

# **Review of taxi fares outside Sydney to apply from July 2015**

**Transport — Issues Paper**  
October 2014





Independent Pricing and Regulatory Tribunal

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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 18 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 by fax to (02) 9290 2061, or by mail to:

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Independent Pricing and Regulatory Tribunal

PO Box Q290

QVB Post Office NSW 1230

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website <[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)> as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

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

Each year the Independent Pricing and Regulatory Tribunal of NSW (IPART) reviews and recommends maximum taxi fares to the Director-General of Transport for NSW.<sup>1</sup> After considering our final recommendations, the Director-General decides on the maximum taxi fares.<sup>2</sup>

Historically, there have been two taxi fare schedules that apply in NSW:

- ▼ an urban taxi fare schedule, which applies in Sydney, Newcastle, Wollongong and surrounding areas
- ▼ a country taxi fare schedule, which applies in all other areas of NSW except a small number of areas bordering Victoria which are exempt from fare regulation.

In previous fare reviews, we have made recommendations about changes to the fare levels within these fare schedules based on averaged information on changes in the costs of operating taxi services across each broad area. We have not investigated the extent of variations in these costs or operating models within the areas, and thus whether it may be more appropriate to have a different number of fare schedules or to apply them in different areas.

In our last two fare reviews we have closely examined data for Sydney taxi services, including data about taxi licence numbers, taxi fares, the costs of operating taxi services and their interaction, but we have maintained the two existing schedules, keeping other urban fares the same as Sydney's and country fares different.

However, the limited data available for country and other urban areas suggests there is significant variation in costs and business structures within these areas as well as between them. Licensing arrangements also differ between Sydney and all other parts of NSW. Therefore, we think it timely to review fares and the fare schedules for country areas and urban areas other than Sydney, separately from our review of fares for Sydney.

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<sup>1</sup> Under Section 9 of the IPART Act.

<sup>2</sup> Under Section 60A of the *Passenger Transport Act 1990*.

This paper is the first stage of our review for recommending fares for all areas outside Sydney to apply from 1 July 2015. It sets out our proposed approach to the review and outlines our preliminary views (where we have them). It also explains how stakeholders can provide input to the review, and identifies the issues on which we particularly seek comment.

We have released a separate issues paper for our review of taxi fares and the number of additional annual licences to be released in Sydney.

## 1.1 Which operating areas are covered by this review?

This review applies to all operating areas outside the Metropolitan Transport District. These areas are highlighted in Table 1.1.

**Table 1.1 Classification of operating areas by fare schedule**

Schedule	Operating areas
<b>Schedule 1 - Urban Areas</b>	<ul style="list-style-type: none"> <li>▼ Sydney Metropolitan Transport District</li> <li>▼ Newcastle Transport District</li> <li>▼ Wollongong Transport District</li> <li>▼ Blue Mountains Local Government Area</li> <li>▼ Gosford Local Government Area</li> <li>▼ Wyong Local Government Area</li> <li>▼ Shellharbour Local Government Area</li> <li>▼ Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo</li> </ul>
<b>Schedule 2 – Country Areas</b>	All areas of New South Wales, except those specified in Schedule 1 (Urban Areas) and Schedule 3 (Exempted Areas)
<b>Schedule 3 - Exempted Areas</b>	Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin

**Source:** Transport for NSW, *Maximum taxi fares and charges*, <http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>, accessed 16 July 2014.

## 1.2 What have we been asked to do?

Our terms of reference ask us to investigate and recommend maximum fares for taxi services. In forming our recommendations, they require us to consider:

- ▼ the costs of providing the taxi services concerned, and the need for greater efficiency in the supply of services to reduce costs for the benefit of customers
- ▼ the protection of customers from abuses of monopoly power in terms of prices, pricing policies and standards of service
- ▼ the need to maintain ecologically sustainable development
- ▼ the impact on customers of the recommendations

- ▼ standards of quality, reliability and safety of the services
- ▼ the effect of any pricing recommendation on the level of Government funding.

These are the same factors we must consider in recommending fares in the Sydney area. A copy of the terms of reference is provided in Appendix A.

### 1.3 What is our proposed approach for this review?

We are reviewing taxi fares outside Sydney to recommend maximum fares to apply from 1 July 2015. We propose to analyse whether the current fare schedules are appropriate, and, for areas where they are not, what the fare schedules should be.

We consider that fares should reflect the efficient cost of supplying taxi services. Therefore, in this review we will undertake a detailed examination of the costs of providing taxi services in areas outside Sydney. We have engaged a consultant to survey taxi drivers and operators about their costs and the way that taxi services operate in different areas. We also encourage stakeholders to make submissions to this issues paper and participate in our on-line survey of taxi use outside Sydney, available on our website. For more information on the surveys see Box 1.2.

In addition, we will investigate the relationship between efficient costs and fare levels by analysing taxi licence transfer (sale) data to assess the level of 'economic rent' that is present, and we will examine fares in other jurisdictions for benchmarking purposes.

We propose to use the findings of our cost analysis to group areas with similar efficient cost structures. This will allow us to establish how many fare schedules there should be. Our preliminary view is that we should seek to better match costs to fare schedules where we can group taxi operating areas by similar characteristics, without creating unnecessary complexity in the charging arrangements.

If we do recommend implementing different fare schedules, this would indicate that existing fares might be efficient for some areas, and exceed efficient fare levels in other areas. This means we may apply different adjustments in different areas.

In areas where we find that fares are at, or close to, efficient levels, our preliminary view is that fares should increase in July 2015, and each year thereafter, in line with the forecast increase in costs. In areas where we find that fares are higher than efficient levels, our preliminary view is that fares should move closer to efficient levels over time.

We will also investigate whether competition in the taxi market is effective and whether we may be able to move to a more light-handed approach to fare regulation in the future.

Finally, we will have regard to the other matters required by our terms of reference, including need to maintain ecologically sustainable development and the effect of any pricing recommendation on the level of Government funding.

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### **Box 1.1 Definition of key terms**

#### **Economic rent**

Economic rent is unearned income that results from the scarcity of goods and/or services. Taxi licences have no productive value and the high price of licences in some areas indicates the presence of economic rent.

#### **Efficient costs**

Efficient costs are the costs of goods and services purchased in a competitive market. Efficient costs do not contain any economic rent because there is no restriction on the supply of the good/services in a competitive market.

#### **Financial costs**

Financial costs are those costs that are actually incurred by taxi drivers and operators. They may include some expenditures (such as the price of buying or leasing a taxi licence) that contain economic rent. As part of this review we will survey taxi drivers and operators to obtain financial cost data.

#### **Efficient level of fares**

Taxi fares are at efficient levels when fare revenue is equal to the efficient costs of supplying taxi services. We consider that if fares move closer to efficient levels, passengers will not be paying too much for taxi services and efficient operators will remain viable.

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## **1.4 How can stakeholders provide input to the review?**

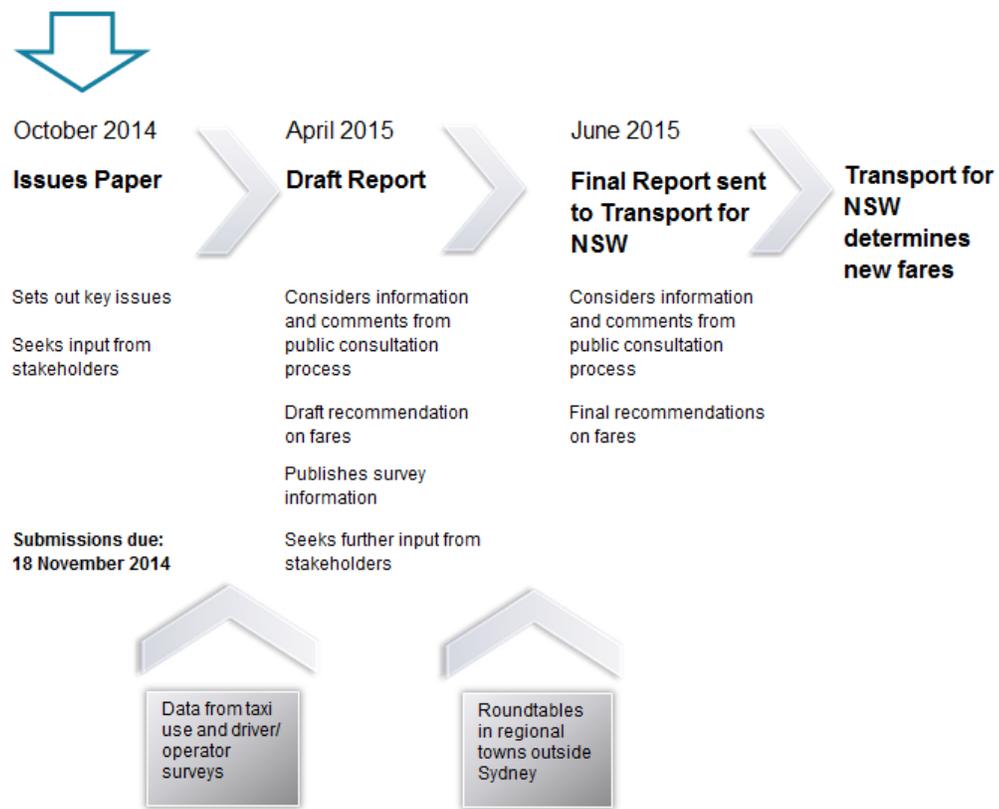
In addition to undertaking research and analysis for this review, we will conduct the following public consultation process:

- ▼ We invite all interested parties to make submissions in response to this issues paper and the accompanying fact sheet by **18 November 2014**. (See page iii for information on how to make a submission.)

- ▼ We will consult directly with the taxi industry and community representatives to gather information we need to consider for this review. In particular, we are conducting several surveys on the costs and revenue of providing taxi services, demand for these services and the adequacy of supply, and barriers to entering the taxi industry. Box 1.2 provides more detail on these surveys.
- ▼ We will release a draft report and recommendations in April 2015, and invite stakeholders to make submissions in response to this report.
- ▼ We will also hold roundtables in several regional towns in April 2015 to provide stakeholders with a further opportunity to respond to our draft report.

The process and indicative timetable for this review is set out in Figure 1.1. We will update the timetable on our website as the review progresses.

**Figure 1.1 Review process and indicative timetable**



**Note:** This timetable is indicative only; an up to date timetable is available on our website, [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

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## **Box 1.2 Survey input to this review**

### **Survey of taxi use**

This survey will gather information about taxi services outside Sydney. Specifically, we would like to obtain:

- ▼ insight into the main reasons customers hire taxis in different areas of NSW
- ▼ information on the availability of taxi services
- ▼ feedback on the affordability of current fares
- ▼ information on what alternative transport modes are used.

We are also interested in responses from those who have thought about hiring a taxi but decided not to. You can participate in this survey by going to the following link: [http://www.ipart.nsw.gov.au/Home/Taxi\\_Survey](http://www.ipart.nsw.gov.au/Home/Taxi_Survey)

### **Driver and operator survey**

We have engaged The CIE to survey taxi drivers and operators about:

- ▼ the costs and revenues of operating a taxi
  - ▼ the patterns of taxi operation, including trip characteristics.
- 

## **1.5 How this paper is structured**

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

- ▼ Chapter 2 outlines the context for the review, including information about participants in the taxi industry, current taxi fares and how they have changed over time, the supply of taxis and the demand for taxi services
- ▼ Chapter 3 discusses the benefits and extent of competition in and with the taxi industry and contains our preliminary analysis of whether we can move towards a more light-handed approach to regulating fares in the future
- ▼ Chapter 4 explains how will we obtain and analyse information about the costs of operating taxi services
- ▼ Chapter 5 explores the issue of having different fare schedules in different areas to reflect different cost structures
- ▼ Chapter 6 outlines our proposed approach and options for annual adjustments to fares
- ▼ Chapter 7 discusses the relevance of fare structure
- ▼ Chapter 8 explains how we will consider the need to maintain ecologically sustainable development, the effect of any pricing recommendation on the level of Government funding and standards of quality, reliability and safety of taxi services outside Sydney.

