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 New South Wales 2003

2 May 2003

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1 Summary of Key Issues

The issues paper produced by the Independent Pricing and Regulatory Tribunal (the Tribunal) highlighted five key issues that the Tribunal must consider as part of the review. A brief summary of the NSW Taxi Council responses to these key issues follows.

1.1 Should the current approach to setting fares be changed?

The current approach to setting fares has certain weaknesses that are well understood and these are discussed in section 6 of this submission. The advantages and disadvantages of three alternative approaches (external indices, cost index with efficiency adjustment and building blocks) are also briefly discussed in that section.

Overall, when the costs and benefits and feasibility of changing to alternative approaches are assessed against the status quo, a continuation with the refined cost-index approach has strongest merit. The index itself may be reviewed and it may be modified, for example there may be some merit in some greater use of published external indexes where appropriate to reduce subjectivity associated with relying on assumptions and the resources required for detailed cost data surveys.

We broadly support the concept of refining the index so that movements in the demand for taxi services could be taken into account when recommendations are made for fare adjustments. For example, in an instance where the change in the taxi index showed a substantial cost increase, the Council would not seek to recover the full extent in one rise as this would be likely to severely reduce demand. Instead we would seek to increase efficiency and discuss with the regulator approaches to progressively recover a proportion of the cost rise whilst not significantly reducing demand.

The Council is of the view that the need for specific efficiency gain adjustments (or X-factors) to the index is far lower in this instance. Such X-factors are far more appropriate for situations where revenue cap regulation is in use.

It is also important to note that the determined fare is a maximum. Where demand warrants scope remains for charging fares below the metered level, which is not uncommon in some situations.

1.2 Is the quality of service adequate?

Recent detailed independent surveys measuring service quality are not currently available. The information that is available indicates that the quality of service is adequate and the quality of service is improving. The supporting evidence for these claims is provided in section 3 of this submission.

Section 4 of this submission contains details of the process that the industry has embarked upon to plan for and implement service improvements over the next five years.

1.3 What are the implications for the environment, and how should these implications be considered?

The role that public transport has in improving environmental quality is discussed in the introduction to this submission. If air-quality in Sydney is to be improved then strategies must be adopted to reduce reliance on private motor vehicles. There are positive public benefits (externalities) associated with the use of public transport, yet there is little government support provided for taxi services. At a local government level, provision for private parking facilities typically takes priority over taxi infrastructure.

Fares must be set at a level that encourages the use of public transport but which also provides sufficient incentive for private sector providers to supply a high quality and continuously improving service.

1.4 What are the potential social impacts of higher fares, and how should these be considered?

The above question is a loaded one; it should perhaps be worded in a more neutral way: "What are the social impacts of movements in fares or lack thereof?"

A major risk in the fare adjustment process is to not achieve or maintain sufficient returns to ensure that the supply of taxis meets the demand. The actual number of taxis is not a major constraint on the availability of taxis in the major metropolitan markets, since there is plenty of scope to increase the utilisation of the current fleet.

The social cost of increased isolation and lack of available transport for groups that are disadvantaged and which may have no other transport option is the potential downside if fares do not enable drivers to earn a reasonable living and operators to obtain an adequate profit margin to retain both as participants in the taxi industry. There are key groups in the community such as the elderly and disabled that can suffer from isolation without high quality taxi services despite living in major metropolitan areas.

The setting of universal fares for monopoly or essential services is primarily an issue relating to ensuring an efficient economic outcome (i.e. a reasonable but not excessive return to the service provider). Fares should not be suppressed below efficient commercial levels as a means of achieving social equity outcomes as such social equity outcomes are best achieved by providing direct support to those in need. The Transport Data Centre reports quoted by the Tribunal illustrate that taxi users typically have higher incomes than users of other forms of public transport. Nevertheless there are disadvantaged groups in the community that are reliant on taxi services. Social equity outcomes would be best achieved by directly subsidising or supporting particular target groups rather than suppressing maximum taxi fares to the detriment of taxi drivers, operators and owners.

Other private sector providers of public transport are not expected to self-fund community service obligations and we can see no reason why the taxi industry should be expected to do so.

2 Introduction

Taxi-cab services are a key component of the suite of public transport services available in New South Wales. In terms of passenger journeys, the industry provides an

estimated 450 000 passenger journeys per day which is a similar scale to the private bus industry and about half the size of Cityrail.

Metropolitan Sydney is faced with many public transport issues that have significant impacts on its economic performance (which is in turn a significant proportion of the national economy), the quality of life of its residents, the quality of experience of its visitors and the quality of its environment.

In broad terms, these issues and particularly matters to do with air quality can only be addressed through the provision of an efficient and effective system of public transport services. Such a system requires an arrangement of public transport providers that complement each other and which encourage a stronger reliance on public transport over the use of private motor vehicles. Only when the demand for a second or third private vehicle per household is reduced will the level of private motor vehicle usage decrease. If this is to be achieved, people need a range of public transport options that cover a wide range of different needs.

In this submission, the NSW Taxi Council is providing details of how the industry is taking a proactive approach to planning for the future and pursuing new goals for improved efficiency, improved standards of service and improved profitability.

The basis for the Council's proposed fare adjustment is based on the cost movement indicated by the cost index as refined previously by the Tribunal. However the industry recognises that reliance on such a method does not provide any guarantees for the industry's future or for the level of service provided to the public. Whilst the cost index can help us understand cost movements, it does not directly help us improve efficiency, become more competitive or deliver better service, all of which are vital to the long-term prosperity of the industry. However, the industry has it's own strong set of incentives to pursue these objectives. For example, operators who do not strive for high levels of cost efficiency are likely to encounter viability issues in the form of poor or negative returns. Similarly, taxi operators that do not provide modern and well-maintained vehicles will encounter greater difficulties attracting adequate numbers of drivers to be viable. Additionally, drivers who make the best long-term earnings are those that provide efficient, safe and friendly services to foster greater repeat business and higher gratuities. Consequently the market already provides very strong incentive signals to be cost efficient and to provide reasonable service quality.

Overall, the industry recognises that to continue to improve efficiency and service quality, it must set new goals and devise new strategies to improve service levels and create growth in the demand for taxi services. This year's fare submission includes details of the first steps that the industry is taking on its first 5-year plan to deliver these outcomes.

3 Industry characteristics

3.1 Structure & regulatory constraints

3.1.1 Licencing and Authorities

The taxi industry in New South Wales has a structure that is prescribed by the Passenger Transport Act 1990 and its Regulations. The Act regulates entry and the

performance of the industry by means of licenses and authorities. The Regulations further stipulate how each tier of the industry must perform and the penalties that apply to those that do not comply.

The industry has a tiered structure.

Taxi Cab Operators
The Act requires an Operator to meet appropriate requirements for financial viability, safety of drivers, passengers and the public, and vehicle maintenance. In addition (unless exempted) the Operator must ensure that at all times arrangements are in force with a taxi-cab network for the provision of a taxi-cab booking service and that the taxi-cab is fitted with a receiver capable of receiving messages from the network. The Director-General may exempt an operator from the requirements pertaining to affiliation with a network and this is not uncommon in country areas.

Taxi-Cab Licensees
A taxi-cab must be licensed to provide services in New South Wales. Licenses can only be issued by Transport NSW, but are thereafter transferable or may be leased. Therefore an Operator may purchase or lease an existing license or may apply to Transport NSW to have a new licence issued (at a market cost). The market to trade or lease licenses is otherwise unregulated for people or organisations that the Department deems fit to hold or lease a license.

Taxi-cab Drivers
Taxi-cab drivers must be authorised by Transport NSW. The purpose of the authority is to attest that the person is considered to be of good repute and in all other respects is a fit and proper person, and in particular has sufficient responsibility and aptitude to be the driver of a taxi-cab. The authorisation is subject to a condition that the driver must comply with directions given by the relevant taxi-cab network of a kind authorised by or under the standards applying to the network.

Taxi-cab Networks
Taxi-cab networks must also be authorised. Network authorisation aims to ensure that networks are capable of delivering taxi-cab services including a booking service, and supervising and monitoring Operators and Drivers (notwithstanding that Operators and Drivers are customers, not employees of networks). Statutory conditions apply to affiliation and service standards. The Director-General of the Transport Coordination Authority determines service standards that the network providers must comply with, and standards that the networks must ensure operators and drivers comply with. The Regulations specify conditions relating to driver safety, access to booking services, proportion of taxi-cabs with child restraints, notification of arrival times for wheelchair accessible taxis, lost property services, notifications of affiliates of the network, verification of operator accreditation and driver authorities, and use of the network equipment.

