying services and customers' willingness to pay.
4. The fare structure should encourage TSPs to innovate and improve the quality of their services.
5. The fare structure should make it easy for customers to compare the fares offered by different TSPs.
6. The fare structure should make it easy for TSPs to transition from the current fare structure.

IPART seeks comments on the following

- 3 Do you agree with the principles we have established to guide our approach to assessing the structure of fares for rank and hail services? What other factors should we consider?

4.2 What tariff components, if any, should TfNSW's fares order prescribe?

Currently, fares for rank and hail services include three tariff components: a hiring charge, a distance rate and a waiting rate. The distance rate applies when the taxi is travelling at or above 26km/h. The waiting rate applies when the taxi is travelling below 26km/h, including when the taxi is waiting at an intersection or in heavy traffic.

Taxi tariffs in most Australian states and territories include these tariff components. Even in regional and country areas of Victoria where taxi operators can set their own fares, most

²⁸ In some industries, prices also vary by customer type. For example, a water utility may charge different rates for residential and non-residential customers. For our review, we are assuming taxi service providers cannot set fares based on customer categories.

operators have continued to use the pre-deregulation fare components. We note this could be due to the technical limitations of some taxi meters.

However, it could be possible to move away from prescribed tariff components and instead recommend that TfNSW’s fares order set flat rate maximum fares for particular journey types - for example, a maximum of \$X for a trip between 0-3km during a weekday morning peak.

The following sections discuss the options and issues we have identified regarding the way in which TfNSW’s fares order could specify tariff components.

4.2.1 Tariffs could have different components from the ones used currently

Rideshare service providers and taxi service providers in other countries (including Sweden and Ireland) use some different tariff components. They use a distance rate but unlike the distance rate for taxis, it applies to the total distance of the trip, regardless of the travelling speed. They also use a duration rate that applies to the total duration of the trip, regardless of the travelling speed.

We have identified three options – retaining the current tariff components, moving to these alternative tariff components, or giving service authorised TSPs a choice of using either the current or the alternative tariff components (Figure 4.1). At this stage, we do not prefer a particular tariff structure but we think that it could make it harder for passenger to compare fares if the fares order allows more than one option.

Figure 4.1 Options for tariff components

Option 1 (current tariff components)		Option 2 (alternative tariff components)	
Hiring charge	\$ per trip	Hiring charge	\$ per trip
Distance rate	\$ per km (when travelling above a certain speed)	Distance rate	\$ per km (applies to total trip distance, regardless of how fast vehicle is travelling)
Waiting rate	\$ per minute (when travelling below a certain speed)	Duration rate	\$ per minute (applies to total trip duration, regardless of how fast vehicle is travelling)

Source: IPART

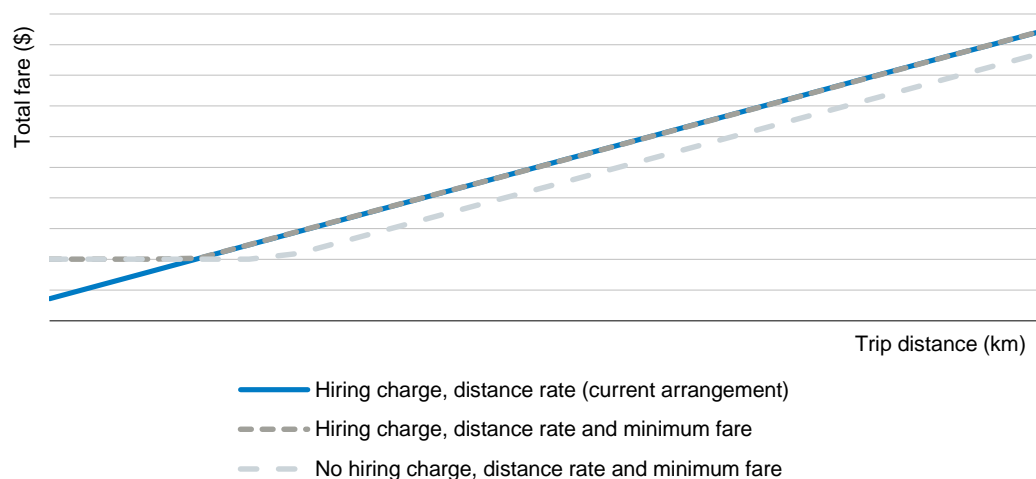
4.2.2 Tariffs could include a minimum fare

It is common for booked service providers to charge a minimum fare. A minimum fare guarantees that the driver accepting the booking will receive a certain amount, regardless of the trip’s length or duration. Minimum charges are also common in other industries which have time-based rates, such as trade services, IT consultants and removalists.

We will consider whether rank and hail tariffs should include a minimum fare in addition to or instead of a hiring charge. As Figure 4.2 shows:

- ▼ If a minimum fare were imposed in addition to a hiring charge, and no other changes were made, fares for short trips would be higher and fares for longer trips would remain the same as they are now.
- ▼ If a minimum fare replaced the hiring charge, and no other changes were made, most fares for short trips would be higher and fares for longer trips would be lower than they are now.

Figure 4.2 Impact of minimum fare



Source: IPART

4.2.3 Tariffs could have a higher distance rate for longer trips

In country areas, the distance rate (which applies when a taxi is travelling at or above 26km/h) currently increases by almost 40% when the distance travelled exceeds 12km. During off-peak periods, the rate is \$2.26/km for the first 12km and \$3.13/km thereafter. During peak periods, the rate is \$2.71/km for the first 12km and \$3.75/km thereafter.

If maximum fare tariff components include a distance rate, a higher rate for longer trips may be appropriate where drivers are likely to be unable to obtain another job at the end of a long journey, and the return journey is therefore 'dead running' or 'empty running'. This is most likely to occur when a trip begins within a regional township and ends outside the township. This could also occur when a trip begins in an inner metropolitan area and ends in the suburbs.

We note that if a passenger hires a taxi for a trip that will go outside the taxi's operating area, the driver can charge more than the regulated maximum fare if the passenger agrees to the amount before the trips begins. Drivers are already able to factor in the cost of 'dead running' when negotiating an out of area fare (see section 4.9).

IPART seeks comments on the following

- 4 Should TfNSW's fares order continue to specify rank and hail tariff components, or is there merit in an alternative for regulating maximum fares, such as flat maximum fares per distance travelled?

- 5 If TfNSW's fares order continues to specify rank and hail tariff components:
- What should those components be? (Currently they are hiring charge, distance rate and waiting rate).
 - Should they include a minimum fare? (Currently there is no minimum fare).
 - Should they include a higher distance rate for longer trips? (Currently a higher distance rate applies for each km travelled over 12km in country areas only)

4.3 Should TfNSW's fares order prescribe when peak tariffs apply?

Currently, the level of the tariff components varies according the time of the day or week, so there are effectively three tariffs in Urban areas and two in Country areas. The current fares order prescribes exactly when these different tariffs apply (see Table 4.1).

Table 4.1 Number of tariffs and when they apply

	Urban areas	Country areas
Tariff 1 (Day)	6am-10pm	6am-10pm Monday to Saturday
Tariff 2 (Night)	10pm-6am Monday to Thursday, Sunday	10pm-6am Monday to Saturday, all day Sunday and public holidays
Tariff 3 (Night owl)	10pm-6am Friday, Saturday and night before public holidays	Not applicable

Note: The fares order does not use the same terminology as we have in this table.

Source: Based on Section 125 Fares Order for Taxi Services, NSW Government Gazette, No 116, 5 December 2014, pp 4430-4432.

The Point to Point Transport Taskforce recommended that taxi companies be allowed flexibility about when they apply peak versus off-peak fares, and the Government has indicated its support for this recommendation.²⁹

TfNSW's fares order could limit the number of time-based tariffs that each provider can have. We consider that it would be reasonable for TSPs to have up to three tariffs. Any more than three tariffs could make it difficult for passengers to know which tariff applies when they are hiring the taxi. Authorised TSPs could set fewer tariffs if they chose to.

Options we have identified include that TfNSW:

- ▼ specify the time when each tariff would apply (current arrangements)
- ▼ restrict the number of hours each tariff could apply (eg, Tariff 3 can apply up to a maximum of 12 hours each week), or
- ▼ place no restrictions on the time or number of hours when each tariff could apply (this could mean that authorised TSPs choose to set fares so that the highest tariff applies at all times).