## 1.6 What submissions on this issues paper should address

The issues on which we particularly seek stakeholder comment are highlighted in the following chapters. 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 Is the affordability of fares a problem in your area? Would lower fares encourage passengers to use taxis more often? 16
- 2 Is waiting time a problem in your area? If passengers did not have to wait as long to get a taxi, would they use them more often? 16
- 3 The annual fee for wheelchair accessible taxi (WAT) licences is low or nil in areas outside Sydney. Why are WAT licences not used more often to enter the taxi market outside Sydney? 20
- 4 Is it difficult for new taxis to join taxi networks in areas outside Sydney? If so, what are the barriers to joining? 21
- 5 Do taxi networks outside Sydney offer vehicle fit-outs and maintenance and vehicle insurance? If so, how do they charge for these services? 21
- 6 Are taxi or hire car passengers in your area using independent smart phone booking apps? If so, what impact is this having on the taxi industry? 22
- 7 Is it difficult or expensive to obtain a hire car licence in your area? 23
- 8 Do you agree that hire cars are an alternative to taxis in your area? 23
- 9 To what extent is community transport a substitute for taxi services in your area? 23
- 10 To what extent is car sharing (where members of a scheme rent a car without a driver) a substitute for taxi services in your area? 23
- 11 Are any taxi operators or drivers charging below the maximum fares to compete on price? In what areas and for what services (for example, time of day/particular events/particular customers) is this occurring? 23
- 12 There are currently two fare schedules that apply outside Sydney, an urban fare schedule and a country fare schedule. Do you support having more fare schedules? If so, how many fare schedules do you think there should be? 36
- 13 A small number of areas bordering Victoria are exempt from fare regulation. Should areas close to the NSW/ Queensland border also be exempt? 36
- 14 How do you think we should group operating areas if there are multiple fare schedules? 37

15	Why might network fees vary between different operating areas?	37
16	Are licence lease costs a good basis for grouping operating areas into different fare schedule areas?	38
17	Is population size a good basis for grouping operating areas into different fare schedule areas?	38
18	For annual adjustments to fares, should IPART use an industry-specific cost index (similar to the "taxi cost index" that we have used previously), the CPI or a subcomponent of the CPI?	41
19	In areas where fares exceed efficient levels, should IPART recommend freezing fares in nominal terms until they are closer to efficient levels, or applying a cost inflator and a constant efficiency factor for a fixed time?	45
20	Should we continue to review LPG prices outside the regular fare review cycle?	46
21	How does the existing fare structure impact on the availability of taxi services?	50
22	In which areas, if any, do customers face difficulties getting a taxi for shorter distances? In which areas, if any, do customers face difficulties getting a taxi for longer distances?	50
23	How should we consider matters relating to ecologically sustainable development when recommending fares outside Sydney?	51
24	What is the cost of providing community transport, and to what extent do taxis displace demand for community transport?	52
25	Are there any other areas of Government funding that are likely to be affected by fare levels?	52

## 2 Context for this review

In NSW, the main regulator of the taxi industry is Transport for NSW. Specifically, the *Passenger Transport Act 1990* gives Transport for NSW the authority to:

- ▼ set maximum taxi fares
- ▼ set the number of new taxi licences to be released each year
- ▼ set and enforce and taxi service standards for networks, vehicles, operators and drivers.<sup>3</sup>

IPART assists Transport for NSW by reviewing and recommending changes to taxi fares and the number of new annual Sydney taxi licences to be issued each year. Outside Sydney, there is no formal restriction on the number of new taxi licences.

This chapter provides information about the taxi industry outside Sydney, including:

- ▼ participants in the industry
- ▼ current taxi fares and how they have changed over time
- ▼ the supply of taxis
- ▼ the demand for taxi services.

### 2.1 Industry participants

There are a number of participants linked in the provision of taxi services in NSW- including taxi drivers, operators and networks. Their relationship is summarised in Figure 2.1.

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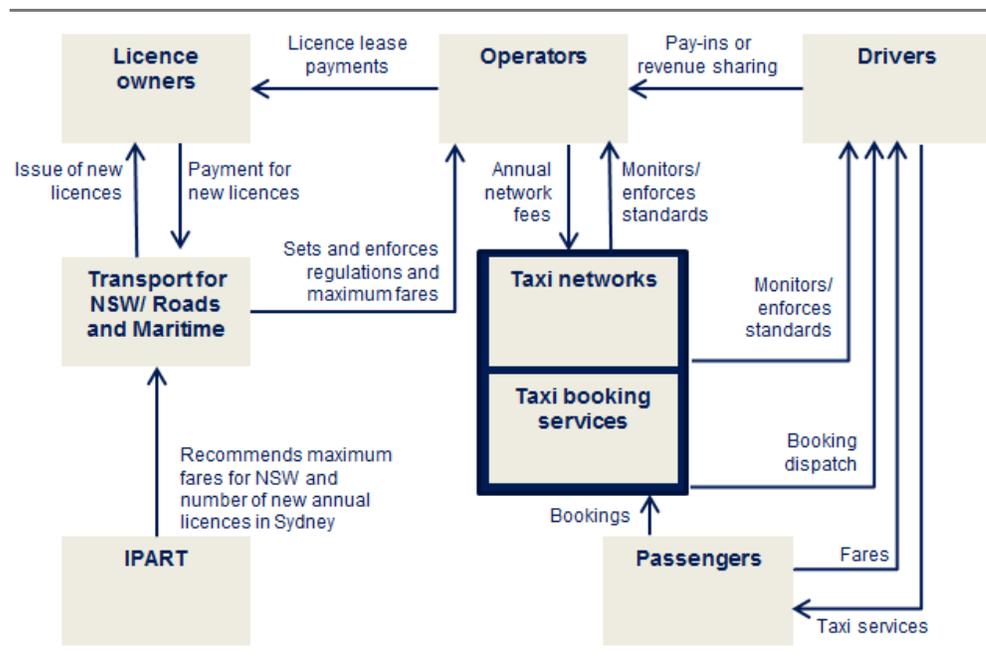
<sup>3</sup> Most standards are set out in the *Passenger Transport Regulation 2007* and the *Passenger Transport Act 1990*. However, the *Passenger Transport Act 1990* also gives Transport for NSW the power to determine standards from “time to time”. On its commencement, the *Passenger Transport Act 2014* will repeal the *Passenger Transport Act 1990*. Transport for NSW retains its regulatory functions regarding taxis under the new Act.

Taxi operators are responsible for the day-to-day management of one or more taxis. They must be accredited by Transport for NSW and must hold a taxi licence for each vehicle they operate. Operators also have to organise drivers and insure and maintain the vehicle.

Unless exempted by Roads and Maritime Services,<sup>4</sup> operators must be affiliated with an authorised taxi network and are required to fit out their vehicle(s) with their network’s livery and install the network’s communications equipment. On its commencement the *Passenger Transport Act 2014* will introduce regulatory changes to network services by separating the functions of taxi networks and booking services in NSW (for further discussion see section 3.3).

In areas outside Sydney, the industry is typically more vertically integrated than it is in Sydney. For example, many taxi networks are cooperatives owned by operators. There are also far more operators who own their own licence rather than lease it from someone else.

**Figure 2.1 Overview of the taxi industry in NSW**



**Note:** The roles of licence owner, operator and driver can sometimes be held by a single person. Also, many networks in country areas are co-operatives owned by operators. The functions of taxi booking services will be separated from taxi networks when the *Passenger Transport Act 2014* commences. Presently, taxi networks provide booking services.

**Source:** IPART.

<sup>4</sup> There are some country taxi operators exempted from the requirement to be affiliated with a taxi network. These are operators with very small fleets of taxis in towns too small to justify having a network. (Information from Transport for NSW.)

## 2.2 Current taxi fares and how they have changed over time

There are currently two fare schedules for taxi operators in NSW: Schedule 1 (urban areas) and Schedule 2 (country areas). A small number of operating areas near the NSW and Victoria border are exempt from either fare schedule.

Schedule 1 applies to the following areas outside Sydney:

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

Schedule 2 applies in all other areas outside Sydney, other than the exempt areas.

### 2.2.1 Current fare levels in urban and country areas

Table 2.1 shows the current fares in NSW. Most of the components of the country fare schedule are higher than the urban schedule, (eg, the hiring charge in the country is 50 cents higher and the base distance rate is 7 cents per km higher). However, the average fare paid is lower.<sup>5</sup>

There are other differences between urban and country fare schedules including a higher distance rate once a threshold of 12 kilometres has been reached for country taxis, which does not apply in urban areas, a lower booking fee for country taxis and extended hours for the distance rate surcharge to include Sundays and public holidays.

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<sup>5</sup> The CIE, *Reweighting of the taxi cost index*, April 2012, p 62.

**Table 2.1 Taxi fares from 1 July 2014**

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

<sup>a</sup> Charged between 10pm and 6am on Friday and Saturday nights and the night before a public holiday.

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

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

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

**Source:** Transport for NSW, <http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>, accessed 10 July 2014.

## 2.2.2 Fare recommendations and changes in 2013 and 2014

For the last two years, IPART has recommended that fares decrease in real terms to move fares closer to efficient levels:

- ▼ In country areas, we recommended freezing fares.<sup>6</sup> In 2013, the Government accepted our recommendation,<sup>7</sup> but in 2014 Transport for NSW decided to increase country fares by the CPI.<sup>8</sup>
- ▼ In urban areas, we recommended a 1% reduction in nominal fares in 2013, and freezing fares in 2014.<sup>9</sup> Transport for NSW decided to freeze all fare components in 2013, but introduced a peak hiring charge on Friday and Saturday night.<sup>10</sup> We estimate that the result was a 1.4% increase. In 2014, Transport for NSW increased urban fares by the CPI (except for the \$2.50 peak surcharge that applies on Friday and Saturday nights).<sup>11</sup>

IPART's recommendations and Transport for NSW's determinations are summarised in Table 2.2.

**Table 2.2 Fare changes 2013 and 2014**

	IPART recommendation		Transport for NSW determination	
	Urban fares	Country fares	Urban fares	Country fares
2013	-1%	0%	1.4% <sup>a</sup>	0.0%
2014	0%	0%	2.5% <sup>b</sup>	2.5%

**a** Transport for NSW froze most components of urban fares, but introduced a peak hiring surcharge on Friday and Saturday nights, with the net result of a 1.4% increase in urban fares.

**b** 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%.

**Source:** IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 1; IPART, *Review of maximum taxi fares in country areas from July 2014 – Final Report and Recommendations*, February 2014, pp 2; IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, pp 1, 2; Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014; Transport for NSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

<sup>6</sup> IPART, *Review of maximum taxi fares in country areas from July 2014 – Final Report and Recommendations*, February 2014, p 2; IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, p 2.

<sup>7</sup> Transport for NSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

<sup>8</sup> Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014.

<sup>9</sup> IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, p 1; IPART, *2013 Review of taxi fares in NSW – Final Report and Recommendations*, June 2013, p 1.

<sup>10</sup> Transport for NSW, *Transport for NSW keeps taxi fares down for customers*, Media Release, 30 August 2013.

<sup>11</sup> Transport for NSW, *More cabs hit the road as taxi fares rise by CPI only*, Media Release, 31 March 2014.

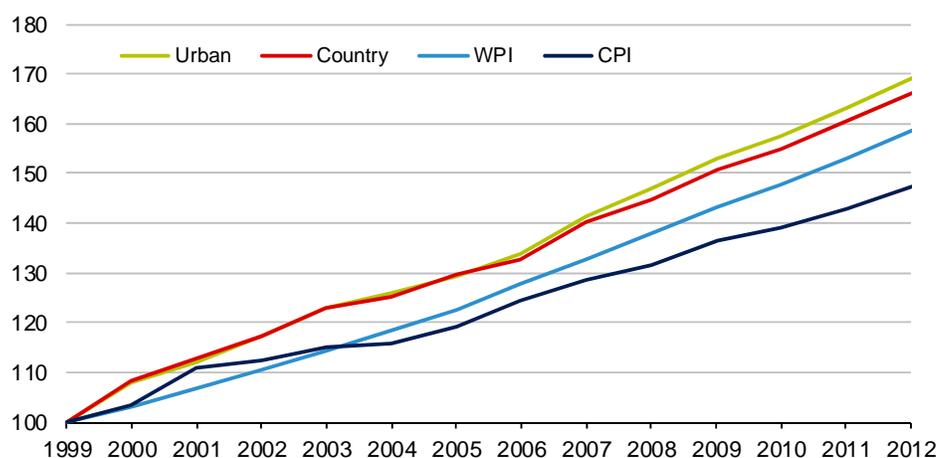
### 2.2.3 Fare recommendations prior to 2013

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 our Taxi Cost Indices (TCIs). Every four or five years we undertook a major review of the cost items and the weightings in the TCIs.