The structure of the industry dictates the manner in which competitive forces shape the way that the market for taxi services operates and the behaviour of the participants in the industry.

3.1.2 Other regulation and constraints

The industry is also subject to a host of other regulations that govern the way in which it operates and how it can perform.

A Contract Determination that is regulated by the Industrial Relations Commission governs the agreement between operators and drivers in the Metropolitan Transport District. The Transport Workers Union and the NSW Taxi Industry Association are the industrial organisations that are parties to the Contract Determination. In effect, the Contract Determination governs how revenues from fares flow to the driver and operator. Hence the Contract Determination really determines the way market signals are presented to operators and drivers and therefore has a significant impact on their behaviour in response.

Both the structure of fare components and the maximum level of each component is regulated by Transport NSW. The relationship between the fare components and the level of fares are important factors in sending price signals to drivers and passengers. They have a very important bearing on the direct incentives for drivers to seek out and accept different types of fare-paying journeys.

The provision of public infrastructure is also a significant factor that determines how the industry can operate. The level of traffic congestion has a direct and significant impact on the number of fare-paying journeys a taxi can take during a shift; it also affects the time taken for a booked taxi to arrive. Road rules, in particular provisions that determine where taxis may drop-off and pick-up passengers, have a very significant impact on drivers' ability to provide a high level of service. Public expectations are such that a taxi is expected to stop wherever a passenger or potential passenger requests. Road rules place significant constraints on a driver's ability to meet this demand. This is not a trivial matter as it can have a very significant impact on a passenger's taxi experience and their perception of quality of service.

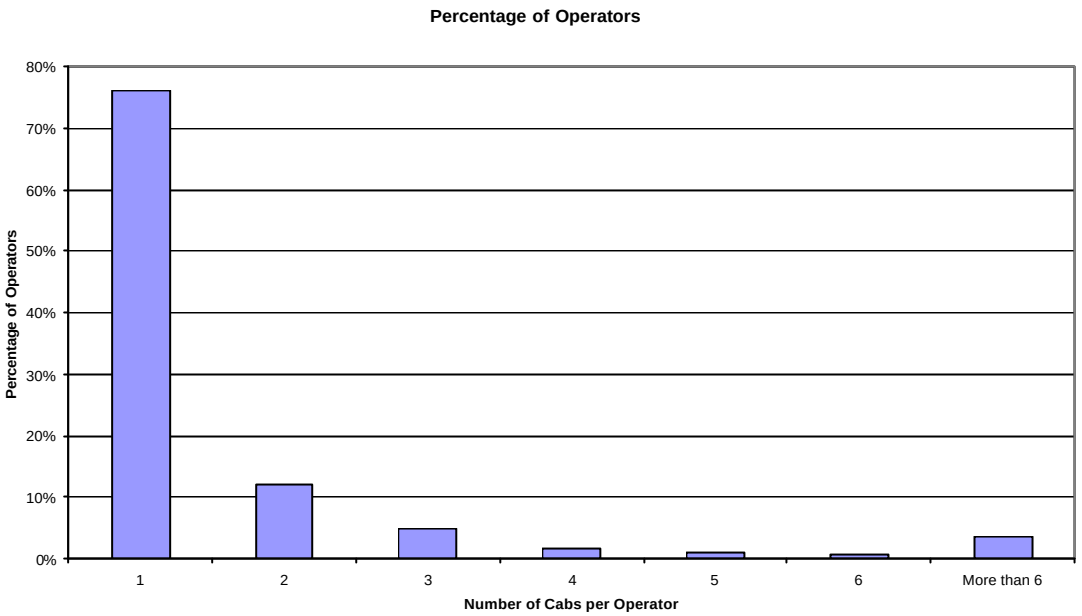
Despite the public benefits of encouraging use of public transport, the industry finds that local government is generally more responsive to local business and resident demands for allocation of kerb-side space for private vehicles than for the provision of public transport space for taxis.

3.2 The Industry

Figures provided by Transport NSW show that there are just over 6300 taxi-cabs[1] currently being operated in New South Wales.

Of the 3,469 current taxi-cab operators, the overwhelming majority (76%) operate only one taxi-cab. Those operating with two or less taxi-cabs represent 88% of the total number of operators. These statistics provide strong support for the core assumption used in the index initially developed by PricewaterhouseCoopers that cost movements be based on an assumption that each operator manages a single taxi-cab and we continue to view this assumption as valid.

[1] Transport NSW figures for the number of cabs being operated do not reconcile with the number of licenses.



There are 10 networks in the Sydney metropolitan region with a further network in each of the urban centres of Wollongong, Central Coast and Newcastle. Transport NSW has recently authorised a second network for the Central Coast.

3.3 Competition

The taxi industry is subject to extensive competition creating substantial benefits for end customers. This competition can be categorised into two types:

- External competition: primarily from hire cars, tourist vehicles, rental cars and private motor vehicles which provide close substitutes for taxi transport. The Council views other forms of public transport (buses and trains) as important complementary services rather than direct competitors[2].

- Internal competition: The industry in Sydney is highly competitive within each tier and potential new entrants may apply for new taxi licences in any area. The principle competitive forces within the industry mean that in Sydney there is strong competition between drivers for passengers, there is strong competition between operators for drivers, and there is strong competition between networks for operators and customers.

[2] In some areas (particularly in country areas) community transport providers effectively compete with taxi services, despite much less stringent regulation of that sector in regard to safety, vehicle standards, driver accreditation and insurance requirements etc. The Government spends more than $15 million annually on Community Transport Schemes. In assessing social impacts, the Tribunal might consider whether these social program funds may be more effectively utilised by purchasing services for its clients from existing public transport providers rather than being used to establish unregulated competitors. At the very least it would seem prudent for the Government to desist from funding organisations that provide transport services that are not regulated under the Passenger Transport Act.

3.4 Service levels

3.4.1 Service Standards

Transport NSW imposes service standards on taxi networks. A draft set of standards has been issued by the Department to replace the interim standards that have been in place for more than ten years. The industry is currently proposing alternative draft standards.

Transport NSW is provided with detailed reports on the current performance of networks measured against the industry standards. Overall, during the past twelve months network performance quality has been sound and is further improving. The Council suggests that the Tribunal liaise with Transport NSW to analyse these network reports.

Service standards only need to be defined where competitive forces do not provide market signals to service providers. Where they are set, they should parallel service standards provided in other deregulated markets.

There is a competitive market in Sydney between 8 networks[3] for telephone booking services, so there should be no need to set a standard for the time taken to answer the telephone for networks in the Sydney metropolitan area. Standards set for other areas should be linked to the real-world performance of network call centres in Sydney, or in deregulated industries (such as banks, insurance companies etc.) rather than some arbitrary standard.

If the industry is expected to provide a service in a manner and at times that may be unprofitable then such services should be regarded as a community service obligation and specific provisions put in place to fund such obligations.

3.4.2 Customer Complaints

Complaints provide an important source of information that can help the industry improve its service. However, to be useful, the information must be reliable and sufficiently detailed so that the veracity of the complaint can be verified, the issue that has caused the complaint identified and, where appropriate, rectification action taken.

Complaints generally arise when a customer's expectations have not been met. In order to assess the significance of a complaint, it is important to place it in the context of what the customer's expectations were, and the situation in which the complaint arose.

Like most service industries, taxis experience sizable peaks and troughs in demand. No deregulated service industry sensibly seeks to satisfy all the desires of every customer in every situation. Service levels provided by savings banks are not regulated but customers are expected to wait 20 to 30 minutes to be served by a teller despite the level of dissatisfaction this creates. The Australian domestic airline industry encounters peak demand challenges where seat availability and on-time performance can be less than satisfactory. It is unreasonable to expect that the taxi industry with similar peak demand challenges can meet 100% of the needs of every customer on all occassions.

