

Review of Fares for Taxis in New South Wales in 2005

Proposed from July 2005



**Report to the
Minister for Transport**

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL
of New South Wales**

IPART

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Minister for Transport**

9 June 2005

The Tribunal members for this review are:

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Mr James Cox, CEO and Full Time Member
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TABLE OF CONTENTS

1	SUMMARY AND RECOMMENDATIONS	1
1.1	Recommendations on fare levels	1
1.2	Recommendations on fare structures	1
1.3	Impacts on customers, the environment and the industry	2
2	INTRODUCTION AND REVIEW PROCESS	3
2.1	Structure of report	3
2.2	The Tribunal's review process	3
3	SUBMISSIONS	5
3.1	NSW Taxi Council	5
3.2	Transport Workers' Union (TWU)	7
3.3	NSW Taxi Drivers' Association (TDA)	8
3.4	Independent Accredited Taxi Operators (IATO)	9
3.5	Council of Social Service in NSW (NCOSS)	9
3.6	Other public submissions	10
4	TRIBUNAL ASSESSMENT OF TAXI COST INDICES	11
4.1	Vehicle lease costs	11
4.2	Insurance costs	13
4.3	Government charges	13
4.4	Network fees	14
4.5	Plate lease costs	14
4.6	Establishment costs	15
4.7	Maintenance labour	16
4.8	Vehicle parts and panels	17
4.9	Cleaning	17
4.10	Tyres	17
4.11	Operator's salary equivalent	18
4.12	Driver entitlements	18
4.13	Uniforms	18
4.14	Other operator costs	18
4.15	LPG fuel	18
4.16	Drivers' notional wages	18
4.17	Cleaning	19
4.18	Summary of Tribunal's assessment of the cost indices	19
5	FARE RECOMMENDATIONS	23
5.1	Summary of fare recommendations	23
5.2	Current Ministry of Transport inquiries	24
5.3	Current Industrial Relations Commission decisions	24
5.4	Other matters for future consideration	24
6	TAXI SERVICE QUALITY	25
6.1	Performance requirements	25
6.2	Complaints register	27
6.3	Wheelchair accessible taxis	28
7	IMPACT OF RECOMMENDATIONS ON CUSTOMERS, THE ENVIRONMENT AND PUBLIC FUNDING	31
7.1	Social considerations: income profile of Sydney taxi users	31
7.2	Environmental considerations	32
7.3	Effect on government funding	32
	APPENDIX 1 TERMS OF REFERENCE	33

ABBREVIATIONS USED IN THIS REPORT

ABS	Australian Bureau of Statistics
CFMS	Customer Feedback Management System
CPI	Consumer Price Index
ICRC	Independent Competition and Regulatory Commission in the ACT
IPART	Independent Pricing and Regulatory Tribunal
IRC	New South Wales Industrial Relations Commission
Kms	Kilometres
MoT	Ministry of Transport
TC	NSW Taxi Council
TCI	Taxi Cost Index
TDA	Taxi Drivers Association
TPDC	Transport and Population Data Centre in the Department of Infrastructure, Planning and Natural Resources
TTSS	Taxi Transport Subsidy Scheme
TWU	Transport Workers' Union
WATs	Wheelchair Accessible Taxis

WRITTEN SUBMISSIONS RECEIVED

The following provided written submissions to the review:

Anonymous (3)
Council of Social Service of NSW (NCOSS)
Independent Accredited Taxi Operators (IATO)
Mr Alex Portnoy
Mr Stephen Jenkins
Mrs Cheryl A'dison
NSW Taxi Council (TC)
NSW Taxi Drivers Association (TDA) (2)
R&J Douglas
Transport Workers Union of NSW (TWU)

1 SUMMARY AND RECOMMENDATIONS

The Tribunal has conducted its 2005 review of prices for NSW taxis. As part of the review process, the Tribunal undertook public consultation by inviting submissions from the key stakeholders and the general public.

Submissions were received from the NSW Taxi Council, the Transport Workers' Union of NSW, the NSW Taxi Drivers Association, Independent Accredited Taxi Operators, the Council of Social Service of NSW and several individual members of the public. The Ministry of Transport did not make a public submission but provided the Tribunal with data and commentary related to one submission.

1.1 Recommendations on fare levels

The Tribunal recommends that from July 2005:

1. urban taxi fares should be increased by **2.87** per cent and
2. country fares be should increased by **3.48** per cent.

The recommendations are based on the percentage change in industry costs as measured by taxi cost indices for the twelve months to March 2005 compared with those costs for the nine months to March 2004.

1.2 Recommendations on fare structures

The Tribunal recommends the fare structures set out in Tables 1.1 and 1.2. The fare structures reflect the higher overall level of fares.

In the case of urban fares, the Tribunal also decided to restore the fare structure to its 2002 configuration. That configuration was chosen because it avoids the distortions introduced by meter adjustments for tolls in 2003 and the 'no-destinations' trial in Sydney in 2004.

Table 1.1 Current and recommended fare structures – urban

URBAN	IPART Recommended 1-Jul-04	No dest. trial ended mid-Nov-04	IPART Recommended 1-Jul-05	% change on 1-Jul-04	% change since 1-Jul-02
Flagfall	\$2.75	\$2.75	\$2.80	1.82	9.80
Distance (per km)	\$1.56	\$1.56	\$1.62	3.85	11.72
Radio	\$1.45	\$1.15	\$1.40	-3.45	12.00
Waiting time (per hour)	\$40.91	\$40.91	\$40.91	0.00	9.53
Average Fare	\$16.01	\$15.95	\$16.47	2.87	11.12

Notes:

- A higher 'night-time surcharge' of 20 per cent above the distance rate in the table applies for journeys that commence after 10pm and before 6am.
- 'Radio' refers to the fee for booking a taxi over the phone.
- Under the recommended fare structure, 'Waiting time' applies when vehicle speed is less than 25.25kph. The waiting time of \$40.91 is 68.18 cents per minute.
- The 'Average urban fare' is currently based on a 7 km trip, a radio booking every fifth trip and 3 minutes of waiting time.

Table 1.2 Current and recommended fare structures – country

COUNTRY	Actual	IPART	% change on 1-Jul-04
	1-Jul-04	Recommended 1-Jul-05	
Flagfall	\$3.20	\$3.30	3.12
Distance (per km, <12kms)	\$1.61	\$1.69	4.97
Radio	\$0.85	\$0.90	5.88
Waiting time (per hour)	\$40.91	\$40.91	0.00
Average Fare	\$10.50	\$10.87	3.48

Notes:

- The rise of 3.48 per cent in the average fare is based on unrounded numbers (not shown).
- A higher 'night-time surcharge' and 'holiday surcharge' rate 20 per cent above the distance rate in the table applies on journeys that 1.) commence after 10pm and before 6am, and 2.) are taken any time of day on a Sunday or on a public holiday that is notified in the NSW Government Gazette.
- The Tribunal recommends that the current distance rate over 12 kms (known as Tariff 2) of \$2.25/km for country trips becomes \$2.36/km.
- The recommended 'Waiting time' applies while vehicle speed is less than 24.21kph.
- Average country fare is based on a 3 km trip, a radio booking every second trip, 3 minutes waiting time.

1.3 Impacts on customers, the environment and the industry

1.3.1 Customers

For most households, the impact of the recommendations is likely to be small. Urban transport fares (including taxi fares) are the equivalent of less than one per cent of average Australian household incomes. The impact will naturally be greater for frequent users of taxi services. Although many frequent users of taxis are likely to be high-income households, some low-income households are frequent users of taxis. The taxi transport subsidy scheme (TTSS) assists some low-income users of taxis.

1.3.2 Environment

The environmental impact of the increased fares recommended by the Tribunal is likely to be small. The State's taxi fleet of around 6,000 cabs is small compared to NSW's stock of over three million passenger motor vehicles. Each year Sydney residents make around one hundred times more trips by private motor vehicle than by taxi.

1.3.3 Financial impact

The fare rise recommended by the Tribunal will compensate the industry for the increase in costs over the period from March 2004 to March 2005. In making its fare recommendations, the Tribunal has focused on the industry's operators, drivers and customers rather than ancillary services and providers.

2 INTRODUCTION AND REVIEW PROCESS

In November 2002, the then Minister for Transport requested that the Tribunal investigate and report annually on **recommended maximum fares** for taxis, private buses and private ferries regulated under the *Passenger Transport Act 1990*. The request applies to each year up to and including 2007/08.

In conducting these investigations, the Tribunal is required to consider the terms of reference (Appendix 1) and submissions from key stakeholders and the general community.

2.1 Structure of report

This report explains the Tribunal's recommendations in detail, including why it reached its decisions and what those decisions mean for operators, drivers and customers. It is structured as follows:

- Chapter 3 provides an overview of submissions made to the Tribunal
- Chapter 4 presents and assesses cost changes in the urban and country taxi cost indices
- Chapter 5 summarises the Tribunal's recommendations on fare structures
- Chapter 6 discusses service quality issues and proposals to improve service quality
- Chapter 7 considers social, environmental and other issues.

The Tribunal members who undertook this review were Dr Michael Keating AC (Chairman), Mr James Cox (Chief Executive Officer and Full-time Member), and Ms Cristina Cifuentes (Part-time Member).

2.2 The Tribunal's review process

The Tribunal has made its price recommendations for NSW taxi fares in accordance with section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act).

The Tribunal's review included investigation of matters within its terms of reference and public consultation.