The problem with setting taxi fares in line with changes in costs is that if the initial fare is above the efficient costs of supply, then inflating it by the taxi cost index allows the inefficiencies to persist. This does not address the requirement in our terms of reference to consider the need for greater efficiency when considering costs.<sup>12</sup>

Figure 2.2 shows that using the TCI to set taxi fares resulted in fare increases every year between 2000 and 2012 that were higher than the rate of inflation (CPI) and the increase in labour costs in the economy (WPI).

**Figure 2.2** Increases in taxi fares compared to CPI and WPI, 1999 to 2012



Source: IPART fare review reports and ABS data.

## 2.3 The supply of taxis

Outside Sydney, a taxi operator can own or lease a perpetual, short-term or ordinary licence,<sup>13</sup> or a wheelchair accessible taxi (WAT) licence.

<sup>12</sup> Our terms of reference require us to consider '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'.

<sup>13</sup> Ordinary licences have terms up to 50 years but are renewable at the end of the term so are effectively perpetual. Short-term licences usually have a term of six years.

At 1 April 2014, there were 1,361 taxis in areas outside Sydney.<sup>14</sup> Of these, 172 were in Newcastle and 136 were in Wollongong. The remainder were in country areas.

Around 20% of taxis in country areas are WATs. Across Wollongong and Newcastle, the proportion of WATs is around 10% which is closer to the proportion of WATs in Sydney (11%).<sup>15</sup>

### 2.3.1 How can taxi licences be obtained outside Sydney?

There are a number of ways of obtaining a taxi licence outside Sydney, including:

- ▼ buying an existing licence on the secondary market
- ▼ leasing an existing licence from a licence owner
- ▼ buying a new ordinary or short-term licence from Transport for NSW at market rates<sup>16</sup>
- ▼ obtaining a new WAT licence from Transport for NSW for an annual fee of \$1,000 in Wollongong and Newcastle or for no fee in areas other than Wollongong and Newcastle.<sup>17</sup>

These are similar to the arrangements that used to apply in Sydney. However, in 2009, the licensing arrangements in Sydney were reformed and Transport for NSW no longer issues perpetual, ordinary and short-term licences. Instead, each year Transport for NSW must determine the number of new annual licences that it will release by tender or auction. Winning tenderers pay the amount they bid to Transport for NSW for an annual licence, which can be renewed at the same price each year for up to 10 years.

The take-up of new licences outside Sydney is discussed further in section 3.2.1.

## 2.4 Demand for taxi services

Taxis play an important role in transporting people from place to place. Outside Sydney, there are often few public transport options and taxis may be the only means for people to reach shops, medical appointments or other engagements.

<sup>14</sup> Data from Transport for NSW.

<sup>15</sup> Data from Transport for NSW.

<sup>16</sup> Information from Transport for NSW, 27 August 2014.

<sup>17</sup> Transport for NSW, 'Wheelchair accessible taxi (WAT) licence information', <http://www.transport.nsw.gov.au/content/taxi-licences>, accessed 28 July 2014. WAT licence holders must reapply every 12 months for the licence.

As part of this review, we would like to better understand the characteristics of demand for taxi services outside Sydney. In our review of maximum fares and licences in Sydney we found that lower fares and decreased waiting times would likely increase the demand for taxi services.<sup>18</sup> We would like to know whether these impacts in particular would also be likely in areas outside Sydney.

IPART seeks comments on the following:

- 1 Is the affordability of fares a problem in your area? Would lower fares encourage passengers to use taxis more often?
- 2 Is waiting time a problem in your area? If passengers did not have to wait as long to get a taxi, would they use them more often?

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<sup>18</sup> For example: IPART, *Review of maximum fares and review of annual Sydney taxi licences from July 2014 –Final Report and Recommendations*, February 2014, pp 44-47.

### 3 Effectiveness of competition

In recommending taxi fares IPART must consider the costs of providing taxi services and if possible, encourage greater efficiency in the supply of these services to benefit customers. We must also aim to protect customers from abuses of monopoly power, including higher than efficient prices and lower than acceptable service standards.

In IPART's view, the most effective way to protect customers from such abuses is through competition in and with the taxi market.

In competitive markets, businesses cannot set prices above the efficient costs of supply without losing customers to their competitors. However, the cost of taxi licences in some operating areas indicates that not all taxi markets in NSW are competitive. Licence costs are not an efficient cost because they do not reflect the value of goods or services being produced, but instead the scarcity of licences. If taxi markets were competitive, new operators would enter the market and put downward pressure on the cost of licences.

As part of this review we would like to better understand:

- ▼ licences values and economic rent in different areas outside Sydney
- ▼ the barriers to entering the taxi market outside Sydney
- ▼ the role of new technology in promoting competition
- ▼ the presence of substitutes for taxis, such as hire cars and community transport, in different areas
- ▼ the extent to which price competition is occurring.

Unless we are confident that operators would not be able to exercise monopoly power if they were to set their own fares, we consider that Transport for NSW should continue to set maximum fares. However, as part of this review we may make recommendations to improve competition in areas outside Sydney to facilitate a more light-handed approach to regulating fares in the future.

While this review is focused on fares, we note that the terms of reference for our review of the number of new annual licences to be issued in Sydney require us to balance the need for more affordable entry into the taxi market with the need to avoid unreasonable impacts on existing licence owners. In Sydney, we have made recommendations for incremental increases in the supply of licences to balance these objectives, and we consider that our recommendations on fares for areas outside Sydney should also seek to balance these objectives

This chapter presents our preliminary analysis of competition issues.

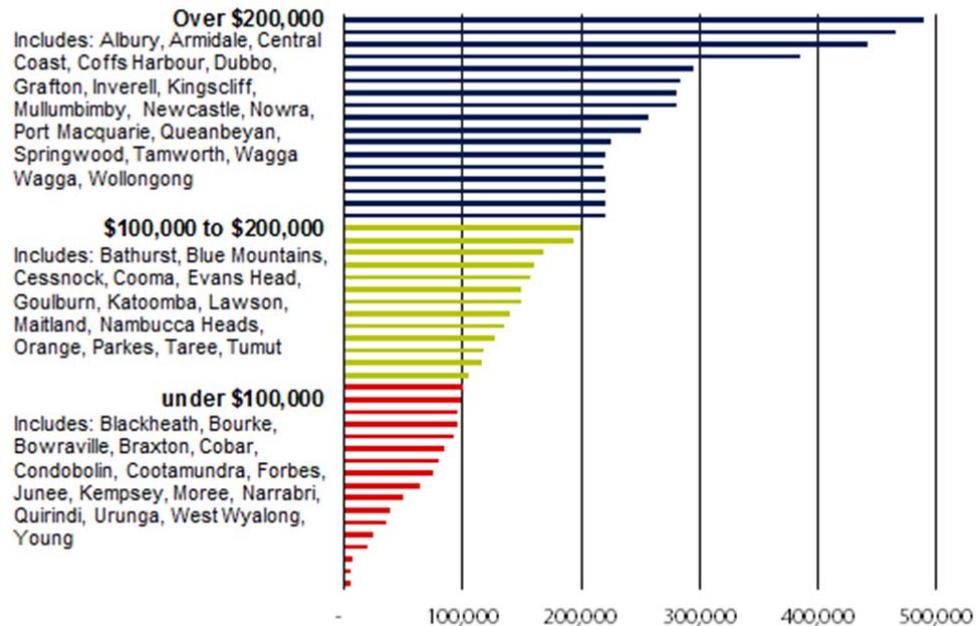
### 3.1 Licence values and economic rent

The market prices for taxi licences vary significantly in areas outside Sydney. Between April 2011 and April 2014, licences traded for less than \$10,000 in three areas but more than \$400,000 in another three (see Figure 3.1 below).

As defined in Chapter 1, the cost of a taxi licence is not an **efficient** cost because the licences themselves have no productive value. This cost does not reflect the costs of goods or services being produced, but instead the high cost of obtaining the licence, or its scarcity value. This is known as economic rent.

Our preliminary view is that the high licence values in many areas outside Sydney indicate that economic rent is present in fares. This suggests competition is not effective, because these rents would have been competed away in a competitive market. We will use the results from our driver and operator survey to analyse further the extent to which there is economic rent in fares outside Sydney. The survey is discussed further in Chapter 4.

**Figure 3.1 Average licence transfer values in various NSW towns (April 2011 to April 2014)**



**Note:** The towns listed for each group are in alphabetical order, which does not correspond with series order.

**Data source:** IPART analysis of data from Transport for NSW.

### 3.2 Barriers to entering the taxi market

In our 2014 final report on taxi fares, we considered that high licence costs and network requirements could be barriers to entry in some areas.<sup>19</sup>

We note that WAT licences are available at a low annual licence fee or no annual licence fee. As part of this review, we want to better understand why there is not a greater uptake of WAT licences.

We also want to better understand whether network requirements are a barrier to entry in some areas and whether there are simple changes that could improve the current situation.

<sup>19</sup> IPART, *Review of maximum taxi fares in country areas of NSW from July 2014 – Final Report and Recommendations*, February 2014, pp 12-13.

### 3.2.1 Obtaining a new taxi licence

There is no restriction on the number of new licences that can be issued by Transport for NSW in areas outside Sydney. However, Transport for NSW “sells” new ordinary or short-term licences at market values and the market value of a new licence is usually determined on the basis of recent sales transactions in the relevant area. This means that where high licence values exist they are likely to be entrenched in the system and can create barriers to the entry of new taxi operators.

In contrast, WAT licences are available for an annual fee of \$1,000 in Wollongong and Newcastle, and for no fee in areas other than Wollongong and Newcastle. Therefore, there is potential for WATs to enter the market and compete away the economic rent in ordinary taxi licence costs.

However, it does not appear that new operators are entering the market with a free or cheaper WAT licence because ordinary licence transfer values remain high in many areas. There may be a variety of reasons for this:

- ▼ taxi operators may view ordinary taxi licences as an investment if they expect the value of the licence to appreciate
- ▼ ordinary taxi licences are either perpetual, or renewable after 50 years, while the conditions of WAT licences provide for it to be cancelled if the operator fails to give preference to wheelchair jobs
- ▼ the vehicle costs for WATs are significantly higher than those for ordinary taxis
- ▼ there may be differences in demand for ordinary taxis compared to WATs or hire cars.

IPART seeks comments on the following:

- 3 The annual fee for wheelchair accessible taxi (WAT) licences is low or nil in areas outside Sydney. Why are WAT licences not used more often to enter the taxi market outside Sydney?

### 3.2.2 Network affiliation

Unless exempted by Roads and Maritime Services (RMS), all taxi operators in NSW must be affiliated with an authorised network and are required to fit out their vehicle(s) with that network’s livery and install the network’s communications equipment.

In some cases, networks also provide additional services to operators and drivers, such as training, leasing or sub-leasing taxi licences, insurance broking, and repairs and maintenance.

In most areas outside Sydney there is only one network service provider. This means there is little competition in terms of services offered and fees charged. As a result, network fees may act as a barrier to joining a network.

In response to IPART's previous review of fares we received a submission that there may be excess profits embedded in the cost of vehicle fit-outs and maintenance and vehicle insurance.<sup>20</sup> As part of this review, we would like to better understand how these services are delivered.

The recent Taxi Industry Inquiry in Victoria found that network service providers were deriving income from mandatory operator affiliation fees with little incentive to provide good service to taxi operators or taxi users.<sup>21</sup> Since 30 June 2014, it has no longer been compulsory for Victorian taxi operators to belong to a network service provider or taxi booking service.<sup>22</sup> We will closely follow the changes in the structure of the Victorian taxi market to see how they affect network costs and competition in the market for network services.

We also note that in NSW the *Passenger Transport Act 2014*, on its commencement, will introduce regulatory changes to network services by separating the functions of taxi networks and booking services in NSW. This provides for the regulation of taxi booking apps which have entered the market in recent years (see section 3.3 below).

IPART seeks comments on the following:

- 4 Is it difficult for new taxis to join taxi networks in areas outside Sydney? If so, what are the barriers to joining?
- 5 Do taxi networks outside Sydney offer vehicle fit-outs and maintenance and vehicle insurance? If so, how do they charge for these services?