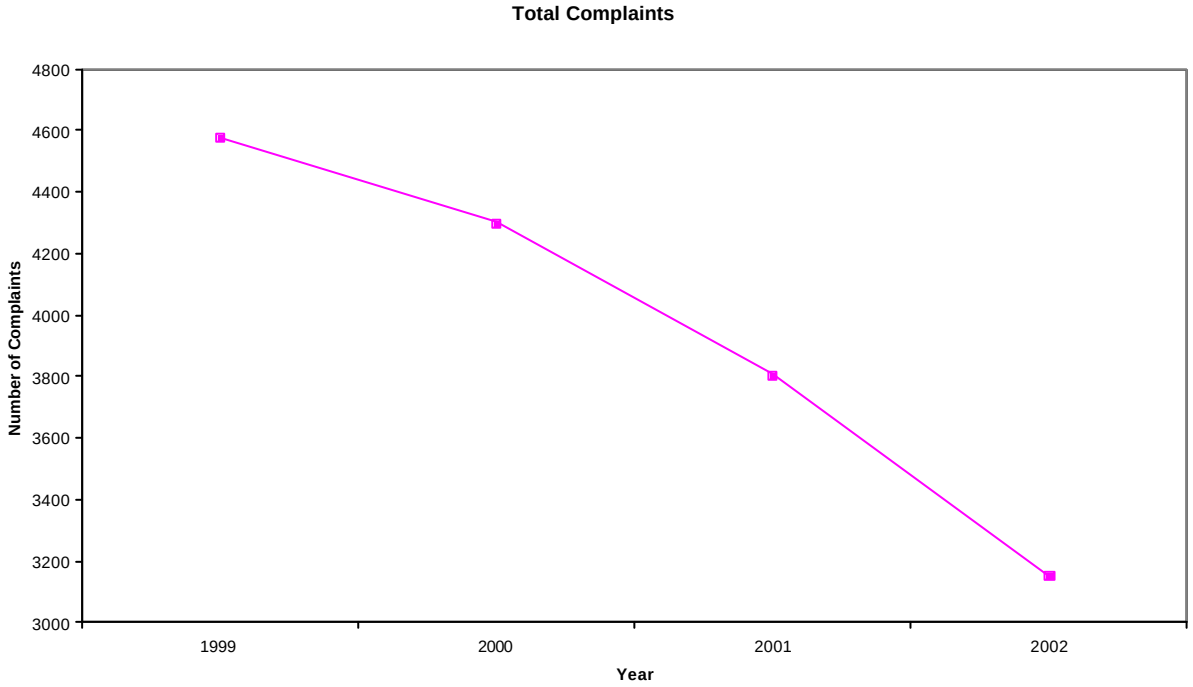
[3] Three of the networks effectively use one 'brand'

Complaints can arise from poor performance, but they can also arise from a mismatch between what the public expects and what taxi services can reasonably provide.

Transport NSW has taken responsibility for recording complaints, it also passes on details of individual complaints to the network concerned for resolution. It has been very difficult to assess the significance of these statistics due to a lack of detail and a lack of supporting information regarding each incident. Complaints are mostly received from customers or other road users, the statistics produced are raw figures based on unsubstantiated complaints. Nevertheless the data does provide a useful indication of trends in overall performance.

The total number of complaints recorded by Transport NSW has been declining each year since 1999. Between 1999 and 2002, the number of complaints has reduced by 31%. This is a significant improvement across the industry. Whilst the Council will further strive to reduce complaints, it is important to note that the relative volume of complaints is very low. In 2002 a complaint was recorded for 1 taxi journey in every 51 000 (or 0.002% of journeys).

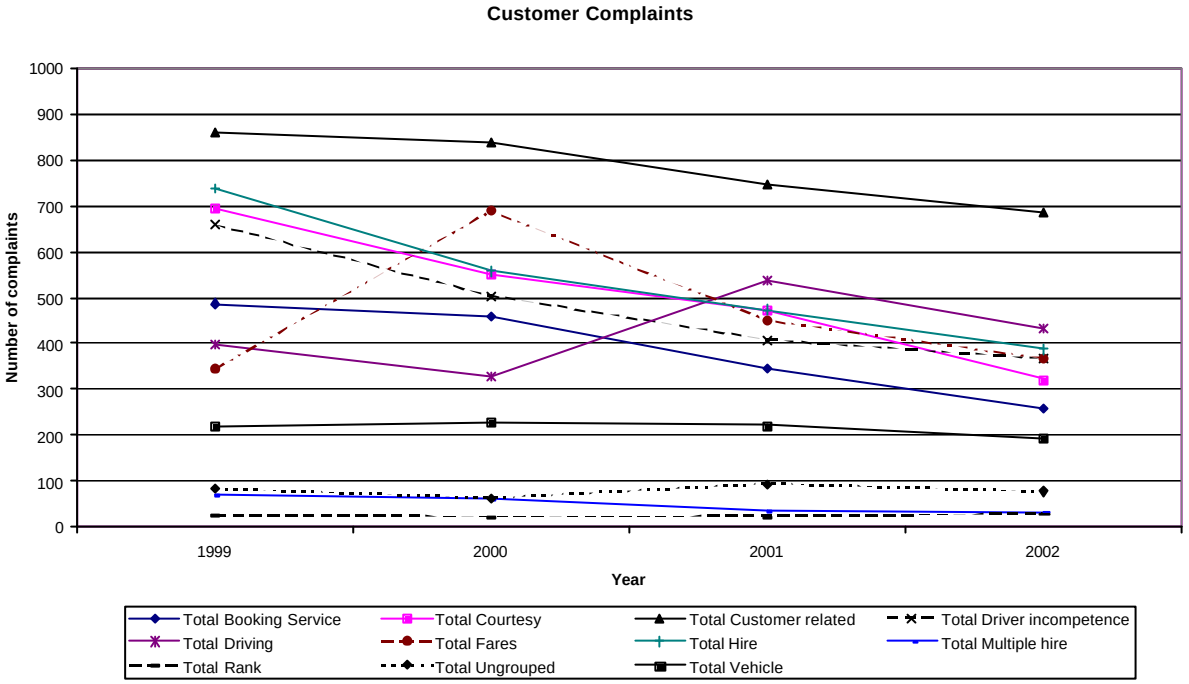
In the last twelve months, significant effort and resources from both the Department and the industry have been dedicated to creating a new Customer Feedback Management System that is designed to overcome the weaknesses of the current system. The new system is currently being tested, it is hoped that in the future it will produce more reliable and significant data that can be used to measure comparative performance year to year and to guide the industry in improving the quality of service. In the short term, the introduction of the new system is expected to lead to an increase the number of complaints recorded.



Using the groupings provided by Transport NSW, the main causes of complaints in 2002 were; incivility/impropriety, driving in a dangerous manner, fare disputes, refusal to

accept hiring, lack of knowledge of destination or route, matters of courtesy. These driver-focussed complaints represented 71% of all complaints in 2002.

A further 8% of complaints related to booking service delays or failure of a booked taxi to arrive, with another 6% of complaints being related to the vehicle.



The statistics do not tell us where the problems lie with these latter two categories, since non-arrival or lateness for a booking could be caused by drivers refusing to accept the booking, or a problem caused by the radio-booking service (or indeed the customer). Likewise vehicle complaints may be the responsibility of operators or drivers.

The statistics do clearly show that the overwhelming majority of complaints relate to matters that fall within the responsibilities of taxi drivers. This is hardly surprising since the driver is the primary person that passengers deal with.

Whilst the industry as a whole suffers from the consequences of the causes of all complaints, networks and operators are not well-placed to directly influence the behaviour of bailee drivers. Since bailee drivers are the customers of operators and networks, (not employees) it is very difficult for networks and operators to impose strict conditions and penalties on drivers when they are competing with each other to attract drivers. It is counter-productive in the short term since the network that imposes higher standards and is toughest on its drivers will lose drivers (and hence operators, and therefore revenues) to a more lenient network.

3.4.3 Training

The industry has a clear interest in improving service levels and reducing complaints. The above statistics indicate that the most effective way to improve service in the taxi industry is to improve the knowledge, and customer service skills of taxi drivers.

However, for the reasons stated above, the industry has only had an indirect influence on these important determinants of service quality.

The industry fully supports compulsory training for new drivers, but attracting existing drivers to voluntarily retrain or to update their skills would be a virtually impossible task. Significant investment has been made in improving the quality and level of training provided to new drivers as they enter the industry. Unfortunately to some extent the industry's efforts have been thwarted by unauthorised trainers and unscrupulous training providers coupled with totally ineffective enforcement of government standards and regulations within the training industry. The industry is seeking support from the NSW Government for more direct control over entry-level training and assessment.

The industry is also seeking the support of the NSW Department of Education and Training to allow taxi drivers to become eligible for support through the new apprenticeship and traineeship system. A lack of government support means that entry-level training can only be undertaken at full cost to the driver, unlike most other entry-level occupations where training is encouraged and supported by traineeship funding. The high entry cost is a significant barrier for drivers entering the industry and contributes to a shortage of drivers. People who have suitable attributes for customer service work are attracted away from the taxi industry and into other hospitality industries where they are supported throughout their training. In contrast, entry costs for competing occupations such as couriers and bus drivers are far lower. The shortage of qualified taxi drivers improves their bargaining power hence reduces the capacity of networks and operators to enforce higher standards by penalising drivers who provide an unsatisfactory quality of service.

