

# Maximum fares for taxis in NSW for 2007/08

## Recommendations to the Minister

Transport  
July 2007





Independent Pricing and Regulatory Tribunal

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# 1 Introduction and overview

Every year, the Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) reviews maximum fares for taxi services and recommends changes to these fares to the Minister for Transport. The reviews are undertaken in response to a request from the Premier, and relate to taxi services regulated under the *Passenger Transport Act 1990* (see Appendix A for the terms of reference). This report explains the Tribunal's recommended changes to maximum taxi fares for 2007.

Over the past 12 months, the Tribunal has reconsidered its approach to regulating maximum taxi fares. In April of this year, it released a report setting out a number of changes to the method it uses to decide on recommended fare increases.<sup>1</sup> Many of these changes were applied in making the recommendations in this report. However, these recommendations represent an interim stage in the process. The Ministry of Transport is currently working on an industry-wide survey of taxi costs, which the Tribunal expects will lead to further changes in its approach.

The Tribunal would have preferred to wait for the survey results before making its 2007 fare recommendations. However, due to delays in the survey process, it recognises that this would have unreasonably postponed this year's fare increases. The Tribunal is strongly of the view that the survey should be completed in time for its results to be considered in detail at the next fare review.

## 1.1 Overview of recommendations

The Director General of the Ministry of Transport will decide on which date changes to fares will be made. The Tribunal understands that this date is unlikely to be before 21 August 2007. The Tribunal has calculated its recommendations based on a fare change date of 21 August 2007.

The increases in maximum average taxi fares associated with a fare change at 21 August are as follows:

- ▼ For urban taxi fares – an average increase of 6.0 per cent compared with average maximum fares currently in place.
- ▼ For country taxi fares – an average increase of 6.0 per cent compared with average maximum fares currently in place.

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<sup>1</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007.

These recommendations are based on fare increases calculated to 1 July 2007, adjusted for implementation after 1 July 2007. The increases that result from changes to industry costs to 1 July 2007, are:

- ▼ For urban taxi fares – an average increase of 5.1 per cent compared with the average maximum fares currently in place.
- ▼ For country taxi fares – an average increase of 5.1 per cent compared with the average maximum fares currently in place.

## 1.2 Structure of this report

This report sets out the Tribunal's recommendations and explains the basis for these recommendations. The report is structured as follows:

- ▼ Chapter 2 discusses the context for the review, including the changes in the approach used to calculate the required fare increases since last year's review and likely further changes to this approach in future years
- ▼ Chapter 3 sets out the process undertaken by the Tribunal to calculate the change in the cost index since 2006, which informed its recommendations
- ▼ Chapter 4 discusses the Tribunal's productivity adjustment, which it applied to inform its recommendations
- ▼ Chapter 5 outlines the recommended increases to taxi fares by bringing together the increases resulting from the change in the cost index and the productivity adjustment and allocating the resulting increase to average maximum fares.



## 2 Context for the review

The Tribunal has been responsible for recommending annual increases to maximum taxi fares since 2001. In the past, these recommendations were based on a modified version of an industry cost index developed by PricewaterhouseCoopers in 1999 to review and adjust annual fare increases proposed by the NSW Taxi Council.<sup>2</sup>

Over the past 12 months, the Tribunal has reconsidered its approach to regulating maximum taxi fares. In April of this year, it released a report describing a number of changes it intended to make to its approach.<sup>3</sup> Many of these changes were applied in making the recommendations set out in this report. However, a number of changes are still to be made.

This chapter summarises the Tribunal's reasons for going ahead with its 2007 taxi fare review, despite the fact that a number of issues are still to be addressed. It also sets out the changes in the Tribunal's approach since last year's review and provides an overview of the further issues the Tribunal intends to consider in the future, ideally as part of its 2008 review.

### 2.1 Timing of this year's review

The Ministry of Transport has commissioned a survey of the taxi industry. The Tribunal believes the results of this survey will provide sufficient information to allow it to revise a number of aspects of its approach to calculating maximum fare increases.

Following the release of its report on the form of regulation in April 2007, the Tribunal indicated to the Ministry of Transport that it intended to wait for the results of the taxi cost survey before finalising its 2007 recommendations. It considered that this delay was justified, as it would allow the Tribunal to make all its proposed changes at once. At that time, the Tribunal expected that the results of the survey would be available in time for it to report its recommendations to the Minister in September of this year, fully incorporating all methodological changes.

However, in late June the Ministry of Transport wrote to the Tribunal requesting that it make its recommendations as soon as possible rather than waiting for the results of the taxi cost survey, as these results were now not expected to be available for some

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<sup>2</sup> IPART, *Review of fares for taxis in New South Wales in 2006 Report to the Minister for Transport*, July 2006, p 3.

<sup>3</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007.

time. On this basis, the Tribunal agreed to proceed with its 2007 fare recommendations so as not to unreasonably delay fare increases.

In the interests of making its 2007 recommendations as early as possible, the Tribunal decided to make only those changes to the inflators in the cost index that it committed to in its April 2007 form of regulation report (see section 2.2 below). In other respects, the Tribunal has taken an approach of minimal change. The Tribunal intends to review a number of other issues as part of its 2008 fare review, on the assumption that the results of the taxi cost survey will be made available in time for it to fully consider them during the review (see section 2.3 below).

The Tribunal sees the recommendations for 2007 as an interim step towards a more independent and transparent review process that will result in maximum fares that better reflect the costs of providing taxi services and patterns of taxi usage.

## 2.2 Changes made to the taxi cost index since last year's review

In April 2007 the Tribunal indicated that it would retain an industry cost index approach, and would include an adjustment to account for productivity gains in the taxi industry. However, it also decided that it would inflate the cost items in the index each year using data that is independent, verifiable and transparent rather than relying on data provided by stakeholders. The Tribunal specified a number of changes it intended to make to the inflators used in the cost index. The Tribunal also rationalised the number of cost categories in the index by amalgamating a number of smaller cost items into an 'other' category. The Tribunal has used the revised inflators and cost categories to develop its maximum fare recommendations for 2007.

A comparison of the inflators used in the calculation of the cost indices in 2006 and 2007 are set out in Table 2.1. Chapter 3 of this report explains the calculation of the 2007 cost index in more detail.

**Table 2.1 Comparison of inflators used in 2006 and 2007 taxi cost indices**

Cost item	Inflator used in 2006	Inflator used in 2007
<b>Labour costs</b>		
Notional Driver's Wages	WPI	WPI
Operator Salary Equivalent	WPI	WPI
Maintenance Labour	Ford Motor Dealers quotes for mechanical services	WPI
Driver Entitlements	Based on NSW Industrial Relations Commission	WPI
<b>Non-labour costs</b>		
Licence Plate Lease Cost	Interest rates quoted by Arab Bank for loans secured against taxi licence plate value from the Ministry of Transport	RBA's 1 year bond rate applied to taxi licence plate values from the Ministry of Transport
LPG Fuel	Shell Gogas provided by the NSW Taxi Council	Fueltrac data
Insurance	Workcover for Workers Compensation Insurance, CTP and comprehensive insurance quotes from 1 insurer	"Insurance services" component of the CPI
Vehicle Parts & Panels	"Parts and accessories" component of the private motoring subgroup of the CPI	"Parts and accessories" component of the private motoring subgroup of the CPI
Vehicle Lease Payments	Home equity loan rates applied to a weighted average of new and second hand car values for Ford Falcon and Ford Futura	"Motor vehicles" component of the private motoring subgroup of the CPI
Network Fees	Set as per annual network fees	Set as per annual network fees provided by the Ministry of Transport
Tyres	Prices provided by 1 leading retailer	Amalgamated into the 'other' category and inflated using CPI
Uniforms	Clothing component of the CPI	Amalgamated into the 'other' category and inflated using CPI
Driver Cleaning	Cleaning quotes from comcare.com.au	Amalgamated into the 'other' category and inflated using CPI
Government Charges	Set as per annual government charges	Amalgamated into the 'other' category and inflated using CPI
Operator Cleaning	Cleaning quotes from comcare.com.au	Amalgamated into the 'other' category and inflated using CPI
Annualised Establishment Costs	Based on industry costs for fit-out of vehicles with quotes provided by the networks	Amalgamated into the 'other' category and inflated using CPI

**Note:** WPI is Wage Price Index and CPI is Consumer Price Index.

### 2.3 Issues to be addressed in future reviews

The Tribunal considers that improvements could be made to a number of other elements of its approach to recommending increases in maximum taxi fares. For example, updating information on the costs involved in providing taxi services and on patterns of taxi use would significantly improve the cost reflectivity of the index.