### 3.3 The role of new technology in promoting competition

In recent years, smart phone technology targeted at the taxi and broader private passenger transport industry has matured.

Many authorised taxi networks have developed their own smart phone booking apps. Other smart phone apps, such as goCatch, ingogo and uberTAXI are independent services that connect passengers with taxi drivers.

<sup>20</sup> P. Abelson submission to IPART's 2012 review of taxi fares in NSW, 2 February 2012.

<sup>21</sup> Taxi industry inquiry, *Customers First – Final Report*, September 2012, pp 40, 43.

<sup>22</sup> Taxi Services Commission, 'Taxi owners & Permit Holders (formerly Operators)', <http://www.taxi.vic.gov.au/owners-and-permit-holders/taxi-owners-and-permit-holders>, accessed 31 July 2014.

These independent apps are likely to increase competition amongst drivers, as passengers can rate their experience, and this could lead to improved service standards. However, the impact in areas outside Sydney may be lower than in Sydney as in many of these areas there are only a small number of drivers and these drivers already dependent on repeat business.

On its commencement, the *Passenger Transport Act 2014* will increase competition for booking services by separating the requirements to affiliate with a taxi network from the arrangements for operating a taxi booking service.<sup>23</sup> This should drive down costs for booking services. If there is sufficient competition for booking services, the booking fee component of the fare should be able to be deregulated.

In addition to taxi bookings apps, some apps allow passengers to book private hire cars (discussed below).

IPART seeks comments on the following:

- 6 Are taxi or hire car passengers in your area using independent smart phone booking apps? If so, what impact is this having on the taxi industry?

### **3.4 Competition from hire cars, community transport and car sharing**

Hire cars, community transport and commercial car sharing can be an alternative or substitute for taxi services in some areas.

Hire cars transport pre-booked passengers for a fare that is agreed between the passenger and the driver. Therefore they compete with taxis in the booked trip market. Like taxi operators, hire car operators must own or lease a licence. Short-term licences are available from Transport for NSW at a cost that reflects the market price of an ordinary hire car licence. As for taxi licences, this means that where high licence values exist they are likely to be entrenched in the system and could be creating barriers to the entry of new hire car operators.

Community transport operations may also be a substitute for taxi services. Community transport provides access to shopping, medical and social services, recreation and social contact, for people who cannot use regular public transport.

Another potential substitute is commercial car sharing. Car sharing businesses are becoming more popular and are available in an increasing number of locations. Business models vary, and include 'peer-to-peer' arrangements (where people who own a car rent it to members of the scheme) and arrangements where a business owns a fleet of cars that are available to rent by members.

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<sup>23</sup> Minister for Transport, *Reforms deliver cheaper fares and more booking options for taxi customers*, Media Release, 18 June 2014.

While car sharing is generally considered an alternative to car ownership, in some cases it may be an alternative to taxis. For example, if someone without a car needs to buy heavy items from a shop, they may rent a shared car for an hour rather than hire a taxi to transport the heavy items home.

We propose to analyse the use of taxi substitutes further, including examining the reasons for different levels of competition in different operating areas. For example, having a nearby airport may lead to greater competition from hire cars in certain areas.

IPART seeks comments on the following:

- 7 Is it difficult or expensive to obtain a hire car licence in your area?
- 8 Do you agree that hire cars are an alternative to taxis in your area?
- 9 To what extent is community transport a substitute for taxi services in your area?
- 10 To what extent is car sharing (where members of a scheme rent a car without a driver) a substitute for taxi services in your area?

### 3.5 Price competition

Transport for NSW sets a maximum regulated taxi fare, which allows for taxi services to compete on price (and compete away economic rents).

IPART seeks comments on the following:

- 11 Are any taxi operators or drivers charging below the maximum fares to compete on price? In what areas and for what services (for example, time of day/particular events/particular customers) is this occurring?

### 3.6 A more light-handed approach to fare regulation

Where effective competition exists, it may be appropriate to move to a more light-handed form of regulation than setting maximum fares.

One example of such regulation applies in Victoria, where taxi operators in regional and country zones can set their own fares but are required to notify the Essential Services Commission of fare changes, and display their prices on the outside of the taxi.<sup>24</sup> This is known as a posted price regime. As of 1 October 2014, 14 operators had price-notified (ie, chosen to set their own fares).<sup>25</sup>

<sup>24</sup> Taxi Services Commission, Price notification, <http://www.taxi.vic.gov.au/taxi-reform/reforms-implemented/price-notification>, accessed 1 October 2014.

<sup>25</sup> Taxi Services Commission, Operators who have price notified, <http://www.taxi.vic.gov.au/taxi-reform/reforms-implemented/price-notification/operators-who-have-price-notified>, accessed 29 September 2014.

Another example of light-handed regulation would be to set an average maximum increase in fares and allow taxi businesses to structure their fares within this cap.

A more light-handed form of regulation than setting maximum fares provides operators with the opportunity to set fares that more closely reflect the costs incurred in their specific circumstances. It also reduces the regulatory burden of collecting and analysing cost data.

However, if competition is not effective, a posted price regime or other alternative to setting maximum fares, may expose passengers to significant overcharging. While some people see taxis as discretionary, there are others who rely on taxi transport (for example, people with limited mobility). There is also likely to be limited public transport in rural and regional areas that can provide an alternative to taxis.

Based on the preliminary analysis above, there appears to be barriers to entering the taxi market outside Sydney, which suggests that competition in and with the taxi industry is not effective. Therefore, our preliminary view is that Transport for NSW should continue to set maximum fares.

## 4 The costs of operating taxi services outside Sydney

Our terms of reference require us to consider the cost of providing taxi services and the need for greater efficiency in the supply of services.

Prior to 2013, we used cost information averaged over country areas and cost information averaged over urban areas to construct two cost indices (one for country taxis and one for urban taxis) which applied to two fare schedules (one for country taxis and one for urban taxis).

The detailed and accurate information we obtained from The CIE's survey of taxi drivers and operators in 2011<sup>26</sup> allowed us to develop a model of the Sydney taxi industry which we have used to inform our fare and licence recommendations for Sydney for the past two years. The information also suggested that:<sup>27</sup>

- ▼ Average costs in country areas are different from those in urban areas (including Sydney).
- ▼ Costs in some country areas are significantly different from those in other country areas.
- ▼ There are operational and structural differences in country areas compared with Sydney, and to a lesser extent, other urban areas.

In addition, the information showed that – as in Sydney – taxi licence values were high in many areas outside Sydney. This suggested that (like fares in Sydney) the maximum fares in these areas included significant economic rents and thus were above the **efficient costs** of supply. As a result, in both 2013 and 2014, we recommended that (like Sydney fares) other urban fares should be decreased in real terms, and that country fares should be frozen in nominal terms.

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<sup>26</sup> The CIE, *Reweighting the Taxi Cost Index, Final Report*, April 2012.

<sup>27</sup> The CIE, *Reweighting the Taxi Cost Index, Final Report*, April 2012, pp 43-44. The information obtained from this survey for country and other urban areas had relatively small response rates – enough to illustrate differences but not enough to provide quality information on costs in different country areas.

In this review, we intend to undertake a more detailed analysis of costs of providing taxi services in areas outside Sydney to take into account any significant differences between areas, and to assess the extent to which current fares are above efficient levels. We propose that this will involve three main steps:

1. Analysing the **financial costs** of providing taxi services in a range of areas outside Sydney.
2. Assessing the level of any economic rent included in current fares to help us determine the **efficient costs and fares**.
3. Comparing current fares in a range of areas with those in other states.

The sections below discuss each of these steps in more detail and set out our preliminary analysis and views (where we have them).

#### 4.1 Analysing the financial costs of supplying taxi services

As Chapter 1 discussed, we have commissioned The CIE to survey taxi operators and drivers to obtain data on the costs, revenue and utilisation of taxi services. We have asked The CIE to focus particularly on identifying any differences in costs, revenues and utilisation between regions, including different areas covered by the country fare schedule.

We encourage all drivers and operators to participate in the survey. We expect that the data obtained will be sufficient to conduct more detailed analysis of the financial costs of supplying taxi services in country and other urban areas. However, it may still be insufficient for detailed comparisons between areas. Therefore, we will also use other available data sources to assist with this analysis.

##### 4.1.1 Information we have about financial costs from 2011/12

The financial costs of supplying taxi services include driver labour costs, operator labour costs, vehicle costs (including purchase or lease, fit-out, insurance, maintenance and fuel), network fees and taxi licence lease costs.

Using data from The CIE's 2011 survey, Table 4.1 shows the **average** annual financial costs per taxi in urban (including Sydney) and country areas in 2011/12. It shows that **on average**:

- ▼ driver labour was the largest cost, making up more than 40% of the total annual costs in both urban and country areas in 2011/12
- ▼ licence lease costs were the second largest cost in urban areas (17.2%) while network fees were the second largest in country areas (12%).

Some of these financial costs are fixed, while others are variable. Fixed costs are incurred whether or not the taxi is driven. They include network fees, insurance, operator administration and vehicle lease costs. Variable costs depend on when and how the taxi operates. For example, they include driver labour and cleaning costs (which vary by the shift worked) and fuel and maintenance costs (which vary by the distance driven).

**Table 4.1 Estimated average financial cost of supplying taxi services in 2011/12, per taxi per year (weighted average for unrestricted taxis and WATs)(\$2011/12)**

Cost item	Urban (including Sydney)		Country		Type of cost
	\$/year/taxi	%	\$/year/taxi	%	
Driver labour costs	62,673	41.5	58,351	42.3	Varies by shift
Network fees	7,430	4.9	16,540	12.0	Fixed, but potential for different fee structures
LPG fuel	14,847	9.8	14,165	10.3	Varies by distance driven
Licence lease costs	25,940	17.2	13,258	9.6	Fixed
Insurance	13,368	8.9	8,501	6.2	Fixed
Maintenance costs	7,580	5.0	8,604	6.2	Varies by distance
Operator administration	9,328	6.2	8,304	6.0	Mainly fixed
Vehicle lease payments	6,460	4.3	7,024	5.1	Fixed
Cleaning	3,244	2.2	3,361	2.4	Varies by shift
<b>Total costs (per taxi)</b>	<b>150,869</b>	<b>100</b>	<b>138,108</b>	<b>100</b>	

**Note:** Figures may not add due to rounding. 'Fixed' refers to a fixed dollar amount.

**Source:** IPART, *2012 Review of Taxi Fares in NSW - Final Report and Recommendations*, June 2012, p 20.

#### 4.1.2 How we will update this information for 2014/15

The CIE will develop estimates of the financial costs of providing taxi services using an approach similar to the one which it used in 2011. This approach will involve three main steps.

Firstly, The CIE will identify the costs to be included. It has consulted with taxi industry stakeholders in developing both the questionnaires for the 2011 survey and the current survey.

Secondly, it will determine the best way to measure the costs. This will depend on a range of factors, including:

- ▼ whether the costs are fixed or variable
- ▼ whether they are capital-related, labour-related or other (capital costs can be treated as annual lease amounts or as depreciation and a return on an asset)
- ▼ whether they can be obtained from a third party source (such as an insurance company quote, a used vehicle price guide) or only by surveying drivers and operators.

Two costs in particular may be more difficult to measure for taxi services outside Sydney (compared to services in Sydney). These are:

- ▼ **Operator administration costs.** In areas outside Sydney, particularly in country areas, most operators own their licences.<sup>28</sup> Therefore, it can be difficult to distinguish their operator administration costs from the economic rents retained by the operator as a result of owning their licence. However, we may be able to assess these costs by benchmarking operator administration costs against the hourly rate for administrators in other industries.
- ▼ **Network fees.** In country areas, a co-operative network structure is more common than in urban areas. Under this structure, costs are not allocated neatly into driver, operator, network and licence owner categories as they are in Sydney, so working out network fees on an annualised basis will be more challenging.

Third, The CIE will conduct a new driver and operator survey and analyse the resulting data. This survey is anonymous. Survey questionnaires will be mailed to all authorised drivers and active accredited operators in NSW. The survey questionnaires will also be available online.

