

NSW Taxi Council

Submission to the

Independent Pricing and Regulatory Tribunal
Of New South Wales

Review of fares for taxis, private buses
and private ferries in NSW

28 March 2002

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1 INTRODUCTION

The NSW Taxi Council welcomes this opportunity to make a submission to the Independent Pricing and Regulatory Tribunal (IPART) review of fares for taxis, private buses and private ferries.

This submission by the NSW Taxi Council, which incorporates the submission of the NSW Taxi Industry Association, is the formal response on behalf of the taxi industry in NSW to the IPART Issues Paper released in February 2002.

This submission follows the structure of the IPART Issues Paper and responds both to those matters on which the Tribunal has specifically invited comment and to the Minister's Terms of Reference to IPART for the Review.

We note, respectfully, that it is not the function of the Tribunal to make a determination on taxi fares but rather to investigate and report to the Minister on prices for taxi services.

It remains the legislative responsibility of the Director General NSW Department of Transport to determine fares.¹

2 INDUSTRY CHARACTERISTICS

2.1 The Taxi Industry in Perspective

The NSW Taxi Industry is the largest Taxi Industry in Australia - comprising nearly 6,000 taxis and over 22,000 professional drivers.

It is a service industry as well as a major contributor to the business and tourist economies.

As a service industry, our record speaks for itself.

With world class response times and state-of-the-art dispatch and tracking technology, it is little wonder that 75% of our passengers rate our service as between good and exceptional.

In NSW, every household spends an average of around \$100 per year on taxis. That is because taxis provide a valuable public service - bridging the gap between private vehicles and public transport.

¹ NSW Passenger Transport Act 1990, Section 34.

For the tourism and business economies, taxis are essential. Tourists spend around \$40-million a year on taxis, and businesses more than double that particularly on airport to city and intra-city trips.

NSW taxis carry over 170-million passengers a year.

Over 75% of customers who were surveyed recently said the Industry provides a service ranked between very good and exceptional.

Complaints are at a record low of about 1 in every 6,000 journeys - and are rapidly falling.

The taxi industry in NSW provides a business opportunity for some 26,000 people (operators and drivers) and employs many others in managerial, communications, clerical, training, maintenance and ancillary services.

Thousands more people are employed in supporting industries and services including vehicle manufacture and retailing, automotive parts and equipment, LPG, marketing and advertising.

2.2 IPART Overview

Chapter 2 of the IPART Issues Paper provides a brief summation of the key characteristics of the taxi industry.

To properly review taxi fares, the key characteristics of the taxi industry are worthy of expansion. And what must be emphasised at the outset are the cohesive and coherent qualities of the taxi industry throughout NSW.

The taxi industry is a large, diverse and vibrant organisation of medium and small business operators. It is a microcosm of Australian society, with a richness of ethnic, multicultural and socio-economic backgrounds. Steeped in heritage and tradition it nonetheless is a lateral and forward thinking industry, committed to giving superior customer service, being a key stakeholder in the delivery of public transport in NSW and to being a good 'corporate citizen'.

The Taxi Council comprises representation of 69 networks, of which, 57 represent country NSW. Membership of the Taxi Industry Association (TIA) covers all of NSW and the Country Taxi Operators Association enjoys representation on the Board of the TIA.

IPART noted that some parts of rural NSW do not have taxi services. It is more important to appreciate that, in far more places, taxis are the only form of public transport and in others provide the only form of public transport offered at night time and at weekends.

People with disabilities, in particular, rely heavily upon the wheelchair accessible services provided by the taxi industry. And the taxi industry is justifiably proud of its achievements in this regard.

2.3 Industry Structure

The taxi industry is professional, orderly and well structured. The industry consists essentially of three tiers. These are:

- a. the Network,
- b. the operator and
- c. the driver.

Of these the operator is the key building block.

Overarching these three structural tiers are the industry representative bodies that are discussed below.

2.4 Industry representation

NSW Taxi Council

The NSW Taxi Council is the peak industry body representing taxi Companies, Cooperatives and Networks in NSW.

Membership of the Taxi Council comprises the 12 greater Sydney metropolitan area taxi networks and 57 networks from rural and regional NSW.

The Taxi Council is a member of the Australian Taxi Industry Association, the International Taxi & Livery Association, Tourism NSW and the State Chamber of Commerce.

As the peak representative body, the Taxi Council gives leadership to the NSW taxi industry. It is the industry's consultative body to the NSW government, it provides a conduit for all stakeholders into the taxi industry, it gives focus to the community on all taxi matters and is instrumental in progressing the many contemporary issues confronting the NSW taxi industry today.

The NSW Taxi Industry Association

The NSW Taxi Industry Association (TIA) is the representative body of individual taxi-cab operators in NSW. There are presently some 4,000 members of the NSW TIA.

The TIA is registered as an Association of Employing Contractors under the Industrial Relations Act 1991 and is a party to the Taxi Industry (Contract Drivers) Contract Determination, Consolidated Award.

The Registered Office of the TIA is 152 Riley Street, East Sydney, NSW 2010.

NSW Country Taxi Operators' Association

The NSW Country Taxi Operators' Association (CTOA) is the statewide representative body of taxi operators from rural and regional NSW and focuses on those issues of specific relevance to country taxi operations. It is affiliated with the 6 regional country taxi Councils to which individual operators might also belong.

The consolidation of industry representation is complete with CTOA having representation on the TIA Executive.

2.5 The taxi driver is not an employee

The structure of the taxi industry cannot be discussed further without emphasising that taxi drivers are NOT employees. Rather, drivers are self-employed small business persons who carry-on their business through the bailment of taxicabs.

This relationship has been confirmed by a ruling of the Federal Court of Australia.²

In his Ruling, his Honour Justice Hill stated:

"I would, accordingly conclude that the relationships existing between all applicant operators and their drivers are properly to be characterised as relationships of bailment, and not as relationships of employment."

This ruling is supported by the policy of the Australian Competition & Consumer Commission (ACCC). The ACCC has ruled that under the Federal Trade Practices Act 1974, taxi drivers have a right to stand at ranks, to ply for hire where they wish, to accept hirings from a network booking service and to accept bookings in any other reasonable manner. In this regard the ACCC has determined that networks and operators may not restrict the trade of taxi drivers and in so doing, highlighted the independence of taxi drivers.³

The Commonwealth GST Act specifically requires that every taxi driver possess an Australian Business Number (ABN). Moreover, the taxi driver business is the only business in Australia with an annual turnover under \$50,000, so to require

² De Luxe Red & Yellow Cabs Co-Operative (Trading) Society Ltd & Ors v Commissioner of Taxation [1997] 840 FCA (28 August 1997), Hill J.

³ ACCC and Bathurst Taxis 1999, ACCC and Combined Districts Radio Cabs 1999, et al

an ABN. These provisions of the GST Act serve to reinforce the understanding of the taxi driver as an independent, self-employed small businessperson.

Consequently, the reference by IPART in its Issues Paper to the cost to the taxi operator of “*driver’s wages*”⁴ is erroneous and serves to give the wrong impression of the relationship between taxi operator and driver.

This status of the driver is highlighted early in this submission to seek IPART’s appreciation that in a regulated fare environment, it is essential for the Tribunal to understand whose costs, whose revenue, whose efficiency and whose service delivery is actually being measured.

2.6 Role and Responsibilities of the Driver, Operator and Network.

The Driver

The main function of the driver is to accept hirings and to complete those hirings in an efficient, reliable and customer-focused manner.

Specific Regulations and authorisation standards apply to the conduct of drivers.

The business status of the driver and the relationship between driver and operator is discussed later in the submission.

The taxi-cab operator.

The taxi-cab operator holds a pivotal role in the taxi industry.

The function of the operator is to offer for bailment well maintained and compliant taxi-cabs and to enter into Bailment Agreements with drivers for the use of those vehicles.

It is the operator that is the licensee of the taxi licence or is the leasee of another operator’s licence.

It is the operator therefore who makes a significant investment in the industry and who sustains the substantial on-going operating costs.

The bailment fee, which is the principal source of revenue for the taxi operator, is discussed in detail later.

The operator not only incurs the cost of maintaining their own taxi-cab business, but is also the main source of funding for network operations, industry compliance, marketing and advertising, industry representation, and customer service initiatives such as the provision of commissionaires at the airport and at the ‘secure’ city ranks.

⁴ IPART Issues Paper, p 11

The Taxi Network

The original and basic function of a taxi network is to operate a booking service which accepts telephone bookings from intending taxi customers and offers those bookings for hire to drivers in an efficient, reliable and cost-effective manner.

Networks offer a range of services to their members. These include administration, training, maintenance facilities, industry products, financial services and insurance.

Networks are also accredited taxi operators in their own right and most operate their own taxi fleets. Usually, it is the network that operates the wheelchair accessible taxi (WAT) fleet. The 'micro-management' required of wheelchair accessible taxis demands significant investment by networks, much of which is not understood. This includes:

- a. The investment in expensive wheelchair accessible vehicles,
- b. The expense of on-road costs, maintenance & repairs to WATs,
- c. The recruitment and training of drivers,
- d. Underwriting the reduced revenue from WATs, and
- e. Absorbing the administrative overheads.

For example, it is assessed that the Taxi industry incurs an expense of \$500,000 just to administer the processing of Taxi Transport Subsidy Scheme docketts generated from WAT hirings.

Networks fund their operations, in part, through 'base fees' which are levied upon member operators. Other income is generated from the products and services offered to members.

2.7 Dispatch Call Centres

There are 11 taxi companies in Sydney of which 8 are independent. During the late 1980's and early 1990's, with the advent of improved computer technology traditional taxi radio rooms were transposed into modern, computer-aided, dispatch call centres.

Improvements in technology enabled better communications to the taxis and provided an improved and fairer hiring mechanism for intending customers. The cost to buy this technology was very expensive and only the larger and more affluent companies were able to make this capital investment.

It also became self evident that regardless of the capacity to make the necessary capital investment, an essential 'critical mass' of taxi-cabs on the network was necessary to generate the necessary cash-flow and to ensure on-going viability of the business.⁵

In turn, this has led to smaller taxi companies bureau-servicing their booking services to other networks.

The number of telephone bookings throughout the day can vary substantially depending, for example, upon the pattern of people movement and by the weather. Unless there is an economy of scale then a high cost can be incurred in the staffing of booking services. This need for business economy became a major contributor towards the formation of the computer dispatch call centre.

Today, as a result of the cost of providing computer-based call centres, most taxi companies combine their services and operate through a specialised call centre service provider. In Sydney, three such providers exist. These are Combined Communications Network (CCN), Premier Cabs, and Legion Cabs.

These three organisations now service the radio and telephony needs of all the taxi companies in Sydney covering more than 5000 taxis. Over recent years all the smaller taxi companies have become bureau members of one of the three service providers.

These communication service providers charge the taxi companies a 'Radio Fee' that is priced to cover the cost of the expensive in-vehicle equipment, telephony, booking services, support, maintenance and training. The in-vehicle equipment includes the computer dispatch terminal, two-way radio, GPS equipment and a driver emergency alarm system. In addition the vehicle will have a meter and either a camera or protective screen for security.