The Tribunal:

- advertised the review on 16 February 2005 and invited the Taxi Council and Transport Workers' Union to provide submissions by 31 March 2005 detailing pricing proposals and responding to other issues originally raised in the 2004 issues paper
- invited other interested parties to respond to the above submissions by 29 April 2005, and received eleven written responses (a list of respondents follows the Table of Contents; submissions were published on the Tribunal's website).

In addition, the Tribunal explicitly considered all the matters outlined in the terms of reference from the Premier. Appendix 1 contains the terms of reference and provides an index of section references for each of the matters discussed.

3 SUBMISSIONS

The chapter provides an overview of the submissions provided to the Tribunal. The submissions are available in full on the Tribunal's website.

3.1 NSW Taxi Council

The NSW Taxi Council claims to be the peak body representing all taxi groups in NSW. It is concerned with day-to-day operations of the industry such as fare increases, rank locations, industry training and regulatory issues and it is funded and supported by the NSW Taxi Industry Association, the registered association of employing contractors under the NSW Industrial Relations Act (for owners and operators).

The Taxi Council submitted that many of the issues raised in previous Tribunal reviews were currently being addressed in other forums. Those forums included the Taxi Reform Task Force and the Wheelchair Accessible Taxis (WATs) inquiry, both of which are being administered and chaired by the Ministry of Transport (MoT).

Because the Taxi Council was represented on both in-confidence bodies, it considered it inappropriate to canvass the same issues in the public Tribunal process.

3.1.1 Taxi cost indices

The Taxi Council submission concentrated on updating the taxi cost indices. Its original submission showed rises of 3.02 per cent and 3.24 per cent in the urban and country taxi cost indices respectively. The Council subsequently amended the submission to show rises of 3.10 per cent in urban index and 3.70 per cent in the country index. These are set out in Tables 3.1 and 3.2.

The Council submitted updated cost indices for the operation of urban and country taxis. For this review, the percentage changes relate to average costs in the 12 months ended March 2005 compared with average costs in the nine months ended March 2004.

After the 2004 review, the Tribunal asked the Council to improve the representativeness and the quality of the data it supplies. The Council agreed to obtain more quotes from suppliers for selected items and to increase collection frequency for a range of items. The extra confidential information supplied to the Tribunal for this review reflects that commitment.

3.1.2 Index weightings

The Tribunal decided not to alter the weighting patterns in either index in the previous review pending a new cost survey. Since that survey has yet to be undertaken, the Council suggested that no substantial new information on weights was available that might lead the Tribunal to alter the current weighting patterns during the course of this review.

3.1.3 Fare structure

The Council asserted that the fare structure was in reasonable balance early in the decade. It therefore recommended that the structure be returned to the relativities that existed in 2002, before the Tribunal adjustment to the urban radio booking fee to reflect tolls and before the addition of e-tags and the 'no destination' incentive (since removed) to urban fares.

Table 3.1 NSW Taxi Council: Proposed Urban Taxi Cost Index

Urban Operator Expenses	TC Costs March 04	TC Costs March 05	Percentage Change	Index Weights	Contribution to total fare change
Fixed Costs					
Vehicle Lease payments	\$9,466	\$9,788	3.40%	4.79%	0.16%
Insurance	\$13,665	\$14,300	4.65%	6.22%	0.29%
Govt Charges	\$786	\$797	1.40%	0.46%	0.01%
Network Fees	\$6,812	\$6,919	1.58%	3.41%	0.05%
Plate Lease cost	\$22,398	\$21,034	-6.09%	14.17%	-0.86%
Annualised Establishment Costs	\$1,866	\$1,849	-0.90%	0.60%	-0.01%
Variable Costs					
Maintenance Labour	\$9,477	\$10,385	9.58%	4.08%	0.39%
Vehicle Parts & Panels	\$11,320	\$11,469	1.31%	5.20%	0.07%
Cleaning	\$420	\$480	14.29%	0.23%	0.03%
Tyres	\$3,033	\$3,306	8.97%	1.61%	0.14%
Operator Salary Equivalent	\$13,520	\$13,982	3.42%	7.28%	0.25%
Driver entitlements	\$4,005	\$4,165	3.99%	2.17%	0.09%
Uniforms	\$2,428	\$2,382	-1.88%	1.50%	-0.03%
Other	\$3,675	\$3,765	2.44%	2.03%	0.05%
Driver Expenses					
LPG Fuel	\$13,371	\$15,267	14.18%	8.35%	1.18%
Notional Driver's Wages	\$67,069	\$69,363	3.42%	36.14%	1.24%
Cleaning	\$3,016	\$3,090	2.44%	1.77%	0.04%
Total*	\$186,328	\$192,341		100.00%	3.10%
Operator Component	\$102,872	\$104,621		53.74%	0.64%
Driver Component	\$83,456	\$87,719		46.26%	2.46%
Total*	\$186,328	\$192,341		100.00%	3.10%

* Note to Tables 3.1 and 3.2: Percentage change does not apply to the totals due to the differences between the 'index' weights and the relativities implied in the actual cost data.

Table 3.2 NSW Taxi Council: Proposed Country Taxi Cost Index

Country Operator Expenses	TC Costs March 04	TC Costs March 05	Percentage Change	Index Weight	Contribution to total fare change
Fixed Costs					
Vehicle Lease payments	\$9,171	\$9,883	7.77%	5.87%	0.46%
Insurance	\$7,407	\$8,113	9.52%	4.93%	0.47%
Govt Charges	\$786	\$797	1.40%	0.59%	0.01%
Network Fees	\$10,552	\$10,820	2.54%	6.97%	0.18%
Plate Lease cost	\$12,147	\$11,407	-6.09%	10.15%	-0.62%
Annualised Establishment Costs	\$760	\$753	-0.90%	0.48%	0.00%
Variable Costs					
Maintenance Labour	\$6,952	\$7,621	9.62%	4.09%	0.39%
Vehicle Parts & Panels	\$5,888	\$5,965	1.31%	3.02%	0.04%
Cleaning	\$2,319	\$2,376	2.44%	2.39%	0.06%
Tyres	\$2,167	\$2,361	8.97%	1.49%	0.13%
Operator Salary Equivalent	\$13,520	\$13,982	3.42%	9.47%	0.32%
Uniforms	\$2,421	\$2,376	-1.88%	1.95%	-0.04%
Other	\$3,392	\$3,475	2.44%	2.44%	0.06%
LPG Fuel	\$11,520	\$12,748	10.66%	9.12%	0.97%
Driver Expenses					
Notional Driver's Wages	\$52,845	\$54,651	3.42%	37.04%	1.27%
Total	\$141,846	\$147,328		100.00%	3.70%

Tables 3.3 and 3.4 compare the Council's suggested 2005 fares with current fares and with fares that ruled in 2002.¹ For urban taxis, the fares relative to the 2002 structure are shown below the heading 'Ratios to distance'. The Council requested that the ratio of radio booking fee to distance be restored to its 2002 relation of 0.86.

Table 3.3 Urban Taxi fares and components

URBAN	Actual 1-Jul-02	% change on 1-Jul-01	IPART		% change on 1-Jul-04	% change since 1-Jul-02
			Recommended 1-Jul-04	TC proposal 1-Jul-05		
Flagfall	\$2.55	4.08	\$2.75	\$2.85	3.64	11.76
Distance (per km)	\$1.45	5.07	\$1.56	\$1.61	3.21	11.03
Radio	\$1.25	8.70	\$1.45	\$1.40	-3.45	12.00
Waiting time (per hour)	\$37.35	0.67	\$40.91	\$41.40	1.20	10.84
Average Fare	\$14.82	4.39	\$16.01	\$16.47	2.90	11.15
Ratios to Distance						
Flagfall	1.76			1.77		
Distance (per km)	1.00			1.00		
Radio	0.86			0.87		
Waiting time (per hour)	25.76			25.71		

Table 3.4 Country taxi fares and components

COUNTRY	Actual 1-Jul-02	% change on 1-Jul-01	IPART		% change on 1-Jul-04	% change since 1-Jul-02
			Recommended 1-Jul-04	TC proposal 1-Jul-05		
Flagfall	\$3.05	3.39	\$3.20	\$3.30	3.12	8.20
Distance (per km, <12kms)	\$1.51	4.86	\$1.61	\$1.66	3.11	9.93
Radio	\$0.75	15.38	\$0.85	\$0.90	5.88	20.00
Waiting time (per hour)	\$37.35	0.67	\$40.91	\$42.23	3.23	13.07
Average Fare	\$9.82	3.94	\$10.50	\$10.84	3.25	10.37

(The calculation of the 'average fare' assumes, for urban taxis, one flagfall, a 7km trip, 1 phone booking per 5 trips and 3 minutes waiting time. For country taxis the assumptions are one flagfall, a 3km trip, one phone booking per 2 trips and 3 minutes waiting time.)

3.2 Transport Workers' Union (TWU)

The Transport Workers Union (TWU) represents transport workers in various industries and is the registered association of bailee taxi drivers in the Greater Sydney Metropolitan Region under the NSW Industrial Relations Act.

The TWU submission asserts that the existence of the Taxi Industry Contract Determination² obligates the Tribunal to consider the interests of bailee drivers "in relation to their real costs" and in relation to a "reasonable wage" for drivers in the industry.

¹ The fares in the column headed "TC proposal 1 Jul-05" are based on the Council's original submission. The Council did not submit fares consistent with its recent amendments to the cost indices.

