

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

**Transport — Issues Paper**  
October 2013



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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 15 November 2013.**

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**Review of taxi fares and annual Sydney taxi licences**

Independent Pricing and Regulatory Tribunal

PO Box Q290

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# 1 Introduction

IPART is undertaking reviews of taxi fares and annual Sydney taxi licences. We will recommend to Transport for NSW (TfNSW):

- ▼ maximum urban and country taxi fares<sup>1</sup> to apply from July 2014
- ▼ the number of new annual Sydney taxi licences (other than licences for wheelchair accessible taxis (WATs)<sup>2</sup>) to be released from July 2014.

We will conduct the reviews together, with a single consultation and reporting process. This issues paper sets out some information about the reviews, our preliminary views on the approach we will take, and the key issues we have identified for consideration. We are seeking input from interested parties on the matters discussed in this issues paper.

## 1.1 Purpose of the reviews

The terms of reference for the fare and licence reviews are different but both are aimed at improving taxi services so that:

- ▼ passengers can catch taxis when they want them, with waiting times that aren't too long
- ▼ fares are affordable for passengers
- ▼ drivers and operators can cover the efficient costs of providing taxi services, including their own labour
- ▼ prospective operators can enter the taxi industry without prohibitive set-up or operating costs.

Ultimately, it should be cheaper and easier for passengers to catch taxis, and cheaper and easier for taxi operators to get a licence.

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

<sup>2</sup> Licences for WATs will continue to be available on request at any time from Roads and Maritime Services.

These benefits will come at some cost to existing taxi licence owners, who will not be able to earn as much income from leasing their licences out, but our terms of reference require us to avoid **unreasonable** impacts on existing licence holders.

### 1.1.1 Purpose of the fare review

TfNSW is responsible for setting maximum taxi fares in NSW. Every year since 2001, IPART has reviewed and recommended maximum taxi fares to TfNSW.

In reviewing maximum fares we must consider the matters set out in the terms of reference given to us by the Government. These include the cost of providing taxi services and the need for greater efficiency in their supply, and the impact on customers of recommended fares. The matters for consideration are summarised in Box 1.1, and the terms of reference are provided in full at Appendix A.

### 1.1.2 Purpose of the annual Sydney taxi licence review

Since 2009, TfNSW has been required to decide how many additional annual Sydney taxi licences (except for licences for WATs, which are available on request at any time) to make available by auction or tender each year.<sup>3</sup> TfNSW has asked us to review and provide recommendations on additional annual Sydney taxi licences from July 2014.

Our recommendation on the number of new licences needs to closely align the number of taxis with demand to reduce waiting times for customers, and to make entry into the taxi market more affordable for taxi operators (which will also put downward pressure on taxi fares), while avoiding unreasonable impacts on existing licence holders.

The matters we must consider in making our recommendation on the number of new annual Sydney taxi licences are summarised in Box 1.1, and the terms of reference are provided in full at Appendix B.

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<sup>3</sup> Section 32JC of the *Passenger Transport Act 1990*.

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**Box 1.1 Terms of reference for fare and licence reviews**


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

- ▼ The cost of providing services and the need for greater efficiency in their supply so as to reduce costs for the benefit of customers.
- ▼ The protection of customers from abuses of monopoly power.
- ▼ The need to maintain ecologically sustainable development.
- ▼ The impact on customers of the recommendations.
- ▼ Standards of quality, reliability and safety of the services concerned.
- ▼ The effect of any pricing recommendation on the level of government funding.

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

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

The following objectives of the 2009 legislative amendments for Sydney taxi licences:

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

The factors listed in section 32C(3) of the *Passenger Transport Act 1990*:

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

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

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## 1.2 Our approach to the reviews

Our view is that our approach to considering fares and annual Sydney taxi licences together should be consistent with the approach we took when we considered them separately in 2013.

This section describes how we approached the fare and annual Sydney taxi licence reviews in 2013 and sets out our proposed approach for this review. It also discusses the issues we have identified for the review and some specific questions on which we are seeking input from stakeholders.

### 1.2.1 Our previous approach to recommending fares

In 2013 we consulted on a range of options to reduce taxi fares for Sydney and other urban areas in real terms (that is, after the effects of inflation) because fares are currently considerably above efficient costs.

To achieve a more efficient market, our final recommendation was that a 1% nominal reduction in fares (that is, before the effects of inflation), with some restructuring of fare components, would give the best balance of outcomes. We also recommended that fares in country areas should remain unchanged (in nominal terms) from 2012/13 levels.

This is different to how we approached fares in previous reviews. Between 2001 and 2012 we recommended fare levels for urban areas (including Sydney) and country areas based on the estimated average change in costs of providing taxi services over the previous 12 months, as measured by the Urban and Country Taxi Cost Indices (TCIs).

In August 2013, TfNSW announced that it would keep existing fare components at 2012/13 levels and introduce a peak hiring charge on Friday and Saturday nights for urban fares including Sydney. TfNSW accepted our recommendation not to change country fares.

### 1.2.2 Our previous approach to recommending annual Sydney taxi licences

We made recommendations to TfNSW on annual Sydney taxi licences for the first time in 2013. For the review, we developed a model of the Sydney taxi industry which estimates the impacts of changes in fares, licence numbers, costs and demand on:

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

We made a judgement about the number and mix of licences that provided the best mix of outcomes for taxi passengers, drivers and operators, and impacts on existing licence holders that were not unreasonable. We made our recommendations in 2013 based on our judgement that a reduction of 25% in licence lease costs over 5 years from 2012/13 was not unreasonable.<sup>4</sup>

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<sup>4</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 5.

We recommended that 225 unrestricted annual licences, 230 peak availability licences (PALs) and 1 fringe area (Richmond/Windsor) licence should be released, comprising:

- ▼ 160 new unrestricted licences and 200 new PALs to allow for growth and peak demand
- ▼ an additional 70 unrestricted licences and 30 PALs to replace licences we expect to be handed back or not renewed (including new licences effectively swapped for existing licences to get a better price)
- ▼ an adjustment to subtract 5 licences to take into account the expected issue of additional WAT licences, outside the annual licence tender process
- ▼ 1 fringe area (Richmond/Windsor) licence to replace one that was not renewed in September 2012.<sup>5</sup>

TfNSW responded to our recommendations by releasing 280 PALs, 65 unrestricted and 1 fringe area (Richmond/Windsor) licence, comprising:

- ▼ 250 new PALs to allow for growth and peak demand
- ▼ adjustments for attrition, WAT licences and a replacement fringe area licence as we recommended.

### 1.2.3 Our proposed approach to recommending licences and fares in Sydney in 2014 (and future reviews)

In our view, most of the objectives of the reviews can be met by releasing more annual Sydney taxi licences and reducing fares. This will make taxis more affordable and more readily available to passengers, reduce barriers to entry to the taxi industry, and encourage competition. However, one of the objectives – balancing the need for a more affordable means of entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders – places a constraint on the number of new licences that can be released and the level of fares.

We measure the impact on existing licence holders by looking at licence lease costs (the annual income that a licence owner can receive by leasing out their licence). In our 2013 taxi reviews, we considered that a 25% reduction in unrestricted licence lease values over 5 years (from 2012/13) was not unreasonable. We are proposing to recommend fares and licence numbers for 2014 in the context of this longer-term impact (based on the 5 years from 2012/13).

<sup>5</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 1.

We propose to continue to use our model of the Sydney taxi industry (developed initially for the 2013 licence review) to consider different combinations of fares and licences to be released. We will consult on the combinations and will make a judgement about the best combination based on the mix of outcomes predicted by the model and feedback from stakeholders.

As the model is an equilibrium model (that is, it shows outcomes once all the changes have filtered through the industry) and it cannot predict the path of change or the time taken to get to equilibrium, it is not appropriate to use it to model an annual incremental change. Instead, we will:

- ▼ update the model to take into account TfNSW's decisions on licences and fares since 2012/13
- ▼ model different combinations of fares and licences for the 5-year period from the base year when it was set up in 2012/13 to 2017/18 to result in an outcome which makes taxi travel more affordable for passengers and entry into the market easier for operators and drivers while having an impact that is not unreasonable for licence holders (which we considered to be 25% reduction in licence lease costs over 5 years), and assess the estimated outcomes
- ▼ recommend licences and fares for 2014/15 that provide the best mix of estimated outcomes.

We will again consider whether some of the licences should be released as PALs.

In future years we will model fares and licences for the same 5-year period (2012/13 to 2017/18), taking into account historical changes to licences and fares, and again recommend one year's worth of licences and fares from within that envelope.

We will not recommend a longer-term path of licence releases and fare changes into the future but instead use the 5-year modelling envelope as a context for annual recommendations. We consider that this provides a balance between annual assessments that can take account of current conditions and longer-term certainty about the direction of fares and numbers of licences to be released.

We will no longer calculate TCIs. We have taken costs into account in our taxi industry model by assuming that costs increase at the rate of inflation.

We do not consider that fares need to increase as costs increase, because fares are currently considerably above efficient costs and need to be reduced to achieve a more efficient market. We will continue to track licence lease prices as a measure of this inefficiency.

However, we will continue to track LPG prices, as fluctuations in the price of LPG can have a significant effect on the cash flow of drivers in the short term. We propose to adjust fare changes for each of our options if LPG has changed by more than 20% in the previous year, and will continue to apply a mid-year LPG review and recommend a mid-year fare change if LPG has changed by more than 20% since fares were last recommended.

We are seeking input from stakeholders about this proposed approach.

#### 1.2.4 What scenarios are we consulting on for fares and licences in Sydney?

We are presenting 4 scenarios for fares in combination with numbers of licences in this issues paper to facilitate consultation. The scenarios are set out in Table 1.1. It shows the number of additional unrestricted licences that would be released (before adjustments for replacement, WAT licences and attrition). The licence numbers have been calculated to make taxi travel more affordable for passengers and entry into the market easier for operators and drivers while having not having an unreasonable impact on licence holders (which we consider to be a 25% reduction in licence lease values over 5 years).

**Table 1.1 List of scenarios for fares and licences**

Scenario	Annual fare change for the next 4 years from 2014/15 to 2017/18	Total additional unrestricted licences (before adjustments for replacement and attrition) to be released over 4 years between 2014/15 and 2017/18	Unrestricted licences per year if released in equal tranches as unrestricted
Scenario 1	Increase fares by CPI	1015	254
Scenario 2	Freeze fares in nominal terms	680	170
Scenario 3	1% nominal fare reduction	520	130
Scenario 4	2% nominal fare reduction	350	88

**Note:** If we recommend PALs instead of unrestricted licences, the total number of licences that we recommend will exceed the number of unrestricted licences to be released shown in this table.

The scenarios show the aggregate number of unrestricted licences that would be released over 4 years between 2014/15 and 2017/18. Our recommendation to Government will translate this aggregate number of unrestricted licences into a recommended number for 2014/15 taking into account current market conditions, demand for taxi licences, and whether there should be a mix of unrestricted licences and PALs. We are seeking input from stakeholders about the number and the mix of licences to release for 2014/15.

Table 1.1 shows that as fares are reduced by more, fewer licences need to be released to have the same impact on licence lease costs. This is because as fares are lower, there is less residual revenue per taxi to provide the licence lease payment (even after allowing for an increase in demand as the result of lower prices). As the number of licences increases, revenue per taxi drops (even after allowing for an increase in demand as the result of lower waiting times), similarly lowering the amount of residual revenue available for licence leases.

During our last licence review, we found that a minimum of 140 unrestricted licences should be released each year to keep up with the projected growth in demand from growth in population, household and business income, economic activity, and tourism.<sup>6</sup> This was based on an assumption that fares stayed the same in nominal terms (that is, the same fare assumption as in Scenario 2 in Table 3.1). Under Scenarios 3 and 4 in Table 1.1, the annual number of unrestricted licences illustrated is fewer than the 140 per year that we nominated last year because fares are reducing in nominal (and real) terms.

The scenarios show an annual fare change to be applied each year over the next 4 years. However, we are not necessarily recommending uniform annual fare changes. We are seeking input from stakeholders on the fare change for 2014/15, from within a context of where cumulative fare levels might be expected to be in 2017/18.