Peak surcharging by taxis is relatively rigid compared to uberX's dynamic pricing approach, which increases fares by multiples of the base fare³⁰ in response to real-time increases in

²⁹ NSW Government, *Response to the Taskforce Recommendations*, December 2015, p 6.

demand for its services. Dynamic pricing is also known as surge pricing, demand pricing, or time-based pricing.

We are not proposing that authorised or affiliated TSPs be able to change between tariffs at short notice, or use dynamic pricing because this would reduce certainty and make it difficult for customers to compare the fares offered by different TSPs. We would expect TSPs to publish details about when peak tariffs apply for their services.

IPART seeks comments on the following

- 6 Should TfNSW's fares order specify the time period when peak tariffs may apply, restrict the number of hours peak tariffs may apply, or not restrict the time or number of hours when peak tariffs may apply?

4.4 Should TfNSW prescribe relativities between tariff components?

Even if the overall level of fares stays the same, an increase in the level of one tariff component and a decrease in another tariff component will affect the price of a particular journey. This review provides an opportunity to increase the efficiency of fares so that TSPs recover the costs of providing the services in a way that optimises the number of rank and hail trips taken by passengers. This could involve:

- ▼ changing the relativities between different tariff components, and/or
- ▼ changing the relativities between tariffs at different times of the day or week.

This section explains how changing the relativities between different tariff components and across peak and off-peak tariffs can influence the demand for and supply of rank and hail services. In a competitive market, these are decisions that could be left to authorised TSPs, rather than being specified by the regulator.

4.4.1 Changing the waiting rate and distance rate could affect driver incentives

The current waiting rate at non-peak times is set so that taxi drivers are indifferent between the waiting rate and distance rate when they are travelling at 26km/h. Drivers could have an incentive to take a slower, more congested route if the waiting rate were higher (with no change in the speed threshold or distance rate).

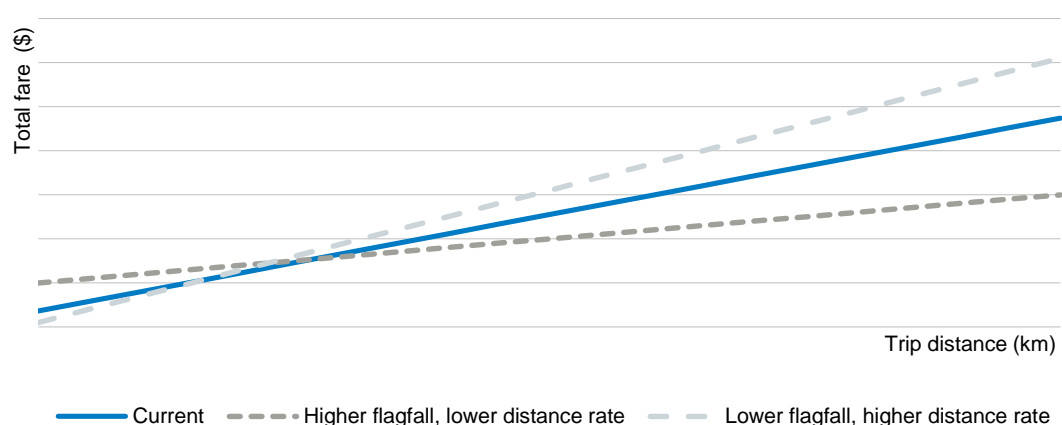
³⁰ This surge multiplier applies to the base, time, and distance rates. Cancellation fees, tolls, and per-trip surcharges are not subject to surge pricing.³¹ In our previous fare reviews some customers have told us they have trouble getting taxis for short booked journeys because the driver will not turn up. In the new regulatory framework the fares for booked taxi trips will no longer be subject to regulated maximums. A taxi driver **must** accept a hiring when at a taxi rank or when hailed on the street, except under certain circumstances. (Point to Point Regulation, cl 77.)

4.4.2 A higher fixed charge makes shorter trips attractive to drivers

An imbalance between the fixed and variable tariff components could lead to drivers having a strong preference for particular trips. For example, a high hiring charge and low distance rate would result in drivers strongly preferring short trips over longer trips.³¹

An excessively high hiring charge could mean that passengers stop using rank and hail services for short trips, and use alternative transport options or choose not to travel at all (see Figure 4.3). This could reduce overall demand for rank and hail services.

Figure 4.3 Changes to the hiring charge or distance rate



Source: IPART

4.4.3 Peak tariffs encourage additional drivers when they are most needed

Higher fares at peak times encourage drivers to provide services when they are most wanted. We note that tariff components do not increase uniformly across current tariffs (see Table 4.2 and Table 4.3). Across all of NSW, the only component to change between Tariff 1 and Tariff 2 is the distance rate which is 20% higher in Tariff 2 than in Tariff 1. For Urban areas the rate increases by 44 cents (from \$2.19 to \$2.63 per km). For Country areas the rate increases by 45 cents (from \$2.26 to \$2.71 per km) for the first 12 km, and by 62 cents (from \$3.13 to \$3.75 per km) thereafter. The higher distance rate increases fares for trips of all distances by the same proportion.

In Tariff 3, which only applies in Urban areas, there is a fixed surcharge of \$2.50. This increases the total hiring charge from \$3.60 to \$6.10 (an increase of 69%). TfNSW introduced the surcharge in 2013 to encourage taxi drivers to provide services during peak periods.³²

The waiting rate remains constant regardless of when a passenger hires the taxi.

³¹ In our previous fare reviews some customers have told us they have trouble getting taxis for short booked journeys because the driver will not turn up. In the new regulatory framework the fares for booked taxi trips will no longer be subject to regulated maximums. A taxi driver **must** accept a hiring when at a taxi rank or when hailed on the street, except under certain circumstances. (Point to Point Regulation, cl 77.)

³³ TfNSW, *Taxi operators FAQ*, Fact Sheet.

Table 4.2 Variation of tariffs by time of day/week - Urban areas

	Day tariff (Tariff 1)	Night tariff (Tariff 2)	Night owl tariff (Tariff 3)
Hiring charge	\$3.60	\$3.60 (Day rate +0%)	\$6.10 (Day rate +69%)
Distance rate (per km)	\$2.19	\$2.63 (Day rate +20%)	\$2.63 (Day rate +20%)
Waiting rate (per min)	\$0.94	\$0.94 (Day rate +0%)	\$0.94 (Day rate +0%)

Source: IPART, based on Section 125 Fares Order for Taxi Services, NSW Government Gazette, No 116, 5 December 2014, pp 4430-4432.

Table 4.3 Variation of tariffs by time of day/week - Country areas

	Day tariff (Tariff 1)	Night/holiday tariff (Tariff 2)
Hiring charge	\$4.10	\$4.10 (Day rate +0%)
Distance rate (per km, first 12kms)	\$2.26	\$2.71 (Day rate +20%)
Distance rate (per km, over 12kms)	\$3.13	\$3.75 (Day rate +20%)
Waiting rate (per min)	\$0.96	\$0.96 (Day rate +0%)

Source: IPART based on Section 125 Fares Order for Taxi Services, NSW Government Gazette, No 116, 5 December 2014, pp 4430-4432.

Note: A previous version of the Issues Paper contained incorrect values in this table. The table was corrected 13 October 2017.

IPART seeks comments on the following

- Should TfNSW's fares order change the relativities between different tariff components, and/or between tariffs at different times of the day or week? Or should the fares order allow taxi service providers the flexibility to make decisions about relativities themselves?

4.5 What are the appropriate levels for tariff components?

The current fares order prescribes the maximum value for each tariff component. This allows drivers, operators or networks to discount any fare components below the maximum but it does not give them the flexibility to increase any components to offset the discounts.

Between 2013 and 2015, IPART recommended that fares decrease in real terms to reduce the economic rent component of fares and move fares closer to technically efficient levels. Data on licence lease costs and transfer values indicated that there was sufficient economic rent present in fares to cover any increases in other costs.

The economic rent in fares provides an implicit allowance for drivers, operators or networks (or TSPs in the new regulatory framework) to offer discounts, or offer better quality services for the same price. For example, Silver Service and Premier's Prestige Cab service both use vehicles with high quality finishes but charge the same fares as other taxi companies that use vehicles with a standard finish.

