



Independent Pricing and Regulatory Tribunal

2012 Review of Taxi Fares in NSW

Maximum fares from July 2012

Transport — Issues Paper
December 2011



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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 3 February 2012.

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

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

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Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

We may choose not to publish a submission – for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be subject to appeal under freedom of information legislation.

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

Contents

| | |
|---|------------|
| Invitation for submissions | iii |
| 1 Introduction | 1 |
| 1.1 How the review will be conducted | 1 |
| 1.2 How this paper is structured | 2 |
| 1.3 What submissions should address | 3 |
| 2 Context, scope and approach to the 2012 review | 5 |
| 2.1 Who does what in the taxi industry in NSW? | 5 |
| 2.2 How does IPART calculate fare changes for taxis in NSW? | 9 |
| 2.3 What will we be looking at during the course of this review? | 11 |
| 3 The costs of providing taxi services | 14 |
| 3.1 What we asked CIE to do | 14 |
| 3.2 Do absolute costs matter? | 15 |
| 3.3 Treatment of GST | 15 |
| 3.4 Identifying appropriate cost items for taxi cost models | 16 |
| 3.5 Taxi usage patterns that affect total variable costs | 17 |
| 3.6 Operator costs | 18 |
| 3.7 Driver costs | 22 |
| 3.8 Taxi industry cost model | 23 |
| 4 Constructing the Taxi Cost Indices | 25 |
| 4.1 Should the TCIs continue to be based on a 'typical' taxi or try to capture information about a range of different taxi types? | 25 |
| 4.2 How should the TCIs capture labour costs for drivers and operators? | 26 |
| 4.3 Treatment of taxi licence lease costs | 29 |
| 5 Fare components and the 'average fare' | 31 |
| 5.1 Current fares | 31 |
| 5.2 Relativity of fare components | 33 |
| 5.3 What is an average fare? | 33 |
| 6 The level of fare revenue compared with costs | 36 |
| 6.1 Operator revenue compared to costs | 36 |
| 6.2 Driver revenue compared to costs | 37 |
| 6.3 Doesn't this mean fares should go up, to give drivers a pay rise? | 37 |

| | | |
|----------|--|-----------|
| 6.4 | Doesn't this mean fares should go down, because they are currently calculated on the basis that drivers get paid a lot more than they actually do? | 38 |
| 6.5 | Won't fares go down if we take licence lease costs out of the Taxi Cost Indices? | 38 |
| 7 | Other issues for consideration | 39 |
| 7.1 | The introduction of a carbon price | 39 |
| 7.2 | The introduction of excise on LPG | 40 |
| 7.3 | Adjusting fares for changes in productivity | 40 |
| 8 | Service quality information and impacts on stakeholders | 42 |
| 8.1 | We will consider service quality information | 42 |
| 8.2 | We will consider impacts on stakeholders | 42 |
| A | Terms of reference | 44 |

1 Introduction

Each year the NSW Government asks IPART to review taxi fares and make recommendations on maximum fares to the Director-General of Transport for NSW.

We estimate how much the cost of providing taxi services has changed over the previous 12 months based on the movement in two industry-specific cost indices, known as the Taxi Cost Indices (TCIs). One TCI applies to urban taxi services, and the other to country taxi services.¹ We use these indices to develop fare changes that, on average, match the change in the cost of providing taxi services.

As flagged in previous years, in this review we will undertake a major review of the cost items and weightings in the TCIs. To help us in this task we asked the Centre for International Economics (CIE) to provide advice on the current costs of providing taxi services.

We will recommend fare changes to commence from July 2012. After considering our recommendations, the Director General of Transport for NSW will decide on the maximum fares that will apply and the date they will come into effect.

1.1 How the review will be conducted

This issues paper is the first step in the review process. It sets out the key issues we will consider as part of the review, and seeks comment from interested parties. Submissions on this issues paper are due by 3 February 2012.

We have also published CIE's draft report 'Reweighting of the taxi cost index' on our website, www.ipart.nsw.gov.au. Some of CIE's draft findings are referenced in this issues paper, but we encourage stakeholders to read CIE's draft report in full and provide comments on it in their submissions.

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

We will hold a public forum at the end of February to provide stakeholders with a further opportunity for input. We invite all interested parties to attend. After considering the information and comments received through the public consultation process, we will publish a draft report, which we expect to release at the end of March 2012.

We expect to publish CIE's final report at the same time as our draft report. CIE will consider additional data received from the surveys in finalising its report. We will also provide them with any relevant comments in submissions to this issue paper and will ask them to consider these comments.

We will again seek input from stakeholders on our draft report, before finalising our decisions and sending our report and recommendations to Transport for NSW by 8 June 2012.

This timetable is indicative only; an up to date timetable is available on our website, www.ipart.nsw.gov.au

1.2 How this paper is structured

This issues paper includes a detailed discussion of the key issues that we will consider as part of this year's fare review. The information in this paper is intended to provide a basis for discussion and to guide input from stakeholders and interested parties. We will not make final decisions until we have considered stakeholders' views and have updated our analysis with the final set of cost data from CIE's report.

To assist stakeholders to consider the issues, the discussion paper is divided into the following chapters:

- ▼ Chapter 1 – provides an introduction, sets out the review process and what submissions should address
- ▼ Chapter 2 – outlines the context, scope and approach for the review
- ▼ Chapter 3 – sets out the draft findings of our consultant, CIE, on the costs of providing taxi service
- ▼ Chapter 4 – discusses some of the issues for consideration in converting the findings on costs into Taxi Cost Indices for fare-setting
- ▼ Chapter 5 – sets out the current fare components and our assumptions about the average fare
- ▼ Chapter 6 – discusses our estimates of the level of fare revenue compared to our estimates of the level of costs
- ▼ Chapter 7 – sets out some other issues we have identified for consideration during the review
- ▼ Chapter 8 – sets out our consideration of service quality information and impacts on stakeholders.

Our terms of reference are provided in Appendix A.

1.3 What submissions should address

In this paper we have focused on the issues that we have identified for consideration in this review. We request input from stakeholders on these and other issues that stakeholders may consider important.

Throughout the paper we have included the following questions on which we are particularly interested in receiving feedback:

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|----|--|----|
| 1 | The advantages and disadvantages of establishing an index which can be mechanically updated each year and comprehensively reviewed and reweighted every 5 years. | 11 |
| 2 | Are the cost items listed in section 3.4.2 the right cost items for inclusion in a cost model of providing taxi services? | 17 |
| 3 | Do the estimated usage patterns of urban standard taxis and WATs in section 3.5.1 accord with stakeholders' experience and other sources of data? | 17 |
| 4 | Do the estimated usage patterns of country standard taxis and WATs in section 3.5.2 accord with stakeholders' experience and other sources of data? | 18 |
| 5 | Stakeholder views on the cost estimates for operator costs, including any alternative sources of information. | 18 |
| 6 | Stakeholder views on the cost estimates for driver costs, including any alternative sources of information. | 22 |
| 7 | Stakeholders comments on the cost data in CIE's draft report which is summarised in table 3.7 | 24 |
| 8 | Should we continue to base the Taxi Cost Indices on the costs of operating a typical (ie, standard) taxi, or should we try to capture more of the variation in the industry? If so, how? | 26 |
| 9 | Should we continue to use a notional wage rate for driver labour in the TCIs? | 27 |
| 10 | If so, which notional wage rate should we use? | 27 |
| 11 | Should we include driver entitlements and superannuation in the Taxi Cost Indices? | 28 |
| 12 | Which is the most appropriate notional wage rate for operator labour costs? | 29 |
| 13 | Is it possible to obtain a robust estimate of actual operator earnings as an alternative to using a notional wage rate? | 29 |

| | | |
|----|--|----|
| 14 | How should licence lease costs be incorporated into the Taxi Cost Indices, if at all? | 30 |
| 15 | If licence lease costs are included in the TCIs, what is the most appropriate inflator? | 30 |
| 16 | Stakeholder views on the relativity of fare components. | 33 |
| 17 | Stakeholder views on our assumptions about average fares. | 35 |
| 18 | Stakeholder views on the impact of the carbon price on the cost of providing taxi services. | 39 |
| 19 | Does an adjustment need to be made to the Taxi Cost Indices to account for the introduction of LPG excise from 1 December 2011? | 40 |
| 20 | How should we deal with productivity changes in calculating taxi fare increases, bearing in mind that we propose to move to an index that is updated mechanically each year? | 41 |
| 21 | Are there any other impacts on stakeholders that we should consider? | 43 |

2 Context, scope and approach to the 2012 review

Taxis are a privately-provided means of transport. However, taxi operations are usually regulated by government to ensure that taxis meet acceptable standards of safety and service quality. In NSW, Transport for NSW regulates most aspects of taxi operations.

IPART's role is to review taxi fares and make recommendations on maximum fares to the Director-General of Transport for NSW.