We are also seeking input from stakeholders about whether any changes should be made to the fare structure.

### Indicative outcomes of each scenario for licences and fares in Sydney

All the scenarios set out in Table 1.1 have the same impact on existing licence owners. However, they have different impacts on:

- ▼ outcomes for passengers – affordability and waiting times
- ▼ taxi use – the total number of trips we expect to be taken and taxi occupancy.

Scenario 4, which has the lowest fares, is the most affordable for customers, so total trips increase the most. But because more trips will be taken as people respond to lower fares, and a smaller number of new taxis come onto the road, average waiting times actually deteriorate. This results in the greatest improvement in occupancy rates. On the other hand, Scenario 1, which has the highest fares (a CPI increase), results in the greatest improvement in waiting time, because there are many more taxis on the road, but as a result, the improvement in occupancy rates is the lowest.

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<sup>6</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 3.

### 1.2.5 What about fares and licences outside Sydney?

Fare and licensing arrangements differ outside Sydney.

In urban areas other than Sydney, the fare schedule is the same as in Sydney. However, licensing has not been reformed, so there is no annual licence release process. Instead, ordinary or short-term licences can be purchased from TfNSW at market rates.

In country areas a different fare schedule applies, and licensing has not been reformed. Instead, ordinary or short-term licences can be purchased from TfNSW at market rates.

Last year, we recommended and TfNSW accepted that fares in urban areas other than Sydney should continue to move in line with Sydney fares, and that a separate country fare schedule should be maintained for country areas. Country fares did not change from July 2013.

We are seeking input on what approach we should take to fares in urban areas other than Sydney and in country areas from July 2014.

### 1.2.6 Making an allowance for attrition in annual Sydney taxi licences, and for the expected release of additional WAT licences outside this process

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

Our recommendations for new annual Sydney taxi licences are made on the basis that these licences will be additional to the existing stock of licences, so we need to make an adjustment to account for the licences that we expect to be handed back or not renewed next year.

This adjustment is made in advance on the basis of our expectations, so actual numbers of relinquishments or non-renewals may differ. In order to maintain the existing stock of licences at the same level, we have to make a further adjustment to account for any difference between last year's allowance and the actual number of relinquishments and non-renewals since December 2012.

In addition, as WAT licences are available on demand from TfNSW and they compete for some of the same work as unrestricted licences, we need to release fewer annual taxi licences through the tender process to account for the WAT licences that we expect to be released. This number also needs to be adjusted to account for any differences between last year's allowance and the actual number of WAT licences released since December 2012.

### **1.2.7 The process for releasing new annual Sydney taxi licences**

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

Our preliminary view is that the process established and used for the past 4 years has been successful and effective and there is no need for substantive change, although some improvements could be made to publication of information and supporting documentation for the tenders. However, we are interested in stakeholder feedback on the process for releasing licences.

## **1.3 Process for the review**

This issues paper is the first step in our process for conducting the taxi reviews. It sets out the key issues we will consider, and seeks comment from interested parties. Submissions on this issues paper are due by 15 November 2013. (See page iii for information on how to make submissions.)

We will hold a public forum on 22 October 2013 to provide stakeholders with a further opportunity for input.

We will consider the information and comments received through the public consultation process, and expect to release our draft report on fares and licences in December 2013. We will seek submissions from stakeholders on our draft report, before submitting a final report to TfNSW in early 2014.

An indicative timetable for the review is available on our website. This timetable will be updated as the review progresses.

## **1.4 How this paper is structured**

This paper sets out the issues we have identified for discussion during the taxi fare and licence reviews. It is structured as follows:

- ▼ Chapter 2 explains the context for the 2 reviews, including changes to the Passenger Transport Act made in 2009, and the approach we have taken in the past to recommending fares and licences

- ▼ Chapter 3 sets out our proposed approach to recommending annual licence numbers and fares for Sydney from July 2014
- ▼ Chapter 4 discusses the Sydney Taxi Industry Model which we will use to inform our recommendations on fares and licences
- ▼ Chapter 5 explains our preliminary thinking on fares in other parts of NSW (apart from Sydney)
- ▼ Chapter 6 sets out some issues for urban taxi fare structure
- ▼ Chapter 7 discusses how we will make an allowance for replacement and attrition licences in Sydney
- ▼ Chapter 8 discusses the process for releasing annual taxi licences in Sydney.

## 1.5 List of issues on which we seek comment

1	What are your views on our proposed approach to developing recommendations for fares and licences from July 2014?	23
2	Is there any new evidence that a 25% real reduction in unrestricted licence lease costs over 5 years will have an unreasonable impact on licence holders?	24
3	How should we translate the aggregate number of licences modelled in the fare and licence scenarios to a recommendation for 2014/15?	26
4	Should some of the growth annual licences be released as peak availability licences (PALs)? If so, what proportion should be PALs?	29
5	Do you support our proposal to adjust recommended fares for the change in LPG prices?	30
6	Is there any evidence that the medium term forecast of demand should be revised from 2.5% over the medium term?	32
7	Is CPI an appropriate forecast for the change to the costs of providing taxi services?	33
8	What are your views on extending licence reforms to urban areas outside Sydney?	38
9	What are your views on maintaining a single fare schedule for all urban areas including Sydney?	38
10	What are your views on extending licence reforms to country areas?	39
11	What approach should we take to fares in country areas from July 2014?	39

12	Are there too many taxis on the road on Sunday to Thursday nights? Should the 20% distance surcharge on these nights be reduced or removed?	45
13	Should the hiring charge be increased in combination with a reduction in the distance (per km) and waiting time (per hour) charges?	48
14	What additional data would help us quantify the reduction in revenue from removing the ability to charge a 'return' toll on Northbound Sydney Harbour crossings?	49
15	How should we calculate the attrition allowance for unrestricted and PAL licences for 2014?	51
16	How should we calculate the allowance for WAT licences for 2014?	53
17	What are the financial and other costs of tendering for a new licence and what could be done to minimise any such costs?	54
18	Is there any reason why TfNSW should adopt a different tender process?	56
19	Do you support earlier release of information from the tender process?	56
20	Is there any new evidence suggesting a reserve price should be introduced?	57
21	Is there any new evidence suggesting that licences should be reserved for drivers only and/or that the number of licences each person can bid for should be restricted?	58

## 2 Context for the reviews

The taxi fare and annual Sydney licence reviews are being undertaken in the context of reforms to taxi licensing arrangements made in 2009 to address taxi numbers not keeping pace with demand, licences becoming expensive to obtain and fares becoming more expensive than they needed to be.

This chapter discusses the context for the reviews in more detail. Additional background information about the taxi industry is available in a separate document, *Stakeholder guide: background to the taxi industry*, on our website.

### 2.1 Amendments to taxi licensing in Sydney made in 2009

Prior to 2009, the number of taxi licences in Sydney did not keep pace with the growth in Sydney's population, household and business income, economic activity or tourism numbers. This meant that there were not enough taxis on the road to meet passenger demand. As a result of this scarcity (and not because of their productive capacity), 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* (the Act) was amended in 2009 so that TfNSW was required to decide how many new licences would be released each year.

Following the 2009 amendments, annual Sydney taxi licences (other than fringe area licences) were released as set out in Table 2.1. In total, 503 unrestricted annual licences and 184 annual PALs were released between the beginning of 2010 and the end of 2012. Of the tendered licences, some were subsequently relinquished or not renewed. Others simply replaced the 167 existing short term licences that expired during that period.<sup>7</sup>

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<sup>7</sup> Information provided by Transport for NSW for 1 January 2010 compared to 1 January 2013.

**Table 2.1 Taxi licences issued in Sydney since January 2010**

	Licences tendered	
	Unrestricted	PAL
2010	319	90
2011	129	48
2012	55	46
<b>Total 2010 - 2012</b>	<b>503</b>	<b>184</b>
2013 (to August)	65 <sup>a</sup>	280 <sup>a</sup>

<sup>a</sup> These licences have been tendered but not all are on the road yet.

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

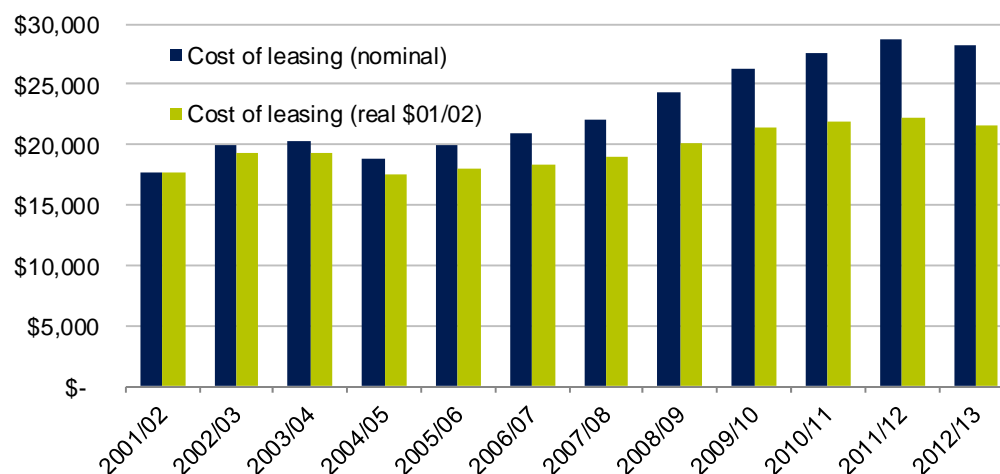
Table 2.2 shows the net growth in number of Sydney taxi licences between January 2010 and August 2013 was 396 licences, or around 8% increase in the size of the taxi fleet. As at 1 August 2013, there were 5,627 taxi licences in the Sydney metropolitan region, including WAT licences and fringe area licences.

**Table 2.2 Change in the stock of licences 1 January 2010 to 1 August 2013**

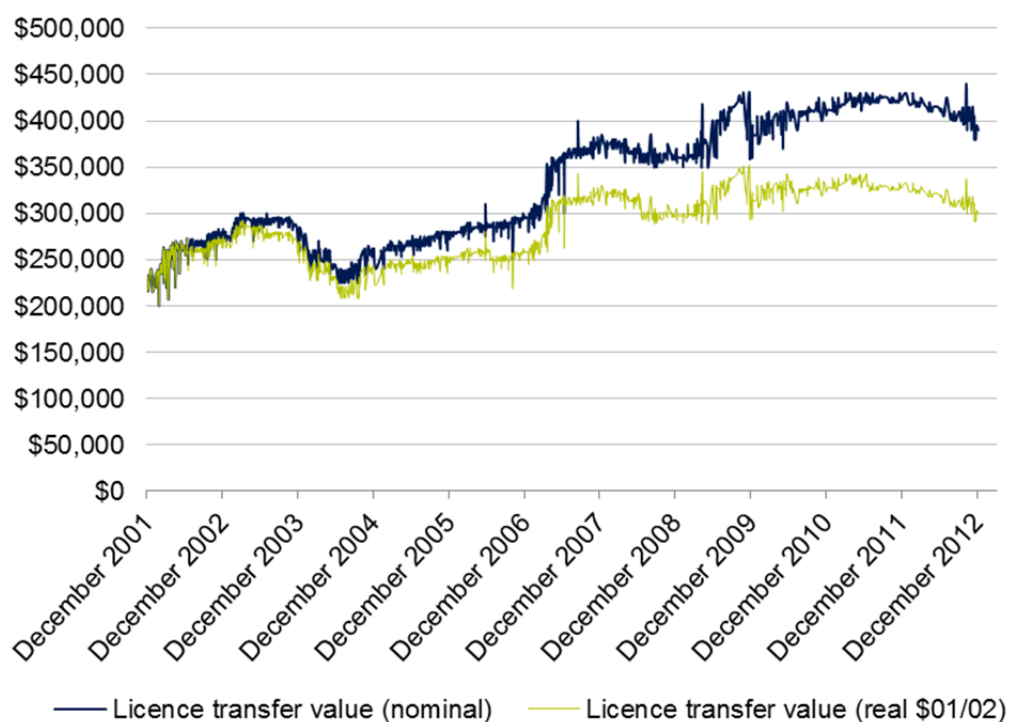
	Unrestr- icted	PAL	WAT	Fringe area licence	All
Total licences at 1 January 2010	4,419	265	528	19	5,231
Net change 2010	+254	+10	+45	0	309
Net change 2011	+84	+8	+33	-6	119
Net change 2012	-28	+3	+12	+1	-12
Net change 2013 to August 2013	-24	-3	+7	0	-20
Total licences as at 1 August 2013	4,705	283	625	14	5,627
<b>Net change between 1 January 2010 and 1 August 2013</b>	<b>286</b>	<b>18</b>	<b>97</b>	<b>-5</b>	<b>396</b>

**Source:** Information provided by TfNSW.

Despite the growth in numbers of licences, the cost of obtaining a licence for a taxi operator had changed little since 2009. Figures 2.1 and 2.2 show that the costs of purchasing and leasing licences remained high, which indicates that there had been essentially no impact on existing licence holders. This suggests that the need to avoid unreasonable impacts on licence holders had outweighed (rather than been balanced with) the need for more affordable entry into the taxi market.