Government funded and supported training for drivers can thus have a three-fold impact in improving service standards, firstly by contributing directly to the quality of training, secondly by contributing to the 'quality' of trainees attracted to the industry, and thirdly by reducing a significant barrier that limits the number of drivers (and hence taxis) available.

The industry also strongly supports compulsory training for taxi operators. The NSW Taxi Council delivers all operator training and issues the certificate of competency that is a prerequisite to obtaining operator accreditation.

A paradox applies in relation to networks enforcing standards on operators since operators,(like drivers) are customers of networks.

Information on how the industry proposes to deal with this situation and take responsibility for improving the quality of service is provided in Section 4 of this submission.

3.4.4 Other Information

There is limited independent information available relating to the current quality of taxi services. We do however have some independent and impartial information about passengers' perception of waiting times and access to taxis at Sydney Airport.

The Australian Competition Council monitors quality of service provided at the airports that it regulates. The most recent data relating to Sydney airport's performance in

2001/02 was released in January 2003. The ACCC uses passenger perception surveys to assess the waiting time for taxis at the domestic and international terminals. The 2001/02 results show that ninety-five percent of passengers surveyed rated waiting time for taxis as 'good' to 'excellent'. In comparative terms, passengers rated the taxi service the most highly of any of the 17 types of airport services monitored by the ACCC.

This provides clear and independent evidence that passengers perceive that taxi availability is at a very high level, and the standard of availability is higher than the standards of many other services.

4 Industry commitment to improving service

4.1 Past and current investment

The taxi industry in New South Wales has made very significant investments in recent years to strive to improve the performance of the industry. Key examples include the many millions of dollars which have been invested in new efficient call centres and Global Positioning Systems dispatch technologies.

In the complete absence of government support provided to other industries for training, the taxi industry itself has made major investments in training for drivers and operators. The failure of regulators to enforce Vocational Education and Training standards has made it very difficult for the industry to have access to consistently high quality training across the range of training providers. The industry has suffered significant set-backs through having to enforce its own standards on organisations that deliberately set out to rort the national training system, and which seem unhindered in openly flouting the industry training standards.

Other entry-level careers are supported by the new apprenticeship and traineeship arrangements. Taxi drivers are specifically excluded from this system by the wording of the Traineeship Act for no obvious justifiable reason.

4.2 Planning process, 5-year plan

During February 2003, the NSW Taxi Council conducted a workshop with 50 Directors and senior officers of taxi networks and other representatives from the industry.

It was agreed at that workshop (and also endorsed by the Taxi Council) that the industry would develop a 5-year plan to develop and implement strategies to; improve the quality of service, increase patronage, increase efficiency, improve profitability and secure the longer term viability of the industry.

The 5-year plan will be developed during 2003. The first step in developing the plan has been to nominate two initial targets for improvement. One target relates specifically to quality of service provided for WATS passengers, the other target relates to market growth for the industry. The purpose of these targets is two-fold. Firstly to serve as an example of the industry's commitment to developing and implementing strategies that will lead to improved service. They will also serve as a demonstration to the industry that a co-ordinated strategy for addressing industry-wide issues can deliver sustainable benefits for passengers, drivers, operators and networks.

4.3 Networks

The challenge that the industry has set for itself is an ambitious one, mainly because of the structure of the industry and the complexity of the issues that affect the industry's performance.

Networks will play the key role in developing the industry plan and driving the changes that must take place at each level of the industry if significant gains are to be made. This means that the networks must convince their members that changes are necessary and beneficial in the long run and the members must convince their drivers likewise.

This can only be achieved by networks working together to introduce changes industry-wide since individual networks cannot afford to bear the brunt of opposition alone.

4.4 Service Quality Target

The initial target for improved service quality relates to wheelchair accessible taxis (WATS):

> *By 2005, response times for WATS are to be equal to the general network standards for booking service response times.*

This target was chosen because the issue of service quality for disabled passengers is an important one and there is significant scope for improvement in the level of service provided. The size of the WATS fleet means that strategies that might be applied to the whole fleet can be initially tested on a smaller scale. The WATS fleet has a common booking-service provider which will aid the implementation of particular measures. It will still require networks to co-operate but once agreement is reached on a particular strategy, the implementation of that strategy can be more easily managed.

While the target may not sound ambitious, the improvement required will provide tangible benefits to WAT customers. Given the complexity of issues involved in addressing the causes of poor response times, its achievement could represent a significant turning point for the industry.

In short, if response times for WATS vehicles are to be improved then this will require a change in the behaviour of drivers and the systems that are used for booking and dispatch of jobs. For the reasons described elsewhere in this submission, the task is not an easy one for networks to achieve. It will require a high degree of cooperation and co-ordination between networks, operators and drivers and if changes are to be effective they can only be introduced with a great deal of consultation and education of all those in the industry.

This target was chosen because the industry believes that it is achievable and will serve as a demonstration of the process required for improvement while providing valuable lessons that can be applied to other issues of service quality.

The NSW Taxi Council is now collecting data on WATS so that the industry can analyse the current level of performance, identify causes of problems and propose strategies for improvement. Initial plans include the development of a radio procedures booklet to be produced and distributed to drivers, a Network Code of Conduct for WATS and, policies

adopted for responses for non-compliance for networks, operators and drivers. Progress is well advanced on each of these matters.

The industry has endorsed the principle of a memorandum of understanding signed by all networks binding them to an agreed course of action, with Transport NSW being a party to its enforcement.

The NSW Taxi Council aims to present data on the improvement in WATS service in its submission for the 2004 fare review.

4.5 Industry Growth Target

The other target relates to growth of the industry.

> *Increase patronage to optimise the utilisation of the taxi fleet, then support the issue of new licenses to ensure that the industry can grow at a rate that matches increased demand.*

Underutilisation of the existing taxi fleet is a significant factor affecting the industry's viability. Increasing utilisation will increase the industry's efficiency and viability. Since the number of vehicles in the fleet is fixed, increased utilisation can only be achieved through increased patronage. The Council seeks to improve service quality and value so that use of taxis becomes more regular. When considered in conjunction with other forms of public transport, we want taxis to be viewed as part of a viable alternative to households purchasing a second private motor vehicle.

The strategy to achieve this target will focus on improving the quality of service in order to increase the level of patronage. There are very many complex issues that affect the quality of service, the planning process will include investigating and prioritising service issues and developing co-ordinated industry-wide responses.

Any significant changes will again include changes that directly affect drivers and may require the assessment of changes that favour passengers but which may be seen as unacceptable by drivers. This means that implementation issues will need to be managed very carefully through consultation and education as they will play a critical role in the effectiveness of any measures chosen to improve service quality.

The initial phase will include establishing industry-wide measures for the current level of patronage and fleet utilisation and identifying the key factors external to the industry that drive the demand for taxis.

The NSW Taxi Council intends to present information on progress made under its five-year plan regarding improved service levels in its submission to the 2004 fare review.

5 Fare structure.

5.1 Rationale behind each component

The taxi fare provides the incentive for a driver to accept hirings. The balance between the fare components has a significant impact on the incentive provided to pursue different types of hirings, e.g. street hails, radio bookings or customers at ranks.

Flagfall
The flagfall is the minimum fare, or the fee to hire the taxi. It helps pay for a taxi's "availability", similar to paying for the availability of items in a shop. It is no different to the minimum fare that applies to all other forms of public transport, and most other services. The flagfall recognises the transaction costs associated with each new customer and also provides an economic signal that walking is more efficient for very short journeys.

Waiting Time
The waiting time charge applies when a taxi is travelling at low or negligible speeds (less than about 24kph) or when the taxi is asked to wait for the passenger (e.g. whilst they meet a 3rd party or attend to some matter outside the vehicle). In such cases the passenger is still occupying the taxi. This consumes the driver's labour and fuel, it is costing the operator wear and tear on the motor, air-conditioner etc. The driver's income when the waiting time tariff is active is significantly below the income when the distance tariff is active and the taxi is travelling a normal speed. Hence the waiting time tariff compensates the driver for the time they are engaged in providing the service as well as the opportunity cost to the driver of not having another fare-paying passenger occupy the taxi.

Distance rate
The distance rate typically comprises the majority of the charge for most taxi fares. Hence the distance rate aims to recover the variable and fixed running costs plus provide a reasonable margin.

