

2010 Review of Taxi Fares in NSW

Public hearing

IPART Secretariat
12 April 2010

Topics for discussion at today's hearing

- ▼ Likely fare increases from 1 July 2010
- ▼ Flat fares from Sydney Airport to the CBD
- ▼ Measures for dealing with LPG price volatility

Likely fare increases from 1 July 2010

- ▼ Based on currently available data, our preliminary estimate is that fares will increase by approximately 3.5% in urban areas and 3.1% in country areas.
- ▼ Increases will be adjusted once data is available for changes in costs between 1 April 2009 and 31 March 2010.
- ▼ We propose to apply the increase evenly to the individual fare components.
- ▼ We are seeking comments on 2 specific issues: inflator for network fees and our productivity adjustment

Inflator to be used for network fees

- ▼ Network fees cost item reflects cost incurred by taxi operators such as providing booking services, training drivers in network rules and ensuring compliance with fare and meter requirements.
- ▼ Historically we have used data on actual network fees to inflate this cost item.
- ▼ Last year we raised the possibility of using CPI-Sydney.
- ▼ Despite annual differences, over time the change in CPI may provide a reasonable alternative that is independent (not reported by industry) and is publicly available.

Productivity adjustment to be applied to driver and operator labour costs

- ▼ A productivity adjustment is designed to better reflect the actual costs faced by the industry and ensure that passengers and not just industry benefit from productivity improvements.
- ▼ Our productivity adjustments are typically based on conservative estimates of productivity gains in the broader economy.
- ▼ Recent ABS data on productivity of the Australian economy showed mixed results.
- ▼ We have not included a productivity adjustment in our preliminary estimate of the change in costs.

Questions for comment

- ▼ Are the indicative increases in fares reasonable given the cost increases faced by industry?
- ▼ Is CPI-Sydney an appropriate inflator for the network fee component? Why or why not?
- ▼ Can taxi drivers and operators make gains in productivity? What are the industry specific factors that might affect the scope for productivity improvements in the taxi industry?
- ▼ Is the current fare structure reasonable? Is there a case for raising some fare components by more than others?

Flat fares from Sydney Airport to the CBD

- ▼ In September 2009, the Government asked us to consider whether flat (or fixed) fares should be introduced for taxi journeys between the airport and CBD.
- ▼ Two routes:
 - ▼ Between Sydney CBD and International Airport Terminal
 - ▼ Between Sydney CBD and Domestic Airport Terminal.
- ▼ For each of these, passengers would pay a flat (fixed) rate regardless of route or time taken.
- ▼ Flat fare would apply 'off-meter' meaning that the meter that calculates charges based on trip distance and time taken would not be used.

Flat fares in other cities internationally

	Sydney	New York	Tokyo	Miami
Distance airport to city (km)	6-17	17-20	55-95	3-37
Size of flat fare zone (km ²)	5	60	2,187	1,946
Flat fare	?	\$45 US	15,000- 24,000 ¥	\$10-43 US
Flat fares vary by zone?	?	No	Yes	Yes
Includes tolls	?	No	No	Yes
Population density	5,104	25,805	5,655	447
International visitors per annum (million)	2.7	9.5	5.2	5

What features of a flat fare need to be defined?

- ▼ Government's request does not define the characteristics of the flat fare (level, geographical boundaries, tolls).
- ▼ There are two main features that would need to be defined:
 - ▼ Geographical boundaries of the CBD
 - ▼ Fare level (direction, include or excludes additional fees and tolls, vary by time of day)
- ▼ We developed some high level definitions to examine the issue.

Fare level – characteristics of airport journeys

	Domestic	International
Distance airport to city (km by road)	6-12	11-17
Number of taxi trips per annum	8 million (10-15% of Sydney taxi trips)	
Current metered fare (including tolls)	\$25-43	\$35-55
Tolls	Airport \$3 ED \$5 CCT \$4.28	Airport \$3 ED \$5 CCT \$4.28
Comparable cost of train journey to CBD	\$15.00	\$15.40-15.80
Comparable cost of shuttle bus to CBD	\$12-24	\$12-24

What are the advantages and disadvantages?

- ▼ We identified several advantages and disadvantages of flat fares.
- ▼ Affect passengers and drivers in different ways depending on how the fare is set (i.e. at what level, CBD boundaries). 3 options:
 - ▼ High flat fare
 - ▼ Low flat fare
 - ▼ Average or 'typical' fare (more difficult to identify)
- ▼ There are ways of dealing with the disadvantages but these come at the expense of a more complicated system.

Advantages

- ▼ Main benefits of flat fares are simplicity and certainty
- ▼ Flat fares reduce the potential for passengers that are unfamiliar with fare structure to be exploited by drivers taking a less than direct route.
- ▼ Advantages are of greatest benefit to passengers when there is a need for them to have greater certainty around costs of transport.

Disadvantages

- ▼ Flat fares are not cost reflective. The implications of this fare depending on what level the fare is set at:
 - ▼ Minimum
 - ▼ Maximum
 - ▼ Average or 'typical'
- ▼ Difficulties establishing clear boundaries for the CBD
- ▼ Flat fares are charged off-meter

Questions for discussion

- ▼ Do the advantages of a flat fare outweigh the disadvantages?
- ▼ If there was a sufficient need to introduce flat fares, what are the most effective ways of addressing the disadvantages without sacrificing simplicity?
 - ▼ At what level should the flat fare be set?
 - ▼ Should the CBD area be broken into more than one zone?
 - ▼ What geographical boundaries should be used to define the CBD zone? Should it include secondary areas like North Sydney or Kings Cross?
 - ▼ Should the flat fare include or exclude additional fees (such as the airport access fee, booking fee and Eastern Distributor toll)
 - ▼ Should the flat fare be optional or only apply at certain times of the day?

Measures to deal with volatile LPG prices

- ▼ In 2008 LPG prices rose significantly and this was having an impact on drivers' cashflow
- ▼ The Minister asked us to look at ways of dealing with this issue in detail as part of our 2008 review
- ▼ We decided to routinely carry out a mid-year review of LPG prices and to recommend a mid-year fare change if LPG prices had changed significantly
- ▼ We made recommendations for a mid-year fare change in each of the past 2 years – neither recommendation was accepted

Measures to deal with volatile LPG prices

- ▼ The Director General of NSW Transport and Infrastructure has asked us to reconsider whether routine mid-year reviews are needed
- ▼ As part of this year's fare review we will look at:
 - ▼ whether we need to include measures to deal specifically with LPG prices
 - ▼ if we do need to address this issue, what is the best way to do it
- ▼ The discussion paper sets out our analysis of the impact of changing LPG prices on drivers and some options for dealing with this issue

LPG prices – what is the issue?

- ▼ LPG prices are a large part of drivers' costs – around 10%
- ▼ LPG prices can change significantly during the year
- ▼ Fares change only once a year
- ▼ This means that drivers must absorb changes in LPG prices
- ▼ These issues were obvious in 2008 because prices had gone up significantly
- ▼ Prices in recent times have been more stable but the underlying situation hasn't changed

Questions for discussion

- ▼ Should we include a mechanism to address LPG price volatility?
- ▼ If we should, what is the best approach and why?
- ▼ If we decide to keep the mid-year fuel review:
 - ▼ at what level should we set the threshold for fare changes?
 - ▼ is it appropriate for us to exercise discretion in recommending fare changes?



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