**Figure 2.1 Cost of leasing a licence**

Data source: TfNSW; PricewaterhouseCoopers, *Benefit/Cost Assessment of Options for Reform of Taxi Licencing*, September 2005, p 18.

**Figure 2.2 Cost of buying a licence**

Data source: TfNSW.

## 2.2 Growth in fares

Between 2001 and 2012 we recommended changes to maximum taxi fares in line with the estimated average change in the financial costs of providing taxi services over the previous 12 months, as measured by the Urban and Country TCIs. This approach resulted in fare increases that made taxis relatively expensive and discouraged the use of taxi services. At the same time, annual licence costs increased and driver earnings were low.

A significant problem was the inclusion of licence lease costs in the TCIs. While the licence cost is a real **financial** cost incurred by operators, it is not an **efficient** economic cost because it has no productive value. The licence lease cost is instead an economic rent, that is, an amount created by the artificial scarcity of taxi licences.<sup>8</sup>

As an economic rent, licence lease costs are not determined independently of fares. Rather they are a function of the supply (or scarcity) of taxi licences, the demand to lease these licences, and fare revenue.

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

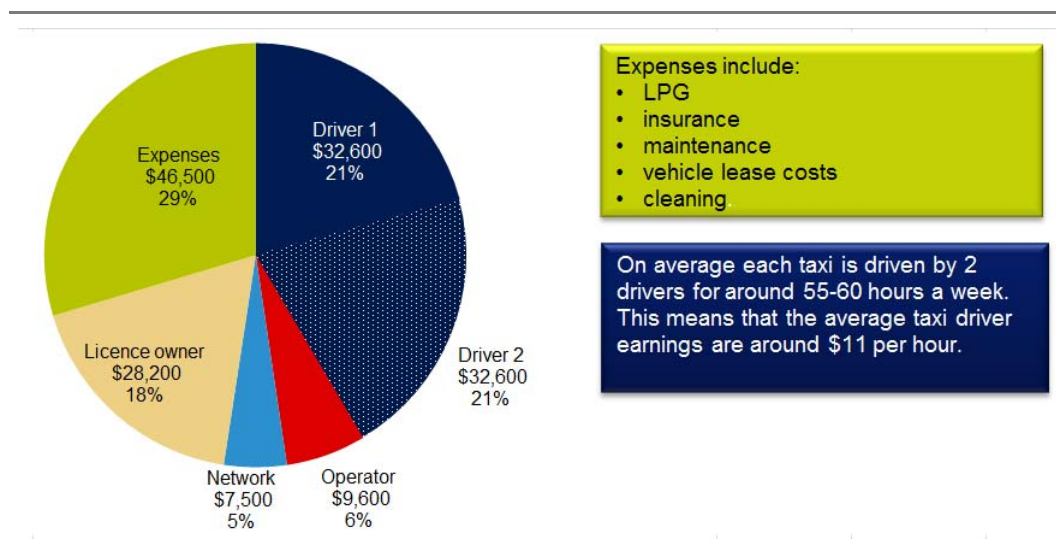
In 2012, we set the inflator for licence lease costs in the TCI to zero, to avoid the circular feedback between licence costs and fares in the future. However, this did not address the accumulated rents in fares from past application of the TCI methodology.

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<sup>8</sup> As a submission from an economist to the 2012 taxi fare review issues paper put it: ‘economic costs ... [are] the cost of other goods and services foregone due to the provision of taxi services. This excludes the price of a taxi plate because this does not reflect any use of an economic resource and is not an economic cost. The taxi licence price is a transfer payment—a levy on taxi users to sustain the asset values of a piece of paper that has no economic value and provides no economic service.’ P Abelson submission to 2012 taxi fare review Issues Paper, 3 February 2012, p 2.

Figure 2.3 shows that in 2012/13, around 18% of fare revenue for standard urban taxis went to the licence holder. Over the 10 years between 2002 and 2012, there was an increase in licence lease costs from around \$20,000<sup>9</sup> to \$28,000<sup>10</sup> per year. This is an average annual increase of around 3.5%, compared to an average annual inflation rate of 2.7% over the same period.<sup>11</sup>

**Figure 2.3** Average distribution of annual revenue per standard urban taxi (\$2012/13)



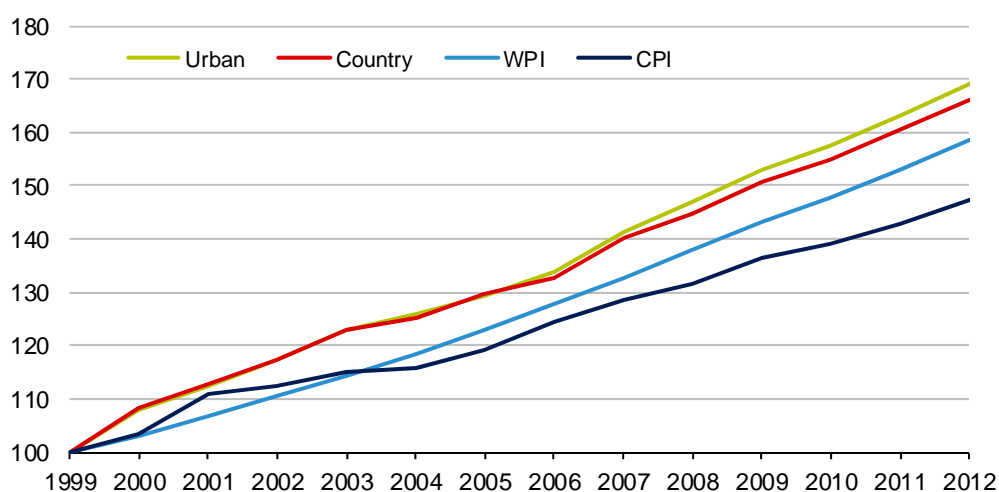
**Data source:** Taxi cost index 2012/13, CIE taxi cost survey data.

Using the TCIs to change taxi fares resulted in fare increases above the general rate of inflation (CPI) and even above the rise in wages (WPI). (See Figure 2.4.)

<sup>9</sup> NSW Ministry of Transport, *Benefit/Cost Assessment of Options for Reform of Taxi Licensing, Final report*, September 2005, p 18.

<sup>10</sup> The CIE, *Reweighting of the taxi cost index*, April 2012, p 44. CIE found that average licence lease costs in late 2011 were \$28,789, which we updated to \$28,155 for 2012/13 using the measured change to average annual licences on foot – see IPART, *Annual taxi licence release for Sydney 2013/14 -Final Report*, February 2013, p 19.

<sup>11</sup> ABS – Sydney consumer price index 6401.0  
<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Jun%202013?OpenDocument>.

**Figure 2.4** Change in Urban and Country TCIs compared with CPI and WPI

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

## 2.3 The approach we took in 2013 when reviewing fares and annual Sydney taxi licences

In our 2013 reviews of annual Sydney taxi licences and NSW fares we made recommendations to release more annual taxi licences to better match demand and supply, to reduce waiting times for passengers, reduce licence lease costs for taxi operators, and make fares more affordable by starting to remove some of the uneconomic costs.

### 2.3.1 Our approach to annual Sydney taxi licences in 2013

For the 2013 review, we developed a model of the Sydney taxi industry which estimates the impacts of changes in fares, licence numbers, costs and demand on:

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

We made a judgement about the number and mix of licences that provided the best mix of outcomes for taxi passengers, drivers and operators, and impacts on existing licence holders that were not unreasonable. We considered that a reduction of 25% in licence lease costs over 5 years from 2012/13 was not unreasonable.<sup>12</sup>

<sup>12</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 5.

We recommended that 225 unrestricted annual licences, 230 peak availability licences (PALs) and 1 fringe area (Richmond/Windsor) licence should be released, comprising:

- ▼ 160 new unrestricted licences and 200 new PALs to allow for growth and peak demand
- ▼ an additional 70 unrestricted licences and 30 PALs to replace licences we expect to be handed back or not renewed (including new licences effectively swapped for existing licences to get a better price)
- ▼ an adjustment to subtract 5 licences to take into account the expected issue of additional WAT licences outside the annual licence tender process
- ▼ 1 fringe area (Richmond/Windsor) licence to replace one that was not renewed in September 2012.<sup>13</sup>

After considering our recommendations, TfNSW decided to release 280 PALs, 65 unrestricted licences and 1 fringe area (Richmond/Windsor) licence, comprising:

- ▼ 250 new PALs to allow for growth and peak demand
- ▼ adjustments for attrition, WAT licences and a replacement fringe area licence as we recommended.<sup>14</sup>

### 2.3.2 Our approach to fares in 2013

In 2013 we consulted on a range of different fare changes for Sydney and other urban areas, all of which represented a reduction in fares in real terms (that is, after the effect of inflation). In our final report, we made a judgement that a 1% nominal (that is, before the effects of inflation) reduction in fares, with some restructuring of fare components, would give the best balance of outcomes.

In 2013, we also recommended that fares in country areas should remain unchanged from 2012/13 levels.

After considering our recommendations, the Government decided to keep fares unchanged in nominal terms, except for an increase to \$6.00 for hiring charge in peak times in urban areas to encourage more taxis onto the road on Friday and Saturday nights. Table 2.3 shows the fare schedules for 2013/14.

<sup>13</sup> Ibid, p 1.

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

**Table 2.3 Fare schedules 2013/14 (commenced 27 September 2013)**

Fare component	Urban	Country
Hiring charge <sup>a</sup> (all times except for Friday and Saturday night 10 pm – 6 am)	\$3.50	\$4.00
Peak hiring charge (Friday and Saturday nights, and public holidays, 10 pm – 6am)	\$6.00	\$4.00
Standard distance rate (\$/km when the vehicle is travelling more than 26 km/h)	\$2.14	\$2.20 for the first 12 km, \$3.05 after 12 km
Night distance rate (\$/km when the vehicle is travelling more than 26 km/h, 10 pm – 6 am) (20% surcharge)	\$2.57	\$2.64 for the first 12 km, \$3.66 after 12 km
Waiting time (\$/hour when vehicle slower than 26km/hour)	\$55.30 92.1 c per minute	\$56.24 93.7c per minute
Booking fee (booked fares only)	\$2.40	\$1.10
Maxi taxi surcharge (on total fare) <sup>b</sup>	50%	50%

<sup>a</sup> The hiring charge was previously called the flag fall.

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

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

### Why fares don't need to go up even though some costs increase

Even though the costs of providing taxi services goes up every year as fuel costs, insurance, maintenance and so on rise, fares are already high enough to cover these increases in costs for the next 4 years. This is because around \$28,000 or 18% of fares goes to covering the licence lease cost, which is an economic rent.

There are also likely to be other cost savings from efficiency gains. For example, the NSW Government is reviewing NSW Passenger Transport Legislation, including the regulatory framework for taxi networks.<sup>15</sup> Changes could increase competition for booking services, for example, by clarifying the role of independent apps. This should drive down costs for booking services. Amendments may also help lower barriers to entry for new taxi networks. If new networks can provide services more cheaply than existing networks then network fees should fall.

