



Independent Pricing and Regulatory Tribunal

# **Review of Sydney taxi fares to apply and new annual taxi licences to be issued in Sydney**

From 1 July 2015

**Transport — Issues Paper**  
October 2014





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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 7 November 2014.**

We would prefer to receive them electronically via our online submission form <[www.ipart.nsw.gov.au/Home/Consumer\\_Information/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission)>.

You can also send comments or by mail to:

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We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

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



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# 1 Introduction

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

- ▼ maximum taxi fares to apply from July 2015 in all areas of NSW
- ▼ the number of new annual Sydney taxi licences (other than licences for wheelchair accessible taxis (WATs)<sup>1</sup>) to be released from July 2015.

This year we have split the reviews into two parts. This issues paper deals with maximum taxi fares for Sydney and the number of new annual Sydney taxi licences. A separate issues paper deals with maximum taxi fares for areas outside Sydney.<sup>2</sup>

This issues paper sets out information about the review of Sydney taxi fares and licences, the approach we will take and the process we will follow, and seeks input from stakeholders on some specific issues we have identified.

## 1.1 Purpose of the review

We have different terms of reference for reviewing fares and licences, 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.

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.

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<sup>1</sup> Licences for WATs will continue to be available on request at any time from Roads and Maritime Services.

<sup>2</sup> IPART, *Review of taxi fares outside Sydney to apply from July 2015 - Issues Paper*, October 2014.

### 1.1.1 Purpose of reviewing fares

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 2015, the third year we have been asked to do so.

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**

### **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 review of Sydney taxi fares and licences**

We propose that our approach to considering Sydney fares and annual Sydney taxi licences from July 2015 would be the same as the approach we took when we reviewed fares and licences to apply from July 2014.

In our view, most of the objectives of the terms of reference can be met by releasing more annual Sydney taxi licences and reducing fares. This would 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% real reduction<sup>4</sup> in unrestricted licence lease prices over five years (from 2012/13) was not unreasonable. We are proposing to recommend fares and licence numbers for 2015 in the context of the same longer-term impact – a 25% real reduction in unrestricted licence lease prices – but we may consider extending the period of time over which we expect that to occur.

We plan to use our model of the Sydney taxi industry (developed initially for the 2013 licence review). We are updating and rebasing the model with data for the 2014/15 year, to be obtained via a survey of taxi drivers and operators.

We will consult on fare and licence combinations and their modelled outcomes and will make a judgement about the best combination based on the mix of outcomes predicted by the model and feedback from stakeholders.

We will again consider whether some of the licences should be released as peak availability licences (PALs).

We propose to recommend replacement licences for those which have been surrendered or not renewed.

We propose not to recommend a longer-term path of licence releases and fare changes into the future but instead use a longer 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 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.

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<sup>4</sup> That is, after the effects of inflation have been taken into account. So, for example, an item that cost \$10 in 2010 and still costs \$10 in 2014 has had no change in its **nominal** price but has had a **real** decrease in value of approximately 10% once the impact of inflation has been taken into account.

We propose not to consider any changes to fare structure this year, but we will consider whether or not we still need to conduct an ongoing review of LPG prices outside the regular fare review schedule.

We will also consider whether there is a case for deregulating the booking fee component of the fare, given the recent passage of the *Passenger Transport Act 2014*.

### **1.3 Process for the review of Sydney taxi fares and licences**

We have commissioned consultants the CIE to obtain data about the costs, revenue and utilisation of taxi services. As part of the data-gathering process, Transport for NSW will mail a survey to every authorised taxi driver and accredited taxi operator in NSW.

Although we propose to take the same approach to the review as in the last two reviews, our draft recommendations will rely on the updated data to be obtained. Therefore, we are unable to give an indication of our likely fare recommendations or licence number recommendations until the draft report. However, stakeholders are welcome to make submissions on the issues raised in this paper. Submissions are due by 7 November 2014. (See page iii for information on how to make submissions.)

We will publish a draft report in December 2014 which will propose draft fare and licence combinations for consultation. We will seek submissions on the draft report.