Once the survey data has been collected and collated, The CIE will analyse how to group the data and develop the table of costs. The costs will also need to be verified, where possible. In 2011, one of the main ways we did this was by releasing a draft report on The CIE's findings and analysis for consultation.<sup>29</sup>

## 4.2 Licence lease costs are an economic rent not an efficient cost

While the cost of obtaining a taxi licence is an actual financial cost to a taxi operator (whether the licence is purchased or leased), it is not an efficient cost because a taxi licence itself has no productive value. Rather, as previously discussed, licence lease costs reflect the cost of obtaining a taxi licence, or its scarcity value, and thus are economic rent.

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<sup>28</sup> In country areas, almost 70% of taxi operators own their own licence. In Newcastle 45% own their own licence and in Wollongong 40% own their own licence. (Data from Transport for NSW.)

<sup>29</sup> The CIE, *Reweighting of the taxi cost index - Draft Report*, December 2011.

As part of this review, we want to identify the level of any economic rent included in the financial costs and thus in current fares. One way to do this would be to estimate the financial lease cost based on the licence lease price, as we did in Sydney. However, this is not as easy in areas outside Sydney, because in these areas – particularly country areas – most operators own their own lease. This means their financial lease cost is less readily directly observable than it is in Sydney.

An alternative way would be to look at reported licence transfer (sale) prices outside Sydney. In the absence of licence lease cost data, we can use licence sale prices to estimate the annual economic rent associated with licences by assuming the relationship between licence sale prices and licence lease cost for Sydney (where data is available for both) also holds for areas outside Sydney (where only sale price data is available).

However, we recognise that this relationship may be different in areas outside Sydney. For example, outside Sydney:

- ▼ Licences are more likely to be purchased from owner/operators, which means that the licence sale prices may reflect other aspects of the business, such as the remaining vehicle life (if bundled with a vehicle), or the goodwill of the business.
- ▼ The perceived levels of risk associated with purchasing taxi licences may be lower, as the licence reforms in Sydney may have led to greater uncertainty, compared to other urban and country areas.
- ▼ The expectations about future growth in annual income may be different:
  - In Sydney IPART has made fare recommendations in the context that licence lease values will **fall** by 25% in real terms over five years to 2017/18.<sup>30</sup>
  - Demand for taxi services from sources such as population growth, business activity and tourism activity may be changing at different rates than in Sydney.

### 4.3 Comparing current fare levels with those in other states

Regulators or governments in all Australian jurisdictions determine maximum taxi fares. Only in country and regional Victoria since July 2014 can taxi operators 'notify' prices that are above the default regulated fares.

While the maximum fares in other jurisdictions may not necessarily reflect efficient fare levels, they provide a useful comparison.

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<sup>30</sup> IPART, *Review of maximum fares and annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, pp 3, 28-31.

Figure 4.1 and Figure 4.2 show that taxi fares in NSW are at the higher end of the range for taxi fares in Australia.

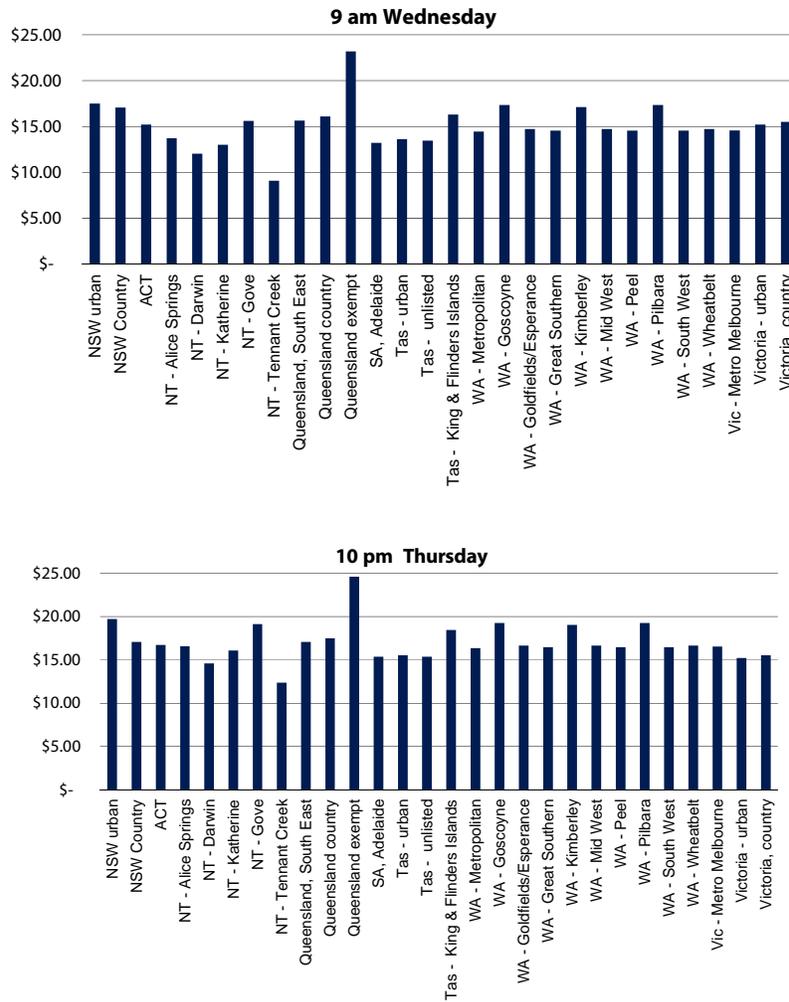
NSW country fares are higher than most areas at most times of the day. This is especially true for longer distance journeys because the distance (per km) rate increases for journeys that exceed 12 km. The distance rate in all other areas is constant, regardless of the length of the journey. The clear exception, where fares are higher, is “exempted areas”<sup>31</sup> in regional Queensland.

NSW urban fares are the highest of all capital cities and are higher than most regional areas except exempted areas in regional Queensland, at most times.

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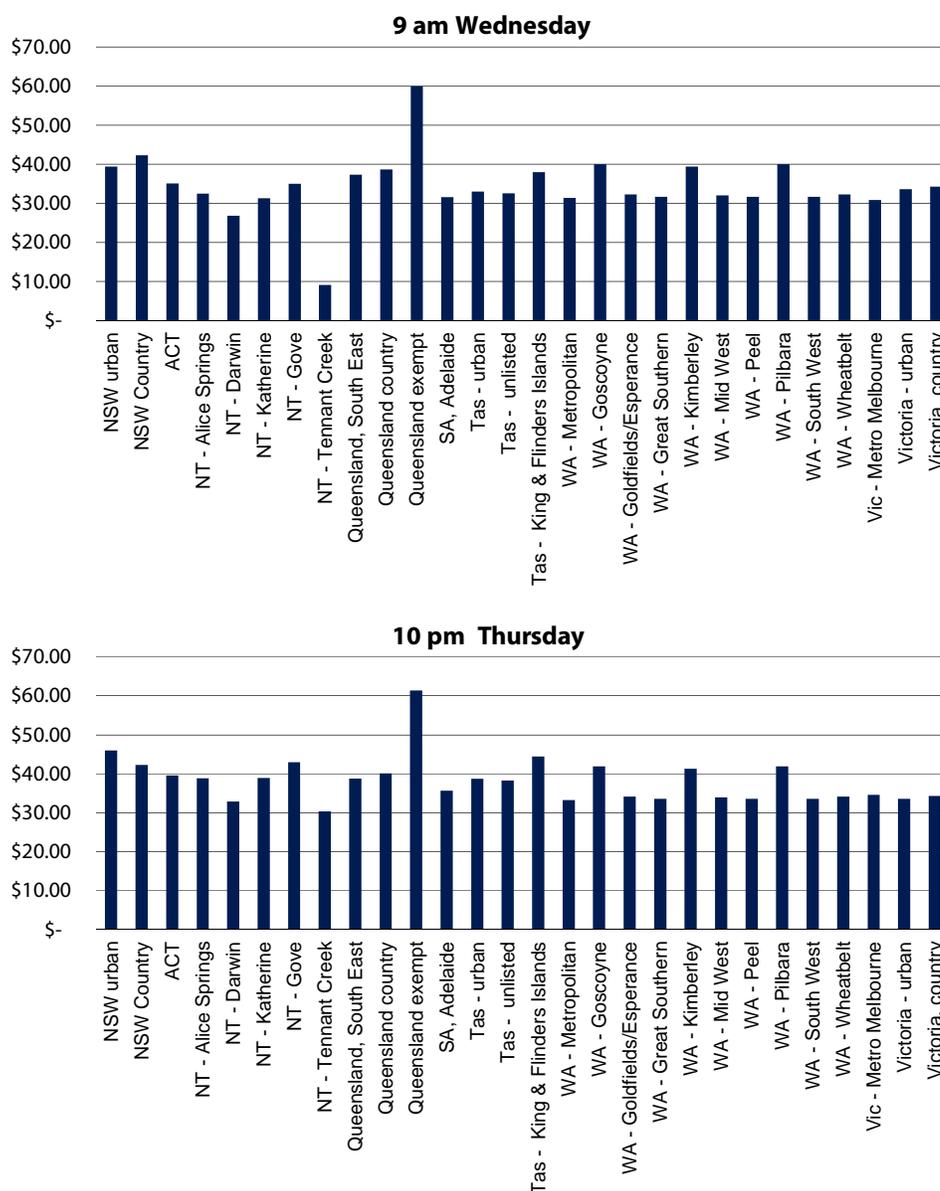
<sup>31</sup> Exempted taxi service licences are issued in areas with small populations which would be unlikely to support a full metered taxi service. (Queensland Government Department of Transport and Main Roads, Taxi fares, service areas and maps, <http://www.tmr.qld.gov.au/Travel-and-transport/Taxis/Taxi-fares-service-areas-and-maps.aspx>, accessed 2 September 2014).

**Figure 4.1 Comparison of fare levels – short journey (5 km)**



**Note:** Fares include a booking fee, where applicable, and 'waiting time' of 0.5 minutes.  
**Data source:** IPART calculations based on regulated maximum taxi fares as at 1 September 2014.

**Figure 4.2 Comparison of fare levels – long journey (15 km)**



**Note:** Fares include a booking fee, where applicable, and 'waiting time' of 0.5 minutes.

**Data source:** IPART calculations based on regulated maximum taxi fares as at 1 September 2014.

## 5 | Taxi fare schedules

As Chapter 2 discussed, historically two taxi fare schedules have applied in NSW:

- ▼ an urban taxi fare schedule, which applies in Sydney, Newcastle, Wollongong and surrounding areas
- ▼ a country taxi fare schedule, which applies in all other parts of NSW except a small number of areas bordering Victoria which are exempt from fare regulation.

The limited data available for country and other urban areas suggests there is significant variation in costs and business structures within these areas, as well as between them. Licensing arrangements also differ between Sydney and all other parts of NSW. We think it is timely to review fares and the fare schedules for country areas and urban areas other than Sydney, and investigate how many fare schedules for areas outside Sydney are appropriate.

As Chapter 4 discussed, we will gather information on and review the costs of operating taxi services in areas outside Sydney, including analysing where there are differences in those costs.

Our preliminary view is that there are differences in cost structures between areas outside Sydney that mean we are likely to recommend two or more fare schedules to apply in areas outside Sydney. We propose to try to group areas with similar efficient cost structures.

The section below discusses the number of fare schedules used in other states and territories. The subsequent sections discuss how we propose to establish the right number of fare schedules and, if this number is more than one, how we will determine the areas to be covered by each schedule.

### 5.1 Number of fare schedules in other states

Most other states and territories have more fare schedules than the current two in NSW. As Table 5.1 shows, Queensland and Victoria have three fare schedules, Tasmania has four, the Northern Territory has five, and Western Australian has ten. We consider that the number of fare schedules for NSW could fall in this range.

In South Australia, fares are set for Adelaide, and country operators can set their fares within 20%, and higher if approved.<sup>32</sup> Only one jurisdiction, Tasmania, has a separate fare schedule for WATs, although this is currently being reviewed.<sup>33</sup>

The number and basis of fare schedules has been recently reviewed in Western Australia and Tasmania:

- ▼ In 2013, the Western Australia Government realigned regional fare zones so that it can adjust fares using a Regional Price Index published by the Department of Regional Development. Historically, it adjusted regional fares by the same percentage as metropolitan fares which did not take into account the differing costs of living in the regions.<sup>34</sup>
- ▼ In its review of taxi fares in Tasmania, The CIE found that there are significant differences in the cost structure of the taxi industry in different taxi areas in the state.<sup>35</sup> In particular, there are large differences in the value of licence plates across areas with the same fares. This indicates there is significantly more scope to reduce fares in some areas (eg, Hobart) compared to other areas.