A typical dispatch call centre requires dual systems for redundancy in case of failure. It will also contain other equipment that aids the service provider such as digital recorders, speech recognition systems and system management consoles. In addition it will have expensive software for dispatch, recording and reporting, data mining and rostering.

The modern bureaus in Sydney are among the most complex in the world with systems that have revolutionised the taxi dispatch market and transitioned it from traditional two-way radio to computer dispatch and more recently to GPS dispatch.

⁵ This has been evidenced in the ACT recently where, following a National Competition Policy Review, the ACT government sought to regulate the introduction of a second network. The winning tenderer for the 2nd network has still not commenced operation because of being unable to generate a 'critical mass' of taxi-cabs.

The NSW taxi industry has taken full advantage of developments in communications to lead the world in the application of new technology and are still searching for ways whereby they can improve their business. Speech recognition systems have already been introduced in most metropolitan networks. The use of the multi-dimensional Natural Language Speech Recognition has also been introduced, allowing more complex voice interactions to take place automatically. Recently, some taxis have been fitted with in-vehicle navigation systems.

These initiatives offer genuine public benefits in terms of improved customer service and business efficiency.

The NSW taxi industry continues to search for other new areas of technology. This includes in-vehicle video and Internet, Internet taxi bookings, SMS Cab Call, smart card technology and telematics.

Investment and technology has driven operational efficiency and productivity improvement to the benefit of the consumer.

The introduction of bureau servicing has likewise delivered operational savings through the consolidation of business overheads.

Finally, there is benefit to the public through the 'off-load' system utilised by the centralised call centres. This facility enables telephone bookings to a taxi company at full capacity to be off-loaded to available taxis from other companies networked to the same booking service.

We believe this is an important network initiative to improving booking response times and demonstrates the flexibility of responding to customer needs.

The Taxi Council asks the Tribunal to particularly note the major investment in technology, the initiatives in service performance and the productivity improvements achieved by taxi networks.

It is also important to appreciate that many country taxi networks are following suit, to the degree that these far smaller operations are able, to make the investment necessary in technology modernisation. Some country networks have already invested in computer-aided dispatch and even GPS dispatch, whilst others have taken the initiative of bureau servicing their booking services to larger networks both intra and interstate.

The cost of network operations is extensive. No longer are networks just responsible for the provision of radio networks. Networks are now accountable for co-regulation of the industry; compliance auditing of operators, drivers and vehicles; 24hr/7day system monitoring; training; the management of lost

property; detailed performance reporting to the regulator and a range of other functions all of which are demanding in terms of staff, time and systems.

Other than self-generated income from services provided, the networks are reliant upon operator fees to fund these major operational overheads.

2.8 Survey of performance

This submission has outlined the structural tiers within the taxi industry of operator, driver and network and highlighted the relationship between them. It is now essential that the Tribunal correctly apportion to each of the tiers their accountability for industry performance, particularly with regard to those key indicators used by the DOT in its survey of taxi users.

The Tribunal will conclude that whilst the public consistently rates highly the performance of the taxi operator and the Network, that of the taxi driver drew some criticism.

The apportionment of accountability for service delivery within the taxi industry is important. If productivity, efficiency and customer service are to be measures of determining appropriate levels of income within the taxi industry, then it beholds IPART not to make recommendations detrimental to the taxi operator based upon the performance of other tiers within the industry.

3 EXISTING REGULATORY FRAMEWORK

Ever since horse-drawn hackney cabs plied the streets of London, the taxi industry has been regulated.⁶

In NSW the principal legislation is the Passenger Transport Act 1990 and Regulations made under the Act. Specifically, the Passenger Transport (Taxi-cab Services) Regulation 2001 and the Passenger Transport (General) Regulations 1995. Additionally the Department of Transport applies standards related to operator accreditation, network authorisation and driver authorities.

The Roads & Traffic Authority administers the Motor Traffic Act and other legislation pertaining to vehicle, driver and passenger safety as well as road use management.

Finally, the Federal Office of Road Safety determines which motor vehicles may be used as taxi-cabs within Australia.

⁶ Metropolitan Hackney Carriage Act 1843

4 APPROACHES TO PRICE REGULATION

The Tribunal invited comments on the application of fare setting approaches to the taxi industry, and the reasonableness of individual cost items that are currently included in fare setting approaches.

4.1 Background

The authority to regulate fares is vested in the Director General, NSW Department of Transport.⁷

Traditionally, the taxi industry has made representations to the Director General for annual fare increases based upon cost movement within the industry.

Although detailed consultation and negotiation between the Department and the taxi industry has always occurred, it is agreed that the regulation of fares by the Director General in the past has not only been prescriptive but also subjective.

Moreover, without any consistent and agreed methodology for determining fare increases, whilst each application was, in itself, an annual event; invariably reliance was placed upon the previous determination as a start point rather than using a more objective and relevant datum.

4.2 The Cost Index Approach

To overcome this subjective approach to fare regulation, last year the NSW Taxi Council engaged PriceWaterhouseCoopers to develop a comprehensive taxi fare cost index model.

The Department was not only briefed on the structure of the cost model by PriceWaterhouseCoopers but also contributed to its development by providing valuable input on different aspects of the model's operation. The intention was that a coherent, robust and on-going method of determining taxi fare movement would be adopted in consultation between industry and regulator.

The NSW Taxi Council believed that it had the support of the Department of Transport in this regard.

Notwithstanding, when in good faith the Taxi Council submitted its costing model to the Department of Transport for its final consideration, the Department referred the cost model to IPART for review.

The subsequent recommendations of the Tribunal formed the basis of the government's 2001 taxi fare determination.

⁷ Section 34, NSW Passenger Transport Act 1990.

In making its recommendations, the Tribunal considered that the model's cost indices did not properly reflect all costs associated with the operation of a taxi-cab and made two key adjustments to the PriceWaterhouseCoopers' model. These were the inclusion, as costs to the operator, of retained bailee driver earnings (inappropriately referred to by the Tribunal as driver costs or wages) and licence lease fees.

The impact of these inclusions reduced the proposed fare increases from 15.3% for urban fares and 12.2% for country fares to 4.1% and 4.2% respectively.

The NSW Taxi Council believes that this approach to taxi industry cost structuring by IPART reflects an insufficient understanding by the Tribunal of:

- a. The business relationships prevailing within the taxi industry;
- b. The disbursement of fare revenue as a consequence of these relationships; and
- c. The impact on its recommendations of determinations by the Industrial Relations Commission.

Consequently, in responding to the Tribunal's Issues Paper, this submission focuses heavily on these industry relationships; the impact of the relationships on the distribution of costs and revenue; and the key role of the Industrial Relations Commission in influencing the final disbursement of income from fares.

The Tribunal comments that "*no industry it regulates is regulated under a cost index approach*"⁸

We respectfully remind the Tribunal that it does not regulate the taxi industry. Rather, it is regulated under the NSW Passenger Transport Act 1990. Under the Act, it is the role of the Director General, Department of Transport to determine fares.

The NSW Taxi Council therefore reserves the right to make further representations directly to the Director General in response to the Tribunal's recommendations, before the Department's final fare determination is made.

The taxi industry agrees that reliance on the cost index modelling may not be appropriate in heavily subsidised government Authorities such as Sydney Water, State Transit or State Rail.

However, the Taxi Council emphasises that, in reviewing the taxi industry and making recommendations as to appropriate fares, the Tribunal is dealing with the livelihood of thousands of small businesspersons. Unlike government Authorities,

⁸ IPART Issues Paper Section 4.3 p16

these people run their businesses without the benefit of government deficit funding and to them, the true cost of running a business is a reality of life.

The Taxi Council invites IPART to be sensitive to the economic pressures confronting small business in Australia today. This is no better reflected than in the demands placed upon those in the taxi industry.

The Taxi Council defends cost indexing as a means of capturing the real cost to taxi operators and taxi drivers of operating their respective businesses but does appreciate that cost indexing, in itself, is not the only consideration in fare determinations.

A cost index model, updating the detailed analysis by PriceWaterhouseCoopers in 2001 is therefore attached to this submission to guide the Tribunal in the movement of industry costs over the last 12 months.

A key objective of this submission, however, is to meld the cost index model with an amplification of the business environment of the taxi industry. The aim is to highlight the need of the Tribunal to appreciate whose business it is truly reviewing and whose performance it is really measuring when considering a movement in the present taxi fare structure.

This approach of melding cost indexing and business structure is titled “One Taxi – Two Businesses”

4.3 Alternative Approach – “One Taxi – Two Businesses” The 2002 Fare Submission

Introduction

Fact - Two distinct businesses are conducted through a single taxi-cab.

In the Federal Court of Australia, Justice Hill reinforced this notion. In his judgement, Hill J stated:

“Thus, in no case is it correct to say that any of the applicants pay amounts to persons who are “employees” as such, when payments are made to drivers. On the contrary, each of the drivers with which the present applications are concerned carries on his or her own business rather than being a person engaged as an employee in the business of the applicants.”⁹

It is essential that IPART embrace this fundamental understanding. Failure to do so may not, in itself, impact on the final fares paid by the passenger, but it will fracture proper cost modelling within the industry and will have the potential to materially effect the proper disbursement of income within the industry.

⁹ De Luxe Red & Yellow Cabs Co-Operative (Trading) Society Ltd & Ors v Commissioner for Taxation [1997] 840 FCA (28 August 1997)

4.4 Business 1 – the taxi operator

The first business operated from the taxi-cab is that of the taxi operator.

The core business of a taxi-cab operator is to make available for bailment a safe, reliable and compliant taxi-cab to the bailing driver.

In essence the taxi operator is a supplier to the taxi driver industry.

In carrying out their business, taxi operators incur fixed and variable costs and earn revenue. From the revenue, operators naturally expect a rate of return.

The principal source of revenue for the taxi operator is the bailment fee paid by drivers for the use of the operator's vehicle. This is supported by other smaller sources of income such as that generated from advertising on some taxis.¹⁰

The Tribunal's philosophy is that "revenue from fares should recover operating costs and earn a rate of return".¹¹ Likewise, the expectation of taxi operators is that bailment fees paid by drivers will cover all the fixed and variable efficient costs incurred in the running of their business and provide a reasonable rate of return on their capital investment.

This notion must be upheld by the Tribunal as a pillar of fare determination. Otherwise the whole viability of the taxi industry is threatened.

4.5 Business 2 - Taxi driver

The ruling of the Federal Court of Australia upholds the unassailable fact that taxi drivers are self-employed, independent small businesspersons.

The business of the taxi driver is to take on bailment a taxi-cab for a period and stand or ply for hire in accordance with the conditions of the taxi-cab licence, the Bailment Agreement and within the legislative environment prevailing in the taxi industry.

All the revenue drivers earn is theirs from which, like any business operator, they must pay their outgoings.

The costs incurred by the driver are principally the bailment fee for the vehicle, their wages and fuel and cleaning charges.¹²

¹⁰ It should be appreciated that in 1997 the Department of Transport significantly restricted the advertising permissible on taxi-cabs thus limiting this traditional revenue source.

¹¹ IPART Issues Paper p21.

¹² As will be discussed, fuel and cleaning charges are only incurred by metropolitan drivers. In Country NSW the bailment fee is commission based, with fuel and cleaning costs usually absorbed by the operator. Consequently the country fares model will be quite different from that in the Metropolitan area.