² The Determination is made by the NSW Industrial Relations Commission (IRC). The IRC determines the maximum "pay-ins" per shift that operators may charge drivers to hire (or bail) their taxis plus driver entitlements for annual and sick leave.

It also requests that the Tribunal compile “accurate and realistic” data rather than relying on data supplied by the Taxi Council. It cites former Taxi Council CEO Mr John Bowe’s evidence at the NSW Industrial Relations Commission (IRC) that 70 per cent of permanent drivers do not receive their entitlements. The TWU submission claims that this indicates that the Taxi Council presents unreliable data to the Tribunal and reinforces its view that data should be collected independently of both the Council and the TWU. Further, it suggests that the terms of reference of this review bestow on the Tribunal investigative power that would enable it to collect the data itself. In response to the TWU submission, the Council has pointed out that driver entitlements, if not paid, remain contingent liabilities on operators [until six years have elapsed].

The TWU expressed reservations about several items in the urban Taxi Cost Index:

1. That the basis of the calculation of the cost item *Drivers’ Notional Wages* is unclear. It notes that the Tribunal’s 2001 report made reference to the ICRC review of ACT taxi fares where “bailee driver labour represents between 40 and 50 per cent of total operating costs. For the purposes of this review the Tribunal has assumed 40%.”³
2. That the absolute dollar costs attributed to the representative urban taxi operator in the urban Taxi Cost Index (\$101,053 in IPART’s 2004 report) are inconsistent with the maximum pay-ins that same operator can receive if his taxi is driven for 5 day shifts and 6 night shifts for 47 weeks of the year (\$78,217).
3. That the assumptions are questionable which underline the calculation of the LPG fuel cost in the index. The use of air-conditioning, Sydney road congestion and inefficient vehicle maintenance may significantly affect fuel consumption. In addition, distance travelled in a year depends on how many weeks of the year the vehicle is on the road.
4. That the GOGAS fuel prices may not take the “regular price spikes” into account and that the item Cleaning is poorly measured.

3.3 NSW Taxi Drivers’ Association (TDA)

The NSW Taxi Drivers Association argued that the Tribunal should “recommend fares at a level that considers all the industry’s actual and verifiable costs and [that] values the labour component at least at the hourly award rate for taxi drivers”.⁴

Consistent with its emphasis on taxi revenue and driver incomes, the TDA:

- Offered two models of costs and revenues of an average taxi – one owner-driven, the other operated from a base. The models make explicit assumptions about the number of passenger trips, hours and shifts and kilometres travelled. The TDA noted inconsistencies in the ways total urban taxi trips per annum are currently estimated.
- Made comments on various costs that drivers incur – such as bailment pay-ins, fuel, wash, GST and other operating expenses - and estimated driver net taxable income.
- Provided unsubstantiated costs for operators which it compared with those used in the Tribunal’s 2004 report and offered by the Taxi Council this year.
- Highlighted some issues (such as low number of radio bookings per shift, high percentage of ‘No passenger at location’, low ratio of complaints to trips, the wide

³ IPART, *Report to the NSW Minister for Transport*, July 2001, pp v and 25.

⁴ *Taxi Drivers Association*, submission, p.3

spread in jobs per taxi from 210 to 1,449 per quarter) that the the TDA drew from the industry-wide network data provided to the Tribunal by the MoT.

In a second submission, the TDA commented on aspects of the NSW Industrial Relations Commission decisions of 4 May 2005 that related to e-tags, calculation of driver entitlements and occupational superannuation for drivers.

The IRC decided that driver superannuation payments are to be based on actual driver incomes as revealed to operators in their quarterly Business Activity Statements. Further, that the payments should only commence upon implementation of an IPART-recommended fare increase.

The TDA argued therefore that the IRC decision to grant superannuation to urban drivers required a cost-related one-off fare adjustment of around 70 cents per urban fare, based on the TDA's calculations. The TDA has used estimates of driver income based on a small number of driver records and assumptions about number of shifts worked by drivers per week, number of weeks worked per year, number of trips per shift and an average fare.

3.4 Independent Accredited Taxi Operators (IATO)

The IATO group comprises 48 operators of 710 taxis (either leased or owned).

The group noted that operator income per taxi is well below estimates that might be derived from maximum pay-ins because a driver shortage has caused actual pay-ins to be well below the maximums.

IATO noted that competitors to taxis, including tourist vans, minibuses, hire cars and hotel and airport shuttles are not subject to the high costs of vehicle registrations, inspections and insurance - whether greens slips, third party property damage or comprehensive insurance. Workers' compensation insurance was also much higher for taxis. IATO argued that the way forward was to reduce these costs, and the regulatory charges and the network fees faced uniquely by taxi operators and drivers.

The group provided estimates of some of the costs of operating a Sydney taxi. The estimates are difficult to compare with those in the urban taxi cost index because of different underlying assumptions regarding kilometres travelled (175,000kms in the urban index compared to 126,000kms to 154,000kms asserted to be applicable to the IATO data) and tyre wear. Some items have similar assumptions and result in similar estimates in the index and the IATO data eg insurance, network fees and Government charges.

3.5 Council of Social Service in NSW (NCOSS)

The Council of Social Services in NSW represents the interests of low-income households in the state. According to NCOSS, low income households use taxis for travel to work, shops, doctors and recreational facilities. NCOSS estimates that the taxi industry provides between 15 and 20 million trips a year to low income passengers and that fewer than 5 per cent of these are subsidised by Government. About 1.4m trips are subsidised at a maximum of \$30 per trip via the Taxi Transport Subsidy Scheme (TTSS) which is open to people with permanent disabilities and is not income-tested as such.

NCOSS recommended that the Tribunal consider improving the affordability and performance of the industry by considering the introduction of a 25 per cent lower off-peak week day fare (the Council issued a press release to this effect on 2 May), either for concession card holders or in general. Alternatively, it proposed that the industry or the Government grant concessions to certain passengers.

The Council saw difficulties with any proposed “per piece” luggage fees for shoppers and people with mobility aids or collapsible strollers but thought a fee for heavy items that require driver assistance would be reasonable.

It lamented the lack of public performance data on wheelchair accessible taxis and an independent complaints mechanism. It cites two examples of the difficulties in using taxis by people in residential care and visiting prisoners.

3.6 Other public submissions

Several short submissions from the general public mentioned a desire for higher subsidies (including the introduction of half-price fares) and one person noted the unavailability of taxis in her local suburban area.

On service standards, one submission suggests that all new cabs should be wheelchair accessible and that drivers not be allowed to reject wheelchair jobs irrespective of the fare. This submission also suggests that more frequent inspections, less restrictive kerbside requirements for wheelchair accessible taxis, a higher TTSS per trip and higher flagfalls and an incentive booking fee for on-time pick-ups.

On premium services, one submission stated that a higher than normal booking fee should *not* be considered for premium taxi services asserting that four out of five luxury cab bookings would be lost if a surcharge was introduced.

On fares in general, the same submission argued that the following items have not been adequately considered:

- the impact of shuttle buses on work for taxis at Sydney airport
- reduction in business travel
- the considerable relative drop in the price of small cars
- the much smaller size of the number of main taxi users in the under 35 age group
- decentralisation of entertainment in 24-hour licensed premises and large cinema complexes in suburban hubs reducing the number of long fares
- increased delays caused by computerised booking systems that allow drivers to remain high in a suburb queue while taking a job elsewhere - hence jobs are often offered to the top car in the queue when it is outside the suburb in question.

4 TRIBUNAL ASSESSMENT OF TAXI COST INDICES

In this chapter, the Tribunal assesses the cost index items in the order they appear in the taxi cost indices and explains the basis for any amendments it has made to the cost items.

The Tribunal's approach was to investigate and assess whether the change in the cost of each item submitted by the Taxi Council was based on information that was:

1. *consistent* with the description of the item in the relevant cost index in previous years
2. *representative* of the class of costs for which the items were selected, and
3. *verifiable* as to the size of the change.

Each individual cost item is discussed below. In order to satisfy itself that the cost changes submitted by the Taxi Council met the above three criteria the Tribunal made its own enquiries on many items.

In each case the average level of costs in *the year* to March 2005 was compared with the average level during the *nine* months to March 2004. The difference in time period reflects the fact that the delayed 2003 review covered 15 months of data to end-June 2003, leaving only nine months of data, to end-March 2004, for the 2004 review.

4.1 Vehicle lease costs

Vehicle lease costs reflect part of the capital investment required to put a taxi into service. The calculation of the annual lease cost in the taxi cost indices is based on the following assumptions:

- the vehicle cost is taken to be the average cost of Ford Falcon Forte and Futura vehicles
- in urban areas 50 per cent of vehicles are assumed to be new vehicles, 50 per cent two year old second hand vehicles. In country areas all vehicles are assumed to be two year old second hand vehicles
- the purchase is financed at market lease rates on vehicles
- the term of the lease is 5 years for new vehicles and 4 years for second-hand vehicles
- there is a residual value of 10 per cent at the end of the lease.

4.1.1 Tribunal assessment

The Tribunal has made no change to the method for deriving vehicle lease costs. However, the appropriate interest rate has been updated to reflect the tightening in monetary policy that occurred after the Taxi Council submitted its data.