The CIE suggested that the Tasmanian Government could address this issue by having revised fare areas to reflect the different cost structures across taxi areas. It also suggested that the Tasmanian Government could consider fare deregulation in smaller areas where licences are worth very little or nothing.

Also of note, since 30 June 2014 operators in Victorian regional and country zones can choose to set their own fares and notify them to the Taxi Services Commission (a posted price regime).<sup>36</sup>

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<sup>32</sup> Service SA, personal communication, 11 September 2014.

<sup>33</sup> Department of State Growth, personal communication, 1 September 2014.

<sup>34</sup> Department of Transport, 'Taxi fares', <http://www.transport.wa.gov.au/taxis/taxi-fares.asp>, accessed 21 July 2014.

<sup>35</sup> The CIE, *Setting taxi fares in Tasmania*, Final Report, April 2013, pp 59-60.

<sup>36</sup> Taxi Services Commission, Price notification, <http://www.taxi.vic.gov.au/taxi-reform/reforms-implemented/price-notification>, accessed 1 September 2014.

**Table 5.1 Fare schedules in other jurisdictions, as at 1 September 2014**

State/ territory	Fare schedules
Australian Capital Territory	▼ One schedule only
Northern Territory	<ul style="list-style-type: none"> <li>▼ Alice Springs</li> <li>▼ Darwin</li> <li>▼ Katherine</li> <li>▼ Gove</li> <li>▼ Tennant Creek</li> </ul>
Queensland	<ul style="list-style-type: none"> <li>▼ South-east Queensland</li> <li>▼ Regional areas</li> <li>▼ Exempt areas<sup>a</sup></li> </ul>
South Australia	▼ One schedule only (Adelaide)
Tasmania	<ul style="list-style-type: none"> <li>▼ Hobart, Launceston, Devonport, Burnie, West Tamar, Ulverstone, Perth</li> <li>▼ King Island &amp; Flinders Island</li> <li>▼ Other areas</li> <li>▼ WAT in all areas</li> </ul>
Victoria	<ul style="list-style-type: none"> <li>▼ Zone 1: Metropolitan Melbourne, Frankston, Dandenong, Port Phillip and Western Port</li> <li>▼ Zone 2: Urban areas (Ballarat, Bendigo and Geelong)</li> <li>▼ Zone 3: Regional areas and Zone 4: country areas<sup>b</sup> (Operators in these zones can choose to set their own fares and notify them to the Taxi Services Commission)</li> </ul>
Western Australia	<ul style="list-style-type: none"> <li>▼ Metropolitan Perth</li> <li>▼ Gascoyne</li> <li>▼ Goldfields/Esperance</li> <li>▼ Great Southern</li> <li>▼ Kimberley</li> <li>▼ Mid West</li> <li>▼ Peel</li> <li>▼ Pilbara</li> <li>▼ South West</li> <li>▼ Wheatbelt</li> </ul>

<sup>a</sup> Taxi service areas have been declared exempt to enable the establishment of a taxi service, which would not be viable if metered taxi licence conditions were to be met.

<sup>b</sup> Zone 3 comprises service areas of population sizes around 10,000 - 20,000. Zone 4 comprises all other parts of the State not covered by Zones 1, 2 and 3. (Victorian Government, *Government Response - Taxi Industry Inquiry Final Recommendation*, May 2013, pp 8-9).

**Source:** Road Transport Authority, Taxi Fares, <http://www.rego.act.gov.au/more/public-vehicles/taxi-service-information/taxi-fares>, accessed 1 September 2014; Department of Transport, CPV Taxi Tariffs, <http://www.transport.nt.gov.au/taxi/aboutus/tariffs>, accessed 21 July 2014; Department of Transport and Main Roads, Taxi service areas, <http://www.tmr.qld.gov.au/Travel-and-transport/Taxis/Taxi-fares-service-areas-and-maps.aspx>, accessed 21 July 2014; Taxi Council SA, Fees and charges, <http://www.taxicouncilsa.com.au/industry.html>, accessed 21 July 2014; Department of State Growth Transport, Taxi Fares, <http://www.transport.tas.gov.au/passenger/taxi/catching-a-taxi>, accessed 21 July 2014. Taxi Services Commission, Taxi fares, <http://www.taxi.vic.gov.au/passengers/taxi-passengers/taxi-fares>, accessed 1 September 2014; Department of Transport, <http://www.transport.wa.gov.au/taxis/taxi-fares.asp>, accessed 1 September 2014.

## 5.2 Establishing the right number of fare schedules for NSW

Having a single fare schedule to cover all country areas, where there are significant cost and utilisation differences between areas, may result in fares which are too high in some areas. On the other hand, a single fare schedule has the benefit of simplicity.

Similarly, a single fare schedule to cover Sydney and other urban areas – particularly given that those urban areas are quite close geographically to Sydney – has the benefit of simplicity, but may not result in fares which are appropriate for all areas where they apply.

Potentially, a posted price regime, where taxi companies are able to set their own prices (published and notified in advance) would result in more efficient fares, as taxi business operators are able to price according to their knowledge of their own costs and operating conditions. However, as we have previously noted, this may expose passengers to overcharging where there is insufficient competition in the taxi market.

Our preliminary view is that we should seek to better match costs to fare schedules where we can group taxi operating areas by similar characteristics, without unnecessarily creating complexity of charging arrangements.

We are also interested in how taxis near the NSW and Queensland border operate and whether they should be exempt from fare regulation, similar to operating areas bordering Victoria.

IPART seeks comments on the following:

- 12 There are currently two fare schedules that apply outside Sydney, an urban fare schedule and a country fare schedule. Do you support having more fare schedules? If so, how many fare schedules do you think there should be?
- 13 A small number of areas bordering Victoria are exempt from fare regulation. Should areas close to the NSW/ Queensland border also be exempt?

### **5.3 Grouping operating areas if different fare schedules are going to apply**

We propose to analyse the data gathered by The CIE's survey of taxi drivers and operators to see whether there are clear differences in cost structures that suggest ways of grouping operating areas into different fare schedules. There may also be other ways of classifying operating areas – such as by population – that are simpler to apply and also effectively capture significant variations in cost structures.

We have some indicators from the 2011 taxi driver and operator survey about which costs are the most variable across NSW. In particular, data from this survey indicate there is significant variation amongst country areas in network fees, LPG fuel costs and licence lease costs.<sup>37</sup> However, these results are based on a relatively small number of samples.

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<sup>37</sup> The CIE, *Reweighting of the taxi cost index*, Final Report, April 2012, pp 43, 47, 98, 99.

We are interested in whether these or other regional variations, such as operating area population, are a sound basis for different fare schedules in different areas.

- 14 How do you think we should group operating areas if there are multiple fare schedules?

### 5.3.1 Network fees – a cost that varies across NSW

In the 2011 survey, The CIE collected data on network fees for 12 urban networks and four country networks. A comparison of the data showed that network fees were very different for each of the four country networks and that they were higher than urban network fees. The CIE noted that network fees quoted by country networks might include other costs.<sup>38</sup>

IPART seeks comments on the following:

- 15 Why might network fees vary between different operating areas?

### 5.3.2 Fuel costs – a cost that varies across NSW

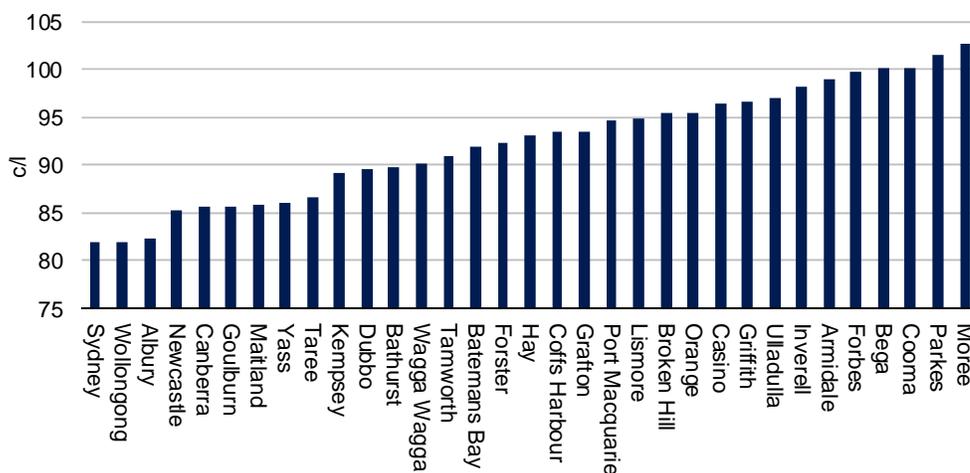
IPART monitors LPG prices on an ongoing basis, using monthly data from FUELtrac. Figure 5.1 shows the average retail price for the 2013/2014 financial year in the areas for which we have data. The most expensive place for fuel (Moree) was around 25% more expensive than the cheapest (Wollongong) (excluding Sydney).<sup>39</sup>

In its 2011 survey, The CIE found significantly more variation in fuel cost reported by country respondents than by those in urban areas.<sup>40</sup> This is likely to reflect differences in both price and vehicle utilisation.

<sup>38</sup> The CIE, *Reweighting of the taxi cost index*, Final Report, April 2012, p 47.

<sup>39</sup> FUELtrac, Monthly data provided to IPART.

<sup>40</sup> The CIE, *Reweighting of the taxi cost index*, Final Report, April 2012, pp 98-99.

**Figure 5.1** Average LPG price for financial year 2013/14

Data source: FUELtrac monthly data provided to IPART (<http://fueltrac.com.au/>).

### 5.3.3 Licence lease costs – an indicator of economic rent

As discussed in Chapter 4, high licence lease costs indicate economic rent – or scarcity value. In areas with high licence lease costs, fares also contain economic rent that serves only to maintain the high licence costs.

Potentially we could group operating areas on the basis of the licence lease costs.

IPART seeks comments on the following:

- 16 Are licence lease costs a good basis for grouping operating areas into different fare schedule areas?

### 5.3.4 Operating area population

As noted in Chapter 4, some costs of operating taxi services are variable costs that can be directly attributed to the number of trips. The number of trips, or vehicle utilisation, may be influenced by regional factors such as population of the operating area or proximity to a regional airport.

IPART seeks comments on the following:

- 17 Is population size a good basis for grouping operating areas into different fare schedule areas?

## 6 | How we could adjust fares

As part of this review, we will recommend the maximum fare levels that should apply outside Sydney from July 2015 and each year thereafter, until our next comprehensive review (in around four or five years).

As Chapter 6 discussed, differences in costs and demand characteristics mean that it is unlikely that the efficient fare level will be the same for all operating areas outside Sydney. If we can confirm this is the case, we propose to group areas with similar costs or characteristics to establish new fare schedule areas. Current fares might be efficient in some of these areas, and exceed efficient fare levels in other areas. This means we may apply different annual adjustments in different fare schedule areas.

The sections below outline our proposed approach for adjusting fares, and discuss some key issues we will consider in applying our approach.

### 6.1 Options for adjusting fares

**In areas where we find that fares are at, or close to, efficient levels,** we would propose that fares increase in July 2015, and each year thereafter, in line with the forecast increase in costs. We would propose to apply a cost inflator to the current fare levels to determine how much they should increase. The cost inflator should reflect the likely cost, and therefore fare, outcomes of a competitive market.

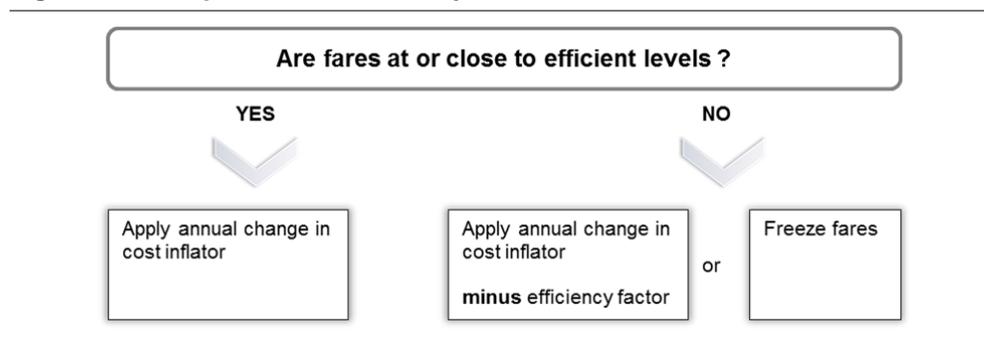
**In areas where we find that fares are higher than efficient levels,** we would propose that fares move closer to efficient levels over time. We are considering two options for how to do this:

- ▼ applying a cost inflator and a constant efficiency factor until fares are closer to efficient levels, or
- ▼ freezing fares in nominal terms until they are closer to efficient levels.