Whilst Regulations and Network authorisation standards may impose some accountability on Networks for service performance, the productivity, efficiency and quality of service demonstrated by drivers is ultimately controlled by them alone.

Consequently, it is this productivity, efficiency and quality of service demonstrated by individual drivers, which will influence their earnings.

To be consistent with the Tribunal's philosophy therefore, the work ethic of the driver, the volume of work available and the prescribed fare scale should, together, provide sufficient revenue to cover driver's costs and provide a rate of return on driver's labour.

The challenge for the Tribunal is to measure the work ethic of the driver, consider the work available, satisfy itself as to the costs drivers incur, and make recommendations as to appropriate fares from these perspectives as well as that from the operator.

4.6 Distribution of Industry costs

The 2001 fare submission by the NSW Council to the NSW Department of Transport was materially effected by the IPART fare review.

It is the strong view of the taxi industry that the inclusion of driver earnings in the PriceWaterhouseCoopers cost model as a cost to the operator is fundamentally flawed and to the economic detriment of taxi operators.

Whilst reparation is not available, the taxi industry seeks to ensure that this matter is redressed through the proper distribution of costs in this and future fare reviews of the taxi industry.

It is obvious that the income earned by drivers in the running of their business cannot be apportioned as a cost to operators in the running of their business. Yet in essence, this is what the Tribunal did in its amendment to the 2001 cost model.

Consequently, The Taxi Council argues that the proposed "two business" model needs to be inclusive of the correct distribution of revenue and costs between the separate businesses carried on by operators and drivers.

Figure 1 below, indicates the costs incurred in the respective businesses of the operator and driver in the Sydney metropolitan area.

Metropolitan Taxi Operating Costs		
Taxi Operator	Fixed costs:	Vehicle lease payments
Income: Bailment fees		Insurance
		Government charges
		Network fees
		Plate lease fees
		Annualised establishment costs
	Variable costs:	Maintenance labour
		Vehicle parts & panels
		Tyres
		Operator's superannuation
		Operator Salary Equivalent
		Uniforms
		Other
Taxi Driver	Fixed Costs:	Nil
Income: Passenger fares		
	Variable costs:	Bailment fee
		Fuel
		Cleaning
		Driver's wage equivalent
		Other

Figure 1

It will be noted in this model that not only are the fares properly reflected as driver business income but the cost to drivers of fuel and cleaning are shown as a business expense to drivers rather than operators.

This business model therefore reflects the reality of custom and practice.

Country NSW

Figure 2 demonstrates the different distribution of costs that apply in country NSW.

Country taxi Operating Costs		
Taxi Operator	Fixed costs:	Vehicle lease payments
Income: Bailment fees		Insurance
		Government charges
		Network fees
		Plate lease fees
		Annualised establishment costs
	Variable costs:	Maintenance labour
		Vehicle parts & panels
		Tyres
		Operator's superannuation
		Operator Salary Equivalent
		Fuel
		Cleaning
		Uniforms
		Other
Taxi Driver	Fixed Costs:	Nil
Income: Passenger fares		
	Variable costs:	Bailment fee
		Driver's wage equivalent
		Other

Figure 2

Here it will be noted that fuel and cleaning costs have been shown as an operator expense. This is because the prevailing arrangement in country NSW is that operators meet these costs out of revenue generated by bailment fees as discussed below.

4.7 Bailment Fees

Metropolitan Sydney

Metropolitan bailment fees are almost totally based on the 'fixed pay-in' method.

The maximum fixed pay-ins for each shift is a registered industrial agreement negotiated before the Industrial Relations Commission and based on the *Taxi Industry (Contract Drivers) Contract Determination, Consolidated Award*.

The present determination for maximum pay-ins dated 9 December 2001 is shown in Figure 3 below.

Metropolitan Maximum Pay-ins - Effective 9 December 2001		
	Maximum Pay-in (including GST)	Fee for distance travelled in excess of maximum kilometres indicated
Excess kilometre fee		\$0.52c
All Day Shifts	\$114.00	260
Night Shifts		
Monday	\$123.70	300
Tuesday	\$125.85	320
Wednesday	\$135.70	320
Thursday	\$153.10	350
Friday	\$173.65	400
Saturday	\$173.65	400
Sunday	\$134.60	320

Figure 3

This agreement also outlines other benefits which are payable to drivers.

Country NSW

Bailment fees in rural and regional NSW are invariably commission based. Under this system, taxi operators offer their taxi-cab for bailment to drivers at a determined commission rate which is a percentile of the total fares (less gratuities) earned by the driver during the period of the bailment of the taxi.

In this case the operator meets the cost of fuel and vehicle cleaning as a variable business cost paid out of income generated through bailment fees.

The commission paid by the driver as a bailment fee in country NSW is generally between 50 and 60 % of the total fares earned, thus reflecting the increased costs incurred by the operator.

4.8 Operator/drivers

Obviously many taxi operators also drive their own taxi-cabs and therefore it is necessary to discuss this issue within the context of the "one taxi – two business" model.

Reasons for operators wishing also to be drivers include:

- a. The desire for a more 'hands-on' approach.

- b. The need to maximise income from the taxi.
- c. The enjoyment of taxi driving, and
- d. A lack of available drivers.

In the case of taxi operators also being drivers, the easiest approach is to identify them as a person with two jobs – not an uncommon practice for persons working within the taxi industry.

This means, that in applying the model to operator/drivers, the revenue and costs can still be divided in accordance with the distribution charts in Figures 1 and 2 above.

In the model, there is a clear transition by the person from the business of operator to that of driver. The operator effectively bails the taxi-cab to him or her self like they would to any other driver.

As the driver, they then pay the bailment fee and carry-on their second job.

All fares are retained and the usual outgoings by the driver made in accordance with the bailment agreement, including those paid to the taxi operator.

This simple accounting philosophy maintains the integrity of the “one taxi – two business” model.

The ‘operator’ earns the bailment fee and the ‘driver’ retains revenue and pays their outgoings.

This approach is also consistent with the taxi industry regulatory environment. Certain legislative provisions apply to taxi operators. When they drive a taxi-cab however, they are also subject to those separate legislative provisions applying to taxi drivers.

Finally, it is not unknown for taxi operators to drive, for whatever reason, other operator’s taxi-cabs. In which case with the same bailment arrangements in place and the same costs disbursed, the model still holds good.

4.9 The Role of the Industrial Relations Commission

The Sydney metropolitan Bailment Agreement is a registered Industrial Agreement with bailment fees (driver pay-ins) determined by the Industrial Relations Commission under the *Taxi Industry (Contract Drivers) Contract Determination, Consolidated Award* to which the Transport Workers’ Union and the Taxi Industry Association are parties.

Annually, a claim is lodged in the Industrial Relations Commission for a variation to the Award. The Commission considers arguments based upon a range of national wage, economic and taxi-related issues and makes a determination on a new schedule of bailment fees.

This process is pivotal to the IPART review and highlights a significant flaw in the theory of the fare determination methodology.

4.10 The Flaw in the Fare Determination Methodology

Traditionally, the Department of Transport has considered applications by the taxi industry for fare increases based upon the movement in a range of costs. Last year the Department referred the industry's application to IPART.

Fare increases translate directly into an increase in revenue to the driver.

The operator on the other hand, only has the ability to recoup their increased cost through an increase in bailment fees, for which they require the approval of the Industrial Relations Commission.

If drivers, through the industrial relations process, are able to achieve little or no movement in the bailment fee against an increase in fares, then the movement in fares represents increased income to drivers at the expense of operators.

This arrangement presents the opportunity for fares to be increased as a reflection of operator costs but the benefit retained by the driver because of a sanction by the Industrial Relations Commission. Naturally, this is of concern to taxi operators.

By way of example, if operator expenses such as the cost of capital, maintenance costs and base fees are to increase but fuel prices drop, the Tribunal may, on balance, not recommend a fare increase.

If thereafter the Industrial Commission does not increase the bailment fee, it means that the driver's business becomes more profitable due to a reduction in outgoings (reduced fuel costs). Conversely, the operator's business becomes less profitable through an increase in expenses without a compensating increase in revenue (bailment fee).

It may also be that whilst improved efficiency and customer service performance at the operator and network levels are noted, no comparative improvement in driver performance is seen. If IPART translates this latter lack of improvement into justification for containing fares, then the taxi operator will fall victim to the performance of something over which they have no direct control.

Consequently, in determining the comparative rates of return to the businesses of the operator and driver, there is an inextricable linkage between IPART's role to recommend fares and the influence of the Industrial Relations Commission.

This demonstrates that IPART has no real control over its own principal that *"the revenue from fares should recover operating costs and earn a rate of return on capital"*¹³. This is because the Tribunal, in reality, can only influence one side of the equation. The rate of return implied or intended by the Tribunal for taxi operators subsequently falls into the hands of the Industrial Relations Commission for determination.

Because it is the Industrial Relations Commission that determines bailment fees, the effect of the Commission's decision is to:

- a. Set the rate of return for the operator's business by controlling the source of income (determining the fixed shift pay-ins), and
- b. Influence the rate of return for the driver's business by setting the principal cost to the business (the fixed pay-ins).

IPART, in its 2001 fare recommendation, erroneously apportioned all the costs of running a taxi service to the taxi operator. This included driver's retained earnings. The Tribunal then compounded this error by also adding drivers' expenses, such as fuel and cleaning as a cost to the operator.

This failed to do two things:

- a. Properly apportion costs between driver and operator in the cost index model, and
- b. Provide a balanced view to the Industrial Relations Commission of the true disbursement of costs within the taxi industry.

The outcome of last year's Industrial Relations Commission hearing which followed the government's announcement of the 4.1% fare increase, as recommended by the Tribunal, was that the Industrial Relations Commission subsequently awarded 3.4% of the increase to drivers and only increased the operator's bailment fee by 0.7%.

In other words, the 4.1% fare increase recommended by the Tribunal ultimately translated into an increase of only \$3 per week to the taxi operator to cover both an increase in costs and return on capital!

In this fare review IPART is urged to appreciate the role played by the Industrial Relations Commission and in its report, establish connectivity between this role

¹³ IPART Issues Paper p 21.

and the Tribunal's recommendations. This should give guidance to the Commission and provide weight of argument for both the TIA and the Transport Workers' Union at the next Commission hearing.

Attached at Annex A is the taxi industry cost index model for 2002. This indicates the movement in costs identified by the industry and correctly apportions them between operator and driver.

4.11 Protection of consumers from abuses of monopoly power

The Tribunal invited comments on the level of regulation required to properly protect consumers from abuses of monopoly power.

Whilst it is laudable that IPART should have an interest in the level of legislation required to protect consumers from abuses of monopoly power, the NSW Taxi Council is bemused that the Tribunal should invite such comments within the context of a fare review of the taxi industry!

The taxi industry is not a monopolistic environment. In NSW it comprises some 26,000 small businesspersons who operating independently and in competition with each other.

4.12 The theory of regulation and competition

The Tribunal invited comments on the level of competition in the taxi industry.

The taxi industry is one that is both heavily regulated and highly competitive.

Regulation and its relationship with national competition policy are therefore threshold issues confronting the taxi industry in NSW today.

The Commonwealth and States Competition Principles Agreement is based on the presumption that active competition enhances consumer choice. This therefore puts pressure on suppliers of goods and services to improve their product; control costs and develop new products.