Booking Fee
Booking fees aim to recover the cost of 'dead running'. That is the cost of driving the taxi from wherever the booking is accepted to the pick-up point. This includes running costs and the cost of the driver's time. The booking fee plays an essential role in providing an incentive for drivers to accept bookings.

Luggage fee
The luggage fee recompenses the driver for the extra work involved in assisting a passenger who has more than a normal amount of luggage.

5.2 Relationship between components

It is important that the relationship between components is maintained so that incentives remain for drivers to accept all types of hires. It is also important to ensure that particular types of passengers are not disproportionately disadvantaged by any changes in fares.

The Taxi Council is not aware of any basis for determining the correct 'theoretical' relationship between fare components for taxis. Therefore we suggest using the current charge components and levels as a starting point for any adjustments. The Council believes the current relationship between the fare components provides an effective balance of incentives for drivers and cost signals to customers. Consequently a strong argument would need to be made before any change in the relationship between components should be considered.

In order to maintain the current balance the fare adjustment should be applied equally to all components in percentage terms, or as close as can be achieved within the adjustment constraints of taxi meters.

Such an approach also removes the requirement to try and determine an "average fare" with all the inherent difficulties that creates. The Taxi Council does not support the basis of fare adjustments being made on a mythical average fare. The length and types of journeys undertaken by drivers varies widely between different parts of the metropolitan area. The proportion of booked jobs varies widely from very low in the CBD to very high in the outer metropolitan areas, likewise the 'average' length of journey can differ markedly. The average fare in country areas would similarly vary widely from location to location. Drivers who predominantly cater for passengers in wheelchairs have types of fares that differ significantly from drivers who don't.

High variation means that the "average" fare is not representative. A fare adjustment based on the average fare will be inequitable since it is most likely to systematically disadvantage some drivers and advantage others. Likewise for passengers, some will be disadvantaged and others advantaged by changes based on an average fare.

Unless a strong case can be made that the current balance between fare components is producing undesirable outcomes and therefore should be changed, the only sensible approach is to make adjustments in a manner that retains the existing balance.

5.3 Suggested amendments

5.3.1 Luggage per piece not per Kg

Since it is difficult for a driver to easily determine the weight of luggage, the luggage fee presents some practical difficulties.

Despite the entitlement, in practice few drivers seem to charge the luggage fee.

A preferable approach may be to levy the waiting time fee for the time taken to handle luggage than have a fee based per kilogram. This may require clarification of the definitions regarding when a hiring starts and stops.

5.3.2 WATS lift fees

Placing an upper limit on the amount of waiting time that a driver of a WAT can charge is unjustified. What argument can be made to support the case for drivers to work for free for any time they spend in excess of 15 minutes either waiting for or assisting a WAT passenger?

The current system is inequitable for drivers. The fairest solution would be to remove the 15 minute limit and allow drivers to be paid the normal waiting time for the time they spend waiting for passengers and loading and unloading passengers in wheelchairs.

5.3.3 Night surcharge for all components.

The night-time surcharge aims to encourage drivers to work after 10 p.m. and is similar to higher pay rates that apply to shift workers. Because the surcharge only applies to the distance rate, the surcharge shifts the balance between the fare components and hence the incentives for drivers alter.

In order to restore incentives for drivers to accept short journeys, and pick-up booked customers after 10 p.m. the surcharge percentage should be applied equally to each component.

5.3.4 Sunday/Public Holiday surcharge

In order to encourage drivers to work during less popular times, a Sunday and public holiday surcharge should apply in all areas as is common in other industries that provide services at these times. At present such a surcharge only applies to taxis in country areas.

Confidential statistics provided to the Taxi Council by one operator of a large fleet show that driver availability measured monthly averaged 86% during the year to March 2003, and dropped as low as 75% during January 2003.

These figures indicate that lack of available drivers is a factor limiting the utilisation of the existing fleet. Measures to increase returns to drivers during quiet periods would therefore be an effective means to increase availability of taxis to the public.

6 The Review Process & Cost Model

The NSW Taxi Council has had a number of meetings with representatives of the Tribunal as well as the Transport Workers Union and Transport NSW during the preparation of this submission. Various approaches to the review were discussed with the Tribunal's representatives. Continuing with the adjusted cost index was agreed as the most pragmatic approach to determining a reasonable fare adjustment for the 2003 fare review.

The NSW Taxi Council recognises that a cost index approach has some shortcomings, but these are now well understood and the Tribunal's refinements to the index have improved its reliability as a reasonable measure of changes in taxi costs. Overall, under closer examination, it quickly becomes apparent that the availability of data as well as large diversity in cost and revenue outcomes become significant constraints on the practicality of some alternative approaches. In comparison the data requirements for the cost index are relatively modest, yet this still poses significant difficulties in providing an unquestionable analysis.

In response to recognising the shortcomings of the cost index model, the NSW Taxi Council has embarked on a process to set new standards for the industry and establish time-frames and targets to improve quality of service, and growth of the industry.

The NSW Taxi Council believes that some significant shortfalls of the cost index approach can be offset through the setting and attainment of these targets in future years. Further information regarding the industry's five-year plan is provided in Section 4 of this submission.

6.1 Cost index approach

The cost index approach has been chosen for mainly pragmatic reasons relating to the availability of consistent and comparable data.

The cost index was originally developed in 1999 by PricewaterhouseCoopers. As with any model, it is a simplification of real life, with the use of assumptions to estimate an average or conventional practice, this cost profile will never perfectly replicate the real world costs of all operators. The Tribunal has initiated several refinements to the index which have moderated the impact of most of its shortcomings. Importantly, the objective of the index is to provide a transparent, fair and consistent approach to measure cost movement (not quantum) that is reasonably reflective of the costs faced by the taxi industry. Neither the index nor any other fare adjustment approach is capable of ensuring that all operators achieve an equal reasonable rate of return based on efficient costs.

Whilst the IPART refined index still has some shortcomings, every attempt has been made to provide practical and fair solutions to the problems encountered in using the model. Defining prices for inputs is an extremely difficult task in an industry environment where there are many approaches to operations and with many different cost variables. Costs can vary widely depending on location and in many cases even simple items will vary from operator to operator depending on a myriad of small decisions defining how they choose to run their business. These are the practical difficulties that mean there is never going to be a definitive answer and that defendable alternatives are always going to present themselves. We have gone to some lengths to explain and provide verification for the data we have used and believe that our approach is fair, reasonable and transparent.

As far as possible the NSW Taxi Council has adopted the Tribunal's preferred approach to issues (as indicated in the Tribunal's 2002 review). A more complete discussion of each of the indexes components is included in the following section of the submission.

The movement in total costs has been calculated as follows.

Prices for an item included in the cost model (or in some cases a representative basket of goods, or another index) have been obtained for March 2003. These are compared to the prices of the equivalent item (or basket or goods, or index) obtained in March 2002 that have been used to reflect values for June 2002 by the Tribunal. Most items were not adjusted by the Tribunal as they were assumed to remain the same between March and June 2002. Fuel was the exception.

The base figure for each line item in the model is taken to be the figure accepted by the Tribunal as current at June 2002 and published in the 2002 fare review.

The base figure is adjusted in accordance with the change between the June 2002 price for the item, (or basket of goods, or other index) and the March 2003 prices.

The weighting of that line item based on the 1999 weightings is then applied to arrive at the contribution that the adjustment in that item has made to the adjustment of total costs.

When more recent data becomes available, it can be put into the model to replace the figures currently available to bring the figures closer to a true June 2003 comparison.

The Taxi Council would still prefer to use a March to March index as this is the only period for which data can be obtained for its submission. The Tribunal's fears of double-counting are unfounded since the Tribunal simply assumed that costs remained unchanged between March 2002 and June 2002, with the exception of fuel. The double-counting of any change in fuel costs for the period March 2002 to June 2002 could simply be reversed from the model to eliminate this issue.

6.2 Methodology

The Tribunal has criticised previous submissions for lacking detail that can be used to verify the cost information that has been used in the model. The following discussion provides full details of how data was obtained and the documentation available for verification.

Vehicle Lease costs
New car purchase costs for Ford Forte and Ford Futura have been obtained from written quotations provided by Sydney City Ford. As in previous years a simple average of the prices of each of these models has been used to include in the cost-index.

Second-hand car purchase costs have been obtained from www.drive.com.au using the mid-point of the range of values provided for vehicles that are 2 years old. As with the new cars, a simple average of the price for the two models is used for the cost-index value. A hard copy of the web page as at 25/2/03 has been retained.