Although it appears that the cost of providing taxi services is stable or declining, further fare decreases could reduce the opportunity for TSPs to distinguish their services on the basis of quality. We also note that competitive pressure from recent entrants to the point to point transport industry is reducing licence costs. This reduces the need to target economic rent by reducing fares.

We could still recommend the level of each tariff component, for all tariffs, but set fares at a level that would:

- ▼ allow authorised TSPs to set some tariff components lower than the regulated maximum so that fares more closely reflect the costs of supplying services and customers' willingness to pay, and
- ▼ encourage innovation and/or enhanced service quality.

An alternative to recommending the level of each tariff component, for all tariffs, would be to recommend a weighted average price cap (WAPC). This would allow authorised TSPs to adjust individual tariff components, subject to a cap on the percentage increase across a selection of typical fares.

A WAPC, together with the pressures of a competitive market, could provide reasonable protection against authorised TSPs setting fares significantly above efficient costs. However, if competition or the threat of competition is not effective, authorised TSPs may be able to increase particular tariff components or set very high tariffs at specific times and exploit passengers. We think that this is a particular risk in the short term because passengers are accustomed to TSPs adopting the standard regulated tariffs.

There is also a risk that some TSPs may struggle to understand and set fares that are compliant with a WAPC approach, especially given the significant regulatory changes they are already working through.

It may be appropriate to move to a WAPC in a more stable regulatory environment, and when passengers have become accustomed to comparing fares offered by different TSPs.

4.5.1 The cost of providing taxi services is likely to be stable or declining

The taxi industry is in a period of significant regulatory and technological change. In general, we consider the cost of providing taxi services is likely to be stable or declining. The Government has already removed or simplified many prescriptive requirements for rank and hail services. For example:

- ▼ Vehicle accommodation standards have been simplified.
- ▼ Maximum age requirements for taxis have been removed.
- ▼ Requirements relating to air-conditioning, driver protection screens, station wagons and anchorage bolts for child restraints have been removed.
- ▼ RMS will no longer approve network liveries. (Under the current regulations, taxi connected to a network must have a network decal sign securely mounted on each of the front doors of the taxi.)³³

Further changes will occur with the commencement of the remaining parts of the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* and the *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017* later this year.

³³ TfNSW, *Taxi operators FAQ*, Fact Sheet.

Of particular note, removal of compulsory network affiliation could significantly reduce costs with taxis opting out of traditional networks and managing booked services through ride sharing and taxi apps. Our 2014 survey of taxi drivers and operators in Sydney showed that average network fees were around \$7,500 each year in Sydney, \$8,900 in other urban areas and \$10,800 in country areas.³⁴

We note that while the changes will lower the cost of providing taxi services, existing industry participants may face some adjustment costs as they transition to the new system.

Changes to the way insurers must set Compulsory Third Party (CTP) insurance premiums for owners of point-to-point vehicles, will also influence how much it costs to provide taxi services. Premiums paid by point-to-point transport vehicle owners will soon be based on vehicle usage. This means that vehicles that are on the road more will pay higher premiums than those that are only used for this purpose for a limited time each week. The State Insurance Regulatory Authority (SIRA) estimates taxi CTP insurance premiums will be reduced by up to 40%.³⁵

Additionally, technological change is driving lower costs and greater fuel efficiency. In particular:

- ▼ the development of hybrid vehicles, particularly the Toyota Camry Hybrid, has allowed taxis to significantly reduce operating costs and reduced the need to convert vehicles to LPG fuel, and
- ▼ improved financial technology has increased options for, and lowered the cost of, accepting non-cash payments.

4.5.2 Analysis of marginal costs could inform our recommended fare levels

An efficient fare structure requires that fares are set at the marginal cost of providing a rank and hail service. The marginal cost is the cost of providing an incremental trip – the opportunity cost of driver labour, fuel, and vehicle wear and tear.

Other costs such as vehicle lease and fit out are fixed.³⁶ That is, they are incurred regardless of whether the incremental trip is made.

Traditional regulatory pricing approaches would allocate fixed costs to a fixed access charge. But the ‘fixed’ component of a taxi tariff, the hiring charge, is not an access charge. Passengers only pay the hiring charge when they hire a taxi, and they pay for each hire. As such, the hiring charge is more like a usage or consumption charge.

One option is to allocate fixed costs in a way that maximises the number of trips passengers will take. We could achieve this by allocating fixed costs to the trips where passengers are least sensitive to fare changes. That is, where the price elasticity of demand is low.

³⁴ The CIE, *2014 survey of taxi drivers and operators - Survey results for areas outside Sydney*, Final Report, pp 2, 34.

³⁵ SIRA, *What reform means for taxis and ride sharing*, <https://www.sira.nsw.gov.au/green-slips/ctp-green-slip-reforms/what-ctp-green-slip-reforms-mean-for-taxis-and-ride-sharing-services>, accessed 15 June 2017.

³⁶ Licence fees are also fixed but they are not an efficient cost, they are an economic rent.

The allocation of costs can affect the demand for and supply of rank and hail services, as discussed in section 4.4.

4.5.3 Less restrictive maximum tariff components could lead to more efficient fares

It may be appropriate for TfNSW to set tariff components that we know are above efficient levels. If we recommended this, it would be with the expectation that competitive pressure in the market for point to point transport services would force authorised TSPs to set some or all components less than the regulated maximums (ie, the maximum values in the fares order).

For example, if TfNSW increased each of the maximum urban tariff components by 10%, a particular authorised TSP could choose, amongst other options, to:

- ▼ increase their hiring charge by up to 10% but make no change to their distance and waiting rates
- ▼ increase their hiring charge by up to 10% and reduce their distance and waiting rates, or
- ▼ increase their distance and waiting rates by up to 10% but make no change to their hiring charge.

This approach would allow authorised TSPs to set fares that more closely reflect their costs of supplying services and their customers' willingness to pay. In doing so, some authorised TSPs could choose to charge more than others in return for higher quality services. Others may decide to include in their fares an amount to cover the cost of innovation which would lead to longer term cost savings or service enhancements.

However, as noted above, data on licence lease costs and transfer values indicate that, for most areas in NSW, there is sufficient economic rent present in current fare levels to provide an implicit allowance for taxi industry participants to innovate, raise service quality or lower fares, yet examples of these responses are few. It may be that increasing competition will provide the necessary impetus for taxi industry participants to respond in this way, without needing to adjust fare levels.

IPART seeks comments on the following

- 8 Do you agree that the cost of providing taxi services is stable or declining? If not, what evidence is there that costs are increasing?
- 9 Are current fare levels too low, too high or about right?
- 10 What are the risks and potential benefits of setting maximum tariff components above the level of efficient costs? Are current fare levels sufficient to allow price and service innovation by taxi industry participants?

4.6 What non-tariff components should TfNSW's fares order include?

The non-tariff components of a rank and hail fare only apply to certain trips. They currently include road tolls, the Sydney airport rank fee, additional charges for hiring a maxi-cab and a cleaning fee. In addition, a surcharge may apply for non-cash payments. Drivers may accept tips or gratuities but cannot demand that they are paid.

4.6.1 Road tolls and airport rank fee are passed on to passengers

Currently, road tolls and the Sydney airport rank fee are passed through to the customer (ie, the customer pays the actual toll or fee incurred by the driver). Drivers can charge a return toll when travelling northbound across the Sydney Harbour Bridge or Sydney Harbour Tunnel.³⁷

The Government supported the Point to Point Transport Taskforce's recommendation that rank and hail services should no longer be allowed to charge a return toll for one-way journeys using the Sydney Harbour Bridge and Sydney Harbour Tunnel.³⁸ We expect TfNSW to remove the provisions for charging the return when it publishes a new fares order later this year.

We consider this is appropriate and do not propose to review tolls or the airport access fee.

4.6.2 A surcharge applies for more than four passengers

A maxi-cab charge applies when a passenger hires a taxi for more than four passengers from a rank or hails one from the street.³⁹ The charge is up to 150% of the regular maximum fare (excluding tolls).

If competition is sufficiently effective for TfNSW to set rank and hail fares at a level that allows TSPs to innovate and improve the quality of their services (see section 4.5), then TSPs may be able to cover any additional costs of providing a taxi with more than the minimum four seats (known as a maxi-cab) within the regulated maximum fares. That is, it may not be necessary to specify that TSPs can set a different rate for maxi-cab services.