There are many environments where such an approach to deregulation is both practical and logical but the taxi industry is not one of them.

A community has a natural level of demand for most goods and services and taxi services is no exception. Generally supply and demand is balanced.

If, for example, a new retailer is established and as a consequence supply in that market exceeds demand; greater competition will impact upon all similar retailers.

If market demand does not increase, then ultimately consumer choice will restore the natural level of supply against demand. In this process the retailers providing the best product, at the best value for money, will survive and those under performers will ultimately disappear.

Effectively market forces, determine the acceptable level of value for money with purchasers rejecting those supplying products below this acceptable level.

Consumers therefore accept that bad performance can exist. And they know they can reject such bad performance at the time of purchase. In essence, under the active competition model, the delivery of bad service is an evolutionary point somewhere between the establishment of a business and its demise.

This notion is not acceptable in the taxi industry and the NSW Taxi Council would reject such outcomes of unfettered competition were they applied to our industry.

Unlike other retail outlets, there is no real opportunity for product selection in the taxi industry. This is because the hirer cannot, in any meaningful way, exercise freedom of choice at the time of hiring a taxi-cab.

We therefore believe that every taxi-cab in NSW, on every occasion, should deliver a superior level of customer service. The taxi industry embraces this ethos and is continuously striving for improvement in the delivery of customer service.

Hirers have a reasonable expectation that a high level of service will be provided, regardless of which taxi-cab responds to their booking.

The Taxi Council therefore supports the regulation of service delivery within the taxi industry and in so doing believes that the government has a duty of care to the community to ensure the delivery of safe, reliable and cost effective taxi services.

We believe the current NSW system of regulation and licencing achieves those objectives and fulfils the needs of the industry's customers.

We also believe that industry price modelling should provide the industry sufficient income to deliver this superior level of customer service.

4.13 Regulation of Quantity

We believe that it is in the public interest to balance, by regulation, the supply of taxis against the demonstrated public demand rather than allowing unrestricted entry into the industry.

Supporters of deregulation of market entry would argue that it is the role of government to set standards, to legislate for their provision and to audit for their compliance. They would contend that any person who demonstrates a commitment to achieving the government's standards should not be barred from entry into any particular industry.

For the taxi industry this is an over simplistic approach.

As the Tribunal would appreciate, successive NSW governments have restricted entry into the taxi industry for decades. They have created an environment where a presumption has been developed that a capital investment made in the taxi industry can always be redeemed by the sale of the licence, usually with a capital gain, at a point in the future.

There is also a direct correlation between the market value of taxi licences in NSW and the lease fee that may be demanded. Lease fees are thus an indicator of the well being of the industry.

The NSW Taxi Council believes that the restriction of entry into the industry will maintain, in the public interest, the proper level of taxi availability within NSW. This means there should be no reform of the taxi regulatory environment such that there is potential for diminishing the current level of service provided by the industry.

Failure to maintain the balance between supply and demand will translate into reduced earnings to those in the taxi industry and a lack of ability to meet efficient costs and achieve a rate of return. The attendant risk is that service levels will deteriorate as people try to contain costs. This is not acceptable to the taxi industry and certainly not in the public interest.

4.14 Regulation of Quality

There is ample evidence across the world that deregulation of service industries does not necessarily lead to operational improvements. Within the public transport sector, the disastrous outcomes of deregulation of the bus and mini-cab industries in Britain and taxi-cab services in New Zealand and the US are typical of this. In these examples research shows that service levels declined, fares escalated and consumer satisfaction reduced.

We consider it would be contrary to the public interest, were deregulation to create a taxi industry in NSW that would allow poor performance to be acceptable.

The Taxi Council supports the current NSW system of network authorisation, operator accreditation and driver authorities. We believe that a fundamental obligation of the regulator is to assure the public, through an effective regime of

accreditation and enforcement, that those who deliver taxi services are of good repute and fit and proper persons to do so.

Major reform of the taxi industry is only justified if such reform can be demonstrated to be in the public interest. Merely having more taxi-cabs operating in a less restrictive environment does not satisfy the public interest. Rather, the public interest is served by the delivery of clean, safe and reliable taxi services that offer real value for money.

Such services can only be achieved by the willing participation of all levels of the industry operating within a disciplined and regulated environment. This regulatory environment should be inclusive of both restriction of participation within the industry and restriction of operating practices through a regime of performance standards, co-regulation and compliance auditing.

The present market values of taxi-cabs in NSW have developed over decades of direct government regulation. Were such regulation to be stripped away to the extent that these values are materially affected, we argue that grounds would exist for just compensation to those who are disadvantaged.

5 FARE LEVELS AND STRUCTURE

The Tribunal invited comments on whether the existing fare structure for taxis should be altered. In particular, the balance between flagfall and distance rates, day and night rates, the necessity of luggage rates, and lift fees for wheelchair accessible taxis.

5.1 Balance between flagfall and distance rates

The present balance between flagfall and distance rates has been carefully crafted over decades of experience by the taxi industry. It reflects a fine equilibrium that:

- a. Does not advantage or disadvantage the short or long distance hirer over the other,
- b. Provides equal incentive to the driver to seek both short and long hirings, and
- c. Appreciates the cost of presenting the service to the hirer at the 'kerbside'.

The taxi industry does not support changing this balance and also cautions the Tribunal that if it does make significant structural change to the fare system then the public, or some sector of it, will be the loser. Either the long or short-distance hirer (depending on the change envisaged) will be disadvantaged and/or disincentives will be created in the fare structure that deter taxi drivers from willingly accepting all hirings.

5.2 Day and Night rates

A tariff surcharge at night time is an incentive to drivers to work after 10.00pm.

Presently, the surcharge is only applied to the distance component of the fare. The experience is that as a result of this limitation there is a disincentive for drivers to accept short hirings at night. This is because the surcharge does not apply to the flag fall or to waiting time. This illustrates the effect of upsetting the fine equilibrium between the flagfall and distance tariff referred to above.

The NSW Taxi Council recommends the continuance of the 20% night time surcharge and recommends that it be applied as a percentile increase to the total fare payable rather than to just the distance component.

In country NSW the 20% surcharge should continue to be applied at weekends and public holidays and also be adjusted to apply to the whole fare rather than just the distance rate.

5.3 Maxi-cab Hiring Charges

Whilst the seating capacity of a taxi-cab is regulated to be between 4 and 11 adult persons in addition to the driver¹⁴ the definition of a maxi-cab is that of a taxi-cab that has seating for 6 or more adult persons other than the driver.¹⁵

The regulations presently provide that the fare for a maxi-cab, when hired to carry more than 5 passengers (otherwise than by way of a multiple hiring) is deregulated. That is, the driver may charge more than the authorised fare provided the fare is negotiated and agreed with the hirer before the start of the journey.

General custom and practice within the industry since the introduction of the deregulated maxi-cab fare is for drivers to charge 1.5 times the metered fare. Given that otherwise the hirer would have to hire 2 or more ordinary taxis to accommodate the number of passengers, the amount of 1.5 times the metered fare is a 'win – win' for both hirer and driver.

The Taxi Council has recently negotiated this issue with the Department of Transport.

It is our understanding that the following fare structure for multiple hirings and WATs will now be gazetted:

¹⁴ Clause 9(2) Passenger Transport (Taxi-cab Services) Regulation 2001

¹⁵ Part 1.3 Definitions, Passenger Transport (Taxi-cab Services) Regulation 2001

	<u>Percentage of Authorised Fares</u>	
	<u>Current</u>	<u>Proposed</u>
Multiple hire, up to 5 passengers	75%	75%
Multiple hire, over 5 passengers	75%	75%
Specific maxi booking up to 5 passengers	100%	150%
Specific maxi booking over 5 passengers	negotiable	150%
Street hire for maxi, up to 5 passengers	100%	100%
Street hire for maxi, over 5 passengers	negotiable	150%

5.4 Wheelchair Accessible Taxi Hirings

Wheelchair accessible taxis play a vital role in providing mobility for people with disabilities and to many, WATs provide their only form of mobility.

The taxi industry is committed to providing the best possible level of service for people with disabilities. Major investment is made in the provision of WAT vehicles and specially selected drivers receive VETAB accredited training to deliver dedicated services in a caring, safe and competent manner.

WAT drivers, nonetheless, are still bailees of taxis and it is appropriate they receive fair remuneration for the provision of their labour and for their costs.

In 1999, in its National Competition Policy Review of the taxi and hire car industries, IPART recommended a \$5 lift fee for wheelchair accessible taxis.

This initiative was supported by the taxi industry. Firstly, it was agreed a lift fee would provide the necessary incentive to overcome an identified shortage of qualified drivers.

Secondly, it was agreed a \$5 fee would provide a reasonable payment for the additional labour provided by the driver in delivering WAT services, in particular, for the time taken to assist the passenger in alighting from the vehicle.

Due to increased costs and movement in the labour market, it is appropriate that this fee now be \$6.

Currently there is no provision in the Regulations for WAT drivers to charge for their labour in assisting passengers to alight from the vehicle. This is inconsistent with workplace labour conventions anywhere.

IPART proposed that the \$5 lift fee be funded through the Taxi Transport Subsidy Scheme rather than it be a cost incurred by the passenger. This proposal is supported by the taxi industry.

The Director General has, we understand, indicated that to introduce a lift fee of \$6 would increase the annual cost of the Taxi Transport Subsidy Scheme by \$3 million.

This means therefore that presently taxi drivers are subsidising the State budget by \$3 million through the provision of enforced free labour.

To support the argument, it should be noted that other States already apply a lift fee for passengers in wheelchairs and this is a fee that the industry considers should be consistent across all jurisdictions.

5.5 Other Rates and charges

The core business of the taxi driver is to sell their labour through the services offered by the taxi-cab. Drivers are therefore entitled to remuneration for the labour they provide in the delivery of their service. A number of minor charges currently apply which reflect either the input of labour by the driver or a recouping of 'out of pocket' expenses by the driver. These are discussed below.

Booking Fee

The booking fee is payable as recompense to drivers for the cost incurred in their travel from the point of accepting the booking to the nominated pick-up point.

'Time is money' is a truism to the taxi driver. The time taken from the point of booking acceptance to the hirer's pick-up point is effectively lost earning time. Further, the fuel consumed by the driver in travelling to the pick-up point is an out of pocket expense for which the driver is reasonably entitled to reimbursement.

The booking fee (presently \$1.15 in the urban area and \$0.65 in the country) is not only justifiable but also represents only a contribution to the real cost incurred by drivers.

Luggage Fee

Drivers may charge a fee of \$0.10c per 25 kg or part thereof after the first 25 kg of luggage carried.

This fee is a token contribution to recompense drivers for the time taken to assist hirers in the placing and removing of luggage from the boot of the taxi-cab.

Taxi-cab Regulations require drivers to comply with any reasonable requirement of any passenger¹⁶. Giving assistance with luggage, we agree, is a reasonable

¹⁶ Clause 45, Passenger Transport (Taxi-cab Services) Regulation 2001

task. Notwithstanding, no other component of the fare schedule compensates for the time taken to assist passengers with luggage and therefore a minimal luggage fee is justifiable and should be retained.