The taxi cost survey commissioned by the Ministry of Transport should provide information for this purpose, and the Tribunal considers that it is appropriate to wait for the results of the survey before making further changes. It is likely that different changes will have different impacts in terms of driving increases or decreases in fares. A piecemeal approach to changes in methodology may create unnecessary price increases/decreases which would then need to be unwound the following year. Having regard to the impact on customers and other stakeholders, and regulatory best practice, the Tribunal considers that incorporating all remaining changes at one time will minimise volatility in fares.

The Tribunal has previously expressed concern that some of the cost items included in the index appear to be over-represented – for example, the cost of uniforms and vehicle maintenance.<sup>4</sup> Taxi drivers' associations have also raised concerns that drivers' wages and expenses are under-represented.<sup>5</sup> In its April 2007 report, the Tribunal recommended a review of the weightings of the cost categories included in the taxi cost index to ensure that they reflect the current cost structure of taxi operations.<sup>6</sup> The Tribunal intends to use the information collected in the taxi cost survey to update the weightings of items in the taxi cost index as part of its 2008 review.

The cost index approach yields a percentage increase for urban taxis and country taxis, which is applied to the average urban and average country fares, respectively. The average fares used to develop the Tribunal's recommendations are based on a Household Transport Survey undertaken in 2003. Submissions have raised concerns that this information is unrepresentative.<sup>7</sup> The Tribunal intends to update this information to ensure that the average fares it relies on in making its recommendations reflect current taxi usage.

Other information available to the Tribunal, including information obtained by the Roads and Traffic Authority (RTA) on the distance travelled by taxis in NSW, suggests that some of the other assumptions underpinning the Tribunal's recommendations should also be updated. A review of this information is strongly supported by the taxi drivers' associations, which contend that both the average distance travelled and fuel usage per taxi should be reviewed.<sup>8</sup>

<sup>4</sup> IPART *Review of fares for taxis in New South Wales in 2006 Report to the Minister for Transport*, July 2006, p 43.

<sup>5</sup> ATDA submission, May 2007 p 13, NSWTDAs submission, April 2007 p 10.

<sup>6</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 6.

<sup>7</sup> For example, see ATDA submission, May 2007 p 15, NSWTDAs submission, April 2007 p 3, NCOSS submission, April 2007 p 2.

<sup>8</sup> ATDA submission, May 2007 p.11, NSWTDAs submission, April 2007 p 7.

In addition, the Tribunal intends to reconsider other aspects of the calculation of the taxi cost index. Specifically, it will consider whether the costs associated with wheelchair accessible taxis are adequately recovered, including consideration of the issues raised in submissions to this review.<sup>9</sup> The Tribunal also acknowledges concerns raised in submissions regarding network fees<sup>10</sup> and intends to review the method it uses to obtain network fees, particularly in country areas.

At last year's review, the Tribunal noted that it would further consider the estimation and allocation of productivity gains. In the interest of making its 2007 recommendations as soon as possible, the Tribunal has not changed its approach to determining productivity adjustments. However, it reaffirms its commitment to review this approach, as part of its 2008 review.

The Ministry of Transport's taxi industry survey is currently underway and the Tribunal expects that the results will be available by the end of this year. The Tribunal will also undertake its own analysis, to enable it to consider outstanding issues where no survey data is available.

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<sup>9</sup> For example, see ATDA submission, May 2007 p 18, Physical Disability Council of NSW submission, April 2007 p 1, Greg Killeen submission, April 2007 p 1.

<sup>10</sup> NSWTD submission, April 2007 p 31.



## 3 Calculation of the cost index

Since it began reviewing taxi fares in 2001, the Tribunal has based its recommendations for fare changes on a modified version of a Taxi Cost Index developed by PricewaterhouseCoopers for the Ministry of Transport and the NSW Taxi Council in 1999.<sup>11</sup>

In April 2007, the Tribunal released its report, *Review of Form of Regulation for Taxis in New South Wales*, in which it determined that an industry-specific cost index remained the most appropriate choice available, but that all inflators used to assess movements in costs should be independently gathered.<sup>12</sup>

This chapter gives an outline of the costs in the taxi cost index and their weighting, and explains each cost item and the weighting associated with it. It also summarises the annual changes in the taxi cost index.

### 3.1 Costs in the index and their weighting

The Taxi Cost Index consists of a basket of taxi cost components weighted according to their proportion of overall costs. The weights were determined in 1999 according to an investigation by PricewaterhouseCoopers. Each cost is inflated by a range of inflators obtained from publicly available and industry obtained sources.

There are separate indices for urban and country taxis. In general, these indices include the same cost items, but with different weightings. There are also some differences in the allocation of costs to drivers and operators. These allocations reflect industry practice.

For this review, the Tribunal used the same weightings it has used in the previous review in both indices. However, all cost items with a weighting of less than 2 per cent have been amalgamated into an 'other' category.

Table 3.1 shows the costs included in each index, whether they are driver or operator costs, and the associated weightings.

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<sup>11</sup> The Tribunal modified this index by including allowances for bailee driver labour and taxi licence plate values.

<sup>12</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 2.

**Table 3.1 Weightings and nature of costs in urban and country taxi cost indices**

Cost	Urban index		Country index	
	Weighting	Driver/Operator	Weighting	Driver/Operator
Notional Driver's Wages	36.14%	Driver	37.04%	Driver
Operator Salary Equivalent	7.28%	Operator	9.47%	Operator
Maintenance Labour	4.08%	Operator	4.09%	Operator
Driver Entitlements	2.17%	Operator	0.00%	Operator
Plate Lease Costs	14.17%	Operator	10.15%	Operator
LPG Fuel	8.35%	Driver	9.12%	Operator
Insurance	6.22%	Operator	4.93%	Operator
Vehicle Parts & Panels	5.20%	Operator	3.02%	Operator
Vehicle Lease Payments	4.79%	Operator	5.87%	Operator
Network Fees	3.41%	Operator	6.97%	Operator
Other	8.19%	Driver 1.77% Operator 6.42%	9.34%	Operator

**Note:** The driver component of 'other' costs for the urban index is a result of driver cleaning costs.

## 3.2 Inflating each of the costs in the index

This section defines each cost in the index and provides a description of how each cost is inflated. Any changes in the inflators used since last year's review are noted.