4.6.3 A cleaning fee applies when a passenger soils a taxi

Clause 163(6) of the *Passenger Transport Regulation 2007* entitles a taxi driver to collect a cleaning fee equivalent to one hour of the waiting time fee if a passenger soils a taxi. The draft *Point to Point Transport (Taxis and Hire Vehicles) Regulation* also contained this provision.⁴⁰ However, stakeholders told TfNSW this amount was too low. The final Regulation allows for a cleaning fee based on a maximum set fee that will be specified as part of the fares order.⁴¹

4.6.4 Non-cash payment surcharges are capped at 5%

A non-cash payment surcharge applies when the passenger pays for the hire of a taxi using a debit, credit, pre-paid or charge card. Since December 2015, the Government has capped the surcharge amount at 5% (inclusive of GST) of the amount otherwise payable.⁴² We consider

³⁷ Section 125 Fares Order for Taxi Services, NSW Government Gazette, No 116, 5 December 2014, pp 4430-4432.

³⁸ NSW Government, *Response to the Taskforce Recommendations*, December 2015, p 6.

³⁹ The maximum charge also applies if the maxi-cab is booked but this will not be relevant when the new regulatory arrangements commence because booked fares will be deregulated.

⁴⁰ *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017*, Public consultation draft, 6 April 2017.

⁴¹ TfNSW, *Public consultation themes & outcomes summary paper*, August 2017, p 27.

⁴² TfNSW, *Cheaper taxi fares: NSW Government halves credit card surcharge for taxi customers*, Media Release, 11 December 2014.

this is appropriate, and do not propose to review the amount or application of this surcharge.

IPART seeks comments on the following

- 11 What non-tariff charges should be included in TfNSW's fares order? What amount should be charged in the following circumstances:
- a taxi is hired for more than four passengers from a rank or hailed from the street?
 - a passenger soils a taxi?

4.7 How should the Passenger Service Levy be dealt with in fares?

As part of the point to point transport reforms, the NSW Government announced a \$250 million industry adjustment assistance package funded by a levy of \$1 on all passenger service transactions.

The levy will be payable by authorised TSPs and providers of a booking service. Smaller service providers will have their levy assessments capped and payable on an annual basis (larger providers must pay on a monthly basis).⁴³ The levy will start on 1 February 2018.⁴⁴

The levy could be included in TfNSW's fares order as a separate charge (non-tariff component). Providers can choose to absorb the cost of the levy or pass it directly on to passengers if permitted by a fares order.⁴⁵ If not specified in a fares order, providers could still potentially set fares at a level to recover the additional cost of paying the levy.

IPART seeks comments on the following

- 12 Should TfNSW's fares order specify that the Passenger Service Levy may be charged directly as a non-tariff charge, or should we take the cost of the levy into account when recommending maximum tariff components?

4.8 Are the urban and country fare zones still relevant?

As explained in Chapter 2, the current fares order sets maximum fares for urban areas and country areas. There are also some townships near the NSW/ Victoria border where no maximum fare applies (Exempt Areas).⁴⁶ Most of the tariff components in country areas are higher than in urban areas, (eg, the hiring charge in the country is 50 cents higher and the base distance rate is 7 cents per km higher).

The rationale for having different fare zones across the state, and for the boundaries of the existing fares zones, is not clear. The cost of some inputs, such as fuel,⁴⁷ is generally higher

⁴³ Point to Point Transport Commissioner, *Understanding the Passenger Service Levy*, Fact Sheet, August 2017.

⁴⁴ TfNSW, *NSW to welcome a fairer playing field for taxis and hire vehicles*, Media Release, 18 August 2017.

⁴⁵ Point to Point Transport Commissioner, *Understanding the Passenger Service Levy*, Fact Sheet, August 2017.

⁴⁶ Note: 'Country area', 'exempt area' and 'urban area' are defined in Section 125 *Fares Order for Taxi Services Determination of Maximum Fares for Taxis*, 25 November 2014.

⁴⁷ ACCC, *Fuel in regional Australia*, <https://www.accc.gov.au/consumers/petrol-diesel-lpg/fuel-in-regional-australia>, accessed 7 September 2017.

in country areas compared to urban area but the cost of others, such as insurance, is lower.⁴⁸ And it is likely that there are differences in costs within zones. Also, if competition were sufficiently effective it could be possible to have just one fare zone across NSW. TfNSW could determine maximum fares that would cover the efficient cost of providing services in the most expensive areas and competition would encourage authorised TSPs to set fares at lower levels in areas where efficient costs are lower.

IPART seeks comments on the following

- 13 There are currently two fare zones ('urban areas' and 'country areas') in TfNSW's fares order. How many fare zones should there be, and why?

4.9 Are out-of-area fare arrangements reasonable?

A taxi driver can charge a fare that exceeds the authorised fare if a passenger is being taken outside the taxi's area of operation, and the fare is agreed with the passenger. This includes trips that cross state borders.

We are not aware of how frequently drivers and passengers agree to higher fares for out-of-area trips. We are concerned that some passengers may not know where operating areas end, and that drivers could potentially take advantage of this to negotiate higher fares. There may also be issues with drivers servicing different but overlapping operating areas. For example, in the Blue Mountains, there are operating areas that include just one or two towns and others that include the entire local government area.

We think that passengers could benefit from greater clarity about these arrangements. For example, we could recommend that the Point to Point Regulation be amended so that a driver can charge a fare that exceeds the authorised fare if a passenger is being taken more than 50 km (or some other nominated distance) from the start of the journey, and the fare is agreed with the passenger.

IPART seeks comments on the following

- 14 What, if any problems are there with the current arrangements for out-of-area fares? What could be done to address these problems?

4.10 Are requirements for notifying fares sufficient?

To achieve the full benefits of a less prescriptive form of fare regulation it is important that customers are easily able to obtain information about, and compare, the fares offered by TSPs. The Point to Point Regulation requires authorised TSPs to ensure that information about fares is:

- ▼ displayed inside a taxi⁴⁹
- ▼ available on the provider's website (if it has one), and
- ▼ made available by the provider to potential passengers on request.⁵⁰

⁴⁸ The CIE, *2014 survey of taxi drivers and operators - Survey results for areas outside Sydney*, Final Report, pp 2, 33.

⁴⁹ Point to Point Regulation, cl 15(c).

⁵⁰ Point to Point Regulation, cl 54.

Our preliminary view is that additional provisions could enhance both competition and consumer protection. If such provisions were introduced, we may be more inclined to recommend a more light handed approach to fares.

For example, it would be easier for passengers to make an informed choice about which TSPs to select if providers displayed fare information on the **outside** of a taxi and/or if authorised TSPs were required to routinely provide the Point to Point Commissioner with fare information.

The Commissioner could then develop a central, publicly-accessible repository for fare information that would allow passengers to compare fares of different TSPs. Government could also use this information to assess whether authorised TSPs are setting fares below the regulated maximum, as an indicator of whether competition is effective.

IPART seeks comments on the following

- 15 Are the fare notification requirements in the *Point to Point Transport (Taxis and Hire Vehicles) Regulation 2017* sufficient to facilitate comparison of the fares offered by different rank and hail service providers?

5 Recommending new licences outside Sydney

As Chapter 2 discussed, as a way of managing the process of increasing the supply of taxis the NSW Government has decided to issue annual taxi licences, through a tender process, that can be used anywhere in the state outside Sydney. To assist with this process, we have been asked to review and recommend:

- ▼ how many taxi licences (other than WAT licences)⁵¹ should be issued to operate in areas outside Sydney in the year starting 1 July 2018, and
- ▼ whether there should be any restrictions on these new licences, including a specified operating area (other than outside Sydney).

To form our recommendations, we propose to draw on the findings of our assessment of competition in the market (discussed in Chapter 3) and conduct additional analysis. The issues we propose to consider and our preliminary thinking are outlined below.

5.1 Should the supply of rank and hail taxi services continue to be regulated?

As we have noted previously, we do not consider that there is any economic justification for the Government to restrict the supply of taxis, or other point to point transport services.⁵² Licensing arrangements over the years have served to restrict the number of taxi licences released and increase the price of those licences. These high prices then act as a barrier to entry of new taxi services where they are most required.

If supply was not restricted, taxis would enter the market up to the point where they can continue to cover their costs, at the same time putting downward pressure on fares and reducing waiting times for passengers. Licence values would also decrease.