The only issue is that, in practice, it is not possible to assess the weight of luggage. Given that time and effort by the driver is not proportional to the weight of luggage but rather the amount of luggage, the Tribunal is invited to consider application of the fee on the basis of pieces of luggage rather than weight.

A fee of \$0.40c per piece of luggage after the first two pieces is suggested.

Toll charges

Toll charges are a direct 'out of pocket' expense incurred by the taxi driver and should, without question, be reimbursed to the driver by the hirer.

Return tolls for northbound journeys over the Harbour Bridge or through the tunnel are a legitimate charge to reimburse the driver for the 'out of pocket' expense to be incurred by the driver for the return trip.

It is not a justifiable argument that the driver might stay on the north side of the harbour or that they might secure a southbound hiring next. The driver has an unequivocal right to return to the south side of the harbour after a hiring to the northside without incurring an 'out of pocket' expense. This is particularly so when the demand for taxis in the CBD and environs is high.

5.6 The average fare

The notion of an 'average' fare has long been used as a tool to determine the movement in taxi fares and for related purposes.

In the past it has been customary for the Director General to approve a percentile increase to the 'average fare'. The industry then proposes changes to individual elements of the average fare so as to achieve the overall approved fare increase.

At present, the average fare in the metropolitan area is the flagfall + 10 kilometres + 3 minutes waiting time + 50% booking fee and in the country area is the flagfall + 3 kilometres + 3 minutes waiting + 50% booking fee.

In recent times the taxi industry has noted significant changes in the dynamics of taxi travel in the metropolitan area. In particular, the distance of the average journey appears to have decreased.

There are several reasons for this, including:

- a. The increase in inner city living, thereby reducing home to work travel distances,

- b. The increased percentile of inner city journeys, also through inner city living,
- c. An increase in train travel,
- d. Improvements in suburban bus services,
- e. Improvement in road conditions, and
- f. The influx of deregulated airport shuttle services operating in the suburbs.

The Taxi Council therefore considers that the distance component of 10 kilometres for the metropolitan 'average fare' is no longer sustainable and that an average distance of 7 kilometres is more reasonable.

The taxi industry will continue to monitor trip distance during 2002-2003.

6 SERVICE QUALITY

The Tribunal seeks comments on the quality of services offered by taxis.

6.1 Performance requirements

The Tribunal noted that the Department of Transport has in place interim standards for authorised taxi network operators. The Tribunal focuses its attention upon telephone answering and delivery standards and in so doing relies upon a DOT survey of the taxi industry (now four years old) and unfiltered data from the DOT complaints register.

These two sources of information are more indicative than qualitative but none the less serve to give some guidance to the performance of the taxi industry.

What must be emphasised, is that in measuring performance, the selected performance indicators must be correctly allocated to that tier within the taxi industry that is accountable for that aspect of performance; namely, the operator, the network and the driver.

For example, whilst networks are accountable for performance related to answering telephones and offering hirings, key accountability for timely arrival after the booking is offered rests with the driver.

6.2 DOT Survey of the taxi industry

Although dated, this survey provides the pleasing result that overall satisfaction by consumers with the taxi industry is high.

The Taxi Council is convinced that industry performance continues to trend upward as a result of initiatives introduced by the industry, These include:

- a. Compulsory accreditation courses for potential operators,
- b. Improved training for drivers,
- c. VETAB approved training for drivers of wheelchair accessible taxis,
- d. Commissionaires at the airport and at 'secure' city taxi ranks, and
- e. The introduction of leading edge technology into call centres.

Telephone answering standards

The Tribunal, in its Issues Paper, acknowledges that network operators meet targets relating to telephone answering services provided by their booking services.

Delivery standards

The observation by IPART that taxi companies did not perform well in meeting delivery standards is an indication that the Tribunal does not yet understand the structure of the taxi industry.

It is presumed that in referring to 'taxi companies' the Tribunal means authorised networks.

The authorised networks that operate booking services have a core responsibility to accept telephone bookings and offer them for hire to taxi drivers attached to the network. The DOT survey shows that booking services are performing well.

Taxi service delivery is the responsibility of taxi drivers.

The Tribunal refers to a 'relatively low' quality of service by the industry in relation to:

- a. Waiting time after a booking,
- b. Waiting time at taxi ranks,
- c. Waiting time in the street to hail a taxi,
- d. Poor knowledge of the area by drivers, and
- e. Poor proficiency of English by drivers.

Each of these performance issues is briefly discussed below.

a. Waiting Time after booking

There is a range of issues that affect waiting time after booking. Most are related to driver performance. They include:

- I. Bookings made during peak demand periods,
- II. Traffic congestion,
- III. Bookings made during periods of unusual high demand, i.e. in adverse weather,
- IV. Drivers not accepting bookings when offered,
- V. Drivers accepting bookings then failing to attend, and
- VI. Drivers accepting bookings when not in proximity to the pick-up location.

The Taxi Council does not condone these aspects of poor service delivery as they reflect badly on the industry as a whole. Nonetheless, The Taxi Council does insist that accountability for poor driver performance must be born by the taxi driver industry, and not the operator or the network to which the driver is attached.

There is a range of statutory conditions placed upon networks regarding service standards¹⁷. However, it would be somewhat naïve of either the regulator or the Tribunal to presume that these statutory conditions translate into moment to moment control over the thousands of individual drivers independently plying their taxi for hire at any given time.

Neither can the attitude of the ACCC pass without comment. In recent years a number of taxi networks across NSW, in endeavoring to influence the conduct of drivers for the purpose of improving customer service, have been the subject of adverse criticism by the ACCC following complaints by drivers of 'restriction of trade'.

In particular, the ACCC has stated that taxi drivers, working within the licence conditions of the taxi that they have bailed, have the right to:

- a. Accept bookings through the network booking service,
- b. Stand for hire on a rank,
- c. Ply for hire through a particular area in anticipation of custom, and/or

¹⁷ Section 34E Passenger Transport Act 1990 (updated September 2001)

d. Provide for customers to contact them directly i.e. by mobile phone or pager.

It appears the view of the ACCC that taxi drivers have the right to choose how and where they work, unfettered by the operator and network.

Moreover, If it had been the intent of the Department of Transport, through the specific statutory conditions provided in Section 34E of the Passenger Transport Act, to exempt networks from compliance with trade practices legislation regarding instructions to drivers, then it has failed. The Trade Practice Act 1974 requires any Act or Regulation in a State that intends to disregard the Trades Practices Act to specifically make reference to the Trade Practices Act in that legislation.¹⁸

Section 34E of the NSW Passenger Transport Act has not done this.

b. Waiting time at ranks

Waiting time by intending hires at taxi ranks is not a reliable method of measuring customer service.

Some taxi ranks are constantly busy and therefore frequented by taxi drivers expecting to find intending hirers. Other ranks at certain times of the day, are poorly patronised by intending hirers and consequently unfrequented by drivers.

There is no general way of bringing purposefully together an intending hirer at a taxi rank and a taxi other than by the hirer booking a taxi and nominating the unattended rank at which they are waiting as the pick-up point.

That said, many drivers whilst hired, in supporting the desire for the industry to provide good customer service, will advise their network of passengers waiting at unattended ranks so that other vacant taxis may be advised.

c. Waiting time in the street

Waiting time in the street is not a reliable measurement of the taxi industry's performance. Issues such as the time of day, location of the intending hirer, traffic direction, and proximity of the nearest taxi rank must all be considered.

That said, if there were so many taxis, that one was always vacant at a precise point when a person in the street wanted one, the industry would be bankrupt.

d. Poor locality knowledge of drivers

The Taxi Council does not believe there to be significant difficulties with the locality knowledge of drivers.

¹⁸ Trade Practices Act 1974 Section 51.

Data received from the NSW Department of Transport indicates that only 2.9 percent of the total complaints to the Department relate to lack of knowledge by drivers.

Regardless, taxi drivers, before being issued a driver authority, are subject to locality testing by the Department of Transport.

If the Department's locality testing model is inadequate, then remedial action by the Department is required.

e. Poor English skills of drivers

The Taxi Council does not believe major problems exist with the English language ability of taxi drivers. Information from the Department of Transport is that only 0.002 percent of total complaints relate to the English skills of drivers.

Notwithstanding, persons seeking driver authorisation are subject to English language testing under the auspices of the Department of Transport. If there are inadequacies in the Department's language testing model then remedial action is required by the Department.

Comment

In referring to the DOT customer survey the Tribunal states "*However, more than 10 per cent of respondents noted increase in waiting times for telephone bookings and in getting taxis on the street, and in deterioration in driver's knowledge of the area and proficiency in English*"¹⁹. It is disappointing the Tribunal has presented the DOT survey in this way.

If, in fact, 90% of customers are satisfied with taxis, why not say so and give a more positive outlook on the performance of this important industry!

Finally, The Tribunal refers to a recent "*DOT survey of taxi drivers and operators in NSW*".²⁰ It appears the Tribunal has been made privy to a document that has not been released to any of the taxi industry representative bodies for comment.

6.3 Summary of Complaints registered with the DOT

There has been a fall in the level of complaints registered with the DOT between 1996 and 2001, with the categories of trip refusal, no shows and lateness showing marked improvement. On the other hand the category 'incorrect fare, start/stop meter' shows a reversal in performance.

Regardless of performance within individual categories of complaint, caution is urged in relying upon the Department's unfiltered summary of complaints.

¹⁹ IPART Issues Paper p 30

²⁰ *ibid*

Firstly, no regard is given to the number of unsubstantiated claims,

Secondly, experience is that taxi hirers have scant knowledge of the Regulations pertaining to taxi operations. For example the Department may receive a complaint about 'over charging' when the taxi driver is seeking to recoup a harbour bridge toll.

All unsubstantiated, unproved, incorrect and vexacious complaints against taxi drivers should be filtered out before any interpretation is attempted of passenger complaints as a measure of industry performance.

Moreover, the Regulations provide numerous reasons for why hirings may be refused. These include the passenger:

- a. Not being able to demonstrate they can pay the assessed fare,
- b. Wishing to be taken outside the taxi-cab's area of operation,
- c. Causing offence,
- d. Eating, drinking or smoking and
- e. Being dirty.

Such legitimate refusals often translate into complaints to the Department of Transport by disgruntled passengers.

Finally, in regard to service delivery standards, the interim standards required in the metropolitan area are:

85% arrival within 15 minutes of booking being made,

98% arrival within 30 minutes of booking being made, and

100% arrival within 60 minutes of booking being made.

Slightly modified performance standards apply in country NSW to more appropriately reflect the nature of taxi operations in rural and regional NSW.

These *interim* standards are now over a decade old²¹.

Being interim standards they have not been finally ratified by the taxi industry in consultation with government. Being eleven years old they are no longer contemporary and do not reflect changes in road use over the last decade, nor do they reflect changes in motor traffic legislation since 1991.

²¹ Issued 9 April 1991

For example, many local government areas have now reduced the maximum speed in urban streets from 60 kph to 50 kph. This reduction of 16.6% in the maximum speed limit has not only reduced the number of hirings a taxi-cab can undertake in an hour but also reduced the earning capacity of the driver and subsequently the operator of the taxi-cab.

The Tribunal, in considering appropriate fares, as well as industry performance should not disregard this single issue of lost revenue.