Vehicle prices

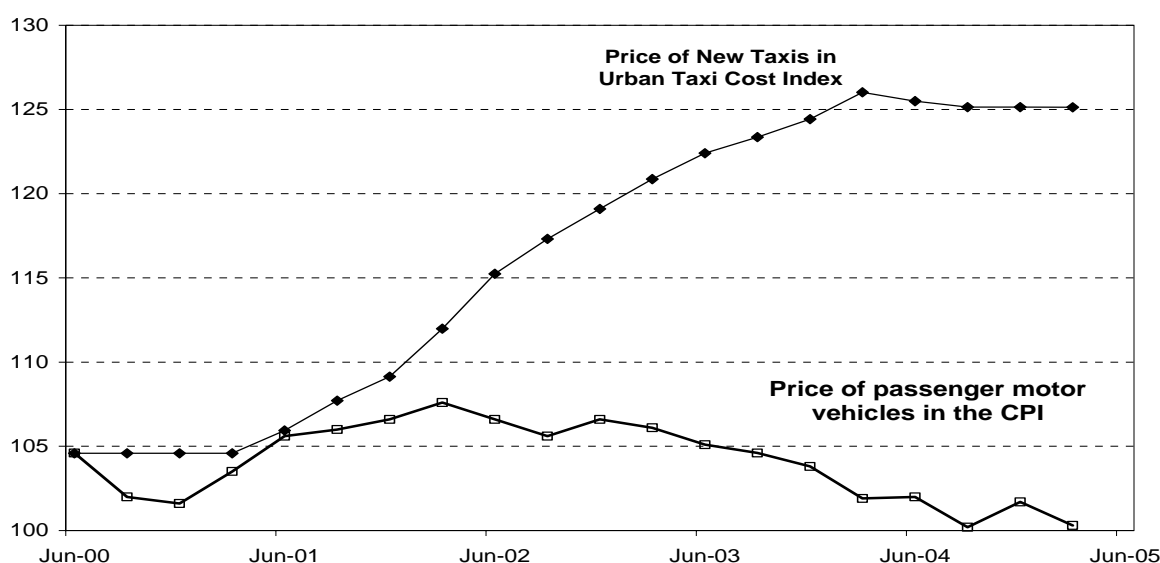
As was the case last year, the TC obtained new vehicle prices for a "taxi pack" from Ford Australia. The Tribunal verified the source of the Ford quotes and compared them to the prices on www.drive.com.au where new car prices were quoted at \$34,255 for a Ford Forte and \$38,260 for a Futura. The website did not state whether the vehicles were fitted for LPG.

In any case, since both prices were higher than the quotes from Ford Australia, the Tribunal accepts that the new vehicle prices used in the index are reasonable.

Less satisfactory is the fact that the Tribunal has not been able to find another reliable source of quotes for second-hand cars. Despite their large 7.8 per cent average rise, in the absence of better information, the Tribunal accepts the www.drive.com.au quotes supplied by the Taxi Council.

A long-running concern has been the fact that the prices of new taxis in the taxi cost index have continued to rise relative to the prices of new passenger motor vehicles (PMVs) as measured by the Consumer Price Index (Figure 4.1). Since mid-2001, the price of new taxis has risen 18.1 per cent and the price of PMVs in the CPI has fallen 5.0 per cent.

Figure 4.1 Quoted prices of new taxis and prices of PMVs in the CPI



Sources: NSW Taxi Council submissions to IPART, various; Australian Bureau of Statistics. The taxi price series has been scaled to the index for PMV prices in the CPI.

The flattening in new taxi prices from June 2004 may signal an end to further divergence although the average price of PMVs in the CPI fell more during the last 12 months (by 1.6 per cent) than new taxi prices (down 0.7 per cent).

Interest rate assumptions

In 2003, the Tribunal accepted that most new taxi leases are financed under commercial hire purchase agreements. The Tribunal also accepted that the variable rate on revolving loans secured by residential property - shown as 'home equity' loans in the Reserve Bank's *Bulletin* - was the closest, most readily-available, published equivalent to the likely movement in the hire purchase rate. It also used the change in this rate in its 2004 review.

The average home equity loan rate for the 9 months to March 2004 was 6.95 per cent and 7.22 per cent in the 12 months to March 2005. The Tribunal has therefore increased the vehicle lease rate from last year's lease rate by this 0.27 percentage points difference, thereby increasing the lease rate from 9.25 per cent to 9.52 per cent.

The result of the adjustment to the lease rate is to increase the cost of vehicle leases to \$9,845 or a rise of 4.00 per cent for urban taxis. The Tribunal accepts that average vehicle lease costs have risen by 4.00 per cent.

For country taxis, the Tribunal accepts a rise of 8.34 per cent. That exceeds the rise in leases for urban taxis because only second-hand prices are used in the country index whereas the urban index item is moderated by a 50 per cent weighting to new vehicles, the average value of which fell in price over the period.

4.2 Insurance costs

Insurance costs reflect the various forms of insurance that taxi operators carry, including third party (greenslip), third party property or comprehensive car insurance, and workers compensation insurance.

The Taxi Council submitted a wide range of increases in various categories of insurance. Overall, the increase in insurance for an urban taxi was 4.65 per cent and for country taxis 9.52 per cent. These increases contrast with the 1.10 per cent rise in *household* insurance services in the sub-component of the CPI over the same period.

The urban index assumes that half of urban operators purchase comprehensive insurance and half purchase third party property damage only insurance. The country index assumes that all taxis have comprehensive insurance.

Last year the Tribunal was concerned that there was only one source of insurance quotes (provided by Zurich) and it requested the Taxi Council to provide a second set wherever possible. In response, the Council provided a quotation from Barry Stowe Insurance Brokers Pty Ltd, which advertises in the Taxi Council's official magazine *Taxi*. The quotes covered comprehensive insurance for new and used taxis and greenslips for Sydney taxis only.

The comprehensive insurance costs used in the urban index (based on the Zurich quotes) are 15-20 per cent higher than the alternative quotes. The differences in level add weight to the idea that a full review of the cost indices would be timely.

The Tribunal accepts the movements in the insurance component of the cost indices for urban and country taxis proposed by the Taxi Council. (In 2006, the Tribunal will be able to calculate the percentage change in the quotes from Barry Stowe Insurance Brokers and compare the change with changes in the Zurich quotes.)

4.3 Government charges

This item includes vehicle registration and operator licence accreditations. Annual vehicle registration costs are set by the Roads and Traffic Authority, accreditation renewal fees by the MoT. Taxi registration has increased 2.1 per cent to \$537 and the operator accreditation fee has remained unchanged. In sum, government charges rose 1.40 per cent.

Having verified the above costs, the Tribunal accepts the rise of 1.40 per cent in the government charges cost item.

4.4 Network fees

All operators are required by law to belong to an authorised network. Each authorised network provides a range of services to operators, including GPS tracking and phone bookings, lost property, complaint handling and government liaison.

For the urban cost index, the Taxi Council provided network fees for eight Sydney networks (covering a total of 4,875 taxis), and one network in each of Newcastle (158), Wollongong (137) and the Central Coast (84).

Changes to network fees for the Sydney networks were minimal. Network fees for Newcastle and Central Coast rose 13.07 per cent and 12.41 per cent respectively. Because the two non-Sydney networks cover only a small number of taxis, the weighted average rise in urban taxi network fees was 1.35 per cent (to \$6,904 or \$575 per month).

For country index, quotes for network fees covered six country towns (139 taxis). The towns were Albury, Armidale, Bathurst, Coffs Harbour, Tamworth and Wagga Wagga. Based on the quotes, country network fees rose 2.54 per cent (to \$10,820 or \$902 per month).

As stated in previous years' reports, the Tribunal has not been able to satisfy itself that actual network costs are efficient or that the services that networks are required to provide are meeting the needs of their operator and driver clients. In the absence of such evidence, the Tribunal accepts the change in network fees as submitted by the Council.

4.5 Plate lease costs

Taxi plate (or licence) lease fees refer to the cost of leasing a taxi plate. The lease cost is calculated using two components: a plate lease interest rate and average prices on the actual sale and purchase of plates (known as plate transfer values).

4.5.1 Interest rate

As in the past, the lease rate was provided by Arab Bank Australia, a major lender to investors in taxi plates. The Tribunal has verified with Arab Bank a 0.25 per cent increase in the rate to 8.70 per cent in step with the rise in the RBA official cash rate on 2 March 2005.

4.5.2 Plate Values

For Sydney taxis, the Taxi Council has averaged monthly plate transfer values supplied by the MoT over the period April 2004 to March 2005. The average value was \$248,082, or 9.00 per cent lower than the average over the previous relevant period (July 2003 to March 2004).

For Wollongong, Newcastle and the Central Coast, the Council provided a list of monthly average plate transfer values: Wollongong plate sales averaged \$178,677 (-5.5 per cent), Newcastle \$125,551 (+5.0 per cent) and Central Coast \$197,083 (-16.5 per cent).

However, the Tribunal does not use the monthly average method.⁵ Instead, after removing transactions that took place at non-market values (such as transfers of deceased estates or transactions that appeared to include some value for the vehicle as well as the plate), the Tribunal averaged *all* remaining plate transfer values provided to it by the MoT. The average Sydney taxi plate transfer value was \$245,256 over the period, or 10.0 per cent lower than the average over the nine months to March 2004.

Likewise, for Wollongong, Newcastle and Central Coast, the Tribunal calculated the averages of all plate transfer transactions of which there were six for Wollongong, ten for Newcastle and two for the Central Coast.

The Tribunal's calculations resulted in a fall in plate lease costs for urban taxis of 7.10 per cent, slightly larger than the fall of 6.09 per cent provided by the Council.

As was the case in last year's fare review, the Taxi Council has used the increase in urban plate lease costs to update plate lease costs in the country model to March 2005. This approach was also adopted by the Tribunal last year.