The point to point transport market is changing rapidly with competition for booked services. This competition will also put downward pressure on fares, reduce waiting times for passengers and decrease licence values across NSW. Recognising these challenges, the Government has decided to continue to manage the supply of taxi licences. Our review will consider how best to achieve this.

IPART seeks comments on the following

- 16 Are there particular characteristics of the rank and hail market that require the supply of licences to continue to be regulated?

⁵¹ WAT licences are excluded from our review because they are available for free on application to Roads and Maritime Services and are not subject to any supply restrictions.

⁵² See for example, IPART, *Submission on Point to Point Transport Taskforce Discussion Paper*, September 2015, p 14.

5.2 Should new licences operate anywhere in NSW (outside Sydney)?

As discussed in Chapter 2, area-based restrictions for booked services have been removed as part of the point to point transport reforms.⁵³ However, operating area restrictions remain on existing taxi licences for rank and hail taxi services, preventing rank and hail journeys commencing outside that taxi's operating area.⁵⁴

The Point to Point Taskforce report recommended that the Government review operating areas for existing licences over the next four years as the new regulatory arrangements are put in place.⁵⁵ The Taskforce also recommended that the new licences to be released outside Sydney be permitted to operate anywhere outside Sydney.⁵⁶ As part of our review we are to consider whether the licence should specify the operating area to be anything other than outside the Sydney Metropolitan Transport District.

If new taxi licences were allowed to operate anywhere in NSW (except Sydney), we would expect them to flow to areas with the highest demand for taxi services. This would reduce waiting times for passengers in these areas. It would also place downward pressure on existing licence values and reduce the current variation in licence values across the state.

Our preliminary view is that new licences should be allowed to operate anywhere outside the Sydney Metropolitan Transport District. This would allow the market to address any shortages of taxi services as licences would be able to gravitate to where they needed most, and respond to seasonal variation in demand or special events. Restricting the operating areas of rank and hail services results in inefficiencies such as taxis being unable to pick up a return fare outside their area and passengers being charged for empty return trips. It also adds to the regulatory burden for government.

At this stage, area-based restrictions will continue to apply for existing licences. While the supply of taxi licences remains constrained, this prevents existing taxi services moving to areas of high demand, potentially leaving some areas without a taxi service.

However, it may mean that these existing taxi operators are at a competitive disadvantage to new licences without restrictions on their operating area. Similar situations arise currently where operating areas are inconsistently defined and overlapping. For example, in the Port Stephens Local Government Area (LGA) there are licences that allow taxis to operate across the entire LGA, while others restrict operations to smaller areas such as the Tomaree Peninsula and Nelson Bay. As supply across the state increases, operating areas for existing licences could be rationalised or removed.

5.3 Is there a shortage of taxi licences outside Sydney?

In considering the number of taxi licences to be issued, we will assess whether and where there is a shortage of taxi licences outside Sydney by examining a range of information, including feedback from the industry and passengers. In assessing whether the supply of taxis is meeting demand, we will consider:

⁵³ Point to Point Act, s 56(5).

⁵⁴ Point to Point Act, s 56(4).

⁵⁵ NSW Government Point to Point Transport Taskforce, *Report to the Minister for Transport and Infrastructure*, November 2015 (PtoP Taskforce Report), p 94.

⁵⁶ PtoP Taskforce Report, p 91.

- ▼ the demand for new taxi licences
- ▼ passenger demand for rank and hail services, including latent demand and the performance of existing taxi services
- ▼ the availability of alternative point to point transport services to address passenger demand.

5.3.1 Variation in licence values suggests variation in demand for taxi licences

To assess the demand for new taxi licences in areas outside Sydney, and whether the supply of licences matches this demand, we will analyse taxi licence transfer values. As we have discussed in previous reviews,⁵⁷ the cost of a taxi licence is not an efficient cost because the licences themselves do not have any productive value. The cost does not reflect the cost of the goods or services provided, but instead the scarcity value of the licence. Therefore, very high licence values indicate the demand for licences is higher than the supply. High demand for licences is also likely to indicate strong demand or expected demand growth for taxi services and a shortage of taxis in particular operating areas.

There are significant variations in licence values across the state, reflecting the variation in demand and supply imbalance across different areas, and the likely shortage of taxi services in some areas. Between April 2011 and April 2017, average licence transfer values ranged from under \$1,000 to nearly \$500,000. Figure 5.1 shows the average licence transfer values for various NSW locations over the last three years.

Since January 2015, Roads and Maritime Services (RMS) has issued no new ordinary licences outside Sydney, and the number of WAT licences has decreased.⁵⁸

There are currently 79 licences on hold⁵⁹ outside Sydney (73 in country areas, five in Newcastle and one in Wollongong).⁶⁰ Licences on hold may indicate that there is insufficient demand to make it worthwhile to operate the taxi, or too many taxis. However, licences may also be put on hold to keep licence prices higher than they otherwise would be.

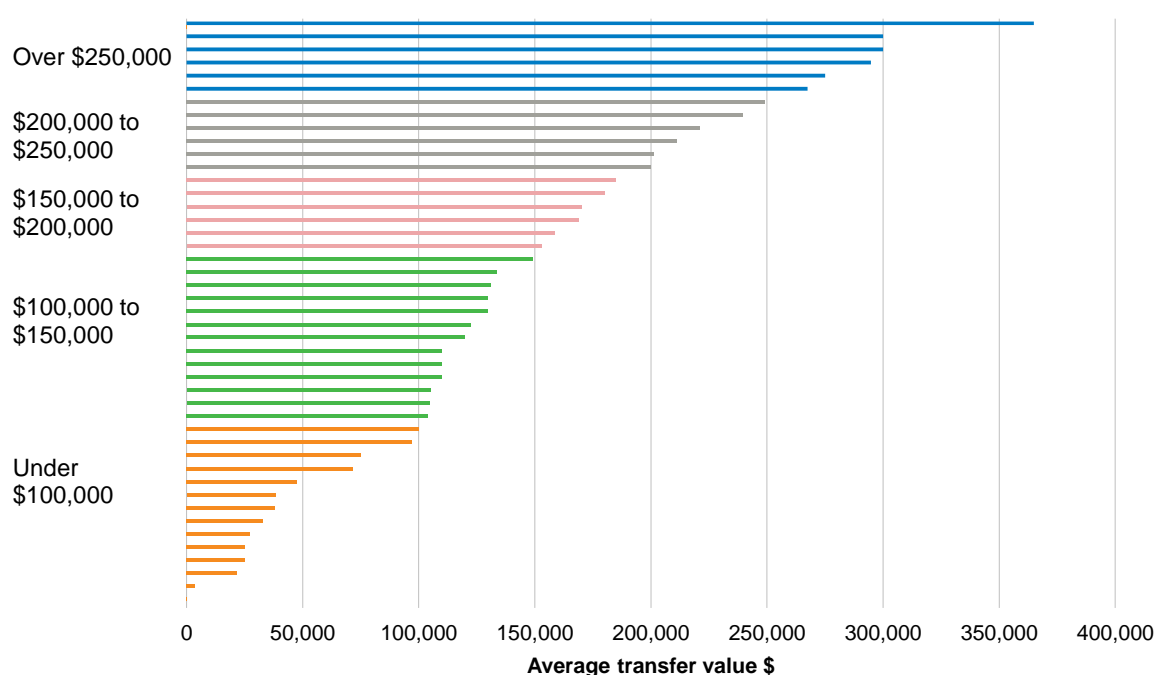
⁵⁷ For example, IPART, *Review of taxi fares outside Sydney to apply from July 2015*, June 2015.

⁵⁸ Roads and Maritime Services data from Transport for NSW.

⁵⁹ A taxi operator is able to put a licence 'on hold' – that is, to maintain ownership of a licence but not have the licence attached to a vehicle that is operating as a taxi.

⁶⁰ Roads and Maritime Services data from Transport for NSW.

Figure 5.1 Average taxi licence transfer values outside Sydney (May 2014 – April 2017)



In alphabetical order, towns for each group:

Over \$250,000 includes: Armidale, Broken Hill, Central Coast, Dubbo, Port Macquarie, and Queanbeyan.

\$200,000 to \$250,000 includes: Albury, Greater Tweed, Inverell, Newcastle, Wagga Wagga, and Wollongong.

\$150,000 to \$200,000 includes: Bathurst, Macksville, Nowra, Orange, Tamworth, and Walgett.