We will hold a public forum at the end of January 2015 to provide stakeholders with a further opportunity for input.

We will consider the information and comments received through the public consultation process, and submit a final report to TfNSW at the end of February 2015. This will allow TfNSW to make a determination by 31 March 2015 on the number of new annual licences to be released, as is required by the *Passenger Transport Act 1990*.

As fares for areas outside Sydney do not have to be determined until later in the year, the process for that review will take somewhat longer and we expect to submit a final report to Transport for NSW on fares for areas outside Sydney by the end of May 2015. Please see the issues paper for that review for further details.

An indicative timetable for both reviews is available on our website. These timetables will be updated as the reviews progress.

## 1.4 Questions on which we seek comment

The issues on which we particularly seek stakeholder comment are highlighted in the following sections. For convenience, they are also listed below. Please feel free to comment on any or all of the issues, or provide other information or comments you consider relevant to the review and our terms of reference.

- 1 What is the appropriate period of time over which licence lease prices might be expected to fall by 25% in real terms? 14
- 2 How should we balance the trade-offs between affordability, total number of trips, taxi occupancy, passenger waiting times and greater ease of entry into the industry in our modelling? 14
- 3 Should some of the recommended licences be released as PALs? If so, what proportion? 15
- 4 Has the release of additional PALs during 2013 and 2014 had an impact on the way in which taxis are operated in the Sydney market? 15
- 5 Is there sufficient competition for booking services already to allow the booking fee to be deregulated? 16
- 6 Should we continue to review LPG prices outside the regular fare review cycle? 20

## 2 Context for the review: Sydney taxi fares and licences

This review is 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 section discusses the context for the reviews in more detail.

### 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. The new licences are annual, renewable by right for up to 10 years, and are obtained by tender. The annual cost of the licence is the nominal price originally tendered, with no indexing.

### 2.1.1 Number of taxi licences in Sydney

Following the 2009 amendments, annual Sydney taxi licences (other than fringe area licences) have been released as set out in Table 2.1. In total, 568 unrestricted annual licences and 467 annual PALs were released between the beginning of 2010 and the end of 2013, and a further 117 unrestricted and 195 PALs were tendered in mid-2014, and will become active over the next few months.

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

	Licences tendered	
	Unrestricted	PAL
2010	319	90
2011	129	48
2012	55	46
2013	65	283
<b>Total 2010 - 2013</b>	<b>568</b>	<b>467</b>
2014 (to August)	117 <sup>a</sup>	195 <sup>a</sup>

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

Source: TfNSW, <http://www.transport.nsw.gov.au/content/previous-annual-taxi-licence-determinations-and-releases>

**Table 2.2 Change in the stock of Sydney taxi licences 1 January 2010 to 1 April 2014**

	Unrestricted	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	-46	+191	+9	0	+154
Net change to 1 April 2014	-7	6	1	-2	-2
Total licences as at 1 April 2014	4676	483	630	10	5799
<b>Net change between 1 January 2010 and 1 April 2014</b>	<b>257</b>	<b>218</b>	<b>102</b>	<b>-9</b>	<b>568</b>

Source: Information provided by TfNSW.

Table 2.2 shows the net growth in the number of Sydney taxi licences between January 2010 and April 2014 was 568 licences, or around 11% increase in the size of the taxi fleet. The increase in the number of licences is less than the number of new licences tendered by TfNSW over the same period because:

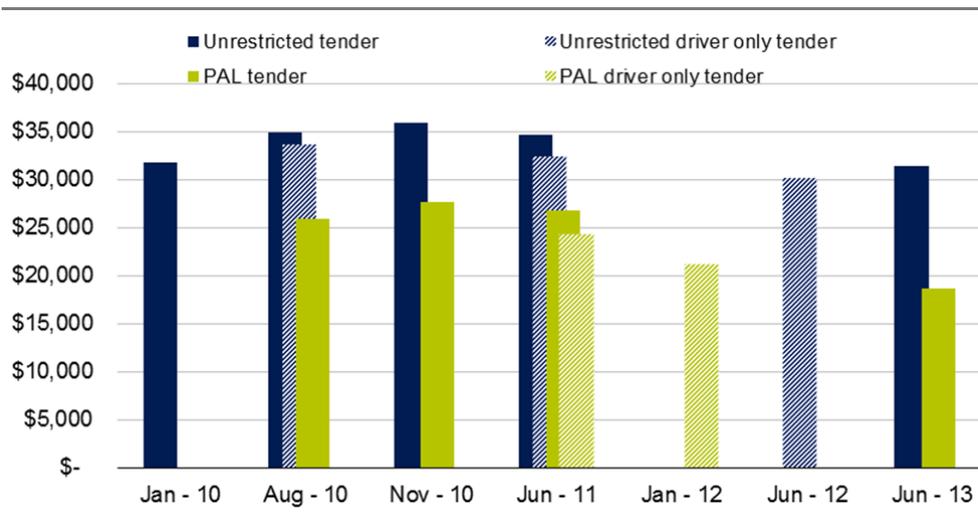
- ▼ some of the issued licences have subsequently been relinquished or not renewed
- ▼ some licences were forfeited before they were issued
- ▼ some of the issued licences replaced short-term licences that expired during the period (all Sydney short-term licences have now been replaced by annual licences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

As at 1 April 2014, there were 5,799 taxi licences in the Sydney metropolitan region, including WAT licences and fringe area licences.

### 2.1.2 Price of taxi licences in Sydney

The price of a new annual taxi licence is the amount that a successful tenderer bid for the licence. All winning bids have been over \$28,000 for unrestricted licences and over \$15,000 for PALs.<sup>5</sup> Figure 2.1 shows the average tender prices for each tender conducted since January 2010. If the winning tenderer renews the licence in subsequent years (up to a maximum of 10 years), the annual price is the same as the original bid price.

**Figure 2.1 Average successful bid price for each tender (nominal)**



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

**Data source:** TfNSW.

<sup>5</sup> Data provided by TfNSW.

Taxi operators can also lease existing perpetual or ordinary licences, either directly from a licence owner or through an intermediary such as a taxi network or licence broker. These lease prices are not publicly available.

Existing perpetual and ordinary taxi licences can also be bought and sold, for a price agreed between the parties. Transfer prices must be reported to Transport for NSW. Transfer prices for unrestricted licences averaged \$381,784 in the year to April 2014.

## 2.2 Sydney taxi fares

The current urban taxi fare schedule is shown at Table 2.3. It applies in Sydney, Newcastle, Wollongong and surrounding areas. However, for this review, we are only considering fares to apply in Sydney and we are considering other urban fares together with country fares in a separate review.

**Table 2.3 Urban fare schedule 2014/15 (commenced 1 July 2014)**

Fare component	Maximum charge
Hiring charge <sup>a</sup> (all times except for Friday and Saturday night 10 pm – 6 am)	\$3.60
Peak time hiring charge (an additional surcharge payable Friday and Saturday nights, and public holidays, 10 pm – 6 am)	\$2.50
Standard distance rate (\$/km when the vehicle is travelling more than 26 km/h)	\$2.19
Night distance rate (\$/km when the vehicle is travelling more than 26 km/h, 10 pm – 6 am) (20% surcharge)	\$2.63
Waiting time (\$/hour when vehicle slower than 26km/hour)	\$56.68 94.4 c per minute
Booking fee (booked fares only)	\$2.50
Maxi taxi surcharge (on total fare) <sup>b</sup>	50%

**a** The hiring charge was previously called the flag fall.

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

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

## 3 Our approach to recommending fares and licence numbers

Our proposed approach to recommending Sydney fares and annual Sydney taxi licences from July 2015 will be the same as the approach we took when we reviewed fares and licences to apply from July 2014.

This section explains the approach we have developed over the past two years of review and sets out the steps we will take in our approach to fare and licence recommendations this year.