This means that instead of customers funding increases in costs through higher fares, the cost increase can be funded through any or all of the following:

- ▼ a reduction in the income of licence holders
- ▼ cost savings from efficiency gains
- ▼ additional revenue from more passengers, as more trips are taken as underlying demand grows, and in response to cheaper prices.

<sup>15</sup> <http://www.transport.nsw.gov.au/nsw-passenger-transport-legislation-review>.

Increasing taxi fares, on the other hand, allows the economic rent to keep tracking upwards. Between 2002 and 2012, urban fares increased by 3.7%<sup>16</sup> per year. Over the same period, licence lease values increased by around 3.5%<sup>17</sup> per year. Because the additional fare revenue was largely captured by licence holders, putting fares up did not increase earnings for drivers, which were measured at an average of \$8 to \$15 per hour for a standard taxi (varying by shift) in late 2011.<sup>18</sup>

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<sup>16</sup> IPART calculations.

<sup>17</sup> From around \$20,000 to \$28,000 per year. NSW Ministry of Transport, *Benefit/Cost Assessment of Options for Reform of Taxi Licensing, Final report*, September 2005, p 18. IPART calculations

<sup>18</sup> The CIE, *Reweighting of the Taxi Cost Index Final report*, April 2012, p 38

### 3 Our proposed approach to recommending annual taxi licence numbers and fares for Sydney

We propose to continue to use our model of the Sydney taxi industry (developed initially for the 2013 licence review) to consider different scenarios of fares and licences to be released over the next 4 years that makes taxi travel more affordable for passengers and entry into the market easier for operators and drivers while having an impact on licence owners that is not unreasonable.<sup>19</sup> We will consult on the scenarios and will make a judgement about the best scenario based on the mix of outcomes predicted by the model and feedback from stakeholders. We will then recommend fares for 2014/15 and annual licences to be released during 2014/15 that are compatible with the scenario.

This chapter sets out in more detail how we propose to do this, including the scenarios we have developed for consultation.

#### 3.1 Overview of the approach we propose to take

While our proposed approach is consistent with the approach we took in 2013, we have had to consider how to use our Sydney taxi industry model for an annual review.

As the model is an equilibrium model (that is, it shows outcomes once all the changes have filtered through the industry), and it cannot predict the path of change or the time taken to get to equilibrium, it is not appropriate to use it to model an annual incremental change. Instead, we will update the model to take into account changes to licences and fares since 2012/13, and use it to model 5-year scenarios from the base year when it was set up (2012/13) to 2017/18. We will input combinations of fares and licences for the 4 future years in the modelling period, and then recommend licences and fares for 2014/15 that are compatible with the longer-term impact on licence holders of a 25% reduction in licence lease costs over 5 years.

We will again consider whether some of the licences should be released as PALs.

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<sup>19</sup> Once the market has fully adjusted to change, measured from 2012/13.

In future years we will again model the same 5-year period (2012/13 to 2017/18), taking into account annual historical changes to licences and fares, and again recommend one year's worth of licences and fares from within that envelope. We will not recommend a longer-term path of licence releases and fare changes into the future but instead use the 5-year modelling envelope as a context for annual recommendations. We consider that this provides a balance between annual assessments that can take account of current conditions and longer-term certainty about the direction of fares and numbers of licences to be released.

IPART seeks comments on the following

- 1 What are your views on our proposed approach to developing recommendations for fares and licences from July 2014?

### 3.2 The impact on licence holders

During our 2013 reviews, we considered that a 25% real reduction in unrestricted licence lease costs by 2017/18 is an appropriate balance between:

- ▼ improved affordability for passengers and easier entry into the market for operators and drivers, and
- ▼ not having an unreasonable impact on licence owners.<sup>20</sup>

Figure 3.1 shows that this would mean that in 2017/18 licences would cost around \$24,000 (in \$2017/18).

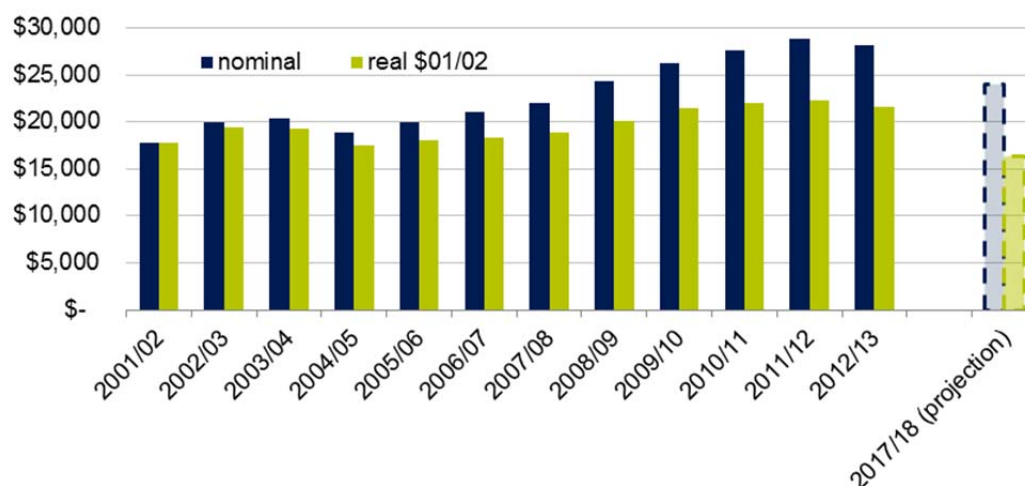
As a comparison, the Victorian Government reduced the annual cost of taxi licences from \$30,000 per year to \$22,000 per year effective from 1 July 2013 which is an immediate reduction of 27%. Taxi licences in Victoria will also be reduced by a further 0.5% below the rate of inflation each year into the future.<sup>21</sup>

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<sup>20</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 5.

<sup>21</sup> Victorian Government, *Government Response: Taxi industry inquiry final recommendations*, May 2013, pp 7-8.

**Figure 3.1 Licence lease costs in Sydney**



**Data source:** TfNSW; PricewaterhouseCoopers, *Benefit/Cost Assessment of Options for Reform of Taxi Licencing*, September 2005, IPART modelling.

IPART seeks comments on the following

- Is there any new evidence that a 25% real reduction in unrestricted licence lease costs over 5 years will have an unreasonable impact on licence holders?

### 3.3 The scenarios for fares and licences for Sydney on which we are seeking feedback

We are seeking feedback on the 4 scenarios in Table 3.1 for 2014/15 to 2017/18 that result in the same impact on licence holders over 5 years. The table shows the number of additional unrestricted licences that would be released (before adjustments for replacement, WAT licences and attrition).

**Table 3.1 List of scenarios**

Scenario	Annual fare change for the next 4 years from 2014/15 to 2017/18	Total additional unrestricted licences (before adjustments for replacement and attrition) to be released over 4 years between 2014/15 and 2017/18	Unrestricted licences per year if released in equal tranches as unrestricted
Scenario 1	Increase fares by CPI	1,015	254
Scenario 2	Freeze fares in nominal terms	680	170
Scenario 3	1% nominal fare reduction	520	130
Scenario 4	2% nominal fare reduction	350	88

The table shows the aggregate number of unrestricted licences that need to be released between 2014/15 and 2017/18, as explained in section 3.1 above. However, we will not recommend the path for 4 years. Instead, our recommendation to Government will translate this aggregate number of unrestricted licences into an annual number for 2014/15 taking into account current market conditions, and demand for taxi licences. Each year historical experience with fares, CPI and licences released will be taken into account before modelling the future path to 2017/18. We will also consider the mix of unrestricted licences and PALs each year and consider any changes that should be made to the fare structure.

The fares we recommend will also be adjusted if LPG has changed by more than 20% in the previous year. Fluctuations in the price of LPG can have a significant effect on the cash flow of drivers in the short term.

Table 3.1 shows that as fares are reduced by more, fewer licences need to be released to have the same impact on licence lease costs. This is because as fares are lower, there is less residual revenue per taxi to provide the licence lease payment (even after allowing for an increase in demand as the result of lower prices). As the number of licences increases, revenue per taxi drops (even after allowing for an increase in demand as the result of lower waiting times), similarly lowering the amount of residual revenue available for licence leases.

### 3.3.1 Indicative outcomes of the scenarios

Figure 3.2 shows that the scenarios set out in Table 3.1 have different impacts on:

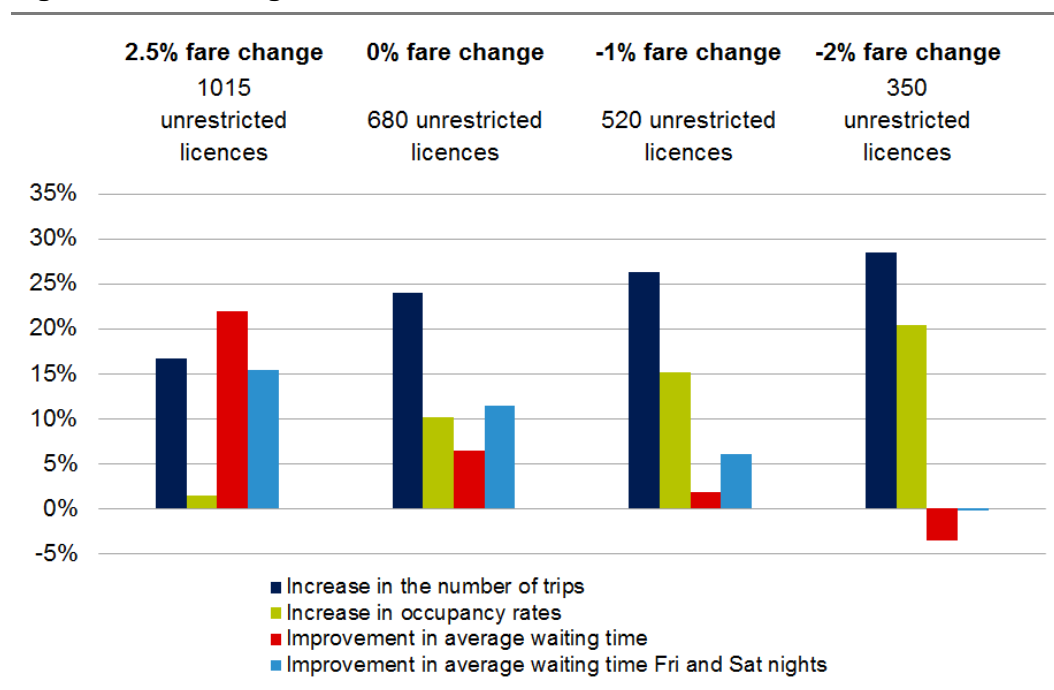
- ▼ outcomes for passengers – affordability and waiting times
- ▼ taxi use – the total number of trips we expect to be taken and taxi occupancy.

Scenario 4, which has the lowest fares, is the most affordable for customers, so total trips increase the most. But because more trips will be taken as people respond to lower fares, and a smaller number of new taxis come onto the road, the improvement in waiting times is the least. This results in the greatest improvement in occupancy rates.

A CPI fare increase (Scenario 1) results in the greatest improvement in waiting time, because there are many more taxis on the road, but as a result, the improvement in occupancy rates are the lowest.

Scenario 2 has the most balanced combination of positive outcomes, with moderate improvements in total trips, average waiting time across the week, and average waiting time Friday and Saturday nights.

**Figure 3.2 Change in outcomes under different scenarios**



### 3.3.2 The number of new licences to be recommended for 2014/15

The key recommendation to be made as part of our review is the number of new annual licences to be released for 2014/15. We will consider how to translate the aggregate number of licences modelled for release over 4 years to an annual recommendation. Whichever scenario is chosen, the pattern of releases could follow one of three options, as discussed below.

IPART seeks comments on the following

- 3 How should we translate the aggregate number of licences modelled in the fare and licence scenarios to a recommendation for 2014/15?

#### Option 1: Assume equal tranches

Table 3.1 illustrated the number of unrestricted licences that would be released each year if the modelled aggregate number were to be released in 4 equal tranches.

During our last licence review, we found that a minimum of 140 unrestricted licences should be released each year to keep up with the projected growth in demand from external sources.<sup>22</sup> This was based on an assumption that fares stayed the same in nominal terms (that is, the same fare assumption as in 'Scenario 2' in Table 3.1). Under Scenarios 3 and 4 in Table 3.1, the annual

<sup>22</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 3.

number of licences is fewer than the 140 we noted last year because of fares are falling.