\$100,000 to \$150,000 includes: Bellingen, Cessnock, Cooma, Goulburn, Katoomba, Laurieton, Leeton, Lismore, Lithgow, Maitland, Narrabri, Parkes, Tumut, and Urunga.

Under \$100,000 includes: Berry, Bombala, Cobar, Cootamundra, Deniliquin, Gunnedah, Kempsey, Kurri Kurri, Lawson, Morisset, Narrandera, Taree, and Young.

Data source: IPART analysis of RMS data provided by Transport for NSW.

5.3.2 We will investigate passenger demand for rank and hail services

To assess passenger demand for rank and hail services and the performance of existing taxi services in meeting this demand we will:

- ▼ **Compare the growth in demand for rank and hail services to the growth in supply of rank and hail services.** We propose to estimate the growth in demand for all point to point transport services by examining indicators such as economic growth, population growth and growth in tourism. We will then estimate what proportion of total demand for point to point transport services is for rank and hail services and compare this to the actual growth in the supply of rank and hail services (approximated by the growth in taxi licences, including – at least in part – licences for WATs).
- ▼ **Research passenger waiting times.** We propose to survey passengers about how long they typically wait for taxis at a rank or when trying to hail one from the street. Where possible, we will compare wait times to those in areas with less restrictive entry to the industry.

- ▼ **Population benchmarking.** We propose to calculate the number of taxi licences per 1,000 people. We will probably exclude large areas of the state where there is unlikely to be a market for rank and hail services. We will compare the results to areas with less restrictive entry to the industry (if data is available). We note this is likely to be a rough guide only as there are likely to be variations in demand unrelated to population eg tourist areas, socio-economic factors. Also larger populations are more likely to attract other PTP competition.

We also propose to consider latent demand for rank and hail services – that is, demand we cannot directly observe as it involves demand by people who would like to travel by taxi but don't. For example, they may consider that the cost is too high or waiting times are too long, so they either use other modes of transport or decide not to travel at all. Examination of economic growth, population growth and population benchmarking discussed above may assist in estimating latent demand of rank and hail services.

5.3.3 Alternate point to point transport options may address a shortage of taxis

Another factor we will consider in assessing whether there is a shortage of taxi licences outside Sydney is the extent to which taxi alternatives are present in different areas. Although only taxis are permitted to provide rank and hail services, the majority of taxi trips in country areas are booked. Therefore, taxi substitutes could meet passenger demand in a particular area.

As Chapter 3 discussed, while some areas outside Sydney have several PTP operators offering similar services to taxis, in other areas there are no comparable services. Changes to the regulatory framework for point to point transport have made it easier for taxi alternatives to enter the market. Whilst the landscape is changing rapidly, it is difficult to assess the extent of any taxi shortage and whether this may be met by alternative point to point transport. However, lower barriers to entry for new taxi services, including lower licence costs, will allow them to more effectively compete with alternatives.

5.4 What is the best approach for addressing any shortage of taxi licences?

If we find that there is a shortage of taxi licences outside Sydney, our next step will be to decide how many additional taxi licences (other than WAT licences) should be issued in the year commencing 1 July 2018.

The new regulatory framework allows the release of non-transferable annual licences using a competitive tender process, similar to arrangements that have been in place in Sydney since 2009. No new ordinary licences will be issued.

In making this decision on additional taxi licences, we will consider the pros and cons of various options, discussed below.

5.4.1 Specifying the operating area for a new licence may be unnecessary

One option may be to only issue new licences for those operating areas where we have identified there is a shortage. This would increase the availability of rank and hail services and reduce waiting times for passengers, and put downward pressure on licences for these areas.

However, as noted in section 5.2, it is likely that new licences will gravitate to areas where they are needed anyway due to the high values in these areas, making it unnecessary for the licence to specify an operating area.

5.4.2 Issuing a large number of taxi licences outside Sydney would address any supply shortages

Another option would be to recommend that TfNSW issues a very large number of taxi licences in the year commencing 1 July 2018. This would effectively ensure that there are no remaining supply shortages in any areas outside Sydney and supply restrictions are removed.

In our previous reviews we were able to recommend how many taxi licences to release in Sydney by targeting a percentage decrease in licence lease values over a period of several years.⁶¹ It is not possible to take the same approach for licences outside Sydney as there is a high degree of variability in licence values as discussed above. In addition, there are many operating areas with too few transactions (transfers or issue of new licences) to accurately estimate the licence values for. As a result, we are not able to target a percentage reduction in licence values as we have done for Sydney. However, by releasing a very large number of licences outside Sydney which effectively removes supply restrictions, we would essentially be targeting a licence value of close to zero. This would have a significant impact on existing licence holders.

5.4.3 A gradual release of licences would transition the impact on licence holders

Another option would be to recommend a relatively small number of new taxi licences be issued in the coming year, with a view to issuing more over subsequent years if necessary. Although our terms of arrangement do not specifically require us to consider the impact on licence holders, a more gradual release of new licences would transition the impact on licence values. We note however, that if new licences were available for any operating area outside Sydney, a gradual release of licences would not prevent licence values falling in the high value areas to which new licences would gravitate.

The price paid for new licences in different areas would provide more information on the shortage of taxi licences. In this way, multiple gradual licence releases would allow us to more accurately estimate the need for more licences. It would also enable licence churn, which is an important price-correction feature of the current licensing arrangements in Sydney. Annual licences in Sydney are automatically renewable up to nine times; they can be leased but not transferred. The price of a licence is set at auction in the first year, and this

⁶¹ IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 - Final Report and Recommendations*, February 2014; and IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013.

becomes the annual renewal price. With regular licence releases, if the licence price falls (as might be expected), licence holders are able to bid for new licences and relinquish their existing licence.

However, if there is only one licence release outside Sydney in the short to medium term, the opportunities for licence costs to adjust would be significantly reduced. Licences could still be relinquished and retendered, but if there were no new annual licences issued, licence holders would risk being left without a licence if they were not the successful bidder.

5.4.4 Short term licences could be replaced with new annual licences

Currently there are a small number of country taxi short-term and short-term fringe taxi licences outside Sydney. These licences have terms up to six years and are non-transferrable. As part of its recommendation to issue only annual licences, the Taskforce suggested that these licences could be added back into the stock of licences outside Sydney on or near expiry. If these new replacement licences were permitted to operate anywhere in NSW, this may result in any new replacement licences not operating in the same areas as these short-term licences currently do. However the Taskforce considered that the new arrangements for booked services may attract other operators to these areas and replace any loss in taxis.⁶²

IPART seeks comments on the following

- 17 Should all new licences be allowed to operate anywhere outside the Sydney Metropolitan Transport District? Alternatively, should new annual licences only be issued for areas with an identified shortage of rank and hail services? If you think additional operating area restrictions should be applied, what should they be, and why?
- 18 Should a large number of new taxi licences be issued to effectively remove supply constraints on the provision of taxi services outside Sydney? If so, should the licences be issued in one release, or gradually over several years?
- 19 Should a number of new annual licences be allocated to replace country taxi short-term and short-term fringe licences? If so, should these new annual licences be restricted to operating in the same areas as the current country taxi short-term and short-term fringe licences?

5.4.5 We will consider how new licences may affect the sustainability of the rank and hail market

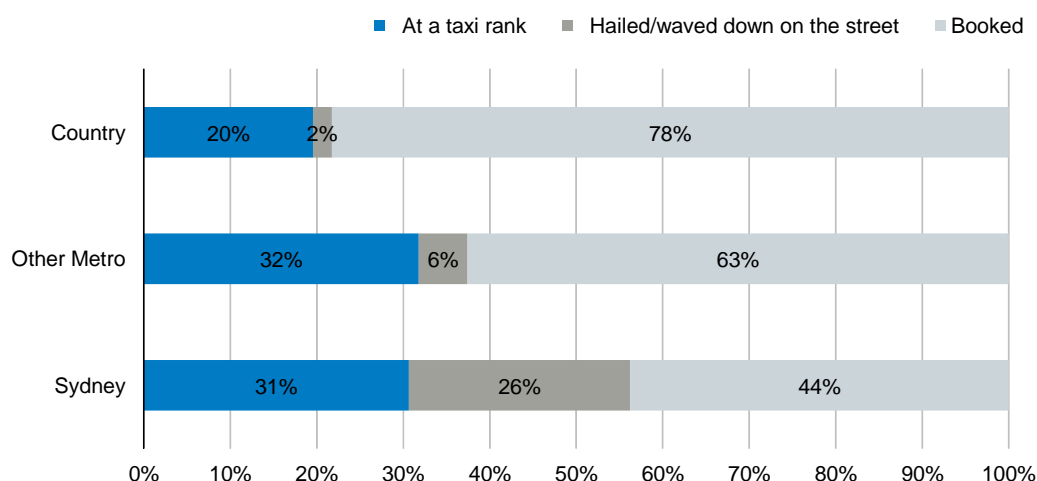
In deciding on the number of new licences to be issued, we will consider the impacts on the sustainability of the rank and hail market.