### 3.2.1 Notional driver's wages

Notional Driver's Wages reflect the labour costs that are associated with driving a taxi. They are inflated by increases in the Wage Price Index (WPI) published by the ABS. The WPI rate used is for NSW, all industries, all sectors, total hourly rates of pay excluding bonuses. The figure used is not seasonally adjusted and is calculated as the average yearly increase for four quarters as shown in the formula below.<sup>13</sup> This gives a change in the WPI of 3.84 per cent for the year to the end of the March quarter 2007.

$$WPI_t = \left( \frac{WPI_{Jun(t-1)} + WPI_{Sep(t-1)} + WPI_{Dec(t-1)} + WPI_{Mar(t)}}{WPI_{Jun(t-2)} + WPI_{Sep(t-2)} + WPI_{Dec(t-2)} + WPI_{Mar(t-1)}} - 1 \right) \times 100\%$$

<sup>13</sup> This is the standard formula used by the Tribunal to measure changes in the CPI and WPI, it is also used for all other inflators in the index where CPI or WPI measures are used.



### 3.2.2 Operator salary equivalent

The Operator's Salary Equivalent cost item reflects the cost of the operator's labour spent in operating a taxi business. The change in this cost item is inflated using the same change in the WPI as used for Notional Driver's Wages.

### 3.2.3 Maintenance labour

The Maintenance Labour cost item accounts for the labour cost of vehicle maintenance. In previous reviews this was estimated using quotes for mechanical services from Ford Motor Dealers. In April 2007 the Tribunal decided that the change in the Maintenance Labour cost item should be inflated using the change in WPI, and this approach has been taken for this review.<sup>14</sup> The calculation of the change in WPI is the same as that for Notional Driver's Wages.

### 3.2.4 Driver entitlements

The Driver Entitlements cost item allows for the provision of entitlements for permanent bailee drivers. Entitlements for drivers of urban taxis are governed by the NSW Industrial Relations Commission's (IRC) Taxi Industry Contract Determination. Entitlements specified by the IRC are sick leave and holiday pay. However, this determination does not govern the country taxi industry. For this reason, Driver Entitlements are not a component of the country taxi cost index.

Previously Driver Entitlements were inflated based on the rulings handed down by the IRC. In April 2007 the Tribunal decided that the change in Driver entitlements should be inflated by the change in WPI, and this approach has been taken for this review.<sup>15</sup> The calculation of the change in WPI is the same as that for Notional Driver's Wages.

Several submissions argued for the inclusion of driver superannuation in the cost index.<sup>16</sup> The Tribunal does not consider that it is appropriate to include superannuation in the taxi cost index at this review. The Tribunal has taken a minimal change approach to the review in light of expected changes to the taxi cost index in 2008 (see Chapter 2) and has made only those changes to the index previously advised.

In addition, while superannuation is not explicitly included in the index, the Tribunal does not consider that it has been excluded altogether. Since their introduction, superannuation guarantee requirements in other industries have in effect been funded through wages rather than being added on top of wages. On this basis, the Tribunal considers that it may not be correct to simply add superannuation to the index if it decides at a later date that an adjustment for superannuation is warranted.

<sup>14</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 3.

<sup>15</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 5.

<sup>16</sup> ATDA submission, May 2007 p 16, NSWTD submission, April 2007 p 9.

### 3.2.5 Licence plate lease cost

The Licence Plate Lease cost item represents the cost of leasing a taxi plate. This cost is calculated using two components: average plate transfer values (provided by using actual transfer value data for unrestricted plates)<sup>17</sup> and a one-year bond rate. In previous reviews, this cost item was inflated using interest rates quoted by Arab Bank for loans secured against taxi licence plates. However, in April 2007 the Tribunal decided that the one-year bond rate produced by the Reserve Bank of Australia should be used as the interest rate.<sup>18</sup>

The bond rate used for this review is the one-year Commonwealth bond bank bill swap reference rate, published daily in the Australian Financial Review. The average rate over the full year to March 2007 was multiplied by the average plate transfer value to give a lease value for the review period. To ensure that the values for 2007 (the review period) and 2006 (the base year) are comparable, the Tribunal calculated a plate lease cost for 2006 based on this same methodology.

The growth in this figure relative to the previous period is the inflator. For the current review the inflator's value was 20.21 per cent.

### 3.2.6 LPG fuel

The LPG Fuel cost item measures the annual fuel cost associated with running a taxi. It is based on an annual fuel consumption of 35,000 litres for urban taxis and 25,000 litres for country taxis.<sup>19</sup>

Previously, data on the price per litre of fuel was provided by the Taxi Council, which sourced the data from Gogas. In April 2007 the Tribunal decided that the price per litre should be determined using the average daily price over the review period obtained from Fueltrac,<sup>20</sup> and this approach has been taken in this review. Using Fueltrac data for both the review period and the base year, the Tribunal found that the cost of LPG fuel had grown by 5.10 per cent in the urban area, and 8.92 per cent in the country area.

### 3.2.7 Insurance

The Insurance cost item accounts for insurance requirements of operating a taxi business. In past reviews, changes in this item were determined through quotes obtained from insurers. In April 2007 the Tribunal decided that insurance costs should be inflated using the change in the insurance services sub group of the CPI

<sup>17</sup> The Tribunal has not used nil value transfers, low value transfers which were transfers to family members and undefined part share transfers.

<sup>18</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 3.

<sup>19</sup> This is based on an assumed fuel consumption of 5km/L and an assumed distance travelled of 175,000km for urban taxis and 125,000km for country taxis. These assumptions are consistent with previous reviews.

<sup>20</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 3.

and this approach has been taken in this review.<sup>21</sup> The insurance services sub group of the CPI is published on a nationwide basis. The figure is calculated using the same formula as is given for calculating the change in WPI. This gives a value for the inflator of 3.51 per cent.

### 3.2.8 Vehicle parts and panels

The Vehicle Parts and Panels cost item accounts for the non labour cost of vehicle maintenance. It is inflated using the change in the motor vehicle 'parts and accessories' expenditure class of the CPI, which is published on a nationwide basis. The figure is calculated using the same formula as that given for the change in WPI. This gives a value for the inflator of 3.34 per cent.

### 3.2.9 Vehicle lease payments

Vehicle Lease Payments account for the cost of leasing a vehicle to be used as a taxi. In previous reviews this was inflated using home equity loan interest rates applied to a weighted average of new and second-hand car values for Ford Falcon and Ford Futura. In April 2007 the Tribunal decided that it should be inflated using the change in the 'motor vehicles' expenditure class of the CPI, which is published on a nationwide basis.<sup>22</sup> The Tribunal has taken this approach in this review. The figure is calculated using the same formula as that used to calculate the change in WPI. This gives a value for the inflator of 0.23 per cent.

### 3.2.10 Network fees

All operators are required by law to belong to an authorised network. The Network Fees cost item accounts for the cost of providing network services.

The Ministry of Transport provided data on network fees charged by both urban and country networks. The urban network fees were based on the fees for seven Sydney networks, one Central Coast network, one Newcastle network, and one Wollongong network. The weighted average fee for these networks was then used as an estimate for all network fees, giving an inflator value of 1.8 per cent.

The country network fees were based on network fees in five of the six towns used in previous reviews: Albury, Armidale, Coffs Harbour, Tamworth and Wagga Wagga. The weighted average fee for these towns was then used as an estimate for all network fees, giving an inflator of 6.76 per cent. (The reported network fees for the sixth town, Bathurst, showed a very large change in network fees. The Tribunal was unable to confirm the basis for the increase and believes that there may be an error in the reported costs. For this reason, Bathurst was excluded from the calculation.) Submissions to the Tribunal questioned whether network fees represent efficient

<sup>21</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 4.