Releasing one quarter of the aggregate number each year has the advantage of regular, consistent annual releases.

#### Option 2: Release more licences in 2014/15 and fewer in subsequent years

At one extreme, this option could involve releasing all the modelled growth licences in 2014/15. This approach has the advantage of concentrating most of the changes to taxi numbers in one go, and then allowing the market to come to equilibrium without making further changes while the industry is still in transition. The disadvantage is that the initial 'shock' to the industry is greater and could increase short-term adjustment problems.

#### Option 3: Release fewer licences in 2014/15 and more in subsequent years

At the other extreme, this option could involve releasing no growth licences (ie, before allowance for replacement, WAT licences and attrition) in the first year. We are unlikely to recommend this, as it is counter to the objective of matching supply of taxis to demand, which we have estimated as increasing by 2.5% per year from external sources. This approach has the advantage of allowing time to assess taxi industry response to the additional licences released in 2013/14. The disadvantage is that it contemplates a larger one-off change to licence numbers at some stage in the future that may increase short-term adjustment problems when it occurs.

### 3.3.3 The mix of unrestricted and peak availability licences (PALs)

Under our terms of reference, we can make recommendations on which class of licence should be released.

Ideally, licences would all be unrestricted, to allow the market to decide where and when to operate cabs. However, as we noted in our 2013 licence review, PALs may help the taxi industry transition to a more flexible structure with a range of business models and operating patterns. We recommended that a mix of unrestricted and PAL growth licences be released to provide a balance between the benefits of each.

We note that all growth licences were released as PALs in 2013/14. The additional 280 PALs<sup>23</sup> tendered during 2013/14 could double the proportion of PALs in the Sydney taxi fleet from around 5% to around 10% (although we expect attrition will mean that the increase is somewhat less than this).

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<sup>23</sup> TfNSW, 2013/14 *Sydney Annual Taxi Licence Determination*, 27 March 2013, <http://www.transport.nsw.gov.au/sites/default/files/b2b/taxireform/sydney-taxi-licence-determination.pdf>.

We will again consider whether any growth licences should be released as PALs for 2014/15.

### The benefits of releasing growth licences as unrestricted licences

Unrestricted licences allow taxi operators to make their own decisions about when to put taxis on the road to meet demand and their own revenue requirements.

Unrestricted licences are also the best way of meeting growth in demand for taxis where the size of the market is increasing uniformly across the week.

In a taxi market where costs are more closely aligned with the economic costs of operating a taxi (that is, fixed costs such as licence lease costs are lower), unrestricted licences could operate across a range of business models such that some are single-shifted and some double-shifted, depending on the operator's preference.

Releasing more unrestricted taxis would also give more operators that are leasing a licence the opportunity to bid for a cheaper unrestricted licence through the annual tender process. This should help lease prices to adjust faster than if most of the licences are PALs.

### The benefits of releasing some growth licences as PALs

As noted above, PALs may help the taxi industry transition to a more flexible structure with a range of operating patterns and business models. All the benefits described in this section are transitional, and in a market with lower fixed costs associated with unrestricted licences, there would be no need for PALs.

#### **PALs have different operating patterns to unrestricted taxis**

PALs can only be operated between 12 noon and 5 am, and are typically driven for a single shift (12 out of the possible 17 hours that a PAL may be on the road). This means that many of these taxis are on the road at 3 pm and 3 am changeover times, which helps address the shortage of taxis on the road at these times.

#### **PALs can also help improve the alignment between supply of taxis and demand for taxis.**

The supply of and demand for taxis are not currently well aligned. The supply of taxis on the road is relatively fixed despite demand varying markedly during the week, as the taxis incur large costs such as licence lease costs and insurance whether they are on the road or not, so operators see it as better to have them on the road as much as possible.

Having some single-shifted taxis allows the supply of taxis to better meet the demand throughout the week. One direct benefit of this is in waiting times on a Friday and Saturday night, which is when passengers experience the most trouble and longest waiting times to get a cab.<sup>24</sup>

However, single-shifted cabs are only viable with substantially lower fixed costs. The fixed licence lease costs for unrestricted licences will not reduce enough in the short term because of the need to avoid unreasonable impacts on existing licence owners.

In the interim, releasing PALs should allow more taxis to operate a viable business as a single-shifted cab. This is because the fixed costs for PALs are around 20% lower than for unrestricted licences, including a lower licence cost reflecting their reduced opportunity to generate revenue (in practice they operate up to 7 shifts instead of 14).<sup>25</sup>

This provides a better match of supply and demand while we transition to lower unrestricted licence values. It also gives drivers and operators the opportunity to run their own taxi business without arranging other people to drive for them.

IPART seeks comments on the following

- 4 Should some of the growth annual licences be released as peak availability licences (PALs)? If so, what proportion should be PALs?

### 3.3.4 Why we will not calculate Taxi Cost Indices (TCIs) any longer

We will no longer calculate TCIs, however we will continue to track LPG prices. We do not consider that fares need to increase as costs increase, because fares are currently considerably above efficient costs and need to be reduced to achieve a more efficient market. We will continue to track licence lease prices as a measure of this inefficiency.

We still need to forecast any change to real costs (over and above inflation) as an input to the taxi industry model. However we do not consider that the urban TCI is a sufficiently accurate measure of the change in costs to be used as a forecast in the model. In particular:

- ▼ the TCI includes licence lease costs, when licence leases are actually a residual or profit, as discussed in Section 2.2
- ▼ we do not have good information about the change in labour costs from year to year.

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<sup>24</sup> Taverner Research, *Survey of taxi use in Sydney*, November 2012, p 29.

<sup>25</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, pp 51-52.

Labour costs account for around 50% of the costs of providing taxi services. The very low level of current driver earnings suggests that it is unlikely that they have increased by as much as WPI or even CPI in recent years (both of which we have used to estimate change in driver labour costs in the TCIs in the past). This means that it is likely that the TCI has overstated the change in costs of providing taxi services, and using it in the model as a forecast would distort the expected outcomes.

Instead, we propose to use CPI as the forecast change in costs in the model. This is discussed in Chapter 4 in more detail.

### **3.3.5 Adjusting fares for significant changes to LPG costs**

We will continue to track LPG prices, as fluctuations in the price of LPG can have a significant effect on the cash flow of drivers in the short term. We propose to adjust fare changes for each of our options if LPG has changed (up or down) by more than 20% in the previous year, and will continue to apply a mid-year LPG review and recommend a mid-year fare change if LPG has changed by more than 20% since fares were last recommended.

We will use the weighting of LPG from the 2013 fare review, 11%, to calculate the required adjustment. So, for example, if LPG costs had risen by 25% since the last review, we would adjust the proposed fare change by 25% of 11%, which is 2.75%. So, if the proposed fare change was -1%, we would adjust the 1% nominal decrease upwards by 2.75%, giving a 1.75% nominal increase instead.

We will apply a similar process to conduct a mid-year review of LPG prices.

IPART seeks comments on the following

- 5 Do you support our proposal to adjust recommended fares for the change in LPG prices?

## 4 The Sydney Taxi Industry Model

As with our 2013 review, we will use the Sydney taxi industry model to assess the outcomes of the fare and licence scenarios. We are seeking stakeholder feedback on some of the input forecasts in the model, as set out in this chapter.

### 4.1 How the model works

The taxi industry model shows what happens to taxi trips taken, taxi occupancy rates, waiting times for taxis and annual taxi licence costs if taxi numbers, fares or the costs of providing taxi services change.

The model is a real equilibrium model, which means it shows what the taxi market will look like once it has fully adjusted to a change (such as increasing the number of licences). The taxi industry model does not show what the impacts will be as the market works through the changes, nor can it predict how long it will take to transition to the forecast outcomes.

The model is constructed using data collected by TfNSW from the taxi industry, surveys, a sample of taxi meter data and a taxi network. The model also contains some input assumptions, based on reasonable estimates for items for which we do not have specific data, and some input forecasts, which are necessary to predict interactions in the industry in the future.

### 4.2 Input forecast: external sources of demand for taxi services

Growth in population, household and business income, economic activity, and tourism are all likely to increase demand for taxis in Sydney. In our 2013 review, we used the following indicators to estimate the changes in these drivers of demand:

- ▼ population growth in Sydney
- ▼ state final demand – as an indicator of general economic conditions, capturing income growth from local households and businesses
- ▼ airport passenger numbers – as an indicator of tourist/business activity.

**Table 4.1 Change in external sources of demand**

	2008	2009	2010	2011	2012	AAGR <sup>e</sup>
Population growth <sup>a</sup>						1.6% <sup>d</sup>
State final demand <sup>b</sup>	4.7%	-1.9%	4.0%	2.4%	3.4%	2.5%
Airport passenger numbers <sup>c</sup>	5.7%	-1.1%	6.5%	4.3%	0.1%	3.1%

<sup>a</sup> Actual population growth is not published annually.

<sup>b</sup> June quarter figures reported. Percentages are calculated as June quarter for the relevant year on June quarter for the previous year.

<sup>c</sup> Figures are for financial year to June of the relevant year.

<sup>d</sup> Average annual growth rate from 2006-2011 published by ABS.

<sup>e</sup> Average Annual Growth Rate.

**Source:** State final demand - 5206.0 Australian National Accounts: National Income, Expenditure and Product - Table 21. State Final Demand, Summary Components by State: Chain volume measures (Seasonally adjusted). Population growth - ABS, 31010DO001\_201203 Australian Demographic Statistics, Mar 2012, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0>, Airport passenger numbers - Department of Infrastructure and Transport, Bureau of Transport, Infrastructure and Regional Economics, *Air passenger movements through capital and non-capital city airports to 2030-31*, Report 133, November 2012, p 25.

Given these trends, we considered that demand for taxi services due to external factors is 2.5% over the medium term.

Having extensively reviewed these sources of data in the last year to produce a mid-term forecast, we propose to retain this forecast in the model for this review.

IPART seeks comments on the following

- 6 Is there any evidence that the medium term forecast of demand should be revised from 2.5% over the medium term?

### 4.3 Input forecast: costs

The costs of operating taxi services are key inputs into the taxi industry model because the decision of a taxi operator to put a taxi on the road for a shift depends on the revenue available and the costs incurred. The source of the costs in the model is the taxi driver and operator survey that the CIE undertook in late 2011.<sup>26</sup> They are set out in Table 4.2.

The licence lease cost is not treated as a cost in the model because it is equal to whatever is left over after the other costs are paid – it is the residual or profit.

<sup>26</sup> The CIE, *Reweighting of the taxi cost index*, April 2012. The base case in the model is the Sydney taxi industry during 2012/13. To estimate the 2012/13 costs for the base case, the CIE inflated the measured 2011/12 costs by the urban TCI outcome from our 2012 fare review, 3.7%, as the best available estimate of overall changes to taxi costs between 2011/12 and 2012/13.

**Table 4.2 Estimated cost structure for standard taxis in urban areas (ex GST, \$2011/12)**

Cost item	Cost (\$ per taxi per year)	Costs as a proportion of all costs
Driver labour	62,936 <sup>a</sup>	51%
Fuel	14,615	12%
Cleaning	3,233 <sup>b</sup>	3%
Operator labour	9,223	7%
Maintenance costs	7,562	6%
Insurance	13,163	11%
Vehicle lease payments	5,805	5%
Network fees	7,231	6%
<b>Total annual costs</b>	<b>123,767</b>	<b>100%<sup>c</sup></b>

<sup>a</sup> In the model, this annual figure for driver labour is converted to an hourly rate of \$10 per hour for weekday shifts and \$12 per hour for weekend shifts (Friday night through to Sunday night), reflecting the survey data.

<sup>b</sup> In the model, this annual figure for cleaning is converted to \$11 per night shift, reflecting the basis on which cleaning costs are incurred.

<sup>c</sup> Numbers may not add due to rounding.

**Note:** The costs are for a standard taxi, and do not take into account the different cost structure for WATs.

**Source:** The CIE, *Reweighting of the taxi cost index*, April 2012.

A forecast change in costs can also be entered into the model.