We do not expect to find that fare revenue is lower than the efficient costs of supplying taxi services in any area, because this would mean that supplying taxi services in that area is not financially viable. However, if we find that this is the case we may consider a one-off adjustment to fare levels in these areas to increase them to efficient levels.

The options we are considering are summarised in Figure 6.1.

**Figure 6.1 Options for annual adjustments of fares**



Our preliminary view is that we would use the same method of adjusting fares each year for the next four or five years and then review our approach. Major periodic reviews are necessary because markets, technology, and regulatory requirements change, and so the fare setting arrangements may not remain appropriate in the medium to long term.

## 6.2 What cost inflator should we use?

Several of our proposed approaches for adjusting fares involve the use of a cost inflator. A cost inflator measures the changes in costs over a given period. For the purpose of price regulation, a cost inflator should:

- ▼ account for a reasonable estimate of the annual cost changes in the industry, taking into account changes in both input costs and productivity (ie, how many trips are taken per year)
- ▼ rely on independent and verifiable data that is publicly available
- ▼ represent a reasonable balance between simplicity and transparency on the one hand and accuracy on the other hand.

We consider that there are two main alternatives for a cost inflator to adjust taxi fares:

- ▼ an industry-specific cost index, similar to the TCI that we have used previously
- ▼ the Consumer Price Index (CPI) or a subcomponent of the CPI.

Whichever of these alternatives we choose, we also need to consider how we would treat licence lease costs and take account of productivity improvements.

IPART seeks comments on the following:

- 18 For annual adjustments to fares, should IPART use an industry-specific cost index (similar to the "taxi cost index" that we have used previously), the CPI or a subcomponent of the CPI?

### 6.2.1 An industry-specific cost index

Between 2001 and 2012, we recommended fares based on the changes in an industry specific index, the TCI. A cost index is designed to measure, in percentage terms, how much the overall cost of providing a particular good or service has changed.

A cost index consists of a 'basket' of cost items that are typical for a good or service that are weighted according to the proportion of the overall cost of providing the service that they represent (eg, if paying wages is 40% of total costs then it has a weighting of 40%). A cost index could be more or less complicated, depending on how many cost items are separately indexed.

Table 6.1 shows the cost components and the inflators that we used for the country TCI in 2012. We used the same inflators for urban areas. However, the cost weightings, and therefore the contribution of each component to the fare change, were different.

**Table 6.1 The 2012 taxi cost index, country areas**

Cost item	Proportion of total costs (%)		Inflator	Contribution to fare change (%)
Driver labour costs	42.3	x	3.7% WPI	= 1.5
Operator administration	6.0	x	3.7% WPI	= 0.2
LPG fuel	10.3	x	12% <sup>a</sup> Fueltrac LPG data	= 1.2
Maintenance costs	6.2	x	1.7% CPI Maintenance and repair	= 0.1
Licence lease costs	9.6	x	0.0% Zero	= 0.0
Insurance	6.2	x	6.3% CPI insurance	= 0.4
Vehicle lease payments	5.1	x	-1.8% CPI motor vehicles	=-0.1
Network fees	12.0	x	3.1% CPI	= 0.4
Cleaning	2.4	x	3.1% CPI	= 0.1
<b>Total costs (per taxi)</b>	<b>100.0</b>			<b>Fare change= 3.6</b>

<sup>a</sup> Includes forward adjustment of LPG excise increase.

Source: IPART, 2012 review taxi fares in NSW – Final Report and Recommendations, June 2012, p 18.

Industry-specific cost indices are most useful when the costs include significant volatile components (such as fuel), or when an industry's costs tend to increase at a different rate to general prices in the medium term. However, even if these conditions are present, a cost index will only perform better than a general price index if the cost index weights and inflators accurately capture underlying costs and industry-specific changes in productivity.

As part of this review, we intend to collect survey data to measure the actual changes in each of the cost components compared to 2011. This may allow us to assess the accuracy of the individual inflators.

Depending on what the data show about how well the inflators performed against the historical cost changes, one alternative is to construct a **simpler cost index**, comprising fuel (which is the most volatile component), and other costs. IPART used this approach in our most recent review of fares for private ferry services (see Box 6.1).

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### **Box 6.1 A simplified index for pricing private ferry services**

In IPART's 2014 review of fares for private ferry services, we simplified our methodology by applying only 2 inflator values (instead of the 5 different inflators we applied previously). The inflators we used were:

- ▼ the FUELtrac index to the fuel cost component, and
- ▼ the CPI to the 'all other costs' component.

**Source:** IPART, *Review of maximum fares for private ferry services and the Stockton ferry service for 2014 - Final Report and Recommendations*, December 2013, pp 5, 14.

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### **6.2.2 The CPI or subcomponent of the CPI**

As an alternative to using an industry-specific cost index, we could inflate fares each year by the CPI or a subcomponent of the CPI. The CPI is widely applied to other regulated fees and price changes, is simple, fairly predictable, publically available and widely accepted.

The CPI measures the change in the prices paid by consumers for a basket of Australian-produced and imported products. This change, which is measured for Sydney and for all Australian capital cities, reflects:

- ▼ wage outcomes across the relevant area
- ▼ changes in other input costs
- ▼ the economy-wide change in productivity
- ▼ the movement in the exchange rate, which is passed through in the price of imported products and Australian-produced traded goods.

However, the basket of products used for the CPI is different from the ‘basket’ of services provided by the taxi industry. An alternative might be to use a subcomponent of the CPI that is more appropriate to the taxi industry. In particular, we could use the ‘private motoring’ sub-component, which includes costs such as vehicle acquisition, fuel, maintenance and running costs (see Table 6.2).

While the underlying cost categories in the private motoring sub component are more relevant to the taxi industry, they only represent some of the costs incurred in running a taxi. Importantly, they do not include wage costs, which typically represent about half a taxi’s total costs as noted above. Because the CPI *does* reflect the general wage increases, it may better reflect changes in taxi industry costs than the private motoring subcomponent. It is also more widely used and accepted in relation to price changes.

**Table 6.2 The private motoring components of CPI**

Motor vehicles	30%
Spare parts and accessories for motor vehicles	9%
Automotive fuel	33%
Maintenance and repair of motor vehicles	15%
Other services in respect of motor vehicles	12%
Total	100%

**Source:** ABS, 6440.0 - *A Guide to the Consumer Price Index: 16th Series*, 2011, Appendix 1 and Appendix 2; IPART calculations.

### 6.2.3 Treatment of licence lease costs

Licence lease costs are not determined independently of fares. Rather they are a function of the supply (or scarcity) of taxi licences, and the demand to lease these licences.

Operators have a limited opportunity to ‘shop around’ for another licence when licence owners increase their lease fees. This means that in the past, 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.

When we set fares in 2012, we removed this circularity by setting the annual licence cost inflator to zero. However, we did not seek to remove the additional costs already included in fares through applying this approach in the past.

### 6.2.4 Productivity adjustments

Whichever cost inflator we propose for adjusting fares annually, we need to take into account changes in both input costs and productivity (ie, how many trips are taken per year).

The productivity adjustment required will depend on the composition of the selected cost inflator:

- ▼ **Input** price indices do not reflect any change in productivity. For example, the wage price index (WPI) simply measures the cost of an hour of labour input, without any regard to whether or not that hour of labour is used to pick up more or less customers over time.
- ▼ Because the CPI and its subcomponents measure changes in **outputs**, they do capture productivity improvements. For example, a type of medicine might be 10% cheaper to produce because the business has become more efficient, even though input price have remained unchanged. The CPI will then fall despite no change in input prices.

### 6.3 Moving fares closer to efficient levels

As Figure 6.1 above shows, we consider there are two options for adjusting fares in schedule areas where current fares are higher than efficient levels:

- ▼ freezing fares in nominal terms (which will be a fall in fares in real terms) until they are closer to efficient levels, taking into account changes in costs over time, or
- ▼ applying a cost inflator and a constant efficiency factor until fares are closer to efficient levels.

Both these options aim to reduce the economic rent component of fares, that is, to reduce licence lease costs.

For both options, we would need to consider how much licence costs should reduce by. We would also need to consider how long it should take fares to reach more efficient levels. Depending on the value of the efficiency factor in the second option (applying a cost inflator and a constant efficiency factor), fares could move towards efficient levels more quickly or more slowly than the first option (freezing fares).

We acknowledge that some licence holders could make a loss on their investment if licence lease costs fall. We therefore consider any fare adjustments should be implemented gradually. As for our review of Sydney fares and licences (see Box 6.2), we will aim to make recommendations that do not lead to outcomes that have an unreasonable impact on licence holders.

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### **Box 6.2 Transition path for reducing economic rent in Sydney**

When we recommend licence numbers for Sydney, our terms of reference require us to consider balancing the need for a more affordable means of entry into the taxi market with the need to avoid unreasonable impact on licence owners.

We are currently consulting on fares and licence numbers for Sydney, and what an unreasonable impact on licence holders would be. However, in our previous reviews, we have considered that a 25% reduction in licence lease values in real terms over five years is not an unreasonable impact. This means that after five years, all else being equal, the impact of our recommendation would mean that fares will still reflect 75% of the economic rent relating to licence lease costs.

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IPART seeks comments on the following:

- 19 In areas where fares exceed efficient levels, should IPART recommend freezing fares in nominal terms until they are closer to efficient levels, or applying a cost inflator and a constant efficiency factor for a fixed time?

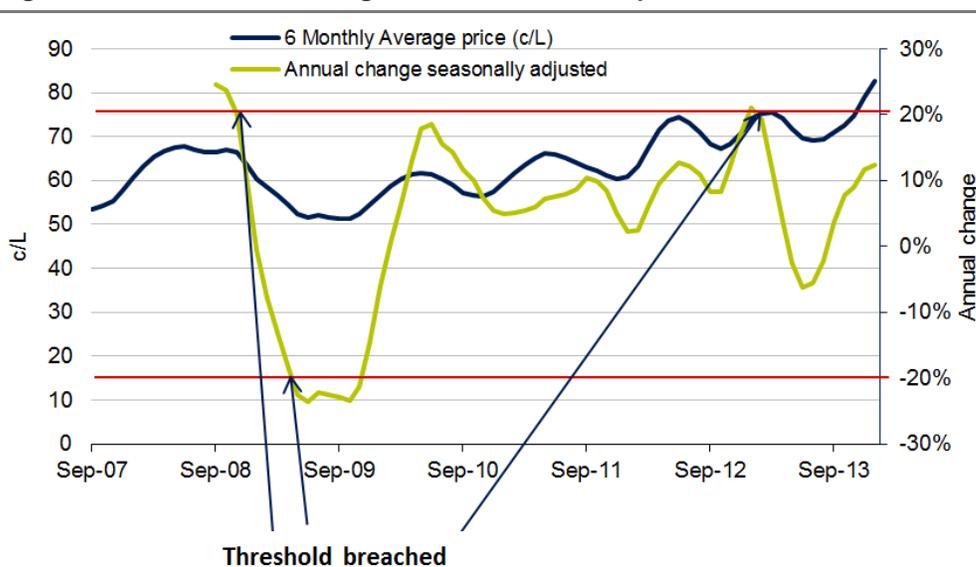
### **6.4 Fuel costs and the LPG review**

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). As discussed in section 5.3.2 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 review of fares last year, 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).<sup>41</sup>

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<sup>41</sup> IPART, *Review of maximum taxi fares and review of annual Sydney taxi licences from July 2014 – Final Report and Recommendations*, February 2014, pp 49, 58. IPART, *Review of maximum taxi fares in country areas from July 2014 – Final Report and Recommendations*, February 2014, pp 7-8.