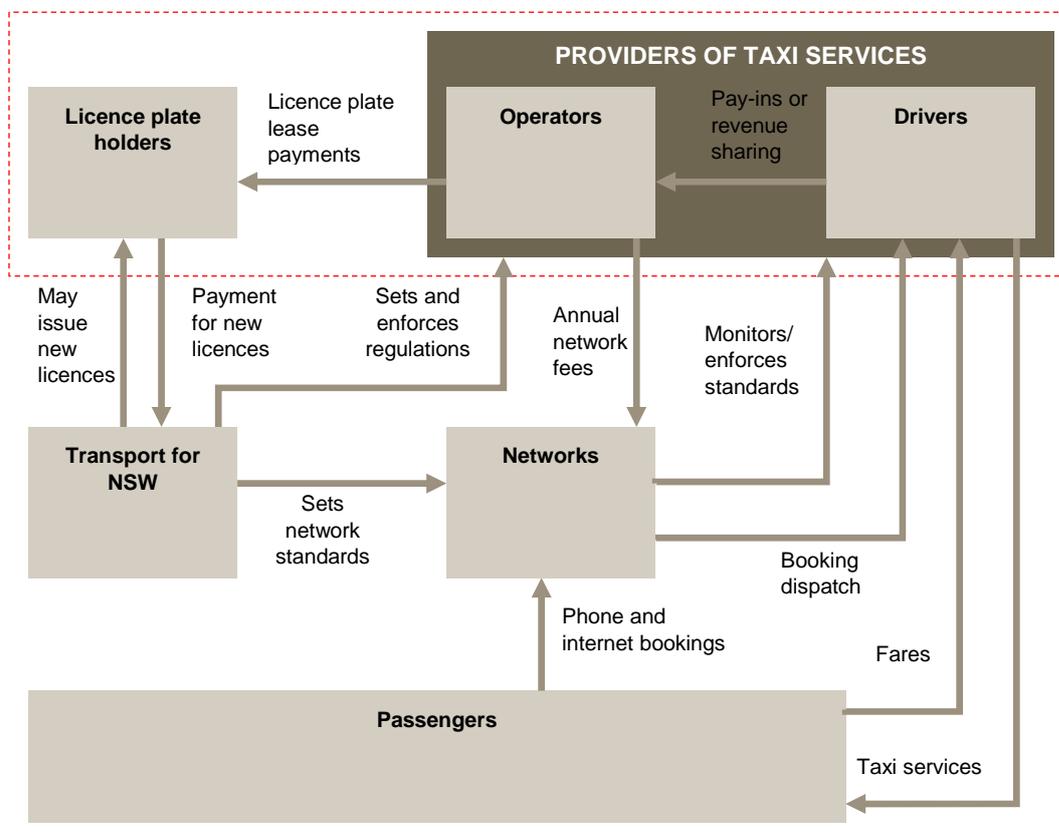
We estimate how much the cost of providing taxi services has changed over the previous 12 months based on the movement in two industry-specific cost indices, known as the Taxi Cost Indices (TCIs). As flagged in previous years, in 2012 we will undertake a major review of the cost items and weightings in the TCIs.

The sections below provide more information on the context and scope of our 2012 review. They provide some background on the taxi industry in NSW, explain the matters we are required to consider and the analytical approach we propose to use in making our recommendations, and provide an overview of the issues we have identified for investigation as part of our review this year.

2.1 Who does what in the taxi industry in NSW?

The broad structure of the taxi industry is set out in Figure 2.1.

Figure 2.1 Overview of the taxi industry in NSW



Source: CIE, *Reweighting of the taxi cost index – draft report*, p 12.

The sections below provide more detail about the roles and responsibilities of the participants in the taxi industry.

2.1.1 Transport for NSW

Transport for NSW is the main regulator of taxi services in NSW. Transport for NSW issues taxi driver authorities, taxi operator accreditations and taxi vehicle licences, authorises taxi networks, sets taxi fares, and issues and enforces taxi service standards for networks, vehicles, operators and drivers.

2.1.2 IPART

Each year the NSW Government asks us to make recommendations to Transport for NSW on taxi fares. Section 2.2 provides more detail on how we undertake this task.

2.1.3 Taxi networks

Taxi networks must provide a radio booking service to affiliated taxi operators (who pay a fee to the network) and security monitoring services for drivers and taxi passengers.² Networks generally provide other services to operators and drivers as well, which may include training, leasing or sub-leasing taxi licences, insurance broking, and repairs and maintenance. Networks also monitor and enforce service standards for operators, drivers and vehicles.³

There are 11 networks operating in Sydney, although some are linked in their business structures.

2.1.4 Taxi operators

Taxi operators are responsible for the day-to-day management of one or more taxis. An operator may be an individual or a corporation. Operators must be accredited by Transport for NSW and they must be affiliated with an authorised network. They are required to fit out their vehicle with that network's livery and install the network's communications equipment. They have to hold a taxi licence for each vehicle they operate and organise drivers. Many operators also drive their own taxis.

When another driver drives an operator's taxi, the arrangement is usually a "bailment". Taxi bailments in Sydney are subject to the Industrial Relations Commission's Contract Determination. The driver either pays the operator a percentage of fares (Method 1) or a fixed bailment fee per shift, with the maximum permissible fee set each year by the Industrial Relations Commission (IRC) (Method 2). Method 2 is the prevalent payment method in Sydney. Bailments outside Sydney are not subject to the Contract Determination; operators outside Sydney usually receive a percentage of fares as a bailment payment.

As well as obtaining and fitting out a vehicle, obtaining a taxi licence and paying to affiliate to a network, operators must also insure and maintain the vehicle, pay holiday and sick leave pay to permanent bailee drivers⁴ (if operating in Sydney), and in the country or under bailment Method 1, pay for fuel and car washing.

There were 3,479 active accredited operators in NSW as at 1 March 2011. Of those operators, 2,650 operate just one taxi.⁵

² *Passenger Transport Regulation 2007*, sections 174 and 175.

³ *Passenger Transport Act 1990*, section 34(3)(b)(iii).

⁴ A permanent bailee driver is one who regularly takes the same taxi cab on bailment from the same bailor for at least 5 shifts per week or at least 220 night shifts per year.

⁵ Source: Transport for NSW, information return for 2011 taxi fare review.

2.1.5 Taxi drivers

A taxi driver must be licensed to drive in NSW and authorised by Transport for NSW. Drivers must wear the approved uniform of the network to which their vehicle is affiliated, and be logged in to that network while available for hire. Drivers are responsible for paying for fuel and car washing under bailment Method 2 (fixed pay-in).

The Industrial Relations Commission has determined that a permanent bailee in Sydney is entitled to sick, annual and long-service leave. A casual bailee is not.

There were 19,795 authorised drivers in urban areas as at 1 March 2011, and 3,786 in country areas, although not all were active.⁶

2.1.6 Licence owners

Many licence owners play no direct role in the taxi industry. They may simply lease their licence(s) to an operator, either directly or through an intermediary, and they have no responsibilities in terms of providing taxi services.

There are a range of different types of taxi licence in the taxi industry. Licences issued prior to 1990 are generally perpetual. Ordinary licences issued after 1990 have a term of up to 50 years, but are generally automatically renewable. Both the preceding types of licence can be transferred (ie, bought and sold) and leased (whether through a legal lease or other arrangement).

Short-term licences (with a term of up to 6 years) were introduced in the mid-1990s. These licences can be leased but not transferred and expire at the end of their term.

Ordinary and short-term licences were available on application from the Department of Transport at market prices, but in practice few, except for WAT licences, were issued.

Following further taxi licensing legislative reform in late 2009, the Director-General of Transport for NSW now determines the number of licences (other than WAT licences) to be released in the Sydney Metropolitan Transport District by tender or auction each year. The licences are annual, and are automatically renewable at a fixed price for up to 10 years. They may be leased, but not transferred. They are replacing Sydney short term licences as they expire and provide for growth. No new ordinary or short term licences will be issued in Sydney, but they continue to be available from Transport for NSW on application for use in areas outside Sydney. Existing perpetual and ordinary licences may still be transferred on the secondary market.

⁶ Source: Transport for NSW, information return for 2011 taxi fare review.

Taxi licences may also be unrestricted, or have restrictions on them. The most common types of restricted licences are time-restricted licences, Fringe Area licences (must be operated predominantly in nominated geographical areas) and Wheelchair Accessible Taxi (WAT) licences (must be operated to give preference to transporting wheelchair users). For the Sydney Metropolitan Transport District, new and replacement Peak Availability licences and Fringe Area licences will be issued through the annual tender process in future; annual WAT licences continue to be available from Transport for NSW on application for \$1,000 a year.

The cost to an operator of having a taxi licence varies, depending on whether the operator owns or leases the licence, what kind of licence it is, the source of the licence (secondary market or Transport for NSW), and market conditions at the time of obtaining the licence (and any change to market conditions subsequently, for leased licences). Some 70% of operators lease licences, while the other 30% either own them or hold the new annual licences from Transport for NSW.⁷

2.2 How does IPART calculate fare changes for taxis in NSW?

As noted above, IPART does not have powers to set taxi fares. That responsibility lies with the Director-General of Transport for NSW.⁸ However, since 2002, the Government has asked IPART to review and make recommendations on fares for taxis each year.