7 OTHER ISSUES

7.1 Environmental Issues

The Tribunal invited comments on the environmental issues and how these should be considered in the fare setting process.

Integrated transport

Unlike rail and buses, the taxi industry cannot make a major impact on the environment against the use of private motor vehicles. Notwithstanding, taxis are a key component of the total public transport solution for many travellers and were they not available, or were unaffordable; travellers might be forced away from buses and trains.

The concept of an integrated public transport policy to promote the 'total public transport solution' is discussed below.

Alternative fuel

Taxi-cabs invariably operate on LPG fuel, which is more environmentally sustainable than petroleum.

The taxi industry and the Environment Protection Authority are currently partners in a trial to measure exhaust emissions from motor vehicles and to compare emissions from original equipment and retro-fitted LPG systems.

As the major user of LPG fuel in motor vehicles, it is important, environmentally, for LPG to remain the fuel of choice for the taxi industry until a more sustainable fuel is developed for use in mass-produced vehicles. This preference will remain dependent on the comparative price of LPG against petroleum. Consequently, the NSW government should support the on-going exemption of LPG from fuel excise as an environmental benefit.

Traffic management

The benefit of taxi-cab usage to the environment will be enhanced by the availability and usage of traffic management initiatives to promote the use of public transport, such as priority traffic lanes and transit lanes.

Taxi usage will also be enhanced by ready access to taxi zones, parking and set-down facilities in the CBD.

It should be noted that the RTA's first priority for the allocation of kerbside parking is to taxi stands and bus stops. It is to the detriment of effective taxi services that many local government areas do not heed this guidance by the RTA.

7.2 Social Impacts

The Tribunal invited comments on the potential social impact of fare increases, and how such issues should be considered in the fare setting process.

The taxi industry recognises the significant contribution that it makes to society generally and appreciates the specific role it plays in many peoples lives, particularly those with disabilities.

The taxi industry is committed to the principle that people with disabilities have the right to the same level of taxi service as people without disabilities.

The Taxi Council therefore supports the proposal that ten percent of network fleets be wheelchair accessible.

The Taxi Council also appreciates that taxi services must offer genuine value for money and within the context of providing personal public transport, the industry supports the notion that taxi fares must be affordable.

But, it must likewise be appreciated that, as has been strongly argued in this submission, the foundation of the taxi industry is the endeavour of thousands of small businesspersons.

Taxi operators and drivers receive no government subsidy or deficit funding. And they are not part of the Welfare State.

Therefore fares must always meet the efficient costs of operators and drivers and also provide a fair rate of return.

If this is not achieved, then investment in the industry will be unsustainable and far greater social impact will be evidenced than that related to fare increases.

7.3 Integration of Public Transport

Around the world, countries have considered integrated public transport policies as a strategic platform to develop the future infrastructure of transportation and to assist urban development.

The synergy that can be achieved by exploiting the potential connectivity between the various modes of public transport is that which promotes the concept of the 'total transport solution'. The taxi-cab is an essential ingredient in this formula.

The taxi industry has a great deal to offer the total transport solution and this must be recognised in the development of any integrated public transport policy.

Not only do taxis provide the only true turnkey transport service to the consumer on a 24-hour, 7 days per week basis; they also can form the start and end point of many inter-modal journeys.

Although taxis are at the higher end of the public transport fare spectrum, they do provide the customer the option of door to door service. Also this cost must be considered within the context of convenience, the level of personal service involved, capital cost and the operating expense of running the business.

Moreover, unlike bus and rail travel the cost of a taxi fare may be distributed amongst the total number of travellers and thus ultimately provide the cheapest form of travel on a 'per head' basis thus making taxi travel a cost-effective component of the total transport solution.

8 CONCLUSION

In this submission, the NSW Taxi Council has introduced the taxi industry, described the three tiers within the industry of operator, driver and network and outlined the relationship between these three tiers.

We have discussed in detail the cost of providing taxi services. We have highlighted that both the taxi operator and the taxi driver carry-on separate businesses and put to the Tribunal that, in essence, the taxi operator is a supplier to the taxi driver industry.

In focusing on this issue, the Taxi Council has invited the attention of the Tribunal to the ruling of the Federal Court of Australia, discussed the opinion of the ACCC and outlined the relevance of the GST Act.

The Taxi Council has emphasised the nature of the revenue earned by the two levels of business, (fares in the case of the driver and bailment fees in that of the operator). And similarly, has amplified the need of the Tribunal to ensure that costs are apportioned correctly between operator and driver.

We have urged the Tribunal to appreciate the pivotal role of the Industrial Relations Commission in determining the rates of return of the respective

businesses and highlighted the need of the Tribunal to appreciate the connectivity between the IPART review process and that of industrial relations.

The Taxi Council has addressed the issue of price regulation in detail. We have asserted the value of the cost index model to environments, like that of the taxi industry, which must survive without the benefit of deficit funding. And have endorsed the Tribunal's notion that revenue must meet operator efficient costs and provide a rate of return.

The Council has embraced all the above issues into the concept "One taxi – two businesses" and has promoted this theme throughout our approach to price regulation and cost modelling enshrined in this submission.

This submission has considered the issues raised by the Tribunal with regard to the protection of consumers. We have argued that the taxi industry is not a monopolistic environment and have provided a response on the theory of regulation and competition.

We have discussed regulation of the taxi industry within the context of regulation of quantity and regulation of quality and argued that deregulation of either does not offer any public benefit.

The Taxi Council has addressed the issue of fare structure and stated its support of the present arrangements. In particular the Tribunal has been cautioned against upsetting the balance between flagfall and distance tariff, highlighting that the present structure has the benefit of many years experience in meeting the parallel demands of consumer and driver.

We have responded to comment concerning the peripheral issues of surcharge rates, maxi-cab hiring charges, wheelchair accessible taxi hirings, ancillary fees and the redemption of out of pocket expenses.

The submission has responded to comments about the quality of service delivery by the industry. We have invited the Tribunal's attention to those aspects of customer service that are the domain of the operator and network and addressed the positive response by the public to this performance.

We have emphasised to the Tribunal how vital it is for IPART to appreciate which business it is they are validating, particularly with regard to the performance of drivers viz that of networks.

The Taxi Council has also commented on the environmental and social impact of taxi fares

Finally, we have promoted the benefit to the community of an integrated transport policy wherein the taxi-cab is an integral, cost-effective, part of a 'total public transport solution'.

The NSW Taxi Council, on behalf of the taxi industry in NSW appreciates the opportunity to present this submission to the Tribunal.

Annex A. 2002 Cost Index Model

New South Wales Taxi Council

**Analysis of Taxi Operating Costs
July 2001 to March 2002**

28 March 2001

Introduction

This cost analysis has been completed by the Taxi Council using the IPART Report on NSW Taxi Fares taxi cost estimates at June 2001 and costs collated by the Taxi Council at March 2002 on a consistent basis using the amended cost index model developed as part of the 2001 fare review and refined by IPART. Whilst IPART expressed significant reservations about the accuracy of using a cost index to adjust fares, IPART corrected the key perceived shortcomings in 2001 and it remains the incumbent reference point. Changing approaches again is likely to result in disadvantage to the industry as the IPART amended model selectively used various approaches to minimise the cost movement and we now believe the approaches pursued then deserve use of a longer duration to enable a realistic and reflective cost movement to emerge. Developing an alternate cost movement measurement method would require a substantial investment for what the Council believes to be a minimal (if any) gain in accuracy. The model that has been constructed contains a number of different cost elements.

All costs are GST inclusive using the same approach to GST which was assessed and verified by IPART.

Before outlining the results of that data collection exercise we have set out below the key features of the model and some general assumptions that have been made in the analysis.

Cost Index Elements

The model as amended by IPART measures movements for the following fixed and variable costs:

Fixed Costs

- vehicle lease payments
- Insurance
- government charges
- network fees
- plate lease fees
- annualised establishment costs

Variable Costs

- LPG fuel
- maintenance labour
- vehicle part and panels
- cleaning
- tyres
- operator's salary equivalent
- operator's superannuation equivalent
- driver entitlements (urban only)
- Bailee driver earnings
- Uniforms
- other costs

LPG fuel

The model calculates the cost of fuel based upon an assumed fuel consumption rate (5km/litre) and average distances travelled by an average taxi (175,000km for metropolitan areas and 125,000km for country areas). We have utilised Ford Australia estimates for fuel consumption which by nature are likely to be conservative as manufacturers would typically seek to understate consumption.

Tyres

The calculation of tyre costs is based upon an estimate of tyre wear (an average tyre life of 30,000km has been assumed in the analysis) and purchase costs. Whilst there can be debate on the

safe operating life of a tyre, provided the life assumed is the same within the index, IPART has previously stated that this assumption results in ‘no real change to the resulting cost increase’.

Tyre wear is largely affected by type of taxi operation (fleet / drivers / or single operator driver), local area road surfaces, local area road widths (tightness of turns), general traffic conditions and driver skill.

Ford have confirmed the most common tyre used is the Dunlop Monza 200 (P215/60R16).

Beaurepaires are the retail network for Pacific Dunlop’s tyre manufacturing operation and was considered to be the best source for tyre prices. Beaurepaires quote the same recommended retail price nationally on its tyres irrespective of the place of sale.

Repairs and Maintenance

As utilised in the NSW Taxi Council’s 2001 Fare submission and the IPART Report, a car parts index is used to measure the movements in parts costs. In 2001 consultation with operators identified 13 different parts (eg pads, shocks, fan belt etc) as being representative of a ‘basket’ of commonly purchased items. Whilst operators purchase many high and low cost parts the percentage movement in the basket provides an effective proxy for the movement in total parts costs.

Maintenance labour costs have been based on both major services and minor ad-hoc maintenance experience.

Major services have been assumed to be required every 10,000km. It was noted in the July 2001 IPART Report on Taxis to the Minister that the frequency of services recommended by Ford are not necessarily reflective of taxi industry practice which sees some operators defer services for longer intervals. However, the Councils supports the use of assumptions which promote a safe and prudent operations and under a the index approach utilised in this analysis, provided a consistent service interval is assumed the model captures the cost movement rather than the cost quantum.

Taxi vehicles are required to be safe and well maintained. It is the Taxi Industry’s submission that it is a matter of being in the Public Interest and in the interests of driver safety and OH&S requirements that the true costs of a well maintained and serviced vehicle must be reflected in the cost model. Failure to do so could result in as cost recovery level being set at a rate that would allow a taxi vehicle to be maintained at an acceptable standard.

Vehicle Leasing

The introduction of the GST has seen a trend away from Leasing to Commercial Hire Purchase (CHP) agreements. However, to provide consistency this factor has not been included in this analysis.

The leasing costs are based upon the following assumptions:

- Average costs for new and second-hand (two year old) Ford Falcon AU Forte (City Ford).
- proportion of second-hand vehicles (operators/council)
- interest rates of 8.25% (City Ford)
- term of lease (City Ford)

Establishment Costs

Establishment costs include the costs of:

- LPG conversion
- Meter
- Roof Sign
- Radio (installation only as leased from the manufacturer)
- Fit-out and installations
- Camera

Cost information has been sourced from the relevant manufacturers, suppliers and installers. It was noted in the July 2001 IPART Report that the assumption that of all establishment items are replaced at every 4 year vehicle changeover was not necessarily the case as some items are re-utilised. While some re-use has occurred this is more recently no longer an option as modern and technically advanced instruments such as taxi meters are quickly obsolete. It is the Taxi Industry's submission that it is a matter of public interest as well as in the interests of driver safety that the true costs of modern and efficient taxi vehicle equipment must be reflected in the cost model.