<sup>22</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 4.

costs.<sup>23</sup> As part of the 2008 review, the Tribunal will use the results of the Ministry of Transport's taxi cost survey and other investigations to examine this issue.

### 3.2.11 Other costs

All other minor costs, determined by a weighting in the index of less than 2 per cent, are amalgamated into an 'other' category. Previously, minor costs were calculated separately using a number of different inflators. In April 2007 the Tribunal decided that the entire other category should be inflated by the change in CPI and this approach has been taken in this review.<sup>24</sup> The CPI figure used is for All Groups in Sydney and is calculated using the same formula as given to calculate the change in WPI. The value for the inflator over the review period is 3.24 per cent.

## 3.3 Index outcomes

March quarter data is used to calculate the increases in the taxi cost index as a proxy for cost changes for the year to 1 July. The change in costs covered by the index relate to the year to the end of the March quarter 2007, in comparison to the year to the end of the March quarter 2006.

The urban taxi cost index increased by 5.9 per cent. The main drivers of this increase were Licence Plate Lease Costs and Notional Driver's Wages.

The country taxi cost index also increased by 5.9 per cent. The main drivers of this change were Licence Plate Lease Costs, Notional Driver's Wages and Network Fees.

Tables 3.2 and 3.3 on the following pages show the index outcomes for urban and country taxis for 2007 based on the methodology set out above.

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<sup>23</sup> NSW Taxi Drivers Association submission p 31.

<sup>24</sup> IPART, *Review of Form of Regulation for Taxis in New South Wales*, 30 March 2007, p 4.

**Table 3.2 Urban Taxi Cost Index, Year Ending March Quarter 2007**

Costs	Cost at March 2006	Inflator	Inflator Value	Index Weight	Contribution to 2007 Fare Change	Cost at March 2007
<b>Labour Costs</b>						
Notional Driver's Wages	\$71,870	WPI	3.84%	36.14%	1.4%	\$74,630
Operator Salary Equivalent	\$14,488	WPI	3.84%	7.28%	0.3%	\$15,044
Maintenance Labour	\$9,163	WPI	3.84%	4.08%	0.2%	\$9,515
Driver Entitlements	\$4,287	WPI	3.84%	2.17%	0.1%	\$4,452
<b>Non-Labour Costs</b>						
Licence Plate Lease Costs	\$15,247	1 year Commonwealth bond swap rate * Taxi Licence and Plate Values	19.60%	14.17%	2.9%	\$18,328
LPG Fuel	\$17,493	Fueltrac Data	5.10%	8.35%	0.4%	\$18,385
Insurance	\$14,396	Insurance services component of the CPI	3.51%	6.22%	0.2%	\$14,901
Vehicle Parts & Panels	\$11,709	Parts & accessories component of the private motoring sub group of the CPI	3.34%	5.20%	0.2%	\$12,100
Vehicle Lease Payments	\$9,498	Motor vehicles component of the private motoring sub group of the CPI	0.23%	4.79%	0.0%	\$9,520
Network Fees	\$6,849	As per network fees data supplied by MoT	1.80%	3.41%	0.1%	\$6,972
Other	\$16,258	CPI	3.24%	8.19%	0.3%	\$16,785
<b>Total</b>	<b>\$191,258</b>				<b>5.9%</b>	<b>\$200,634</b>

**Note:** dollar amounts for the categories of LPG Fuel and Plate Lease Cost are different from those published for the 2006 review due to a change in the method of calculating these inflators.

**Table 3.3 Country Taxi Cost Index, Year Ending March Quarter 2007**

Costs	March 2006 Base	Inflator	Inflator Value	Index Weight	Contribution to 2007 Fare Change	March 2007 Base
<b>Labour Costs</b>						
Notional Driver's Wages	\$56,628	WPI	3.84%	37.04%	1.4%	\$58,803
Operator Salary Equivalent	\$14,488	WPI	3.84%	9.47%	0.4%	\$15,044
Maintenance Labour	\$7,828	WPI	3.84%	4.09%	0.2%	\$8,129
<b>Non-Labour Costs</b>						
Licence Plate Lease Costs	\$7,938	1 year Commonwealth bond swap rate * Taxi Licence and Plate Values	20.21%	10.15%	2.1%	\$9,542
LPG Fuel	\$14,375	Fueltrac Data	8.92%	9.12%	0.8%	\$15,658
Insurance	\$8,648	Insurance services component of the CPI	3.51%	4.93%	0.2%	\$8,952
Vehicle Parts & Panels	\$6,089	Parts & accessories component of the private motoring sub group of the CPI	3.34%	3.02%	0.1%	\$6,292
Vehicle Lease Payments	\$8,966	Motor vehicles component of the private motoring sub group of the CPI	0.23%	5.87%	0.0%	\$8,987
Network Fees	\$10,645	As per network fees data supplied by MoT	6.76%	6.97%	0.5%	\$11,365
Other	\$12,848	CPI	3.24%	9.34%	0.3%	\$13,264
<b>Total</b>	<b>\$148,453</b>				<b>5.9%</b>	<b>\$156,035</b>

**Note:** dollar amounts for the categories of LPG Fuel and Plate Lease Cost are different from those published for the 2006 review due to a change in the method of calculating these inflators.

## 4 Productivity adjustment

The Tribunal has previously decided that a productivity adjustment should be made to the taxi cost index, to reflect increases in productivity in the taxi industry. This chapter sets out the reasons for making this adjustment, the Tribunal's expectations regarding productivity gains in the taxi industry, and the allocation of the productivity adjustment between drivers and operators.

### 4.1 Why adjust fares to take account of productivity improvements

Productivity is a measure of the rate at which outputs of goods and services are produced per unit of input (for example, labour, capital, raw materials). Growth in productivity reflects the achievement of greater outputs for a given level of input.

Adjusting the fare increases produced by the taxi cost index to account for expected growth in productivity ensures that the gains from productivity growth are distributed to consumers through lower fares, as well as to drivers and operators through increased income/profits. It also provides a strong incentive to drivers and operators, who share the revenue from taxi fares, to make productivity improvements that are at least as great as the productivity adjustment in order to maintain their current level of income/profitability.

A significant proportion of the total costs in the taxi cost index are inflated in a way that already includes some measure of productivity. For example, the consumer price index (CPI) (or one of its components) already reflects changes in output costs for a given level of inputs at the economy-wide level. However, half of the total costs is made up of labour-related costs, which are inflated by the wage price index (WPI). Unlike the CPI, the WPI does not already include a measure of economy-wide productivity gains. To share the benefits of expected gains in labour productivity between service providers and taxi customers, the Tribunal considers that it is appropriate to adjust maximum fares to account for expected gains.

### 4.2 Expected gains in labour productivity in the taxi industry

The Tribunal expects improvements in labour productivity in the taxi industry will be around 0.7 per cent over the next 12 months. With labour costs accounting for approximately half of total costs, this results in a productivity adjustment of 0.35 per cent. This is lower than the productivity adjustment applied at the 2006 review, which was 0.5 per cent.

In coming to its view on expected labour productivity, the Tribunal examined a number of different measures, using available information on labour productivity that it considered relevant to the taxi industry. The biggest challenge to estimating productivity growth in the NSW taxi industry is data availability. Although the available data are insufficient to allow the Tribunal to directly measure taxi industry productivity, they are sufficient to suggest that improvements in the taxi industry are likely to be lower than those in the wider economy.

The following sections describe the information the Tribunal used to decide on the productivity adjustment for 2007, including estimates of productivity from the Australian Bureau of Statistics, measures of labour productivity specific to the taxi industry, and sources of productivity growth for taxis over the next 12 months.