This section describes how we calculate recommended fare changes each year.

2.2.1 Taxi charges on which we make recommendations

We make recommendations on the following charges:

- ▼ Flag fall
- ▼ Distance rate
- ▼ Night-time and public holiday surcharges
- ▼ Waiting time
- ▼ Booking fees
- ▼ Surcharge for maxi-cabs.⁹

We do not regulate the surcharge that may be levied if passengers use EFTPOS, credit card or the Cabcharge payment system to pay their fares.

⁷ Source: Transport for NSW, information return for 2011 taxi fare review.

⁸ *Passenger Transport Act 1990*, Section 60A.

⁹ A maxi cab is a taxi with seating for 5 or more adults, in addition to the driver. The surcharge applies if a maxi cab is pre-booked, or if the maxi cab is hired from a taxi zone or street hail and there are 5 or more passengers.

We do not regulate the access fee that Sydney Airport charges taxis.

We do not regulate the fees that networks charge operators.

We do not determine the share of fare revenue that goes to operators or to drivers.

2.2.2 Matters we are required to consider when making recommendations

Each year the Premier approves terms of reference for us to undertake our review of maximum fares for taxis under section 9 of the IPART Act.

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

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

The full terms of reference for this review can be found in Appendix A.

2.2.3 The analytical approach we use

We use 2 industry-specific cost indices, the Taxi Cost Indices (TCIs) to estimate how much the cost of providing taxi services has changed over the previous 12 months.

The TCIs aim to measure the change, in percentage terms, from year to year in the costs incurred by taxi operators and drivers in providing taxi services.

The TCIs consist of a basket of **cost items** – such as notional wages, LPG fuel, insurance, repairs and maintenance, and the cost of leasing a vehicle and a taxi licence.

Each cost item has a **weighting**, which is based on the proportion of a standard taxi's total costs that it represents. It also has an **inflator**, which is a relevant piece of data that reflects the likely percentage change in the costs associated with that cost item. For example, the labour cost items are inflated by the annual change in the Wage Price Index published by the Australian Bureau of Statistics.

The separate TCIs for urban and country taxis reflect the different cost structures of providing taxi services between urban and country areas. While the 2 TCIs have the same basket of cost items and the same inflators, there are differences in the weightings for each item which reflect differences in costs between these areas.

We then use the TCIs to develop fare changes that, on average, match the change in the cost of providing taxi services.

We also assess how changes in fares will impact on passengers, the NSW Government and the environment.

2.3 What will we be looking at during the course of this review?

We have earmarked the 2012 review as a major review of the composition of the Tax Cost Indices. This section explains more about what that means, and what we will and will not be examining.

2.3.1 We will continue to use the Tax Cost Indices as our analytical method

An index is generally accepted as the best approach to adjusting fares in the taxi industry, as the industry has numerous participants with different cost structures and business models. All other jurisdictions in Australia use some form of index as the basis for adjusting taxi fares.

In 2006 we reviewed our approach to regulating taxi fares. We assessed alternative index approaches against the criteria of simplicity, transparency, robustness, timeliness, cost-reflectivity, and ability to provide incentives for the taxi industry to make productivity gains.

We concluded that an industry-specific cost index best met the criteria, with cost items and weightings established using surveys and other industry-specific data sources. We decided that inflators in the index should be transparent and verifiable.

In the years since the 2006 review we have established a set of cost items and weightings, based on a survey of drivers and operators in 2007, and reviewed and established a set of inflators that, with one exception, are independent and verifiable.

We consider that we have developed a well-established methodology. Although some aspects need further consideration as part of the 2012 review in most respects this methodology has proven to be satisfactory. However the taxi cost indices need to be re-weighted to take the results of CIE's survey into account. Once the cost indices have been reweighted we consider that it could be updated mechanically each year to take into account the latest information on inflators. The indices would require review and reweighting only every 5 years or so.

IPART seeks comments on the following

- 1 The advantages and disadvantages of establishing an index which can be mechanically updated each year and comprehensively reviewed and reweighted every 5 years.

2.3.2 The Taxi Cost Indices need to be reweighted

All indices need to be reweighted periodically to ensure that their components and weightings accurately reflect the current cost structure that they represent.

The Taxi Cost Indices were last reweighted in 2008, based on results from a 2007 survey of taxi drivers and operators, as well as other sources of information.

This year we commissioned consultants CIE to study the costs of providing taxi services and recommend a new set of cost items and weightings for the Taxi Cost Indices. Their draft report sets out the results of a survey of taxi drivers and operators, as well as data obtained from other sources.

Chapter 3 discusses the findings of CIE's draft report on costs in more detail.

2.3.3 We will consider the composition of the Taxi Cost Indices

As well as being satisfied that the set of cost items identified is representative of the cost structure of providing taxi services, we need to consider how to incorporate those items into the Taxi Cost Indices to set fares.

For example, the current set of cost items is based on the annual cost of operating a standard taxi. A standard taxi was selected because it was considered a representative, "typical" taxi. However, since 2006 there are increasing numbers of WAT vehicles and other variations (such as hybrid vehicles, premium taxis and maxi taxis) in the taxi fleet. One option would be to calculate the TCIs based on data from all the different types of taxi, weighted by their share of the taxi market.

CIE has analysed the information from the driver and operator survey and reviewed some options for the cost items that could be adopted for the 2012 Taxi Cost Indices.

The inflators we choose for the Taxi Cost indices also play an important role in fare outcomes. We have consulted extensively on the inflators both during and since the last reweighting of the indices. With one exception (licence lease costs), the inflators are independent and publicly available and we are satisfied that they are fit for purpose. We therefore do not propose to revisit any in this review except the licence lease cost inflator.

Chapter 4 provides more information on the options for composition of the Taxi Cost Indices.

2.3.4 We will consider the relativity of fare components and our assumptions about the average fare

As noted above, we set the different fare components so that a specified average fare increases by the percentage change in the relevant Taxi Cost Index. The percentage change in each individual component is affected by taxi meter technology (some fare components must be rounded while others need not be) and by our judgement about appropriate relativity of fares.

Chapter 5 provides more information about fare components, how they have changed in recent years, and our considerations for this review. Chapter 5 also details our assumptions about the average fare and provides some updated data that we will consider when determining the components of our specified average fare for this review.

2.3.5 We will consider the level of fare revenue compared with costs

As well as determining the required change to fares each year, as a fare regulator we need to consider whether the current level of fares is sufficient to generate enough revenue to cover the efficient costs of providing taxi services.

Chapter 6 considers information about revenue compared to costs.

2.3.6 We will consider some other issues that have been raised

Chapter 7 details other issues that we have identified for consideration during this review.

These include the introduction of a price on carbon by the Commonwealth Government, the commencement of excise on LPG fuel, and the way in which we take changes in productivity into account when setting taxi fares.

2.3.7 We will consider service quality information and impacts on stakeholders

Our terms of reference require us to consider taxi service standards as part of our reviews, as well as the impact of our fare recommendations on stakeholders other than the taxi industry, including passengers, the Government and the environment.

Chapter 8 details our consideration of service quality information and impacts on stakeholders.

3 The costs of providing taxi services

The Taxi Cost Indices are designed to measure, as accurately as possible, the *changes* in the costs of providing taxi services from one review to the next. Every 5 years or so, we reweight the indices to ensure that their components and weightings accurately reflect the current cost structure of providing taxi services.

The Taxi Cost Indices were last reweighted in 2008, based on results from a 2007 survey of taxi drivers and operators conducted by PricewaterhouseCoopers (PWC), as well as other sources of information.

This year we commissioned consultants the Centre for International Economics (CIE) to study the costs of providing taxi services and recommend a new set of cost items and weightings for the Taxi Cost Indices. CIE's draft report was released to accompany this issues paper, and we encourage stakeholders to read it in full before preparing comments.

This chapter summarises CIE's findings about the costs of providing taxi services and seeks stakeholder input on those findings.

3.1 What we asked CIE to do

At the beginning of this year we engaged CIE to provide advice to us on the costs of providing taxi services, including recommendations about appropriate cost items and weightings for the Taxi Cost Indices.

Costs of operating a taxi can be categorised as:

- ▼ fixed costs, which do not vary with the amount the taxi is driven. These include insurance, plate and vehicle costs and network fees.
- ▼ variable costs, which depend on how much the taxi is driven. These include the cost of the driver(s)' and operator's time, and the cost of fuel, maintenance and repairs which will depend on the number of kilometres driven.

We use the total costs of operating a single taxi for a year as the basis for the Taxi Cost Indices. We do not propose to change this approach.

We currently use a 'standard' taxi (ie, not a WAT) as the basis for the Taxi Cost Indices, but we asked CIE to assess the costs of operating a WAT as well, to help us decide whether to continue to use a 'standard taxi' model or to account for WAT costs in the Taxi Cost Indices as well.

CIE has provided us with a draft report, released at the same time as this issues paper. CIE has constructed 'cost models' which attempt to capture the actual costs of providing taxi services as precisely as possible. CIE also canvassed some options for using the cost models to create indices for fare-setting.