Interest rates for lease fees vary depending on the risk profile of the lessee. We have obtained a figure from Ford Credit that they have told is representative of an average lease fee and this represents a rise from 8.25% to 9% p.a. The factors behind the 0.75% rate rise are mainly the 0.5% increase in official interest rates by the RBA since May 2002, coupled with a minor deterioration in the average relative risk of the industry[4]. The term of lease and the residual are unaltered.

As in previous years, the proportion of second hand cars is assumed to be 50% in the urban areas and 100% in country areas.

Insurance
Quotes have been obtained from Zurich Insurance which is the largest insurer of taxis in New South Wales.

It is assumed that in the urban areas 50% of operators take out comprehensive insurance and 50% take out third party property only. This is the same as in previous years.

The Council seeks to alert the Tribunal to one minor insurance costs error due to an oversight within the 2002 Council submission. Third party insurance costs for Sydney were inadvertently assumed to apply at the same level for Newcastle, Wollongong and the Central Coast. In reality the cost is different for these three centres, however the movement in costs is likely to be highly similar, and it is only the movement in costs that

[4] see http://www.rba.gov.au/statistics/cashrate_target.html

is being measured in the model. We can report that in these three centres the third party costs are 42% of those in Sydney.

In order to preserve consistency, the third party property insurance costs for Newcastle, Wollongong and the Central Coast have been assumed to be equal to that of Sydney. Since the model is only impacted by changes in costs it is necessary to maintain a consistent approach in order to identify cost movements. The impact of this assumption is effectively nil, since the movement in this component makes no difference to the outcome. This is due to the very low weighting (less than 4% of total insurance cost) given to this particular component.

The Tribunal claimed in its report for 2002 that insurance costs varied significantly across country New South Wales. This may be true for private motor vehicles, but in fact Zurich has a single rate that applies to all country taxis. The cost provided in the model is the actual and verifiable cost of insurance for country taxi operators. The movement in this figure is therefore a true representation of movement in insurance costs for all country areas in New South Wales. We have calculated the movement in costs using directly comparable figures for 2002 and 2003. The change in actual costs has been used as an index that has been applied to the cost figure derived by the Tribunal for 2002. Whilst we may not concur with the Tribunal's claim regarding country insurance costs in 2002, no attempt has been made to 'catch-up' the increase that was denied by the Tribunal in 2002.

The insurance figure is calculated to be the average of the previous and current year quotes in line with previous practice accepted by the Tribunal.

Government Charges

Vehicle registration costs have been obtained from www.rta.gov.au, a printed version of the page as at 25/2/02 is available.

Taxi operator license fees remain unchanged from the previous year and may be confirmed with the Department's Taxi & Hire Car Bureau.

Network Fees

Written quotations have been obtained from each Urban network that includes their current fees and the number of taxis in the network as at 1 March 2003. Each network's fee is weighted by the number of taxis in the network to derive an annual average fee for the industry.

The Country Taxi Operators Association has obtained data on network fees in Albury, Wagga Wagga, Coffs Harbour, Tamworth, Bathurst and Dubbo. These figures have been weighted by the number of taxis in each location to derive a weighted average for country New South Wales. The slight difference in the calculated bases from the figure published last year is due to rounding used in the 2002 calculations. This difference has negligible impact on the results.

Plate Lease Costs

Urban lease costs are based on data provided by Transport NSW regarding the average prices paid for taxi plates in each of the Urban Centres during the twelve

months to January 2003. These figures are then weighted by the number of cabs in each centre to provide a weighted average license value.

To calculate plate lease costs, the Council has continued to use the approach developed by the Tribunal of assuming an average yield of 8.3% on the average prices paid for taxi plates during the last twelve months. Whilst the Tribunal should naturally revisit whether an 8.3% yield assumption remains reasonable, the events of the last twelve months would indicate that if any change is contemplated, an upward revision is more justifiable.

The Reserve Bank of Australia cash rate target has increased by 0.5% from 4.25% at the time of the last submission in March 2002, to 4.75% as at March 2003. If any adjustment were to be made to reflect movements in market interest rates then it would be expected that yields on taxi licences would have increased during this period leading to higher lease costs. Therefore the assumption that rates have remained unchanged is a conservative one erring on the side of a lower fare increase.

Anecdotal and confidential reports provided to the NSW Taxi Council indicate that market rates for Sydney license leases are currently averaging about $420 per week. This represents a yield of about 8.3% on the average license value of $263,444 quoted by Transport NSW.

The anecdotal evidence provides sound support for the method that has been adopted for calculating licence lease costs.

The average prices paid for licenses during the preceding year in each country area has been sought from Transport NSW. Year on year comparable prices have been provided for Armidale, Wagga Wagga and Bathurst. Data from other centres is not available. The simple average of the change in license value has been calculated and this change applied to the previous year lease cost to derive the country lease cost figure for 2003.

Establishment Costs

The cost of LPG conversion, taxi meters, roof signs & fitments, EFTPOS install, camera, livery, alarm installation, including labour have been obtained from networks and suppliers in each urban area. The costs in each area have been weighted by the number of cabs in each area to provide an industry average and have been amortised over 4 years. The approach is consistent with previous years.

The following items have been added to the basket of establishment cost items amended by the Tribunal in 2002: EFTPOS facilities, livery and alarms. In 2002, the Tribunal removed these items from the model because no comparable figures were provided for the previous year. This year we have comparable figures and hence we have included these items in the basket again to create an index for establishment costs.

The percentage change in the price of the basket of goods has been applied to the base index figure calculated by the Tribunal in 2002.

Similar country data has been sought for the current year but cannot be used in the current submission since verifiable comparable data for the establishment costs for the previous year are not available.

Since it is likely that the movements will be highly similar, the establishment costs in country areas are assumed to have changed by the same amount as in the urban areas.

Maintenance Labour Costs
The hourly rates for labour have been obtained as quotes from Ford dealers in each location, or where the dealer would not provide a quote an alternative service centre has been substituted.

The change in labour rates between 2002 and 2003 has been used to adjust the labour maintenance costs.

Vehicle Parts & Panels
The CPI component for motor vehicle parts and accessories has been used as the index for the cost of motor vehicle parts and panels. This is the preferred approach adopted by the Tribunal in 2002.

Cleaning (Operator funded)
For the urban model cleaning costs have been split into driver and operator components as undertaken by the Tribunal in 2002.

The same adjustment has not been made to the country model as it is accepted practice for country operators to pay cleaning costs.

Published quotes have been obtained from 2 companies in the urban area for a basic detail, the average of the two prices has been used. The number of vehicle inspections and number of times a vehicle is detailed remains the same at 3 times per annum for the urban areas and twice per annum for the country.

Cleaning costs for the daily and inspection cleaning have been combined under one heading for the country model. Each cost has been obtained for each of the country centres and an average weighted by number of cabs has been used.

Tyres
A price for a Dunlop Monza 195/65R15 has been obtained by email from www.beaurepaires.com.au. The price used in 2002 was for the same brand and type of tyre.

Operator Salary
This figure has been adjusted to reflect changes in Average Weekly Earnings published by the Australian Bureau of Statistics between May 2002 and November 2002. The data for May 2003 will not be available until 14 August 2003.

Operator Superannuation
Superannuation has been adjusted to reflect the superannuation guarantee rate applying to the 2002-03 year published by the Australian Taxation Office.

Driver Entitlements
Driver entitlements have been adjusted in accordance with the Contract Determination decision of the Industrial Relations Commission.

Uniforms
Quotations have been obtained from networks for the cost of driver uniforms. We are unable to verify that the prices provided are directly comparable to the previous year's data due to variations in the make-up of various uniforms.

In the absence of verifiably consistent information, the clothing component of the Consumer Price Index (weighted average of six capital cities) produced by the Australian Bureau of Statistics has been used as the index for movements in uniform costs.

Other Costs
These costs include miscellaneous items such as office equipment, telephone, professional services and training costs. These costs have been adjusted by the Consumer Price Index, up to the March quarter 2003.

LPG Fuel.
LPG fuel costs have been included in the operator costs for the country index model. As with cleaning costs the method of bailment determines who pays for fuel. The Country Taxi Operators Association has informed the Council that the vast majority of country operators pay for fuel, this is consistent with the assumption made for cleaning.

Since April 2002, LPG price data has been collected 5 times per fortnight from www.gogas.com.au for thirteen locations in Sydney, six locations on the Central Coast, four locations in Wollongong and six locations in Newcastle as well as for the country centres of Albury, Armidale, Bathurst, Tamworth, Coffs Harbour and Wagga Wagga. An average for each has been calculated for the period July 2002 – April 2003. The monthly averages have then been weighted by the number of taxi-cabs in each centre to provide a weighted average prices for the urban and country indexes.