#### 4.2.1 Estimates from the Australian Bureau of Statistics

The Australian Bureau of Statistics (ABS) provides estimates of productivity growth at both the industry and economy-wide levels. Generally, ABS labour productivity measures suggest that productivity growth slowed down over the past year.

At the industry level, the ABS publishes a measure of gross value added per employee at constant prices for the 'transport and storage' industry. This measure shows that gross value added per hour worked rose by 1.4 per cent in 2005/06, down from 2.4 per cent in the previous year. However, while useful as a comparator, the 'transport and storage' industry cannot be directly applied to passenger transport as it includes business units that are unrelated to passenger transport, such as:

- ▼ freight terminal facilities and freight transport
- ▼ car parking, stevedoring, harbour services, navigation services, airport operation and space port operation
- ▼ booking, travel, freight forwarding, crating and customs agency services
- ▼ storage facilities
- ▼ pipeline transportation of oil, gas, etc, on a contract or fee basis.

At the economy-wide level, gross value added per hour worked rose 0.9 per cent in 2005/06, compared to average growth of 1.5 per cent over the past 5 years. Labour productivity, measured in terms of the increase in hours worked compared to the increase in market sector output, rose 2.2 per cent in 2005/06, which recovered the loss in labour productivity in the previous year. When adjusted for quality (labour force improvements in terms of educational attainment and work experience), labour productivity rose 1.8 per cent.

Multifactor productivity (the component of labour productivity that has shown the most momentum over the past productivity cycle) was flat in 2005/06, with total combined inputs growing at the same rate as output. In quality-adjusted terms, multifactor productivity at the economy-wide level fell slightly over the past year.



Table 4.1 summarises the productivity data available from the ABS for the past five years.

**Table 4.1 ABS measures of productivity (% per annum)**

	2001/02	2002/03	2003/04	2004/05	2005/06	5 year average
<b>Gross value added per hour worked</b>						
Transport and storage	5.7	7.1	-1.4	2.4	1.4	3.0
All industries	3.7	0.5	2.3	0.3	0.9	1.5
<b>Labour productivity</b>						
Hours worked	3.6	1.8	3.2	-0.4	2.2	2.1
Quality adjusted hours worked	3.4	1.7	2.9	-0.7	1.8	1.8
Capital productivity	0.8	-0.1	0.0	-2.0	-2.9	-0.8
<b>Multifactor productivity</b>						
All industries hours worked	2.5	0.9	1.8	-1.1	0.0	0.8
Quality adjusted hours worked	2.4	0.9	1.6	-1.3	-0.3	0.7

**Source:** ABS Australian System of National Accounts, Catalogue Number 5204.0 Tables 25 and 22.

Having considered the 'All industries' data from the ABS, the Tribunal is of the view that expected gains in labour productivity in the taxi industry over the next 12 months are likely to be lower than those in the Australian economy as a whole. The Tribunal considers that it is appropriate to take a conservative approach in forming its expectations on future labour productivity. With this in mind, the Tribunal considers that it is realistic to expect productivity gains of 0.7 per cent.

#### 4.2.2 Measures of labour productivity specific to the taxi industry

The ABS measures of labour productivity discussed above do not measure trends in labour productivity that are specific to the taxi industry.

The NSW Taxi Council proposes the use of average daily meter activations per taxi as an indicator of industry productivity. The Taxi Council submits that this approach shows that average meter activations has fluctuated significantly over the past 5 years, with an increase of 2 per cent in 2005, but an average annual decrease of approximately 3 per cent over the past five years.<sup>25</sup>

<sup>25</sup> NSW Taxi Council submission to IPART 2006 review of form of regulation of taxis, October 2006, pp 28-29.

However, further assessment of labour productivity changes for the taxi industry is difficult without additional data and assumptions on:

- ▼ outputs for taxis – for example, distance adjusted passenger trips, passenger kilometres travelled
- ▼ inputs for taxis, such as full-time equivalent employees and their share of total costs
- ▼ economies of scale related to taxi operations
- ▼ the parity between the marginal products of capital and labour and their respective real market prices.

Obtaining this data is complicated by differences in the types of services provided in the industry. For example, there may be inherent differences between taxi operations in urban and country areas. Appropriate labour input costs are difficult to identify, given the extensive range of work patterns within the industry, the predominance of casual work arrangements, and limited data on actual hours worked (as opposed to part time/full time status).

The Tribunal hopes that the results of the Ministry of Transport's taxi cost survey will allow it to consider some of these issues in more detail next year. In the meantime, the Tribunal considers that there is no taxi-specific measure available to it that suggests that the expected gains in the broader economy will not be achieved in the taxi industry.

#### 4.2.3 Sources of productivity growth for taxis over the next 12 months

The Tribunal considered potential sources of productivity growth over the next 12 months, in addition to historical measures of productivity. Submissions focused on sources of productivity loss, not sources of growth. However, the Tribunal considers that there are factors that will drive increases in productivity.

Traffic congestion was one of the major concerns raised in submissions.<sup>26</sup> For instance, the NSW Taxi Council cited an NRMA survey of 175 members that found 80 per cent of businesses had experienced an increase in traffic congestion over the last 12 months.<sup>27</sup> The Taxi Council submitted that any increases in productivity would be offset by the impact of worsening traffic congestion over the same period. It noted estimates produced by the Bureau of Transport and Regional Economics (BTRE) that the average network delay due to traffic congestion in Sydney:<sup>28</sup>

- ▼ increased by 2.3 per cent in 2006
- ▼ has increased by 13 per cent since 2000

<sup>26</sup> For example, Paul Fletcher submission, April 2007, p 1, NSW Taxi Council submission, April 2007, p 15.

<sup>27</sup> NSW Taxi Council submission, April 2007, p 15.

<sup>28</sup> NSW Taxi Council submission, April 2007, p 16.

- ▼ is forecast to increase by a further 18 per cent by 2010.

Another submission argued that 'no standing' zones are increasingly being replaced with 'no stopping' zones, which further reduces the scope for productivity gains.<sup>29</sup>

On the other hand, taxi operators and networks continue to invest in new technologies and booking systems – investments that would not be made without an expectation of higher returns. In addition, the Tribunal considers that positive productivity growth should be generated by:

- ▼ greater utilisation of portable GPS navigation systems for allocating and undertaking particular jobs
- ▼ greater utilisation of toll roads for journeys
- ▼ adoption of hybrid cars as taxis
- ▼ SMS booking services for taxis, which have the potential to reduce the number of staff required to operate call centres
- ▼ Industry-run training initiatives to improve driver knowledge and service levels<sup>30</sup>
- ▼ lower fixed costs as a result of expanded fleet sizes.

The Tribunal acknowledges that there are factors outside of the control of the taxi industry that may reduce the scope for productivity gains, with traffic congestion being one of the most significant. However, it also considers that there is significant scope for productivity gains arising out of measures currently being undertaken or proposed by the taxi industry. On balance, the Tribunal is of the view that there is nothing specific to the taxi industry that suggests that the expected gains in the broader economy cannot be achieved in that industry.

### 4.3 Allocation of the productivity adjustment to drivers and operators

Making a productivity adjustment to fare increases allocates gains in productivity between customers and the service providers (drivers and operators). The Tribunal has also considered what would be an appropriate allocation of productivity gains among the service providers, that is, between drivers and operators.

Bailee drivers receive fare revenue and in turn, make pay-ins to operators. If these pay-ins reflect the productivity-adjusted operator costs then drivers will in turn receive their own productivity-adjusted costs through the balance of the fare increase. For urban taxis, maximum pay-ins are currently determined by the NSW Industrial Relations Commission. For country taxis, there is no externally determined pay-in and fare takings are shared between drivers and operators.