3.2 Do absolute costs matter?

The Taxi Cost Indices are used to measure *changes* in the cost of providing taxi services, using the calculated weightings and inflators. The absolute cost of each cost item does not have any direct impact on fares. Even if CIE's analysis and ours determines that absolute costs are quite different from those included in the existing TCIs, it will not affect fares directly. It is the change in weightings (if any) that is significant.

However, the weightings are derived by comparing absolute costs, so it is important that these relative costs are as accurate as possible.

It should also be noted that we are trying to assess average costs across a very variable industry, so some cost figures may not 'look right', based on the experience of particular stakeholders, but still be an accurate measure of average experience and give the correct weighting for that item within the TCIs.

3.3 Treatment of GST

We asked CIE to develop cost models exclusive of GST. This is consistent with the way we normally conduct our analysis for pricing reviews.¹⁰

However, PricewaterhouseCooper's survey and cost analysis for the 2008 review used GST-inclusive costs, so the current Taxi Cost Indices incorporate GST. Thus the absolute costs in the current TCIs are generally not directly comparable with the absolute costs in CIE's taxi industry cost models.

¹⁰ The survey of drivers and operators asked respondents to give costs including GST, as these are the amounts actually paid and are likely to be better recalled by respondents. CIE then subtracted the GST before constructing the cost models.

3.4 Identifying appropriate cost items for taxi cost models

3.4.1 Current cost items and weightings

The cost items and current weightings in the Taxi Cost Indices used by IPART are shown in Table 3.1.

Table 3.1 Cost items for providing taxi services and current weightings

| Cost item | Urban TCI 2011 (%) | Country TCI 2011 |
|---|--------------------|------------------|
| Notional drivers' wages | 39.1 | 42.2 |
| Driver entitlements (notional self-funded) | 1.5 | 6.3 |
| Driver provision for super | 4.0 | 4.4 |
| Fuel | 6.8 | 6.4 |
| Other drivers' costs | 2.4 | 1.6 |
| Operator's salary equivalent | 6.8 | 7.3 |
| Driver entitlements in the contract determination | 4.4 | |
| Maintenance costs | 4.7 | 4.0 |
| Plate lease costs | 14.0 | 11.8 |
| Insurance | 8.1 | 4.9 |
| Vehicle lease payments | 2.2 | 2.3 |
| Network fees | 3.1 | 4.6 |
| Other operator costs | 3.0 | 4.1 |

Note: Percentages may not add due to rounding.

Source: IPART review of fares for taxis from July 2011, Taxi Cost Index Model, available at www.ipart.nsw.gov.au

3.4.2 Cost items used by CIE to construct cost models

CIE focused on determining the actual costs incurred in operating taxi services. So, for example, when they found through the survey that driver entitlements are rarely paid, they did not include driver entitlements in the proposed cost items.

After assessing the information gathered by the survey, CIE included the following items in its cost models:

- ▼ Drivers' earnings
- ▼ Fuel
- ▼ Cleaning
- ▼ Operator administration
- ▼ Maintenance costs
- ▼ Plate lease costs
- ▼ Insurance

- ▼ Vehicle lease payments
- ▼ Network fees.

IPART seeks comments on the following

- 2 Are the cost items listed in section 3.4.2 the right cost items for inclusion in a cost model of providing taxi services?

3.5 Taxi usage patterns that affect total variable costs

In order to help calculate total variable costs over a year, CIE looked at the average usage pattern of urban standard taxis, urban WATs, country standard taxis and country WATs over the course of a year, taking into account variation within a week (eg, demand for taxis is usually highest on Friday and Saturday nights so more taxis are on the road then) and between months (eg, demand for taxis is lowest in January and many taxis are consequently off the road).

3.5.1 Usage patterns for urban standard taxis and WATs

CIE looked at data from Transport for NSW (taxis logged on at 9am and 9pm by month over the course of a year) and Combined Communications Network (proportion of fleet logged onto the network at 9am and 9pm by day of the week over the course of a year) to estimate the number of shifts an average standard taxi is on the road through the year.

CIE calculated that the average urban standard taxi drives around 246 day shifts and 263 night shifts per year, for a total of around 509 shifts per year.

CIE also looked at data for urban WATs, and calculated that the average urban WAT is on the road for around 424 shifts during the year, including around 312 day shifts and 113 night shifts. However, CIE noted that estimating a WATs usage pattern was more difficult and the results less reliable.

IPART seeks comments on the following

- 3 Do the estimated usage patterns of urban standard taxis and WATs in section 3.5.1 accord with stakeholders' experience and other sources of data?

3.5.2 Usage patterns for country standard taxis and WATs

For country taxis, CIE estimated that standard taxis are on the road for around 470 shifts per year, including 227 day shifts and 243 night shifts, while the average country WAT is estimated to be on the road for 348 shifts during the year, including 256 day shifts and 92 night shifts.

IPART seeks comments on the following

- 4 Do the estimated usage patterns of country standard taxis and WATs in section 3.5.2 accord with stakeholders' experience and other sources of data?

3.6 Operator costs

This section summarises the costs calculated by CIE as operator costs. We encourage stakeholders to read the CIE draft report in full before preparing comments.

IPART seeks comments on the following

- 5 Stakeholder views on the cost estimates for operator costs, including any alternative sources of information.

3.6.1 Licence plate costs

Operators can purchase a licence plate, lease one from another owner, or pay an annual fee to Transport for NSW if they are a successful bidder for one of the new annual release licences. For ease of reference, we have described this annual fee as a lease payment as well.

CIE calculated, based on survey results, the estimated cost of leasing a licence plate (GST excluded) as follows in Table 3.2.

Table 3.2 Licence plate lease costs

| Type of licence | \$ Cost (excluding GST) |
|----------------------------|-------------------------|
| Standard licence – urban | 28,852 |
| Standard licence – country | 17,329 |
| WAT | 1000 |

Source: CIE, *Reweighting of the taxi cost index – draft report*, p 34.

3.6.2 Vehicle costs

Vehicle costs could be annual lease costs or could be from the upfront purchase of a vehicle. Vehicle costs include the vehicle and the fit-out (installation of LPG tank, communications equipment and meter, and network livery).

CIE calculated, using market estimates of costs for these items and survey evidence on the age and useful life of taxis on the road, vehicle costs as set out in Table 3.3.

Table 3.3 Vehicle costs

| | Urban | | Country | |
|---|--------------|---------------|--------------|---------------|
| | Standard | WAT | Standard | WAT |
| Age when purchased (years) | 1.6 | 1.5 | 1.5 | 1.3 |
| Type of vehicle | Ford Falcon | Toyota Tarago | Ford Falcon | Toyota Tarago |
| Fuel type | LPG | ULP | LPG | ULP |
| Year of vehicle make | 2009 | 2009 | 2009 | 2009 |
| Red book value (\$, including GST) | 17,800 | 30,750 | 17,800 | 30,750 |
| Year of vehicle make | 2010 | 2010 | 2010 | 2010 |
| Red book value (\$, including GST) | 21,500 | 37,900 | 21,500 | 37,900 |
| Vehicle cost used (\$, excluding GST) | 17,864 | 31,205 | 17,864 | 31,205 |
| Fit-out costs (\$, excluding GST) | 5,701 | 5,694 | 5,701 | 5,694 |
| WAT costs (\$, excluding GST) | | 40,871 | | 40,871 |
| Total cost (\$) | 23,565 | 77,769 | 23,565 | 77,769 |
| Total resale value (vehicle and equipment) (\$) | 700 | 700 | 700 | 700 |
| Amortised value (\$/year) | 7,222 | 18,587 | 5,592 | 16,679 |

Source: CIE, *Reweighting of the taxi cost index – draft report*, p 36.

3.6.3 Network fees

Operators are required to pay network fees to affiliate with a network. Network fees are not publicly available, but CIE has received sample data from 12 urban networks and 4 country networks.

Urban network fees average \$7,231 per year (excluding GST) and are fairly similar across networks.

On the other hand, CIE found that country network fees were more variable. This accords with IPART's findings in taxi fare reviews prior to 2009, when we used information from networks as the inflator for network fees each year. We found that country network fees are variable, not just between networks, but for the same network between years. In CIE's sample this year, country network fees averaged \$16,085 (excluding GST). However, due to the high level of variability, we will carefully consider whether this is the right level of network fees to use in the country Taxi Cost Index.

3.6.4 Insurance costs

Taxi operators are required to have third party property insurance, third party personal insurance and, if using another driver, workers compensation insurance. Survey results indicate that most operators also have comprehensive insurance, covering own costs, and general liability insurance.

Insurance costs vary substantially between geographical areas, and from operator to operator, depending on claims record and selected level of excess.

CIE calculated, using quotes from insurance suppliers and data from the operator survey, insurance costs as follows in Table 3.4.