The complete set of raw data can be provided to the Tribunal for verification.

The change in prices from those chosen by the Tribunal for June 2002 has been applied to the June 2002 costs estimated by the Tribunal. The Taxi Council will supply updated prices to the Tribunal to replace the average July 2002–April 2003 prices with the average price for July 2002-June 2003 when it becomes available.

Cleaning (driver funded)

Given the difficulty in obtaining verifiable consistent data on the cost of a daily wash in the urban area, the percentage change in cleaning costs for Operators has also been applied to the drivers' daily cleaning cost.

Notional Driver Wages (previously called 'Driver bailment fees')
This terminology has been adopted to replace "driver bailment fees" as discussed in the Tribunal's issues paper.

The previous year's figures have been adjusted by the change in Average Weekly earnings between May 2002 and November 2002.

The May 2003 figure will not be available from the Australian Bureau of Statistics until 14 August 2003.

6.3 Implementation Issues

6.3.1 Industrial Relations Commission

The fare adjustment takes effect from the date determined by the Minister for Transport. Drivers using Method 2 (fixed pay-in) obtain the full benefit of the adjustment until such time as the Industrial Relations Commission makes changes to the Contract Determination to pass on the adjustment to the Operator. Any fare adjustment recommended by the Tribunal will not have the effect expected by the Tribunal until and unless the Industrial Relation Commission amends the Contract Determination in a manner also expected by the Tribunal.

The NSW Taxi Council strongly supports the Tribunal's proposal to clarify how, operators may be exactly compensated for their changes in costs so that the Industrial Relations Commission is provided with a clear indication of the Tribunal's view.

To assist in this matter, we have also presented the fare adjustment divided into driver and operator components.

6.3.2 Meter adjustment constraints.

There are at least three major manufacturers of taxi meters currently in use and each may have a number of models which operate in different ways. Different meters may have different constraints that limit the size of increments in which adjustments to the each component can be made.

The NSW Taxi Council would support increasing the amount of each fare 'drop' from the current 5 cents to a proposed 10 cents. This will not affect the average cost of a fare since on average as many fares will be 5 cents cheaper as will be 5 cents more expensive after implementation. By halving the number of keystrikes required, it will make it easier for drivers to enter the correct values of extras such as bridge and motorway tolls which are all in multiples of 10 cents. It will also remove the inconvenience of carrying 5 cent coins.

6.4 Potential Future Model Adjustments

6.4.1 License Lease Costs

The lease cost that operators pay for a taxi license is a cost determined by the market as a residual after all other operating costs are accounted for. In some ways it can be thought of as a cost that the industry pays to itself.

Including the licence costs in the index has a circularity issue in that in periods where driver availability is strong and margins high, the lease cost will rise in line with the

market as more operators enter the market or expand their fleet size. For example an increase in driver availability will increase lease payments which could, if un-checked, lead to an increased fare the following year which will increase revenues and lead to increased lease payments etc.

While licence lease costs are a real cost to operators, the Council feels that this issue needs further assessment. In the same way the Council suggests there is some merit in adjusting fares to reflect passenger demand, there may be merit in a similar adjustment of fares to reflect operator demand for plate leases from owners.

6.4.2 Timeliness

The current review process includes significant time lags between a change in costs and the subsequent change in fares. Currently we obtain price data during March, price changes between March and June for most items are ignored, fares are to be adjusted in September. Drivers using the set pay-in method receive 100% of the fare change until hearings are conducted and the Industrial Relations Commission makes a judgement to alter the Contract Determination typically 3 or more months later.

Changes in the review process that can make the process more timely and hence more equitable would be welcomed by the industry.

6.4.3 Index weight adjustments

It seems inconsistent to accept that costs move relative to each other, yet ignore the impact of these changes on the model itself.

We suggest the model should be adjusted each year to reflect the changed weightings for each cost item resulting from the relative movements the previous year.

6.4.4 Costs not included:

Whilst the Taxi Council recognises that not all costs can be captured accurately by the model, it is worth noting that we have identified a number of costs that currently are not included and that may be considered in any future revision of the model. Additionally, it is desirable to agree a way forward on how to add new costs to the index particularly where they are material and arise as a result of a new government regulation. The Council recognises that the expense category “other” is designed to capture the extensive variety of minor costs, however some material omissions include:

Cost of self-insurance
Operators that choose to self-insure their vehicles are in reality incurring a contingent liability that is not recognised in the model. The amount of the contingent liability should be included in the cost index with movements pegged to changes in insurance premiums.

Insurance Excess
Typical insurance polices include a substantial excess. No provision is made in the current model to include the cost of the excess.

Download of security images
Operators incur the cost of downloading security images from security cameras.

6.5 Alternative approaches

In assessing alternative approaches it is important to consider the net cost and benefits of changing the current process, the timeliness and availability of reliable data, and the degree of alignment between the outcomes of 'the method' and what is happening in the real world.

The Taxi Council has the view that significant cost and time savings can be achieved through simplification of the process without significantly altering the result produced at the end.

6.5.1 Use of published indexes

The current data collection and verification process is very time consuming and can also be imprecise due to a high degree of reliance on assumptions and raw survey data. The process does not easily allow for adjustments to reflect changes in industry practices, new technology, substitution of products (e.g. types of fuel) or many other variables from year to year.

Given that the present process has significant shortcomings in being expensive, difficult to comply with and producing potentially unreliable results, it would be prudent to ascertain the cost and benefit of simplifying the process. One approach to improve reliability and reduce estimation costs would be to rely more heavily on published indexes rather than collecting raw price data each year.

Published indexes would offer the advantage of being easy to obtain and verify. They may also provide more current information than is currently being relied upon. Depending on how they are applied, published indices also offer an advantage over the current cost-index model since they can capture the effect of industry efficiency gains. The current process does not take account of efficiency gains or substitution of products in response to relative price movements.

The Taxi Council considers that a cost index approach provides a practical way of dealing with fare adjustments, but that a range of indexes should be adopted to cover some of the components within the model. For example, all the labour and wage components could be adjusted by the index for average weekly earnings. The need for raw price data could be reduced to a fewer number of specific items such as vehicle lease payments, plate lease fees, tyres, superannuation, driver entitlements, network fees, insurance and fuel. Published indexes could be used to cover uniforms (men's outerwear component of CPI), vehicle parts & panels, (motor vehicle parts & accessories component of CPI), cleaning (CPI), and other (CPI).

Regular reviews of the basis for the cost index can help ensure that industry efficiency gains are captured and incorporated into the model.

6.5.2 Indexation with a productivity adjustment

This approach is an elaboration of the above approach.

The principle difficulty of this approach is determining an appropriate productivity improvement to apply to the taxi industry. Unless a justifiable answer to this question can be found the use of such an approach would be arbitrary and risky. As stated

previously, existing incentives to improve performance are already strong within the taxi industry and a productivity adjustment may have little additional impact. For example operators need to strive for high levels of cost efficiency to be financially viable, operators also need to provide modern and well maintained vehicles to attract sufficient drivers, and drivers need to provide efficient, safe friendly services to foster greater repeat business and higher gratuities.

Labour productivity in the taxi industry is likely to remain roughly constant since in large part it will be moderated by drivers' behaviour. The principle source of labour in the industry is drivers and drivers tend to stop working at times when their productivity (which means returns to drivers) becomes low. Likewise at busy times when productivity is higher, more drivers will work which will act to limit the extent to which productivity will increase.

So if labour productivity is moderated, then the only scope for increased productivity is the productivity of capital. The major factor influencing the productivity of capital is the degree of utilisation of the taxi fleet. This will fluctuate depending on the level of availability of drivers which is also influenced by the level of demand for taxi services.

6.5.3 Building Block (Efficient Costs) Approach

The Taxi Council acknowledges the benefits of using an "efficient costs" or "building block" approach to monopoly service regulation in principle. Such an approach has theoretical appeal, but it is unlikely that it can be effectively applied in practice to the taxi industry.

Experience with the much less onerous cost-index model has shown us that the taxi industry is too varied and too complex for this approach to come anywhere near delivering any net benefits. It would be extremely expensive, time-consuming, cumbersome and ultimately inaccurate process.

Unless a complete compulsory industry census (including drivers, operators and networks) is conducted, the process of data collection will introduce many sources of error that will produce inconsistent results. The type of work done by individual operators and individual drivers varies widely across the metropolitan area, the country areas add even greater diversity.