We intend to repeat our taxi driver and operator cost survey in 2015 or 2016 to reweight and rebase our cost information for the taxi industry model. This will allow us to measure the change in costs from the 2011 taxi cost survey data, to inform our forecasts after this time.

In the meantime, we are proposing to use CPI as a forecast estimate of changes to costs each year (that is, no real change to costs). However, we propose to adjust this cost estimate if there is a sustained step change in the cost structure of the taxi industry. For example, if the Industrial Relations Commission were to change maximum pay-ins in such a way as to significantly increase driver earnings, this would imply a real increase (above CPI) in the costs of operating taxi services.<sup>27</sup>

Using CPI as the forecast change in costs does not mean that driver and operator earnings (which are a cost of providing taxi services) cannot rise in real terms: an increase in industry productivity through lowering inefficient costs or higher occupancy rates would produce more revenue that could increase real driver and operator earnings.

IPART seeks comments on the following

- Is CPI an appropriate forecast for the change to the costs of providing taxi services?

<sup>27</sup> ATDA submission, 31 May 2013, p 2.

#### 4.4 Input forecast: inflation

The model is a 'real' model, which means that the relationships between the elements of the model are measured after the effects of inflation have been taken into account. So, for example, the 25% reduction in licence lease costs over 5 years is a 'real' reduction and would be a smaller reduction when measured in nominal terms, more in the order of a 13% reduction.

However, fares are entered into the model at nominal levels, so we need to forecast inflation to determine the impact that fares will have on revenue, licence lease costs, demand and so on.

For last year's licence and fare reviews, we used 2.5% as our forecast CPI, mid-range in the Reserve Bank's target range for inflation. For this review we are seeking stakeholder views on what our estimate of inflation should be.

## 5 | Fares in other parts of NSW

Fare and licensing arrangements in urban areas other than Sydney and in country areas are different from Sydney.

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

In country areas, licensing arrangements were not affected by the 2009 amendments to the Passenger Transport Act that set up the annual licence release process for Sydney. Instead, ordinary or short-term licences can be purchased from TfNSW at market rates. A different fare schedule applies in the country.

Last year we recommended, and TfNSW accepted, that fares in urban areas other than Sydney should move in line with Sydney fares, and that a separate country fare schedule should be maintained for country areas. Country fares did not change from July 2013.

This chapter describes the context of licensing arrangements outside Sydney and discusses and seeks comment on our preliminary views that fares from July 2014:

- ▼ in urban areas other than Sydney should continue to move in line with fares in Sydney
- ▼ in country areas should remain frozen in nominal terms.

## 5.1 Licence arrangements outside Sydney

The licensing amendments to the Passenger Transport Act introduced in 2009 (that is, an annual determination of additional annual licences to be released from July each year) currently apply only in Sydney. However, TfNSW has stated that they could be rolled out across the state in future:

The new licensing arrangements have commenced initially in the Sydney Metropolitan Transport District. Further consideration will be given to introduction to Newcastle, Wollongong, the Central Coast and country areas.<sup>28</sup>

Outside Sydney, new ordinary or short-term licences can be purchased from TfNSW at market rates, or existing ordinary and perpetual licences can be bought (transferred) on the secondary market. In our last licence review, we noted that licence transfer values differ significantly across country NSW. For the first 7 months of 2013, the lowest transfer value in the country was less than \$5,000 and the highest was \$205,000.<sup>29</sup>

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

In our last licence review, we recommended that reforms should be made to licensing arrangements outside Sydney.

## 5.2 Approach to setting fares outside Sydney

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

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

These facts tend to suggest that we should continue to maintain a single fare schedule for urban taxis and a different one for country taxis.

<sup>28</sup> In the meantime, new 'ordinary' and short-term licences for taxis can still be issued. Transport for NSW website <<http://www.transport.nsw.gov.au/content/background>>.

<sup>29</sup> Information provided by TfNSW on 18 September 2013.

### 5.2.1 Cost and operational differences

Country taxis operate fewer shifts than urban taxis and report higher numbers of jobs per shift; but there is more variation across country responses than there is in urban areas.<sup>30</sup> In country areas, a greater proportion of jobs are booked through taxi networks than in either Sydney or other urban areas (Table 5.1).

**Table 5.1 Radio bookings (% of jobs) – CIE driver survey**

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

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

On average, costs in country areas are lower than in urban areas. However, there is significant variation in costs between different country towns.

### 5.2.2 Fares in other urban areas

For urban areas other than Sydney, we consider that there is little benefit in establishing a separate approach to fare changes. At the end of the process, fares are unlikely to be very different from those applying in Sydney.

We consider that fares need to be reduced in Sydney because they are too high relative to the efficient cost of providing taxi services and that an adjustment should be made to fares to remove some of the uneconomic costs (economic rents) currently included. Licence costs in other urban areas, though not as high as Sydney, are also significant. Urban areas outside of Sydney (Wollongong and Newcastle) have licences that trade for around \$200,000 to \$250,000.<sup>31</sup> As a result, we are also of the view that there is scope to reduce fares in other urban areas.

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

Our preliminary view is that fares in urban areas other than Sydney should continue to be the same as Sydney fares and also continue to have scope for reduction in real terms from July 2014.

<sup>30</sup> The CIE, *Reweighting the Taxi Cost Index, Final report*, April 2012, p 44.

<sup>31</sup> Information provided by TfNSW on 18 September 2013.

IPART seeks comments on the following

- 8 What are your views on extending licence reforms to urban areas outside Sydney?
- 9 What are your views on maintaining a single fare schedule for all urban areas including Sydney?

### 5.2.3 Country NSW

We recommended, and TfNSW accepted, that fares for country areas should not change from July 2013. The current fare schedule is shown in Table 5.2.

**Table 5.2 Country taxi fare schedule 2013/14**

Fare component	Price
Hiring charge <sup>a</sup>	\$4.00
Standard distance rate (\$/km when the vehicle is travelling more than 26 km/h)	\$2.20 for the first 12 km, \$3.05 after 12 km
Night distance rate (\$/km when the vehicle is travelling more than 26 km/h, 10 pm – 6 am) (20% surcharge)	\$2.64 for the first 12 km, \$3.66 after 12 km
Waiting time (\$/hour when vehicle slower than 26km/hour)	\$56.24 (93.7c per minute)
Booking fee (booked fares only)	\$1.10
Maxi taxi surcharge (on total fare) <sup>b</sup>	50%

<sup>a</sup> The hiring charge was previously called the flag fall.

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

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

We made the recommendation recognising that:

- ▼ the application of the TCI would have led to inefficient fares in many country towns and potentially contributed to high licence values
- ▼ differences in licence values across NSW are such that it may not be appropriate to apply a fare reduction across the board in country areas
- ▼ it is not practical to determine maximum fares for each area separately (it would be very costly and we do not have access to the required information)
- ▼ an increase in fares may worsen the situation in regions with already high licence values
- ▼ we received 1 submission on our draft report that commented on the level of country fares – that submission asked that no fare change be applied this year, and for ‘at least another 2 years’.<sup>32</sup>

<sup>32</sup> E O’Malley submission to the 2013 fare review Draft Report, 7 May 2013.

We also recommended that TfNSW consider extending licensing reforms to country areas, prioritising areas with high licence transfer values.

Our preliminary view is that evidence of rents in fares still exists, and that country fares should be frozen at current nominal levels for the year commencing July 2014.

IPART seeks comments on the following

- 10 What are your views on extending licence reforms to country areas?
- 11 What approach should we take to fares in country areas from July 2014?

## 6 | Fare structure

After we decide on the fare level, we will then consider if any changes need to be made to the fare structure.

Fare structure refers to the different components that make up the overall fare charged to a passenger. It determines how the fare will vary by distance travelled, the level of congestion on the road, by time of day/time of week and by how the taxi is caught (whether booked or hailed). Even if the overall level of fares stays the same, an increase in one fare component and a decrease in another component will affect the price of a particular journey.

In June of this year, we made a number of recommendations to change the existing fare structure in urban areas. In August, TfNSW announced that it would increase the hiring charge to \$6.00 on Friday and Saturday nights but would keep all other fare components at their existing levels.

This chapter discusses some of the changes to urban fares that we recommended in our last review and the reasons for them. This year we want to know if stakeholders support further changes to individual fare components, and which, if any, changes they consider to be the most important.

## 6.1 Current fare structure

Table 6.1 shows the current fare structure.

**Table 6.1 Fare schedule 2013/14 (commenced 27 September 2013)**

Fare component	Price
Hiring charge <sup>a</sup> (all times except for Friday and Saturday night 10 pm – 6 am)	\$3.50
Peak hiring charge (Friday and Saturday nights, and public holidays, 10 pm – 6am)	\$6.00
Standard distance rate (\$/km when the vehicle is travelling more than 26 km/h)	\$2.14
Night distance rate (\$/km when the vehicle is travelling more than 26 km/h, 10 pm – 6 am) (20% surcharge)	\$2.57
Waiting time (\$/hour when vehicle slower than 26km/hour)	\$55.30 (92.1 c/min)
Booking fee (booked fares only)	\$2.40
Maxi taxi surcharge (on total fare) <sup>b</sup>	50%

<sup>a</sup> The hiring charge was previously called the flag fall,

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

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

## 6.2 Evidence that the current fare structure could be improved

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

We have some evidence to suggest that the current fare structure is not efficient, including that it:

- ▼ may be too expensive in quiet times like Sunday to Thursday nights
- ▼ may be too cheap for short journeys
- ▼ charges passengers travelling north across Sydney Harbour a 'return' toll that is not incurred for their journey, at odds with the current approach for all other toll roads.

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

- ▼ taxis would not be encouraged onto the road when demand for them is low
- ▼ drivers would be indifferent between different types of trips (eg, over the course of a shift, drivers would earn broadly the same fare revenue by doing a larger number of short trips or fewer long trips)

- ▼ there is no incentive for drivers to take a slower route (either by sitting in congestion, or travelling a longer than necessary distance).

But we do not have enough information to do this. Nevertheless, we do have recent data about the demand and availability for taxis that suggests there is room for improvement and that shows the direction of change required to move current fares towards a more efficient fare structure, including:

- ▼ data from a passenger survey we undertook last year (and propose to update this year) asking passengers about waiting times for taxis at different times of the day and week<sup>33</sup>
- ▼ data from the CIE taxi cost survey on taxi earnings by shift, which provides information on taxi use patterns.<sup>34</sup>

It is possible to change the structure of fares without changing the overall level of fares by making 2 or more changes that offset each other (See Box 6.1). If stakeholders support further changes to any individual fare components, as far as possible we would aim to make sure that we also recommend other changes that would keep the overall change in fares in line with our recommendations.

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<sup>33</sup> Taverner Research, *Survey of Taxi Use in Sydney*, November 2012.

<sup>34</sup> The CIE, *Reweighting the Taxi Cost Index*, April 2012.

### Box 6.1 Changing fare structure without changing the overall level of fares

For a given overall fare level, there are a large number of fare structures that could apply. It is possible to change the structure of fares without changing the overall level of fares by making 2 or more changes that offset each other.

Table 6.2 includes examples of alternative fare structures at the current fare levels that give an indication of how different fare components may be traded off against each other while keeping fares at the same level on average:

- ▼ example 1 has a higher hiring charge, and a higher peak hiring charge, which is offset by removing the 20% night distance surcharge on all nights of the week
- ▼ example 2 has the highest hiring charge, which is offset by lower distance and waiting rates.

These examples demonstrate the kinds of changes in fare structure that are possible, even if the overall level of fares does not change. There are many more examples of different fare structures.