Table 3.4 Insurance costs per vehicle (excluding GST)

| | Urban | | Country | |
|---|---------------|---------------|--------------|--------------|
| | Standard | WAT | Standard | WAT |
| Cost per vehicle insured (\$) | | | | |
| Comprehensive (includes third party property) | 7,492 | 9,785 | 5,177 | 5,757 |
| Third party personal | 4,489 | 4,489 | 2,381 | 2,381 |
| Third party property only | 3,828 | 4,128 | 2,082 | 2,082 |
| Workers compensation | 1,908 | 1,908 | 1,264 | 1,264 |
| Public liability | 200 | 200 | 200 | 200 |
| Share of vehicles insured | | | | |
| Comprehensive | 96% | 96% | 96% | 88% |
| Third party personal | 100% | 100% | 100% | 100% |
| Third party property only | 4% | 3% | 4% | 3% |
| Workers compensation | 100% | 100% | 100% | 100% |
| Public liability | 86% | 85% | 94% | 100% |
| Number of responses comprehensive | 295 | 75 | 79 | 17 |
| Number of responses public liability | 294 | 74 | 77 | 17 |
| Total insurance costs | 12,635 | 14,662 | 8,083 | 8,336 |

Note: Quotes for standard taxis based on a 2007 Ford Falcon including equipment. Quotes for WATs based on a 2007 Toyota Tarago including fit-out. Quotes based on a \$1000 excess as this is the standard offered by insurers and are for a starting operator.

Source: CIE, Reweighting of the taxi cost index, draft report, p 38.

3.6.5 Vehicle maintenance and repairs

The cost of maintenance and repairs (after insurance reimbursement) for any particular taxi could vary significantly from year to year. Survey responses should capture this range of experience across the industry, and the average of those responses should be relatively stable from year to year.

Using survey responses, and including values for the operator's own labour, the cost of hiring in-house staff and the cost of using external suppliers, CIE calculated the cost of maintenance and repairs as follows in Table 3.5.

Table 3.5 Maintenance and repair costs per vehicle (excluding GST, after insurance reimbursement)

| Cost item | Standard | Urban | | Country | |
|---|----------|-------|----------|---------|----------|
| | | WAT | Standard | WAT | Standard |
| External suppliers \$/year, excluding GST) | 5,534 | 5,391 | 6,693 | 4,161 | 17.0 |
| Hours per taxi per year | 30.1 | 27.7 | 7.4 | 17.0 | |
| Value of hours at mechanic wage rate (\$) | 967 | 890 | 238 | 546 | |
| Staff costs per year (\$) | 269 | 14 | 158 | 1,598 | |
| Total costs per taxi per year (\$, excluding GST) | 6,770 | 6,295 | 7,089 | 6,305 | |

Note: Annual wage rate for a mechanic is \$68 619.

Source: CIE, *Reweighting of the taxi cost index – draft report*, p 41.

CIE analysed survey data for operators of multiple taxis and compared it to survey data for operators of a single cab. CIE found that, while there was some evidence that larger operations have some efficiencies of scale, the difference in cost per taxi between small and large operators was not statistically significant.

3.6.6 Operator administration costs

There are a range of administration tasks associated with operating a taxi, including organising drivers, paying bills, organising repairs and completing Business Activity Statements. As with maintenance and repairs, operators may undertake these tasks themselves, hire staff to do them in-house, or use an external supplier.

CIE used the opportunity cost of an operator's time (ie, the value of what they could be doing if they were not operating a taxi), based on the market annual wage for an office manager of \$59,062, and the average reported cost of in-house staff and external suppliers, and calculated the value of operator administration costs as \$7,182 per taxi across all types of taxi operation.

3.6.7 Fuel costs

Responsibility for fuel costs varies depending on the bailment method. In urban areas the driver is usually responsible for fuel. However, in country areas operators are normally responsible for fuel costs, so fuel is included in the country Taxi Cost Index as an operator cost.

CIE used information from the driver survey to calculate fuel costs per shift for country taxis, then multiplied by the calculated average number of shifts per year to obtain figures of \$13,497 (excluding GST) per year for standard country taxis and \$11,441 (excluding GST) for country WATs.

3.6.8 Cleaning costs

Cleaning costs may be the responsibility of the operator or the driver. Survey results indicated that in the country the operator is typically responsible for cleaning costs.

CIE used information from the surveys and quotes from suppliers of cleaning services and calculated annual cleaning costs for country standard taxis as \$3,358 (excluding GST), and \$3,371 (excluding GST) for country WATs.

3.7 Driver costs

This section summarises the costs calculated by CIE as driver costs. We encourage stakeholders to read the CIE draft report in full before preparing comments.

IPART seeks comments on the following

- 6 Stakeholder views on the cost estimates for driver costs, including any alternative sources of information.

3.7.1 Driver earnings

One of the main costs associated with supplying taxi services is the driver's labour. IPART currently uses a notional wage rate in the Taxi Cost Indices. However, CIE used information from the survey to calculate an estimate of actual driver earnings.

CIE used survey data to estimate the number of hours each driver spends on average per shift, both driving and on administration, then calculated the estimated driver takings per shift, and converted it to an hourly rate. CIE estimated that drivers earn between \$7.50 per hour for a Monday night shift in an urban standard taxi and \$22.20 for a Saturday night shift in a country WAT (although CIE also cautioned that the WAT estimates were based on a smaller sample and therefore less reliable).

CIE estimated the total cost of a driver's time over a year as set out in Table 3.6 below.

Table 3.6 Annual driver labour cost, based on actual earnings

| | \$ |
|-------------------------|--------|
| Urban — Standard taxi | 58,016 |
| Urban — WAT | 59,226 |
| Country — Standard taxi | 56,432 |
| Country — WAT | 46,715 |

Source: CIE, *Reweighting of the taxi cost index – draft report*, p 49.

3.7.2 Fuel costs

Responsibility for fuel costs varies depending on the bailment method. In urban areas the driver is usually responsible for fuel.

CIE used information from the driver survey to calculate fuel costs per shift for urban taxis, then multiplied by the calculated average number of shifts per year to obtain figures of \$13,535 (excluding GST) per year for standard urban taxis and \$16,773 (excluding GST) for urban WATs.

3.7.3 Cleaning costs

Cleaning costs may be the responsibility of the operator or the driver. Survey results indicated that in urban areas the driver is typically responsible for cleaning costs.

CIE used information from the surveys and quotes from suppliers of cleaning services and calculated annual cleaning costs for urban standard taxis as \$3,247 (excluding GST), and \$3,338 (excluding GST) for urban WATs.

3.8 Taxi industry cost model

Putting together the findings for driver and operator costs listed above, CIE has calculated the estimated cost structure of providing taxi services in NSW as set out in Table 3.7.

Table 3.7 Estimated cost structure of the providing taxi services in NSW (excluding GST)

| | Urban | | Country | |
|---------------------------|--------------------------|---------------------|--------------------------|---------------------|
| | Standard \$/taxi/year | WAT \$/taxi/year | Standard \$/taxi/year | WAT \$/taxi/year |
| Drivers' earnings | 58,016 | 59,226 | 56,432 | 46,715 |
| Fuel | 13,535 | 16,773 | 13,497 | 11,441 |
| Cleaning | 3,247 | 3,338 | 3,358 | 3,371 |
| Operator administration | 7,182 | 7,182 | 7,182 | 7,182 |
| Maintenance costs | 6,770 | 6,295 | 7,089 | 6,305 |
| Plate lease costs | 28,852 | 1000 | 17,329 | 1000 |
| Insurance | 12,635 | 14,662 | 8,083 | 8,336 |
| Vehicle lease payments | 7,222 | 18,587 | 5,592 | 16,679 |
| Network fees | 7,231 | 7,231 | 16,085 | 16,085 |
| Total annual costs | 144,689 | 134,292 | 134,648 | 117,115 |

Source: CIE, *Reweighting of the taxi cost index – draft report*, p 54.

IPART seeks

- 7 Stakeholders comments on the cost data in CIE's draft report which is summarised in table 3.7

4 Constructing the Taxi Cost Indices

While the cost information discussed in Chapter 3 can be used to construct cost models of the industry based as closely as possible on actual costs, translating those cost models into Taxi Cost Indices for the purposes of setting fares requires some further issues to be considered.

4.1 Should the TCIs continue to be based on a 'typical' taxi or try to capture information about a range of different taxi types?

In the last reweighting of the Taxi Cost Indices, we decided to construct the indices using the average costs of providing taxi services using a typical taxi. Because standard taxis (as opposed to WATs or premium taxis) were more than 90% of the taxis operating in NSW, we used data about the costs of providing standard taxi services to construct the indices.

In the 4 years since the last reweighting, the percentage of the taxis in NSW that are WATs has increased considerably. We also had a higher response rate from WATs and premium taxi drivers and operators in the 2011 survey compared to the 2007 survey, so we are more confident that we have robust data about WATs and premium taxis.