A high degree of variability within the industry means that any sampling-based technique will introduce high sample errors and hence fail to produce reliable data that could be used with complete confidence in determining 'efficient' fare levels.

If a 'Building Block' approach were to be adopted the difficult question arises regarding how to treat the capital costs of a taxi licence. It is also not clear how this approach would overcome the existing circularity present in estimating the capital cost of a license, and how or if compensation should be made to existing license owners if the method adopted for deriving licence costs leads to a reduction in fare revenue.

Adoption of the Building Block approach is unlikely to produce improved outcomes for consumers since it will be impossible to define efficient costs for the industry that can be truly representative across many and varied locations and thousands of individual operators. It is a far riskier approach since errors introduced in the modelling process

(based on absolute values) are likely to have a greater influence on outcomes than the cost-index approach where only cost movements (relative values) are being measured.

This can be demonstrated by an example using the cost of tyres. The absolute cost of tyres for an operator will vary depending upon the brand chosen, the wear characteristics of the tyre, the terrain driven, whether the tyre is new or retreaded etc. In reality it will vary from operator to operator. A model that determines prices based on an absolute cost of tyres is heavily reliant on the assumptions made regarding each of the above. An error in this assumption will feed directly into the fare setting process. In the cost-index model the only factor that is important is the relative movement in tyre prices. Since tyre prices are likely to be highly correlated between brands, and between retreads and new tyres etc. errors in the model assumptions will have much less impact on the final fare outcome. The model is consequently much less sensitive to model errors and therefore more likely to produce more reliable and consistent results.

6.5.4 The way forward

The Tribunal's issues paper invited comments on some possible developments that might assist the Tribunal in its fare review process. Comments of each of the five issues raised by the Tribunal are presented here.

Automatic Fare Adjustments

The industry does not propose that adjustments to fares based on the cost index should be considered an annual automatic matter. However the cost index should act as the starting point for the annual fare review. The industry understands the need to demonstrate that it has achieved sound efficiency as well as adequate and improving service quality. The index itself must periodically be reviewed to ensure that industry efficiency gains and changes in the industry itself are reflected in the model.

Cost Study

If the Tribunal chooses to commission a detailed study of cost items, the NSW Taxi Council would provide whatever assistance it can in helping the Tribunal obtain accurate information. While the cost of a study has not been discussed, we can see no strong argument why the industry itself should pay for such a study.

Efficiency Gains

Since the taxi industry is highly labour intensive there is relatively less scope for making efficiency gains. Total labour-related costs represent about 50% of the cost index. The incentive to improve efficiency already exists since improved efficiency will lead to improved profitability. This is supported by evidence of new investment that the industry has made in new GPS tracking technologies, dispatch systems and electronic funds processing etc.

Information Return

The Tribunal has raised the prospect that an annual information return be established which includes revenue, cost and performance information. The Council supports the concept of ensuring that the Tribunal has better information on which to base its decisions. However, while the Council can facilitate information collection, we are dependent on thousands of individual drivers and operators for specific actual cost information. Also, the sources for this information will vary depending on the method of remuneration chosen by the driver. Unless the Contract Determination is changed there

will be no identifiable single source, so it is unclear who would be required to submit the proposed annual return.

Performance Standards

The NSW Taxi Council supports the principle that performance standards should be properly defined, monitored and met. The industry is currently discussing draft standards with Transport NSW.

Details are provided elsewhere in this submission regarding the industry's proposals for improving service standards.

7 Proposed fare change for 2003

The following costs have been calculated in a manner that maximises consistency with data available for the previous year and is transparent and verifiable. The data reflects an accurate and unbiased appraisal of movements in costs defined by the 1999 urban and country cost index models developed by PricewaterhouseCoopers.

Summary of cost index - Urban model.

Urban Operator Expenses	Mar-02	Mar-03	Index Change	IPART June 2002	New Cost	1999 Index Weight	Contribution to total fare change
Fixed Costs							
Vehicle Lease payments	$8,213	$8,904	8.42%	$8,281	$8,978	4.76%	0.40%
Insurance	$12,737	$13,371	4.98%	$12,737	$13,371	6.19%	0.31%
Govt Charges	$739	$772	4.47%	$739	$772	0.45%	0.02%
Network Fees	$6,488	$6,553	1.00%	$6,436	$6,500	3.40%	0.03%
Plate Lease cost	$19,500	$21,146	8.44%	$19,500	$21,146	14.09%	1.19%
Annualised Establishment Costs	$1,640	$1,751	6.72%	$1,399	$1,493	0.59%	0.04%
Variable Costs							
Maintenance Labour	$6,854	$6,727	-1.85%	$6,854	$6,727	4.06%	-0.08%
Vehicle Parts & Panels	$10,944	$11,075	1.20%	$10,944	$11,075	5.17%	0.06%
Cleaning	$360	$393	9.17%	$360	$393	0.22%	0.02%
Tyres	$2,800	$3,057	9.17%	$2,800	$3,057	1.60%	0.15%
Operator's Superannuation	$1,002	$1,188	18.57%	$1,002	$1,188	0.51%	0.09%
Operator Salary Equivalent	$12,525	$13,201	5.40%	$12,525	$13,201	7.25%	0.39%
Driver entitlements	$3,731	$3,871	3.75%	$3,731	$3,871	2.16%	0.08%
Uniforms	$2,400	$2,405	0.20%	$2,400	$2,405	1.49%	0.00%
Other	$3,484	$3,599	3.30%	$3,484	$3,599	2.02%	0.07%
Driver Expenses							
LPG Fuel	$15,750	$16,553	5.10%	$15,774	$16,578	8.30%	0.42%
Notional Driver's Wages	$62,135	$65,489	5.40%	$62,135	$65,489	35.96%	1.94%
Cleaning	$2,860	$3,122	9.17%	$2,860	$3,122	1.76%	0.16%
Total*	$174,161	$183,175		$173,961	$182,965	100.00%	5.31%

Operator Component	$93,416	$98,011	$93,192	$97,776	53.97%	2.78%
Driver Component	$80,745	$85,164	$80,769	$85,189	46.03%	2.53%
Total*	$174,161	$183,175	$173,961	$182,965	100.00%	5.31%

* Percentage change does apply to the totals due to the differences between the 'index' weights and actual cost 'weights'

Summary of the cost index - Country model.

Country Operator Expenses	Mar-02	Mar-03	Index Change	IPART June 2002	New Cost	1999 Index Weight	Contribution to total fare change
Fixed Costs							
Vehicle Lease payments	$7,703	$8,381	8.80%	$7,703	$8,381	5.84%	0.51%
Insurance	$7,290	$7,721	5.91%	$6,858	$7,263	4.90%	0.29%
Govt Charges	$739	$772	4.47%	$739	$772	0.59%	0.03%
Network Fees	$9,683	$10,692	10.42%	$9,660	$10,667	6.92%	0.72%
Plate Lease cost	$10,575	$12,719	20.27%	$10,575	$12,719	10.08%	2.04%
Annualised Establishment Costs	$700	$747	6.72%	$700	$747	0.48%	0.03%
Variable Costs							
Maintenance Labour	$6,057	$6,445	6.40%	$6,057	$6,445	4.06%	0.26%
Vehicle Parts & Panels	$5,692	$5,761	1.20%	$5,692	$5,760	3.00%	0.04%
Cleaning	$2,945	$2,292	-22.18%	$2,944	$2,291	2.38%	-0.53%
Tyres	$2,000	$2,183	9.17%	$2,001	$2,184	1.48%	0.14%
Operator's Superannuation	$1,002	$1,188	18.57%	$1,002	$1,188	0.66%	0.12%
Operator Salary Equivalent	$12,525	$13,201	5.40%	$12,525	$13,201	9.40%	0.51%
Uniforms	$2,400	$2,405	0.20%	$2,400	$2,405	1.94%	0.00%
Other	$3,216	$3,325	3.40%	$3,216	$3,325	2.42%	0.08%
LPG Fuel	$13,168	$14,233	8.09%	$13,171	$14,236	9.06%	0.73%
Driver Expenses							
Notional Driver's Wages	$48,957	$51,599	5.40%	$48,957	$51,599	36.79%	1.99%
Total*	$134,651	$143,662		$134,200	$143,184	100.00%	6.97%

Operator Component	$85,694	$92,063		$85,243	$91,585	63.21%	4.98%
Driver Component	$48,957	$51,599		$48,957	$51,599	36.79%	1.99%
Total*	$134,651	$143,662		$134,200	$143,184	100.00%	6.97%

* Percentage change does not apply to the totals due to the differences between the 'index' weights and actual cost 'weights'