### **3.1 The approach we have developed for reviewing Sydney fares and annual Sydney taxi licences**

The first time we were asked to review the number of new annual taxi licences (for the year commencing 1 July 2013), we reviewed licence numbers and fares separately. We developed a model of the Sydney taxi industry for the licence review 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 real reduction of 25% in licence lease costs over five years from 2012/13 was not unreasonable.<sup>6</sup>

When it came to reviewing fares, we also used the model to consult 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 on fares, 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.

After considering our recommendations, the Government decided to keep fares unchanged in nominal terms, except for introducing a \$2.50 hiring surcharge in peak times in urban areas to encourage more taxis onto the road on Friday and Saturday nights.

When we were asked to review both fares and licences (for the year commencing 1 July 2014), we considered fares and licences together. We again used the Sydney taxi industry model to estimate the impacts of changes in fares, licence numbers, costs and demand, but this time we used a five-year modelling envelope from 2012/13<sup>7</sup> to 2017/18.

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<sup>6</sup> IPART, *Annual taxi licence release for Sydney 2013/14 - Final Report*, February 2013, p 5.

<sup>7</sup> 2012/13 is the model's base year, with a representation of the Sydney taxi industry constructed using the latest data available when we were first asked to make recommendations on licence numbers.

We used the model to consider combinations of fares and licences that had the same impact on licence lease values – 25% real reduction over five years from 2012/13 – but different impacts on affordability, waiting times, total trips and taxi occupancy.

We made recommendations for one year’s worth of licences and fares from within the modelling envelope. We noted that in future years we would again use the five-year envelope for context, but update the modelling each year to take account of historical changes to licences and fares and any step changes in costs.

Our final recommendations were for a fare freeze in nominal terms, in combination with 150 unrestricted growth licences and 40 growth peak availability licences, as well as replacement licences for those which have been surrendered or not renewed.

Transport for NSW decided to increase fare components by CPI<sup>8</sup> and release 95 peak availability licences for growth, as well as the replacement licences we recommended.

### **3.2 Our proposed approach to recommending Sydney fares and licences from July 2015**

We plan to continue to use our model of the Sydney taxi industry. We will update and rebase the model with data for the 2014/15 year, to be obtained via a survey of taxi drivers and operators. We will also update our information about taxi service performance by repeating the passenger survey we have previously undertaken and examining other sources of data.

We will consult on fare and licence combinations and their modelled outcomes and we propose to make a judgement about the best combination based on the mix of outcomes predicted by the model and feedback from stakeholders. We will consider how we will balance more affordable entry into the taxi industry with impacts on existing licence holders.

We will again consider whether some of the licences should be released as peak availability licences (PALs).

We propose not to recommend a longer-term path of licence releases and fare changes into the future but instead use a longer 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.

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<sup>8</sup> Transport for NSW did not increase the \$2.50 peak hiring surcharge so the average fare in urban areas increased slightly less than 2.5%.

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 do not propose to consider any changes to fare structure this review.

We will also consider whether to continue our reviews of LPG prices between reviews.

### **3.2.1 Updating inputs to the Sydney taxi industry model and rebasing it to 2014/15**

The CIE will develop estimates of the costs, and the changes in costs, of providing taxi services using an approach similar to the one which they used in 2011. They will also develop estimates of revenue and gather data about taxi utilisation.

The CIE has consulted with taxi industry stakeholders in developing both the questionnaires for the 2011 survey and the current survey. Survey questionnaires will be mailed to every authorised driver and active accredited operator in NSW. The survey questionnaires will also be available online.

Once the survey data has been collected and collated, we will update the model with the new data, and recalibrate the base year in the model so that it represents the 2014/15 year in the Sydney taxi industry.

The survey data will be verified, where possible. In 2011, this was done by producing a draft report which we released for consultation.<sup>9</sup>

As we are rebasing and updating the model, we will also review these other model inputs and assumptions:

1. forecast demand growth from external sources
2. forecast CPI
3. the value of time (and its likely change over time)
4. price elasticity of demand.