Therefore we could:

- ▼ Continue to use the standard taxi costs to construct the TCIs, disregarding any data we have about WATs or premium taxis. This option has the advantage of using only the data from the survey about which we are the most confident. It also continues to represent the majority of the taxis in NSW and therefore the 'typical' taxi. However, it does not capture the known variation in costs in the industry.
- ▼ Combine cost information for standard and premium taxis and then use a weighted average of these and WATs costs. We know from the survey that the cost structure for WATs is different from that of standard and premium taxis, so this option captures that variation explicitly. We also have information from Transport for NSW about the percentage of licences that are WATs and non-WATs, so we can use this to accurately weight the cost information from each category.

- ▼ Use a weighted average of costs for each of the three categories, standard, premium and WATs. This might be appropriate if the cost structures for standard and premium taxis are significantly different, but the weighting task is more difficult than in the option above because premium taxis are not identified by licence type.

There is more detailed discussion of these options and the data that supports them in CIE's draft report, and we encourage stakeholders to read CIE's report in full before preparing comments.

IPART seeks comments on the following

- 8 Should we continue to base the Taxi Cost Indices on the costs of operating a typical (ie, standard) taxi, or should we try to capture more of the variation in the industry? If so, how?

4.2 How should the TCIs capture labour costs for drivers and operators?

Neither taxi drivers nor operators are paid an hourly rate for their labour, which makes estimating their labour costs over a year challenging. In the past we have taken the approach of using a notional wage rate for both, largely because we have lacked robust data about revenue from which to calculate an actual hourly rate and hence annual cost.

This is essentially an 'opportunity cost' approach, which values the driver's and operator's labour by asking what they could be earning if they used the time they currently work in the taxi industry by working in a comparable job that does have an hourly rate. For the 2008 reweighting we used the hourly wage rate specified in the Contract Determination for leave entitlements for taxi drivers, and a taxi industry clerical award rate for operators.

We also included separate allowances for permanent bailee driver entitlements (paid sick leave and paid annual leave) under the Contract Determination, for self-funded driver entitlements where drivers are not permanent bailees, and for driver superannuation, although survey responses suggested that in practice these entitlements were rarely paid to drivers.

CIE's draft report suggests that there is sufficiently robust data about driver takings to estimate an actual hourly earnings rate and annual labour cost. CIE also found that in practice entitlements are rarely paid, so CIE did not include them in their industry cost models. For operators, CIE was unable to calculate actual operator earnings using the survey data, so they used an opportunity cost method to calculate notional operator labour costs.

The sections below discuss options for including driver and operator labour costs in the TCIs.

4.2.1 Driver hourly rates

Using CIE's estimates based on survey data, average annual driver earnings are as set out in Table 4.1

Table 4.1 Annual driver earnings

| | Cost (\$) |
|-------------------------|------------------|
| Urban — standard taxi | 58,016 |
| Urban — WAT | 59,226 |
| Country — Standard taxi | 56,432 |
| Country — WAT | 46,715 |

Source: CIE, *Reweighting of the taxi cost index – draft report*, p 49.

These figures are considerably lower than the notional annual driver wages currently included in the TCIs, of \$90,921 for urban drivers and \$92,320 for country drivers.¹¹

For this review, we could either continue to use a notional wage rate or base the driver labour cost on actual earnings as measured by the survey. The options are discussed below in further detail.

IPART seeks comments on the following

- 9 Should we continue to use a notional wage rate for driver labour in the TCIs?
- 10 If so, which notional wage rate should we use?

Option 1: Continue to use a notional wage rate for drivers

The advantages of this approach are that it recognises explicitly that fares should provide a fair hourly rate to drivers and uses external published sources rather than an estimate based on survey data.

However, any notional wage rate selected, even the minimum wage, would be so different from the estimated actual driver earnings that the weighting in the cost indices would be distorted compared to the actual costs being used for other items. This means that changes in the TCIs are less likely to reflect actual changes in the costs of providing taxi services (whether this distortion is up or down depends on the relative movements in the inflators for driver labour costs and the other cost items in the table).

CIE's draft report provides more detail on the implications of using the minimum wage for notional driver earnings. We could also continue to use part-time bus driver wage rates, or some other notional wage rate.

¹¹ IPART Review of fares for taxis from July 2011, Taxi Cost Index Spreadsheet Model, available at www.ipart.nsw.gov.au

Option 2: Use actual driver earnings as estimated by survey responses

The advantage of using this approach is that it is consistent with the treatment of most other cost items in the TCIs, and therefore gives a final measurement of changes in the TCI from year to year that is closest to actual changes in costs in the taxi industry.

However, information about revenue obtained from a survey may not be accurate, and it is difficult to verify. We also may need to consider consistency with our approach to operator earnings, where we are likely to use a notional wage rate because there is insufficient data to estimate an actual earnings figure (see section 4.2.3).

4.2.2 Driver entitlements and superannuation

In our 2008 reweighting, we included items for driver entitlements to paid sick leave and annual leave (for permanent bailee drivers in Sydney) and for driver superannuation. This decision was based on the fact that these are legal entitlements specified in the Contract Determination for permanent bailee drivers in Sydney, and that using a notional wage rate implies that a notional allowance should be made for self-funding these entitlements for drivers who are not entitled to them.

Nevertheless, the 2007 survey indicated that few drivers actually receive these entitlements directly, and the 2011 survey confirmed this situation. As a result, CIE's cost models do not include any cost items for entitlements.

It is still open to us to include cost items for entitlements in the Taxi Cost Indices, particularly if we decide to use a notional wage rate for driver labour. If we use actual driver earnings, entitlements and superannuation must be presumed to be included in those amounts already.

IPART seeks comments on the following

11 Should we include driver entitlements and superannuation in the Taxi Cost Indices?

4.2.3 Operator hourly rates

Although CIE attempted to determine actual costs for all the cost items involved in providing taxi services, the challenges involved in estimating operator hourly rates meant that CIE could not derive a robust estimate for actual operator labour costs from the survey data. They have preferred to recommend using a notional wage rate for operator labour, and selected the market wage for office managers for this purpose.

In the 2008 reweighting, we used the *Clerical and Administrative Employees, Hire Cars and Taxis (State) Award, Grade 5*.

IPART seeks comments on the following

- 12 Which is the most appropriate notional wage rate for operator labour costs?
- 13 Is it possible to obtain a robust estimate of actual operator earnings as an alternative to using a notional wage rate?

4.3 Treatment of taxi licence lease costs

Taxi licence (or “plate”) lease costs are a real cost faced by operators, and a significant one for operators of standard taxis. Plate lease costs constitute 14% of the costs of providing taxi services in the current urban Taxi Cost Index.

However, their inclusion in the Taxi Cost Indices is problematic. The value of a licence lease reflects at least in part the expected earnings from fares. As fares go up, so does the value of a licence and a licence lease. If the change in licence lease cost is used to set the fares, there is a degree of circularity that may serve to accelerate fare increases. Similarly, the circular effect could accelerate the reduction in fares and lease costs should licence lease costs come down.

In previous reviews we have noted our concerns about the inflator used for licence lease costs. We use confidential data from a sample of networks supplied by the Taxi Council each year to calculate the inflator. It is our strong preference to use publicly available and verifiable inflators, but we have never been able to identify one that is a good proxy for changes in lease costs from year to year.

Recent licence reforms whereby there is an annual release of growth licences by Transport for NSW, with a fixed annual fee set by auction or tender, may serve over time to reduce the scarcity value of licences and possibly reduce licence lease costs. The inflator we select should also be able to reflect downward movement in lease costs.

Licence lease costs are included in CIE’s cost models because they are an actual cost of providing taxi services. However, there are a number of options open to us in constructing the Taxi Cost Indices:

- ▼ Retain the lease cost item and the inflator as they currently appear in the TCIs. This is perhaps closest to the ‘actual cost’ approach used by CIE for the other cost items, but does not address the circularity issue identified above.
- ▼ Retain the lease cost item but use an inflator derived from publicly available information. Following the most recent licence reforms, there is information published about the cost of each new licence issued. We intend to look more closely at this data to see if it can be used to derive an appropriate inflator.

- ▼ Retain the lease cost item but use a nominal inflator such as CPI. This could serve to reduce the acceleration of fare increases, but as distribution of fare revenue between players in the supply chain is determined by market power rather than by regulation, we cannot be certain that this would serve to reduce lease costs. Nor would this inflator deal with downward movement in lease costs.
- ▼ Remove the lease cost item. While this would remove the impact of lease costs on the TCIs, it would distort the weightings such that changes in TCIs do not accurately reflect changes in actual costs. Nor would this inflator deal with downward movement in lease costs.

IPART seeks comments on the following

- 14 How should licence lease costs be incorporated into the Taxi Cost Indices, if at all?
- 15 If licence lease costs are included in the TCIs, what is the most appropriate inflator?

5 Fare components and the 'average fare'

We make recommendations for each fare component in our reviews. This chapter explains the current fare components in urban and country areas, and some of the issues we have identified for consideration during this review.

This chapter also sets out our current assumptions for the specified 'average fare' to which we apply the change in the TCI each review, and seeks input from stakeholders to help us determine whether those assumptions are still appropriate.