**Figure 6.2** Historical changes in urban LPG fuel prices

Data source: IPART analysis and FUELtrac data.

We reviewed LPG prices each month after we submitted our final report to Transport for NSW in February 2014, and in June 2014 we found that LPG prices in urban areas in the six months to the end of May 2014 had risen by more than the threshold 20% compared to the same period the previous year, indicating an increase in costs of 2.3%.<sup>42</sup> 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.

The average price of LPG in country areas over the six months to May 2014 was 9% higher than the six months to May 2013.<sup>43</sup> Because this has not breached the 20% threshold we did not recommend a fare change for country operators under our fare-setting framework.

For this review, we are considering whether to continue the ongoing review of LPG prices for both Sydney and the rest of NSW. 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. 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

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

<sup>42</sup> IPART, *Taxi fares will increase by CPI on 1 July - Fact Sheet*, June 2014, p 1.

<sup>43</sup> IPART, *Taxi fares will increase by CPI on 1 July - Fact Sheet*, June 2014, p 2.

## 6.5 Major periodic reviews of taxi fares

Adjusting fares each year to reflect the change in a CPI or cost index (and an efficiency factor where appropriate) will capture some of the changes of the costs of providing taxi services as input costs, market conditions and technologies change. However, the annual adjustment is unlikely to capture all of these changes. Therefore, efficient costs also need to be reviewed in the medium-term, to allow such changes to be reflected in fares.

The number of years between periodic reviews should reflect a balance between the administrative burden a review involves and the risk that annual fare adjustments do not reflect changes in efficient costs and/or that the regulatory arrangements have become out-dated. We consider it appropriate to review the methodology every four to five years and apply a consistent method of annual fare adjustments in between reviews.

Our preliminary view is that at the time of the periodic reviews we should:

- ▼ assess the current fare levels against the efficient fare levels - this should inform the need for a higher or lower efficiency factor where fares still exceed efficient level
- ▼ assess whether the level of competition is sufficient to move to a more light-handed form of regulation
- ▼ update cost weights
- ▼ consider the extent to which the services provided are meeting the standards required by consumers and whether fares could be an effective tool to address this issue
- ▼ consider issues related to the structure of fares.

## 7 | 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, by the level of congestion on the road, by time of day/time of week and by how the taxi is hired (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.

As part of this review, we will consider the balance between the various fare components, and whether there should be additional fare components.

### 7.1 Current fare structure for urban and country fares

Currently, the fare on any given taxi trip in NSW includes a combination of:

- ▼ a fixed hiring charge
  - urban fares have a higher hiring charge on Friday and Saturday nights while country areas have the same hiring charge at all times
- ▼ a distance-based rate
  - a higher distance rate applies in country areas for trips over 12km
  - a surcharge of 20% of the distance rate applies between 10pm and 6am daily in all areas
  - a surcharge of 20% of the distance rate applies all day Sunday and public holidays in country areas
- ▼ a time-based waiting time rate (which applies when the taxi's speed drops below 26 km per hour)
- ▼ a booking fee (for booked trips), and
- ▼ other charges, such as maxi taxi surcharge, road tolls and airport charges etc.

The current fare components in urban and country areas are summarised in Table 7.1.

**Table 7.1 Taxi fares from 1 July 2014**

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

<sup>a</sup> Charged between 10pm and 6am on Friday and Saturday nights and the night before a public holiday.

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

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

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

**Source:** Transport for NSW, <http://www.transport.nsw.gov.au/content/maximum-taxi-fares-and-charges>, accessed 10 July 2014.

## 7.2 An efficient fare structure

An efficient fare structure would mean that taxi drivers are willing to meet passenger demand for different types of trips. For example, the relativities between:

- ▼ the distance rate and the hiring charge should provide drivers incentives to pick up both long and short fares
- ▼ the waiting rate and the distance rate should incentivise drivers to take the fastest route (either by avoiding congestion or travelling the shortest distance).

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

Imbalances in fares also affect the choices made by potential passengers. An excessively high hiring charge could mean that passengers stop using taxis for short trips, and use alternative transport options or choose not to travel at all. This could reduce overall demand for taxi services. Box 7.1 shows how changes in fare structure affect fares for different length trips.

It is difficult to apply traditional economic fare setting approaches, such as marginal cost pricing, to taxi services because a large proportion of costs cannot be attributed to a particular journey – including:

- ▼ vehicle costs, insurance costs, which are fixed regardless of the number of journeys
- ▼ fuel costs when the driver is travelling between journeys.

Therefore our approach to considering fare structure is to seek stakeholder feedback on whether there are currently imbalances in the market that have resulted in customers facing difficulties getting taxis for particular journeys.

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### **Box 7.1      How do changes in fare structure affect fares for different length trips?**

Currently a 2 km trip at 10am in a country area costs around \$8.60, while a 12 km trip at 10 am in a country area costs around \$31.20.

If the distance rate was left unchanged and the hiring charge was increased by 10%, the fare change for each trip would be:

- ▼ A 4.8% increase for the 2 km trip.
- ▼ A 1.3% increase for the 12 km trip.

Alternatively, if the hiring charge was left unchanged and the distance rate was increased by 10%, the fare change for each trip would be:

- ▼ A 5.2% increase for the 2 km trip.
- ▼ A 8.8% increase for the 12 km trip.

This demonstrates that:

- ▼ Increasing the hiring charge relative to the distance rates has a larger impact on shorter trips; and
- ▼ Increasing the distance rate relative to the hiring charge has a larger impact on longer trips.

**Note:** This assumes a constant speed for the entire journey above 26 km per hour.

**Source:** Adapted from The CIE, *Setting taxi fares in Tasmania*, Final Report, April 2013, p 36.

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IPART seeks comments on the following:

- 21 How does the existing fare structure impact on the availability of taxi services?
- 22 In which areas, if any, do customers face difficulties getting a taxi for shorter distances? In which areas, if any, do customers face difficulties getting a taxi for longer distances?

## 8 Other considerations

Our terms of reference require us to consider several other matters in recommending prices (ie, fares), including:

- ▼ the need to maintain ecologically sustainable development
- ▼ the effect of our recommendations on the level of Government funding
- ▼ the standards of quality, reliability and safety of taxi services outside Sydney.

The section below how we proposed to consider these matters.

### 8.1 The need to maintain ecologically sustainable development

We know that taxi trips are currently a very small proportion of total trips in Sydney<sup>44</sup> and we expect that the proportion is even smaller in areas outside Sydney. Therefore, our preliminary view is that there is limited scope to further ecologically sustainable development through fares. We expect the impact of our recommendations on pollution and congestion is likely to be small, therefore we do not think our recommendations would have a significant impact on the environment.

IPART seeks comments on the following:

- 23 How should we consider matters relating to ecologically sustainable development when recommending fares outside Sydney?

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<sup>44</sup> The Bureau of Transport Statistics' 2011/12 Household Travel Survey Summary Report indicates that taxi trips account for 0.6% of average weekday trips in Sydney. (Bureau of Transport Statistics, *2011/12 Household Travel Survey Summary Report*, 2013 Release, p 31.)

## 8.2 The effect of any pricing recommendation on the level of Government funding

The NSW Government provides funding to taxi users whose transport options are restricted due to a severe and permanent disability. The Taxi Transport Subsidy Scheme (TTSS) subsidises these customers up to 50% of the fare, for up to \$30 per trip. In 2012/13, \$25.9 million was paid in subsidies and there were 67,500 people registered for the scheme.<sup>45</sup> We will consider the impact of our recommendations on the level of this subsidy that is paid.

The price of taxis may also affect the level of demand for community transport. Some of the users of community transport require point to point transport services, but are priced out of the market for taxi services. We are seeking information on the cost of these services and the extent to which they are substitutes for taxis.

State and Commonwealth governments fund community transport. Transport for NSW allocates money to community transport through two programs:

- ▼ Home and Community Care Community Transport Sub-program.<sup>46</sup>
- ▼ NSW Community Transport Program.

Funds under these programs are directed to service providers which include community organisations and local councils.

Some local councils operate their own budget-funded schemes as well, or offer grants to organisations funded under Commonwealth and/or state government schemes.

IPART seeks comments on the following:

- 24 What is the cost of providing community transport, and to what extent do taxis displace demand for community transport?
- 25 Are there any other areas of Government funding that are likely to be affected by fare levels?

## 8.3 Service standards

Our terms of reference require us to consider standards of quality, reliability and safety of taxi services.

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<sup>45</sup> Transport for NSW, *Annual Report 2012-13*, p 55.

<sup>46</sup> Since 1 July 2012, the Australian Government has assumed full funding and operational responsibility for HACC services for people aged 65 and over. States and territories are responsible for HACC services for people aged under 65. (Transport for NSW, 'Home and community care (HACC) - community transport sub-program', <http://www.transport.nsw.gov.au/content/home-and-community-care-hacc-community-transport-sub-program>, accessed 28 July 2014.)

Transparent, accurate and targeted information on service performance is essential for accountability and regulation that promotes competition and productivity, and helps us to understand whether taxis are meeting customers' needs. For taxi services outside Sydney, we are interested in whether there are significant differences in service performance and customer satisfaction between areas.

For our reviews of Sydney fares and licence numbers, we obtained data by conducting a survey of Sydney residents (in November 2012 and 2013 and in February 2014) on their experience with taxis in Sydney and the reasons they do and do not hire taxis. This garnered valuable information passenger views on affordability, their experience of waiting times and other aspects of taxi performance.

For Sydney, taxi networks also report on KPIs under their network standards and submit information to the Customer Feedback Management System. Transport for NSW has also recently developed an 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.

For areas outside Sydney, information is not as readily available. While country and other urban areas are included in the CFMS data, and KPI information is provided for networks in Newcastle and Wollongong, Transport for NSW does not collect information on taxi network performance in country areas and the customer satisfaction index only applies to Sydney.

We are attempting to obtain better information about passenger experiences with taxi services outside Sydney for this review. As discussed in Chapter 1, we have developed an on-line survey which is available on our website. Specifically, we would like to obtain:

- ▼ insight into the main reasons customers hire taxis in different areas of NSW
- ▼ information on the availability of taxi services
- ▼ feedback on the affordability of current fares
- ▼ information on what alternative transport modes are used.

We are also interested in your responses if you thought about hiring a taxi but decided not to. You can participate in this survey by going to the following link: [http://www.ipart.nsw.gov.au/Home/Taxi\\_Survey](http://www.ipart.nsw.gov.au/Home/Taxi_Survey).





## **Appendices**



## A Terms of reference

### 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

## Glossary

ABS	Australian Bureau of Statistics
Booking fee	Fixed component of fare charged for booking a taxi through a taxi network.
CIE, The	The Centre for International Economics
Cost inflator	A measure of the change in the price of a cost item over time.
Consumer Price Index (CPI)	A measure of inflation, or the change in the cost of living over time.
Distance rate	The fare rate charged when travelling more than a threshold speed, currently 26km/h.
Flag fall	See Hiring charge.
Hiring charge	The fixed fee charged at the beginning of a taxi trip.
LPG	Liquefied Petroleum Gas
IPART	Independent Pricing and Regulatory Tribunal. Provides taxi fare recommendations to Transport for NSW on an annual basis.
Network, taxi	Taxi networks provide a radio booking service to the taxi operators who are affiliated with them, as well as security monitoring services for taxi drivers and passengers. Networks must be authorised by Transport for NSW.
Nominal	Not adjusted for inflation. For example, if something cost \$100 in 1990 and the same thing cost \$100 in 2012, its nominal cost has not changed. However, adjusting for 22 years of inflation, its real cost is lower in 2012 than in 1990.

Real	Prices or costs that have been adjusted for inflation. So something that cost \$100 in 1990 and \$100 in 2012 has had a drop in its real price since 1990. If the measure of inflation (usually CPI) has risen by 30% over that time, the real price of the object in 2012 can be expressed as '\$76.92 in 1990 dollars' (or the real price of the object in 1990 can be expressed as '\$130 in 2012 dollars).
TCIs	Taxi Cost Indices. Historically used by IPART to measure the change in taxi industry costs between fare review periods.
Transport for NSW	The NSW Government agency that regulates taxis.
Wheelchair Accessible Taxi licence (WAT)	A licence to operate a Wheelchair Accessible Taxi. The operator is required to give preference to transporting wheelchair users.