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<sup>9</sup> The CIE, *Reweighting of the taxi cost index: draft report*, December 2011.

### 3.2.2 Updating data about taxi service performance

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

We have again engaged Taverner Research to survey 2,000 Sydney residents on their experience with taxis in Sydney, and the reasons they do and do not catch taxis. The results give us a better understanding of whether the taxi industry is currently meeting the needs of customers.

We will also consider other sources of information to form a view of trends in performance:

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

### 3.2.3 Modelling combinations of fares and licences

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

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

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

Releasing more licences and keeping fares as low as they need to be to cover efficient costs would meet all the objectives of our terms of reference, except the need to avoid unreasonable impacts on existing licence owners who receive income from leasing out their licence plates.

We remain of the view that a 25% real reduction (that is, after taking into account the effects of inflation)<sup>10</sup> in unrestricted licence lease values 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.

However, we will consider the period of time over which we expect to see this impact felt. We will retain the starting point of 2012/13 for the comparison, but we consider that a seven-year time frame for a 25% real reduction in licence lease prices may be more appropriate.

IPART seeks comments on the following

- 1 What is the appropriate period of time over which licence lease prices might be expected to fall by 25% in real terms?

### Choosing an appropriate combination of outcomes

As discussed above, we make our recommendations on licence numbers and fares in the context of a 25% real reduction in licence lease values. However, there are numerous combinations of licences and fares which would have the same impact on licence lease values, but different outcomes for taxi occupancy, total trips taken, fare affordability and passenger waiting times.

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

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

IPART seeks comments on the following

- 2 How should we balance the trade-offs between affordability, total number of trips, taxi occupancy, passenger waiting times and greater ease of entry into the industry in our modelling?

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

### **3.2.4 Considering whether some licences should be released as peak availability licences**

Releasing some licences as PALs rather than unrestricted licences also has different outcomes for occupancy, trips taken, and waiting times, for the same impact on licence lease prices.

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

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

We will again consider whether any new licences should be released as PALs as part of this review, taking into account the last two years' worth of PAL releases and what this has meant for the number and mix of licences in the market.

IPART seeks comments on the following

- 3 Should some of the recommended licences be released as PALs? If so, what proportion?
- 4 Has the release of additional PALs during 2013 and 2014 had an impact on the way in which taxis are operated in the Sydney market?

### **3.2.5 Replacing licences and making allowance for future attrition and wheelchair accessible taxi (WAT) licences**

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

Our recommendations for additional licences are made so that the total stock of licences increases, so we need to make an adjustment to account for the licences that we expect to be handed back or not renewed during 2015.

We propose to make this adjustment in the same way as we did for the last review:

- ▼ we will make an adjustment in advance for how many licences we expect to be relinquished (based on the number of licences relinquished during 2014); actual numbers of relinquishments or non-renewals may differ

- ▼ in order to maintain the existing stock of licences at the same level, we have to make a further adjustment to account for any difference between last review's advance allowance and the actual number of relinquishments and non-renewals during 2014.

In addition, as WAT licences are available on application from TfNSW and they compete for the same work as unrestricted licences, we need to release fewer annual taxi licences through the tender process to account for the WAT licences that we expect to be released outside the tender process. This number also needs to be adjusted to account for any differences between last review's allowance and the actual net number of WAT licences released during 2014. We propose to make the adjustment on a one for one basis as we did in the last review.

### 3.2.6 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 four years. This is because around \$30,000 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 *Passenger Transport Act 2014* was recently passed by Parliament (but has not yet commenced). The new Act should increase competition for booking services by separating the requirements to affiliate with a taxi network from the arrangements for operating a taxi booking service. This should drive down costs for booking services. If there is sufficient competition for booking services, the booking fee component of the fare could be deregulated.

IPART seeks comments on the following

- 5 Is there sufficient competition for booking services already to allow the booking fee to be deregulated?

The *Passenger Transport Act 2014* 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.