5.1 Current fares

There are two taxi fare schedules operating in NSW that set out maximum taxi fares:¹²

- ▼ The 'urban' fare schedule, which covers Sydney, Blue Mountains, Newcastle, Wollongong, Gosford, Wyong, Shellharbour, Cams Wharf, Fern Bay, Minmi, Toronto, Williamstown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo.
- ▼ The 'country' fare schedule, which operates in the remainder of the state, except exempted areas, which are Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin.

The two fare schedules reflect differences in the costs of operating taxis in urban and country areas. The current fare structure is broadly similar across urban and country taxis.

Table 5.1 provides an overview of the current fares for both urban and country areas and the rationale for including each fare component.

¹² <http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>

Table 5.1 Components of current fares for taxis in NSW

| Fare component | Rationale | Urban | Country |
|--|--|--|--|
| Flag fall | To cover fixed component of fare cost such as pick up and set down and fares transactions. Also to encourage drivers to take short fares. | \$3.40 | \$3.90 |
| Distance rate | To cover the per kilometre costs of a journey eg, fuel. | \$2.06 (per km) | \$2.12 (per km) |
| Distance rate - Tariff II ^a | To cover return trip, where driver is unlikely to get a return fare. | n.a. | \$2.94 |
| Night-time surcharge | <ul style="list-style-type: none"> ▼ To compensate for periods of lower demand ▼ To raise taxi earnings in night periods to compensate drivers for unsocial hours ▼ To help ensure a reasonable level of taxi supply in night periods | 20% on distance rate | 20% on distance rate |
| Booking fee | To cover telephone booking costs such as radio call. | \$2.30 | \$1.10 |
| Waiting time ^b | Some variable costs, such as labour, vary by time rather than distance. Acts as a floor for the distance rate. | \$53.33 (per hour) | \$54.29 (per hour) |
| Tolls | To pass through toll charge borne by driver. | All tolls that apply, and the return toll for a northbound journey over the Sydney Harbour Bridge or through the Sydney Harbour Tunnel | All tolls that apply, and the return toll for a northbound journey over the Sydney Harbour Bridge or through the Sydney Harbour Tunnel |
| Maxi-cabs ^c | | Up to 150% of maximum fares | Up to 150% of maximum fares |

^a Applies to distances greater than 12 kilometres.

^b Applied when speed drops below 26 kilometres per hour.

^c Maxi-cab fares are charged only on trips where the maxi-cab has been pre-booked, or has been hired from a taxi rank or by street hail to carry more than 4 passengers.

Source: <http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>; IPART analysis.

Drivers may also charge the Sydney Airport Taxi Access Fee (currently \$3.50), and a surcharge for electronic payments. Neither of these charges is regulated by Transport for NSW.

5.2 Relativity of fare components

In practice, aligning components of a taxi fare with the costs they are supposed to cover is difficult. We have looked at this issue in some detail in previous reviews.

We have tended to apply the change in the TCI as evenly as possible across fare components and so the relativity between components has been maintained fairly consistently since the last review.

The exception is the country booking fee, where the TCI increase is rarely enough to overcome the rounding effect and the country booking fee has not increased since 2008. However, there has been little stakeholder support for increasing the country booking fee.

IPART seeks comments on the following

- 16 Stakeholder views on the relativity of fare components.

5.3 What is an average fare?

Each year we change the individual fare components such that the change in a specified 'average fare' is the same as the change in the TCI. This requires making assumptions about what constitutes an average fare. Our current assumptions and some updated data are set out below.

5.3.1 The average fare calculation

The assumptions underlying the average fares for urban and country areas that we currently use to determine fare components are shown in Table 5.2.

Table 5.2 Assumptions for the average fare

| | Urban | Country |
|---|-------|---------|
| Distance travelled (km) | 7 | 5 |
| Waiting time (min) | 5 | 3 |
| Share of trips that are phone bookings (%) | 20 | 65 |
| Share of trips on which night surcharge is paid (%) | 20 | 15 |
| Value of average fare at current fare rates (\$) | 23.29 | 18.26 |

Source: IPART, *Review of taxi fares from July 2011*, Table 4.2.

The average fare includes the distance rate, waiting time charge, flag fall, booking fee and night time surcharge. However, it does not incorporate:

- ▼ country tariff II (the distance rate for trips over 12 km)
- ▼ maxi taxi charge.

5.3.2 Updating the definition of the average fare

We estimate the average fare based on available information. Different formulations of the average fare will produce different fare increases because of the assumptions that are necessary regarding distances travelled, waiting time etc. It is therefore important to ensure that the definition of the average fare is appropriate.

The current definition of average fares is based on a survey from the Transport Data Centre (now called the Bureau of Transport Statistics) based on its Household Travel Survey reported in 2007. More recent survey information is now available and we have obtained updated information from the Bureau of Transport Statistics on:

- ▼ average trip distance
- ▼ number of trips by purpose
- ▼ number of trips by booking or hailing
- ▼ average trip time.

The data applies to the greater metropolitan area, which includes Sydney, Newcastle, Wollongong, the Central Coast and the Blue Mountains. Table 5.3 shows some of this data.

Table 5.3 Average trip in the greater metropolitan area (GMA) – Household Travel Survey (2009)

| | Average distance | Average time | Average speed (calculated) |
|----------------|------------------|--------------|-------------------------------|
| | Km | Minutes | Km/hour |
| Sydney | 7.2 | 19.9 | 21.6 |
| Central Coast | 6.1 | 13.3 | 27.2 |
| Blue Mountains | NA | NA | NA |
| Newcastle | 5.2 | 14.6 | 21.4 |
| Wollongong | 7.5 | 13.2 | 34.2 |
| Rest of GMA | 3.1 | 8.8 | 20.9 |
| Total GMA | 7.0 | 19.2 | 21.8 |

Note: The sample size for the Blue Mountains was too small for the data to be reliable.

Source: Bureau of Transport Statistics.

There has been little change in the figures from the Household Travel Survey since 2007. The average distance travelled per taxi trip in the total GMA has increased marginally from 6.8 to 7 kilometres, and the calculated average speed has decreased slightly from 22.3 km/hour to 21.8 km/hour.

The figures for percentage of booked trips also remain about the same as 2007, with the Household Travel Survey 2009 showing 31% of trips were booked by phone throughout the GMA. In 2008 we used a range of sources to estimate percentage of booked trips and decided to use 20% in our calculation of the average fare.

We are interested in alternative sources of information that might help us assess whether our assumptions about the average fare are still appropriate.

IPART seeks comments on the following

- 17 Stakeholder views on our assumptions about average fares.

6 The level of fare revenue compared with costs

Fares should be set at a level that allows the cost of providing taxi services to be recovered, on average.

While the index reweighting process focuses on the relative costs of providing taxi service and the resultant weights for the Taxi Cost Indices, we also need to cross-check whether the current level of fares is sufficient to cover the current level of costs.

This chapter discusses the survey findings on operator and driver revenue and assesses how they compare to costs.

Some of the findings in CIE's draft report, such as the lower absolute level of driver earnings than previously assumed, might at first glance suggest that fares need to be increased (to provide higher actual earnings to drivers); alternatively some people might think that this information means fares should be reduced, if we are setting them at a level that assumes drivers receive more than they actually do. This chapter also explains why neither of these conclusions is correct.

6.1 Operator revenue compared to costs

As a cross-check on the reasonableness of operator costs, CIE compared the costs that operators have to pay (not including time cost) with the pay-ins reported by drivers through the survey. The results are set out in Table 6.1.

Pay-ins are estimated to be \$2,000 to \$5,000 higher than costs for urban standard taxis. For urban WATs, the average is higher (\$7,652) and there is greater uncertainty around pay-ins.

For country areas, the estimated pay-ins are on average only slightly greater than CIE's estimated costs for standard taxis and less than pay-ins for WATs. If correct, this would indicate that operators are making very little above their costs. The uncertainty around pay-ins is significant, however, and the uncertainty around other cost estimates, such as network fees, is also greater for country taxis than for urban taxis.

Table 6.1 Comparison of estimated pay-ins and estimated operator costs

| | Urban | | Country | |
|--|--------------|--------------|--------------|--------------|
| | Standard | WAT | Standard | WAT |
| | \$/taxi/year | \$/taxi/year | \$/taxi/year | \$/taxi/year |
| Operator costs excluding the value of time | 62,709 | 47,774 | 71,034 | 63,217 |
| Pay-ins | | | | |
| Mean | 66,420 | 55,426 | 72,519 | 55,144 |
| Upper bound | 67,427 | 63,970 | 82,207 | 67,582 |
| Lower bound | 65,413 | 46,882 | 62,831 | 42,706 |
| Pay-ins less costs | | | | |
| Mean | 3,711 | 7,652 | 1,485 | -8,073 |
| Upper bound | 4,718 | 16,196 | 11,173 | 4,365 |
| Lower bound | 2,704 | -892 | -8,203 | -20,511 |

Source: CIE, *Reweighting of the taxi cost index – draft report*, p 45.

6.2 Driver revenue compared to costs

As the driver labour costs were calculated as the residual once other calculated costs were subtracted from total takings, estimated total driver revenue exactly matches total driver costs.