Outside Sydney, the majority of work for taxis is booked trips. As Figure 5.2 shows, our 2016 survey of point to point transport use found that only 38% of taxi trips in other urban areas (Newcastle, Wollongong, Gosford and Wyong) were obtained either at a taxi rank or hailed in the street, with the remainder booked. In country areas this was even lower, with only 22% of taxi trips obtained at a rank or by hailing.⁶³

⁶² PtoP Taskforce Report, p 92.

⁶³ Taverner Research, *Survey of Point to Point Transport Use 2016*, February 2017, p 74.

Figure 5.2 Method of obtaining a taxi by region



Note: Totals may add to more than 100 due to rounding of different types of booking methods.

Data source: Taverner Research, *Survey of Point to Point Transport Use 2016*, February 2017, p 74.

However, there is still a role for the rank and hail market outside Sydney. For people unwilling or unable to access booked services, the ability to hire a taxi at a rank or in the street remains important. These services also allow anonymity, whereas point to point transport services booked through a smartphone app require passenger identification and an account linked to a credit or debit card.

The Point to Point Transport Taskforce considered that there are characteristics of the rank and hail market that may justify the ongoing management of supply, which do not apply to the booked services market. A rank and hail market relies on adequate supply – if people cannot easily catch a taxi from a rank or hail one in the street, they will book. In turn, this will lead to a contraction of the rank and hail market. Therefore, to be sustainable there needs to be enough taxis to meet demand for rank and hail services.⁶⁴

On the other hand, the Taskforce considered that “policymakers also need to be careful not to cause providers to withdraw in large numbers because of a massive over-supply of rank & hail vehicles.”⁶⁵

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

A clear distinction needs to be made between the viability and sustainability of individual industry participants and the industry as a whole. The industry may be quite viable and sustainable whilst some members of it are unable to operate profitably. In competitive industries, entry and exit are a normal and healthy aspect of market operation.⁶⁶

We are interested in whether there are any particular characteristics of the rank and hail market that mean unregulated supply would make existing rank and hail services less viable outside Sydney.

⁶⁴ PtoP Taskforce Report, p 89.

⁶⁵ PtoP Taskforce Report, p 89.

⁶⁶ D Cousins submission, 15 January 2013, p 3.

IPART seeks comments on the following

- 20 What are the likely impacts of the different options for issuing new licences on the sustainability of the rank and hail market?

5.5 Should there be any restrictions placed on new taxi licences?

In addition to the area of operation for new licences discussed in section 5.2, we propose to consider whether:

- ▼ there should be restrictions on operating in cross-border areas
- ▼ there should be any other operating restrictions
- ▼ there should be a number of new licences issued to persons authorised to provide taxi services, and
- ▼ there should be restrictions on how many new licences can be granted to the same or related applicants.

5.5.1 We will consider whether there should be restrictions on operating in cross border areas

In most border regions and towns, taxis can only be hired from a rank or hailed in the street for journeys that either begin or end in their licensed operating area.

However, the current administrative arrangements provide that taxis licensed to operate in Queanbeyan may ply or stand for hire anywhere in the ACT. (This arrangement is reciprocal as taxis licensed to operate in the ACT may stand or ply for hire in Queanbeyan). If new annual licences are issued which are permitted to operate anywhere in NSW outside Sydney, then these could potentially gravitate to Queanbeyan. This raises the question as to whether these taxis should also have the same arrangements as taxis currently licensed to operate in Queanbeyan.

5.5.2 We will consider if there should be any other operating restrictions

Other restrictions could include the hours of operation of a licence, as is the case for Peak Availability Licences (PAL) which operate in Sydney; or the priority that must be given to particular passengers, as is the case with WAT licences.

Our preliminary view is that there should not be any restrictions imposed in new taxi licences outside Sydney.

5.5.3 We will consider if there should be any restrictions on how many new licences can be granted to the same applicant

If the supply of licences remains constrained, there may be an argument for limiting the number of licences issued to one applicant, in the interests of promoting competition. However, if a large number of new licences are released, it should not be necessary to restrict the number of licences that can be granted to the same or related applicants.

Similarly, reserving a number of new licences to be issued to persons authorised to provide taxi services⁶⁷ should not be necessary if sufficient licences are issued.

Our preliminary view is that there should not be any restrictions on the number of licences granted to an applicant, or the number issued to those also authorised to provide taxi services; however, we seek feedback on whether this will impact on competition.

IPART seeks comment on the following

- 21 Should there be any restrictions on:
 - The areas of operation for new licences in cross border areas?
 - The operation of new licences? If so, what type of restrictions?
- 22 Should some new taxi licences be reserved for persons authorised to provide taxi services?
- 23 Should there be a limit on the number of taxi licences issued to the same applicant or related applicants?

⁶⁷ Under the Point to Point Act, section 27, Taxi Service Providers must be authorised. A business that provides passenger services in a licensed taxi is known as a Taxi Service Provider. These service providers were known as taxi operators and taxi networks under the former *Passenger Transport Act 1990*.



Appendices



A Terms of Reference for fare reviews

**FARE REVIEW FOR TAXIS THAT PLY OR STAND FOR HIRE ON A ROAD
OR ROAD RELATED AREA OUTSIDE SYDNEY
REFERRAL UNDER THE PASSENGER TRANSPORT ACT 2014**

I, the Hon. Andrew Constance MP, Minister for Transport and Infrastructure, with the approval of the Hon. Gladys Berejiklian MP, Premier of NSW and Minister administering the *Independent Pricing and Regulatory Tribunal Act 1992*, pursuant to section 123(1) of the *Passenger Transport Act 2014* (NSW) (PT Act 2014), refer taxi services that ply or stand for hire on a road or a road related area (as defined under section 8(1)(a) of the PT Act 2014) outside Sydney to IPART for investigation and preparation of a report containing recommendations regarding the appropriate maximum fares for those services to apply from 1 July 2018.

For the purpose of this referral outside Sydney means that part of New South Wales other than the Metropolitan transport district (defined under section 108(1) of the *Transport Administration Act 1988*).

In making its recommendations IPART is to consider the matters contained in section 124 of the PT Act 2014, including:

- (a) the cost of providing the services,
- (b) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
- (c) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service,
- (d) the social impact of the recommendation,
- (e) the impact of the recommendation on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport,
- (f) standards of quality, reliability and safety of the services (whether those standards are specified by legislation, agreement or otherwise),
- (g) the effect of the recommendation on the level of Government funding,
- (h) any matter specified in the referral to IPART,
- (i) any other matter IPART considers relevant.

In making its recommendations IPART is to consider the *Point to Point Transport Taskforce: Report to the Minister for Transport and Infrastructure* (November 2015) and the NSW Government's response. In particular, IPART is to consider whether Transport for NSW should continue to determine the components of the maximum fare including flagfall, distance rate and waiting time rate.

IPART is to indicate what regard it has had to the matters specified above in its report containing its recommendations.

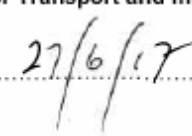
IPART should publish a draft report containing its preliminary recommendations by no later than 31 December 2017 and consider public submissions in response to its recommendations before making final recommendations.

IPART is to report to the Minister for Transport and Infrastructure on its recommendations by no later than 31 March 2018.

Signed 

The Hon. Andrew Constance MP

Minister for Transport and Infrastructure

Date 

FARE REVIEW FOR TAXIS THAT PLY OR STAND FOR HIRE ON A ROAD OR ROAD RELATED AREA IN SYDNEY

REFERRAL UNDER THE PASSENGER TRANSPORT ACT 2014

I, the Hon. Andrew Constance MP, Minister for Transport and Infrastructure, with the approval of the Hon. Gladys Berejiklian MP, Premier of NSW and Minister administering the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), pursuant to section 123(1) of the *Passenger Transport Act 2014* (PT Act 2014), refer taxi services that ply or stand for hire on a road or a road related area (as defined under section 8(1)(a) of the PT Act 2014) in Sydney to IPART for investigation and preparation of a report containing recommendations regarding the appropriate maximum fares for those services to apply from 1 July 2018.