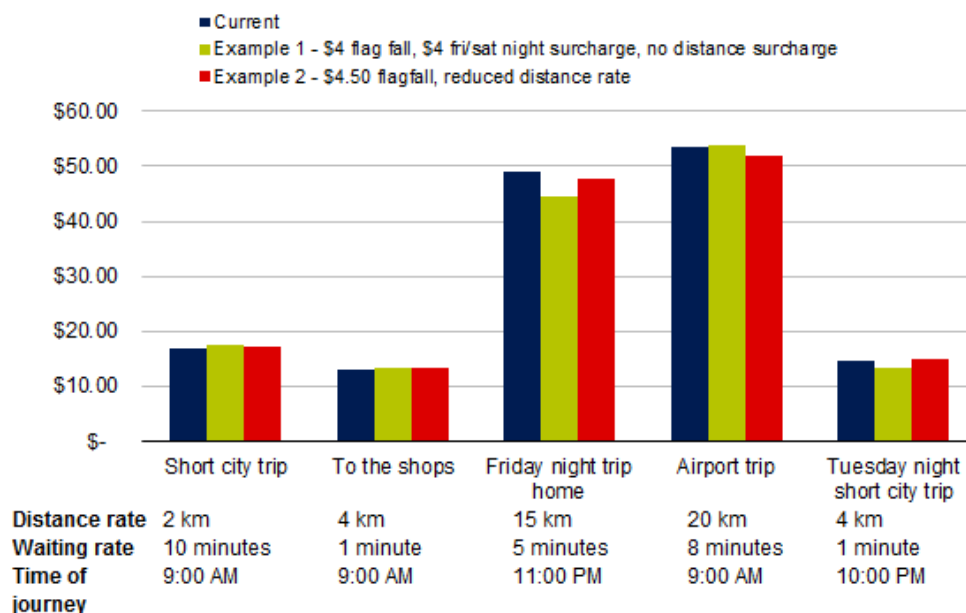
**Table 6.2 Example fare structures**

	Current fare structure	Example 1	Example 2
<b>Hiring charge</b>			
Hiring charge – all trips (\$/trip)	\$3.50	\$4.00	\$4.50
Peak hiring charge (Friday, Saturday, Public holidays, 10 pm – 6am) (\$/trip)	\$6.00	\$8.00	\$7.00
<b>Variable components</b>			
Distance charge – 6 am – 10 pm daily (\$/km)	\$2.14	\$2.13	\$2.02
Distance charge – 10pm-6am			
Night surcharge rate	20%	0%	20%
Night distance charge (\$/km)	\$2.57	\$2.13	\$2.42
Waiting rate (\$/hour when vehicle slower than threshold waiting time)	\$55.30	\$55.20	\$52.50
Threshold waiting speed (km/hr) <sup>a</sup>	26	26	26
<b>Booking fee</b>			
Booking fee (\$/booking)	\$2.40	\$2.40	\$2.40

<sup>a</sup> This is the speed below which the time based waiting time rate is charged instead of the per km distance rate.

Source: IPART.

While overall, changes in fare components may not change the level of fares, the amount passengers would pay differs for different trips. The impact of each example set out above on a sample of different kinds of trips is shown in Figure 6.1 (excludes booking fees). For these particular journeys, some fares fall by up to 9%, and for other journeys the fare rises by up to 4%.

**Figure 6.1** Impact of fare structure changes on different trips

**Note:** Comparison excludes airport charges and booking fees.

**Data source:** IPART calculations.

### 6.3 Level of fares on Sunday to Thursday nights

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

From Sunday to Thursday, there is some evidence that there are too many taxis on the road relative to the level of demand. The Taverner survey found that waiting times are lowest on Monday to Thursday after 10 pm, with more than 70% of passengers able to get a taxi within 5 minutes.<sup>35</sup> The survey results suggest that the night surcharge may not be needed at all on these nights, or may be needed at a lower rate or for fewer hours.

<sup>35</sup> Taverner Research, *Survey of Taxi Use in Sydney*, November 2012, p 28, [http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review\\_of\\_Sydney\\_Taxi\\_Licences\\_to\\_be\\_released\\_from\\_1\\_July\\_2013/10\\_Dec\\_2012\\_-\\_Consultant\\_Report/Consultant\\_Report\\_-\\_Taverner\\_Survey\\_Report\\_-\\_Taxi\\_Use\\_Sydney\\_-\\_November\\_2012](http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review_of_Sydney_Taxi_Licences_to_be_released_from_1_July_2013/10_Dec_2012_-_Consultant_Report/Consultant_Report_-_Taverner_Survey_Report_-_Taxi_Use_Sydney_-_November_2012).

At our last fare review, we noted that most stakeholders supported retaining the existing night surcharge on all nights of the week, although some supported reducing the hours that it applies.<sup>36</sup> As a result, we recommended that the hours for which the surcharge applies be reduced from 10 pm – 6 am to midnight – 5 am on every night of the week coupled with an additional peak surcharge on Friday and Saturday nights (which we recommended apply from 5 pm – 5 am). We considered that this would better match the supply of taxis with the lower level of demand on Sunday to Thursday evenings, making the taxi industry more customer focused.

TfNSW did not accept our recommendations. However, we remain of the view that there is evidence to support reducing or removing the 20% night surcharge on quiet nights (Sunday to Thursday) in order to make taxis at these times more affordable for passengers, encourage more people to travel by taxi and discourage too many taxis from being on the road at these times.

IPART seeks comments on the following

- 12 Are there too many taxis on the road on Sunday to Thursday nights? Should the 20% distance surcharge on these nights be reduced or removed?

#### 6.4 Fares for short distances compared with long distances

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

For several years we have received anecdotal evidence from many stakeholders that some customers have trouble getting taxis for short journeys when they book them.<sup>37,38</sup> The survey undertaken by Taverner showed that overall the waiting times for taxi bookings were lower for short distance journeys compared to long distance journeys, but it also showed that passengers travelling less than 10 km were more likely to wait longer than 40 minutes than passengers travelling more than 10 km.<sup>39</sup>

<sup>36</sup> IPART, 2013 *Review of taxi fares in NSW - Maximum fares from July 2013 - Final Report and Recommendations*, June 2013, p 49.

<sup>37</sup> Drivers cannot refuse short journeys when the journey starts at a rank or is hailed. *Passenger Transport Regulation 2007*, s146.

<sup>38</sup> IPART, 2013 *Review of taxi fares in NSW - Maximum fares from July 2013 - Final Report and Recommendations*, June 2013, p 36.

<sup>39</sup> IPART, 2013 *Review of taxi fares in NSW - Maximum fares from July 2013 Final Report and Recommendations*, June 2013, p 39 and Appendix C.

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

- ...short fares are priced far too low to be viable in a host of circumstances, though perhaps not all. (Only when a passenger walks up to a ranked cab is the short fare price close to reasonable and then only if the drop point is very close to the next pickup point, ie closer than returning to the same rank).<sup>40</sup>
- Currently, drivers do not like short fares, so the balance is clearly wrong. The flag fall is too small, so it needs to be increased. Ideally, the flag fall could be just increased and have no effect on the distance rate. However, if IPART refuses to do this, then the second best option is to increase the flag fall at the expense of the increase in the distance rate measured against the average fare.<sup>41</sup>

The blue line in Figure 6.2 shows that (after fuel costs, and assuming an average 31 minutes between fares) a taxi will currently earn:

- ▼ 31 cents per minute for a 4 km fare, compared to
- ▼ 69 cents per minute for a 25 km fare.<sup>42</sup>

For drivers to be indifferent between journeys of different lengths the line on the chart should be a straight horizontal line.

At our last fare review we recommended an increase in the hiring charge (previously called the 'flag fall') and a reduction in the distance charge in order to bring the earnings for different length trips, and therefore, drivers' incentives, closer together (see Figure 6.2).<sup>43</sup> TfNSW did not accept this recommendation but we remain of the view that there is enough evidence to suggest some level of rebalancing between short and long distance fares would be beneficial.

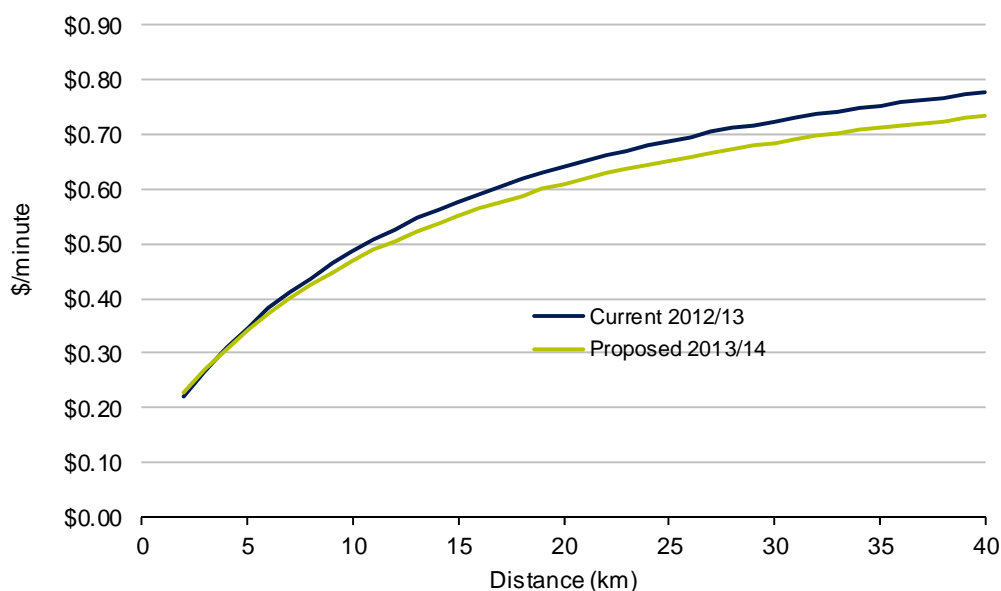
<sup>40</sup> E Mollenhauer submission to 2012 taxi fare review Issues Paper, 3 February 2012, p 2.

<sup>41</sup> T Bradley submission to 2013 taxi fare review Draft Report, 17 May 2013, pp 4-5.

<sup>42</sup> The profit per minute is significantly higher and not as pronounced for different distances if a taxi can get their next fare more quickly. For example, currently, if a taxi can get their next fare in 10 minutes, it will earn \$0.74 for a 4 km fare, and \$0.93 for a 25 km fare. IPART calculations.

<sup>43</sup> IPART, *2012 Review of Taxi Fares in NSW - Final Report and Recommendations*, June 2012, pp 36-41.

**Figure 6.2** Taxi earnings per minute by distance for booked journeys (after fuel costs) – day fares



**Note:** Based on the average of 31 minutes between journeys. CIE industry survey.

**Data source:** IPART calculation.

The Taverner survey suggests that making longer journeys cheaper may encourage greater use of taxis for longer distance journeys, as cost was a key reason people did not catch a taxi after considering it, and the proportion of people reporting this was higher for longer journeys. The Taverner survey also found that 14% of respondents had used a hire car (with a driver) in the last 6 months, and 32% said that one of the reasons why they used hire cars instead of taxis is because they were cheaper.<sup>44</sup>

Last year a number of stakeholders argued that an increase in the booking fee would be a better way of increasing the incentive for drivers to attend short booked journeys.<sup>45</sup> We agree that this would improve the incentive for drivers to pick up booked fares, all else being equal. However, as we noted in last year's review, increasing the cost of the booking fee is likely to worsen the problem of passenger 'no shows' as a higher charge gives passengers a greater incentive to dishonour the booking (for example, by flagging down a passing taxi).<sup>46</sup>

<sup>44</sup> Taverner survey data.

<sup>45</sup> Currently fares include a regulated booking fee (\$2.40) that is charged for trips booked with a network by phone or internet. IPART has previously used an estimate of 20% of trips being booked rather than hailed or started from a rank, and the average response from drivers in the CIE survey about proportion of journeys booked was 20%. 29% of respondents to the Taverner survey booked their trip through a network, while 30% of respondents to the Bureau of Transport's 2011/12 Household Travel Survey 5-years-pooled dataset using unlinked trips booked a their trip through a network.

<sup>46</sup> IPART, *2012 Review of Taxi Fares in NSW - Final Report and Recommendations*, June 2012, p 54.

Passenger 'no shows' have been raised with us as a significant contributor to drivers' reluctance to attend bookings made through a traditional taxi network.

It is our view that when there is effective competition in booking services, booking fees should be deregulated. This is a decision for the NSW Government and we note that TfNSW is currently reviewing a number of aspects of the current passenger transport legislation, including taxi network regulation and booking arrangements.

IPART seeks comments on the following

- 13 Should the hiring charge be increased in combination with a reduction in the distance (per km) and waiting time (per hour) charges?