For country taxis, the MoT provided plate transfer values for the period 1 April 2004 to 28 February 2005. There were 50 transactions across a range of country towns. The average value of the transactions was \$149,489. However, the range was extremely wide and unexplained, varying from \$15,000 at Gilgandra to \$364,000 at South West Rocks on the North Coast of NSW.

Because of the wide variation in plate transfer values and the lack of previous year's data from which to construct a change in values, the Tribunal has decided to maintain the same approach used in last year's review and apply the fall in urban plate lease costs of 7.10 per cent to country plate lease costs.

The resultant 2005 country lease cost is \$11,284. As a cross-check, it is worth noting that if that cost were capitalised by the current 8.70 per cent taxi plate finance rate obtained from the Arab Bank, the capital value of a country taxi plate would be \$129,703. This is considerably less than the \$149,489 average of plate transfer values in 2005 supplied by the MoT and suggests further research by the Tribunal is appropriate when 2006 plate transfer values for country taxis are supplied to it.

4.6 Establishment costs

Establishment costs refer to the costs incurred in preparing a vehicle to operate as a taxi. These costs include the installation of roof signs, a meter, a payments mechanism, livery, safety camera and a phone booking system.

During 2004, the Tribunal raised concerns about the wide variation in prices for these items quoted across different geographical areas. As a result, the Council obtained more quotations for various items. The quotes may now be more representative, but gaps remain in the data, particularly for the urban regional areas that exhibit very large percentage

⁵ The Taxi Council data on "monthly averages" were actually the average of the last three transactions, regardless of when those three transactions took place. From the Tribunal's point of view, the 'data' supplied to the Council are not a meaningful way of measuring prices in monthly terms.

variations between years. This may suggest that the quotes are not directly comparable between years due to the inclusion or exclusion of items, especially labour.

That said, the changes in establishment costs are heavily weighted towards changes in Sydney costs. This significantly reduces the effect of wide regional variations on the index. Moreover, this item has only a small weighting in the cost index.

As has been the case in previous reviews, the Taxi Council has not obtained quotations for this item for country areas. Instead, it has applied the percentage change in this item in the urban index. The Taxi Council submits that annual establishment costs for urban taxis have fallen 0.9 per cent over the relevant period.

The Tribunal accepts the 0.90 per cent fall in this item as proposed by the Council.

4.7 Maintenance labour

The cost of labour needed to maintain taxis depends on the number of major services, the hours of labour per service, the hours of maintenance required between services and the labour cost per hour.

Following discussions with the Tribunal on measures to improve the representativeness of cost changes reflected in the cost index, the Council contacted not one, as in previous reviews, but four service departments of Ford dealers in Sydney. One quote was also obtained from Ford dealerships in each urban regional area.

The Tribunal has verified three of the four quotes for Sydney. The fourth was slightly lower than that obtained by the Tribunal; the difference may be due to the later timing of the Tribunal's enquiry. For the urban regional quotes obtained by the Council, the figures verified by the Tribunal were all higher. The Tribunal has altered the urban index to reflect the quotations it has verified so that the rise in maintenance labour in the urban index is 11.04 per cent (rather than the Council's estimate of 9.58 per cent).

For country taxis, the Taxi Council obtained retail maintenance labour quotes from the same six country dealers as for last year's review - one dealer in each of Albury, Armidale, Bathurst, Coffs Harbour, Tamworth and Wagga Wagga.

During the verification process, the Tribunal found that one quote was lower than provided by the Council. Replacing it trimmed the overall rise in maintenance labour from 9.62 per cent to 8.39 per cent.

Two other matters are worth noting. First, the Taxi Council provided alternative quotes for Albury and Bathurst that were considerably lower than the Ford dealership quotes. The alternative quotes, obtained for the first time, will provide some comparison next year when percentage changes in them can be calculated and compared with the ones from Ford dealers.

Second, in contrast to the large increases in the quotations above, the Tribunal notes that the cost of the motor vehicle repairs and servicing component of the CPI rose by an average 2.64 per cent over the relevant period. The Council was unable to explain the large divergence between the rise in the CPI sub-group and industry maintenance labour rates as collected.

The Tribunal accepts that there is evidence of labour shortages in some industries and occupations, mostly in the form of unpublished data and general media commentary, including comments made early in 2005 by the Reserve Bank of Australia.⁶ But that does not account for a large difference between taxi industry vehicle labour rates and motor vehicle repair and servicing costs across the nation.

This is the second consecutive year that the rise in maintenance labour rates has far outstripped rises in the CPI sub-group 'Motor vehicle repairs and servicing'. Although the Tribunal accepts the 11.04 per cent rise in urban maintenance labour and an 8.39 per cent increase in country maintenance labour for the purposes of this review, the divergence underscores the need for ongoing appraisal of an index approach that uses changes in industry costs as its primary measure of percentage changes.

4.8 Vehicle parts and panels

Consistent with the approach adopted by the Tribunal last year, the change in the motor vehicle parts and accessories component of the CPI has been applied to this cost item for both urban and country indices. The Taxi Council measured the rise in this CPI component as 1.3 per cent. The appropriate measure (12 months to March 2005 compared with the 9 months to March 2004) yields a rise of 0.72 per cent. The Tribunal has amended the urban and country indices to reflect the change.

4.9 Cleaning

Drivers and operators are required to have a clean vehicle at all times. Operators detail their vehicles prior to inspection three times a year in urban areas and twice a year in the country. Operators also pay for daily cleaning in country areas.

For the urban index, the Taxi Council provided a quote from www.carcare.net.au for car detailing at \$160. That is a rise of 14.29 per cent on last year. The Tribunal accepts the Council's submitted change in this item for the urban index, noting that operator "cleaning" carries a very small weight (0.23 per cent) in the index.

The Council did not provide quotes for cleaning costs in the country index. Instead, it used a 2.44 per cent rise, the same rate it applied to 'Other' in both indices, based on the rise in the Sydney CPI from June quarter 2004 to March quarter 2005. The correct calculation is a rise of 2.18 per cent and the country index has been amended accordingly.

4.10 Tyres

This cost item assumes that the average urban taxi travels 175,000kms a year, the average country taxi travels 125,000kms a year and that average tyre life is 30,000kms. This year, in response to a request from the Tribunal for more information, the Council obtained not one but three independent quotations for the cost of a Dunlop Monza 200R tyre. In January, its average price was \$141.67. By April, when the Tribunal obtained quotations from

⁶ The May index of skilled vacancies, published by the Department of Employment and Workplace Relations, shows that the highest peak in the ratio of automotive trades to total skilled vacancies in the past 15 years occurred in the second half of 2004.

Beaurepaires, Jax Tyres and Bob Jane T-Marts, the average price was \$145.67. The Tribunal has adopted the later quotes, so that the rise in the index item is 12.05 per cent.

Although anecdotal evidence suggests that less expensive re-treads are extensively used by operators, the Tribunal has no evidence that suggests the percentage change based on the present approach of using new tyre prices is misleading.

4.11 Operator's salary equivalent

Operator salary equivalent recognises the operator's labour expended to operate a taxi business. The change in this item is proxied by changes in the ABS Labour Price Index for NSW. Now that the March quarter data have been released, the relevant increase in the Labour Price Index is 2.95 per cent. The Tribunal has amended the index accordingly.

4.12 Driver entitlements

This item allows for driver entitlements for permanent bailee drivers. Permanent drivers receive five weeks annual leave and eight days of sick leave per annum according to the NSW Industrial Relations Commission (IRC) Contract Determination. From December 2004, the IRC ruled that holiday and sick leave rates were increased by 3.99 per cent. The Tribunal accepts these changes to the cost of driver entitlements.

4.13 Uniforms

The cost of uniforms is represented by the clothing and footwear component of the Sydney CPI. The Taxi Council submitted a change of -1.88 per cent measured from March quarter 2004 to March quarter 2005. The correct measure is a fall of 0.62 per cent. The Tribunal has amended the cost index accordingly.

4.14 Other operator costs

Costs that fall into the 'other' category include office equipment, telephone, professional services and training costs. Last year these costs were adjusted by the change in the Sydney CPI. The correct measure rose 2.18 per cent. The Tribunal has amended the cost index accordingly.

4.15 LPG fuel

Detailed LPG fuel data provided to the Taxi Council by GoGas showed that LPG fuel prices were higher by 14.18 per cent for urban taxis and 11.66 per cent for country taxis in the year to March 2005 (compared to the nine months to March 2004). The automotive fuel (mostly petrol) component of the Sydney CPI increased by 11.2 per cent. The Tribunal accepts the detailed data provided from GoGas and the rises measured by it.

4.16 Drivers' notional wages

"Drivers' notional wages" is the opportunity cost or notional price taxi drivers must be paid if they are to be induced to drive taxis rather than leave the industry. Changes in the cost item are measured by changes in the NSW Labour Price Index. As discussed under 'Operator salary equivalent', the index rose 2.95 per cent over the relevant period.

4.17 Cleaning

For urban taxis, driver-funded cleaning costs constitute a daily vehicle wash, having regard to MoT regulations. Consistent with last year’s approach, the Tribunal has used the 2.18 per cent rise in the Sydney CPI, as noted under ‘Other’ operator costs. The same rise is applied to the daily wash component under operators’ cleaning costs in the country index.

4.18 Summary of Tribunal’s assessment of the cost indices

The Tribunal’s review of the cost indices submitted by the Taxi Council has resulted in increases in the amended urban index of 2.86 per cent and the amended country index of 3.49 per cent (Tables 4.1 and 4.2).