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>11</sup> per year. Over the same period, licence lease values increased by around 3.5%<sup>12</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>13</sup>

### 3.2.7 What has happened to licence lease prices in Sydney since 2009?

Since 2009, the demand for taxi licences has remained high. There has been a strong take up of the new annual licences. Each of the tenders of licences since the first tender in 2010 has been over-subscribed except the 2011 driver-only issue of PALs. Unissued licences from that tender were subsequently re-tendered and the re-tender was over-subscribed. In the 2013 tenders, there were 502 bids for 65 unrestricted licences and 508 bids for 280 PALs.<sup>14</sup> In the 2014 tenders, there were 603 bids for 117 unrestricted licences and 619 for 195 PALs.<sup>15</sup>

To assess the impact of releasing licences and changing fares on licence owners, ideally we would look at the lease amounts they receive. However, as this information is not available, instead we look at changes to the average annual price of all active unrestricted annual licences that have been issued across all tenders. Figure 3.1 shows that as at January 2014, the average annual price of all active unrestricted annual licences was \$31,854 compared to \$32,506 in January 2013. The average price across all active licences was lower both because the average successful bid price for the June 2013 tender was lower than all previous unrestricted tender successful bid averages except June 2012, and because many of the annual licences relinquished during 2013 were the more expensive licences that had been purchased in earlier years.

This means that, in the year to January 2014, this indicator of the impact on existing licence holders fell by 4.5% in real terms (after taking into account the effect of 2.6% inflation over this period).

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<sup>11</sup> IPART calculations.

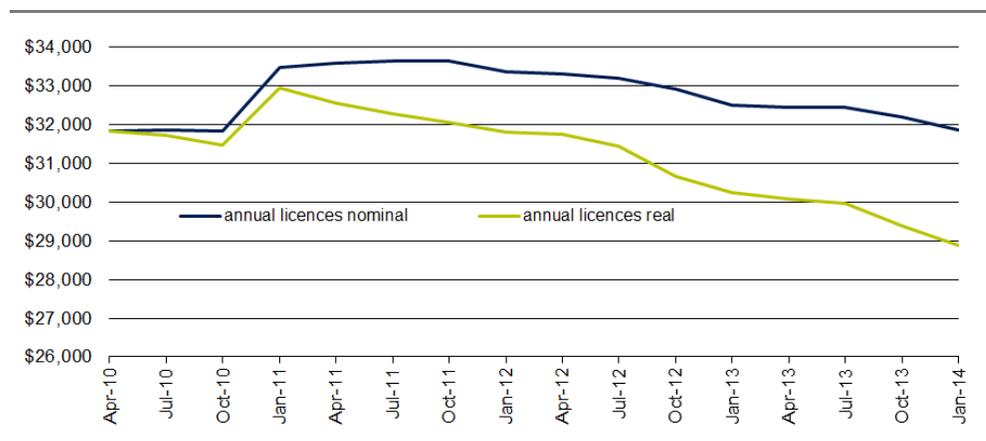
<sup>12</sup> From around \$20,000 to \$28,000 per year. NSW Ministry of Transport, *Benefit/Cost Assessment of Options for Reform of Taxi Licensing, Final report*, September 2005, p 18. IPART calculations.

<sup>13</sup> The CIE, *Reweighting of the Taxi Cost Index Final report*, April 2012, p 38.

<sup>14</sup> Data provided by TfNSW.

<sup>15</sup> Data provided by TfNSW.

**Figure 3.1 Average Sydney annual unrestricted licence prices, all active licences, nominal and real (\$2009/10), 2010 to 2014**



Data source: TfNSW.

### 3.2.8 Fare structure

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

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

TfNSW’s final decision on fares was to retain the existing structure with the addition of a peak hiring charge for Friday and Saturday nights.

In our last review, we sought stakeholder feedback on any changes to fare structure, and received no indication of widespread support for any particular change.