## 6.5 Sydney Harbour return toll

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

In our 2013 final report, we recommended removing the right to charge northbound passengers the southbound toll for a Harbour crossing. TfNSW decided to defer consideration of this recommendation and noted that further analysis will be conducted as part of the 2013/14 fare review process to assess the impacts of such a change.

Many stakeholders did not support removing the ability to charge the northbound toll because they were concerned that drivers would have to bear the costs of the toll when they made south-bound Harbour crossings without a passenger and this would impact on driver earnings.<sup>47</sup> Michael Hatrick submitted that this could be approximately \$70 a week for a driver.<sup>48</sup>

We have some data that we can use to estimate the impact of our recommendations, which suggests that the impact may be a lot less than this. In 2008, a Sydney taxi driver provided us with data from 368 shifts (all shifts were night shifts and all 12 hours in length). During that period, the driver crossed the Harbour southbound 93 times, approximately once every 4 shifts. He had a passenger for around 40% of these crossings, so received additional revenue above what it cost in tolls. For the remaining 60% of trips he received no

<sup>47</sup> IPART, *2013 Review of taxi fares in NSW - Maximum fares from July 2013 – Final Report and Recommendations*, June 2013, p 55.

<sup>48</sup> Assuming a driver works 5 shifts per week. M Hatrick submission to 2013 taxi fare review Draft Report, 27 May 2013, p 3.

financial advantage. The toll varies between \$2.50 and \$4.00 depending on the time of day.<sup>49</sup> For this driver, the revenue impact of removing the right to charge northbound passengers a return toll (including loss of 'above cost' fare revenue and additional toll costs incurred in crossing southbound with no passenger) would be between 63 cents and \$1 per shift.

In its survey of the taxi industry, the CIE found that a standard taxi worked 552 shifts per year. Therefore, we estimate taxi revenues would decrease by less than \$552 per year. As a comparison, we expect the peak hiring charge on Friday and Saturday nights and public holidays that was recently introduced by TfNSW to increase revenue to the industry by 1.4% (around \$1,700 per year).<sup>50</sup> Based on the data we do have, the introduction of a peak hiring charge would more than compensate drivers for any loss of revenue from removing the harbour bridge return toll.

IPART seeks comments on the following

- 14 What additional data would help us quantify the reduction in revenue from removing the ability to charge a 'return' toll on Northbound Sydney Harbour crossings?

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<sup>49</sup> The Harbour toll depends on the time of day: currently the toll is \$2.50 at night, \$3 during the day, and \$4 during peak hour.

<sup>50</sup> IPART calculations.

## 7 Making an allowance for replacement licences and wheelchair accessible taxi (WAT) licences

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

Our recommendations for new annual licences are made on the basis that these licences will be additional to the existing stock of licences, so we need to make an adjustment to account for the licences that we expect to be handed back or not renewed next year.

This adjustment is made in advance on the basis of our expectations, so actual numbers of relinquishments or non-renewals may differ. In order to maintain the existing stock of licences at the same level, we have to make a further adjustment to account for any difference between last year's allowance and the actual number of relinquishments and non-renewals since December 2012.

In addition, as WAT licences are available on demand from TfNSW and they compete for some of the same work as unrestricted licences, we need to release fewer annual taxi licences through the tender process to account for the WAT licences that we expect to be released. This number also needs to be adjusted to account for any differences between last year's allowance and the actual number of WAT licences released since December 2012.

This chapter considers how many additional unrestricted licences and PALs should be offered for tender in order to take these issues into account.

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

## 7.1 Additional licences that need to be released

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

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

### 7.1.1 Annual licences that we expect will no longer be operated

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

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

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

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

TfNSW has advised that 37 unrestricted licences and 14 PALs were relinquished or not renewed during the first 6 months of 2013.

IPART seeks comments on the following

- 15 How should we calculate the attrition allowance for unrestricted and PAL licences for 2014?

### 7.1.2 Adjustment to account for the difference between last year's attrition allowance and actual attrition experience

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

Now that we are in our second year of reviewing licence numbers, we also need to assess how our attrition allowance for 2013 compared to the experience in the market during 2013 and adjust the number of licences to be released accordingly. We propose simply to replace the net number more or less than our allowance.

As noted above, last year we made an adjustment for attrition during 2013 of 70 unrestricted and 30 PALs.<sup>51</sup> TfNSW has advised that 37 unrestricted licences and 14 PALs were relinquished or not renewed during the first 6 months of 2013. Assuming the totals for 2013 are simply double these numbers: 74 unrestricted licences and 28 PALs, we would recommend an adjustment of +4 unrestricted licences and -2 PALs.

### 7.1.3 Expected release of wheelchair accessible taxi licences and adjustment for 2013 experience

TfNSW issues WAT licences on application for \$1,000 per year<sup>52</sup> (in Sydney – outside Sydney WAT licences are free). Last year we made an adjustment to the modelled number of growth licences to account for WAT licences released during the year, as these are another source of taxis that can substitute for taxis with standard licences. We deducted 0.45 of a licence for each additional WAT, on the assumption that 90% of WAT jobs are standard jobs that could be performed by any taxi, and that a WAT only operates 50% of the time (because WAT licence conditions mean they are usually single-shifted rather than double-shifted).<sup>53</sup>

Last year we recommended subtracting 5 licences from our recommended number of new annual taxi licences to account for additional WAT licences which we expected to be released outside the tender process.<sup>54</sup> TfNSW accepted this recommendation.

<sup>51</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 1.

<sup>52</sup> TfNSW, *Taxis Background*, 28 March 2013, <http://www.transport.nsw.gov.au/content/background>

<sup>53</sup> This was based on PwC's approach in earlier annual taxi licence reviews. See, for example, *Annual taxi licence release 2012/13 - Final Report*, 15 March 2012, p 15.

<sup>54</sup> IPART, *Annual taxi licence release for Sydney 2013/14- Final Report*, February 2013, p 1.

TfNSW has advised that 7 WAT licences have been released since December 2012.

IPART seeks comments on the following

16 How should we calculate the allowance for WAT licences for 2014?

Similarly to the process described in 7.1.2 above, we will then make a further adjustment to the allowance to account for any difference between last year's allowance and the actual number of WAT licences released during 2013.

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

To date, every tender has resulted in annual licences with a higher average (mean) price than leases for perpetual licences available through taxi networks. This suggests that bidders for annual licences (which have a fixed annual renewal price which cannot be indexed) have been factoring in an expectation that lease prices would continue to rise. Once it becomes clear that the annual licence release process will continue to add new licences to the fleet each year, we expect bidding behaviour to change. We also expect that greater numbers of existing annual licence holders will bid in subsequent licence releases and obtain a licence at a lower annual cost than the one they already hold.

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

The tender information packages issued each year state:

Where a licence holder obtains a new licence under a subsequent tender process, RMS will make every reasonable effort to align expiry and commencement dates to allow for continuity of operation.<sup>55</sup>

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<sup>55</sup> See for example, *Annual Taxi Licence Tender 2013-14 Peak Availability Class Annual Taxi Licences for operation in the Metropolitan Transport District (Sydney) Request for Tender RMS.13.2749.0853*, 2013, p 6,  
<https://appln.transport.nsw.gov.au/mint/docs/RFT%2013.2749.0853%20Peak%20Availability%20Class.pdf>.

Several submissions to last year's licence review said that this 'churn' mechanism would be too costly, quoting \$4000 for operators to churn because of insurance being cancelled/reissued, new decals, radio changes and mismatched licence periods.<sup>56</sup> TfNSW estimated a cost imposed by Roads and Maritime Services (RMS) of around \$1,000, providing the operator is using the same vehicle, consisting of the requirement to obtain a blue slip (taxi roadworthiness certificate), and to deregister and register a vehicle.<sup>57</sup> However, RMS has subsequently advised that these requirements do not apply if the new licence is the same type (ie, unrestricted or PAL) as the old licence.

We are seeking feedback from stakeholders regarding financial and other costs of tendering for a new licence and then relinquishing an old one. What could be done to minimise any such costs? We are particularly interested in hearing of the experiences of operators who have successfully used the mechanism to gain a lower price for a licence.

IPART seeks comments on the following

- 17 What are the financial and other costs of tendering for a new licence and what could be done to minimise any such costs?

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<sup>56</sup> E Mollenhauer submission, 21 January 2013, p 1; T Bradley submission, 22 January 2013; ATDA submission, 23 January 2013, p 6.

<sup>57</sup> Information provided by Transport for NSW.

## 8 Process for releasing licences

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

Our preliminary view is that the process established and used for the past 4 years has been successful and effective and there is no need for change; however, we are interested in stakeholder feedback on the arrangements.

### 8.1 Tender process

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

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

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

The following sections discuss these issues in more detail.

#### 8.1.1 Pay as bid or pay lowest successful bid

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

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

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

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

### 8.1.2 Other tender process issues

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

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

However, we consider that it would be helpful for the market to be better informed about tender prices sooner. We recommended in our licence review final report that TfNSW should publish preliminary results of tenders as soon as possible. Given the electronic tender process, we consider that they should be able to do this within 2 weeks of tenders closing. Unfortunately, this recommendation was not reflected in the tender documentation for the 2013 licence tenders.

IPART seeks comments on the following

- 18 Is there any reason why TfNSW should adopt a different tender process?
- 19 Do you support earlier release of information from the tender process?

## 8.2 Should there be a reserve price for tenders?

To date there has not been a reserve price set for tenders. In our 2013 review we considered whether it might be necessary to introduce one in order to ensure that the cost of new licences does not result in the market price for leases of perpetual licences falling more than we expect it to. We concluded that a reserve price is not desirable. More detail of our reasons for this decision can be found in the final report of the 2013/14 licence review.<sup>58</sup>

IPART seeks comments on the following

20 Is there any new evidence suggesting a reserve price should be introduced?

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

When the 2009 licensing reforms were introduced into Parliament, the Government noted that the primary focus of the changes was on building a business based on delivering services to passengers. The Government wanted to provide opportunities for lessee operators and experienced drivers to take up a new licence and become their own boss.<sup>59</sup>

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

There was support in submissions last year for driver-only allocations and/or for drivers to have access to free or low cost licences.<sup>60</sup> However, even without a formal allocation, we expect that most tender bids for licences will come from drivers and operators who will use their licences to provide taxi services. Historically, most winning tenderers have been drivers in the open tenders as well as the driver-only tenders.

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

<sup>58</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, pp 76-77.

<sup>59</sup> Full Day Hansard Transcript (Legislative Assembly, 30 October 2009, Corrected Copy), p 19076, [http://www.parliament.nsw.gov.au/prod/parlment/hanstrans.nsf/V3ByKey/LA20091030/\\$File/541LA158.pdf](http://www.parliament.nsw.gov.au/prod/parlment/hanstrans.nsf/V3ByKey/LA20091030/$File/541LA158.pdf).

<sup>60</sup> ATDA submission, 2 November 2012, p 2; J Soothill submission, 29 October 2012, p 2; NSWTD submission, 9 November 2012, pp 2, 6; St George Cabs submission, 9 November 2012, p 8.

IPART seeks comments on the following

- 21 Is there any new evidence suggesting that licences should be reserved for drivers only and/or that the number of licences each person can bid for should be restricted?



## Appendices



## A Terms of reference – fare review

### INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992 TAXI INDUSTRY FARE REVIEW

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

In providing these services, IPART should consider:

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

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

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



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

Dated at Sydney... 11 October ...2012

## B Terms of reference – licence review

### **Independent Pricing and Regulatory Tribunal Act 1992**

#### **Terms of Arrangement – Annual Sydney Taxi Licence Review**

I, Barry O'Farrell, Premier - pursuant to section 9(2) of the *Independent Pricing and Regulatory Tribunal Act 1992*, approve the Independent Pricing and Regulatory Tribunal (IPART) entering into an arrangement with Transport for NSW (TfNSW) to review and make recommendations on the number of annual taxi licences (other than wheelchair accessible taxis) to be released in Sydney for the year commencing 1 July 2014.

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

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

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

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

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

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

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

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

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



The Hon Barry O'Farrell MP

Premier

Dated at Sydney 8 October 2013