The 2.86 per cent rise in the urban index results from contributions of 0.57 percentage points from operator costs and 2.29 percentage points from driver costs (last column Table 4.1). The operator contribution is generated by a 1.07 per cent rise in operator costs which carry a 53.74 per cent weight in the index. The driver contribution is generated by a 4.95 per cent rise in driver ‘costs’ which carry a 46.26 per cent weighting.⁷

4.18.1 Implications for operators and drivers

- If urban taxi operators were to be exactly compensated for the rise in their costs as measured in this review, the pay-ins from bailee drivers would have to be increased on average by 1.07 per cent. If the marginally higher increase in fares were shared between operators and drivers, operator pay-ins would still rise by **1.07** per cent.
- Drivers would retain the balance of the fare increase, reflecting the rise in their ‘costs’ of 4.95 per cent plus an extra 0.01 percentage point for their proportionate share of the fare increase in excess of the rise in costs.

⁷ The rises of 1.07 per cent and 4.95 per cent are derived from the weighted changes in the individual operator and driver cost items where the weights used are those shown in Table 4.4. They cannot be calculated by comparing the total operator or driver costs in March 2005 with those in March 2004 because these totals do not reflect the weighting pattern used in the index. The correct derivation of the actual percentage rises in operator and driver costs are shown in the bold type below.

	Weights operator only	Weights driver only	average change in operator costs	to average change in driver costs
Vehicle Lease payments	8.91%		0.36%	
Insurance	11.57%		0.54%	
Govt Charges	0.85%		0.01%	
Network Fees	6.35%		0.09%	
Plate Lease cost	26.36%		-1.87%	
Annualised Establishment Costs	1.11%		-0.01%	
Maintenance Labour	7.60%		0.84%	
Vehicle Parts & Panels	9.68%		0.07%	
Cleaning	0.42%		0.06%	
Tyres	2.99%		0.36%	
Operator Salary Equivalent	13.55%		0.40%	
Driver entitlements	4.03%		0.16%	
Uniforms	2.79%		-0.02%	
Other	3.78%		0.08%	
Operator total costs	100%		1.07%	
Driver Expenses				
LPG Fuel		18.04%		2.56%
Drivers’ Notional Wages		78.13%		2.30%
Cleaning		3.83%		0.08%
Drivers’ total costs		100%		4.95%

Table 4.1 Tribunal's amended urban taxi cost index

Urban Operator Expenses	Percentage Change	IPART March 2004	IPART March 2005	Index Weights	Contribution to total fare change
Fixed Costs					
Vehicle Lease payments	4.00%	\$9,545	\$9,926	4.79%	0.19%
Insurance	4.65%	\$13,692	\$14,329	6.22%	0.29%
Govt Charges	1.40%	\$786	\$797	0.46%	0.01%
Network Fees	1.35%	\$6,757	\$6,848	3.41%	0.05%
Plate Lease cost	-7.10%	\$22,397	\$20,806	14.17%	-1.01%
Annualised Establishment Costs	-0.90%	\$1,519	\$1,505	0.60%	-0.01%
Variable Costs					
Maintenance Labour	11.04%	\$7,963	\$8,842	4.08%	0.45%
Vehicle Parts & Panels	0.72%	\$11,320	\$11,402	5.20%	0.04%
Cleaning	14.29%	\$420	\$480	0.23%	0.03%
Tyres	12.05%	\$3,034	\$3,399	1.61%	0.19%
Operator Salary Equivalent	2.95%	\$13,520	\$13,919	7.28%	0.21%
Driver entitlements	3.99%	\$4,005	\$4,164	2.17%	0.09%
Uniforms	-0.62%	\$2,421	\$2,406	1.50%	-0.01%
Other	2.18%	\$3,675	\$3,755	2.03%	0.04%
Driver Expenses					
LPG Fuel	14.2%	\$13,391	\$15,290	8.35%	1.18%
Drivers' Notional Wages	2.95%	\$67,069	\$69,048	36.14%	1.07%
Cleaning	2.18%	\$3,016	\$3,082	1.77%	0.04%
Total		\$184,530	\$190,000	100%	2.86%
Operator Component		\$101,054	\$102,580	53.74%	0.57%
Driver Component		\$83,476	\$87,420	46.26%	2.29%
Total				100%	2.86%

Table 4.2 Tribunal's amended country taxi cost index

Country Operator Expenses	Percentage Change	IPART March 04	IPART March 05	Index Weights	Contribution to total fare change
Fixed Costs					
Vehicle Lease payments	8.34%	\$9,171	\$9,936	5.87%	0.49%
Insurance	9.52%	\$7,514	\$8,229	4.93%	0.47%
Govt Charges	1.40%	\$786	\$797	0.59%	0.01%
Network Fees	2.54%	\$10,527	\$10,794	6.97%	0.18%
Plate Lease cost	-7.10%	\$12,146	\$11,284	10.15%	-0.72%
Annualised Establishment Costs	-0.90%	\$760	\$753	0.48%	0.00%
Variable Costs					
Maintenance Labour	8.39%	\$6,916	\$7,497	4.09%	0.34%
Vehicle Parts & Panels	0.72%	\$5,888	\$5,930	3.02%	0.02%
Cleaning	2.18%	\$2,364	\$2,416	2.39%	0.05%
Tyres	12.05%	\$2,167	\$2,428	1.49%	0.18%
Operator Salary Equivalent	2.95%	\$13,520	\$13,919	9.47%	0.28%
Uniforms	-0.62%	\$2,421	\$2,406	1.95%	-0.01%
Other	2.18%	\$3,392	\$3,466	2.44%	0.05%
LPG Fuel	11.66%	\$11,524	\$12,868	9.12%	1.06%
Driver Expenses					
Drivers' Notional Wages	2.95%	\$52,845	\$54,404	37.04%	1.09%
Total		\$141,941	\$147,126	100.00%	3.49%

Table 4.3 Summary of amendments to urban taxi cost index

	Total change (%)
Taxi Council submission	3.10
Increase in interest rate on vehicle lease costs by 0.27 per cent	3.13
Make correction to network fees for Central Coast	3.12
Updating plate transfer values for March 2005 data	2.98
Adjust Maintenance Labour cost for verified Ford quotes	3.04
Update Vehicle parts and panels cost for March quarter CPI	3.01
Adjust Tyres cost for updated and verified quotes	3.06
Update Operator salary equivalent for March quarter labour price index	3.02
Update Uniforms for March quarter CPI	3.04
Update Other operator costs for March quarter CPI	3.04
Update Drivers' cleaning costs for March quarter CPI	3.03
Update Drivers' notional wages for March quarter labour price index	2.86
IPART amended index	2.86

Table 4.4 Summary of amendments to country taxi cost index

	Total change (%)
Taxi Council submission	3.70
Increase in interest rate on vehicle lease costs by 0.27 per cent	3.73
Updating plate lease cost change to reflect urban taxi index	3.63
Adjust Maintenance Labour cost for verified quotes	3.58
Update Vehicle parts and panels cost for March quarter CPI	3.56
Update Cleaning costs for March quarter CPI	3.56
Adjust Tyres cost for updated and verified quotes	3.60
Update Operator salary equivalent for March quarter labour price index	3.56
Update Uniforms for March quarter CPI	3.58
Update Other operator costs for March quarter CPI	3.58
Make correction to LPG fuel cost	3.67
Update Drivers' notional wages for March quarter labour price index	3.49
IPART amended index	3.49

5 FARE RECOMMENDATIONS

This chapter recommends increases in the individual fare components that result in an average increase that reflects the increase in the cost indices over the relevant period.

Because of the practicalities of metering, the average increase in fares recommended by the Tribunal for urban and country services (2.87 per cent and 3.48 per cent respectively) differs from the movements in the relevant indices (2.86 per cent and 3.49 per cent respectively).

5.1 Summary of fare recommendations

5.1.1 Fare structures

The Tribunal's recommendations for urban and country taxi fares are shown below.

Table 5.1 Recommended urban taxi fare structure

URBAN	IPART Recommended 1-Jul-04	No dest. trial ended mid-Nov-04	IPART Recommended 1-Jul-05	% change on 1-Jul-04	% change since 1-Jul-02
Flagfall	\$2.75	\$2.75	\$2.80	1.82	9.80
Distance (per km)	\$1.56	\$1.56	\$1.62	3.85	11.72
Radio	\$1.45	\$1.15	\$1.40	-3.45	12.00
Waiting time (per hour)	\$40.91	\$40.91	\$40.91	0.00	9.53
Average Fare	\$16.01	\$15.95	\$16.47	2.87	11.12

Notes:

- A higher 'night-time surcharge' of 20 per cent above the distance rate in the table applies on journeys that commence after 10pm and before 6am.
- 'Radio' refers to the fee for booking a taxi over the phone.
- Under the recommended fare structure, 'Waiting time' applies when vehicle speed is less than 25.25kph. The waiting time of \$40.91 is 68.18 cents per minute.
- The 'Average urban fare' is currently based on a 7 km trip, a radio booking every fifth trip and 3 minutes of waiting time.