Government Charges

Government charges are based upon information sourced from the Department of Transport and the Roads and Traffic Authority. The two charges applicable to the taxi industry are vehicle registration paid to the RTA and taxi operator licence fees paid to the NSW Department of Transport.

Network Fees

Network (or base) fees vary between regions and between networks. Information on network fees over the period July 2001 to March 2002 were sourced from all Networks in the urban area. In country areas, surveys completed by country operators for the NSW Taxi Industry Association were used.

Plate Lease Fees

Plate lease fees have been included in the amended 2002 model using the IPART preferred cost estimation approach.

Insurance

Zurich is the largest insurer to the taxi industry within NSW. Premium information was obtained from Zurich for Comprehensive, Workers Compensation, Third Party and Green Slip insurance policies.

Illness insurance and public liability was not considered given its relative limited usage by industry participants.

Cleaning Costs

Cleaning costs have been assumed on the basis that a vehicle requires a daily wash and vacuum. An annual inspection cleaning cost is also included in the total cleaning costs.

Operator Salary Equivalent

The model includes an operator salary equivalent to recognise the cost of the labour they dedicate to the business of operating a taxi. Whilst clearly in practice operators retain the difference between their revenue and their outgoings it is reasonable to recognise the opportunity cost of their labour especially given the relatively high labour intensity of this industry.

It was noted in the July 2001 IPART Report that the ACT Price Regulator (ICRC) had assumed operator labour of 3 hours per week whilst the NSW Taxi Council estimated labour at 10 hours. However the assumption used by the ICRC translates to 13 minutes per shift change per taxi which is clearly not reflective of time actually consumed. The NSW Taxi Industry believes that the requirements of pre shift inspections, industrial relations, OH&S, general administration and taxation including GST requirements as well as the need to submit Electronic Fare payment information and dockets to the Network requires a minimum average of 10 hours per week

The updated submission has used the current level of taxi driver entitlements figure as set by the NSW Industrial Relations commission.

Other Costs

Other costs of taxi operation typically consist of the following items:

- telephone / office equipment (service fee and maintenance)
- accountant
- training (operator/driver)

Uniforms

Consistent with the previous IPART Review we have assumed six sets of uniforms are purchased each year (2 x 2 permanent drivers, 1 x operator, 1 x casual).

Geographic differences in costs

A taxi operator's costs can vary because of differences operating methods such as:

- annual kilometres travelled
- fuel consumption of the vehicle
- type and age of the vehicle
- number of hours the taxi is available.

The model has been constructed to reflect potential differences in these characteristics for urban and country operators.

The model has defined urban taxi services as those areas which include the following boundaries within the regions of Sydney, Wollongong, Newcastle and Central Coast (Gosford):

- Sydney Metropolitan transport district
- Newcastle transport district
- Wollongong transport district
- Blue Mountains local government area
- Gosford local government area
- Hexham
- Maitland
- Beresfield
- Fullerton Cove
- Tomago

- Wyong local government area
- Shellharbour local government area
- Cams Wharf
- Fern Bay
- Minmi
- Toronto
- Williamtown
- Medowie
- Campvale
- Camden
- Picton
- Thirlmere
- Tahmoor
- Bargo
- Ferodale
- Raymond Terrace
- Fassifern

The country area is represented by the area outside the urban boundaries discussed above. Given the large number of country towns, the model has adopted a representative sample of cost information from the following towns:

- Wagga Wagga
- Coffs Harbour
- Bathurst
- Tamworth
- Albury
- Armidale.

These towns were considered representative of the majority of country taxis given the size of fleet within each of these regions compared to the total country fleet in New South Wales. These towns are primarily those that operate a network system and therefore all possible costs incurred in a country area environment will be encapsulated within these towns.

To maintain consistency and comparability, only these six towns will be used for future updates of the data for the country component of the model. The average cost movement in the six towns above should broadly mirror the cost movement experienced throughout most country locations.

Cost data obtained for each area, urban or country, is weighted according to the proportion of taxis within the region compared to the total number of taxis. It is intended to monitor regularly the profile the taxi industry in each region.

Analysis of Cost Movements

Introduction

This section discusses in detail the cost data that has been collected for the analysis and our view on the change in the costs of taxi operation between July 1999 and March 2002.

GST Assumptions

The model calculates all costs on a GST inclusive basis. Costs prior to the establishment of GST in the Taxi Council submission of April 2001 were adjusted to reflect the impact of the GST as per the IPART Report (p 25), however for costs collected after July 2000 this adjustment is no longer required.

Urban Taxi Operation Assumptions

The following taxi characteristics are considered to be representative of the urban region:

- 175,000 kilometres travelled annually
- 100% use of LPG at 5km / litre (Ford estimate verified by Operator / driver survey)
- A 50:50 mix of new a second hand vehicles leased over 5 years at 10% residual.
- 1 permanent driver and the operator drives five shifts.

The estimate of 175,000km is broadly similar to distance travelled estimates agreed between the Council and the Department in May 2000 as part of the GST fare adjustment process. Sampling of a range of urban operators has confirmed that this estimate remains accurate.

Country Taxi Operation Assumptions

The following taxi characteristics were considered to be representative of the country region:

- 125,000 kilometres travelled annually
- 100% use of LPG at 5km / litre
- Second-hand Ford Falcon AU, replaced every 4 years (assumed to represent 100% of the taxi fleet)
- 1 permanent driver and the operator drives five shifts.

Quantification of Cost Elements

The following section details the cost information obtained for the period July 2001 to March 2002.

LPG

The following table provided details of calculated LPG board prices over the September Quarter 1999 to March 2002 period.

Table 1: LPG Board Prices (cents/litre)

Area	IPART June 2001	March 2002	Change
Urban			
Sydney		\$0.38	
Wollongong		\$0.38	
Newcastle		\$0.39	
Central Coast		\$0.42	
Urban weighted average	\$0.47	\$0.381	-19.1%
Country			
Coffs Harbour		\$0.58	
Albury		\$0.50	
Wagga Wagga		\$0.53	
Bathurst		\$0.48	
Armidale		\$0.59	
Tamworth		\$0.57	
Country arithmetic average	\$0.52	\$0.542	4.2%

Source: Metro results based on average published GOGAS and Shell LPG prices at 22 March 2002 in 45 Sydney metropolitan locations, 6 Central Coast locations, 4 Wollongong locations & 6 Newcastle locations. Country: Survey of Networks at 22 March 2002. Note: average monthly prices based on LPG monthly sales over litres sold.

Tyres

The following tyre cost information has been used in the model for both urban and country areas.

Table 2: Dunlop Monza 200 15' Tyre Prices

Price Period	
30/11/2000 to 31/3/2001	\$109.00
At 20/03/2002	\$120.00
Change	10.1%

Source: *Beaurepaires March 2002*

Repairs and Maintenance

Cost data for repairs and maintenance for the period is shown in the following three tables

Table 3: Vehicle Parts and Panels

Ford Part	Part number	Mar 2001	Mar 2002	
Battery	LME520E	\$96.99	\$103.95	
Power Steering Pump	AU3A674A	\$225.50	\$420.99	
Brakes Front	ABD1108LMC	\$88.00	\$97.08	
Brakes Rear	ABD 1086LMC	\$78.87	\$78.73	
Brake Booster	AU2 2005A	\$172.70	\$204.48	
Master Cylinder	AU22005A	\$169.40	\$203.91	
Radiator	AU 8005A	\$248.60	\$339.66	
Water Pump	AU2 8501KT	\$91.23	\$153.53	
Fan Belt	AJK6 995	\$48.28	\$56.10	
Alternator	AU 10300A	\$236.78	\$280.47	
Shock Absorbers Front	AU2 18124J	\$136.40	\$166.46	
Shock Absorbers Rear	AU2 18125B	\$101.53	\$122.69	
Air Conditioning Compressor	ER 19D 629A	\$561.86	\$1,034.29	Change
	TOTAL	\$2,256.13	\$3,262.34	44.6%

Source: Operator Surveys to develop basket and City Ford for parts prices.

Table 4: Parts price movement applied to model

Area	March 2001	March 2002	Change
Urban	\$10,403	\$15,043	44.6%
Country	\$5,411	\$7,824	44.6%

Table 5: Maintenance labour rates (\$/hr)

Area	IPART 2001	March 2002	Change
<u>Urban</u>			
Sydney	\$66	\$64	
Wollongong	\$61	\$62	
Newcastle	\$65	\$72	
Central Coast	\$64	\$55	
Weighted average	\$65	\$64	-1.5%
Urban Maintenance Labour Cost	\$6,958	\$6,854	-1.5%
<u>Country</u>			
Coffs Harbour	\$61	\$65	
Albury	\$56	\$75	
Wagga Wagga	\$55	\$60	
Bathurst	\$55	\$69	

Area	IPART 2001	March 2002	Change
Armidale	\$64	\$66	
Tamworth	\$50	\$59	
Weighted average	\$55	\$65	18.2%
Country Maintenance Labour Cost	\$5,124	\$6,057	18.2%

Sources: Local Ford dealerships, local networks & ATIS stations.

Vehicle Leasing

Table 6: Vehicle Leasing Costs

Cost Element	March 2001	March 2002	Change
New Ford Falcon	\$29,418 (simple ave of AU2 Forte - \$27,572 & AU2 Futura - \$31,264)	\$32,417 (simple ave of AU3 Forte \$30,571 & AU3 Futura - \$34,263)	10.0%
Second-hand Ford Falcon (2 years old)	\$23,650 (Au Forte - \$21,450, AU Futura - \$25,850)	\$23,650 (Au Forte - \$21,450, AU Futura - \$25,850)	0.0%
Interest Rate	8.25%	8.25%	0.0%
Residual	10%	10%	
Term of Lease (new)	5 years	5 years	
Term of Lease (2 nd hand)	4 years	4 years	

Source: City Ford

Consequently as the Urban fleet is assumed to be 50:50 new to 2nd hand the rise in lease fees using IPART assumptions is 5% . For the Country where IPART assumes 100% 2nd hand vehicles as second hand prices are constant lease fees are unchanged.

Establishment Costs

The calculation of total establishment costs used in the model consists of nine elements which are presented in the following table.

Table 7: Establishment Cost elements

Cost Element	Urban	Sydney	Newcastle	W'Gong	C' Coast	Urban Ave	Urban Change
LPG Conversion	\$1,500	\$1,800	\$2,200	\$1,800	\$1,900	\$1,814	20.93%
Meter	\$572	\$610	610	\$610	\$475	\$608	6.29%
Roof Sign + fitments	\$198	\$412	517	\$412	\$400	\$415	109.60%
EFTPOS (install)		\$139	-----	-----	-----	\$129	na
Camera	\$2,380	\$2,772	2,772	\$2,600	\$2,000	\$2,756	15.80%
Livery		\$109	440	145	70	\$120	na
Alarm (install)		\$339	-----	-----	-----	\$315	na
Other		124	130	-----	-----	\$115	na
Labour		274	970	-----	-----	\$254	na
Total	\$5,178	\$6,579	7,639	\$5,567	\$4,845	\$6,562	26.73%

Source: Stratacom CCN supplier and fitter: Regional Networks. Camera costs not applicable for country areas.