<sup>29</sup> Paul Fletcher submission, April 2007, p 1.

<sup>30</sup> For instance prior to receiving a taxi driver authority, drivers are trained in basic skills such as safety regulations, routes and courtesy. New drivers attend further workshops and a seminar within 6-12 months of starting in which new drivers discuss their driving patterns, the productivity observed and methods of becoming more efficient.

Allocation of productivity adjustments for urban taxis is an issue that the Tribunal has previously indicated it intends to consider in more detail. As noted in Chapter 2, the Tribunal considers that it is appropriate to review this issue as part of its 2008 taxi fare review. For the current review, the Tribunal has decided to retain the allocation it used last year – allocating 75 per cent of the productivity adjustment to drivers and 25 per cent to operators.

The resulting productivity-adjusted increase in driver costs is 3.8 per cent and the productivity-adjusted increase in operator costs is 7.5 per cent.<sup>31</sup>

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<sup>31</sup> Productivity adjusted costs are calculated by applying the following formula: productivity adjusted % change = (1+% change in costs)/(1+% productivity adjustment) - 1. For drivers, the unadjusted increase in costs was 4.0% and for operators it was 7.5% (both rounded to 1 decimal place). Driver costs were adjusted by 0.27% (three quarters of the unrounded productivity adjustment) and operator costs were adjusted by the remaining 0.09%.

## 5 Recommended fare increases

The Tribunal recommends increases to maximum taxi fares for both urban and country taxis.

Submissions from the Community Transport Organisation and Southwest Community Transport questioned whether it was possible to negotiate fares.<sup>32</sup> The Tribunal recommends maximum fares only and there is nothing in the Tribunal's approach that prevents individuals and organisations from negotiating fare levels below the maximum.

In making its recommendations on taxi fares the Tribunal has, in addition to investigating taxi costs, taken into account the impacts of fare increases on key stakeholders and the service quality and performance standards of taxis. The impact on stakeholders is discussed below and taxi service quality and performance standards are discussed in Appendix B.

To determine recommended increases to fares, the Tribunal took the following steps:

- ▼ calculating the required increase in maximum fares for urban and country taxi services to 1 July 2007, by reducing the increase in the cost index by the productivity adjustment
- ▼ calculating the recommended maximum fares at 1 July 2007, by applying the required increase to the current urban and country maximum 'average fare'
- ▼ calculating an adjustment to these average fares, to compensate taxi operators and drivers for the delay in implementing the recommended increases to maximum fares.

Each of these steps is discussed below.

Please note that the fare increases for 2006 were implemented in August and not at 1 July. The Tribunal recommended an adjustment to the 1 July 2006 fares to compensate service providers for the delay. As a consequence, the maximum fares currently in place are higher than those that would have applied if fares were increased at 1 July 2006. The Tribunal has used the fares at 1 July 2006 to calculate required increases in maximum taxi fares. However, where relevant this chapter also sets out the equivalent increases from the fares that are currently in place.

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<sup>32</sup> See Community Transport Organisation submission, April 2007 p 2.

## 5.1 Calculating the required increase in maximum taxi fares at 1 July 2007

The Tribunal calculated the required increase in maximum taxi fares at 1 July 2007 by subtracting the productivity adjustment of 0.35 per cent (as determined by the Tribunal, discussed in Chapter 4) from the 5.9 per cent increase in industry costs (as determined by the urban and country taxi cost indices, discussed in Chapter 3). This resulted in a required increase of 5.6 per cent for urban taxi fares and 5.5 per cent for country taxi fares for the year from 1 July 2006 to 1 July 2007.<sup>33</sup>

In 2006, the delay in implementing fare increases resulted in the Tribunal recommending an adjustment to fares to compensate service providers. As a consequence, the maximum fares that are currently in place are higher than those calculated at 1 July 2006. The required increase to average fares at 1 July 2007 compared to the fares currently in place is 5.1 per cent for both urban and country taxis.

## 5.2 Calculating the recommended maximum fares at 1 July 2007

To calculate the recommended maximum fares at 1 July 2007, the Tribunal applied the 5.6 and 5.5 per cent required increase to the urban and the country 'average fare' respectively, at 1 July 2006. The 'average fare' is made up of various fare components, including flag fall, distance, waiting time and radio booking fee. Each component is increased to achieve the required increase in the total average fare. The Tribunal determined the size of the increase for each individual component, taking into account the technological constraints<sup>34</sup> and fare structures suggested in submissions.

The Tribunal's recommended fare components and average fares at 1 July 2007 are set out in Table 5.1 below.

<sup>33</sup> As in past reviews subtraction of the productivity adjustment was based on the following formula: productivity adjusted % change = (1+% change in costs)/(1+% productivity adjustment) - 1

<sup>34</sup> For example, the Tribunal has been advised that fixed components of the fare are required to be in ten cent increments due to metering constraints.

**Table 5.1 Recommended fare components and average fares at 1 July 2007**

Fare component	Urban	Country
Flagfall	\$3.00	\$3.50
Distance (per km)	\$1.77	\$1.81
Waiting Time (per hour) <sup>a</sup>	\$45.80	\$46.20
Radio Booking Fee <sup>b</sup>	\$1.60	\$1.00
Average Fare	\$18.00	\$11.75
Increase in average fare from 1 July 2006	5.6%	5.5%
Increase in average fare from fare currently in place	5.1%	5.1%

<sup>a</sup> Waiting time applies when vehicle speed is less than 25.88kph for urban and less than 25.52kph for country.

<sup>b</sup> Radio Booking Fee refers to the fee for booking a taxi over the phone.

**Note:** The average urban fare calculation assumes a distance travelled of 7 kilometres, 3 minutes of waiting time and 20 per cent of fares made through a radio booking. The average country fare calculation assumes a distance travelled of 3 kilometres, 3 minutes of waiting time and half of all fares made through a radio booking. These assumptions are the same as those used for the Tribunal's 2006 review of taxi fares.

In addition to the fare components shown in the table above, there are a number of other regulated charges related to taxi services. These include:

- ▼ the night time surcharge, which is charged between 10pm and 6am and is currently 20 per cent on top of the distance rate
- ▼ luggage rates, which are currently 10 cents for each 25kg after an initial 25kg, up to a maximum of 55 cents
- ▼ maxi cab hiring rates
- ▼ the holiday surcharge, which is currently 20 per cent on top of the distance rate on Sundays and Public Holidays in country areas only.

The Tribunal received submissions requesting that the holiday surcharge be extended to urban taxis and charged as 20 per cent of the whole fare rather than the distance charge.<sup>35</sup> It also received submissions requesting that the luggage rates be altered, with one submission suggesting they be set to nil.<sup>36</sup> and another requesting a \$10 'Boot Fee' for station wagons and maxi taxis.<sup>37</sup> However, in keeping with the Tribunal's stance of minimal change for this review pending the outcomes of the upcoming taxi industry survey, the Tribunal has decided to recommend that no change be made to these charges this year.

### 5.3 Recommended adjustment for post 1 July implementation

As noted above, in last year's review the recommended fare increase was implemented after 1 July 2006 so, to compensate service providers for this delay, the Tribunal recommended an adjustment to calculated maximum 'average fares'.

<sup>35</sup> Australian Taxi Drivers Association submission, May 2007 p 19 and New South Wales Taxi Drivers Association submission April 2007 p 34.

<sup>36</sup> Australian Taxi Drivers Association submission, May 2007 p 23.