Table 5.2 Recommended country taxi fare structure

COUNTRY	Actual 1-Jul-04	IPART Recommended 1-Jul-05	% change on 1-Jul-04
Flagfall	\$3.20	\$3.30	3.12
Distance (per km, <12kms)	\$1.61	\$1.69	4.97
Radio	\$0.85	\$0.90	5.88
Waiting time (per hour)	\$40.91	\$40.91	0.00
Average Fare	\$10.50	\$10.87	3.48

Notes:

- The rise of 3.48 per cent in the average fare is based on the unrounded numbers.
- A higher 'night-time surcharge' and 'holiday surcharge' 20 per cent above the distance rate in the table applies on journeys that 1.) commence after 10pm and before 6am, and 2.) are taken any time of day on a Sunday or on a public holiday that is notified in the NSW Government Gazette.
- The Tribunal recommends that the current distance rate over 12 kms (known as Tariff 2) of \$2.25/km for country trips becomes \$2.36/km.
- The recommended 'Waiting time' applies while vehicle speed is less than 24.21kph.
- Average country fare is based on a 3 km trip, a radio booking every second trip, 3 minutes waiting time.

The Tribunal's recommended changes in the components of the urban fare also restore the structure of the fare to its 2002 relativities as proposed by the Taxi Council. The fare structure in 2002 was prior to the major shifts that were introduced to the "extras button" to accommodate tolls and to the booking fee to compensate drivers for the "no destinations" trial which has since concluded. (There was no proposal to restore the 2002 structure to the country taxi fare structure since country taxis do not pay tolls and the "no destinations" trial did not apply to them.)

This year the Tribunal was also able to adjust the fare components in such a way that the flagfall and booking fee could be rounded to the nearest ten cents. This may not be the case in future reviews.

5.1.2 Impact of fare recommendations on borrowing and capital requirements

One of the terms of reference is for the Tribunal to consider "the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets". Without reliable revenue and cost estimates, the Tribunal is unable to shed light on capital requirements or financial viability in general.

5.2 Current Ministry of Transport inquiries

The Tribunal is aware that the Ministry is currently conducting several inquiries and chairing several working groups on a wide range of matters that arose in the Government's response to the Cook Inquiry Interim Report. Some of these may have fare-setting implications for the Tribunal, such as in regard to premium taxi services, and the Tribunal looks forward to the outcomes of the inquiries and the extent to which they might impinge on its deliberations at the next fare review.

5.3 Current Industrial Relations Commission decisions

The Tribunal understands that the IRC's recent decision concerning the way driver entitlements are to be calculated is subject to an appeal by the TWU and that the outcome of that appeal may have implications for drivers' occupational superannuation.

Following the outcome of the appeal, the Tribunal would be prepared to consider, if invited to do so by the Director General, the extent to which the introduction of driver superannuation might be passed on to consumers through a one-off adjustment to fares.

5.4 Other matters for future consideration

Several other issues have arisen during the course of this review that the Tribunal would like to pursue further in the 2006 review. They are:

- revisiting the weights assigned to individual cost items, especially in the urban index
- assessing other measures that may better represent industry percentage cost changes than one or two quotations of cost from selected industry sources
- considering how productivity improvements in the industry might be incorporated into the fare-setting framework.

6 TAXI SERVICE QUALITY

6.1 Performance requirements

Under the terms of reference, the Tribunal is required to consider issues of 'service quality'. This term can refer to a wide range of desirable outcomes for consumers. Aspects of service quality include the quality of the service itself, and various indicators of reliability. The highest possible quality is not necessarily the most efficient, since providing better service can involve additional costs.

It is generally accepted that the most effective way to achieve outcomes consistent with acceptable service quality is to define, measure, monitor and enforce these outcomes through key performance indicators (KPIs). The use of KPIs related to the quality of taxi services have not been well developed to date within the current regulatory framework. The Tribunal is aware of the fact that the Cook Inquiry recommended a change in the regulatory framework, and that changes are currently in train.⁸

Under the current framework, the MoT introduced a set of performance requirements for authorised taxi network operators in 1993 as interim standards. In 2003, the Ministry indicated that it had developed new draft performance standards to replace the interim standards, but that these were still being negotiated with the taxi industry. In early June 2005, the Ministry informed the Tribunal that new network service standards would be included in the final report of the Taxi Reform Taskforce to the Minister for Transport.

6.1.1 Metropolitan performance standards

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

In relation to telephone answering standards, requirements include:

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

In relation to delivery standards, requirements include:

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

⁸ The Ministry has informed the Tribunal that it changed from quarterly to monthly performance reporting from taxi networks in April 2004 and also reached agreement on Key Performance Indicators. This has allegedly led to higher levels of reporting and improved analysis within the MoT.

6.1.2 Country performance standards

For telephone answering standards, the country requirements are the same as those for metropolitan network providers. The performance requirements on delivery are tighter than those applying to metropolitan networks:

- in 85 per cent of cases a taxi is to arrive within 10 minutes of booking being made
- in 98 per cent of cases a taxi is to arrive within 15 minutes of booking being made
- in 100 per cent of cases a taxi is to arrive within 20 minutes of booking being made.

The MoT has enlarged the scope of the data collected from networks but commentary on the implications of that data (presented below) has not been received by the Tribunal in time for inclusion in this report.

6.1.3 Metropolitan performance relative to standards

Since May 2004 Sydney taxi Key Performance Indicators (KPI) for the authorised networks have been collected on a monthly basis. Data are also collected for the Zero200 WAT Dispatch Service.

A summary of the March quarter 2005 data for ten Sydney taxi networks (excluding the Zero 200 service) have been aggregated and shown in Table 6.1, along with March quarter 2004 data for comparison.⁹ The data relate only to taxi trips booked through radio booking services (which constitutes around 20 per cent of total taxi hirings.¹⁰)

Table 6.1 Sydney Radio Network Statistics March quarter

1.0 NETWORK	2004	As % of:			2005	As % of:		
		Range		Range				
		Low	High		Low	High		
Taxis on the network	4,767			4,889				
Phone calls received	3,044,248			2,919,975				
Phone bookings requested	3,099,877			3,013,593				
2.0 PHONE NETWORK STDS		Phone bookings				Phone bookings		
Calls answered within 1 min	2,849,213	93.6	75.7	99.6	2,699,710	92.5	68.7	99.5
Calls answered 1-2 mins	94,875	3.1	0.2	16.1	149,081	5.1	0.1	21.3
Calls answered after 2 mins	33,082	1.1	0.2	8.2	71,184	2.4	0.3	10.0
Ave phone answering time	12		4.0	34.0	14.7		4.5	67.3
3.0 DELIVERY		Total Pickups				Total Pickups		
3.1 Pickups		Total Pickups				Total Pickups		
Within 15 minutes of booking	2,525,001	93.5	76.4	98.8	1,949,065	87.9	86.2	92.1
Between 15 and 30 minutes	151,247	5.6	1.2	18.7	250,089	11.3	6.5	12.1
Between 30 and 60 minutes	21,928	0.8	0.1	5.3	18,010	0.8	0.3	1.7
After 60 minutes	2,327	0.1	0.0	1.7	342	0.02	0.0	0.1
Total pickups made	2,700,503				2,217,506			
Average delivery time (minutes)	6		5.2	6.3	7.2		5.9	11.1
3.2 Bookings offloaded		Phone bookings				Phone bookings		
Bookings offloaded	352,097	11.4			427,996	14.2		
Offloaded and returned as unmeetable	23,343	0.8			23,821	0.8		
Offloaded successfully	328,754	10.6			404,142	13.4		
Bookings but no car available	19,698	0.6			32,046	1.1		
Bookings per taxi	650		336	1,325	616		269	1,178
Pickups per taxi	566		197	1,288	454		171	979

Source: MoT Monthly Network Reports.

⁹ According to the Taxi Council (private communication, 21 April 2005), changed operating procedures following the 'No Destination Trial' in 2004 may have marred comparability with pre-trial data.

¹⁰ Source: MoT, based on the 2004 Taxi Customer Survey Report. In 1998 the figure was 44 per cent.

Telephone standards

Between March quarter 2004 and March quarter 2005 the percentage of calls to networks answered:

- within one minute has fallen from 93.6 to 92.5 per cent
- between one and two minutes increased from 3.1 to 5.1 per cent
- after two minutes has risen from 1.1 to 2.4 per cent of total calls.

It is not possible for the Tribunal to judge whether this deterioration in average telephone standards is serious, since the standard (90 per cent of calls to be answered immediately and, of this 90 per cent, 70 per cent to be answered within a minute) is not apparent in the way the data are collected/reported. There also appears to be a large, and increasing, shortfall between the number of phone bookings requested and the number of pick-ups recorded.

Delivery standards

Between March quarter 2004 and March quarter 2005, relative to the total pick-ups made, the percentage of pick-ups:

- made within 15 minutes of booking has fallen from 93.5 to 87.9 per cent
- made between 15 minutes and thirty minutes has increased from 5.6 to 11.3 per cent
- made over 30 minutes has remained stable as a percentage of total pickups.

In terms of delivery standards, there has been a sizeable deterioration between the March quarter 2004 and March quarter 2005. In terms of the average across all networks, drivers still exceeded the metropolitan performance standards of 85 per cent within 15 minutes and 98 per cent within 30 minutes. But drivers on two networks were below the 15 minute standard in both quarters.

The Tribunal is not aware of any action taken by the Ministry and the networks when performance falls below the standards set by the MoT.¹¹

6.2 Complaints register

Complaints (and compliments) are recorded by the networks on the MoT's Customer Feedback Management System (CFMS).¹² The CFMS is an internet-based system that allows taxi customers to provide direct feedback on their response to the taxi services they experience (Table 6.2).