An survey of establishment costs in Country areas has found no movement from the IPART annualised estimate of \$700.

Government Charges

The costs of a taxi operator licence and registering a taxi vehicle on an annual basis are provided below.

Table 8: Government Charges

Cost Element	IPART March 2001	March 2002
Vehicle Registration	\$479	\$479
Taxi Operator Licence	\$260	\$260

Source: NSW Department of Transport & RTA.

Network Fees

Based on information gathered from each Network, the following table provides information on the base/network fees applicable over the fare submission period.

Table 9: Network Fees (per calendar month – i.e 12 payments per annum)

Urban Sydney Networks	IPART 2001	March 2002	Number of taxis	Weighting %	Weighted fee \$
<u>Metro</u>				92.8%	
CCN		530.29	2,422	64	339
Premier		536.25	830	21	118
Legion		495.73	532	14	69
3 metro network total			3,784	100	526
					X 12 = 6,312
<u>Outer urban</u>				7.2%	
Wollongong		\$550	127		X 12 = 6600
Newcastle		\$770	158		X 12 = 9240
Central Coast		\$687	74		X 12 = 8244
Outer Urban Total			359		
Urban Total	6,050	6,387		100%	6,436

Source: Network surveys March 2002

Country Network	IPART 2001	2002	Number of taxis	Weighting %	Weighted fee \$
Coffs Harbour	\$954	\$940	17	12	\$112.80
Albury	\$695	\$750	25	18	\$135.00
Wagga Wagga	\$850	\$850	35	25	\$212.50
Bathurst	\$940	\$940	22	16	\$150.40
Armidale	\$500	\$600	17	13	\$78.00
Tamworth	\$650	\$727	22	16	\$116.32
Weighted monthly	\$714		138		\$805.02
Weighted Country Annual	\$8,568				\$9,660

Source: Network Surveys March 2002

Insurance

Insurance costs used in the model for both urban and country are presented below.

Table 10: Insurance Costs

Area	IPART 2001	March 2002
<u>Urban – Sydney</u>		
Comprehensive		\$8,241 (50%)
Third Party Property damage		\$5,391 (50%)
Green Slip		\$4,719
Workers Compensation		\$2,020
Sub total		\$13,555
<u>Urban – Wollongong, Newcastle, Central Coast</u>		
Comprehensive		\$5,281 (50%)
Third Party Property Damage		\$5,391 (50%)
Green Slip		\$4,719
Workers Compensation		\$2,020
Sub total		\$12,075
Weighted by 92.8% urban & 7.2% outer urban		\$13448
Average over 12 months		=(13,448+12,025)/2
Weighted Total Urban	\$12,025	\$12,737
<u>Country</u>		
Comprehensive	\$2,530	\$3,980
Green Slip	\$2,497	\$2,574
Workers Compensation	\$1,550	\$1,550
Sub total	\$6,577	\$8,104
Average over 12 months	=(6,577+6,375)/2	=(8,104+6,476)/2
Total Country	\$6,476	\$7,290

Notes: Comprehensive (30% NCB & 1,000 excess) Urban Sydney = \$9,201 premium for new vehicle & \$7,281 for 2nd hand vehicle. Woll / New / Central Coast = \$5896 premium for new vehicle & \$4667 premium for 2nd hand. Comprehensive Country \$3980 Premium for 2nd hand (assume 100% of fleet 2nd hand).

Cleaning Costs

Cleaning costs over the period for daily washes and inspection detailing costs are contained in the Table below.

Table 11: Cleaning Costs

Cost Element	March 2001	March 2002
<u>Urban</u>		
Daily Car Wash	\$10	\$10
Inspection Detailing Cost	\$360	\$360
<u>Country</u>		
Daily Car Wash	\$7	\$7
Inspection Detailing Cost	\$240	\$240

Source: Operator Surveys.

Plate Lease Costs

Plate lease costs over the period are estimated using the IPART developed approach with results provided in the Table below.

Table 12: Plate Lease Costs

Cost Element	IPART 2001	March 2002	Change
Urban Average	\$17,010 (Based on \$205,000 value or \$327.12 per week @8.3%)	\$19,500 (Based on market rental rate of \$375 per week. However values in March 02 are \$275k equating to \$22..8k @ 8.3%)	14.6%
Country Average	\$10,575 (based on average of \$130,000 value at an 8.3% yield & a rental of \$200/week)	\$10,575 (based on average of \$130,000 value at an 8.3% yield & a rental of \$200/week)*	0%

Source: Auction data & operator surveys.* a survey of the country area identified minimal overall change in the past 12 months in plate values or rentals and hence the IPART estimate has been retained.

Operator Salary Equivalent and Superannuation

Operator salary has been calculated using the Average Weekly Earnings for NSW (expressed on an hourly rate basis) as at July 1999 adjusted by movements within the Wage Cost Index. Following industry consultation we estimate that the labour time involved in the operation of a taxi (changeovers, rostering, organising maintenance, banking, record, accounts etc) is approximately 10 hours per week statewide. This estimate remains broadly consistent with the Councils estimate provided in the GST submission in March 2000.

Operator superannuation is calculated as a function of operator salary based upon Australian Taxation Office compulsory minimum rates. The following table details published government figures over the period.

Table 13: Operator salary, driver bailment fees & super equivalent & driver entitlements

Cost Element	IPART March 01	March 2002	Change
Average Weekly Earnings (AWE)	\$815	\$843	3.4%
Wage Cost Index	111.3	115.2	3.5%
No. of hours / week – labour	10	10	-
Urban/Country Operator salary equivalent pa (AWE/35x10x52)	\$12,108	\$12,525	3.4%
Urban/Country Operator super equivalent pa (8% of sal equiv)	\$961	\$1,002	3.4%
Taxi Driver Award - \$ / week	\$561.40	\$565.30	0.7%
Taxi Driver Award – Holiday Leave (5 weeks pa)	\$2,807.00	\$2,826.50	0.7%
Taxi Driver Award – Sick Leave (\$ per day)	\$112.30	\$113.10	0.7%
Taxi Driver Award – Sick Leave (cost pa @ 8 days)	\$898.40	\$904.80	0.7%
Total driver entitlements cost	\$3,705.40	\$3,731.30	0.7%
Superannuation – Employer Contribution	8%	8%	-
Urban Driver Bailment Fees (IPART x chg in AWE)	\$60,092	\$62,135	3.4%
Country Driver Bailment Fees (IPART x chg in AWE)	\$47,347	\$48,957	3.4%

Sources: ABS, ATO & Taxi Industry Contract Determination 1984. Note: March 2002 Wage Cost Index result is based on data at December 2001. Compulsory super rises to 9% from 1/7/02.

Other Costs

Other costs were originally estimated via a bottom-up assessment completed in the last fare review which sourced cost data from operator surveys. This original costs has now been adjust according to Sydney Quarterly CPI. CPI figures have been adjusted to remove the impact of GST.

Table 14: Adjusted CPI

Period	CPI (increase from previous period)
December Quarter 2000	0.5%
March Quarter 2001	1.4%
June Quarter 2001	0.8%
September Quarter 2001	0.4%
December Quarter 2001	1.0%
March Quarter 2002	N/A

Sources: ABS for CPI (CAT. NO. 6401.0) and Econtech for GST Adjustment Factors. N/A – Not Available

Consequently, consistent with the approach used in the IPART amended model it is reasonable to index the other cost base (\$3,102 for Country & \$3,361 for urban) by the CPI results from March 2001 to December 2001 or 3.66% (to \$3,216 for country and \$3,365 for urban).

Table 15: NSW Annual Taxi Operating Costs – Urban, June 2001 – March 2002

Expense	IPART (June 01)		March 2002		Weight (Sept 99)	Change
	Total Cost	Index	Total Cost	Index		
<u>Fixed Expenses:</u>						
Vehicle Lease Payments	\$7,887	103	\$8,281	108	4.8%	0.2%
Insurance	\$12,025	121	\$12,737	128	6.2%	0.4%
Government Charges	\$739	101	\$739	101	0.5%	0.0%
Network Fees	\$6,050	111	\$6,436	117	3.4%	0.2%
Plate Lease Fees	\$17,010	75	\$19,500	86	14.1%	2.1%
Annualised Establishment Costs	\$1,295	136	\$1,640	172	0.6%	0.2%
<u>Variable Expenses</u>						
Maintenance Labour	\$6,958	107	\$6,854	104	4.1%	-0.1%
Vehicle Parts and Panels	\$10,403	125	\$15,043	181	5.2%	2.3%
Cleaning	\$3,220	101	\$3,220	101	2.0%	0.0%
Tyres	\$2,543	99	\$2,800	109	1.6%	0.2%
Operator's Superannuation	\$969	119	\$1,002	123	0.5%	0.0%
Operator Salary Equivalent	\$12,108	104	\$12,525	108	7.2%	0.2%
Driver Entitlements	\$3,705	105	\$3,731	106	2.2%	0.0%
Uniforms	\$2,400	100	\$2,400	100	1.5%	0.0%
Other	\$3,361	104	\$3,484	108	2.0%	0.1%
<u>Driver Business Expenses</u>						
LPG Fuel	\$16,475	123	\$13,335	100	8.3%	-1.6%
Driver bailment fees	\$60,092	104	\$62,135	108	36.0%	1.2%
Total	\$167,240	104	\$175,862	109	100%	5.45%

Table 16: NSW Annual Taxi Operating Costs – Country, June 2001 to March 2002

Expense	IPART (June 01)		March 2002		Weight (Sept 99)	Change
	Total Cost	Index	Total Cost	Index		
Fixed Expenses:						
Vehicle Lease Payments	\$7,703	107	\$7,703	107	5.8%	0.0%
Insurance	\$6,476	107	\$7,290	121	4.9%	0.6%
Government Charges	\$739	101	\$739	101	0.6%	0.0%
Network Fees	\$8,568	100	\$9,660	113	6.9%	0.9%
Plate Lease Fees	\$10,575	85	\$10,575	85	10.1%	0.0%
Annualised Establishment Costs	\$700	118	\$700	118	0.5%	0.0%
Variable Expenses						
Maintenance Labour	\$5,124	102	\$6,057	121	4.1%	0.7%
Vehicle Parts and Panels	\$5,411	146	\$7,824	211	3.0%	1.3%
Cleaning	\$2,944	100	\$2,944	100	2.4%	0.0%
Tyres	\$1,817	99	\$2,001	109	1.5%	0.1%
Operator's Superannuation equivalent	\$969	119	\$1,002	123	0.7%	0.0%
Operator Salary Equivalent	\$12,108	104	\$12,525	108	9.4%	0.3%
Uniforms	\$2,400	100	\$2,400	100	1.9%	0.0%
Other	\$3,102	104	\$3,216	108	2.4%	0.1%
Driver Business Expenses						
Driver bailment fees	\$47,374	104	\$48,957	108	36.8%	1.2%
LPG Fuel	\$13,000	116	\$13,550	121	9.1%	0.4%
Total	\$129,009	104	137,142	111	100%	5.77%