For the purpose of this referral Sydney means the Metropolitan transport district as defined under section 108(1) of the *Transport Administration Act 1988*.

In making its recommendations IPART is to consider the matters contained in section 124 of the PT Act 2014, including:

- (a) the cost of providing the services,
- (b) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
- (c) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service,
- (d) the social impact of the recommendation,
- (e) the impact of the recommendation on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport,
- (f) standards of quality, reliability and safety of the services (whether those standards are specified by legislation, agreement or otherwise),
- (g) the effect of the recommendation on the level of Government funding,
- (h) any matter specified in the referral to IPART,
- (i) any other matter IPART considers relevant.

In making its recommendations IPART is to consider the *Point to Point Transport Taskforce: Report to the Minister for Transport and Infrastructure* (November 2015) and the NSW Government's response. In particular, IPART is to consider whether Transport for NSW should continue to determine the components of the maximum fare including flagfall, distance rate and waiting time rate.

IPART is to indicate what regard it has had to the matters specified above in its report containing its recommendations.

IPART should publish a draft report containing its preliminary recommendations by no later than 31 December 2017 and consider public submissions in response to its recommendations before making final recommendations.

IPART is to report to the Minister for Transport and Infrastructure on its recommendations by no later than 31 March 2018.

Signed 

The Hon. Andrew Constance MP

Minister for Transport and Infrastructure

Date  27/6/17

B Terms of Arrangement for taxi licence review

**TERMS OF ARRANGEMENT FOR TAXI LICENCE REVIEW
FOR TAXI SERVICES OUTSIDE SYDNEY UNDER THE *INDEPENDENT PRICING
AND REGULATORY TRIBUNAL ACT 1992 (NSW)***

With the approval of the Hon. Gladys Berejiklian MP, Premier of NSW and Minister administering the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act), pursuant to section 9(2) of the IPART Act, the Independent Pricing and Regulatory Tribunal (IPART) will enter into arrangements with Transport for NSW.

The services to be provided by IPART are the conduct of an investigation into, and the preparation of a report containing recommendations concerning the number of taxi licences (other than licences for wheelchair accessible taxis) to be issued to operate in areas outside Sydney during the year commencing 1 July 2018.

For the purpose of this referral outside Sydney means that part of New South Wales other than the Metropolitan transport district (defined under section 108(1) of the *Transport Administration Act 1988*).

In making its recommendations IPART is to consider:

- (a) likely passenger demand and latent demand for taxi services,
- (b) the performance of existing taxi services,
- (c) the demand for new taxi licences,
- (d) the viability and sustainability of the taxi industry,
- (e) any other matters IPART considers relevant, having regard to the objective of ensuring improved taxi services.

IPART may also consider and make recommendations concerning:

- (a) the number and type of taxi licences that are to be issued to persons who are also authorised to provide taxi services or who have applied for an authorisation to do so (under the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016*)
- (b) the number of taxi licences that may be granted to the same applicant or related applicants.

In making its recommendations IPART is to consider the *Point to Point Transport Taskforce: Report to the Minister for Transport and Infrastructure* (November 2015) and the NSW Government's response. In particular, IPART is to consider whether there should be any restrictions placed on any of the taxi licences to be issued, and whether the licence should specify the operating area to be anything other than outside the Metropolitan transport district.

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

IPART should publish a draft report containing its preliminary recommendations by no later than 31 December 2017 and consider public submissions in response to these recommendations before making final recommendations.

IPART is to provide the Minister for Transport and Infrastructure with a report containing its final recommendations by no later than 9 March 2018.

Signed

The Hon. Andrew Constance MP

Minister for Transport and Infrastructure

Date..... 27/6/17

C Taxi and Rideshare fare components and charges

This Appendix sets out the fare components and charges for taxis and rideshare operating in New South Wales in August 2017.

Table C.1 Urban taxi and rideshare fare components, August 2017 (\$)

Off-peak	Hiring charge	Distance rate (per km)	Duration rate (per min)	Waiting time rate (per min)	Booking fee	Minimum fare
Taxi	3.60	2.19 ^b	-	0.94	2.50	-
Go Buggy	3.50	1.90	0.60	-	-	8.00
GoCatch	2.38	1.38	0.38	-	-	8.00
Shebah	4.13	1.51	0.55	-	-	-
UberX – Sydney	2.50	1.45	0.40	-	0.55	9.00
Uber X – Regional ^a	2.00	1.10	0.30	-	0.55	7.50
Peak^c						
Taxi	3.60/6.10 ^d	2.63 ^b	-	0.94	2.50	-
Go Buggy	5.00	1.90	0.60	-	-	8.00
GoCatch	3.01/3.65 ^e	1.75/2.18 ^e	0.48/0.58 ^e	-	--	10.00/12.00 ^e
Shebah	4.54	1.66	0.61	-	-	-

^a Newcastle, Wollongong and Central Coast.

^b The taxi distance rate only applies when the vehicle is travelling faster than 26km/h.

^c UberX does not have peak fares but rather applies a 'surge' price when demand is high relative to supply. This increases all fare components by a fixed percentage (eg, a 1.4x surge results in a 40% higher fare).

^d During the 'Night Owl' period a higher hiring charge applies for taxis in urban areas.

^e GoCatch operates different peak tariffs for weekday mornings and weekend evenings.

Source: IPART, data from rideshare company websites, August 2017.

Table C.2 Country taxi and rideshare fare components, August 2017 (\$)

Off-peak	Hiring charge	Distance rate (per km)	Duration rate (per min)	Waiting time rate (per min)	Booking fee	Minimum fare
Taxi	4.10	2.26/3.13 ^a	-	0.96	1.20	-
Go Buggy – Coffs Harbour	3.50	2.20/2.90 ^b	0.49	-	-	10.00
Uber X – Byron Bay	2.00	1.10	0.30	-	0.55	8.00
Peak^c						
Taxi	4.10	2.71/3.75 ^a	-	0.96	1.20	-
Go Buggy	5.00	2.50/3.50 ^b	0.49	-	-	10.00

Source:

^a The taxi distance rate only applies when the vehicle is travelling faster than 26km/h. A higher distance rate applies following the first 12km.

^b A higher distance rate applies following the first 12km.

^c UberX does not have peak fares but rather applies a 'surge' price when demand is high relative to supply. This increases all fare components by a fixed percentage (eg, a 1.4x surge results in a 40% higher fare).

Source: IPART, data from rideshare company websites, August 2017.

Glossary

Affiliated Taxi Service Provider	<p>Provides a taxi service under the brand of an authorised Taxi Service Provider.</p> <p>Accredited taxi operators affiliated with an authorised taxi network are automatically recognised as an Affiliated Taxi Service Provider under the <i>Point to Point Transport (Taxis and Hire Vehicles) Act 2016</i>.</p>
Authorised fare	<p>The authorised fare for the hiring of a taxi means the amount chargeable for hiring a taxi from a rank or on the street in accordance with a fares order, or the fare determined by the provider of the taxi service if this is less than the fare under the applicable fares order.</p>
Booking Service Provider	<p>Takes bookings for taxis and hire vehicles to provide passenger services. Authorised taxi networks, and accredited taxi operators not affiliated with an authorised taxi network, are automatically recognised as booking service providers under the <i>Point to Point Transport (Taxis and Hire Vehicles) Act 2016</i>.</p>
Hire vehicle	<p>Under the <i>Point to Point Transport (Taxis and Hire Vehicles) Act 2016</i>, a hire vehicle means a motor vehicle that is used to provide a passenger service that is not a taxi service.</p>
Taxi service	<p>Under the <i>Point to Point Transport (Taxis and Hire Vehicles) Act 2016</i>, a taxi service means a passenger service where the transport is by a motor vehicle that plies or stands for hire on a road or road related area or is authorised to do so.</p>
Taxi Service Provider	<p>A business that provides passenger services in a licensed taxi.</p> <p>These service providers were known as taxi operators and taxi networks under the <i>Passenger Transport Act 1990</i>.</p>