Prior to the introduction of the CFMS, there was a downward trend in the incidence of complaints. According to MoT commentary provided to the Tribunal at the time of the previous review, the jump in the number of complaints in 2003 and more markedly in the first half of 2004 was due to the improved accessibility of the system rather than an increase in the frequency of incidents.

¹¹ The Ministry has informed the Tribunal that it undertakes consultations with the Taxi Council and individual taxi networks to review performance.

¹² The MoT introduced the CFMS as the new system of collating complaints data in April 2003. The new system also collects compliments data. It replaced a previous register maintained by the MoT where complaints were received on a dedicated phone line.

Table 6.2 Summary of complaints registered with MoT

	2000	2001	2002	2003¹	2003²	2004
Abuse, assault or rudeness	806	697	646	740	1078	1787
Driving in a dangerous manner	320	524	420	720	838	1375
Reuse hire when 'for hire'	556	472	383	616	441	774
Demand more than prescribed fare	638	387	329	708	1054	1459
Fail to arrive/arrive late	459	344	260	416	543	1147
Fail to take shortest route	254	236	229	218	278	468
Vehicle unfit/unclean	229	222	194	262	351	418
Poor knowledge	228	161	121	134	523	872
<i>Total of complaints listed above</i>	<i>3490</i>	<i>3043</i>	<i>2582</i>	<i>3814</i>	<i>5107</i>	<i>8300</i>
Other	812	764	572	859	1253	3246
Total Complaints	4302	3807	3154	4673	6360	11546
Compliments³					297	313

Source: MoT. CFMS classifications have been condensed by the Tribunal.

Notes:

1. Data are the sum of a superseded system to 15 April and CFMS system from May to December 2003. The data from the superseded system have been scaled up to adjust for the missing half month.
2. Data based on annualising CFMS data collected from May 2004 to December 2004.
3. Compliments collected by CFMS from May 2003.

For 2004, the lack of an increase in compliments suggests that improved accessibility to the system cannot be a significant part of the reason for the latest escalation. The Tribunal understands that the functioning of the complaints system and the interpretation of its results are being researched by the MoT.

6.3 Wheelchair accessible taxis

Commonwealth legislation requires radio networks and co-operatives to bring response times for accessible vehicles down to the same as for other taxis by 31 December 2007.¹³

Anecdotal evidence and data provided to the Tribunal by the MoT indicate that customers who require WATs receive a much lower level of service than those who use standard and premium taxis. Table 6.3 below compares Zero 200 selected monthly average (May 2004 to March 2005) performance statistics with those of all Sydney networks.

¹³ Commonwealth of Australia, *Disability Standards for Accessible Public Transport 2002* (updated for amendments up to Disability Standards for Accessible Public Transport Amendment 2004 (No. 1)), Schedule 1 Part 1 sub-section 1.2.

Table 6.3 Comparison of selected monthly average network statistics

	Zero 200 network	Sydney networks		
		All (excl 0200)	Low	High
Average answering time	44 secs	22 secs	5	63*
Average acceptance time	8.0 mins	2.8 mins	1.3	4.9
Average pick-up time	11.5 mins	7.3 mins	5.8	10.3
Average no. of phone booking jobs per cab per month	19	162	59	352
No. of taxis operating on network	297	4,872	51	2,168
Percentage signed on at 9am	46%	65%	53%	74%
Percentage signed on at 9pm	52%	68%	40%	73%

The monthly averages measured from July 2004 to March 2005. Average pick-up time is the time between the receipt of the booking and the start of the meter. Average acceptance time is the time it takes before a driver accepts the booking.

* The highest network answering time of 63 seconds includes a 30 second recorded message.

Source: MoT

The WATs booking service clearly exhibits significantly slower response times, both in terms of acceptance of jobs and pick-ups, than *the average* of the other Sydney networks. The average number of radio jobs per WAT per month is also low, which presumably explains, in part, why a lower percentage of taxis are logged onto the Zero 200 network in the morning at 9am or in the evening at 9pm.

In May 2004, the Minister for Transport Services established a WATs Inquiry with a brief to:

- analyse why the availability of WATs is so limited
- assess the commercially viability of operating a WATs taxi
- assess current incentives provided to the industry to operate WATs
- advise on a realistic goal and appropriate timeframe for achieving it
- provide financially sound recommendations for increasing the number of WATs.

The Tribunal looks forward to the findings of that inquiry and any light it might cast on the service quality of WATs in NSW.

7 IMPACT OF RECOMMENDATIONS ON CUSTOMERS, THE ENVIRONMENT AND PUBLIC FUNDING

The overall impact of the Tribunal's fare recommendations on NSW citizens and interstate tourists is likely to be small because urban transport fares (including taxi fares) make up less than one per cent of an average Australian household's spending. For users of taxis, the proportion would be higher. The impact is diverse because taxi customers' incomes vary greatly.

The environmental impact of the fare recommendations is likely to be small. The state's taxi fleet of around 6,000 cabs is only a small proportion of NSW's stock of over three million passenger motor vehicles. Likewise, the approximately 65,000 taxi trips taken by Sydney residents on an average weekday are few compared to the nearly 8 million trips taken by private vehicle drivers.¹⁴

The impact of higher taxi fares on government funding is limited to the Taxi Transport Subsidy Scheme (TTSS). In 2004, the TTSS had almost 50,000 participants and cost \$15.3 million. The fare increases recommended by the Tribunal suggest that government funding of the TTSS may increase by up to \$442,000. However, the cap on the maximum subsidy per trip will limit the increase.

One of the terms of reference requires the Tribunal to consider the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets. As the Tribunal noted last year, it is unable to address financial viability or capital requirements of taxi businesses in the absence of reliable revenue and cost estimates.

7.1 Social considerations: income profile of Sydney taxi users

The latest Transport and Population Data Centre (TPDC) data available indicate that average annual personal income of residents who are taxi users was \$60,163 in 2002 (up from \$54,694 in 2001). Those earning over \$78,000 took 26 per cent of trips. People earning less than \$10,000 per annum were also significant taxi users, taking 19 per cent of trips.

Table 7.1 shows average personal incomes for residents who used various modes of public transport in 2002. The average annual household income of residents who use taxis is \$109,760, (median \$95,472). Whilst mean and median household incomes are high, there are a significant number of resident taxi users in low household income brackets - 10 per cent of taxi users have household incomes below \$20,000.

A further indicator is the labour force status of resident taxi users. The majority of resident taxi users are in full time employment (67 per cent). A significant number are pensioners, either aged or other (such as recipients of disability benefits).

¹⁴ Source: TPDC data based on the 2002 Household Travel Survey. The number of residents who travel in taxis on an average weekday was actually 116,182 in 2002. In 2001 the Tribunal reduced the number of taxi trips to allow for multiple passengers (using the estimate that an average taxi trip carries 1.8 passengers). This reduction has also been applied to the 2002 TPDC data.

Table 7.1 Income of full-fare paying residents using different transport modes

Mode	No. of trips (average weekday)	Average Personal Income	Average Household Income	Median Household Income
Priv Bus Sydney	70,524	\$32,423	\$66,781	\$56,212
Sydney Buses	257,345	\$44,581	\$86,214	\$69,524
Sydney Ferries	30,010	\$72,307	\$121,765	\$120,952
CityRail	494,730	\$46,847	\$86,842	\$71,864
Taxis	116,182	\$60,163	\$109,760	\$95,472

Source: TPDC Household Travel Survey 2002.

7.2 Environmental considerations

The impact on the environment from the Tribunal's pricing recommendations, as far as pollution and congestion goes, is likely to be minimal. The state's taxi fleet of around 6,000 is insignificant given that there are over three million passenger vehicles in NSW, as are the number of daily taxi trips by residents (65,000 on an average weekday) compared with the number of private motor vehicle trips (nearly 8 million a day).

In general, the Tribunal views all public transport as environmentally positive because it serves to reduce the number of passenger motor vehicles on NSW roads. However, it is the mass transit modes that provide the greatest opportunity to reduce car travel, rather than largely single-person modes such as taxis, hire cars, motorcycles and bicycles. To the extent that taxi demand is greatest on Fridays and Saturdays and after hours during the working week, the availability of taxis serves to discourage car use in crucial periods and may substitute for private car use.

The modest fare rises recommended by the Tribunal are unlikely to impact on the use of taxis in urban and country NSW.

7.3 Effect on government funding

The impact of higher taxi fares on government funding is limited to the TTSS. In 2004, the TTSS cost \$15.3 million¹⁵. The fare increases recommended by the Tribunal suggest that government funding of the TTSS might rise by \$442,000¹⁶ were it not for the \$30 reimbursement cap per fare.

¹⁵ Ministry of Transport, *Annual Report 2004*, p 25.

¹⁶ The percentage increase this represents is based on the weighted average rise in the urban and country cost indices (where the weights are the relative number of urban and country taxis used in the indices).

APPENDIX 1 TERMS OF REFERENCE

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

A final report is to be provided to the Minister for Transport by June each year.

In conducting this investigation, the Tribunal should consider:

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

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

Table A1.1 indicates where the terms of reference were considered in the report.

Table A1.1 Consideration of the terms of reference

Terms of Reference	Report reference
i. cost of providing the service	chapter 4
ii. protection of consumers from abuse of monopoly power	chapter 5
iii. need for greater efficiency in supply of services	chapter 6
iv. impact of pricing on borrowing and capital requirements	chapter 5
v. ecologically sustainable development	chapter 7
vi. social impact of recommendations	chapter 7
vii. standards of quality, reliability and safety	chapter 6
viii. effect on level of Government funding	chapter 7