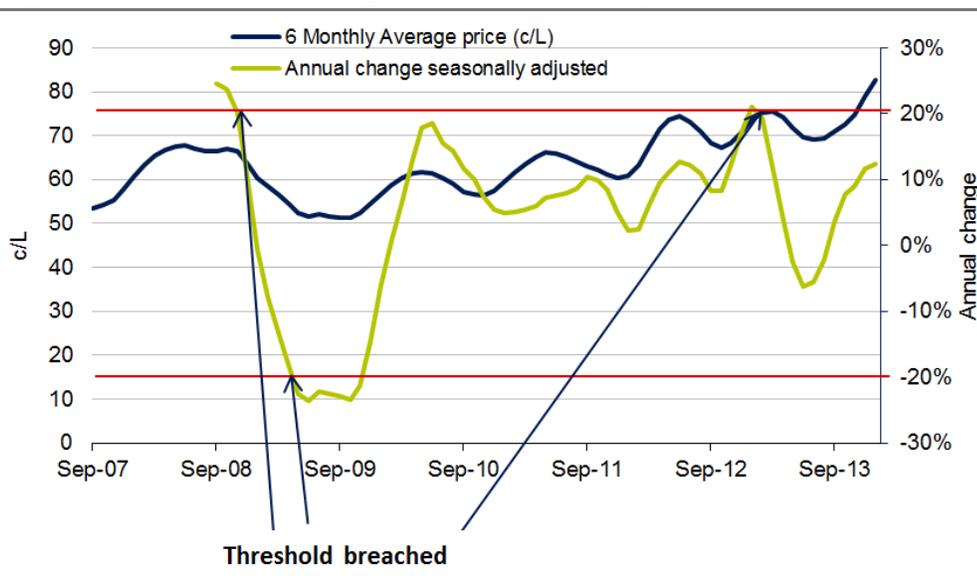
We continue to be of the view that there is evidence to suggest improvements could be made to fare structure, but the evidence is not sufficiently compelling to make the changes without stakeholder support for them. Therefore, we are not proposing to review fare structure further at this time.

### 3.2.9 Fuel costs and the LPG review

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

In our last review of fares and licences, we decided to review LPG prices on an ongoing basis outside the regular fare review cycle. We decided that we would recommend fare changes to reflect the change in fuel costs at any time that the average LPG price over 6 months changes by more than 20% (up or down) compared to the same 6 months the year before (to avoid capturing seasonality effects).

**Figure 3.2 Historical changes in urban LPG fuel prices**



Data source: FUELtrac.

We reviewed LPG prices each month after we submitted our final report to TfNSW in February, and in June we found that LPG prices in urban areas in the 6 months to the end of May had risen by more than the threshold 20% compared to the same period the previous year, indicating an increase in costs of 2.3%. However, as Transport for NSW had announced that taxi fares would be increasing by CPI, or 2.5%, from July, we considered that fares would be high enough to cover the increase in fuel costs.

For this review, we are considering whether to continue the ongoing review of LPG prices. An argument can be made that LPG costs are, like all other costs, sufficiently exceeded by fares which contain economic rent such that cost increases (or reductions) can be covered by fares. In past reviews, we decided to retain the LPG review to assist drivers (who pay for fuel) to adjust to short-term volatility in fuel prices. We are interested in stakeholder views on whether or not to retain the review of LPG prices.

IPART seeks comments on the following

- 6 Should we continue to review LPG prices outside the regular fare review cycle?



**Appendices**



## A Terms of Reference – Taxi Industry Fare Review

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

I, Hon Mike Baird, 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 one year to 2 August 2015 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 involving the NSW Taxi Council, taxi industry participants, other stakeholders and 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 Mike Baird MP Premier  
Minister for Western Sydney  
Minister for Infrastructure

Dated at Sydney ..... 2014

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

### **INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992 Terms of Arrangement – Annual Sydney Taxi Licence Review**

I, Hon Mike Baird, 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 2015.

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 320(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 20 February 2015, for consideration prior to an annual Determination by TfNSW before 31 March 2015.

The Hon Mike Baird MP Premier  
Minister for Western Sydney  
Minister for Infrastructure

Dated at Sydney 2014