<sup>37</sup> New South Wales Taxi Drivers Association submission, April 2007 p 36.

The recommendations of the 2007 review will also be implemented after 1 July 2007. The Tribunal expects that 21 August 2007 is the most realistic date for any fare increase to be implemented. The Tribunal therefore recommends that fares for 2007 be adjusted to compensate for this delay, using the same methodology as used in the 2006 review.<sup>38</sup>

The formula for this adjustment is as follows:

$$\text{Post 1 July fare rise (\%)} = 1 \text{ July fare rise (\%)} \left( \frac{366}{366 - d} \right)$$

Where *d* is the number of days post 1 July that the fare increase is implemented

If the Director General determines that the fare increase should occur on 21 August 2007 (52 days post 1 July), then the adjusted required increase will be for urban and country fares respectively:

$$21 \text{ August fare rise (\%)} = 5.6\% \left( \frac{366}{314} \right) = 6.5\%$$

$$21 \text{ August fare rise (\%)} = 5.5\% \left( \frac{366}{314} \right) = 6.4\%$$

The recommended fare components and average fares that result from such an increase are shown on Table 5.2.

**Table 5.2 Recommended fare components and average fares from 21 August 2007**

	Urban	Country
Flagfall	\$3.00	\$3.50
Distance (per km)	\$1.79	\$1.83
Waiting Time (per hour) <sup>a</sup>	\$46.20	\$47.20
Radio Booking Fee <sup>b</sup>	\$1.60	\$1.00
Average Fare	\$18.16	\$11.85
Increase in average fare from 1 July 2006	6.5%	6.4%
Increase in average fare from fare currently in place	6.0%	6.0%

<sup>a</sup> Waiting time applies when vehicle speed is less than 25.81kph for urban and less than 25.79kph for country.

<sup>b</sup> Radio Booking Fee refers to the fee for booking a taxi over the phone.

**Note:** The average urban fare calculation assumes a distance travelled of 7 kilometres, 3 minutes of waiting time and 20 per cent of fares made through a radio booking. The average country fare calculation assumes a distance travelled of 3 kilometres, 3 minutes of waiting time and half of all fares made through a radio booking. These assumptions are the same as those used for the Tribunal's 2006 review of taxi fares.

<sup>38</sup> Note that the 2006 fare review formula was slightly different because 2008 is a leap year, giving 366 days in the financial year 2007/08, as opposed to 365 in 2006/07.



## 5.4 Impact of the recommended fare increases on stakeholders

In making its recommendations, the Tribunal has given consideration to the impact of its recommended increase to maximum taxi fares for all stakeholders including taxi industry participants, taxi passengers, the environment and the government.

### 5.4.1 Implications for taxi industry participants

The Tribunal considers that the fare increase that has been recommended is likely to maintain the industry's current level of financial viability as the increase has been determined by the outcomes obtained from an industry-specific cost index and the expected gains in labour productivity. The increase in fares is consistent with the increases suggested in submissions received by the Tribunal from taxi industry participants.<sup>39</sup>

In future reviews, the current survey into taxi costs being conducted for the Ministry of Transport will allow for greater accuracy in measuring the cost structure of the taxi industry, and thus lead to a more accurate index that is better able to compensate the industry for increased costs.

### 5.4.2 Implications for passengers

The fare increase recommended this year are greater than previous recommendations made by the Tribunal since 2001. The overall impact of the Tribunal's recommended increases is likely to be small, because spending on urban transport fares (including taxi fares) represents the equivalent of less than one per cent of average Australian household incomes.<sup>40</sup> However, the Tribunal recognises that the increases being recommended will have an impact on individual taxi users.

Submissions to the Tribunal highlighted the impact on low-income earners and passengers with disabilities if an increase above CPI is recommended. The Council of Social Services of NSW (NCOSS) submits that 18.5 per cent of taxi users belong to the lowest income quintile.<sup>41</sup> Similarly other stakeholders suggest that taxi users are often low-income earners.<sup>42</sup> The Physical Disability Council notes that people with limited mobility often have little choice but to travel by taxi, and that its members come from a range of socio-economic circumstances.<sup>43</sup> A survey of household expenditure recently released by the ABS supports this view. The survey confirms that while those in the highest income quintile spend proportionately more of their

<sup>39</sup> When compiling the recommended fare structure, the Tribunal took into account the recommended fare structures given by both the NSW Taxi Council and the Australian Taxi Driver's Association.

<sup>40</sup> In the weights used in the 15<sup>th</sup> series of the Consumer Price Index, urban transport fares comprise less than one per cent of an average Australian household's spending. It is likely that the proportion of expenditure on taxi-fares in non-metropolitan households would be lower.

<sup>41</sup> NCOSS submission, April 2007 p 4.

<sup>42</sup> Greg Killeen submission, April 2007.

<sup>43</sup> PDCN submission, April 2007.

expenditure on taxis than other groups, those in the lowest income quintile spend the second highest proportion.<sup>44</sup>

Submissions also noted that many passengers of wheelchair accessible taxis (WATs) have lower incomes than other passengers.<sup>45</sup> While low-income WATs passengers face similar issues to other low-income earners, the impact of taxi fares on WATs passengers is tempered somewhat by the existence of the Taxi Transport Subsidy Scheme (TTSS) which subsidises taxi fares for qualifying passengers.

The Tribunal considers that maximum fares should be set a level that recovers efficient costs and the greater than CPI increase in average fares reflects the annual increase in these costs. However, the Tribunal has some discretion over how the average increases are transformed into a recommended fare structure. NCOSS submits that aggressive flagfall pricing will disproportionately affect passengers taking shorter trips, which includes people with mobility difficulties.<sup>46</sup> In line with requests from submissions, the recommended increases in the fixed components of fares (flagfall and radio booking fee) will increase by less than the variable components (distance and waiting time).

### 5.4.3 Implications for the environment

The impact of the recommended maximum fare increases on the environment in terms of pollution and congestion is likely to be minimal. This is because the state's taxi fleet of approximately 6,000 vehicles is a small proportion of the overall number of NSW passenger motor vehicles, which is greater than 3 million vehicles.

### 5.4.4 Implications for government

The Government does not fund the taxi industry. Government funding is limited to the TTSS. Therefore the recommended maximum fare increases will have a very limited effect on the level of government funding required.

The TTSS assists users of taxis who are unable to use public transport due to severe and permanent injury. The TTSS provides a subsidy of 50 per cent of the fare, up to a maximum subsidy of \$30. In the 2005/06 financial year, the Ministry of Transport spent \$17 million on the scheme.<sup>47</sup> This was an increase of 3.7 per cent on the previous reporting period. An increase in maximum taxi fares is likely to increase the level of Government funding required for the TTSS unless eligibility requirements are altered.

<sup>44</sup> ABS, *Household Expenditure Survey*, Australia: Detailed Expenditure Items, 2003-04.

<sup>45</sup> PDCN submission April 2007 p 7.

<sup>46</sup> NCOSS submission, April 2007 p 4.

<sup>47</sup> Ministry of Transport 2006 Annual Report p 28.



## Appendices



## A Terms of Reference

I, Bob Carr, Premier, approve, under Section 9(1)(b) of the Independent Pricing and Regulatory Tribunal Act 1992, the Tribunal entering into an arrangement with the Minister for Transport to investigate and report on the prices for taxi services regulated under the Passenger Transport Act 1990. A final report is to be provided to the Minister for Transport by June each year.

In conducting this investigation, the Tribunal should consider:

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

In conducting the investigation the Tribunal may consult with the Taxi Council and the relevant unions by arrangement with the Ministry of Transport.