This implies driver revenue of \$74,798 (not including GST) for urban drivers and \$56,432 for country drivers (who don't pay for fuel and wash). Note that this is not the amount that an individual driver receives; it is the revenue that all drivers of a taxi share over a year. The share that each driver gets will depend on how many hours they drive the taxi, and what shifts they drive. Each standard taxi in urban areas is estimated to be on the road for 10 shifts per week. A permanent driver driving 5 shifts per week could therefore expect to receive around half of the annual total.

6.3 Doesn't this mean fares should go up, to give drivers a pay rise?

If fares directly determined driver incomes, then it might be appropriate to alter the level of fares. However, driver incomes are a share of fare revenue, and that share is not regulated. It is determined by market conditions, and it is quite plausible that an increase in fares would lead to an increase in pay-ins required by operators, which would then lead to an increase in licence lease costs, as that is the part of the market where supply is constrained.

Calculating driver incomes as an hourly rate also does not really reflect the culture of the taxi industry. Drivers are not employees and are not paid an hourly rate. Perhaps their pattern of work is more analogous to that of a small business operator, who works long hours for income that translates to a low hourly rate as well, but does so for the sake of being his/her own boss.

6.4 Doesn't this mean fares should go down, because they are currently calculated on the basis that drivers get paid a lot more than they actually do?

At the last reweighting, we obtained revenue estimates from different sources and calculated total revenue using some different assumptions, noting that there was no single set of reliable usage and revenue data on which to base our analysis. Depending on which method was used, our estimates ranged from \$158,400 to \$243,120. We concluded that the estimates were of the right order of magnitude to cover estimated costs of \$200,000 (for urban taxis).¹³

We also calculated in the last reweighting that operator revenue did not cover operator costs, which suggested that our revenue estimates were not accurate.¹⁴

As noted in sections 6.1 and 6.2 above, we have revised our revenue estimates as well as our cost estimates, and they do not suggest a need for an adjustment to the current level of fares.

6.5 Won't fares go down if we take licence lease costs out of the Taxi Cost Indices?

Whether or not licence lease costs are included in the Taxi Cost Indices will not affect the level of fares. Removing licence lease costs would alter the relative weightings to give more influence to other factors, such as labour and fuel costs.

We recognise that lease costs are an actual cost faced by operators and fare revenue still needs to provide enough money to cover those costs.

¹³ IPART, *Review of taxi fares in NSW - Final Report*, June 2008, pp 84-85.

¹⁴ IPART, *Review of taxi fares in NSW - Final Report*, June 2008, p 82.

7 Other issues for consideration

We have identified three other issues that we will consider as part of our taxi fare review:

- ▼ the introduction of a carbon price
- ▼ the introduction of excise on LPG
- ▼ adjusting fares for changes in productivity.

This chapter sets out more detail on each issue.

7.1 The introduction of a carbon price

The Federal Government is establishing a carbon price mechanism to reduce the amount of carbon dioxide that Australia emits into the atmosphere. This carbon price mechanism will commence on 1 July 2012. From 1 July 2015, the carbon pricing mechanism will transition to a 'cap and trade' emissions trading scheme.

While the precise impact of a carbon price on the costs of operating taxi services is unclear, it is likely to be small (gaseous fuels such as LPG and petrol used in transport will not be subject to a carbon price).

Furthermore, because the Taxi Cost Index is backward-looking, any changes in costs due to the carbon price will not be picked up until the 2013 review. If the impact of the carbon price is not significant, this will not matter.

In our recently released Local Government Rate Peg decision, we made an adjustment in advance to allow for the carbon price impact on local councils, which we assessed as significant. Once the impact of the carbon price is directly measured in the Local Government Cost Index, the advance will be removed over 2 years. While we do not think such an approach will be required for the Taxi Cost Indices, we suggest that interested stakeholders read our information paper on the impact of the carbon price on local councils, available on our website.

IPART seeks comments on the following

- 18 Stakeholder views on the impact of the carbon price on the cost of providing taxi services.

7.2 The introduction of excise on LPG

From 1 December 2011, LPG has had an excise of 2.5 cents per litre applied. The excise will increase in 2.5 cent increments until it reaches 12.5 cents per litre by 1 July 2015.

This will not necessarily translate to an immediate 2.5 cents per litre increase in the price of LPG at the bowser, as the price of LPG is volatile and affected by factors other than the underlying cost structure of production. Some of the change in price will be picked up by the Taxi Cost Index, as we use the daily average price of LPG for the 12 months to the end of April in our annual taxi fare reviews.

However, we are interested in stakeholder views on the possible impact of the introduction of LPG excise and whether and how this should be accounted for in the Taxi Cost Indices.

IPART seeks comments on the following

- 19 Does an adjustment need to be made to the Taxi Cost Indices to account for the introduction of LPG excise from 1 December 2011?

7.3 Adjusting fares for changes in productivity

Each year we make a productivity adjustment to the estimated cost increase measured by the Taxi Cost indices before applying the increase to fares.

Productivity is the rate at which outputs (eg, goods and services) are produced per unit of input (eg, labour, capital, raw materials). When an industry's productivity increases, it means it is producing more outputs for a given level of inputs than it did previously. It may have reduced its costs, or increased the quantity or value of its outputs.

In the taxi industry, providers of taxi services could increase productivity by increasing the ratio of paid kilometres to unpaid, by increasing the number of fares taken in a shift or decreasing pick-up times.

Increased productivity in the taxi industry would reduce the need for taxi operators and/or drivers to be compensated for rising costs. In past taxi fare reviews we have used ABS measures of productivity trends in the broader economy (ie, not just the transport, postal and warehouse sector) to estimate productivity changes in the taxi industry. We would prefer to use productivity measures specific to the taxi industry, but there is little available data to support such analysis.

We will also consider this year our approach to productivity adjustment more generally, and examine whether productivity adjustments should apply to all items in the Taxi Cost Indices, or only to the labour cost items.

IPART seeks comments on the following

- 20 How should we deal with productivity changes in calculating taxi fare increases, bearing in mind that we propose to move to an index that is updated mechanically each year?

8 Service quality information and impacts on stakeholders

Our terms of reference require us to consider taxi service standards as part of our reviews, as well as the impact of our fare recommendations on stakeholders other than the taxi industry, including passengers, the Government and the environment.

This chapter details our consideration of service quality information and impacts on stakeholders.

8.1 We will consider service quality information

Our view is that independent, objective and transparent information on service quality is essential for accountability and good regulation. We do not directly take account of service standards in making fare recommendations unless there has been a regulatory change to service standards.

Each year we request information from the Transport for NSW on network performance standards and we publish some of that data in our review final reports. Transport for NSW also publishes quarterly reports on its website.

However, most of the available information on service standards relates to booked taxi trips, which constitute a minority of total taxi trips taken. For several years we have been recommending that Transport for NSW should undertake regular surveys of taxi passengers in NSW to ensure that service standard information reflects the experience of all taxi users.

Last year Transport for NSW advised that its Bureau of Transport Statistics had scheduled a customer satisfaction survey for taxis in 2012. We recommended that the survey be undertaken early in 2012 so that its results would be available for our 2012 taxi review. However, it appears unlikely that the survey will be completed in time for our review.

8.2 We will consider impacts on stakeholders

Our terms of reference require us to consider the impact of our fare recommendations on stakeholders other than the taxi industry, including passengers, the Government and the environment.

We usually consider the level of fares in NSW and how they have changed over time, including the likely impact of our recommendations on the cost of different types of taxi trips, and how fares in NSW compare with those in other states of Australia.

As taxi services are not directly subsidised by the Government, our fare recommendations have minimal impact on the Government. However, in recent reviews we have recommended that the Government should review the subsidy it provides, via the Taxi Transport Subsidy Scheme, to people whose transport options are restricted due to a severe and permanent disability. The cap on the available rebate has not been adjusted since 1999.

IPART seeks comments on the following

21 Are there any other impacts on stakeholders that we should consider?

A Terms of reference

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992 TAXI INDUSTRY FARE REVIEW

I, Barry O'Farrell, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, approve the Independent Pricing and Regulatory Tribunal entering into an arrangement with the Department of Transport from 4/08/2011 to 4/08/2012 to provide services to the Department that are within its area of expertise. The services to be provided by the Tribunal are the conduct of an investigation into, and the preparation of a report concerning, fares for taxi services under the *Passenger Transport Act 1990*.

In providing these services, the Tribunal should consider:

- i) the cost of providing the services concerned;
- ii) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies, and standards of service;
- iii) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- iv) the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- v) the need to maintain ecologically sustainable development;
- vi) the social impact of the recommendations;
- vii) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards as notified to the Tribunal by the Minister for Transport); and
- viii) the effect of any pricing recommendation on the level of Government funding.

The services to be provided by the Tribunal will include a public consultation process through which the Tribunal will invite submissions from the NSW Taxi Council, taxi industry participants, and other stakeholder groups including the general community.

The services are to be provided through the provision of a final report to the Department of Transport by 8 June, 2012.



The Hon Barry O'Farrell MP
Premier

Dated at Sydney 4. 8. 2011