## B Changes in service standards over the past year

In completing this review, the Tribunal has considered standards of quality as directed in the Terms of Reference. Available information of various performance indicators shows improvements in service and quality standards over the review period.

This appendix contains outcomes of passenger feedback as recorded by the Customer Feedback Management System (CFMS), and performance data in comparison to key performance indicators (KPIs) for standard networks and the Zero200 network. The CFMS compiles data of customer complaints and compliments, while the KPI data is compiled by the Ministry of Transport and deals with various performance measures.

### B.1 Customer feedback

Customer feedback reports indicate that service levels have improved over the past year. In the year ending March 2006, the CFMS recorded 9981 complaints. This decreased to 7468 in the corresponding period in March 2007. Over the same period the number of compliments increased from 512 to 545.

**Table B.1** Number of complaints compared to previous year

	2005/06	2006/07	Change
Complaints	9981	7468	-25.18%
- Driver	8264	6424	-22.27%
- Serious <sup>a</sup>	146	134	-8.22%
- Other	8118	6290	-22.52%
- Operator	334	254	-23.95%
- Network	1383	790	-42.88%
Compliments	512	545	+6.45%

<sup>a</sup> Serious complaints consist of assault, drive under the influence of drugs and alcohol, improper use of an authority card, operate or drive without authority, refusal of a guide dog, sexual harassment and TTSS fraud.

**Note:** Time periods are taken to the end of March.

**Source:** Information provided by the NSW Ministry of Transport.

**Table B.2 Change annual reported complaints (main areas of complaint)**

Main Complaints	2005/06	2006/07	Change
Demanding more/ other than prescribed fare	1184	987	-16.64%
Driving in an unsafe manner	1136	785	-30.90%
Rude to customer – incivility or impropriety	934	764	-18.20%
Taxi not arrive for booking	725	399	-44.97%
Failure to provide reasonable assistance to customer	673	466	-30.76%

**Source:** Information provided by the NSW Ministry of Transport.

## B.2 Key performance indicators – all networks (excluding Zero200)

Standards of performance required of taxi networks are set out in the Ministry of Transport's Interim Standards for Authorised Taxi-Service Communications Networks. The required performance standards relate to operations, telephone answering standards, delivery standards and customer services.

In relation to telephone answering standards, requirements include:

- ▼ 90 per cent of calls to be connected to the booking service immediately
- ▼ of this 90 per cent, 70 per cent of calls that are connected immediately are to be answered within one minute and 90 per cent are to be answered within two minutes.

In relation to delivery standards, requirements include:

- ▼ in 85 per cent of cases a taxi is to arrive within 15 minutes of a booking being made
- ▼ in 98 per cent of cases a taxi is to arrive within 30 minutes of a booking being made
- ▼ in 100 per cent of cases a taxi is to arrive within 60 minutes of a booking being made.

In the year ending March 2007, 94.7 per cent of phone calls were answered within one minute and 98.2 per cent were answered within two minutes. In addition, 92.2 per cent of taxis arrived within 15 minutes, 99.2 per cent arrived within 30 minutes and close to 100.0 per cent arrived within 60 minutes.

Full KPI results are given in Table B.3.

**Table B.3 Key performance indicators, change on previous year – all networks (excluding Zero200)**

	2005/06 <sup>48</sup>	2006/07 <sup>49</sup>	Change
<b>KPI 1:</b> Number of bookings required	12,892,864	13,258,794	+2.84%
<b>KPI 2:</b> Number of rejections	30,290,410	33,290,576	+9.90%
<b>KPI 3:</b> Number of jobs accepted by taxi drivers	10,596,377	10,711,462	+1.09%
<b>KPI 4:</b> Average pick up time (minutes)	7.54	7.51	-0.31%
<b>KPI 5:</b> Total number of M3's (no shows)	1,072,324	1,119,991	+4.45%
<b>KPI 6:</b> Average acceptance time (minutes)	2.69	2.98	+10.62%
<b>KPI 7:</b> Number of ringbacks	652,546	619,648	-5.04%
<b>KPI 8:</b> Number of advance bookings	3,872	12,638	+326.39%
<b>KPI 9:</b> Number of taxis operating on network (monthly average)	4,910.42	5,000.08	+1.83%
<b>KPI 10:</b> Number of phone calls received	12,752,799	13,090,789	+2.65%
<b>KPI 11:</b> Number of calls answered within one minute	11,987,151	12,395,425	+3.41%
<b>KPI 11:</b> Number of phone calls answered between one and two minutes	520,840	464,819	-10.76%
<b>KPI 11:</b> Number of phone calls answered after two minutes have elapsed	244,758	230,545	-5.81%
<b>KPI 11:</b> Average answering time (seconds)	18.61	16.85	-9.46%
<b>KPI 12:</b> Average number of radio jobs completed per taxi (per year)	2,006	1,883	-6.11%
<b>KPI 13:</b> Pick up in less than fifteen minutes (per year)	8,505,087	8,685,079	+2.12%
<b>KPI 13:</b> Pick up between 15 and 30 minutes (per year)	725,841	653,925	-9.91%
<b>KPI 13:</b> Pick up between 30 and 60 minutes (per year)	75,013	75,237	+0.30%
<b>KPI 13:</b> Pick up in a time greater than 60 minutes (per year)	1,421	1,167	-17.87%
<b>KPI 13:</b> Total pick ups	9,307,362	9,415,408	+1.16%
<b>KPI 14:</b> Number of bookings offloaded	1,887,225	2,098,842	+11.21%
<b>KPI 14:</b> Number of bookings offloaded and returned	144,787	172,264	+18.98%
<b>KPI 14:</b> Number of bookings successfully offloaded	1,742,438	1,926,578	+10.57%
<b>KPI 15:</b> Number of No Cab Availables	170,477	199,772	+17.18%
<b>KPI 16:</b> Average number of taxis signed on at 9 am (monthly average)	3,286.83	3,364.00	+2.35%
<b>KPI 16:</b> Average number of taxis signed on at 9 pm (monthly average)	3,412.92	3,493.50	+2.36%

**Source:** Information provided by the NSW Ministry of Transport.

<sup>48</sup> Year to the end of the March quarter 2006.

<sup>49</sup> Year to the end of the March quarter 2007.



### B.3 Performance of WATs

The Tribunal has received submissions requesting publication of service standard data regarding WATs.<sup>50</sup> KPI Data for the Zero200 network is given in Table B.4. Comparison data is provided for other networks KPIs.

The Zero200 network performance lags behind the performance of all other networks. While Zero200 does meet the specified goals for telephone answering standards, it does not meet the specified goals for delivery standards.

**Table B.4 Comparison with other networks <sup>a</sup>**

	Zero200	Other
Average Answering Time (sec)	30.53	16.85
Average Acceptance Time (min)	6.70	2.98
Average no of radio jobs completed per month per car	23.25	156.92
Average Number of taxis operating on network	346.00	5000.08
Percentage of calls answered within one minute	88.11%	94.69%
Percentage of calls answered within two minutes	95.07%	98.24%
Percentage of taxis arrived within 15 minutes	70.88%	92.24%
Percentage of taxis arrived within 30 minutes	91.29%	99.19%
Percentage of taxis arrived within 60 minutes	99.06%	99.99%

<sup>a</sup> Year to the end of the March quarter 2007.

**Source:** Information provided by the NSW Ministry of Transport.

<sup>50</sup> Council of Social Service in New South Wales (NCOSS) submission p 5 as well as Physical Disability Council of New South Wales submission pp 7-8.